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# Global Expansion

## Pricing, Negotiating and Selling

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# The Basics

- Valuing the brand internationally
- Determining the markets
- Qualifying the franchisee
- Marketing the offering
- Brand consistency

# International Trends

- Hot and its starting to look like home
  - ◆ Growing middle class
  - ◆ Growth in capitalism
  - ◆ Stable governments
  - ◆ Improved repatriation
  - ◆ Increasing competition
    - ☞ local and imported

# Trends

- American sells in a small world
  - ◆ Popular culturally
  - ◆ TV, CNN, magazines, internet
  - ◆ Americans seen as entrepreneurs
  - ◆ America seen as quality of life
- Franchising more understood
  - ◆ Growth in local associations
  - ◆ Easier for master to recruit unit franchisees

# Regulation Trends

- Relatively under - regulated
  - ◆ FTC Rule does not apply
  - ◆ State rules may not apply
  - ◆ International Chamber of Commerce - Uniform agreement
  - ◆ Questions concerning disclosure
  - ◆ Limited local disclosures

# Ex-Im Bank

- Export -Import Bank financing
  - ◆ Franchise fee may be eligible
  - ◆ Master and country fee not eligible
  - ◆ Royalties and fees for services not eligible
  - ◆ U.S. content standards - 50%
  - ◆ Capacity to support requirement
  - ◆ Capacity to repay - business plan

# Trends - Unit Results

- Sales - in units and volume growing faster internationally for top 100 companies - Technomics
- Profitability achieved more quickly franchised locations over company owned - NRA
- Operating margins for McDonald's internationally 19.8% vs 16.5% domestic - Chain Restaurant

# Valuing the Brand

- Determine the relationship you can support
- Valuation changes
  - ◆ Introducing category
  - ◆ Introducing brand

# Valuing - The Market

- Understand market opportunity
  - ◆ Consumer preferences
  - ◆ Consumer availability
  - ◆ Location availability
  - ◆ Labor - cost and available
  - ◆ Language
  - ◆ Culture
  - ◆ Critical mass
  - ◆ Product availability

# Valuation - Costs

- Understand your cost structure
  - ◆ Travel and living expenses
  - ◆ Telephone and fax
  - ◆ Local market research
  - ◆ Modification of product and service
  - ◆ Registration of products locally
  - ◆ Product and equipment sourcing
  - ◆ Export options

# Valuation - Costs

- Understand your cost structure
  - ◆ Adaptation of marketing materials
  - ◆ Site selection assistance capabilities
  - ◆ Build out variations
  - ◆ Equipment adaptation
  - ◆ Ongoing operational support
  - ◆ Legal expense

# Valuation - Revenue

- Understand revenue opportunities
  - ◆ Understanding costs gets you to break even - maybe
  - ◆ Establish investment hurdles
  - ◆ Development requirements
    - ☞ timing
    - ☞ ownership
    - ☞ projected unit sales

# Setting the Fees

- Only partially an art
- Market fee
  - ◆ opportunity costs
  - ◆ covers up front costs
  - ◆ ensures commitment by franchisee
  - ◆ depends on the strength of the brand
  - ◆ depends on the competition
  - ◆ subject to negotiation

# Setting the Fees

- Royalties
  - ◆ Same rationale as in U.S.
  - ◆ Should compensate for support
  - ◆ Should provide for return
- Product Sales
  - ◆ Competitive with local sourcing
  - ◆ Cost of distribution
  - ◆ Quality diminution
- Allow for local viability

# Determine Markets

- Proximity to existing operations
  - ◆ Ability to support - leveraging
  - ◆ Regional strategy
  - ◆ Product and equipment sourcing
  - ◆ Training
- Local and imported competition
  - ◆ growing in major cities
  - ◆ secondary markets being developed

# Qualifying Prospects

- Control the selling process
  - ◆ It is your system
  - ◆ Local market expertise essential
  - ◆ You can teach them the rest

# Qualifying Prospects

- Due diligence essential
  - ◆ Local advisors
  - ◆ Banks
  - ◆ Reference
  - ◆ Commercial Officer - Embassy
  - ◆ Credit agencies
- Make certain what you are relying on truly exists

# Qualifying Prospects

- Local laws and customs govern
  - ◆ the contract matters little in many markets
  - ◆ Understand political connections
- Ensure capital and resource availability
- Develop negotiating box for salesman - and monitor

# Negotiating Options

- Focus on the things that help the system grow
  - ◆ Training
  - ◆ Deferral on royalties - tied to unit openings and performance
  - ◆ Growth incentives
  - ◆ Advertising investment
  - ◆ Frequency of support

# Marketing the Offering

- Brand awareness helps
- Pilots in market
- Understanding market essential
- Lead sourcing
  - ◆ Commerce trade missions
  - ◆ Embassy services
  - ◆ International Franchise Association
  - ◆ Local franchise associations
- Use public relations

# Brand Consistency

- The market is different - maybe
- Brand and concept consistency
  - ◆ service levels
  - ◆ quality levels
  - ◆ core offering
- Ability to support variation
- Effect on other franchisees

# Real Life

- Many companies too immature to make international offering
  - ◆ Training insufficient
  - ◆ Sourcing weak
  - ◆ Research weak
- Many companies do not select franchisees who can provide missing elements

# Results

- Litigation - increasing
- Anticipated return unrealized
- Brand devaluation in region
- Critical mass issues affecting ability to support
- Time to get license back elongated
- Modified domestic agreements often not adequate for purpose

# What This Means

- International expansion is not a short term solution to problems
- Long term strategy
  - ◆ Requires senior management commitment
  - ◆ Can be resource drain unless prepared
  - ◆ Measure against domestic options
  - ◆ Be realistic

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