

# ABA Forum on Franchising

## Successful International Franchising: The Business Considerations

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# Strategic Benefits Of International Franchise Development

- *Makes you less dependent on your home market*
- New sources of initial fees, royalties and product sales
- Increases brand value for all stakeholders > a global brand
- New platform for business growth
- Sustainable, incremental and diversified
- Leverages existing intellectual property and resources
- International image helps franchise sales in the US



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# International as a Growth Strategy

- International Business Development should be treated as a *long-term strategic decision* requiring planning and focused resources
- International Business Development requires an *organizational commitment – from the top down*
- *International Business Development is NOT a short term source of initial fees....there are associated short and long term expenses*



# What We Will Cover Today

- International Readiness
- Budgeting & Financial Models
- Development Models
- Case History
- Specific 2010 International Opportunities



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# Internal Readiness For Going Global

- Commitment at the top
- Strategy & Plan
- Competitive advantage
- Success at home
- Well-documented training, support and marketing systems
- Intranet (365/24/7)
- System standards and reporting processes
- Market and competitor research
- Trademarks and other IP



# External Readiness For Going Global

- Market potential – for your specific franchise
- Types of markets / profiles
- Market analysis, competitor research
- Business & Cost metrics - measurement
- Ranking / prioritizing markets



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# Factors Companies Should Consider When Deciding Which Countries To Franchise Into

Rule of Law

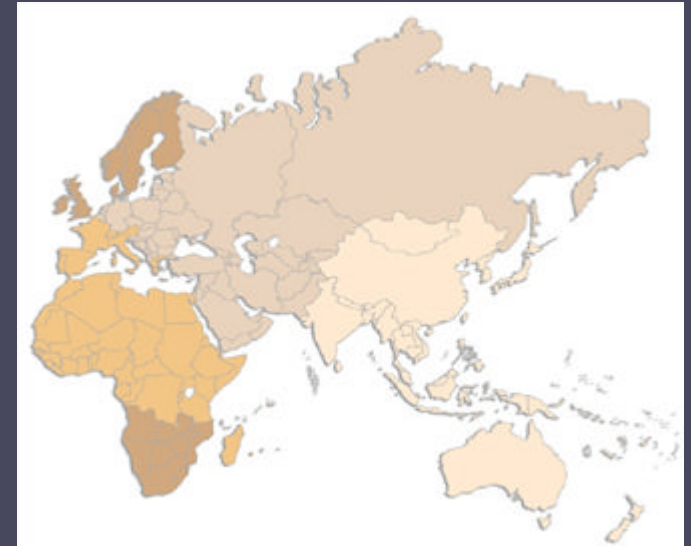
Country Stability

Corruption

Government Involvement

Intellectual Property Protection

Potential For Franchisor To Achieve An Acceptable ROI



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# Country Ranking Metrics

Country Trend in 2010	Average of numerous analyst reports from around the world and a survey of EGS GlobalTeam™ members in 28 countries
Current Investment Climate	Likelihood to be able to close license agreements in 2010
Expected '09 GDP Growth	From 'The Economist'
GC Index	Global Competitive Index, World Economic Forum
Economic Freedom 2009	How free are companies to start and grow businesses, Fraser Institute
Market Size	How big is the potential market for new products and services?
Ease Of Entry	How easy or difficult will it be to find a master and start operation
Legal Concerns	Is the legal environment fair to both foreign and local companies?
Government Involvement	In terms of impacting business agreements and fee payments



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# Analysis of Markets For 2010 – GlobalVue™

Country Or Region	Country Trend In 2009	Current Investment Climate	Expected '09 GDP Growth	Competition Index	Economic Freedom Index	Market Size	Ease Of Entry	Legal Concerns	Government Involvement	Average Weighted Ranking
Brazil	↑	1	1	2	3	1	2	2	2	1.9
Middle East Region	→	1	1	2	3	2	2	2	2	2.0
Urban China	↑	2	1	1	2	1	2	2	2	2.0
Indonesia	↑	1	1	2	3	1	2	3	3	2.1
Canada	→	2	2	1	1	2	2	2	2	2.2
United Kingdom	↓	2	3	1	1	1	2	2	1	2.2
Australia	→	2	2	1	1	2	3	2	2	2.3
India	→	1	2	2	3	1	3	2	3	2.3
Japan	→	2	3	1	1	1	2	2	2	2.3
Mexico	→	2	2	2	2	1	2	2	2	2.3
Malaysia	→	2	1	1	3	2	3	2	3	2.4
South Africa	→	3	1	2	2	2	1	2	2	2.4
China Overall	↓	2	2	1	3	1	3	2	3	2.6
USA	→	3	3	1	1	1	1	2	2	2.6
Hungary	→	2	3	2	1	3	2	2	2	2.7
Spain	↓	3	3	1	1	1	2	2	2	2.7
Thailand	↓	3	2	2	2	2	2	2	1	2.7
Germany	↓	3	3	1	1	1	3	2	2	2.8
Ireland	→	3	3	1	1	4	2	1	1	2.8
Russia	→	2	1	2	3	2	3	4	3	2.8
South Korea	↓	3	3	1	1	2	2	2	2	2.8
France	↓	3	3	1	2	1	3	2	2	2.9
Singapore	↓	3	4	1	1	4	1	1	1	2.9

Ranking: "1" is Best, "2.5" is Good, "4" is Worst



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## Readiness to Go International - In Summary

- **Internal** - Senior management commitment to a multi-year development program
- **External** - Detailed information on countries, compatibility with your franchise concept, the potential for your concept to work and realistic priorities for international development



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# Modeling Your Global Strategy

- Budget for the first 3-5 years of Going Global
- Be realistic in your initial fee expectations
- Realize that initial fee revenues have some corresponding, associated expenses
- Be realistic in how many countries you can award and properly support
- Plan ahead for marketing, training and support costs



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# Going Global Investment /ROI

- Fees and royalties - how to back calculate
- Be sure everyone gets a good ROI be the end of the third year of a master franchise
- Be sure your initial master franchise fee covers your costs for the first two years of the master franchise operation



## Sample Annual International Marketing Budget

Target Countries/Regions	Country Market Entry Study	Gold Keys or Trade Mission	Ads/ PR Web Listings	Travel	EXPO	1st Year Budget	Estimated Initial License Fees
Japan	\$3,500		\$3,500	\$1,800	\$2,500	\$11,300	\$500,000
South Korea	\$2,500	\$1,250	\$1,200	\$1,700		\$6,650	\$250,000
Singapore	\$2,500	\$1,250	\$1,500	\$1,500		\$6,750	\$150,000
Middle East/GCC	\$2,500		\$2,500	\$2,000	\$3,000	\$10,000	\$350,000
Mexico	\$2,500	\$1,250	\$1,500	\$5,000	\$2,000	\$12,250	\$250,000
Urban China	\$5,000	\$1,500	\$2,000	\$3,000		\$11,500	\$300,000
Australia	\$4,000		\$5,000	\$7,000		\$16,000	\$200,000
Contingency for new opportunities	\$5,000	\$2,500	\$5,000	\$5,000	\$3,000	\$20,500	
Management, Overhead, Legal						\$150,000	
Courier, printing, misc.						\$3,500	
<b>Year 1 Budget</b>	<b>\$27,500</b>	<b>\$7,750</b>	<b>\$22,200</b>	<b>\$27,000</b>	<b>\$10,500</b>	<b>\$248,450</b>	



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# Sample 5 Year Unit & Master Franchisee Financial/Development Budget

	1st Year Investment	Year #1	Year #2	Year #3	Year #4	Year #5	5 Year Total
<b>Unit Franchise Revenue</b>							
Single Unit Franchise		\$200,000	\$360,000	\$500,000	\$700,000	\$900,000	\$2,660,000
		\$200,000	\$360,000	\$500,000	\$700,000	\$900,000	\$2,660,000
<b>Unit Franchise Expenses</b>							
Initial Unit Franchise Fee	\$35,000						
Initial Cash Capital Investment including Working Capital	\$100,000						
Royalties (8% )		\$16,000	\$28,800	\$40,000	\$56,000	\$72,000	\$212,800
Cost of Sales and Operating Expenses (72% of Unit Revenue)		\$144,000	\$259,200	\$360,000	\$504,000	\$648,000	\$1,915,200
<b>Total Investment or Expenses</b>	<b>\$135,000</b>	<b>\$160,000</b>	<b>\$288,000</b>	<b>\$400,000</b>	<b>\$560,000</b>	<b>\$720,000</b>	<b>\$2,128,000</b>
<b>Unit EBITDA (US\$)</b>	<b>(\$135,000)</b>	<b>\$40,000</b>	<b>\$72,000</b>	<b>\$100,000</b>	<b>\$140,000</b>	<b>\$180,000</b>	<b>\$532,000</b>
<b>Simple RRR</b>				23%	41%	52%	
<b>Master Franchise Revenue</b>							
Franchisee Fees (US\$35,000/unit)		\$105,000	\$245,000	\$420,000	\$525,000	\$630,000	\$1,925,000
Franchisee Royalties (8% of Franchisee gross sales)		\$48,000	\$198,400	\$585,600	\$1,211,200	\$2,072,000	\$4,115,200
<b>Total Revenue</b>		<b>\$153,000</b>	<b>\$443,400</b>	<b>\$1,005,600</b>	<b>\$1,736,200</b>	<b>\$2,702,000</b>	<b>\$6,040,200</b>
<b>Master Franchisee Expenses</b>							
Initial Franchise Fee	\$350,000						
Royalties to Franchisor (20% of Unit Franchisee royalties)		\$9,600	\$39,680	\$117,120	\$242,240	\$414,400	\$823,040
Unit Franchise Fees to Franchisor (20% of total Franchise Fee)		\$21,000	\$49,000	\$84,000	\$105,000	\$126,000	\$385,000
Start-up, Franchisee Training and Support Cost		\$250,000	\$150,000	\$200,000	\$450,000	\$750,000	\$1,800,000
<b>Total Investment or Expenses</b>	<b>\$350,000</b>	<b>\$280,600</b>	<b>\$238,680</b>	<b>\$401,120</b>	<b>\$797,240</b>	<b>\$1,290,400</b>	<b>\$3,008,040</b>
<b>Master Franchise EBITDA (US\$)</b>	<b>(\$350,000)</b>	<b>(\$127,600)</b>	<b>\$204,720</b>	<b>\$604,480</b>	<b>\$938,960</b>	<b>\$1,411,600</b>	<b>\$3,032,160</b>
<b>Simple IRR</b>				24%	52%	68%	
<b>Franchised Units</b>		3	7	12	15	18	55

# Franchisor Fees And Royalty Share

	Start-up	Year #1	Year #2	Year #3	Year #4	Year #5	5 Year Total
Franchisor Revenue From Master	\$350,000	\$30,600	\$88,680	\$201,120	\$347,240	\$540,400	\$1,558,040
Franchisor Expense (estimated)							
Development Costs	\$100,000						\$100,000
Initial Training	\$25,000						\$25,000
Master Training and Start-up costs	\$20,000						\$20,000
Master Support	\$25,000	\$25,000	\$20,000	\$20,000	\$20,000	\$20,000	\$130,000
Technology costs (intranet, etc.)	\$20,000						\$20,000
Legal	\$15,000						\$15,000
Travel	\$20,000	\$10,000	\$10,000	\$10,000	\$10,000	\$10,000	\$70,000
Franchisor Estimated Cost	\$225,000	\$35,000	\$30,000	\$30,000	\$30,000	\$30,000	\$380,000
Franchisor 'Net' Estimate - Single Country	\$125,000	(\$4,400)	\$58,680	\$171,120	\$317,240	\$510,400	\$1,178,040



# Sample 5 Year Franchisor Going International Budget

Projected 5 Year Budget - Restaurant Concept	Year #1	Year #2	Year #3	Year #4	Year #5	5 Year Total
<b>Projected Franchisor Revenue</b>						
Initial Area Licensee Fees (1/2 total franchise fees up front)	\$250,000	\$500,000	\$750,000	\$1,000,000	\$1,000,000	\$3,500,000
Franchise Fees, paid as units open	\$25,000	\$75,000	\$150,000	\$375,000	\$475,000	\$1,100,000
Royalties from Licensees (6% of gross unit turnover)	\$55,050	\$247,725	\$688,125	\$1,541,400	\$3,055,275	\$5,587,575
	<b>\$330,050</b>	<b>\$822,725</b>	<b>\$1,588,125</b>	<b>\$2,916,400</b>	<b>\$4,530,275</b>	<b>\$10,187,575</b>
<b>Projected Franchisor Expense</b>						
International Licensee Marketing Program	\$75,000	\$90,000	\$100,000	\$100,000	\$100,000	\$465,000
International Development Management, Staff and bonuses	\$125,000	\$175,000	\$200,000	\$300,000	\$300,000	\$1,100,000
Internal system, technology, training and support upgrade	\$75,000					\$75,000
Licensee Start-up Costs	\$80,000	\$150,000	\$225,000	\$300,000	\$300,000	\$1,055,000
Licensee Support Costs, including travel (not including corporate overhead)	\$25,000	\$65,000	\$130,000	\$220,000	\$220,000	\$660,000
Trademarks, local agreement review, disclosures & other legal costs	\$125,000	\$75,000	\$120,000	\$150,000	\$150,000	\$620,000
	<b>\$505,000</b>	<b>\$555,000</b>	<b>\$775,000</b>	<b>\$1,070,000</b>	<b>\$1,070,000</b>	<b>\$3,975,000</b>
<b>Franchisor Simple EBITDA</b>	<b>(\$174,950)</b>	<b>\$267,725</b>	<b>\$813,125</b>	<b>\$1,846,400</b>	<b>\$3,460,275</b>	<b>\$6,212,575</b>
<b>Projected Area Licensees signed per year</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>4</b>	<b>14</b>
<b>International Units Open</b>	<b>1</b>	<b>4</b>	<b>10</b>	<b>25</b>	<b>44</b>	



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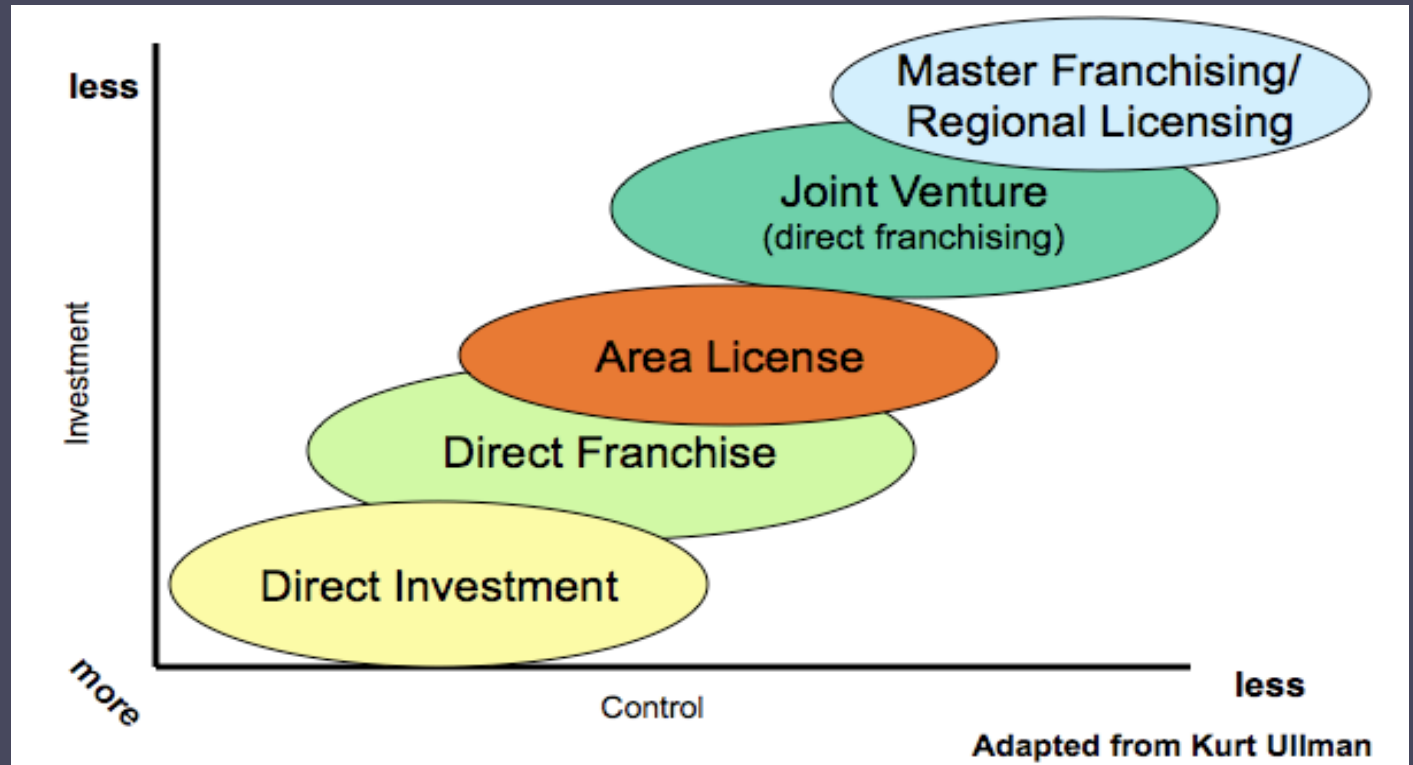
# Timeline: Initial Contact To Licensee

International Development Activity	January	February	March	April	May	June	July	August	September	October	November	December	January	February
Master or Area Level Lead Received	█													
Follow-up Emails and/or Meeting Share information (CV/resume, company information) Share candidate and franchise financial information		█	█											
Discovery Day & Franchisee Visits Due Diligence by both franchisor and candidate				█	█									
Area or Master License Agreement Pay deposit Pay remainder of initial license fee					█	█	█							
Pre-training Support In-country supplier, staff and location evaluation Pre-training preparation								█	█					
Unit and Area/Master training at franchisor headquarters										█	█			
First unit start-up in-country Open first unit In-country start up training and support												█	█	
First Post-startup support visit														█
(If a food franchise, training at HQ is much longer)														



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# International Franchise Development Models



# Types of Development Models

- **Master Franchise - National (sub-franchising)**
- **Master Franchise - Regional (sub-franchising)**
- **Area Development (Multiple Units)**
- **Direct Unit Franchise (Single Unit)**
  - In-country (or region) subsidiary
  - From US headquarters
- **Joint Venture**
  - At Franchisor level
  - At Master or Area level (as the Licensee Entity)



# Market and Licensee Profiles

- **Market Profile**
  - What market characteristics are best for your business, model and internal readiness?
- **Ideal Licensee Profile**
  - Who and what are you looking for?
  - Where are you likely to find them (marketing)



# GlobalProfile™ - Service Sector

## International Master Franchise Market Profile

Developed and emerging economies on a national or regional scale  
Propensity for residential services such as weekly maid/cleaning and lawn care services  
Appreciation for brands and standards  
Entrepreneurial and open to new concepts  
Franchise-friendly

## International Master Franchisee Profile

Successful company wishing to diversify using a proven business system  
Strong sales and marketing skills and experience  
Understands the value of new concepts based on a proven business system  
A management team that can function professionally in the English language  
Investment capital of from US\$350,000-750,000, depending on the country  
Experience as a franchisor, franchisee or licensee a plus

## Potential International Master Franchisee Target Groups

Residential and Home Care Services  
Residential B2C distribution businesses  
Real estate and property development businesses and franchises  
Existing Master Franchisees and Franchisors in-country



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# Steps To Acquiring A License

- 1) Complete a Candidate Information Document and Confidentiality Agreement
- 2) Receive detailed business concept information, the financial model and the License terms and provide us with questions
- 3) Create a business plan for your country
- 4) Attend Discovery Day meetings at the Franchisor headquarters to meet senior executives, present your business plan and discuss the business in your country
- 5) Sign a Letter Of Intent and make a deposit towards the initial License Fee
- 6) Sign the License Agreement and pay the remaining initial License Fee
- 7) Start your team training at Franchisor headquarters



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# Common International License Financial Model Terms

- Initial Area License or Master Franchise Fees
- Sub-franchise Fees - 80/20 with minimum
- Royalties - 80/20 (with monthly minimums)
- Technology Fees
- Marketing Fund / Fees



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# Support Models and Considerations

- Initial and Ongoing Training Models
- Franchise Development
- Operations
- Technology
  - Websites, Intranet - 24/7/365, Urls, e-commerce
- Marketing
- Suppliers and Vendors
- Translations, Localization
- Advisory Councils





## Licensing Mr. Handyman Globally

**“Extending operations internationally means careful planning, choosing the right partners and observing cultural and language traditions”**

**Todd Recknagel, CEO, Mr. Handyman®**

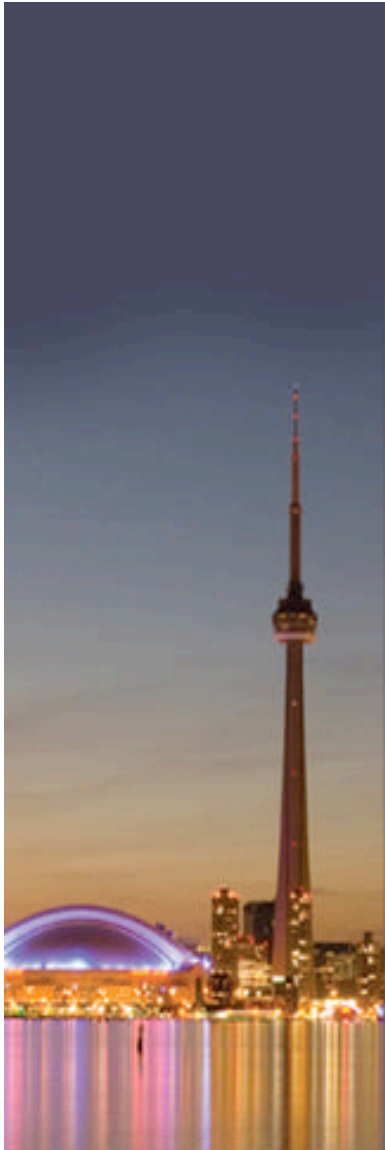


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## Launching your franchise overseas requires careful consideration of time, value and economics

- What do we offer to international prospects?
- Who are the best candidates?
- What are the best methods to use in terms of being in country vs. using a master franchisor?
- How will domestic growth be affected?
- How will qualified candidates be found?
- What regulatory mazes need navigation?





## **Global demand for our franchise business systems could be divided into four areas**

**U.S. brand name which has been registered all over the world**

**Operating model with proven system which could be adapted to locales around the world**

**Universal technology and software to operate the business**

**National marketing materials and programs which can be adapted to locales around the world**



# Be Flexible For International Markets

In the US, Mr. Handyman® Technicians reply to call center and online job requests, usually on an individual basis, and get paid for each job when it is finished

In China, the focus is on providing trusted, branded, uniformed, trained repair and warranty services for new and existing high rise residential flat complexes with a central contract

In Europe the focus is on large commercial contracts, paid up front in advance, and on residential business that may be with complexes that have centralized facilities management

Trusted, uniformed, branded, trained, insured, certified handymen give the commercial and residential customer confidence and comfort around the world





# Brazil, China And India

Why These Top Markets Are Poised  
For High Growth In 2010



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# China: Land of Opportunity and Diversity

Many markets and cultures  
in one country

By 2010, 40 million Chinese  
households will have the  
purchasing-power parity of  
a middle class US family

Higher income urbanites  
look for foreign brands with  
more convenience and  
higher quality than local  
brands



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# China – Opportunities And Challenges

## Opportunities

- WTO being slowly implemented
- Consumer Class growing very fast
- Western brands are highly regarded
- Entry process and laws becoming streamlined
- 2<sup>nd</sup> tier cities open to franchising

## Challenges

- IP still a problem, but some positive results
- Transparency remains a major issue: who owns what?
- Due diligence is a major challenge
- WTO not being fully implemented or quickly implemented
- Size and economic diversity of the country



# Brazil – A 1<sup>st</sup> World And Emerging Market

180+ million people

~50 million in 4 major metro areas

High GDP growth and inflation

Very rapidly growing middle class with discretionary income

Strong internal growth engine, not focused on exports

Franchising is a well accepted business model

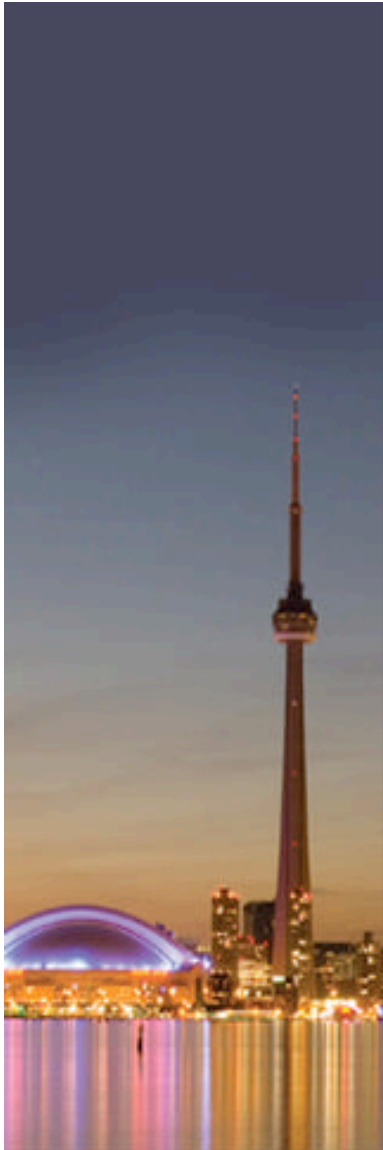
Well established, if somewhat tedious licensing laws



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# India



- 1.15 billion population
- 90 million English speakers
- 66% literacy rate: +1.5% / year
- 80 million Internet users
- Strong cultural focus on education, professional and financial achievements
- 1990's - began reducing burdensome trade restrictions



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# Indian Market - 2009

- Economic growth of 6+ %
- Two largest banks reported profit growth
- Approx. 900 malls under development
- 250 million Middle Class
- Younger generation comfortable buying on credit
- 12th largest economy



# 4 Keys To Global Success: Based On Hard Learned Lessons

- International development is a strategic business direction for a franchisor, not a short term source of initial license fees
- Your international business model must have clear differentiation in the market place
- Select countries where you have a good chance of making a good rate of return
- Take time to find, fully evaluate and sign the right master franchisees



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