



47th Annual Convention

FEBRUARY 24-27, 2007 CAESARS PALACE • LAS VEGAS, NV



International Expansion

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International Expansion

- 1. Gymboree and IJL
- 2. Misconceptions & Considerations
- 3. Business Models
- 4. Is it Worth it? – the Financial Implications
- 5. The Right Partner – Mistakes and Good Practices

Gymboree International Expansion

Eva Crosland
Manager, Franchise Development

It's Just Lunch International Expansion

Irene LaCota
President

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.



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Good Luck
on your
International Journeys!