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INTERNATIONAL FRANCHISE ASSOCIATION

Franchising
Building local businesses, one opportunity at a time.
Expansion in New Emerging Overseas Markets: Opportunities and Challenges in Latin America, China and the Middle East

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- **Speakers:**
  - Timothy Hardy, Director, International Franchising & Operations, Build-A-Bear Workshop, Inc.
  - John Kersh, Vice President, International Development, Anytime Fitness, Inc.
  - Lee Vala, Chief Development Officer, International, The Quizno’s Corporation
A. Why Are These Markets Leading the Way for U.S. Franchisors’ International Expansion?

• Strong desire for American and other Western brands and lifestyle services and products.
• These markets are under-served in terms of US franchise offerings.
• Increasing disposable income.
B. What Resources Are The “must haves” for Success in These Regions?

- Patience, understanding, good people, money!
- Hire one or more executives with real international experience; it’s worth it.
- The right individuals on your international development team, and at the executive and support levels of your organization, who can approach these markets in a respectful and competent way.
- Solid grasp of market conditions in the territory.
What Resources Are The “must haves” for Success in These Regions? (continued)

- A strong logistics capability with both franchisor and franchisee to insure efficient importation of goods.
- For Build-A-Bear Workshop, access to quality malls and adequate space within the malls is critical.
  - Limited numbers of malls.
  - Smaller units than found in the US.
  - High key money thresholds.
- Solid grasp of and respect for the local culture.
What Resources Are The “must haves” for Success in These Regions? (continued)

- Experienced franchise counsel with local support.
- Legal and tax advice on local payment issues; especially on withholding tax, royalties initial fees, and development fees.
- Adapt and expand US training programs.
- A candidate with sufficient capital and a well-thought-out plan for capital expansion in the future.
- Candidate with meaningful multi-unit retail experience at both the corporate and store levels.
C. Challenges to Overcome in Latin America, China and the Middle East

- Travel costs (international airfares, safe hotels, security, safe transportation).
- Operating costs, shipping food and paper products overseas import duties, distribution costs.
- Development, larger units as dine-in business is far greater than U.S.
Challenges to Overcome in Latin America, China and the Middle East (continued)

- Real Estate ("A" sites are generally more expensive than in the US).
- Duties on equipment.
- International warranties.
- Finding larger capable candidates; there is little or no financing for small franchisees.
Challenges to Overcome in Latin America, China and the Middle East (continued)

• Franchise candidates with experience in the franchisor’s business segment will save time and money.

• Be flexible on site selection and unit design (US prototypes will not work. Take a custom design unit in the best site versus 40,000 square-foot pad prototypes).
Challenges to Overcome in Latin America, China and the Middle East (continued)

- Find local sourcing and distribution expertise. There are no equivalents of SYSCO.
- Good food technology people and staff.
- Will need to find, develop and approve local ingredients.
- Local vendors may need to invest to meet specs, which could require long and complex vendor contracts.
Challenges to Overcome in Latin America, China and the Middle East (continued)

- Must train on business issues too, not just operation, but also on marketing, sourcing, sales and controls.
- Selecting the right local partners.
- A mind-set which is flexible and understanding of cultural differences.
Challenges to Overcome in Latin America, China and the Middle East (continued)

• Communication in foreign language markets always takes longer and requires more effort than in English language markets.

• Tariffs on China-produced goods (even in China!)
Challenges to Overcome in Latin America, China and the Middle East (continued)

• Lead times on orders.
  • Customs delays.
  • Logistics challenges.
• Seasonal changes in Southern hemisphere countries.
  • Affect holiday and fashion offerings.
• Localization of products, services and marketing materials.
  • Holidays, religious, cultural issues.
Challenges to Overcome in Latin America, China and the Middle East (continued)

- Franchise disclosure laws in China, Brazil and Mexico.
- Security in Mexico and Brazil.
- Corruption concerns.
- Anti-boycott concerns in the Middle East.
- Political issues in China and the Middle East.