International Expansion
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International Expansion

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Gymboree
International Expansion

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International Expansion

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A Bit of Gymboree History

• Commenced franchising in 1978
  – First International Franchise awarded 24 years ago

• Now have operational units in the US and 29 other countries and have issued agreements based on a few different models
  – Gymboree has awarded Franchise Unit Agreements in the U.S. & Canada
  – For 34 other countries, we have signed either Master Franchise Agreements, Area Development Agreements and/or Territory specific Operational Agreements
A Bit of IJL History

• Commenced franchising in 1999
  – First International Franchise awarded in 2004 - Singapore

• Currently have 88 US offices and 12 international locations.
  - Single Unit or Multi-Unit Agreements used in all locations
Common Misconceptions

• It’s just like selling a franchise “as usual”, they just speak a different language…right?
• We plan to use our existing support system and business platforms, it’s a start.
• We’ll figure it out as we go along….we have no idea how this International expansion plan will work for us.
International Expansion Considerations

• Does your concept have broad international appeal?
• Do you have international business experience in house? (or in your consultant /adviser network)?
• Do you have an international development marketing strategy?
• Do you have the capital, the system, resource and stamina for international markets?
• Have you commissioned research / validation studies of your potential international expansion?
• Are you already receiving a steady flow of international development inquiries?
International Expansion Considerations

• Have you investigated sources of supply and other logistics? Location availability?
• Have you investigated labor supply, labor laws and wages/benefits?
• Are there current “users” in the country or will you be first to market? Cost of adv?
• Does the customer have the ability to pay? Is your product or service acceptable?
Legal / Financial Considerations

- Deal with in advance…a few examples of the complexities:
  - Trademark services
  - International agreements/ local counsel
  - Mediation / Arbitration
  - Govt. regulations (e.g. China, India, South Africa, etc)
  - Withholding Taxes
- Partner with a quality law firm and accounting practice with international reach
Primary Business Models

• Master Franchising
  – A master has the right within a country(ies) to not only own and operate units but to sell franchises to others

• Regional/Area Developers
  – Under a master or in contract direct to the franchisor the right to operate and/or sell sub-franchises in a prescribed region or territory within a specific country/province.

• Direct Franchising
  – The sale of individual / multiple units to an operator with a direct contractual relationship with the franchisor

• Hybrid Models
  – Combinations of the above approaches
Pros and Cons

• Direct
  – Can be a method to “try” international on a limited scale?
  – Expect limited success (not economical to support)?
  – Risk of damaging brand in the territory?
  – Successful direct models can be assigned to a master at a later date
Pros and Cons

• Direct
  – Ability to customize concept to fit country?
  - Better control of concept?
  - Better training and execution?
  - Full Royalty stream maintained
Pros and Cons

• Regional/Area Developers
  – Works best when assigned to a Master in country
  – If used as a stand alone makes difficult the sale of remaining regions in territory
  – Demands similar support requirements to a master without the same degree of benefit or return
Pros and Cons

• Master Franchisee
  – A good Master can rapidly develop a territory
  – Manages local operations so takes the resource strain of the franchisor
  – A Master requires much more detailed training and a different level of support resource
  – A bad Master can cost you a country!
Financial Implications

- The Master Franchise fee is earned in a larger, one time fee: varies according to size of opportunity
- A viable royalty line takes a while to develop
- Investment spending is required for international....
  - Expansion
  - funding of support resources (staffing, marketing, etc.)
- Protects franchisor from single economy dependency (e.g. downturn, legislation)
- On-going legal regulations/fee’s for offerings, issues, renewals is not a liability
Mistakes and….Good Practices

- Background information on the International franchisee
- Discussions on the possible culture fit/or alterations to existing operations/marketing
- International experience on the Franchisors side….Business experience on the Franchisee’s side
- Appropriate Master Fee ‘s, on-going royalty stream and expectations on opportunity
- Specific training to accommodate needs and obligations agreed to
Conclusion

• International expansion is meant for mature, experienced franchisors
• Validate your concept for international appeal
• Formalize the Investment in the operational, developmental and support structure
• Use appropriate and experienced vendors
• Be sensitive to international cultures and practices
• Last, but definitely not least: Legal implications! Review Agreements to offer, Disclosure requirements and Brand trademark status.
Good Luck on your International Journeys!