

**iFA** INTERNATIONAL  
FRANCHISE  
ASSOCIATION

**Fundamentals of  
International  
Franchising**

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# Agenda

## **Getting International Ready**

IP protection, market readiness, and supply chain foundations

## **Franchise Structure Models**

Single unit to master franchise and joint ventures

## **International Franchise Laws**

Disclosure, registration, and regulatory compliance

## **Crisis Management and Exit**

Sanctions, disruption response, and franchise exits

# Market Readiness: Preparing for International Launch

- Feasibility studies assess consumer preferences, competitive landscape, regulatory environment, and financial viability
- Supply chain infrastructure accounts for import restrictions, local sourcing, and quality control across borders
- Operations manuals require localization for language, cultural norms, labor laws, and safety regulations
- Partner with local advisors who understand market dynamics and regulatory compliance requirements

## **Feasibility Study**

Analyze market demand, competition, and cultural fit

## **Supply Chain**

Establish reliable sourcing and distribution networks

## **Manual Updates**

Adapt operations manuals for local regulations and practices

## Background Checks

Verify identity, financial standing, and business history



## Applications

Collect corporate structure, operations plan, and financial information



## References

Contact existing businesses and industry contacts



## Market Visit

Inspect proposed locations and assess local conditions



## Interviews

Evaluate management capability and value alignment



## Discovery Day

Determine mutual fit through headquarters visit

# Franchisee Selection: Building Your International Team

- Background checks reveal criminal records, bankruptcy history, litigation involvement, and business reputation in local market
- Application forms capture detailed corporate structure, management team experience, operational plans, and financial capabilities
- Reference checks with existing businesses validate operational capability and business ethics in similar industries

# Getting International Ready: Protecting Your IP

## Trademark Protection

Register marks in target countries before market entry

## Domain Names

Secure country-specific domains and common variants to prevent cyber-squatting

## Social Media

Claim platform handles across all markets to maintain brand consistency

- Trademark registration timelines vary significantly by jurisdiction, from 6 months in some countries to 2+ years in others
- Madrid Protocol allows single application for trademark protection across 130+ countries, streamlining the registration process
- Early domain and social media registration prevents costly disputes and brand dilution in foreign markets
- Consider local language variations and transliterations of your brand name when securing IP rights

# The International Franchise Structure Spectrum

- Structure selection should align with brand maturity, risk tolerance, capital, and long-term strategy
- Each model presents unique legal, operational, and financial implications across multiple markets
- Start with controlled structures in initial markets, evolve to master franchise as expertise builds
- Hybrid approaches combining multiple structures optimize global portfolio performance

## Single Unit

Maximum control

## Multi-Unit

Scaling with partners

## Area Development

Territorial rights

## Area Representative

Sales support

## Master Franchise

Rapid expansion

## Joint Venture

Shared ownership

*More Control → More Speed*

# Single Unit Franchise: Maximum Control, Measured Growth

## Maximum Control

Direct oversight of all operations

## Market Testing

Low-risk validation before scaling

## Benefits

- Maximum control enables quality consistency across operations
- Lower financial risk per unit allows careful market testing
- Direct profitability per unit without revenue sharing
- Easier exit strategy if market proves unfavorable

## Risks

- Slow expansion limits market penetration speed
- Longer ROI timeline requires patient capital
- Supply chain limitations at small scale
- High ongoing commitment of franchisor resources
- Limited market penetration creates vulnerability to competitors
- Higher per-unit legal and financial exposure

# Multi-Unit Franchise: Scaling with Proven Partners

## Faster Expansion

3-5 units per franchisee accelerates market coverage

## Economies of Scale

Shared resources reduce per-unit costs

## Benefits

- Faster expansion with reduced franchisee management burden
- Economies of scale in training, support, and marketing
- Increased brand visibility across region
- Experienced franchisees bring operational expertise and local market knowledge

## Risks

- Operational complexity with multiple simultaneous openings
- Overextension risk if franchisee lacks capital or management depth
- Quality control challenges across dispersed locations
- Heavy dependence on single franchisee impacts entire market

# Area Development: Territorial Rights with Direct Control

## Territorial Exclusivity

Protected development rights incentivize investment

## Direct Privity

Franchisor maintains contractual relationships with each unit

## Benefits

- Faster market coverage with committed development schedule and local expertise
- Franchisor retains direct control with each franchisee while developer handles expansion
- Exclusive territory motivates developer investment with higher profitability

## Risks

- Heavy dependence on single developer's resources and execution capability
- Intensive pre-sale due diligence and complex contractual obligations required
- Higher legal and reputational risk if developer fails to perform or maintain quality

# Area Representative: Sales Support with Franchisor Control

## Local Market Expertise

Representatives leverage regional knowledge for recruitment

## Retained Control

Franchisor maintains direct franchisee relationships

## Benefits

- Local expertise facilitates franchisee recruitment and initial support
- Franchisor retains direct contractual control with all franchisees
- Reduced resource and cost investment compared to direct market entry
- Representative handles on-ground relationship management and market navigation

## Risks

- Dependence on area representative for market success and franchisee satisfaction
- Less profitable than other models due to commission structure
- Potential regulatory and legal risks if representative's actions create franchisor liability
- Quality and consistency of representative's performance critical to market outcomes

# Master Franchise: Rapid Expansion with Reduced Control

## High Upfront Fees

Master franchisees pay substantial initial fees for territorial rights

## Local Expertise

Master franchisee handles all market adaptation and operations

## Benefits

- Reduced legal liability as master franchisee operates sub-franchises
- Significantly reduced financial and operational risk for franchisor
- High upfront master franchise fees plus ongoing royalty sharing

## Benefits (continued)

- Master franchisee provides local expertise and handles market adaptation
- Operational efficiency with single point of contact
- Flexibility to expand without major capital commitment

## Risks

- Loss of direct control over operations and brand standards
- Revenue sharing reduces per-unit profitability
- Potential conflicts of interest between franchisor and master franchisee

# Joint Ventures: Shared Ownership and Partnership

## Shared Investment

Partners contribute capital, expertise, and resources proportionally

## Regulatory Advantage

JVs may satisfy foreign ownership requirements

## Benefits

- Access to local networks, financing, and regulatory expertise
- Faster market entry through partner's infrastructure
- Shared financial risk and combined resources

## Risks

- Complex legal structure and financial arrangements
- Potential management conflicts and strategic disagreements
- Diluted brand control and challenging exit strategies

# International Franchise Laws: Navigating Global Compliance

- Disclosure laws require detailed pre-sale documents covering financial performance, litigation history, franchisee obligations, and material facts, with timing and content requirements varying significantly
- Registration jurisdictions mandate government review and approval before offering franchises, creating delays and compliance costs
- Relationship laws restrict franchise termination and non-renewal rights, providing franchisee protections that significantly alter risk allocation

## **Disclosure Laws**

Pre-sale documents with financial and legal information

## **Registration**

Government filing and approval before offering franchises

## **Relationship Laws**

Restrictions on termination and non-renewal

## **Tax Requirements**

Withholding, VAT, and transfer pricing obligations

## **Experience Rules**

Minimum operational experience required for franchisors

## **Formalities**

Translation, notarization, and local filing requirements

# FRANCHISE DISCLOSURE LAWS



# FRANCHISE REGISTRATION LAWS



# Key Agreement Terms: Territory and Duration

Territory definition, exclusivity provisions, and duration terms establish the geographic and temporal framework for franchise relationships

## Territory Clarity

Precise geographic boundaries prevent conflicts

## Exclusivity Terms

Define franchisor rights within franchisee territory

- Territory provisions must precisely define geographic boundaries using legal descriptions, maps, or postal codes to prevent franchise conflicts
- Exclusivity clauses specify what rights are reserved to franchisor within territory, including e-commerce, wholesale, and corporate accounts
- Duration and renewal terms balance franchisee investment protection with franchisor flexibility to respond to performance issues
- Reservation of rights clauses preserve franchisor ability to operate channels like online sales, national accounts, and company-owned locations

# Key Agreement Terms: Operational Controls

## Quality Standards

Detailed specifications maintain brand consistency

## Performance Targets

Minimum development and sales requirements

- **Purchase tie provisions** require approved suppliers to maintain quality standards, but must comply with local competition and antitrust laws
- **Non-competition covenants** prevent franchisees from operating competing businesses during and after franchise term, with enforceability varying by jurisdiction
- **Performance targets** establish minimum development schedules, sales volumes, or market penetration requirements with remedies for non-compliance
- **Marketing contributions** fund system-wide advertising with governance provisions for fund management and campaign approval
- **Quality control and step-in rights** allow franchisor intervention to protect brand standards in cases of serious non-compliance
- **Personal guarantees and letters of credit** provide franchisor financial security, particularly important in higher-risk international markets
- **Buy-out options** give franchisor rights to purchase franchise on specified terms if strategic circumstances change

# Historical and Recent Crisis Examples

## Political Instability Effects

Political crises cause operational shutdowns and loss of control in franchise systems, disrupting business continuity.

## Economic and Social Crises

Economic instability impacts pricing and profitability, while social instability weakens workforce reliability and consumer trust.

## Recent Global Crisis Examples

Events like the Ukraine war, Israel-Gaza conflict, U.S.-China trade tensions, and COVID-19 pandemic highlight franchise vulnerabilities.

## Crisis Management Importance

Understanding crises helps franchises anticipate risks and develop strategies for resilience and adaptation.



# Navigating Sanctions, Trade Restrictions, and Currency Controls

## Sanctions

- Governments may block transactions, freeze assets, or restrict use of specific vendors and service providers
- U.S. sanctions on Russia have forced brands to suspend or exit; Iran sanctions make franchising nearly impossible, even through indirect structures
- Routinely screen all partners (franchisees, vendors, landlords) against OFAC, EU, U.K., Canada, and U.N. sanctions lists
- Understand and account for applicable local laws
- Prepare fallback plans (e.g., escrow royalty payments, pause new openings while allowing existing units to operate, and preserve trademark rights)
- Communicate clearly with franchisees—many will not understand the scope of sanctions or what actions are permitted

## Trade Restrictions

- Tariffs, embargoes, and export controls can disrupt supply chains critical to franchise consistency and quality
- U.S.–China tariffs drove rapid supplier shifts (e.g., packaging, equipment), while Brexit introduced new customs and labeling requirements
- Build flexible sourcing: pre-approve alternate suppliers, maintain buffer inventory, and invest in local warehousing to reduce customs exposure
- Include contractual flexibility for substitutions or ingredient changes required by law to mitigate breach risk
- Establish internal regulatory watchlists and centralized procurement support to help franchisees respond to shifting trade regimes

## Currency Controls

- Common in high-inflation or politically unstable markets (e.g., Argentina, Nigeria, Lebanon), where restrictions can delay or block outbound payments
- Franchisees may lack access to hard currency to remit royalties, increasing default risk and potential write-offs
- Consider structuring flexibility: allow in-market reinvestment of royalties (e.g., local advertising, infrastructure, or training)
- Use escrow or neutral third-party payment arrangements where feasible
- Combine legal oversight with practical solutions—track exposures internally, coordinate with local counsel, and build flexibility into contracts
- Compliance is not just about avoiding penalties—it's about maintaining a legally compliant and sustainable system under difficult conditions

# Crisis Management: Responding to Foreign Market Disruption



## Crisis Types

Political instability, economic collapse, operational failures, brand incidents

## Response Speed

First 48 hours critical for containing damage

- Crisis landscape spans political instability, economic shocks, regulatory changes, and brand incidents requiring immediate assessment
- Expansion structure determines response options: direct franchises allow immediate intervention, master franchises require partner coordination
- Partner assessment evaluates power, compliance history, local authority, and crisis management capability before determining strategy
- Stabilization options include temporary relief, restructuring agreements, franchisor take-over, or complete market exit depending on severity

# Exiting an International Franchise Relationship



- Adversarial or Mutual
- Understanding the Contractual Rights
- Regulatory Requirements
- Franchise Structure Considerations
- Protection Intellectual Property
- Brand Perception Concerns