



IFA ANNUAL CONVENTION

20
22

International Summit
Pt. 1 – Franchising 101
Pt. 2 – International Unit
Economics & Operations



International Summit

Pt. 1

Franchising 101

International Franchising 101



Beata Krakus

Officer
Greensfelder, Hemker & Gale, P.C.
bkrakus@greensfelder.com



Jim Hartenstein

Former SVP-International
Wendy's and Little Caesars
Hartenstein Global Consulting, LLC
jim@hartensteinglobal.com



Anthony Padulo

Chief Development Officer
School of Rock
apadulo@schoolofrock.com

INTERNATIONAL FRANCHISING 101

“The fundamentals of international franchising for those who want to expand their franchise system internationally but have not done so before.”

KEY TAKEAWAYS

- Is our concept proven and profitable?
- Are we willing to adapt as required?
- Do we have Senior Management's full commitment?
- Are we really prepared to plan first?
- Do we have the capacity to invest?
 - Capital
 - Time
 - Organizational focus
- Do we have or can we contract internationally-experienced support?

WHY EXPAND INTERNATIONALLY?

- Most consumers live outside our home country
- Diversification of revenue sources
- International business can become bigger than our home business
- Prepare for slower home market growth as penetration increases
- Brand-building ideas can come from multiple markets
- Competitive opportunities in less developed markets
- Leverage systems, processes, IP, and know-how

ARE WE PREPARED TO EXPAND INTERNATIONALLY?

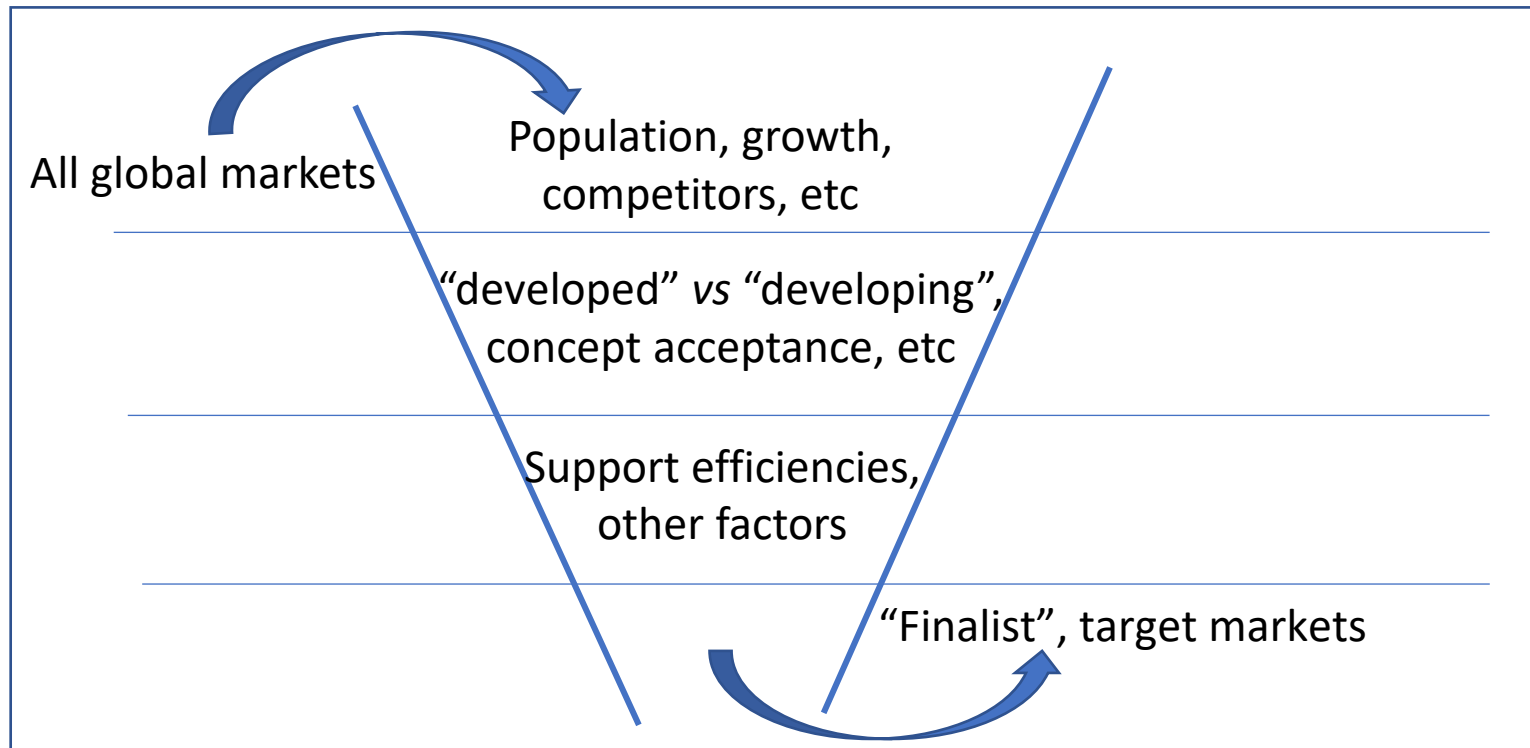
- Proof of concept, unit-level profitability model
- Standardization
- Senior Management commitment
- Organizational strength and capability
- Investment capacity

WHAT CONCEPT WILL WE USE TO EXPAND?

- Will our concept be accepted “as is”?
 - What changes are we willing to accept?
- Positioning:
 - Local or regional or global
 - Value or Premium
 - Other
- Design elements

WHAT COUNTRIES/REGIONS WILL WE TARGET?

- Disciplined evaluation process:



- Unsolicited inquiries welcome, subject to rigorous evaluation
- We control development – it doesn't control us

WHAT DEVELOPMENT MODEL WILL WE USE?

- Various options:
 - Company-owned
 - Single unit franchise
 - Multi-unit franchise
 - Area Developer
 - Area Rep
 - Master Franchise
 - Joint Venture
- What are the pros and cons of each?

WHAT DEVELOPMENT MODEL WILL WE USE?

Model	Pros	Cons
Company owned	<ul style="list-style-type: none"> • Control of Brand • Greater Development control • Potential for higher profit 	<ul style="list-style-type: none"> • Significant investment • Potential for greater losses • Less local market expertise
Single-unit Franchisee (Direct)	<ul style="list-style-type: none"> • Local knowledge • Hands-on management 	<ul style="list-style-type: none"> • More support required; less professional • Costly recruiting process • Slower growth
Multi-unit Franchisee (Direct)	<ul style="list-style-type: none"> • Local knowledge • Larger organization • Ability to add other franchisees 	<ul style="list-style-type: none"> • No Development commitment • Size may exert excessive influence
Area Developer	<ul style="list-style-type: none"> • Local knowledge • Faster growth • More direct control • Able to add others if necessary 	<ul style="list-style-type: none"> • Difficult to find qualified prospects • Potential for exit complications • Size may exert excessive influence with Franchisor
Area Rep	<ul style="list-style-type: none"> • Faster development 	<ul style="list-style-type: none"> • More focus on selling than operating
Master Franchise	<ul style="list-style-type: none"> • Local knowledge • Faster growth • Possibly less support needed 	<ul style="list-style-type: none"> • Potential for less brand control • Possible focus on selling subs • Less revenue than direct

HOW WILL WE SUPPORT OTHER MARKETS?

- Starting point: How do we support our home market?
 - Operations/Training
 - Supply Chain
 - Marketing
 - R&D
 - Facilities
 - Finance
 - Legal
- How will that support be extended internationally?
- Our goal should be to support international franchisees as well as we support franchisees at home

HOW MUCH TIME WILL IT TAKE AND HOW MUCH WILL IT COST?

“It will take longer and cost more than you had hoped.”

- Staff time available for Plan development
- Market due diligence
- Legal preparation
- Franchisee recruiting and negotiation
- Site selection, construction
- Supply Chain
- Hiring and training
- Opening

INTERNATIONAL FRANCHISING 101

“If you fail to plan, you are planning to fail.”

Benjamin Franklin



ELEMENTS OF A COMPREHENSIVE PLAN

- Confirmation of readiness
- Targeted countries
 - Selection
 - Pre-entry checklist: sales, legal, real estate, supply chain, financial, etc.
- Development
 - Only after support and other planning in place
 - Selection of Development model
 - New market entry checklist
- Franchisee recruitment
 - Ideal franchisee profile
 - Multi-channel recruiting
 - Sales materials
 - Evaluation of all inquiries
 - Background check process

ELEMENTS OF A COMPREHENSIVE PLAN

- Fee structure
 - Territory/Development fee
 - Initial fee per location
 - Royalties
 - Marketing contribution
 - IT, Other
- Supply Chain
 - Approved products/suppliers (local vs imported)
 - Distribution
- Marketing
 - Approved menu/products
 - Advertising – central and/or local – approval process
 - Pricing strategy

ELEMENTS OF A COMPREHENSIVE PLAN

- **Operations/Training**
 - Manual
 - Standards
 - Visit schedule
 - Business consulting
 - Audits
 - Curriculum
 - Local trainer certification
- **Facilities**
 - Location guidelines
 - Design/equipment requirements
 - Design/layout assistance
 - Approval process

ELEMENTS OF A COMPREHENSIVE PLAN

- Legal
 - Corporate and local counsel selection
 - Franchise/Development template agreements
 - Protection for trademarks, URL, all IP
 - Local tax implications
- Finance
 - Monitoring of ongoing franchisee financial reporting, profitability
 - Mechanism for royalty/fee payments, currency, tax withholding, tracking
- Technology
 - Technology must be compatible internationally
- Organizational evolution planning
- Financial modeling
 - Franchisor and Franchisee perspectives

KEY TAKEAWAYS

- Is our concept proven and profitable?
- Are we willing to adapt as required?
- Do we have Senior Management's full commitment?
- Are we really prepared to plan first?
- Do we have the capacity to invest?
 - Capital
 - Time
 - Organizational focus
- Do we have or can we contract internationally-experienced support?
- If yes, the best time to start is now!



International Franchising 101

DURING THE CONFERENCE

- Live tweet and share quotes from sessions you attend
- Tweet top takeaways and include your twitter handle
- Tweet questions and share statistics/data
- Use **#IFA2022** and tag **@Franchising411** on Twitter and Instagram or **@IFA.DC** on Facebook



No Pain, No Gain

Going global will be difficult, but the rewards can be substantial.

By Jim Hartenstein

Everyone's talking about expanding internationally. It's all over the news and friends in the industry are proudly announcing their own successes. "Going global" seems like the thing to do! But are you really ready?

It's going to be harder than you thought. Expectations must be managed. Ask people who have already expanded outside their home country and they'll all say the same things:

- It will take longer than you want it to.
- It will cost more than you had hoped.
- It will distract resources from your home market.

WHY DO IT?

There are many benefits to expanding internationally. With

Brand-building ideas that originate internationally can help the domestic market.

a broader portfolio of markets, if one is down it's likely that another is doing well. It can prepare your brand for future growth. And, many brands now have more international than domestic locations. What's more, brand-building ideas that originate internationally can help the domestic market. Think of the "McCafe" concept that started in Australia.

CHECKLIST

To properly prepare for entering international markets or relaunch an existing international business, you should ask yourself a series of questions:

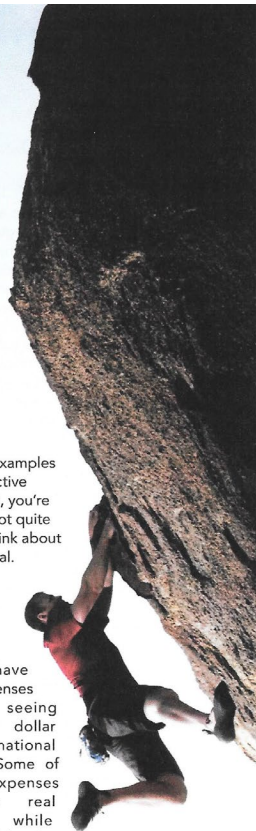
Is your concept proven and profitable? Franchising is all about growing with proven concepts and systems, and a franchisee will expect a good return on his investment. If you don't already have various success

stories as examples for prospective franchisees, you're probably not quite ready to think about going global.

Do you have the money?

You'll have many expenses before seeing the first dollar of international revenue. Some of those expenses will be real money, while others will be the opportunity cost of distracting corporate staff from their primary responsibilities. You'll first invest in assigning someone to direct the project, whether it's an employee or an outside consultant. And that person must have international

(continued on page 48)



(continued from page 46)

experience – don't cut any corners. That person will begin to draw up a plan that will require time commitments from various groups in the organization and will lead to investments in people to provide direct support. You'll have to register trademarks, adapt agreements and processes, examine product sourcing and figure out many other details.

International expansion will require changes to your concept.

Are you prepared to plan first? Unfortunately, some franchisors sign an international deal first and then scramble to try to figure out how to implement it. Advance preparation of a formal plan is critical. Some of the key elements of a good plan are the following:

- **Proactively select and prioritize markets.** Pick some smaller markets closer to home to test your processes and assumptions. Don't try for China or India first – they're big and tempting but too complex for your first international venture. You'll receive unsolicited calls inquiring about territories, and you can be open to considering, but only if they clearly fit your strategy. Remember that you're in charge of your own development, not the people making the offer.
- **How will you support international franchisees?** An obvious, but often ignored, rule

of thumb: support international franchisees at the same level as your domestic franchisees. You'll soon find that full-time international people provide the most effective support.

What changes to your core concept are you willing to accept? It is a certainty that international expansion will require changes to your concept. Be prepared to hear "that will kill the brand," but is the change really that serious?

How will you manage your supply chain? For restaurants, this is often the most critical – and most difficult – part of the process.

What are the pros and cons of development models? Options include single- or multi-unit, area developer, master franchise or others. Each has its own benefits and the plan should recognize how and when they might be used.

Support international franchisees at the same level as your domestic franchisees.

How will you recruit prospective franchisees? You'll need to concisely describe your concept and an ideal franchisee profile. Use multiple channels to recruit a pool of prospective franchisees from which you'll select the best qualified. Selecting a franchisee will be the most important decision you'll have to make.

Prepare a five-year pro forma P&L. Pull all the pieces together and use your best estimates of the timing of revenues and expenses. Do something similar to evaluate potential franchisee



profitability. It will give you a good sense of where you're going and how you should allocate resources during that journey.

Are you willing to take the time? The planning process alone could take as much as a year, depending on how much time can be dedicated to the project. And before that first location can open, you'll have to conduct due diligence for the prioritized markets, recruit franchisees and negotiate agreements. Then, working with the new franchisee, you'll have to commit to real estate and construction, hire and train people, contract with approved suppliers, and organize hundreds of other details. That can all take as much as another two years. Experience will significantly improve the timelines, and development of multiple markets in parallel will also accelerate growth.

GET STARTED NOW

Yes, going global will be difficult. It will take time and it may seem expensive at first. But the rewards can be substantial and can set the course for the long-term growth of your company. There is no better time than right now to begin the process. ☺



Jim Hartenstein is a former Senior Vice President, International at both Wendy's and Little Caesars Pizza. He is now an international franchising consultant. Find out more at franchise.org/hartenstein-global-consulting-llc-supplier.



International Summit

Pt. 2

International Unit

Economics &

Operations

International Unit Economics & Operations



Mark Siebert
C.E.O.
The iFranchise Group
msiebert@ifranchisgroup.com



Rafik Farouk
Sr. Director, Global Business
P. F. Chang's
rafik.farouk@pfchang.com



Marc Mushkin
V. P., International
CKE Restaurants
mmushkin@ckr.com



Mark Siebert

Chief Executive Officer
The iFranchise Group

msiebert@ifranchisegroup.com

Introduction

- Focus for today
- Thanks to our generous sponsor – Greenberg Traurig
- Alan Greenfield
- International fees and their rationale



greenfieldalan@gtlaw.com

312-456-6586

Cost Components of Market Choice

- Customs
- Business Adaptability
- Economics/Cost of Entry
- Local competition
- Political Climate
- Economic Climate
- Consumer Behavior
- Distribution
- Labor Pool
- Marketing
- Service Costs
- Legal Issues & Local Laws
- Trademark and Trade Name
- Franchise Format
- International taxation
- Domestic taxation
- Cash transfers
- Contract terms



Marc Mushkin

V.P. International Franchise Sales
and Development

CKE Restaurants Holdings, Inc.

mmushkin@ckr.com

Fees and Royalties

- **Underlying rationale**
 - Are the fees for licensing or are they for support?
 - See “recognition of fee income” below – answering point 1 can matter
 - What’s upfront and what’s ongoing?
- **Need to understand support costs before establishing fees**
 - This is critical for emerging franchisors
 - The evolution of upfront fees since the 90s
- **International Fee Structure**
 - ✓ Direct and Area Development Franchises
 - ✓ Master Franchises
- **Recognition of fee income**

Qualification and Sales Process

- **Business Planning**
 - Candidates must present a credible business plan with pro-forma financials
 - Navigating earnings claims in certain countries
 - Walk away from unrealistic plans?
- **Due Diligence**
 - Validation calls and visits – managing the process
 - Using US examples ... does it make any sense elsewhere
- **Establishing Development Numbers – Examples from QSR**
 - Balancing franchise sales compensation pressures with the reality of development
 - The rapidly changing world of brick and mortar locations
 - How to account for new formats (virtual vs street)



Presenting business plans at Discovery Day ... from Tunisia to Tijuana



Brand Launch Economics

- Opening team and support
- Public Relations
- Zee-Zor Balance Before Unit Economics Normalize
 - Royalties and Marketing Fees during the launch – justifying incentives
 - “Why am I paying to launch YOUR brand?” – every international franchisee in new markets
- Using Incentives and Ramp Up Royalties
 - My own personal example – my son’s franchise
 - Using ramp-up offers to close deals

Getting the deal signed



...and what
it all leads
to (in my
business)...





P.F. CHANG'S®

Rafik Farouk

Sr. Director, Global Business
Development

P. F. Chang's

rafik.farouk@pfchangs.com

Site Selection

- Initial site approval
 - What is your business model?
- Process for undertaking selection
 - What systems do you have in place?
 - Have You been in the market?
- Business opening countdown
 - What systems do you have in place?
 - How often do you communicate?
 - What do you communicate about
- Business model adaptation
 - What is the most common challenge?
 - How do you choose a business model.



Pre-Opening Process

- Culinary and Supply Chain
 - When do you do your market visit?
- Key Management Training
 - Who are the key people?
 - When do you train them?
- Design and Construction
 - What are your resources?
- Branding and local marketing
 - What to consider entering a new market?
- Pre-Opening Marketing & PR Plan
 - What is none negotiable?



Post-Opening

- Operational Support
 - Culture
 - Cost
 - Recourses
- Brand maintenance
 - Who? How? When?
- Frequency of visits
 - What is the magic number?
 - What have others have done?
- Nature of visits
 - Are you a policeman? Or a partner?
- Systemization of visit process
 - How does the franchisee communicate back to you?



WE ARE IN THE RELATIONSHIP BUSINESS



Questions and Answers

Thanks for your time and attention

- Please complete your evaluations before you leave
- Join us next in the Exhibit Hall for a networking break until 4:00 pm



Mark Siebert
C.E.O.
The iFranchise Group
msiebert@ifranchisgroup.com



Rafik Farouk
Sr. Director, Global Business
P. F. Chang's
rafik.farouk@pfchang.com



Marc Mushkin
V. P., International
CKE Restaurants
mmushkin@ckr.com