

IBA/IFA 27th ANNUAL JOINT CONFERENCE

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NEW APPROACHES AND CHALLENGES IN INTERNATIONAL FRANCHISING

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SELECTING THE APPROPRIATE VEHICLE FOR INTERNATIONAL EXPANSION

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May 18, 2011

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Selecting the Appropriate Vehicle for International Expansion

Introduction

When a franchisor – or, for that matter, any seller of goods or services – determines that there is a market for those goods or services in another country, among the critical threshold questions to be addressed is: How can I best achieve my objective? Of all the commercial vehicles which may be available to me, which is best suited?

Some of the factors which the seller will consider relate to the product or service itself. (How difficult will it be to train the foreign buyer/re-seller? Will frequent updating, retraining and monitoring be required? How important is close proximity to prospective customers?)

Some relate to the seller's resources, organization and culture. (What human and managerial resources is the franchisor able and willing to commit? How much control does he wish or need to retain? How important is the speed of expansion? How important, if at all, is the franchisor's presence in the target market? What return on investment is the franchisor prepared to accept?)

Some relate to the characteristics of the target market. (How far away is the market? How attractive is it to the franchisor itself, with a minimum of intermediaries? What is the availability of capital and management? What rate of return is a franchisee in the target market likely to expect?)

And that includes legal characteristics. (Tax or investment laws? Differences in law, language and culture? What is the nature of the regulation of franchising?)

In the papers distributed to you we have sought to distill these factors and set them out with a very brief description of each; for want of any more compelling taxonomy we have done so in simple alphabetical order for your reference. We are under no illusion that a perusal of these factors will yield an easy or immediate answer for the aspiring international franchisor. No franchisor will need to examine all of them. No single factor is likely to dictate the answer. Most franchisors will, sometimes frustratingly, find some of the factors pointing in one direction, others in another. And even the same company may find itself reaching different conclusions in different markets – or even at different times in its own lifecycle.

But we believe this is the way to approach this critical analysis. And we are not aware of any previous effort to identify and articulate these factors.

We have chosen to approach the analysis through the use of four scenarios. Some are only thinly disguised versions of real life, in which only the names of the innocent have been altered. Others are more fanciful. But, taken together, they illustrate the range of circumstances in which these decisions must be made . . . and the range of conclusions which may be reached.

The scenarios will be presented and discussed by four veterans of international franchising. They will surely want to question each other, especially as to the decisions they made; and there will be ample opportunity for the audience to do the same.

1. Factors to Consider in Selecting the Appropriate Vehicle for International Expansion

1.1 Any tax or foreign investment laws which affect extent of foreign/local ownership.

The existence of laws that require local (and/or limit foreign) ownership in certain jurisdictions can impact the chosen method of expansion. The selection of a “local partner” is inherent in many international franchise transactions since one of the primary benefits of franchising internationally is the ability to tap into local expertise. However, these laws must be taken into consideration if the expanding company wishes to take an investment in the local operator (e.g., in the context of a joint venture) or if, for example, the prospective master franchisee for a particular multi-jurisdictional territory does not meet local ownership requirements in jurisdictions within the territory that have these laws.

1.2 Attractiveness of target market to franchisor as investment.

International markets that are highly attractive to franchisors and are very important from a strategic growth standpoint may be appropriate for direct investment by the franchisor, either through the establishment of company-owned units (at least initially) or through some joint venture arrangement. The decision to make a direct investment in such a market may be impacted by a variety of ancillary factors, including the degree of risk that the franchisor is willing to assume, the extent of the franchisor’s infrastructure to support a direct investment, availability of capital for expansion in the target market, and whether appropriate local partners can be identified.

1.3 Availability and quality of communications technology in target market.

Clearly web-based franchises and other franchises that rely heavily on technology as part of the core business can only operate within markets with suitable communications and technological backdrops, but in the early days of any franchise relationship extensive communication by way of support is essential given that franchisees usually have little or no experience in the area which is the subject matter of the franchise. (This should be distinguished from distribution networks where, inevitably, distributors are already involved in a particular product/service market.) Further, subsequently in a franchise relationship franchisors will inevitably wish to be actively involved in franchisee recruitment, financial aspects of subfranchisees’ businesses, reviewing franchisees’ financial and payment performance, approving franchisees and so on. None of this could happen if communication was difficult. All other things being equal, areas with a lower level of communication technology may be more suited for less ambitious growth, which may indicate an area development or other direct franchising model, while areas with sophisticated communication technology may be a target for a greater number of units, which may indicate a master franchising model.

1.4 Availability of experienced management and capital in target market.

The existence of capital (to develop franchised units) and a stable of adequate management personnel (to operate the franchised units after having received training on the particular franchise system) in a target market is vital the success of any franchising effort. If, after conducting its diligence of a particular target market, the franchisor determines that these two critical components are lacking, the franchisor might be well-advised either to take the market off its target list entirely or consider direct investment so that the franchisor can increase the likelihood of success in the market by providing the necessary capital, its own personnel to manage the units, and more intense training for local personnel involved in the operation of the units.

1.5 Capacity of franchisor to absorb consequences if expansion fails.

Regardless of the vehicle used for expansion, failure can have significant negative consequences from both a financial standpoint and a reputational standpoint. Although potentially serious, damage to a franchisor's reputation resulting from a failure in expansion efforts can be minimized if properly managed. If the failure arises following a direct investment in the market by the franchisor, the primary consequences will be financial in nature, and the franchisor in such a circumstance must have the capacity to absorb a failure and the wherewithal to extract itself from the market. Expansion through franchising can minimize a franchisor's financial exposure in the event of failure, particularly if a master franchise model is employed since, theoretically, the master franchisee is using its capital for functions that would normally be undertaken by the franchisor in an area development or one-off direct franchise arrangement.

1.6 Complexity of training required.

The level of complexity of training required for a particular franchise system (as well as the adequacy of potential managers who will receive the training as discussed above) should be taken into consideration by franchisors expanding internationally. While the master franchise vehicle may be appropriate if the required training is straightforward and relatively simple such that the franchisor can "train-the-trainer" (i.e., the master franchisee) easily, extremely complex or highly technical training may require the franchisor's involvement in training at the unit level and is indicative of the need for more control by the franchisor that either direct investment or direct franchising (either single unit or under an area developer model) affords may be appropriate.

1.7 Customs and export-import controls.

It is important for a company to take into consideration if the target country's tariff rates, import quotas, import/export licensing requirements, extraordinary customs restrictions, mandatory certificates of origin, employee visas and other restrictions, will affect its ability to supply its products into the target market. The chosen vehicle can considerably affect the return of investment and/or be a barrier for the company's employees planning to perform training and conduct business in the chosen country, among others.

1.8 Degree of control franchisor wishes/needs to retain.

Consistency of product and service offerings are, obviously, an important aspect in most franchise systems. In connection with international expansion, franchisors must determine the degree of control by the franchisor required to ensure such consistency. The question franchisors must ask is whether control through contractual relationships with, and the imposition of standards and specifications for operation of units by, third parties is sufficient to maintain operational integrity or whether more direct control is required.

1.9 Differences in law, language or culture between franchisor's home market and target market.

The greater the differences between the franchisor's home market and the market into which the franchisor wishes to expand, the more likely the franchisor will need a strong local partner that is experienced in conducting business in the market. Access to local knowledge that such a partner can provide can be invaluable, but, that knowledge comes at a price, namely the relinquishment of a substantial degree of control by the franchisor as occurs in most master franchise relationships. Conversely, in a market that is very similar to the franchisor's home market (e.g., Canada versus the

U.S.), the franchisor will have more flexibility in choosing the vehicle for expansion and, as a result, be in a better position to retain a greater degree of control over operations in the expansion market.

1.10 Distance to target market, including time zones.

Franchising envisages “hands on” involvement of a franchisor, especially if the franchisor adopts a direct franchising approach but also in terms of assistance, and enforcing standards if a master franchise or area development model is used. However, such involvement would be considerably greater in the context of a direct investment model. Therefore, all things being equal, franchising, in whatever form, may be preferable to direct investment in far-flung markets.

1.11 Entrepreneurial culture of target market.

Inevitably franchising requires a pool of would-be entrepreneurs. In countries where franchising is particularly successful, such as the U.S. and Australia, the pool is large. In, for example, Europe, there is much more of an employee mentality with security of employment and the difficulty that employers have in terminating employment being considered of paramount importance. Although identifying entrepreneurs is critical in expanding through any type of franchise model, an enhanced entrepreneurial spirit is an essential quality of a master franchisee that is expected to build a franchise network in a particular market.

1.12 Evaluation of speed of expansion needed/desired.

Generally, franchising is considered to be a fast way to expand because it makes use of third party capital and a third party’s desire to make a success of its franchise operation. The extent to which this is actually true, at least in the early days of a franchise, is doubtful. While established and successful franchisors are oftentimes able to expand quickly, franchisors operating, particularly in non-entrepreneurial countries, without a successful track record, have difficulty in expanding quickly. Nevertheless, if rapid expansion is paramount in the franchisor’s international expansion strategy, franchising (and particularly, master franchising) is generally seen as the preferred approach.

1.13 Existence of franchise-specific law in target market.

Research has shown that franchise laws generally do not have a negative effect on franchise growth, although research does not suggest that such laws encourage franchise growth. Nevertheless, extensive franchise disclosure and/or registration requirements (which are not widespread outside of the U.S.) do add an extra element of cost in the early days of international expansion. Franchise relationship laws as opposed to disclosure or registration requirements could impact on the growth of franchising if they adopt (as they usually do!) a pro-franchisee line.

1.14 Franchisor knowledge of characteristics of target market.

Critically important in selecting the method of expansion into any new market is an honest assessment of the franchisor’s knowledge of the characteristics of the market — with respect to both how business is conducted in the market generally and the nature of the market in the particular business of the franchisor. Obviously, a lack of market knowledge highlights the importance of having a local partner, such as an area developer or master franchisee, that has substantial business experience (preferably in a business that is the same or similar to the franchisor’s business).

1.15 Insurance and liability issues.

The existence of laws that require local (and/or limit foreign) insurers in certain jurisdictions can be of special concern or interest to foreign companies planning foreign expansion and evaluate the proper business model. To what extent franchisors, or suppliers of products may be held liable to franchisee or its customers? Is there a trend holding the foreign franchisor liable for harm done to customers of franchisee? And finding that franchisee is the franchisor's agent or fiduciary?

1.16 Likelihood that enforcement by franchisor will be necessary.

It is axiomatic that direct investment, either through the establishment of company-owned locations or a joint venture arrangement, will result in fewer enforcement issues, while franchising the operation of units to third parties is more likely to result in the franchisor having to take a range of steps to enforce the terms of the applicable franchise agreement. This fact highlights the importance of selecting the right local partner if franchising is chosen as the method for expansion and understanding the legal landscape and the mechanisms for enforcement in the market.

1.17 Nature of product or service to be distributed.

Although businesses in a wide variety of industries and market segments, from simple and low-tech businesses to highly complex and technical operations, have been successfully franchised, the nature of the product or service offered by the expanding business takes on heightened importance when the business will be operated outside of the concept's home country. Franchisors whose businesses require particular expertise or unusually high levels of competency may find it more difficult to identify the right local partner that is so important in the context of franchising in a foreign country. This is particularly so in a master franchise arrangement when the master franchisee must not only have expertise in the particular business which is the subject of the franchise but also be adept at the "business of franchising".

1.18 Need to establish and maintain appropriate distribution channels.

Franchise systems that are highly dependent on specific distribution channels to ensure consistency in the operation of the franchised units (e.g., food service franchises with respect to which proprietary products are an integral part) must carefully consider whether it is possible to establish and maintain distribution channels that are appropriate for supplying franchised units. In more challenging markets, franchisors may find that they need to establish and stabilize the distribution channel by opening units in which the franchisor has a direct investment prior to licensing third parties to operate units.

1.19 Profile of likely franchisee/distributor.

Franchising inherently requires an entrepreneurial culture and a pool of prospective franchisees with a ready access to financing. In some countries banks provide support to prospective franchisees, and this can have an important impact on franchise growth. In other countries the growth in value of real estate is able to fund investment in franchising. In all cases, however, unless there is a significant pool of prospective franchisees with the appropriate profile, whether in terms of entrepreneurial spirit, access to finance and education, ability to speak English, etc., franchising may not be a realistic option.

1.20 Real estate issues.

Knowledge about restrictions on ownership or leasing of real property by foreigners or companies controlled by foreigners should be carefully studied prior to developing your foreign expansion plans.

Ability to directly operate the concept, mandatory selection of locals, availability of alternative business partners are important considerations that may impact the business model.

1.21 Relative importance of local presence of franchisor in target market.

Of course, the importance of the presence of the brand in the local market is a threshold issue in determining whether to expand into a particular market in the first instance. It can also impact the mode of entry into the market. For example, all things being equal, a franchisor may decide that it should expand into a market that is very important to the company through direct investment (at least initially) since direct investment will typically give the franchisor more control over the development of operations in the new market. If, on the other hand, an opportunity for expansion arises in a market that is less important from a strategic standpoint to the franchisor, expansion through one of the franchising alternatives may be more attractive.

1.22 Relative importance of need for franchised unit to be in close proximity to prospective customers.

Proximity to prospective customers in certain types of businesses (e.g., internet services or mail-order businesses) may not be of critical importance to the success of the business in a new market. Assuming that the franchisor has an appropriate infrastructure, a franchisor in this type of business may be best able to enter the market through “company-owned” operations. If, however, proximity to customers is important to the success of the particular business (e.g., restaurants, retail businesses, and lodging businesses) some form of franchising may be indicated.

1.23 Relative opportunity cost of different vehicles in target market.

Companies are in different stages of development and level of customer identification with their products and brands. Depending on the “size of the prize”, Company’s maturity, its financial strength and its business goals, a Company might be able to choose different vehicles for different target markets. Therefore, choosing where to invest its resources depending on its final goals, *i.e.*, growth, brand elevation, brand recognition, among others.

1.24 Resources available to franchisor.

Unless a franchisor has substantial resources to expand itself with company-owned outlets, its best alternative may be to expand through franchisees who are able to provide capital and infrastructure for expansion. In addition, if the franchisor does not have access to experienced senior personnel who could be posted to target markets or the ability to recruit personnel within the target markets, it is likely to have difficulty expanding through direct investment and may have to make use of third parties.

1.25 Return on investment demanded by franchisee.

In most franchise arrangements (and at the risk of a crude analysis) franchisees might expect a loss in the first year, break even in the second year, a small profit in the third year and substantial profits in years four, five and so on. If there is a substantial variation from this standard model which requires a greater length of time before profits are earned franchising may not represent a potential opportunity.

1.26 Return on investment desired by franchisor.

Of course, an analysis of return on investment is a critically important step in determining whether (and how to) expand internationally, and the factors that can impact this analysis are

innumerable. Although it is by no means a hard and fast rule, franchising (particularly master franchising) may be viewed to be a relatively low investment and high return option, depending on how the economics of a particular deal are structured. Although it provides other benefits, expanding through company-owned operations, by its nature, requires a high initial and ongoing investment, which may result in lower returns, at least in the initial stages.

1.27 Size of target market.

In theory, it is difficult to establish franchise networks in countries which are either small, in terms of population, or large but under-populated. Having said this, Australia is a prime example of a large country with a relatively small population where franchising thrives. Australian expansion is usually undertaken by regional/area master franchise agreements and this may be a more appropriate method of expansion than company-owned outlets.

1.28 Stage of development in franchisor's home market.

The degree of maturity of the concept in its home country will certainly be a threshold issue in the determination of whether to expand outside of the home country. If a relatively immature franchisor decides to pursue international expansion, franchising may be its best option to avoid diverting resources to the new market. Franchisors that are more mature may have more flexibility in determining the method of expansion.

1.29 Time entailed in indentifying franchisee/distributor in target market.

It is usually considered essential that a master franchisee in a foreign country not only has access to financing and perhaps some knowledge of the relevant product or service market but also an understanding of franchising as a business. In many countries there are simply insufficient individuals with this level of knowledge and/or having the other attributes important to the success of franchising a concept in a new market. In those circumstances the franchisor may have no choice but to expand through direct investment.

2. Scenarios

2.1 What Works Best . . . and Where?

Monster Burger, Inc., a privately held company in the Quick Service Restaurant Industry, is in the midst of a value enhancing transformation resulting in a less capital intensive business model focused on accelerating franchise growth and expanding its international presence. As of the end of its most recent fiscal year the company through its subsidiaries, had a total of more than 3,000 franchised, licensed or company-operated restaurants.

As Monster Burger looks to accelerate its growth with an emphasis on doubling its international presence in the next five years, the company is evaluating its targeted growth markets as well as its development strategy.

From a growth perspective, the company has three principal expansion priorities:

- Develop and fully penetrate existing markets (*e.g.*, Mexico)
- Develop markets that are geographically and culturally in close proximity to existing markets (*e.g.*, Canada)
- Develop new markets that rank high on the priority list based on market size and attractiveness (*e.g.* China)

Domestically, the company uses single unit franchising and area development.

Internationally, the company recognizes the need to use techniques which take the different circumstances of cross-border franchising into consideration, especially in markets that are geographically and culturally distant from its home market.

As the company accelerates development in Mexico and enters Canada and markets such as China, it will examine the unique characteristics of these markets and what factors need to be taken into consideration when choosing the appropriate franchise development model.

Among the factors relevant to this decision are:

- Attractiveness of the Target Markets
- Market Size
- Distance – Geographic and Cultural
- Degree of Control
- Nature of the Product
- Establishing and Maintaining Distribution Channels
- Speed to Market
- Local Presence
- Resource Requirements
- Return on Investment – Franchisee and Franchisor

What techniques will work best for this company, and where?

2.2 Deep in the Heart of . . . India?

While attending the University of Texas at Austin in the 1990s, Benjamin Sedberry, an avid runner, yogi, and lover of all things “wholistic”, developed an affinity for massages and other spa treatments. He appreciated the post-workout and morning-after curative powers of spa treatments, which are in great demand in Austin, the capital city of Texas and home to one of the largest universities in the country.

After graduating from UT in 1994, Ben decided to take his love of spa treatments to a whole new level by opening his own spa near the UT campus in Austin, appropriately named “Longhorn Spa”. Longhorn Spas gained a reputation for having consistently superb, 24/7 service, at a reasonable price-point, and using the highest quality, organic spa products made from Texas sources. The spas had a trendy décor that appealed to college students. After quickly gaining a following with UT students, by 1998, Ben had opened two more Longhorn Spa locations, one in north Austin and one in south Austin.

Realizing the potential, he began franchising the concept in 2005, first in other cities in Texas, and then across several states in the south-central and southwestern United States. The Longhorn Spa franchise program was wildly successful, and by 2010, there were close to 100 Longhorn Spas open and operating, all but three of which were franchised. His initial research suggested that it would not be necessary to saturate a market with locations and that individuals would travel eight to ten miles or more to visit a spa. However, in reality, he found that because potential customers have limited time for spa treatments and many options for “lifestyle enhancing” activities that compete with spa visits (e.g., nail salons, yoga studios, etc.), it was important to employ a strategy of greater penetration in target markets.

Ben enjoyed the monetary success that he was having with Longhorn Spas (unit economics were good, and, because of the uniqueness of the concept, he was able to charge initial fees and royalties that exceeded the fees generally charged in the market for similar franchises), but he struggled to reconcile those feelings with the feelings that the Longhorn Spas outside of Austin were not as good as the originals. Although he had signed up many good operators as franchisees, he always felt that no one could operate the spas as well as he could. Sourcing of treatment products that were integral to the spas (many of which are made in small batches by local producers) was also a concern, although, after much work, he was able to establish appropriate sources of products for franchisees.

He also needed more help. He was learning quickly that operating a franchise company is an entirely different business than operating a spa company. Traveling constantly to provide the extensive training program to new Longhorn Spa franchisees and taking calls at all hours from existing franchisees was wearing on him and his family.

John (“Raj”) Rajarantnam grew up in India and moved to Austin to attend UT in 1999. He began working as a software engineer for Apple in Austin following graduation. One of Raj’s favorite pastimes was to go to Longhorn Spa, both throughout his time as a UT student and while he was working at Apple. The treatments that he received at Longhorn Spa reminded him of visiting spas with his family from the time he was a young boy in his native India, but he was particularly enamored with the higher level of service provided at Longhorn Spas and the Texas products used in the treatments. After many visits to Longhorn Spas, he became acquainted with Ben.

Sadly, in 2010, Raj was transferred to Mumbai. Tiring of the IT business after a year or so of continuing to work for Apple in Mumbai (while missing the Longhorn Spa treatments he had become accustomed to), he had an epiphany: Why not bring Longhorn Spas to India? After all, he loved serving others, he knew lots of spa operators in India (his dad had worked in the spa products distribution business in India for many years), and was up for a challenge.

He also thought that his fellow Indians would love the consistency, service, and product offerings that Longhorn Spas provided, and the fact that it was an American chain would be attractive to potential customers since Indians love all things American. Plus, Raj's research showed that there were no spas like Longhorn Spas in any part of India, and he thought that the novelty would be a real selling point. Money would be an issue, but the debt markets were thawing, so he thought he could utilize contacts he had with bankers. And, he could start small.

Raj e-mailed Ben with his idea. Ben thought Raj's excitement and enthusiasm were apparent in his e-mail. Although Ben had received some inquiries about franchising in the Middle East a few years ago, nothing ever materialized, and he had not actively pursued franchising outside of his current markets, much less outside of the United States. He thought franchising the concept in far-flung locations a bit too complicated. However, he liked and trusted Raj, so he agreed to meet with Raj next time he was in the U.S. Raj immediately booked a flight to Austin.

Ben and Raj had a good meeting in Austin a week later, and Raj presented to Ben a professionally prepared business plan indicating that he could develop 5 to 10 spas in India within the first 10 years. Raj felt that he wanted to open and operate each unit himself or with family members. Raj also told Ben that he had gotten his father to agree to invest \$300,000 in the venture.

One the other hand, Ben thought that if he was going to do this, he wanted to go into the market in a big way. He didn't want to spend the time and effort that it would take to expand internationally for just a few spas. Based on research that he had conducted, he thought the market would support 100 to 150 units over the next 5 to 7 years. Although Ben thought Raj would be a good Longhorn Spa operator, he thought Raj was also a terrific salesperson and had the ability to organize and support a large group of people.

Raj has asked Ben to provide a letter of intent outlining the terms of a potential franchise relationship. Ben is now trying to decide how he wants to proceed.

2.3 When Swimming with Sharks, What's Your Best Stroke?

Albrecht O'Brennan is a successful franchise lawyer in the United Kingdom who has come to the conclusion that there had to be easier ways of making money than being a lawyer. Franchisors were expecting increasingly high standards of service for lower fees. Albrecht was also concerned that he was no longer a young man and he needed to build up capital so that he could fund his three passions in life, Havana cigars, good wine and fast cars. As a result he decided to combine his knowledge of franchising and the provision of legal services by the creation of an internet law firm.

The internet law firm concept consists of the creation of a web site on which clients could register, select the services that they required and obtain a fixed fee quote. The concept requires fast broadband communication, secure internet connections to maintain client confidentiality as well as the availability of other IT resources.

Franchisees have to be lawyers in good standing with their bar association and have to fill in a detailed questionnaire setting out their past experience, areas of expertise and history of negligence claims. The franchisor obtains and offers franchisees the necessary professional indemnity insurance, a web site that attracts clients, a brand – Intercom Law - which is short for "International Commercial Law", regular updates of legal developments and procedures for the peer review of documentation and advice.

Albrecht launched the internet law firm in the United Kingdom and obtained a large number of franchisees – many of them were lawyers who had been “let go” by their law firms during the difficult trading conditions following the banking crisis. Finding clients had, however, been harder. Albrecht had formed the view that the only way to attract work to the firm was by very intensive and expensive marketing. Albrecht, like many lawyers, was not a rich man but Albrecht’s best friend is an investment banker and he has introduced Albrecht to an investor who has invested \$10,000,000 in Albrecht’s business. With some of this money Albrecht had tried out his “hunch” that extensive and expensive marketing was required. He placed full page newspaper and magazine advertisements as well as advertisements on national television channels. Clients were, at last, beginning to instruct Intercom Law in sufficient numbers.

Albrecht’s investment banker friend has persuaded Albrecht that if he could develop a worldwide network he would be able to float this venture on the London Stock Exchange. Albrecht was “nervous” that the great majority of the instructions for his internet business would relate to international legal work which would require very high standards from all territories forming part of the network. Further Albrecht had to be able to maintain “service” whatever difficulties were being experienced by his country developer/franchisee. The banker was also “nervous”. His concern was that a pure franchise operation would put off prospective investors and wanted an alternative structure whereby the network looked as though it was part of one seamless entity. The investment banker believes that the real value in the business will only be achieved once it becomes truly international. At the same time he has heard that a number of large international law firms have looked at this market and are offering an internet service using their existing law firm brands. It was essential therefore that Albrecht moved quickly to establish his international network.

Albrecht had spent much of his legal career attending and participating in international conferences and therefore had a significant number of contacts with lawyers throughout the world. The problem was that although many of these contacts were very excited at the idea of being involved they had not built up sufficient capital to undertake the necessary advertising and promotional programme that Albrecht was convinced was an essential part of the system. A further problem was that his friends, whilst excellent lawyers, had not been involved in commercial activities outside their own law firms. Albrecht was concerned that they did not have the necessary management skills.

Albrecht knew of other “challenges” including national bar restrictions on ownership of law firms by anyone other than a lawyer and/or by foreign law firms. He was also aware that civil law jurisdictions adopted a different approach to the common law approach with which he was familiar and in some jurisdictions were hostile to Anglo-Saxon law firms establishing themselves.

Albrecht must now decide with what vehicle it is best to proceed.

2.4 A Giant Needs to Get Even Bigger

“Kick ’ Inc (“Kick”) is a 30 billion dollar company based in Pittsburgh, Pennsylvania. It was created during the 1970’s and currently it has 30 thousand employees in 120 countries, 17 manufacturing facilities, and several distribution centers around the world. Kick manufactures action sports goods in several categories. Its major expertise is with wholesale accounts although it has been operating several kinds of retail outlets and licensing others as well, during the past decade.

After several months of strategic research, it was concluded that to achieve its market growth plans in 2015 it will have to increase its revenues by 25%. Therefore, it will have to open 5000 additional outlets around the world. Thus, different vehicles will have to be adopted for different markets. The results of the strategic work showed that there are markets in which the brand has already achieved its

cachet potential and now there is room for large expansion; while in others, the brand needs to be elevated by selective growth.

A detailed market mapping project is underway so that countries will be matched with possible business models.

Assortment planning and flow, product selling and order capture, product presentation, store operations and standards, performance visibility and profitability are among the most important operational aspects for Kick.

Now Kick wants to consider the factors to be taken into consideration in choosing the best vehicle(s) for expansion.

It is important to note that Kick has the option to choose whichever options are effective to adopt, in each of the markets. It may direct invest and operate its shops, but such activity is not part of its current core business.

We are hiring you as Kick's counsel and we want to know what is your advice?