



# FRANCHISING

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BUILDING THE FUTURE TOGETHER

# THE NUTS AND BOLTS LESSONS LEARNED

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# How large does a franchise system need to be to consider International expansion?

- **Balance the control you want with your available resources**
- **Structure a business plan for accessing global markets**
- **What will your investment be for international expansion...what are you willing to spend?**
- **Allow a two-year lead-time for world market penetration**
- **Develop an international website**
- **Conduct market research to identify your target countries**
- **Support legal and other professional costs**

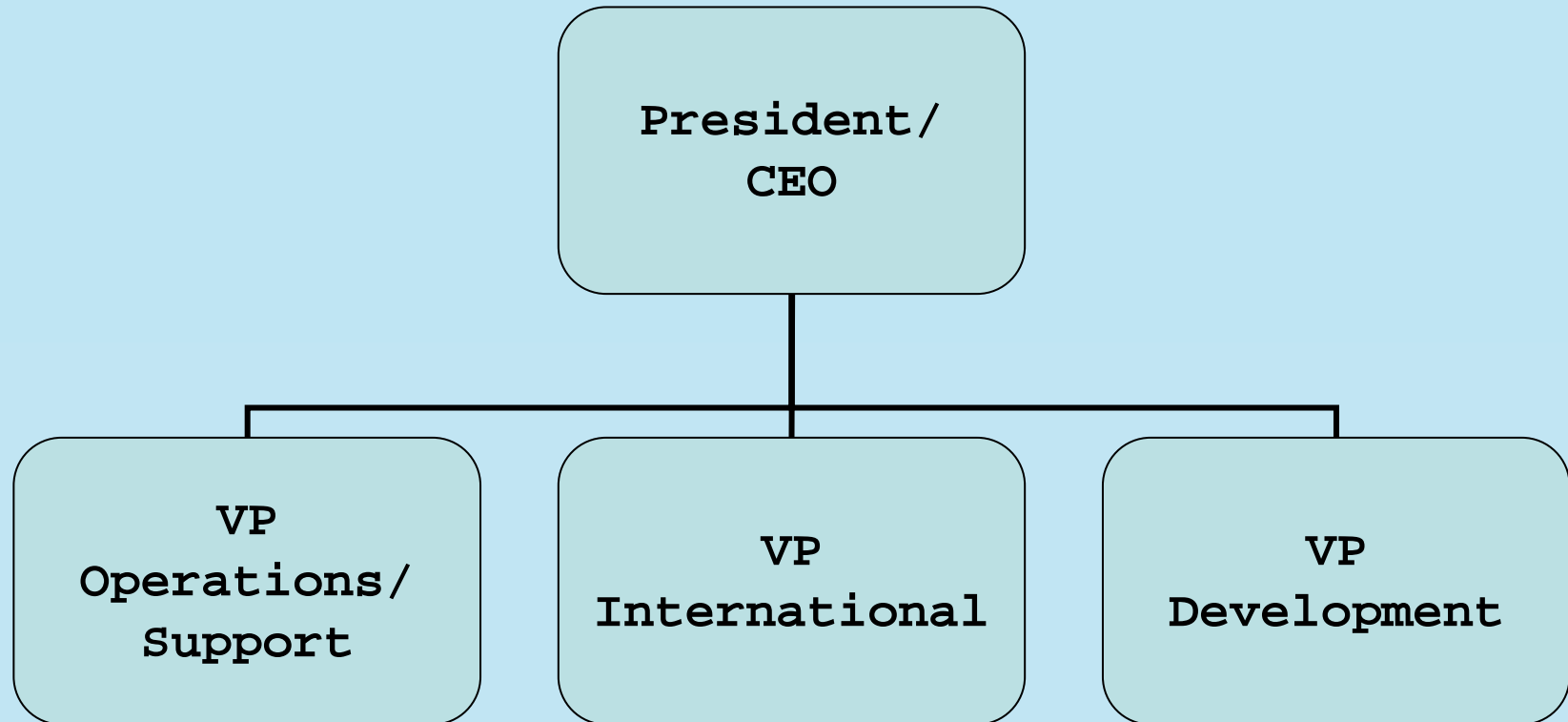
# Success Factors for International Expansion

- **Sound and profitable business at home**
- **Financial resources**
- **Dedicated human resources**
- **Patience**
- **Ability to listen and adapt**
- **Regular international visits**

# What is the best structure for my company?

- **Characteristics of the target market**
- **The nature of the individual franchisee**
- **Business structure and the resources available to you**

# How to Establish an International Franchise



# What is the most effective way to structure an organization for international expansion?

- **What capital resources are available for expansion?**
- **Have buy-in from everyone in the company prior to international expansion**

# TYPES OF FRANCHISING



# Product & Trademark Franchise

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**Franchises the specific product or service,  
not the system of delivery**

- **Allow others to sell products under trademark rights**
- **Not a consistent business system; emphasis on consistent products**
- **Payment by franchisee to franchisor**

**(Examples: soda/beer bottling, automotive dealerships, gasoline service stations)**

# Business Format Franchise

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**The franchisee uses the business system of the franchisor**

- **with the franchisor's trademark**
- **with the franchisor's prescribed business system (Control)**
- **payment by franchisee to franchisor**

**(Examples: fast food, employment agencies, clothing stores)**

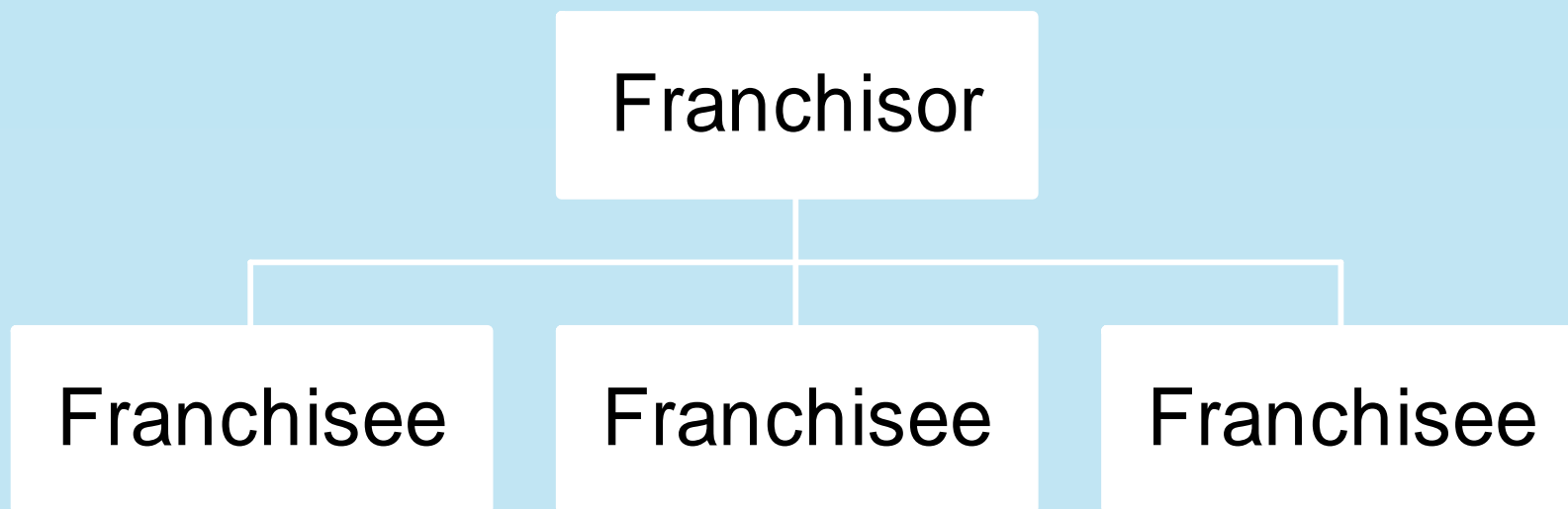
# FORMATS OF FRANCHISING

# Expansion Options

- **Direct Franchising**
- **Master Franchising**
- **Area Development**
- **Joint Venture**
- **Area Representative**
- **Test Market**
- **Licensing**

# Direct franchising

Near home market  
Similar language and economic marketplace



# Direct franchising (continued)

## Advantages

- Full control
- Higher return

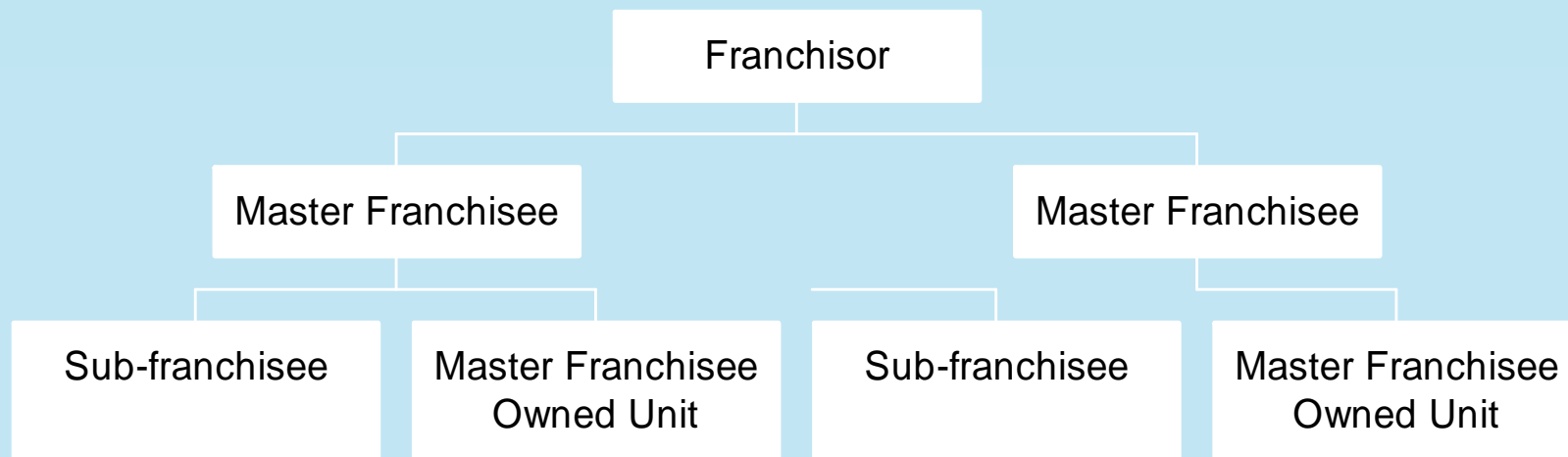
## Risks

- Higher capital investment
- Human resources utilized
- Legal restrictions
- Tax consequences
- Full exposure

# Master franchising

Right to open and run units

Right to franchise units



# Master franchising (continued)

## Advantages

- Master takes on negotiated responsibilities
- Local knowledgeable presence
- Lower investment for franchisors
- Less personnel resources

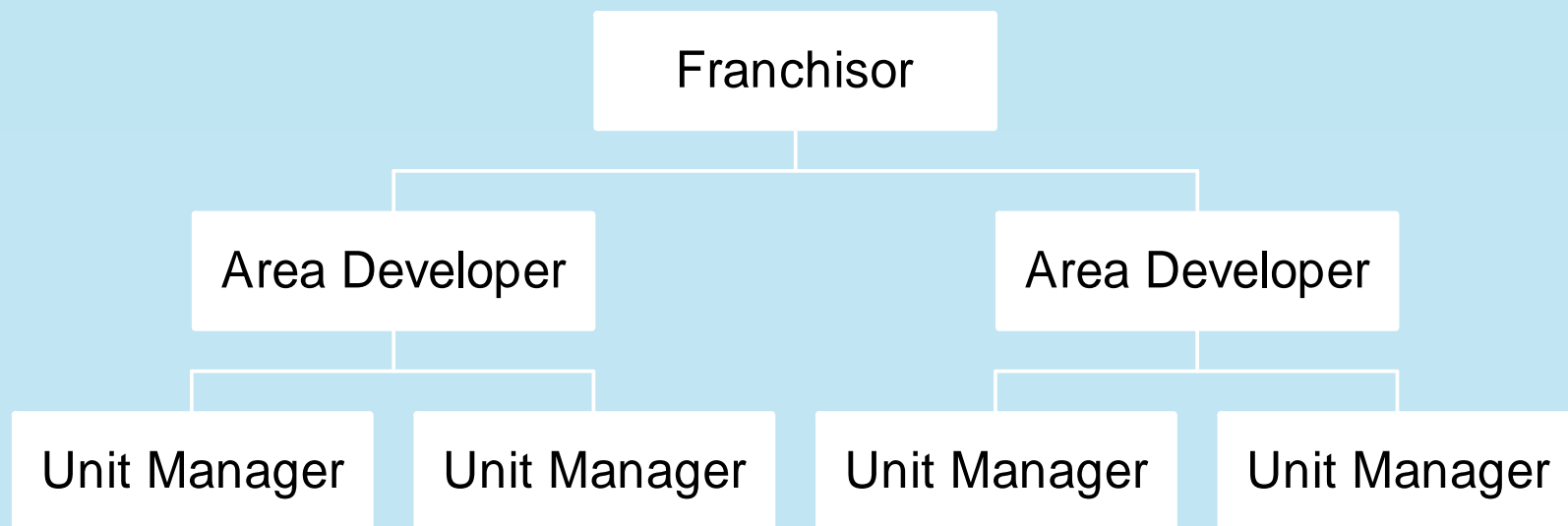
## Risks

- Give up control; may not be able to stop abuses
- Harder to control unit standards
- Termination problems
- Financial rewards split 3 ways; must be win-win for all



# Area development

**Franchisor grants right to develop entire country or portion of country through their own operated units**  
**No right to sub-franchise**



# Area development (continued)

## Advantages

- More substantial from personal & financial point of views
- Larger commitment by area developer
- Sharing of financial rewards by two
  - Lower investment
  - Higher control than with Master

## Risks

- Higher cost factor; more operation involvement
- More involvement of franchisor (depending on number of area developers)

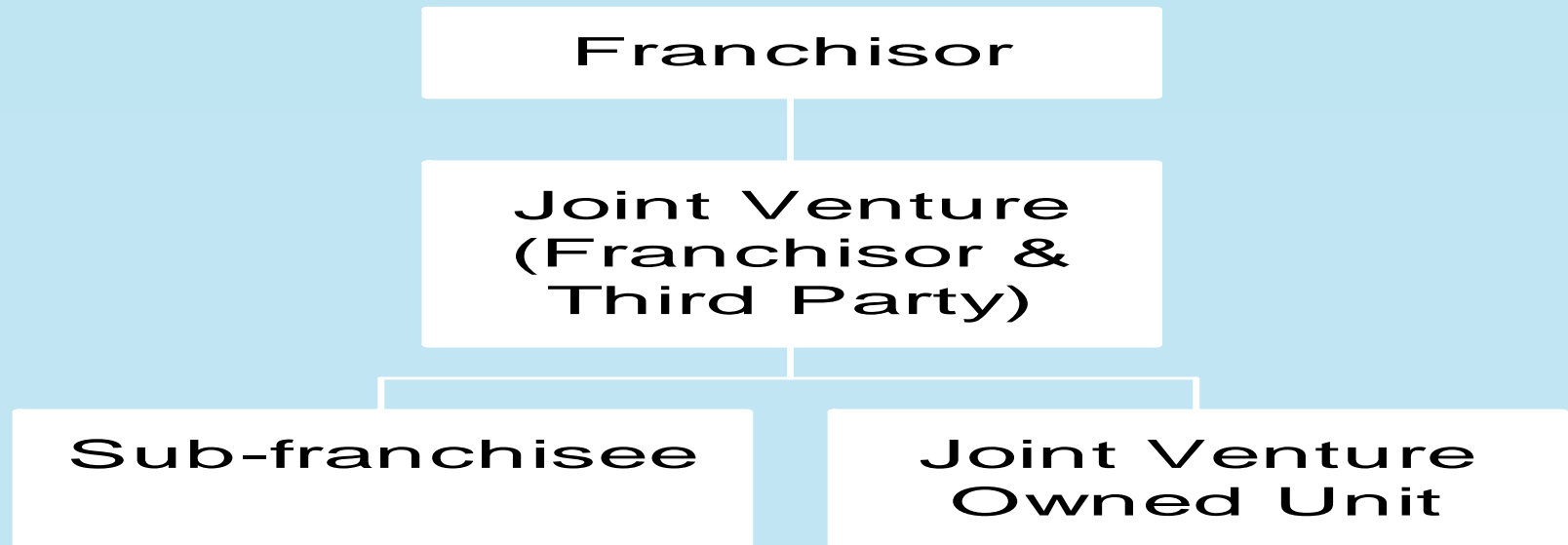
# Joint venture

The joint venture becomes the franchisee

The franchisor signs the franchise agreement with the joint venture partnership

May be required by local law (e.g., Japan)

Formed between the franchisor and another party



# Joint Venture (continued)

## Advantage

- Partnership may allow greater efficiencies and economies of scale

## Risk

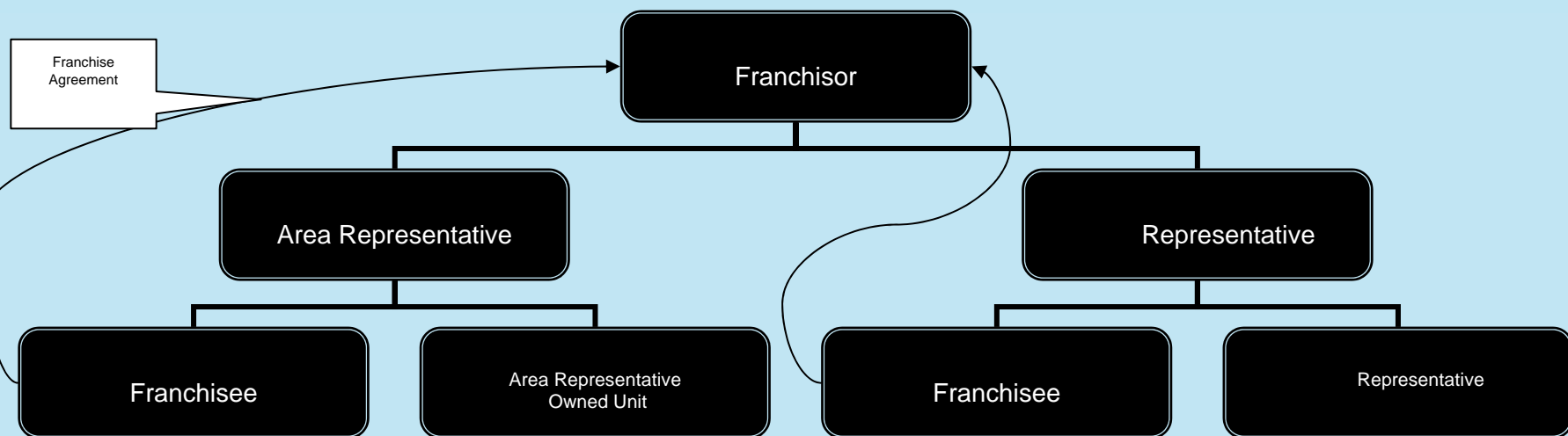
- May be difficult to execute in countries that restrict foreign investment

# Area Representative

**Solicits franchisees**

**Provides training to franchisees**

**Provides ongoing support to franchisees**



# Area Representative (continued)

## Advantages

- Area Rep takes on negotiated responsibilities
- Local knowledgeable presence
- Lower investment for franchisors
- Less personnel resources

## Risks

- **Give up control; may not be able to stop abuses**
- **Harder to control unit standards**
- **Termination problems**
- **Financial rewards split three ways; must be win-win for all**

# Test Market

**Test concept in foreign market before entering into long-term agreement**

**Enter agreement only if testing works**

Franchisor

Franchisee

# Test Market (continued)

## Advantages

- Makes sure product is acceptable
- Parties can work together

## Risks

- Hard to structure with proper exit strategy



# Licensing

**Operational controls cannot be enforced**  
**Legal rights may not be enforceable**

## Advantages

- **Minimal investment**
- **Minimum risk to trademark**
- **Operations won't have impact on trademark in rest of world**

## Risks

- **Licensing arrangement may not be enforceable after period of time**

# International Expansion



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# How and when to adapt the concept to different cultures

- Capabilities of your Master Franchisee
- Common business practices in the country
- Local regulations-Franchising/Business
- Import regulations
- Availability of raw material/products/labor
- The cost of experimenting
- Manuals & training
- Cultural considerations/Religious/Taste

# How to establish an International Franchise

- Identify a champion
- Choose the appropriate market
- Establish operations
- Find a partner
- Determine appropriate format
- Prepare documentation
- Maintain relationships

# How to Establish an International Franchise



## Choose the Appropriate Market

- Strategic planning
- Market study
- Overcoming barriers
- Geographic priorities
  - Asia/Pacific
  - North America
  - South America
  - Europe
  - Africa
  - Middle East

**A person does not build a business.**

**A person builds an organization.**

**The organization builds the business.**

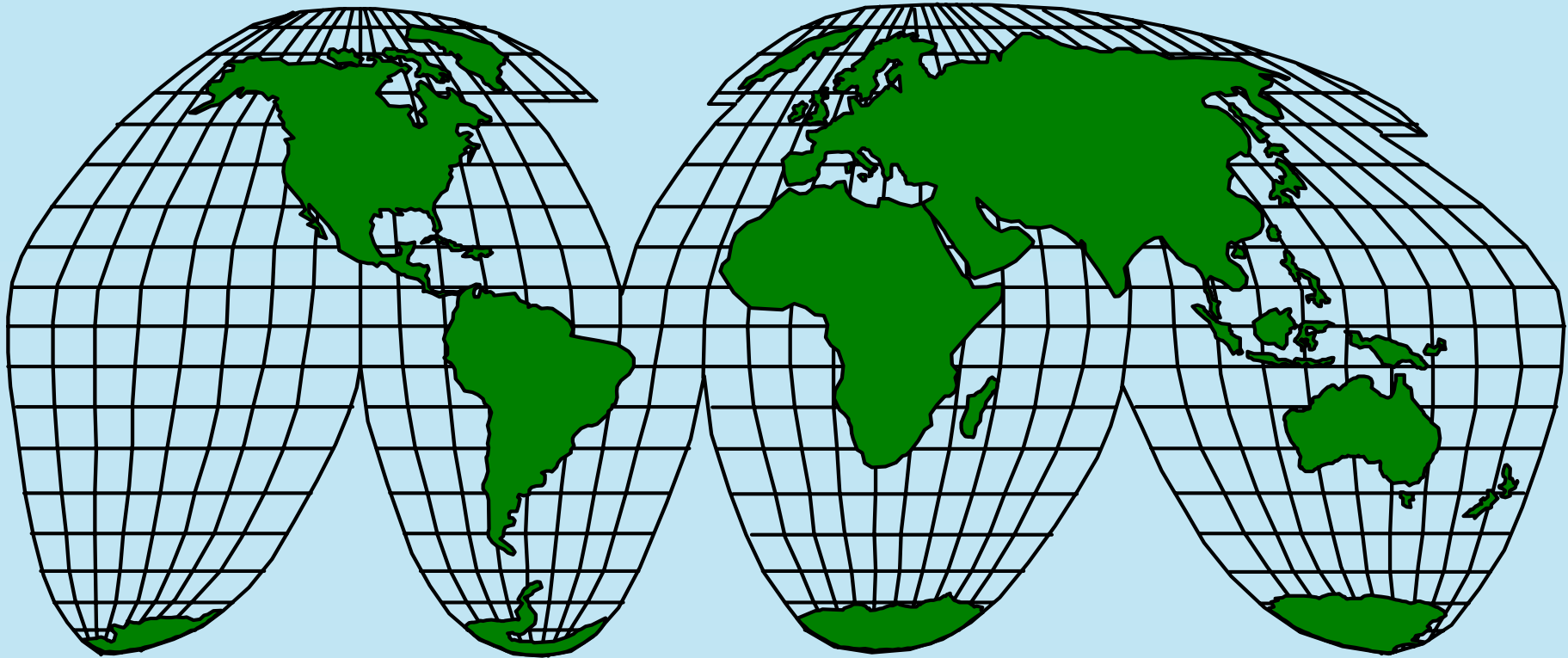


# Expand Internationally for the Right Reasons



Satisfy a Local Need

Grow Your Company



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**FRANCO**  
BUILDING THE FUTURE



Franchising

# Franchising

A Business Strategy  
That is Changing The  
World