THE NUTS AND BOLTS LESSONS LEARNED

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How large does a franchise system need to be to consider International expansion?

• Balance the control you want with your available resources
• Structure a business plan for accessing global markets
• What will your investment be for international expansion...what are you willing to spend?
• Allow a two-year lead-time for world market penetration
• Develop an international website
• Conduct market research to identify your target countries
• Support legal and other professional costs
Success Factors for International Expansion

- Sound and profitable business at home
- Financial resources
- Dedicated human resources
- Patience
- Ability to listen and adapt
- Regular international visits
What is the best structure for my company?

• Characteristics of the target market

• The nature of the individual franchisee

• Business structure and the resources available to you
How to Establish an International Franchise

President/CEO

- VP Operations/Support
- VP International
- VP Development
What is the most effective way to structure an organization for international expansion?

- What capital resources are available for expansion?
- Have buy-in from everyone in the company prior to international expansion
TYPES OF FRANCHISING
Product & Trademark Franchise

Franchises the specific product or service, not the system of delivery

- Allow others to sell products under trademark rights
- Not a consistent business system; emphasis on consistent products
- Payment by franchisee to franchisor

(Examples: soda/beer bottling, automotive dealerships, gasoline service stations)
Business Format Franchise

The franchisee uses the business system of the franchisor

• with the franchisor's trademark
• with the franchisor’s prescribed business system (Control)
• payment by franchisee to franchisor

(Examples: fast food, employment agencies, clothing stores)
FORMATS OF FRANCHISING
Expansion Options

- Direct Franchising
- Master Franchising
- Area Development
- Joint Venture
- Area Representative
- Test Market
- Licensing
Direct franchising

Near home market
Similar language and economic marketplace

Franchisor

Franchisee  Franchisee  Franchisee
Direct franchising (continued)

**Advantages**
- Full control
- Higher return

**Risks**
- Higher capital investment
- Human resources utilized
- Legal restrictions
- Tax consequences
- Full exposure
Master franchising

Right to open and run units
Right to franchise units
Master franchising (continued)

Advantages
• Master takes on negotiated responsibilities
• Local knowledgeable presence
• Lower investment for franchisors
• Less personnel resources

Risks
• Give up control; may not be able to stop abuses
• Harder to control unit standards
• Termination problems
• Financial rewards split 3 ways; must be win-win for all
Area development

Franchisor grants right to develop entire country or portion of country through their own operated units
No right to sub-franchise
Area development (continued)

Advantages
- More substantial from personal & financial point of views
- Larger commitment by area developer
- Sharing of financial rewards by two
  - Lower investment
  - Higher control than with Master

Risks
- Higher cost factor; more operation involvement
- More involvement of franchisor (depending on number of area developers)
Joint venture

The joint venture becomes the franchisee
The franchisor signs the franchise agreement with the joint venture partnership
May be required by local law (e.g., Japan)
Formed between the franchisor and another party
Joint Venture (continued)

Advantage
• Partnership may allow greater efficiencies and economies of scale

Risk
• May be difficult to execute in countries that restrict foreign investment
Area Representative

Solicits franchisees
Provides training to franchisees
Provides ongoing support to franchisees
Area Representative (continued)

Advantages
- Area Rep takes on negotiated responsibilities
- Local knowledgeable presence
- Lower investment for franchisors
- Less personnel resources

Risks
- Give up control; may not be able to stop abuses
- Harder to control unit standards
- Termination problems
- Financial rewards split three ways; must be win-win for all
Test Market

Test concept in foreign market before entering into long-term agreement
Enter agreement only if testing works
Test Market (continued)

Advantages
• Makes sure product is acceptable
• Parties can work together

Risks
• Hard to structure with proper exit strategy
Licensing

Operational controls cannot be enforced
Legal rights may not be enforceable

Advantages
• Minimal investment
• Minimum risk to trademark
• Operations won’t have impact on trademark in rest of world

Risks
• Licensing arrangement may not be enforceable after period of time
International Expansion
How and when to adapt the concept to different cultures

- Capabilities of your Master Franchisee
- Common business practices in the country
- Local regulations-Franchising/Business
- Import regulations
- Availability of raw material/products/labor
- The cost of experimenting
- Manuals & training
- Cultural considerations/Religious/Taste
How to establish an International Franchise

- Identify a champion
- Choose the appropriate market
- Establish operations
- Find a partner
- Determine appropriate format
- Prepare documentation
- Maintain relationships
How to Establish an International Franchise

Choose the Appropriate Market
- Strategic planning
- Market study
- Overcoming barriers
- Geographic priorities
  - Asia/Pacific
  - North America
  - South America
  - Europe
  - Africa
  - Middle East
A person does not build a business.

A person builds an organization.

The organization builds the business.
Expand Internationally for the Right Reasons

Satisfy a Local Need

Grow Your Company
Franchising

A Business Strategy That is Changing The World