

# International Expansion from the Eyes of the Master Franchisee

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# Agenda

1. Larry (Moderator) - Introductions
2. Larry - International Franchise Expansion Methods - A Summary
3. John - A Canadian Master's Experience
4. Andrew - What do Master Franchisees Want?

# Introduction - “Beauty is in the Eye of the Beholder”

Larry Weinberg

- Many sessions here over the years on what franchisors should look for in a new market, and a Master Franchisee or Area Developer

# Introduction (Continued)

- Today ...  
You will hear from two master franchisees on what they went looking for in a franchisor when bringing new brands and systems to their country
- First, some background information for this Novice Track

# **International Franchise Expansion Methods**

**Larry Weinberg  
Cassels Brock & Blackwell**

# Methods of Expansion

- What method of franchising should you use outside of your home market.
- A summary of the "pros" and "cons"

# The Most Common Methods of Expanding Beyond Your Home Territory

1. Direct Franchising;
2. Master Franchising;
3. Area Developers;

# The Most Common Methods of Expanding Beyond Your Home Territory (Continued)

4. Joint Venture franchising;
5. Area Representative; or
6. Hybrid of some of the above.



# Direct Franchising

- The franchisor acts as franchisor to the single unit franchisees in the foreign market.
- Often used when growing within your home country, but less frequent now when going international.

# Direct Franchising (Continued)

- Pro: Owner/Operator franchisees; Highest level of control by franchisor.
- Con: Harder to manage the less sophisticated type of franchisee from a distance, and/or need to expand or replicate the franchisor's business in the new market (branch office, tax and liability issues).

# Master Franchising

- The franchisor grants to a local “master franchisee” the right to subfranchise in the foreign market.
- A commonly used way to grow outside of your home territory, whether within a country, or to another country. Attractive because master franchisee can become self-sufficient, as a franchisor.

# Master Franchising (Continued)

- Pro: Typically only sophisticated persons or companies need apply...striving for self sufficiency as master takes over many of the franchisor's functions.
- Con: Problems in finding the right Master Franchisee when so much riding on one person or group - another layer of management, but only one pool of revenue...Can everyone make money?

# Area Developers

- The franchisor grants to a local “area developer” the right to become a single unit franchisee multiple times, in a defined geographic area.
- Becoming more and more common as franchisors are looking for more sophisticated and large franchisees who can be self-sufficient.

# Area Developers (Continued)

- Pro: Typically only sophisticated persons or companies need apply...striving for self sufficiency as area developer takes over many of the franchisor's functions.

# Area Developers (Continued)

- Con: Problems in finding the right Area Developer when so much riding on one person or group.- Can they operate units and fulfill other functions of franchisor?

# Joint Venture Franchising

- The franchisor grants to a local entity certain rights (i.e.: single unit franchise, master franchise, or area development rights), and itself owns some part of the entity together with a local “partner”.



# Joint Venture Franchising

(Continued)

- An alternative to the franchisor opening up a new market on a purely corporate or franchised basis...seen as a middle ground.

# Joint Venture Franchising

(Continued)

- Pros: Sometimes the best of both worlds.
- Cons: Often the reality is that the franchisor is too far away to keep proper tabs on what is going on, and so to do it right, needs to establish a corporate like presence in the market.

# Area Representative

- The franchisor grants to a local entity certain rights to market, offer and perhaps even train and service franchisees on behalf of the franchisor in a new market.
- Actually an agency or broker arrangement.

# Area Representative (Continued)

- Pro: Fewer ties to new market. Sometimes this route can avoid franchise laws.
- Con: Franchisor often ends up dealing with unit franchisees, and is in no better a position than if franchising directly.

# Hybrid of the Above

- Many deals are done with some elements of all of the above.
- For instance, many master franchise deals require that the local master franchisee operate a minimum number of corporate stores.

# Hybrid of the Above

- Pros: Can tailor the arrangement to the situation, and end up with most suitable arrangement of master franchisee and area developer.
- Con: Too much time and money spent customizing the deal.

# How to Choose?

- The domestic method of franchising may not work outside of the home market or internationally.
- There can be significant differences country to country or even within countries.

# What Do the Business People Say?

- “Progressive Development”- in a new territory, start small, especially if franchisee is new and unproven, and let them earn the right to grow beyond their initial territory.



# What Do the Business People Say? (Continued)

- “Manage the Growth” - growth outside of home market must be financially accretive -this requires that financial modeling be done in order to determine what the growth adds to the franchisor.

# What Do the Business People Say? (Continued)

- “Self-Sufficiency” - more franchisors are looking to establish their brand in a new market through master franchisees and/or area developers who can be self-sufficient.

# What Do the Business People Say?

- Moving away from single unit franchise sales.
- “Can Everyone Make Money?” - perhaps this should be obvious.
- Long established support system in domestic market vs. building that today from scratch in a new market.

# What Do the Business People Say? (Continued)

- Look to MF/AD to take over training, marketing, purchasing, support, real estate, etc. in the new market - can your candidate do all or some of that?

# **Master Franchising from The Eyes of The Master Franchisee**

**John Prittie, M.B.A. – President  
of Heron Capital Corporation**

# Background

- HCC is a Franchise Management Company
  - Franchisor for **PROSHRED**® Security
    - pioneered the mobile paper shredding & recycling industry
  - Master Franchisee for **TWO MEN AND A TRUCK**® in Canada
    - 4<sup>th</sup> largest US mover specializing in home & business moving

## Background (Continued)

- Involved in franchising for 25+ years
- Awarded 500+ franchises globally
- Chairman of the Education Committee for the Canadian Franchise Association 1992-1995

# Background (Continued)

- Board member for the Canadian Franchise Association 1994-1997
- Most recently spoke on International Expansion at the CFA's May 2006 Annual Conference



# Franchise Experience

- Previously affiliated with the following franchise systems:
  - Mini-Tankers® - Onsite diesel refueling
  - Shred-it® - Mobile paper shredding & recycling
  - Mr. Lube® - Quick lube/oil change
  - Jumbo Video® - Video rental

# Franchise Experience (Continued)

- The Country's Best Yogurt ("TCBY") - soft serve frozen yogurt
- Prime Restaurants - Full service restaurant chains
  - East Side Mario's
  - Casey's
  - Pat & Mario's
  - Lime Ricky's

# Franchise Experience (Continued)

- Mother's® Restaurants - Full service and take out & delivery restaurants
- Mr. Grocer® - Supermarkets
- Mini-A-Mart® - Convenience Stores

# Master Franchise Experience

- The Country's Best Yogurt® - USA concept introduced to Canada
- Mini-Tankers® - AU concept introduced to Canada & USA
- TWO MEN AND A TRUCK® - USA concept introduced to Canada

# Why Buy a Master Franchise?

- “ Imagine coming up with the idea of a new franchise concept that explodes in your area with dozens of new units opening up.
- Imagine having control of this concept and receiving royalties and franchise fees on a consistent basis.

# Why Buy a Master Franchise?

(Continued)

- Imagine having an idea like McDonald's® and having people line up at your door to buy into your opportunity.
- Imagine having access to the best business experts to help guide you in your new venture to build your organization to last.

# Why Buy a Master Franchise?

(Continued)

- This opportunity is extremely rare, yet there are such businesses available if you know where to look.
- **This unusual highly successful opportunity is called Master franchising. ”**
- Source: [www.azfranchises.com/whymasterfrachniser.htm](http://www.azfranchises.com/whymasterfrachniser.htm)

# Is Master Franchising Highly Successful?

- Knowing where to look to find these “rare” opportunities is an important 1<sup>st</sup> step
- Knowing what to look for to find these “highly successful opportunities” is a more important 2<sup>nd</sup> step
- Knowing how to evaluate a “Master Franchise” is the most important 3<sup>rd</sup> step



# What to Look for and How to Evaluate a Master Franchise?

- Starts with an extensive and thorough review ...
  - Concept
  - Franchisor
  - Operations
  - Information Technology
  - Sales
  - Marketing
  - Financial
  - Legal

# Concept

- How will the concept work in the target country?
  - Understand the concept and what makes the business system, product or service unique, different, desirable, successful
  - Complete extensive market research to determine if the business system, product or service will have a similar or different application in target market

# Concept (Continued)

- Circumstances exist that will impact the application and successful introduction of the business system, product or service
  - i.e. competition, climate, population density, geography, disposable income, different tastes, cultures, norms, habits, traditions, religion, government regulation e.g. taxes or tariffs, business practices, etc.
- To what extent will these circumstances impact the successful introduction of the business system, product or service in target market?

# Franchisor

- Do your homework on the Franchisor.
  - How long have they been in business?
  - How many Franchisees do they have?
  - Is the Franchisor's domestic franchise program a success and do their Franchisees validate?
  - Is the Franchisor "solid" financially?

# Franchisor (Continued)

- Why is the Franchisor looking to expand internationally?
- What actions has the Franchisor taken in preparation for awarding a Master Franchise in the target country?
- Do they have any other Master Franchisees?
- Is the Franchisor's Master Franchise program a success?

# Franchisor (Continued)

- What is the Franchisor's senior management team commitment to Master Franchising?
- What is the breadth and depth of the Franchisor's management team, knowledge base, tenure, etc.?
- Does the Franchisor have personnel dedicated to supporting Master Franchisees?

# Franchisor (Continued)

- Is the Franchisor a good communicator?
- Is the Franchisor a member and active in the IFA or other franchise associations?
- Is the Franchisor a member and active in industry associations?

# Operations

- Operations is the all about uniformity and consistency.
  - Are the Franchisor's operations manuals professionally developed, current and well documented?
  - Are the Franchisor's training programs professionally developed, current and well documented?



# Operations (Continued)

- Are these manuals available electronically?
- Will you be required to operate one or more “corporate units”?
  - If not how will you learn the system?
- Will you be permitted or obligated to attend annual meetings and/or ongoing training programs with the Franchisor’s domestic franchisees ?
  - If not, how will you stay current with best practices?

# Operations (Continued)

- What manuals has the Franchisor developed to assist you in selling/awarding franchises?

# Information Technology

- The tyranny of distance and time zones can be somewhat offset by technology.
  - Does the Franchisor have a well developed IT infrastructure?
  - Does the Franchisor utilize proprietary or customized software, etc?

# Information Technology

(Continued)

- Can the Franchisor's proprietary or customized software, etc. be used and supported in the target country?
- What costs are involved to purchase licenses, modify software, etc.?

# Information Technology

(Continued)

- Does the Franchisor have professionally developed and well documented proprietary or customized software manuals?
- Does the Franchisor have a professional and well developed web site/intranet/extranet?

# Sales & Marketing

- Master Franchisees will be responsible for selling more than the business system or the products or services.
  - Does the Franchisor have professional, current and well developed sales and marketing tools to help you sell and market the business system, products or services?

# Sales & Marketing (Continued)

- Does the Franchisor’s “Brand” have any awareness or recognition in the target country?
- Will the Master Franchisee benefit from any national or international sales and marketing campaigns, programs?

# Sales & Marketing (Continued)

- Does the Franchisor have professional, current and well developed sales and marketing tools to help you recruit and award franchises?
- Does the Franchisor sponsor any internet sales activity or lead generation for either the business system/products/services or franchises?



# Financial

- There are many financial matters to review.
  - Does the concept generate strong sales and/or margins and is it reasonable to assume these can be replicated in the target market?

# Financial (Continued)

- What is the Master Franchise fee structure?
  - License fee or management fee? Training fees? Royalties? Ad fund? etc.
  - Do they adequately reflect the division of responsibility?
- What are the payment terms for fees?
- What about currency exchange and withholding taxes?

## Financial (Continued)

- What is the market potential for the target market given development plans?
- Given the length of the Master Franchise Agreement and the development schedule is there an appropriate “ROI”?
- What implications does exchange have on the economics for the Master Franchisee or individual Franchisee?

# Financial Considerations

- Are there any duties or tariffs on inventory, supplies or equipment that is mandated by the Franchisor?
- Who is responsible for the cost of translation of marketing and training materials and operations manuals?

# Financial Considerations

(Continued)

- What infrastructure needs to be established and at what cost to open and operate one or more “corporate” units?
- What infrastructure needs to be established and at what cost to recruit, award and support franchises?

# Financial Considerations

(Continued)

- What differences exist in the target market with regard to income statement and cash flow items for either the individual Franchisee or Master Franchisee?

# Financial Considerations

(Continued)

- What capitalization is required for the individual Franchisee and how would that compare to the Franchisor's home market?
- What capitalization is required for the Franchisor?
- Will there be issues with financing or leasing?

# Legal

- There are many legal aspects to be considered.
  - What is the status of the Franchisor's trade marks and can they be protected and translated appropriately?
  - Is the Franchisor prepared to modify trade marks, slogans, due to translation or pirating problems?



## Legal (Continued)

- Are there any industry specific laws in the target country that could impact on the business in any way?
  - Franchise legislation, import/export, transportation, etc.
- Will real estate be an issue?
- What is the term of the Master Franchise Agreement and what options are there to renew?

## Legal (Continued)

- Are the terms and conditions contained in the Master Franchise Agreement fair and reasonable and not too restrictive?
- Is the development schedule reasonable?
- Choice of law?
- Choice of language?
- Does the Franchisor require personal guarantees of the Master Franchisee?

# The Country's Best Yogurt®

- Lesson learned .... The Master Franchise Agreement was far too restrictive!

# The Country's Best Yogurt®

(Continued)

- Issues arose with store design, real estate selection, the purchase of furniture, fixtures and supplies, exchange rates, tariffs & duties, product line, development schedules, fees, royalties, etc.
- The Master Franchise Agreement did not adequately provide for local market adaptation which ultimately lead to the failure of TCBY in Canada

# Mini-Tankers®

- Lesson learned .... Insufficient market research was completed prior to the introduction of Mini-Tanker's service to North America

## Mini-Tankers® (Continued)

- Climate, customers, products, services, equipment, technology, supply, distribution, etc. were all so very different
- it took many years of adaptation, trial & error, recapitalization, re-branding, etc. to bring a viable business model to market

# TWO MEN AND A TRUCK®

- Lesson learned .... you can find a highly successful franchise opportunity in Master Franchising provided you:

# TWO MEN AND A TRUCK®

(Continued)

- take the time to get to know the Franchisor and understand the concept, its operations and how it's marketed, sold and serviced
- you are successful in negotiating legal and financial arrangements that are fair and reasonable to both parties



# Summary

- I personally would not characterize Master Franchising as either “an unusual” or “a highly successful business opportunity”

## Summary (Continued)

- Master Franchising is very commonplace
- Needs to be an appropriate sharing of revenues between Franchisor & Master Franchisee
- Master Franchising is not a “get rich quick” scheme
- Make sure you enter the world of Master Franchising with your *“EYES WIDE OPEN”*

# What Master Franchisees Want?

**Andrew Benefield**  
**Cookies Australia Pty Ltd**

# Who am I?

- An ex Franchisor who has moved to the other side,
- Spent 4 years researching Franchise Opportunities,
- Currently operate two franchise



*Mrs. Fields*<sup>®</sup>

# Australia



- Population 20.7m
- Basic Wage \$AUD14.28p.h.
- Big Mac \$AUD3.60

# Australian Franchise Industry

- Over 960 Franchise Systems,
- 56,200 business format franchisees,
- Contribute 14% of GDP,
- Employ approx 500,000 Australians,
- 93% of systems are Australian based,
- 28% are exporting internationally.

# Five Key Items We Searched For;

1. Unique Quality Offer
2. Strong Brand
3. Consistent Supply
4. Documented Systems
5. A Financial Model that works

## 1. Unique Offer

- Is it appealing?
- Can it be understood?
- Will it be competitive?
- Can it be sustained?





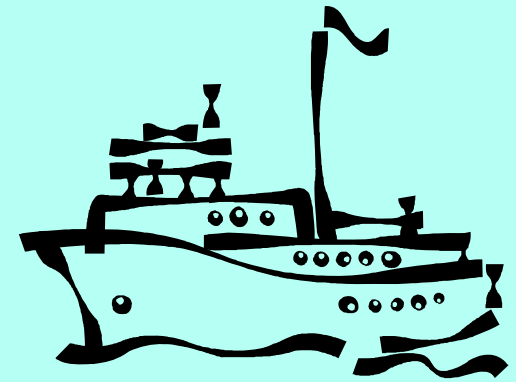
## 2. Strong Brand

- What is level of recognition locally?
- Is there a commitment to globalisation?
- Does it make sense?
- Can it be registered?
- Is there global advertising material?



## 3. Supply

- Are items proprietary?
- Local manufacture or import?
- What inventory holding is required?
- Regulatory requirements?
- Will there be continuity of supply?



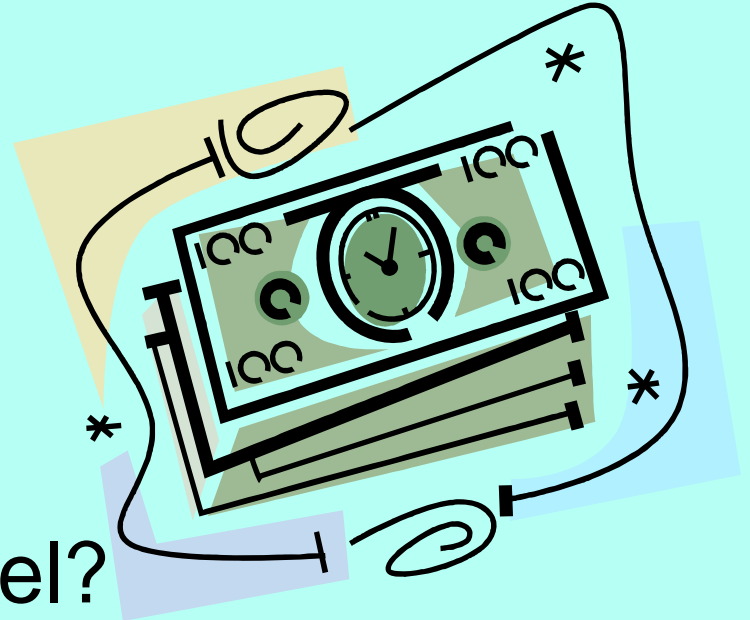
## 4. Documented Systems?

- What is the ease of conversion?
- Process for updates and improvement?
- Freedoms and flexibility to adopt?
- What equipment is required?
- Quality of training materials?
- What are the compliance requirements?



## 5. Financial Model

- What is the return?
- Establishment cost?
- Ongoing investment level?
- Potential revenue streams?
- Exit strategy?



# Five Key Items Revisited

1. Unique Quality Offer
2. Strong Brand
3. Consistent Supply
4. Documented Systems
5. Financial Model

## Searching For a Long Distance Love Affair

