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Franchising

Building local businesses,
one **opportunity** at a time.

Expansion in New Emerging Overseas Markets: Opportunities and Challenges in Latin America, China and the Middle East

- Moderator: Michael Brennan, Partner, DLA Piper LLP (US)
- Speakers: Timothy Hardy, Director, International Franchising & Operations, Build-A-Bear Workshop, Inc.
- John Kersh, Vice President, International Development, Anytime Fitness, Inc.
- Lee Vala, Chief Development Officer, International, The Quizno's Corporation

52nd Annual Convention

February 11-14, 2012 | Orlando, FL



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A. Why Are These Markets Leading the Way for U.S. Franchisors' International Expansion?

- Strong desire for American and other Western brands and lifestyle services and products.
- These markets are under-served in terms of US franchise offerings.
- Increasing disposable income.

B. What Resources Are The “must haves” for Success in These Regions?

- Patience, understanding, good people, money!
- Hire one or more executives with real international experience; it’s worth it.
- The right individuals on your international development team, and at the executive and support levels of your organization, who can approach these markets in a respectful and competent way.
- Solid grasp of market conditions in the territory.

What Resources Are The “must haves” for Success in These Regions? *(continued)*

- A strong logistics capability with both franchisor and franchisee to insure efficient importation of goods.
- For Build-A-Bear Workshop, access to quality malls and adequate space within the malls is critical.
 - Limited numbers of malls.
 - Smaller units than found in the US.
 - High key money thresholds.
- Solid grasp of and respect for the local culture.

What Resources Are The “must haves” for Success in These Regions? *(continued)*

- Experienced franchise counsel with local support.
- Legal and tax advice on local payment issues; especially on withholding tax, royalties initial fees, and development fees.
- Adapt and expand US training programs.
- A candidate with sufficient capital and a well-thought-out plan for capital expansion in the future.
- Candidate with meaningful multi-unit retail experience at both the corporate and store levels.

C. Challenges to Overcome in Latin America, China and the Middle East

- Travel costs (international airfares, safe hotels, security, safe transportation).
- Operating costs, shipping food and paper products overseas import duties, distribution costs.
- Development, larger units as dine-in business is far greater than U.S.

Challenges to Overcome in Latin America, China and the Middle East *(continued)*

- Real Estate (“A” sites are generally more expensive than in the US).
- Duties on equipment.
- International warranties.
- Finding larger capable candidates; there is little or no financing for small franchisees.

Challenges to Overcome in Latin America, China and the Middle East *(continued)*

- Franchise candidates with experience in the franchisor's business segment will save time and money.
- Be flexible on site selection and unit design (US prototypes will not work. Take a custom design unit in the best site versus 40,000 square-foot pad prototypes).

Challenges to Overcome in Latin America, China and the Middle East *(continued)*

- Find local sourcing and distribution expertise. There are no equivalents of SYSCO.
- Good food technology people and staff.
- Will need to find, develop and approve local ingredients.
- Local vendors may need to invest to meet specs, which could require long and complex vendor contracts.

Challenges to Overcome in Latin America, China and the Middle East *(continued)*

- Must train on business issues too, not just operation, but also on marketing, sourcing, sales and controls.
- Selecting the right local partners.
- A mind-set which is flexible and understanding of cultural differences.

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Challenges to Overcome in Latin America, China and the Middle East *(continued)*

- Communication in foreign language markets always takes longer and requires more effort than in English language markets.
- Tariffs on China-produced goods (even in China!)

Challenges to Overcome in Latin America, China and the Middle East *(continued)*

- Lead times on orders.
 - Customs delays.
 - Logistics challenges.
- Seasonal changes in Southern hemisphere countries.
 - Affect holiday and fashion offerings.
- Localization of products, services and marketing materials.
 - Holidays, religious, cultural issues.

Challenges to Overcome in Latin America, China and the Middle East *(continued)*

- Franchise disclosure laws in China, Brazil and Mexico.
- Security in Mexico and Brazil.
- Corruption concerns.
- Anti-boycott concerns in the Middle East.
- Political issues in China and the Middle East.

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