



# **INTERNATIONAL EXPANSION: MASTER FRANCHISING AND OTHER STRUCTURES**

**Friday, June 17, 2016 @ 2:00 pm to 5:00 pm**

**Presented by:**

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EVERYTHING MATTERS

# Options for International Expansion

- **Unit or Direct Franchise** – Franchisor grants or awards a franchise to one person/entity for a single unit location or a defined territory
- **Area Development Franchising** – Franchisee is granted a territory and agrees to open and establish an agreed upon number of units within a specified timeframe.
- **Area Representative** – Franchisor recruits one person, who pays a fee for the right to recruit franchisees in a defined territory and provide on-going services to the franchisees he recruits.
- **Master Franchise** – Franchisor grants exclusive rights for a country to one company or entity usually with the right to sub franchise and contingent upon a set development schedule
- **Joint venture** – Franchisor along with a local/national partner form a entity to open a single unit franchise or multiple units.
- **Direct Investment** – Franchisor owns and operates all units in a country.



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# **Area Development / Multi-unit Franchising**

- Two-layer structure
- Domestic area development deals vs. international area development deals
- Documenting an international area development deal – multi-unit or unit-specific

# Why choose area development?

- Benefits to the franchisor
- Benefits to the franchisee



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# Master Franchising



- Popularity and Use
  - Domestically
  - Internationally
- Structure Three Party Relationship
  - Franchisor
  - Master Franchisee
  - Subfranchisee

- Master franchise agreement
- Subfranchise agreement
- Joinder agreement
- Use of approved location form
- Trademark license/user agreement
- Third party beneficiary



- Speed of Expansion
- Reduced Resources
- Reduced Exposure
- Reduced Commitment of Time/Energy/ Local Familiarity



- Greater Difficulty in Identifying and Qualifying Candidates; Different Skill set
- Decreased Control
- Reduced Return (But Maybe Greater ROI)
- Greater Complexity of Unwinding



- Acquiring an established brand
- Marketing and sales support
- Established operational procedures
- Structured training programs
- Support and assistance
- Shared experiences and ideas
- Established sources of supply
- Less capital than internal expansion
- Differing profiles



- Lack of brand awareness
- Lack of franchisor commitment
- Franchisor control over business operations
- Infrastructure needed
- Legal considerations and risks
- Financial commitment and sharing of revenues
- Legal compliance





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# Joint Venture

- Company-owned vs. franchised
- JV Company vs. JV Partner vs. Franchisor



- Minority vs. 50/50 vs. Majority
- Business, accounting, tax and legal implications
- Funding of a JV
- Dispute Resolution in the context of a JV



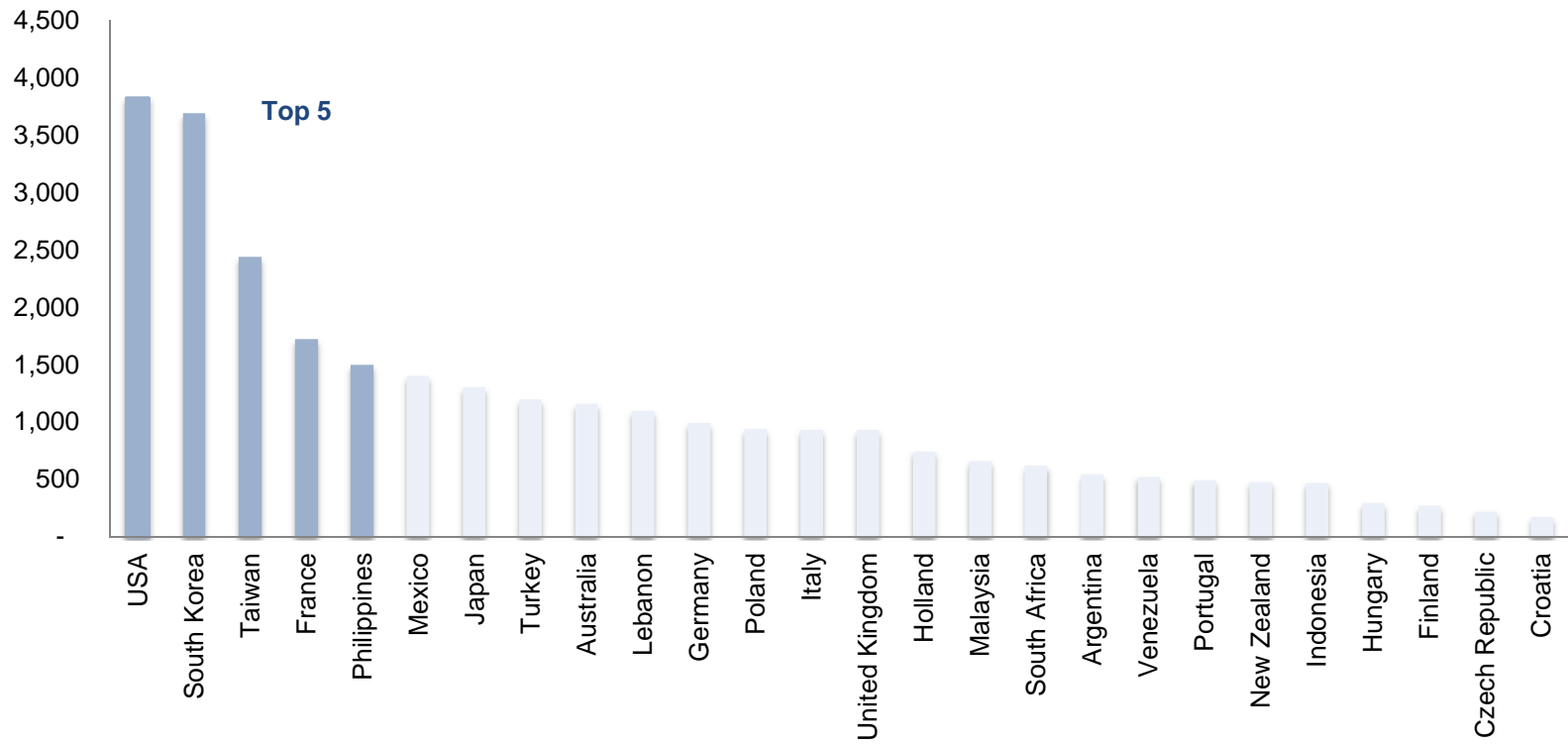
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# **How to Choose the Right Model for International Expansion?**

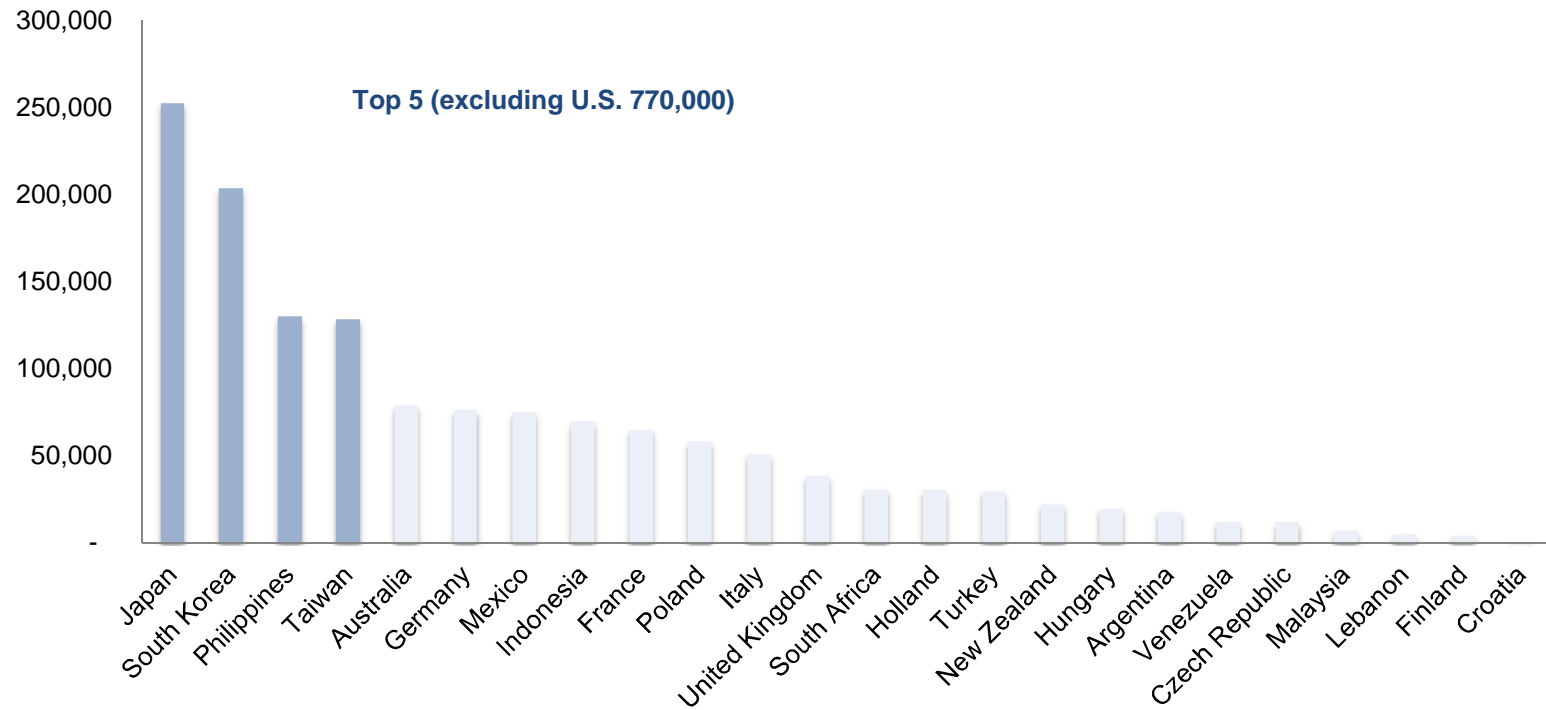
# Is the Local Franchise Industry Mature Enough?

- How mature is franchising in the market?
- What is the typical development model in the market for both local and international brands?
  - Mostly single unit franchisees?
  - Many multi-unit franchisees?
  - Are big companies acting as area developers for most of the international brands?

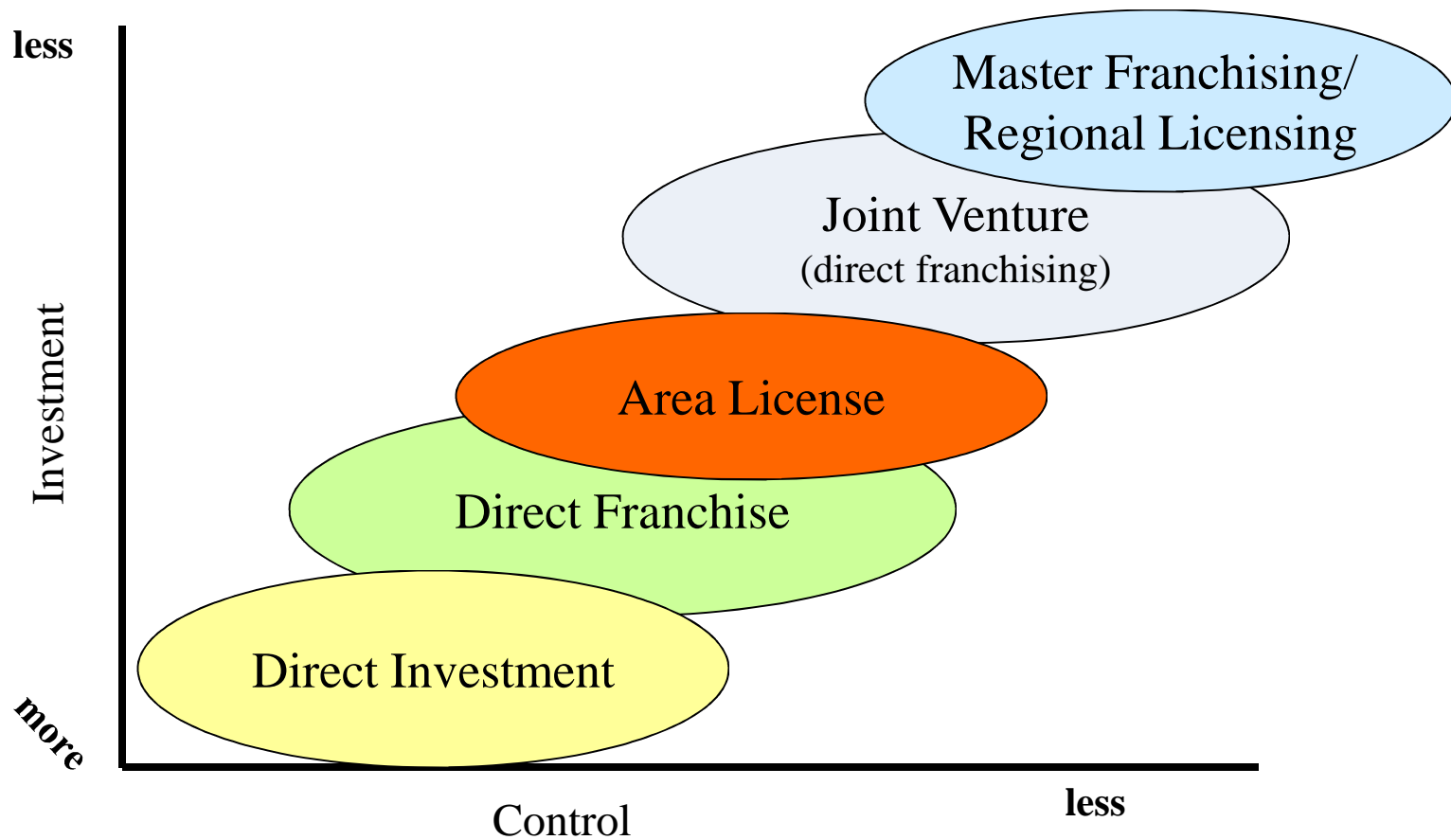
# # Franchised Brands by Country



# Franchised Unit Counts (excl. US)



# Desired Level of Control



Adapted from Kurt Ullman

- operational complexity;
- required financial commitment/investment;
- product supply;
- product/service offering;
- projected profitability;
- owner's involvement (owner-operator)

- Profile of the Franchisor
- Profile of the Franchisee



- Proposed Transaction
- Impact of Local Law

# Finding the Right Partner



- Franchise brokers/consultants
- Trade shows
- Operator of other brands
- Experience with related business
- Trade missions

- Financial resources
- Operational experience
- Infrastructure
- Sales and marketing expertise
- Knowledge of the market

# *Steps to Acquiring a Franchise*

- Information request received by Franchisor
- General information is sent and contact made with prospective franchisee
- Request for Consideration (application) is received by Franchisor
- Confidentiality Agreement signed by prospect
- Franchisor provides more detailed information (any disclosure documents) and requests a business plan to be developed
- The business plan is presented to the franchisor
- Discovery Day
  - Get all the details on the business
  - Meet the support team and senior executives
  - Visit several franchise and/or company operated units
- Prospect signs Letter of Intent with non-refundable deposit
- Agreements prepared, negotiated, signed and initial fee paid
- Training begins

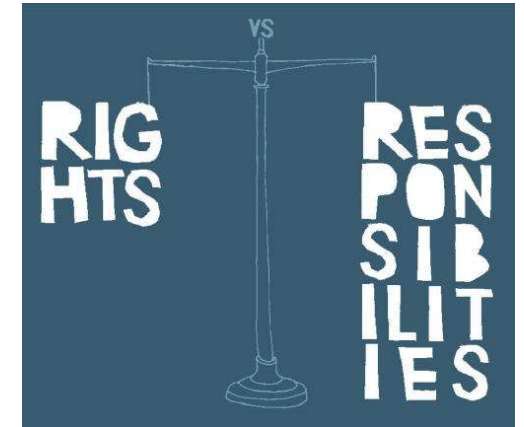


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# **Key Terms in International Transactions**

- Term
- Territory & Exclusivity
- Development Schedule
- Fees
- Default & Termination
- Dispute Resolution

- Area Development
- Master Franchising
- Joint Venture





- Size of geographic areas to be developed
- States or countries
- Options to expand
- Contraction of territories
- Loss of territorial exclusivity
- Reservation of rights
- Other channels of distribution

- Number and types of outlets
- Time frame for development of outlets
- Development of corporate stores
- Force majeure
- Master franchising – permit/allow owned outlets?
  - Educate master franchisee
  - Training facility
  - New products
  - Implement system changes

- Factors, from the Franchisor's Perspective
  - Territory; Potential
  - What are franchisor's obligations
  - Marginal cost
  - Time of recovery
  - Some factors which may be peculiar to the country or the transaction



- From the Master Franchisee's Perspective
  - Costs; Obligations
  - Expected Returns
  - “What the Traffic Will Bear”



- Some Other Considerations
  - Early vs. Late
  - Initial fees vs. royalties
  - Fixed vs. percentages
  - Sliding scales
  - Bundling vs. unbundling
  - What if master franchisee is operating units?

- Failure of performance
  - development schedule
  - other
- Failure to make payments
- Pre-termination remedies

# What are the Franchisor's Options?

- Modification
- Facilitated Sale
- Assumption of Master Franchisee's Position
- Non-Renewal
- Termination
- Other Post-Termination or Post-Expiration Issues



- International Arbitration
- Interim Relief
- Mediation
- Guarantee Mechanism
- Enforcement in the context of a master franchise relationship
- JV – is local litigation the right approach?





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# Lessons Learned

# Key take-aways for International Franchising Success

- International development should be a strategic decision for the Franchisor, not a short term source of fees
- You must first have a solid domestic foundation with strong unit economics and a track record of success both in company operated and franchised units
- Must have executive management commitment to international expansion
- Choose carefully where you want to expand
- Have a plan “B” – what happens if the franchisee fails
- Take the time to find, fully evaluate and partner with the right master franchisees, licensees and/or joint venture partners

# CONCLUSION / Q&A

