54th Annual
IFA CONVENTION
DRIVING GROWTH IN CHALLENGING TIMES
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How to Know When Your Franchise Is Ready To Go Global

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Panel

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Dave Koch  
Partner  
Plave Koch PLC

Adam Scott  
CFO & Co-Founder  
Wing Zone

Robert Shaw  
Executive Advisor,  
International Development
Capturing The World’s Emerging Middle Class

The rapidly growing ranks of middle-class consumers span a dozen emerging nations, not just the fast-growing BRIC countries, and include almost two billion people, spending a total of $6.9 trillion annually. Our research suggests that this figure will rise to $20 trillion during the next decade - about twice the current consumption in the United States.

Article | McKinsey Quarterly, July 2010
Hitting The Sweet Spot

Middle class growth in emerging markets

In Asia alone, 525 million people can already count themselves middle class — more than the European Union’s total population. Over the next two decades, the middle class is expected to expand by another three billion, coming almost exclusively from the emerging world.

Article | EY.com, 2013
Leading Emerging Markets Will Continue To Drive Global Growth

Estimates show that 70% of world growth over the next few years will come from emerging markets, ....

Adjusted for variations in purchasing power parity, the ascent of emerging markets is even more impressive: the International Monetary Fund (IMF) forecasts that the total GDP of emerging markets could overtake that of the developed economies as early as 2014.

Article|EY.com 2013
Why International?

- Add new and diversified income sources
- Reduce dependence on one market (US)
- Increase the ROI, leverage and scale of your IP, human capital, know-how, resources and market leadership
- Increase equity and brand value for all stakeholders
Why International?

- Import innovation to strengthen and differentiate business model in your domestic market
- Sell more US territories with international image
- New HR career paths and opportunities for employees
Planning

- System Foundation
- Development Models
- Financial Models
- Candidate Profile
- Market Profile and Selection
- Legal Planning

- Going to Market
- Qualification and Sales Process
- Legal Implementation
- Training and Support
- Human Resources
- Keys to Success
Brand Introductions

Right at Home
In Home Care & Assistance

Wing Zone
System Foundation

• Demonstrated record of success in your domestic market (US) – does not require national coverage
• Clearly defined and articulated differentiators and comparative advantages
• Well-documented training, operations/support and marketing programs
• Comprehensive intranet (365/24/7 resource) with online resources and network communications to provide or support the programs above
System Foundation

• System-wide reporting and compliance processes and systems
• Key performance index and benchmark reporting
• Financial resources to be invested to initiate international development until it is self-sustainable
System Foundation

• Evaluate in advance what is brand essential and what is negotiable (e.g. food or service menu)

• Evaluate in advance your requirements and flexibility regarding suppliers, vendors, etc.
Selecting Your International Development Model(s)

- F&B Brands vs. Service Brands
- Master Franchise (Sub-franchising)
- Joint Venture (overseas MF partner)
- Direct Multi-Unit Franchising (from U.S.)
- Direct Franchising In-country (overseas subsidiary)
- Direct Investment (company-owned units)

Control

Investment

Adapted from Kurt Ullman
Financial Models & Tools

Templates as business tools to assist Franchisor:

- Setting initial fees and royalty levels
- Prioritizing markets
- Negotiations
- Discussions with candidates

Assist candidates to conduct their due diligence more expediently, more accurately
Financial Models & Tools

Reasonable / Appealing ROI at all levels

- Franchisor
- Master Franchisee
- Area Franchisee
- Multi-Unit Franchisee
- Unit Franchisee
Establishing Initial Franchise Fees

- Franchisor’s cost recovery
  - 2 to 3 years support with low income from market
- ROI projections (financial models)
- Premium brand value; e.g. – household name worldwide
Establishing Initial Franchise Fees

• Domestic fees (US) - reference

• What will the market bear?
  • Risk level (real and perceived)
  • History of US – Int’l franchising in the country

• Candidate’s experience with franchising
Candidate Profile

• Congruent to your Development Model
  – Corporation, group or individual(s)
• Appreciation for the value of proven business models and systems
• Successful record of business development in the Territory
Candidate Profile

• Experience in your business sector?
• Experience with franchising?
• Access to estimated requisite investment capital
• Management team able to operate proficiently in the English language
Defining a Market Profile

As a tool – possibly for candidates to review

Speaks to the general market opportunity for your brand, customers and business, such as:

- Appreciation for family restaurant dining experience
- Appreciation value added services and convenience
- Consumerism factor – relevant key metric category
- Key demographics
- Cultural attributes
- Franchise friendly environment
## Selecting Markets

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<th>Market Characteristics</th>
<th>Economic Indicators</th>
<th>Commercial Factors</th>
<th>Government Issues</th>
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<td>Population</td>
<td>Total GDP</td>
<td>Ease of Market Entry</td>
<td>Political Stability</td>
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<td>GDP per Capita</td>
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<td>Purchasing Power</td>
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<td>Demographics</td>
<td>GDP Growth Rates</td>
<td>Ease of Doing Business</td>
<td>Franchise and General Regulatory Issues</td>
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<td>% Urbanization</td>
<td>Inflation and Unemployment Rates</td>
<td>Franchise Environment</td>
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<td>Consumer Spending Levels</td>
<td>Economic Stability</td>
<td>Brand Viability</td>
<td>Corruption Index</td>
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Legal Planning

- Intellectual Property – trademarks, domain names, know-how, technology
- Franchise agreements drafted to match Development Model
- MOU / LOI template to be used when appropriate
- Taxes – corporate & withholding
- Supply chain
Legal Planning

- Tailor legal budget to chosen model
- Plan for using local counsel in-country
- Understand franchise regulatory requirements and timelines in advance
  - Disclosure regulations
  - Government registration
  - Official translation
IMPLEMENTATION
Going to Market

• Be prepared to conduct market research in selected markets
  – Market, competitive and franchise environment information
  – Better prepared to discuss market and conditions
  – Demonstrates your commitment to the market to candidates
  – Can become a business tool for mutual use and reference after the deal is signed
Going to Market

• Be prepared for different markets, plans and budgets by country
• Be prepared to re-invest in marketing for additional cycles, if necessary
• Be prepared to conduct due diligence on serious candidates
Qualification and Sales Process

Be prepared to work with attributes of specific and different cultures

- Communications effectiveness, English as a second language, confirm important points in writing (email)
- Relationship building
- Social etiquette
- Negotiations
- Decision making
Qualification and Sales Process

1. Confidentiality agreement
2. Term sheet
3. Due diligence on candidate
4. Discovery visit
5. Internal approval or decision process

DRIVING GROWTH in CHALLENGING TIMES
Qualification and Sales Process

Evaluate flexibility (if any) and limits regarding initial fees, payment terms, royalties, marketing fees

Letters of Intent / MOU / Fee deposits

Franchise agreement
Qualification and Sales Process

Do NOT conclude an agreement for a market

- Where someone from your team has not visited
- If you have not met the candidate

Be willing to say, “No, thank you.”
Legal Implementation

• Country overview
• Select local counsel
• Disclosure requirements
• Registration / translation requirements
• Negotiations (parameter flexibility)
• Internal or external legal counsel
Training and Initial Support

- Initial unit training
- In country opening support
- Localization (brand flexibility factors)
Ongoing Support

• Ongoing support
  – Periodic communications / frequency
  – Visits to country / frequency
  – Support evolves with the needs of maturing businesses
• Travel to international markets on a regular basis
  – At least once per year; more frequent visits early in relationship
• Emphasis on Franchisee success at all levels
• Collaborative approach with Master Franchisees and large Multi-Unit Franchisees
Human Resources

• Deploy experienced Development and Operations management level HR at the onset; need not be full-time

• Development can be external

• Operations should be internal
  – Single point of contact
    • Detailed knowledge of brand, system and organization
    • Likely to evolve to full-time position after 2nd or 3rd major relationship, such as Master Franchisees
Keys To Success

- Principals and CEO must commit organization to International Development as a long term business growth strategy
- Commitment to necessary capital investment
- International strategy must be an integral part of corporate objectives, business culture and communications
Keys To Success

• Develop and implement a pro-active business plan
• Manage and protect your IP
• Select the right candidates
• Invest in experienced development and support HR
Questions?
Thank you!