International Expansion Strategies: Choosing The Right Approach

International Summit
Moderated By: Carl E. Zwisler
Speakers: Ned Lyerly and Thomas F. Flaherty
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Ned Lyerly

• Executive Vice President, Global Franchise Development - CKE Restaurants, Inc.
  – International Division
  – International and Domestic Franchise System Growth
  – International and Domestic Franchise Real Estate Support
• 27 year multi-functional background including international, operations, finance, marketing, franchise support, real estate and franchise sales
• Chairman of the International Affairs Committee at the International Franchise Association
• 5+ Million Miles on American Airlines
Thomas F. Flaherty, CFE

• Vice President, Franchising, Agile Pursuits Franchising, Inc., a Procter & Gamble Company
  – responsible for franchising for the Tide Dry Cleaners and Mr. Clean Car Wash brands

• 23 years of legal and franchising experience
  – Papa John’s International, Inc.
    • Vice President, Global Franchising
    • Vice President, New Business Development
  – Huddle House, Inc.
    • Chief Development Officer

• Managed the signing of franchise deals for over 2,000 units on five continents
Carl E. Zwisler

- Principal, Gray Plant Mooty
- 35 years representing franchisors and master franchisees in domestic and international franchise transactions
- Former IFA General Counsel
- Author:
  - *Master Franchising: Selecting, Negotiating, and Operating a Master Franchise*, Commerce Clearing House, 1999
- Author/presenter of more than 100 articles and presentations on all facets of international and domestic franchising
What Are The Right Goals For International Franchising?
• Sell products or services to un-served “customers”
• Expand distribution of products or services
• Optimize return on investment and increase system-wide sales and generate incremental EBITDA
• Seize opportunities presented by qualified prospective franchisees
• Hedge against economic and political risks
• Obtain economies of scale
• Preempt competitors
What Are The Options For International Expansion Strategies?
• Company branch
• Direct franchise: unit, area development, area representative
• Master franchise
• Joint venture
• Merger and acquisition
Franchising Formats

Area Development Franchising
(multi-unit franchising)

Franchisor grants

arrow

territory

Franchise Unit 1
By January 1, 2012

Franchise Unit 2
By July 1, 2012

Franchise Unit 3
By January 1, 2013
• Area development agreement provides:
  – Develop three units during next 12 months
  – Sign a unit franchise agreement for each
Area Representative/Development Agent Franchise

• 3 parties
  – Franchisor
  – Area representative or development agent
  – Unit franchisee
Development Agent / Area Representative

Franchisor

Development Agent

Franchisee

contract

no contract
Example 1

Master Franchising
Franchisor
↓
Master franchisee
↓
territory

Franchise Unit 1
By January 1, 2012

Franchise Unit 2
By July 1, 2012

Franchise Unit 3
By January 1, 2013
Example 2

Master Franchising
Franchisor
↓
Master franchisee
↓
Territory

Master-owned
Unit 1

Master-owned
Unit 2

Franchise
Unit 1

Franchise
Unit 2

Area Developer

Unit 1

Unit 2

Schedule: open at least 1 every six months
What Considerations Dictate The Strategy Selected For International Franchising?
• Resources of the franchisor
• Cost of adapting
• Resources and commitment of prospective partners
• Regulation of foreign ownership or other government regulation
• Size and profit potential of a market
• Critical mass required to establish the brand or to compete effectively in the market
• Distance from the franchisor's home or regional support office
• Cost of establishing a franchised unit
• Tariffs, duties and other barriers to foreign ownership or operation
• Culture, language, climate, logistics, availability and cost of labor
Where Are The Most Logical Markets To Begin International Expansion?
Markets With:

- Desire/need for product or service
- Greatest numbers of areas with likely customers
- Proximity
- Common language
- Lowest risks of political and economic instability
• High growth and qualified prospects
• Low effective tax rates
• High scores on World Bank's Ease of Doing Business survey
• No exchange controls and no barriers to currency repatriation
• Developed legal system allowing for enforcement of contracts
• Logistics/distribution/supply chain infrastructure cultural fit of product or service
Market Matrix – Latin America

Final Macro Score

Final Foodservice Score

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What Is Needed To Develop And Implement An International Franchising Plan?
• Support from board, CEO and/or founder
• Buy-in from all departments which will support foreign development and operations
• International support organization (operations, training, marketing, supply chain/distribution, finance, I.T., legal)
• Substantial investments in time and capital
• Realistic time horizon for return and unit growth
• Threshold for patience in selecting the right franchisees in the right markets with the right positioning of the right products and/or services
• Legal analysis, documents, budget, IP protection
• Market research to understand probable costs of entering and developing a market
• Franchise marketing plan and budget
• Due diligence on prospective franchisees
• Identification of top priority markets
• Development of a franchising team with endurance and international business acumen/sensitivity
Thank you.

Ned Lyerly

Thomas F. Flaherty

Carl E. Zwisler