Going International for the First Time

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Focus of Our Discussion

• When to consider international expansion
• Checklist prior to launching your international program
• Potential ways to enter foreign markets
• Identifying which countries might be right for your brand
• Identifying and qualifying international candidates
• Costly mistakes to avoid
• Questions and discussion

Quick Survey of our Audience

• Your company is not yet franchising
• You franchise in the US and are considering international expansion
• You already franchise internationally
• You’re lost and wanted into this room . . .

When Should you Consider International Expansion?

• Being opportunistic versus realistic
• Franchising “what you know”
• Integrate international development into your business planning process
  – For most young franchisors, the US market offers the greatest and easiest opportunity
  – Ensure your domestic and international strategies complement rather than compete with each other
Questions to Ask Before Committing to an International Development Strategy?

• Do we understand the commitment that is required in terms of time, resources and people?
• Is our product or concept well suited to international markets?
• Does our management team have any experience outside our home country?
• Have we completed a thorough business plan?

Checklist Prior to Going International

➢ Ownership commitment to international development
➢ Designate an internal champion who will focus on your international strategy
➢ Business plan identifying your intended strategy and resources
➢ Preliminary list of targeted countries
➢ International lead generation strategy
➢ Initial trademarks filed in targeted markets
➢ Franchise attorney with strong international experience
➢ A plan to educate your team on their responsibilities

International Development Strategies

• A variety of options are available for international expansion, including
  – Direct entry via company-owned operations
  – Joint-venture relationship
  – Direct Single-unit franchising
  – Area development franchising
  – Master franchising
  – Some combination of the above . . .
International Development Strategies

• The strategy you select may depend on:
  – Which countries you wish to develop
  – The nature of your concept or the industry in which you operate
  – The rate of expansion that you desire
  – The capabilities that exist within your company
  – The resources that are available to you
  – The types of candidates that exist within your targeted countries

International Development Strategies

• Direct Operation of Corporate Locations
  – High risk, high reward option
  – Capital intensive, with longer return cycle
  – US company can maintain a high degree of control
  – Requires a deep understanding of the markets you’re entering
  – Need to evaluate foreign ownership restrictions that might exist
  – US company will typically rely on local staff talent

International Development Strategies

• Joint-Venture Development
  – High risk, moderate reward strategy
  – Can be used to avoid foreign ownership restrictions or to “acquire” local knowledge within the ownership group
  – Partner roles must be clearly defined
  – Many joint-ventures fail
  – Dissolving the relationship is often difficult
International Development Strategies

• **Direct Single Unit Franchising From US**
  - High degree of control
  - Difficult to recoup initial development costs related to entering the country
  - Challenge of managing many relationships from a distance
  - Challenge of implementing a cohesive brand strategy within a new country
  - More difficult to negotiate in-country supplier agreements

• **Area Development Franchising**
  - Allows greater direct control over unit-level quality
  - Can create a level of “healthy competition”
  - Fewer relationships to manage than single-unit franchising
  - Ability to segment ownership groups by markets or regions within the local country
  - Some countries rarely use area development

• **Master Franchising**
  - Most common form of international development
  - Often over-used
  - Ideal for countries having larger populations or core markets which are geographically distant
  - Success is reliant on selecting the right master franchisee
  - Master franchisee should also operate locations
  - Sub-franchisees could be area developers or single-unit franchisees
**Identifying Countries for Expansion**

- Do your US experiences offer insight?
  - Franchisees? Clientele? Geography? Suppliers?
- Have you received requests from abroad?
- Have you done your homework? What sources are available?
- What market criteria matter for your brand entry?
- How do you determine the “ripe” markets, what is the prioritization and at what rate do you plan to grow?
- Do your competencies match the target countries selection?

**Identifying International Candidates**

- Potential International Franchisee Candidate Groups - **Example**
  - Successful companies and groups particularly from these sectors
    - Multi-Unit developers of other non-competing franchise systems
    - Foodservice and hospitality sectors and other service related businesses
    - Real estate and property/mall development and management businesses
    - Food, beverage and distribution related businesses

- Potential International Franchisee Candidate Groups – **Example**
  - In-country franchisors of significant stature seeking U.S. brand synergies and expertise
  - Investor groups that can bring a proven management team
  - A reputation for integrity and “fair play” in their marketplace
Qualifying International Candidates

- Restaurant Candidate Profile - Example:
  - Preferably - possess foodservice or industry experience
  - Groups seeking to diversify into the full service restaurant market sector
  - Property development experience and access to real estate
  - Understands the value of franchising and proven business systems
  - Willingness to dedicate intensive full time focus on multi-unit restaurant development emphasizing strict attention to the food experience and the service performance

- Candidate Profile – Example (con’t):
  - Start up capital funding of US $2.5 to 6 million
  - A thorough knowledge of the local market; connected
  - Ability to staff the business to assure the smooth transfer of Restaurant operating systems
  - Experience in multi-unit franchising is highly desirable
  - Proven competence in "business building"

Costly Mistakes to Avoid

- The Opportunity: “We just got a call from Raj in India…”
- Organization:
  - Neglecting to identify the resources needed to succeed: capital, legal, staffing, supply chain, training, travel and others
  - Not investing the time and resources toward developing a realistic plan
  - Plan for each country…match your resources to the task
- Selection of Franchisee:
  - Recruit – don’t sell!
  - Beware of “investor only” sign ups
  - Not performing full due diligence – know your partner
  - Being ‘one more’ in a stable of brands
Costly Mistakes to Avoid

• Staffing:
  – Thinking that brand knowledge trumps international expertise
  – Not being involved in the “key manager” hiring decision

• Commitment: Assure your organization is ready to fully support your program

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Questions And Answers

• Please complete the survey forms…
• Your session Moderator and Speakers will be available following the session for any additional questions
• Thank you for your time and interest in our session!