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Expansion Alternatives
in INTERNATIONAL FRANCHISING
ALTERNATIVES TO MASTER FRANCHISING:
AREA DEVELOPMENT AGREEMENTS,
AREA REPRESENTATIVES
AND JOINT VENTURES

Kathie Lee, Moderator
Starwood Hotels & Resorts Worldwide, Inc.
Atlanta, Georgia U.S.A.

Judith Jarvis
Vantage Hospitality Group, Inc.
Coral Springs, Florida U.S.A.

Bachir Mihoubi
FranCounsel Group, LLC
Atlanta, Georgia U.S.A.

Shivendra Kundra
Kundra and Bansal
New Delhi, India

Susan Grueneberg
Snell & Wilmer, L.L.P.
Los Angeles, California U.S.A.
TYPES OF ARRANGEMENTS

Direct Franchising

• Franchisor contracts directly with cross-border franchisee
• Control over selection and oversight of franchises
• Compliance with foreign franchise laws, if applicable
• Deliver services and support to franchisees
• Sales/development may be slower than with in-country “partner”
TYPES OF ARRANGEMENTS

Exclusive Master License

• Most typical structure
• Franchisor grants exclusive right to sublicense/subfranchise in territory
• Master franchisee effectively is franchisor as to ultimate franchisees
• Greater acceleration of sales/development
• Less control/relationship by Master Franchisor
TYPES OF ARRANGEMENTS

Area Development Agreement

- Single franchisee granted right to open units in territory
- Franchisor’s eggs in one basket
- May give franchisee better bargaining position
- Ease of training one franchisee benefits franchisor
- Potential for rapid expansion in territory
TYPES OF ARRANGEMENTS

Area Representatives

- Serve as sales agents for franchisor in territory
- Usually provide support to franchisees in territory on behalf of franchisor
- Franchisor approves franchisees and contracts with them
- Area representative receives portion of initial fee
- Requires oversight by franchisor
TYPES OF ARRANGEMENTS

Joint Ventures

- Franchisor joins forces with local “partner”
- JV may serve as area rep, master franchisee, or area development agent
- JV subject to local laws
- Franchisor makes capital contribution
- All decision-making subject to negotiations at outset of JV
TYPES OF ARRANGEMENTS

Hybrid Relationship

• As diverse as the parties ...
Introduction to Codfather’s

- Started as small snack shop on New Jersey shore
- Grew to Italian-style national chain specializing in seafood
- Changed to Mafia-themed restaurant because of popularity of movies such as Godfather’s, Goodfellas, and Casino, and TV shows such as Boardwalk Empire and the Sopranos.
- Currently over 900 restaurants throughout U.S., most of which are franchisees of parent company, CIRI.
• Signature dishes include Stoolie’s Pizza, The Boss’s Burger and Mobster Lobster Roll

• Popular dishes include Fuggedsaboutit Fudge, Tony’s Tiramisu, Carmela’s Carmel Ices, and Meadow’s Milk Chocolate Shake

• Heavy use of bacon in all dishes, including many of the desserts
Codfather’s Menu

Stoolie’s Pizza – No Onions to Rat You Out
The Boss’s Burger – And We Don’t Mean Springsteen
Mobster Lobster Roll – A **Sandwich** You Can’t Refuse
Fuggedaboutit Fudge – So Good You Can’t Fuggedaboutit
Tony’s Tiramisu – Bada Bing
Carmela’s Caramel Ices – Not for A Goomah
Meadow’s Milk Shake – The Perfect Cure For Agita--
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BRAND AMBASSADOR AND MASCOT: BUTTON
DOMESTIC CHALLENGES FACING CODFATHER’S

- Use of bacon raises dietary and health issues
- Many franchisees want to offer just desserts (most profitable)
- HBO threatening to sue over Soprano’s intellectual property
- Godfather’s Pizza threatening to sue over consumer confusion issues
- Lack of financing for new franchisees (and saturation in some markets) impairing further growth in U.S.
INTERNATIONAL EXPANSION

- Sandwich shops in India granted area development agreement; will convert all shops to Codfather’s and have exclusive right to open as franchisees in India, Sri Lanka, and other countries in region
  - CIRI receives large initial fee; must open corporate office and provide full franchise support in territory
- Linen company given master franchise for Greater China
  - CIRI gets small initial fee and ongoing revenue stream
- JV between CIRI and retired Qatari arms dealer to develop Codfather’s throughout the Middle East and North Africa
  - No money paid up front to CIRI but CIRI has 49% interest
HOW DO YOU DECIDE WHICH STRUCTURE TO USE?

- Who drives the bus? Business team, legal team, other side’s team?
- Do you consider ...
  - Disclosure/Registration Requirements?
  - Who qualifies Franchisees?
  - Who is responsible for training and support?
  - How are trademarks protected?
  - What are the tax consequences?
DOES STRUCTURE DRIVE DEAL TERMS OR VICE VERSA?

• How Do You Get Paid?
• Whose Franchisees are They?
  – Direct and Vicarious Liability? Privity? Rights on Termination?
• Territories?
  – How Do You Define? Cultural Diversities in Same Territory?
CODFATHER’S … TIME TO FACE THE MUSIC

• Eventually, and over the objections of many, CIRI closes on these deals and the international expansion of Codfather’s ensues.

• In a short time, some of the early concerns expressed, and some of the years’-old legal challenges, have come home to roost and are presenting important issues with respect to CIRI’s international operations.
HOW DO OPERATIONAL/CULTURAL ISSUES VARY BY ARRANGEMENT?

- Is the Name Viable?
- Any Dietary Restrictions?
- Translations of Key Documents?
Desserts continue to be very popular and profitable.

A group of India franchisees forms company to franchise “GoodFellows - a Place for Snacks, Desserts, and Ices.”

With CIRI’s permission, they convert their Codfather’s to GoodFellows, and plan to offer franchises to other Codfather’s franchisees in India, China, and MENA, as well as recruit new unrelated franchisees in those territories.

CIRI’s negotiates an agreement to be the exclusive area developer for North America and sets out first to convert existing Codfather’s franchisees and then to meet an aggressive development schedule established by the Indian franchisor.
CODFATHER’S – THE EPILOGUE

• Seven years later, there are nearly 20,000 GoodFellows worldwide.
• CIRI’s (former) in-house lawyer writes a tell-all book about the rise and fall of Codfather’s – self-publishes as e-book then sells to Miramax.
• Now resides comfortably with fourth husband (formerly her pool boy) in Cabo San Lucas.
• She is considering applying for area development rights for GoodFellows in Mexico.
Hasta La Vista