

Choosing the Countries That Will Give Your Franchise the Best ROI

Evaluating which markets are the best fit for your brand

How to decide which markets to avoid

Adapting to new markets and cultures

Moderator: Bill Edwards, CFE, CEO, Edwards Global Services

Panelists:

Dan Stone, CFE, VP of Franchise Development, Front Burner Brands

Kurt Ullman, CFE, VP, Global Development, Planet Smoothie/Tasti D-Lite

Farrah Rose, Dir. of Intl. Development, The International Franchising Centre

Why Take Your Franchise Global?

- **New sources of revenue**
 - Initial license fees, unit franchise fees and royalties
- **Makes you less dependent on your home market**
 - Spread your resource and revenue risk
- **Can increase brand value for stakeholders**
- **Leverage existing intellectual property and technology**
 - Trademarks, manuals, Intranet, differentiation

Why US Franchises Are Attractive To Buyers In Other Countries

- ✓ **Brands**
- ✓ **Quality**
- ✓ **Convenience**
- ✓ **Customer Service**



US franchises have a systematic and reproducible approach to doing business that is world class

Most Desired Franchises

- **Automotive – After market products and services**
- **Education – Children’s, management, coaching**
- **Commercial Services - business services, cleaning, handyman, security**
- **Personal Services – Maid, mobile, senior care, personal care**
- **Specialty Food & Retail – Special clothing brands, theme brands, ethnic foods, well known food brands, healthy food brands**

Top Franchise Markets For 2014

- **The Americas: Chile, Colombia, Mexico, Panama and Peru**
- **Asia Pacific – Australia, China, Indonesia, Malaysia, New Zealand, Thailand and Viet Nam**
- **India – Strong desire for food and retail brands**
- **The Middle East – specialty food, retail**
- **Selected Western European markets that are starting to seeing positive GDP growth**

Market Intelligence

- Measurable historical and trend data
- Listening
- Experienced intuition
- Identification of unique talent and capability
- Optimal results
 - Effective prioritization
 - Strategic approach to the market
 - Understanding win-win business terms
 - Credibility and influence with your candidate

Kurt

Market Prioritization Criteria: General

- **Market Size/attractiveness**
 - Population
 - Per capita economics
 - Economic trends
 - Macro/National (GDP, etc.)
 - Target Populations
 - **AT Kearney Global Retail Development Index**
 - Developing markets focus: emergence, volatility
 - Adjacency

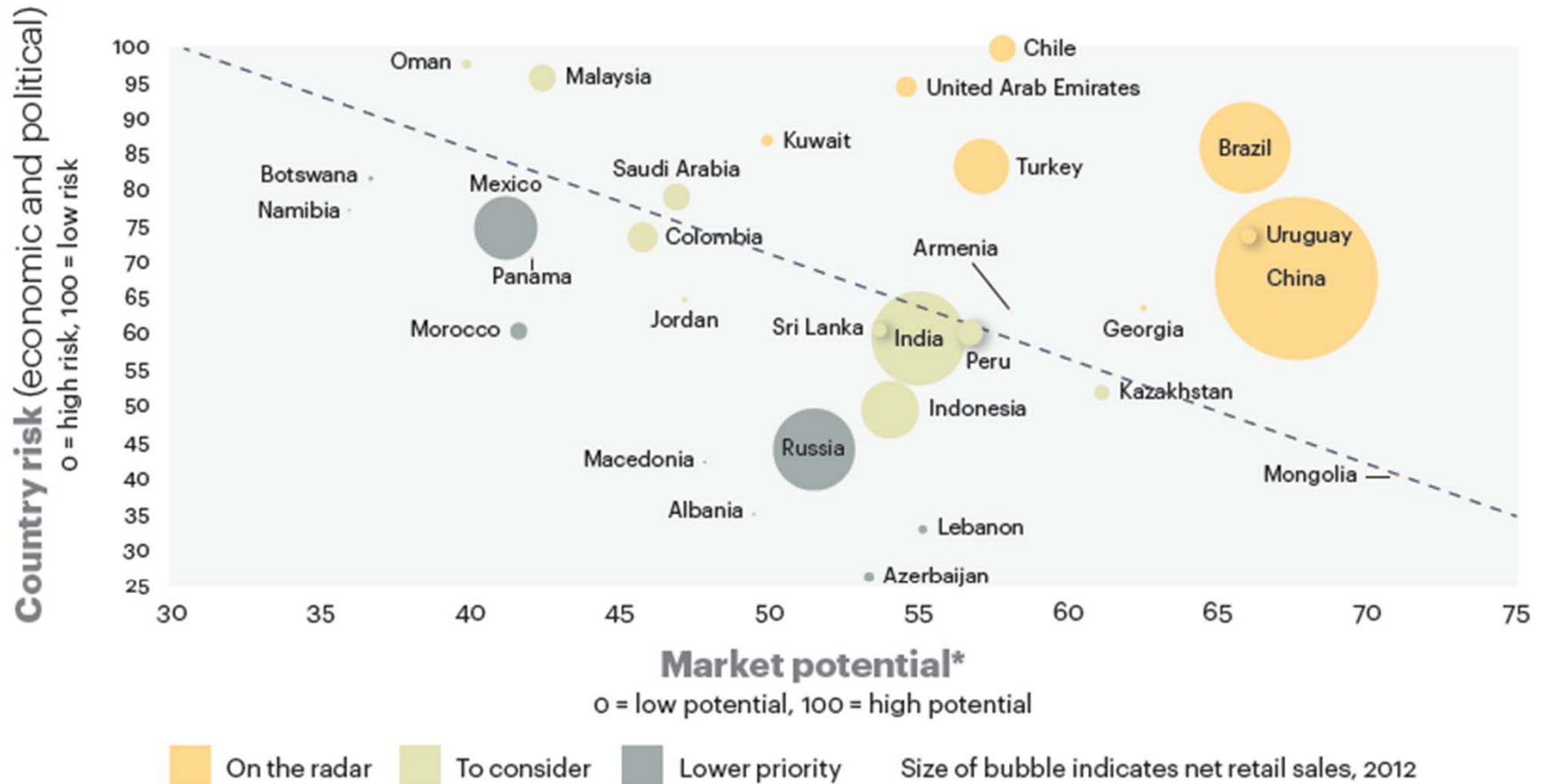
Kurt

2013 Global Retail Development Index™

On the radar
 To consider
 Lower priority

2013 rank	Country	Region	Market attractiveness (25%)	Country risk (25%)	Market saturation (25%)	Time pressure (25%)	GRDI score	Change in rank compared to 2012
1	Brazil	Latin America	100.0	86.2	43.3	48.3	69.5	—
2	Chile	Latin America	95.6	100.0	18.7	54.3	67.1	—
3	Uruguay	Latin America	92.0	73.9	63.5	36.5	66.5	+1
4	China	Asia	62.1	67.9	34.3	100.0	66.1	-1
5	United Arab Emirates	MENA	95.8	94.6	3.0	60.8	63.5	+2
6	Turkey	Eastern Europe	86.8	83.7	28.9	50.9	62.6	+7
7	Mongolia	Asia	17.7	37.0	99.0	96.5	62.5	+2
8	Georgia	Central Asia	36.6	63.8	83.4	61.9	61.4	-2
9	Kuwait	MENA	87.8	87.1	36.4	22.2	58.4	+3
10	Armenia	Central Asia	32.3	63.6	93.5	43.6	58.2	N/A
11	Kazakhstan	Central Asia	44.1	51.9	76.2	57.8	57.5	+8
12	Peru	Latin America	52.9	60.4	63.4	49.3	56.5	-2
13	Malaysia	Asia	63.4	95.8	22.0	39.8	55.3	-2
14	India	Asia	36.8	59.4	63.3	60.6	55.0	-9

2013 GRDI country attractiveness



*Based on weighted score of market attractiveness, market saturation, and time pressure of top 30 countries

Source: Planet Retail, Economist Intelligence Unit; A.T. Kearney analysis

Market Prioritization Criteria: Specific

- End user demand indicators/surrogates
 - Comparative consumption/use statistics
 - Comparative surrogate data
(Examples for healthier frozen desserts)
 - “Active lifestyle” indicators as available (i.e. spending on diet programs, health/fitness club memberships and equipment)
 - Overweight/obesity statistics
 - Vanity index
 - Anecdotal

Kurt

Market Prioritization Criteria: Specific

- **Unit Level Gross Margin Viability**
 - Core products landed cost
 - Overseas freight
 - Applicable duties
 - Retail pricing survey in target market

Kurt

Market Prioritization Criteria: Specific

- **Barriers/Complexity Factors**
 - Restrictions on products, product components, services
 - Tax (treaties on withholding, nexus)
 - Maturity of franchising in small business
 - Exchange controls
 - Franchise regulations
 - Political/social issues
 - Other regulations

Kurt

Adapting to New Markets & Cultures

- **Conduct In Market Due Diligence Visit**
 - Prior to executing final agreements
 - Do research in advance of your visit
 - *“Kiss, Bow, or Shake Hands”* Book
 - During visit, study differences in American brands within the market, especially those in your industry
 - Spend time with, listen & develop relationship with your proposed franchise partner(s)

Dan

Adapting to New Markets & Cultures

- **Stay true to your concept wherever possible**
 - **Strong desire for the American concept as is, not a loosely inspired version for another country**
 - Disneyland Paris
 - **Make modifications that are appropriate to embrace cultural differences**
 - The Melting Pot® in Mexico
 - The Melting Pot® in Saudi Arabia

Dan

Adapting to New Markets & Cultures

- **Other considerations:**
 - Be prepared for different consumer habits and preferences
 - Post opening: monitor performance and be willing to make additional adjustments
 - Source locally where ever possible to keep initial and ongoing cost low
 - Utilize a consultant based in the market or with experience in market

Dan

Adapting to New Markets & Cultures

- **Other considerations cont.**
 - Stay abreast of ever-changing franchise regulations in a Int'l markets
 - Have strong local counsel in each market...don't rely solely on US based counsel
 - Make sure fee structures makes sense (initial FF, royalties, training fee) to justify Int'l expansion
 - Franchisor commitment to Int'l support is paramount!
More challenging than US franchise expansion, especially the start up & initial location(s)

Dan

Which Markets to Grow Into

- Economic Considerations
 - Positive growth in GDP
 - Growth in Franchising Sector
 - Disposable income and all other economic factors
- Political Stability
 - Where you can operate harmoniously and successfully as a foreign (US) franchisor
 - Where there are supportive local embassies & market intelligence

Which Markets to Grow Into

- **Legal**
 - Where you can register and protect your intellectual properties
 - Enforce terms of your agreement
 - Enforce non competition post termination clauses and any future arbitration
 - Where Franchising and sector specific laws and Government regulations do not impact your entry and franchisees' ability to run a profitable business

Farrah

Which Markets to Grow Into

Liberalized Government attitude and where local Government is in support of franchise development (both domestic and incoming) and where infrastructure can support your franchisees operation

Where you can repatriate your royalties out without facing onerous local taxations issues such as double taxation, limit on fees earned etc.

Which Markets to Grow Into

- **Commercial Considerations**
 - Price Parity
 - Credit system allows a harmonious operation
 - Market potential for your products and services
 - Products & services adaptation to suit the local market does not dilute your offer beyond recognition
 - Sufficient number of franchisee candidates, meeting your essential and desirable profile

Farrah

Which Markets to Grow Into

- **Commercial Considerations**
 - Manageable institutional voids
 - Fairly developed franchising industry or where you can train local investors on Franchising best practices
 - Entry logistics are manageable
 - Access to credible network of advisors in all the above areas and reliable franchise brokers and effective promotion media
 - Where you can realistically support your franchisees

Farrah

Which Markets to Grow Into

- **Tax and Financial**
 - Currency fluctuation does not significantly erode your income
 - Both parties make sufficient profit
 - banks view franchising, an ethical way of business development
 - Availability of funding for the ‘missing middle’ \$30K to \$3million

Farrah

Which Markets to Grow into

- **Technology**
 - Prevalence of Use
 - Existing platforms
 - Support infrastructure
 - Ensuring adherence to use and interfacing

Farrah

Key Markets To Consider

- Asia - India, China, Hong Kong, Indonesia, South Korea, Vietnam, Cambodia, Caucasus, Pakistan, Russia, Turkey
- Middle East - KSA, Kuwait, UAE, Qatar, Bahrain
- Europe - The UK, Scandinavia, Germany, The Netherlands, Pockets of ECE
- South America - Brazil, Chile, Ecuador, Panama,
- Africa - South Africa, selected countries in North and East Africa

Farrah

Sectors in Demand

- **Emerging Markets - mainly high profile and well known brands:**
 - F & B
 - Retail
 - Education and Training

Farrah

Sectors in Demand

- Emerged markets
 - Specialty and niche F & B
 - Specialty and niche retail (both static and online)
 - Theme Brands
 - Purely Technology based franchises
 - B to B Concepts
 - B to C concepts

Farrah

Which Markets to Grow Into

- There is no such a thing as
‘the best markets to grow into’
- But there is such a thing as
**‘Best markets for each and every one of you
to grow into’**

Farrah

Keys To Doing International Franchising Successfully

- Focus on countries that have the highest ROI for **your** franchise
- Find and use the best available international development resources
- Budget conservatively for revenues (low) and expenses (high)
- Find the right licensees to build long term revenue sources for your company

