



# Fundamentals of International Franchising

Basics Track, International

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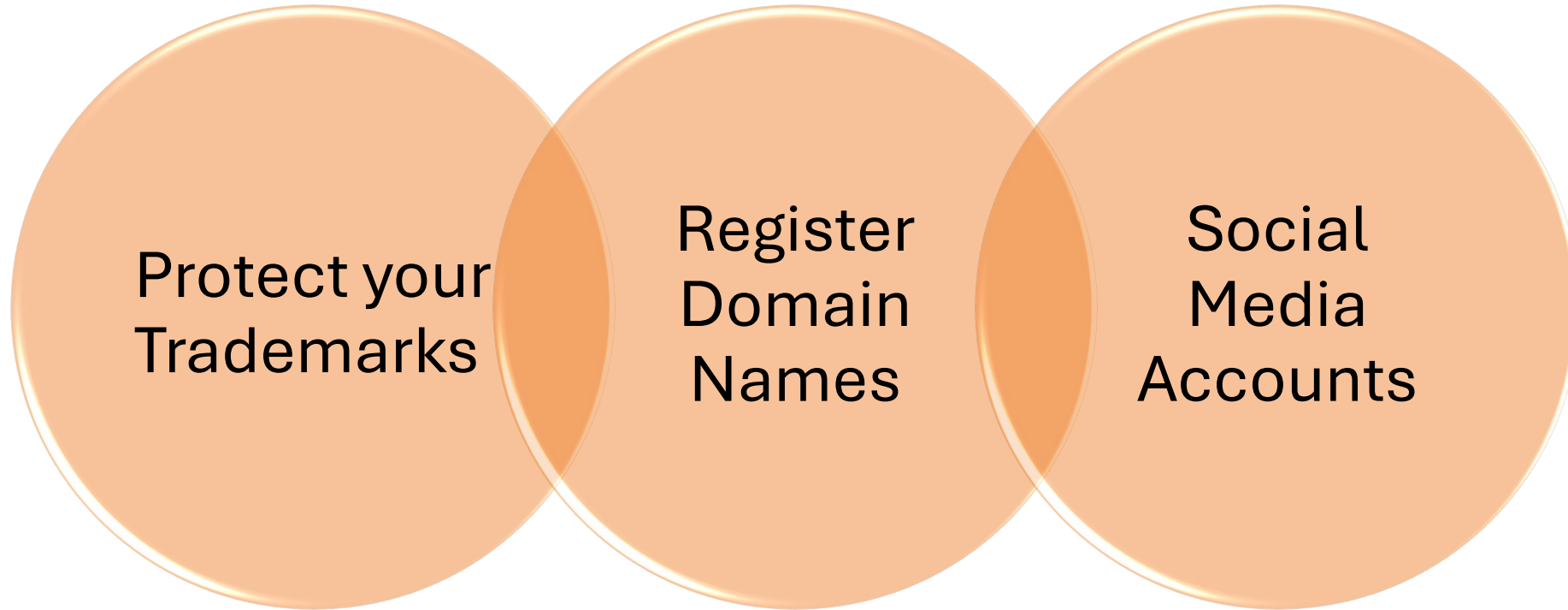
||| MAY 4-6 | WASHINGTON, DC

# Agenda

1. Getting Ready to Franchise Internationally
2. Deal Structure
3. Franchisee Selection and Due Diligence
4. Key Terms in an International Agreement
5. International Franchise Laws

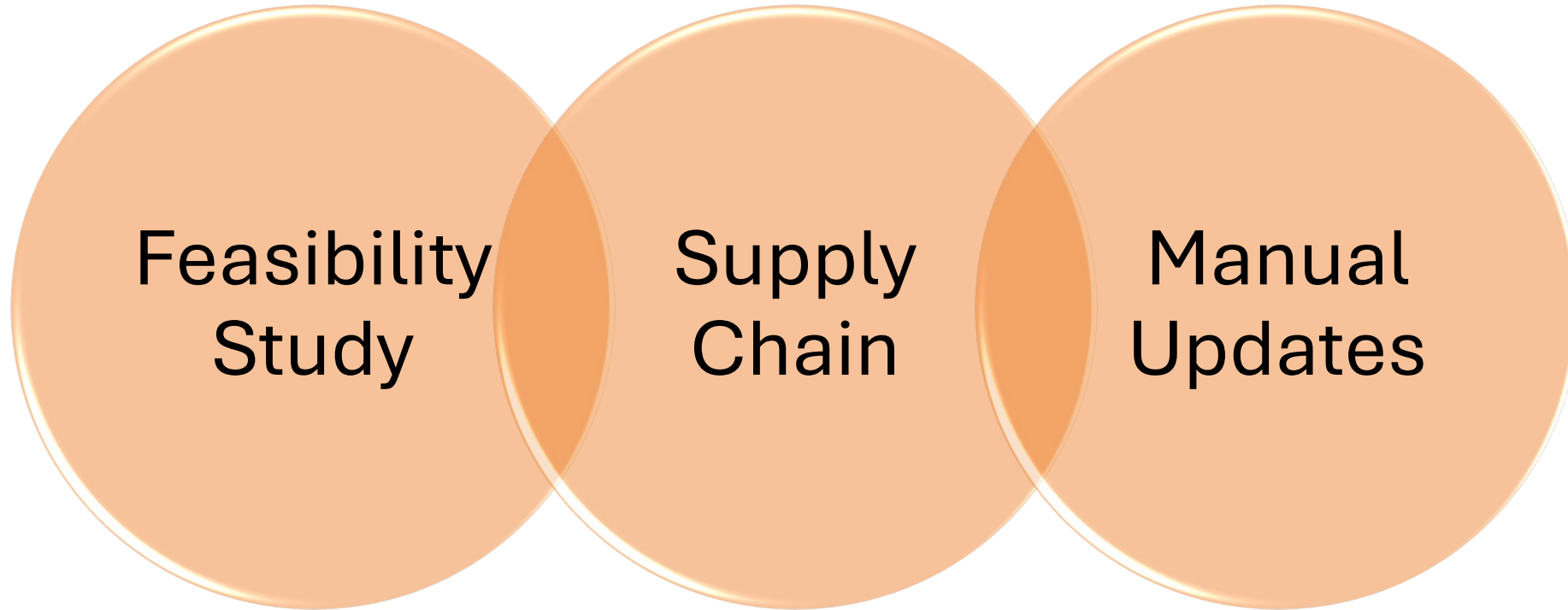
# Getting Ready to Franchise Internationally

## Protecting your Intellectual Property



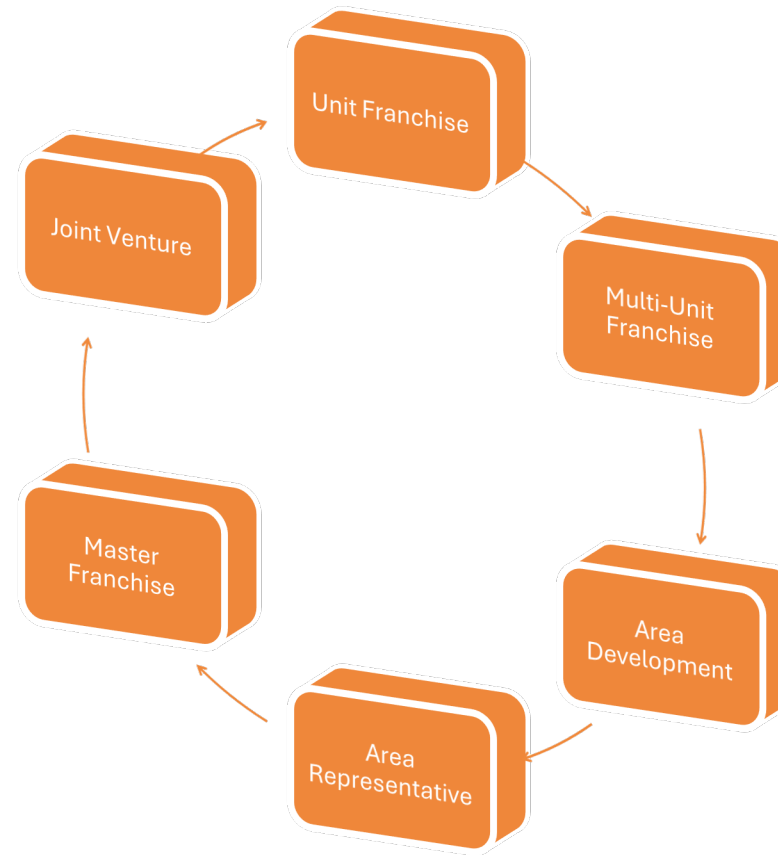
# Getting Ready to Franchise Internationally

## Market Readiness

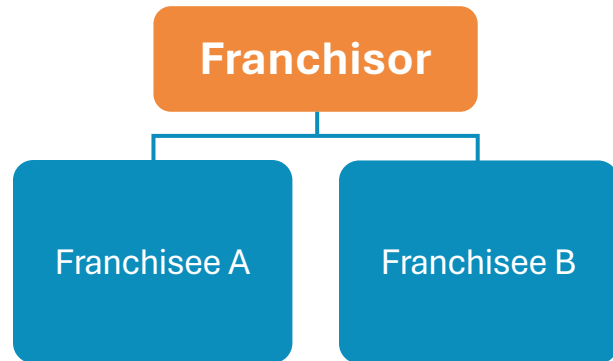




# Common Franchise Structures

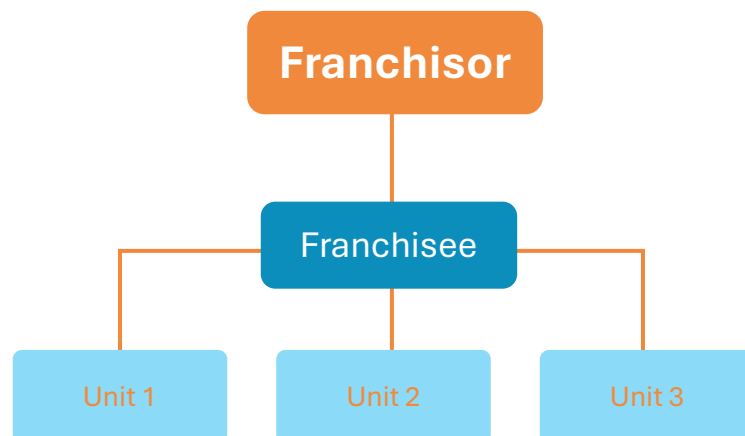


# Single Unit Franchise



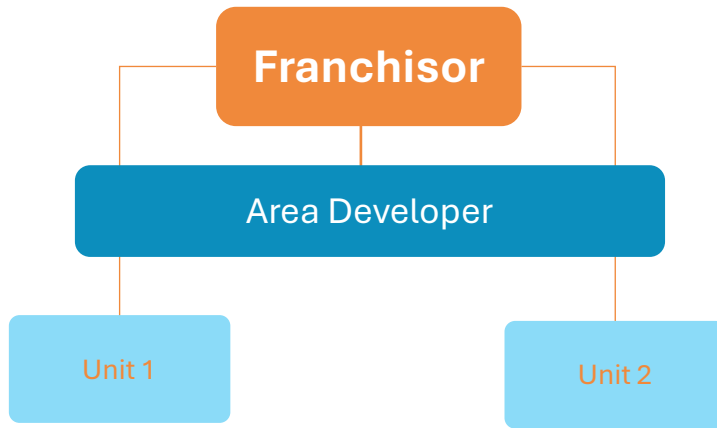
Benefits	Risks
Maximum Control	Slow Expansion
Lower Financial Risk	Longer ROI
Market Testing	Supply Chain & Distribution Limitations
Local Adaptation	Higher Commitment
Profitability	Limited Market Penetration / Potential for Failure
Easier Exit	Higher Legal and Financial Risk

# Multi-Unit Franchise



Benefits	Risks
Faster Expansion	Operational Complexity
Economies of Scale	Risk of Overextension
Increased Brand Visibility	Quality Control Issues
Reduced Franchisee Management	Dependence on Fewer / Single Franchisee(s) Performance
Local Knowledge and Expertise	Risk of Non-Performance

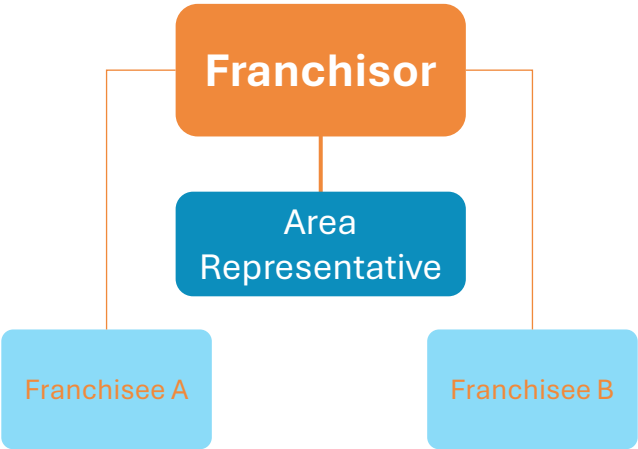
# Area Development Model



Benefits	Risks
Faster Market Penetration	Developer's Resources & Experience
Local Expertise	Dependence on Single Developer
Reduced (Post-Sale) Administrative / Operational Burden for Franchisor	Administratively Burdensome & Riskier (Pre-Sale)
Franchisor Retains Direct Contractual Privity and Control	More Complex Contractual Obligations
Exclusive Territory for Developer	Higher Resource & Time Commitment for Both Parties
Economies of Scale	Reputational Risk
Regional Consistency	Higher Legal / Financial Exposure
Higher Fees / Profitability	

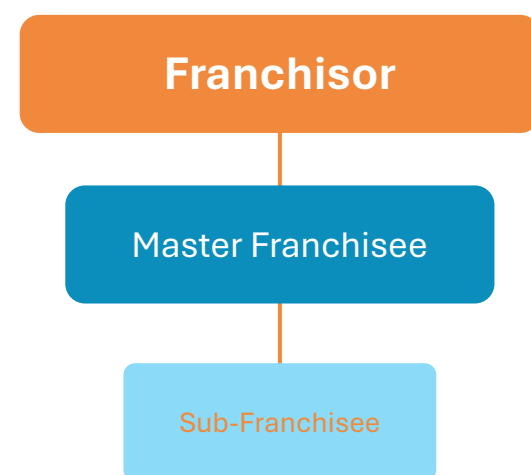


# Area Representative Model



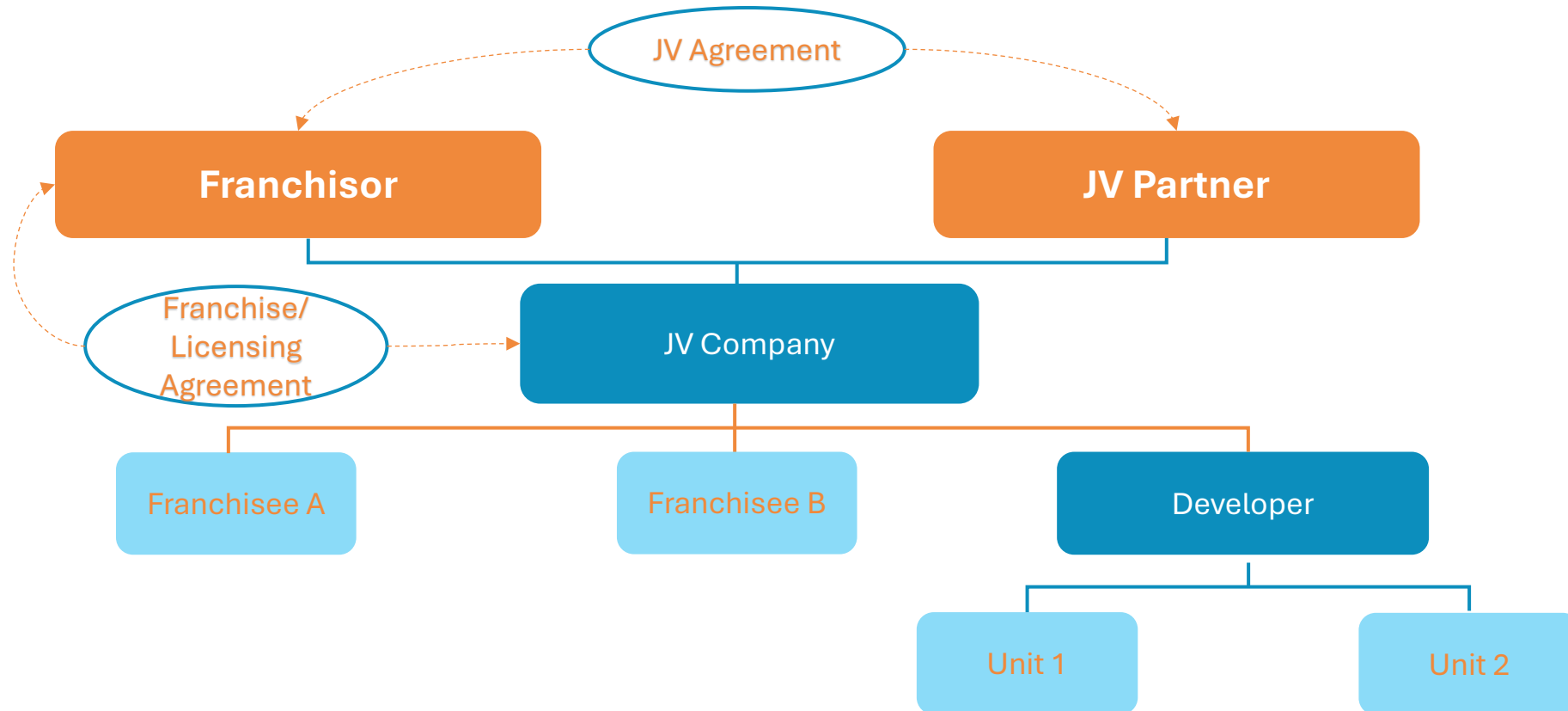
Benefits	Risks
Local Expertise	Dependence on Area Representative
Retain Contractual Privity with Franchisee	Less Profitable
Resource & Cost Investment	Regulatory and Legal Risks

# Master Franchise Model



Benefits	Risks
Reduced Risk of Legal Liability	Loss of Direct Control
Reduced Financial and Operational Risk	Revenue Sharing
High Upfront Fees and Ongoing Revenue	Potential Conflicts of Interest
Local Expertise / Market Adaptation	Quality Control Issues
Operational Efficiency	Cultural and Operational Disconnects
Flexibility in Expansion	Challenging to Terminate

# Joint Ventures



# Joint Ventures (Continued)

Benefits	Risks
Access to Established Networks and Resources	Complex Legal and Regulatory Structure
Faster Market Entry	Complex Financial Arrangements
Regulatory Compliance	Management Conflicts
Local Financing & Capital Flexibility	Diluted Brand Control
Shared Financial Risk	Risk of Shared Liability
Increased Resources and Expertise	Exit Strategy Challenges
Risk Sharing	

# Franchisee Selection and Due Diligence

## Background Checks

- Who are they?

## Application Form

- Corporate and Operational Information

## References

- Existing Businesses

## Market Visit

- Inspection

## Interview Process

- Getting to know them

## Discovery Day

- Are they a good fit ?



# Key Terms in International Franchise Agreements

Territory and Exclusivity

Reservation of Rights

Duration and Renewal

# Key Terms in International Franchise Agreements

Purchase Ties

Non Competition Covenants

Targets

# Key Terms in International Franchise Agreements

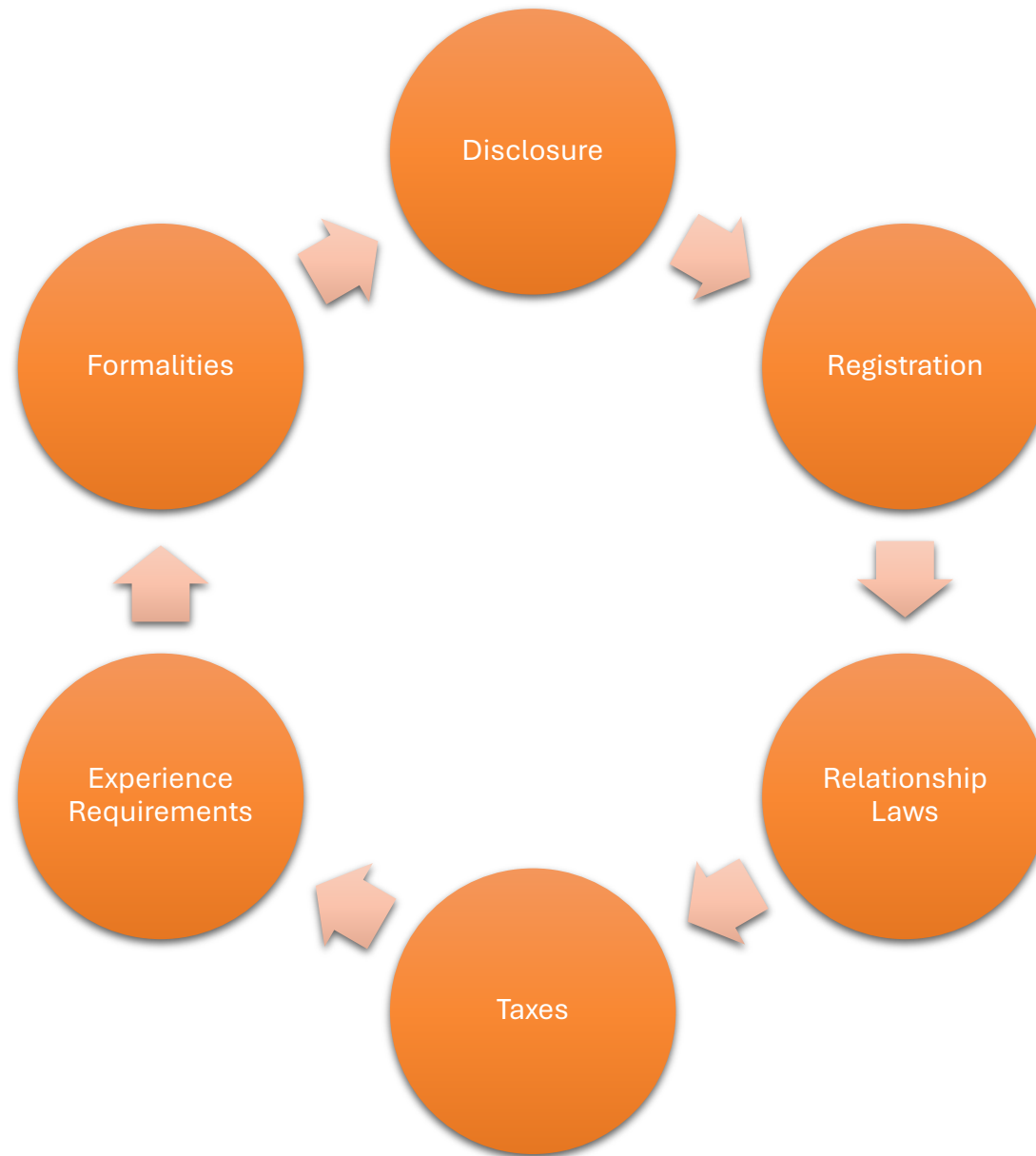
Central Marketing

Quality Control and Step-In

Guarantees and Letters of Credit

Buy-Out Options

# International Franchise Laws





# Case Study

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DUBAI, KUWAIT & SAUDI ARABIA	FED UP 		
UAE, OMAN & KUWAIT	TO YOTA		

# Term Sheet

- Initial Term of 15 Years with a 15 Year Renewal Right
- Exclusivity for Dubai, Riyadh, Kuwait
- Target: 10 Stores in 5 Years
- Loss of Exclusivity if Targets Not Met
- Territory Fee \$ 500,000
- Franchise Fee 5 %
- Marketing Fee 2 %, Half to be Spent on the Local Market



# Term Sheet

- SeeTALY Will Supply and Import the Full Proprietary Product Range
- Each Party to Pay Its Own Taxes
- Buy-Out Option After Year 5, At Market Value