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HOW TO EFFECTIVELY EVALUATE THE OPPORTUNITIES AND RISKS FOR INTERNATIONAL EXPANSION

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WHY TAKE YOUR FRANCHISE GLOBAL

- **New sources of revenue**
- **Become less dependent on your home market**
- **Increase brand value for all stakeholders**
- **Enter markets where competition may be less**
- **Leverage your existing intellectual property and technology**

MOST DESIRED FRANCHISES

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

HOT FRANCHISE MARKETS

- **China – Focused on 1st and 2nd Tier Cities**
- **India – Strong desire for food and retail brands**
- **The Middle East – specialty food, retail, personal service**
- **Other Asia - Indonesia, Malaysia, Thailand, Viet Nam**
- **Latin America – Central America, Chile, Colombia, Ecuador, Peru**
- **Markets to watch – Canada, United Kingdom, Brazil, Eastern Europe and Turkey**

GLOBALVUE™ - COMPARING COUNTRIES

Country/Region	Expected 2013 GDP Growth	Market Size (Customers)	Legal Concerns For Intl. Brands	Barriers To Foreign Brand Entry	Political And Economic Risk	Overall Country Ranking
China	1	1	2	2	2	1.6
Chile	1	3	2	2	1	1.8
Colombia	1	2	2	2	2	1.8
India	1	1	2	3	2	1.8
Singapore	1	4	1	2	1	1.8
Indonesia	1	1	3	3	2	2.0
The Philippines	1	2	2	3	2	2.0
Viet Nam	1	2	2	4	2	2.2
Australia	2	2	2	1	1	1.6
Brazil	2	1	2	3	1	1.8
Mexico	2	1	2	2	3	2.0
South Africa	2	2	2	2	2	2.0
South Korea	2	2	3	1	2	2.0
Middle East Region/GCC	2	2	2	3	2	2.2
Central Europe	2	2	3	2	2	2.2
Thailand	2	2	2	2	3	2.2
Turkey	2	2	2	3	2	2.2
Malaysia	2	2	3	3	2	2.4
Russia (net of oil & gas impact)	2	2	4	3	3	2.8
Germany	3	1	2	1	1	1.6
Japan	3	1	2	1	1	1.6
United Kingdom	3	1	2	1	1	1.6
USA	3	1	2	1	1	1.6
Canada	3	2	2	1	1	1.8
New Zealand	3	4	1	1	1	2.0
Spain	4	1	2	1	1	1.8
Ireland	4	4	1	1	1	2.2

Country Ranking: 1 is good, 2.5 is fair, 4 is worst - Sorted on GDP growth, a measure of 2013 investment

Sources: 'The Economist', EIU, Heritage Foundation, World Bank, Fraser Institute, WEF, EGS GlobalTeam™ in 25 countries

COUNTRY FACTORS TO CONSIDER

- Rule of Law
- Country Stability
- Intellectual Property Protection
- Good GDP Growth = Investors
- Clear Market Differentiation
- Potential to Achieve An Acceptable ROI



IS YOUR COMPANY READY??

- Is your domestic franchising program successful?
 - Are you great at franchising?
- Is there a demand for your product?
 - Can you adapt to new cultures?
- Can you develop a supply chain?
 - Cost effectively?
 - Local Sourcing?

DEVELOP A GROWTH STRATEGY

- It is a great big world, WHERE will you start and WHY will you start there?
 - Concentric Circles Strategy
 - BRIC Strategy
 - Next Eleven Strategy
 - Mexico – Korea – Philippines – Indonesia – Vietnam – Bangladesh – Pakistan – Turkey – Egypt – Nigeria – Iran
 - Shotgun (Opportunistic) Strategy

IDENTIFY INITIAL TARGET MARKETS

- Select the markets that follow your strategy and...
 - RESEARCH – RESEARCH – RESEARCH
 - On the ground visits
 - Franchise Expo's
 - US Commercial Service Country Guides
 - CIA.gov
 - Euromonitor
 - ICSC
 - Real Estate Developers

IDENTIFY THE RISKS

- Is your brand acceptable / adaptable in a foreign culture?
- Is there an existing supply chain?
- Can you repatriate cash from the market?
- Is there available (and AFFORDABLE) real estate?
- Are there legal hurdles to market entry?
- Can you find the right partner?

Patience – Patience – Patience!

BUILD SALES AND SUPPORT INFRASTRUCTURE

- It takes a BRAND CHAMPION to sell
 - Knowledgeable about your business
 - Passionate about what you do
 - Invested in the long term success
- It takes a BRAND CHAMPION to support
 - Knowledgeable about your business
 - Passionate about what you do
 - Invested in the long term success

LESSONS LEARNED

- Russia – RED TAPE
- Brazil & Turkey – TRADEMARKS
- Korea – PARTNER SELECTION
- Philippines – BE FLEXIBLE
- Nigeria – EMERGING MARKETS
- Taiwan – EXPERIENCE COUNTS
- China - PATIENCE

LEGAL ISSUES

- Overview
 - Initial Legal Considerations
 - Structuring the International Relationships
 - Overview of International Disclosure and Registration Requirements
 - Other Legal Issues Affecting International Development - Protecting Intellectual Property, Taxes & Compliance with US Laws (FCPA/USA PATRIOT Act/Export Controls)

INITIAL LEGAL CONSIDERATIONS

- Proactively and Aggressively Protect Your IP
 - Register trademarks and domain names early!
 - Register trademarks in the proper classifications
- Prepare a 3 to 5 Year Budget For:
 - Experienced local counsel
 - Initial Research into Local Law Compliance
 - Preparation and Negotiation of Agreement/Disclosure/Registration Documents
 - Plan for contingencies

INITIAL LEGAL CONSIDERATIONS

- Additional Considerations
 - Identify what role you want to have in the relationship.
 - Identify all legal issues.
 - Plan your exit strategy.
 - Bend to local custom, but don't "break".
 - Be practical, but understand the formalities and technicalities.

STRUCTURING INTERNATIONAL RELATIONSHIPS

- Types of International Agreements
 - Unit Agreement
 - Area Development (License) Agreement
 - Master Franchise Agreement
 - Joint Ventures

STRUCTURING INTERNATIONAL RELATIONSHIPS

- Unit Agreement

- Individual agreements with franchisees for each location, similar to U.S. individual unit franchising.
- Control is more direct
- Requires greater levels of local support from Franchisor
- Typically used by larger, mature franchisors with units that require significant initial investment (e.g., hotels)

STRUCTURING INTERNATIONAL RELATIONSHIPS

- Area Development (License) Agreement
 - Grants development rights to an entire country or large region where the Area Developer will own and operate the units
 - Licenses the rights to use the Franchisor's intellectual property and System,
 - Requires Area Developer to commit to a Development Schedule
 - Addresses trademark use, development rights and obligations, fee splits, and responsibilities and obligations of Franchisor and Area Developer

STRUCTURING INTERNATIONAL RELATIONSHIPS

- Master Franchise

- Grants development rights to a Master Franchisee to operate its own locations and grant unit subfranchises
- Can provide for more rapid expansion at a lower cost to Franchisor
- Addresses trademark use, development rights and obligations, fee splits, and responsibilities and obligations of Franchisor, Master Franchisee and Subfranchisees

STRUCTURING INTERNATIONAL RELATIONSHIPS

• Joint Ventures

- Franchisor becomes an equity owner along with Master Franchisee or Area Developer
- Requires Joint Venture Agreement and a Master Franchise or Area Development Agreement
- Form of organization requires consideration of local and U.S. law
- Tax issues are critical
- May require Franchisor to assume responsibility for operations upon termination or expiration

FRANCHISE DISCLOSURE, REGISTRATION & RELATIONSHIP LAWS

- Disclosure Laws
 - Obligation of Franchisor to provide a disclosure document prior to entering into agreement or accepting money
 - Similar to FTC Rule
 - Disclosure items and format are country-specific
 - Common law vs. Civil law

FRANCHISE DISCLOSURE, REGISTRATION & RELATIONSHIP LAWS

- Registration Laws
 - Requirement to register the franchise in a country
 - Can be before or after the franchise sale
- Relationship Laws
 - Affect the terms of the agreement
 - Covers length of term, good faith requirements, purchase obligations, notice requirements, dispute resolution

FRANCHISE DISCLOSURE, REGISTRATION & RELATIONSHIP LAWS

- Australia
- Belgium
- Brazil
- Canada (Alberta, Manitoba, Ontario, New Brunswick, and Prince Edward Island)
- China
- France
- Indonesia
- Italy
- Japan
- Kazakhstan
- Kuwait
- Lithuania
- Macau
- Malaysia
- Mexico
- Romania
- Russia
- Spain
- South Africa
- South Korea
- Sweden
- Taiwan
- Tunisia
- Venezuela
- Vietnam

OTHER LEGAL ISSUES

- Protecting Intellectual Property
 - *Patents*: Adopt a selective, strategic international registration policy
 - *Trademarks*: File as early as possible!
 - File in English, local language and transliterations
 - Control ownership and registration
 - First To Use vs. First To File
 - EU Applications
 - Madrid Protocol

OTHER LEGAL ISSUES

- Protecting Intellectual Property
 - *Trade Secrets*: Minimize risk of misappropriation by:
 - Gradually phase in the transfer of proprietary information
 - Limit access
 - Require confidentiality and non-compete commitments
 - Maintain low turnover
 - Systematically and regularly
 - Develop a reliable and workable protection system
 - Build positive relationships and loyalty
 - Develop strong relationships with important regulatory agencies

OTHER LEGAL ISSUES

- Taxes
 - Withholding taxes – Paid to target country by franchisee
 - Income Tax Treaties – Determine withholding tax rates on types of revenue
 - Foreign Tax Credits
 - Tax on foreign subsidiaries
 - Transfer pricing

OTHER LEGAL ISSUES

- Compliance with US Laws Affecting International Business
 - Foreign Corrupt Practices Act – Prohibits making any corrupt payments "to any person" *knowing* that all or a portion of such payment is later going to be made to a foreign official for the purpose of influencing an act or decision of that official in order to assist in obtaining or retaining business.
 - USA PATRIOT Act – Prohibits US companies from doing business with persons or entities who are Specially Designated Nationals.
 - EXPORT – IMPORT CONTROLS – Restricts products that can be sold or licensed to non-US parties.



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