### **British Franchise Association** International Franchise Week – March 2017



# **Going Global**

## International Market Selection & Analysis



William Edwards Chief Executive Officer, CFE



cipient of the U.S. President's E Award and E Star Award for Export Service.

## What We Will Address Today

- Credibility Slide
- Uncertainty & Change
- What type franchises are desired today
- Why people in other countries want our franchises
- Seeking international licensees
- Factors to consider
- Global Data
- Country Analysis
- Cultural impact on success
- Information Sources
- 3 Keys To Successful International Franchise Development

## **Credibility Slide – Who We Are**

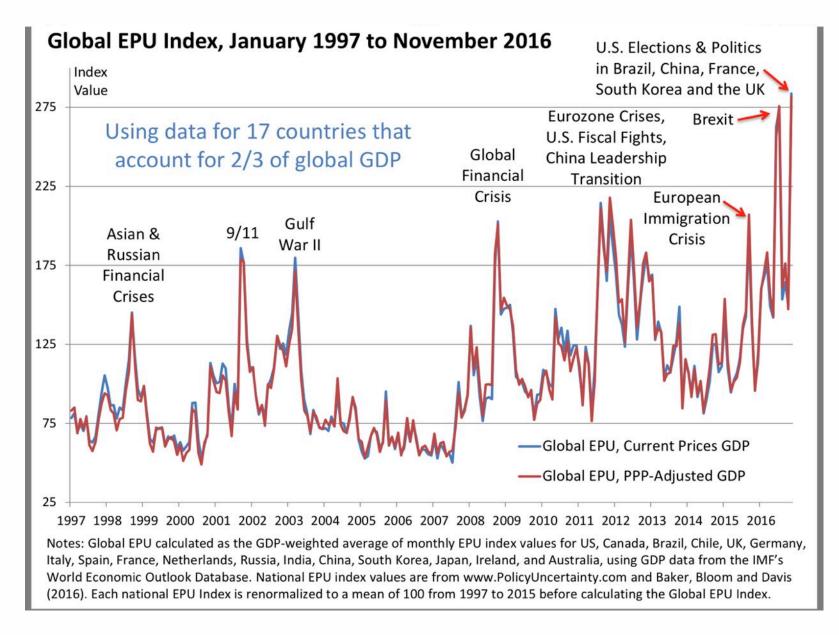
#### William Edwards

- 42 years of international experience, lived in 7 countries and managed projects in 68 countries, including 5 start-ups
- Master Franchisee of a US service franchise in 5 countries
- SVP International Operations & Development for AlphaGraphics<sup>®</sup>
- Member of the IFA International Leadership Council, the ICFE Board of Governors and the Board of Trustees of the IFA Franchise Education and Research Foundation

#### Edwards Global Services, Inc. (EGS)

- 2011 & 2015 U.S. Presidential Awards for Excellence In Exporting
- <u>Track record of taking diverse US brands into the countries with the best ROI potential</u>
- 'Going Global' <u>processes</u>, trademarked planning, analysis, research, financial and marketing <u>tools</u>
- Our Associate & Advisor <u>network</u> based <u>on the ground in 35 countries</u>

#### **Global Economic Policy Uncertainty Index**



For myself I am an optimist - it does not seem to be much use being anything else. Sir Winston Churchill, speech at the Lord Mayor's banquet, London, November 9, 1954

## **Change from Early 2016**

- Brexit And its possible impact not on only the UK but all of the EU
- US Elections Sea change from the old Washington establishment and focus on free trade to a focus on fair trade and bilateral trade agreements
- Populism and nationalism in Asia, Europe, USA Netherlands? France?
- China Impact In the South China Sea, trade agreements and flexing its business muscle elsewhere
- Latin America Growth shift from Brazil and Chile to Argentina
- Globalism/Globalization In retreat? Unequal gains over time
- 'The Economist' "The World In 2017" book was published before 11/8/16
- Eventual pragmatism after the initial shock and awe of 11/8/16

EGS' post-US election 247 global document analysis

## What Type Of Franchises Does The World Want Today?

- Education Children's, management, coaching
- <u>Commercial Services</u> Business services, facilities management, financial, cleaning, handyman, security
- <u>Personal Services</u> Handyman, maid, mobile, senior care, personal care, fitness
- <u>Retail</u> Special clothing brands, theme brands
- <u>Food</u> Well known food brands, pizza, coffee, burgers, healthy food brands, specialty food brands



**The Most Desired Franchises** 

Why Franchise Brands Are Attractive To Buyers In Other Countries

- ✓ Brands
- ✓ Quality
- ✓ Convenience
- ✓ Customer Service



The best franchises have a systematic and reproducible approach to doing business that is world class and can consistently produce good margins



### To 'Go Global' Successfully Today, Franchises Must Have These Qualities

A pro-active plan for entering other countries

An excellent record of success in their country Strong unit business earnings results Consistent unit growth with few, if any, closures Proven margins despite a high level of competition

Strong training, support, marketing and Intranet resources

A financial model that offers licensees the potential for a good return on investment



### What To Seek In An International Licensee

A passion for and understanding of your business A successful business with knowledge in your sector Good reputation in the country Experienced management to put into the business Access to suitable real estate Marketing oriented company Capital to start and grow your business in their country

Finding potential licensees with good management resources is difficult

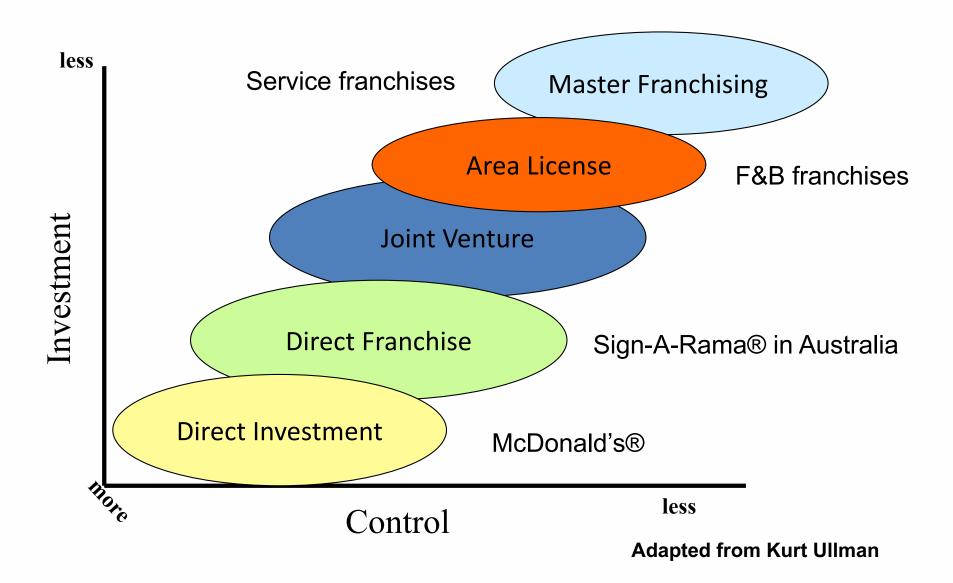


### What Will International Licensee Candidates Want To Know About Your Franchise?

- Your unit economics and development track record
- Your ability to train and support them
- The business experience of the senior team at your business
- The difference between your specific brand and others in the sector, especially in their country
- Intranet, training, support, business management tools
- The systems that lets your business succeed on a unit and franchisor level
- Can your business produce an acceptable ROI for <u>their</u> investment?



#### **International Expansion Options Though Licensing**



### Factors To Consider When Deciding Which Countries To Take Your Franchise Into

- Rule of Law
- Country Stability
- Intellectual Property Protection
- Good GDP Growth = Investors
- Consumer market size
- Culture business & personal
- Ability to get paid in a timely manner
- Potential to Achieve An Acceptable ROI





### **Market Selection & Analysis Factors**

- <u>Rule of Law</u> Will you be able to enforce the terms of your agreement and get back the rights to your brand if there is a problem with the licensee?
- <u>Country Stability</u> Are the politics and economics of the country stable so that a development plan can be realized?
- <u>IP Protection</u> Will your franchise logo and other intellectual property be protected and remain the sole property of your franchise?



### **Market Selection & Analysis Factors**

- <u>Good Annual GDP Growth</u> = Investors A World Bank study showed that if there is real annual Gross Domestic Product (GDP) growth of 4% or more there will be considerable new business development in a country
- Your Consumer Market Size Is there a sufficient consumer base who can and will want to pay for the products and/or services of your franchise?
- <u>Culture</u> Will your product and/or service be acceptable in the country or will substantial adaptation be needed?
- <u>Ability To Get Paid</u> Will you be able to get paid initial and ongoing fees and royalties in a timely manner?



## The Potential For You To Achieve An Acceptable ROI

 The goal always is to receive an acceptable Rate Of Return (ROI) on the investment your franchise makes in a new country

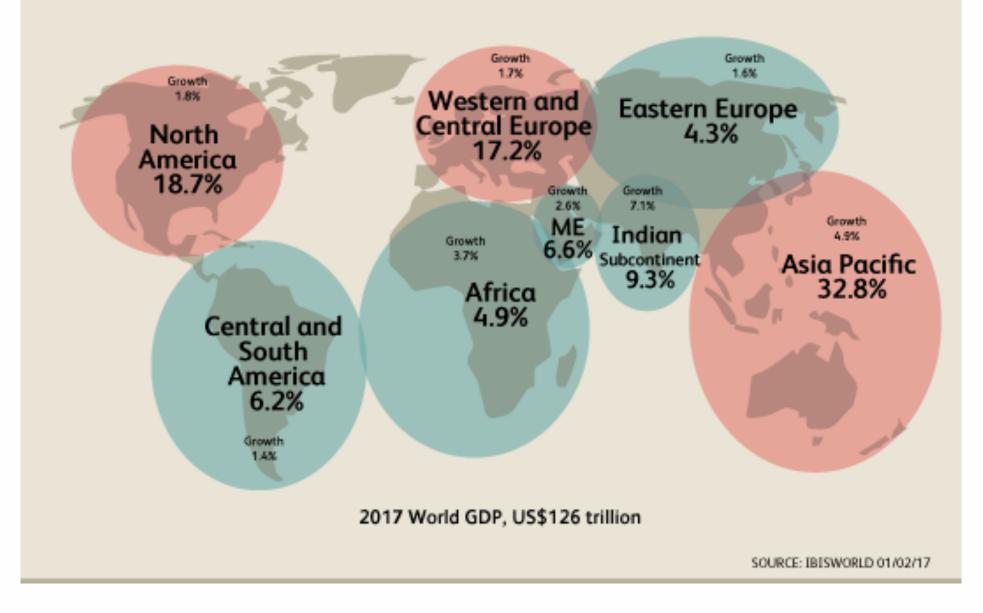
• You will make considerable investment in the new country also:

- Trademark filings
- Legal costs to create an agreement enforceable in the specific country
- Technology adaptation web-based business management, Intranet
- New licensee training costs in your country and in their country at startup
- Travel and staff costs to start up and grow the business in a country
- Plan for all costs and projected fee and royalty revenue using a unit, licensee and franchisor level financial model by country

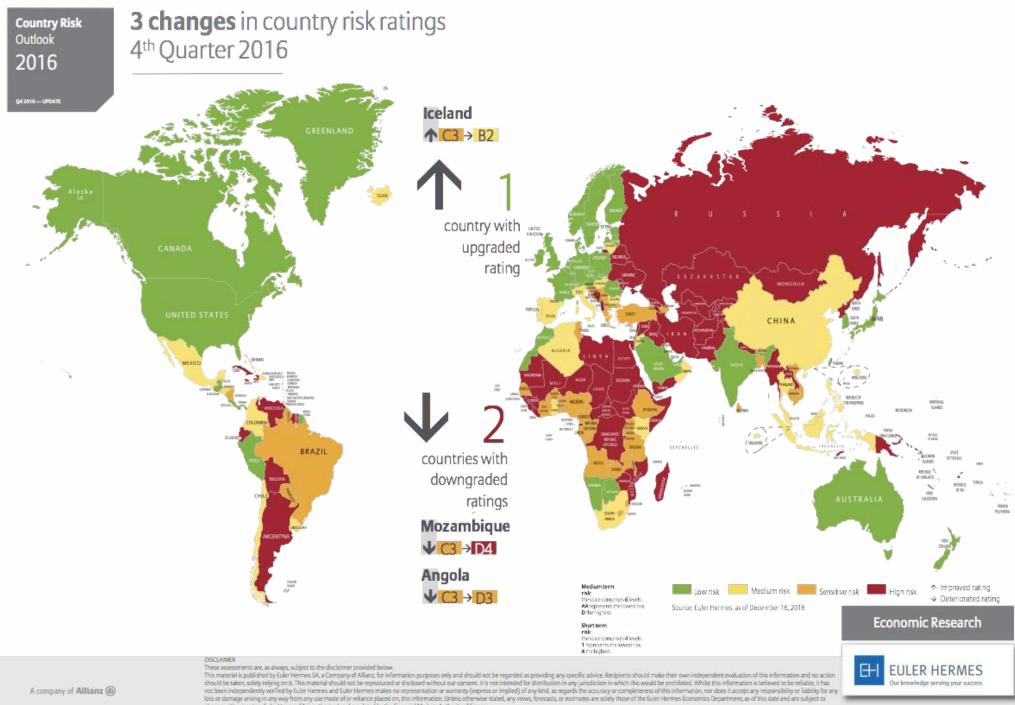


#### The world's economic regions in 2017

Share of world GDP (PPP basis)



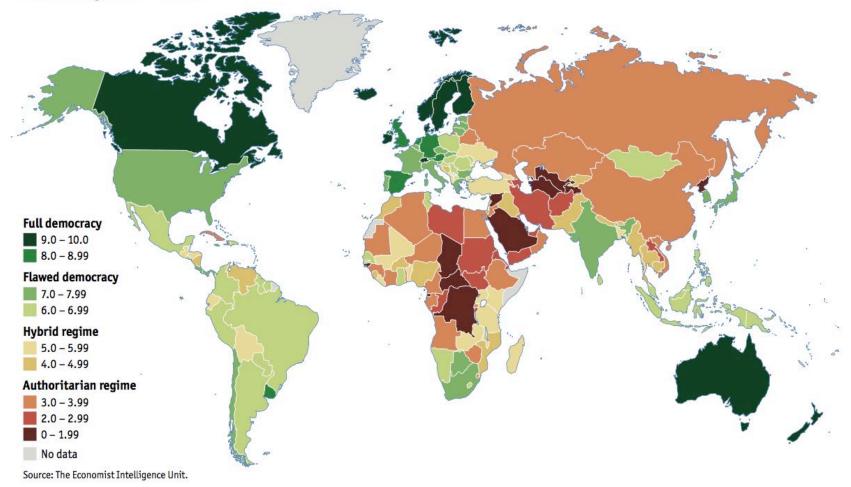
US\$41 trillion in Asia Pacific, US\$21 trillion in all of Europe, US\$20 trillion in India and the ME



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#### **Democracy Index 2016**

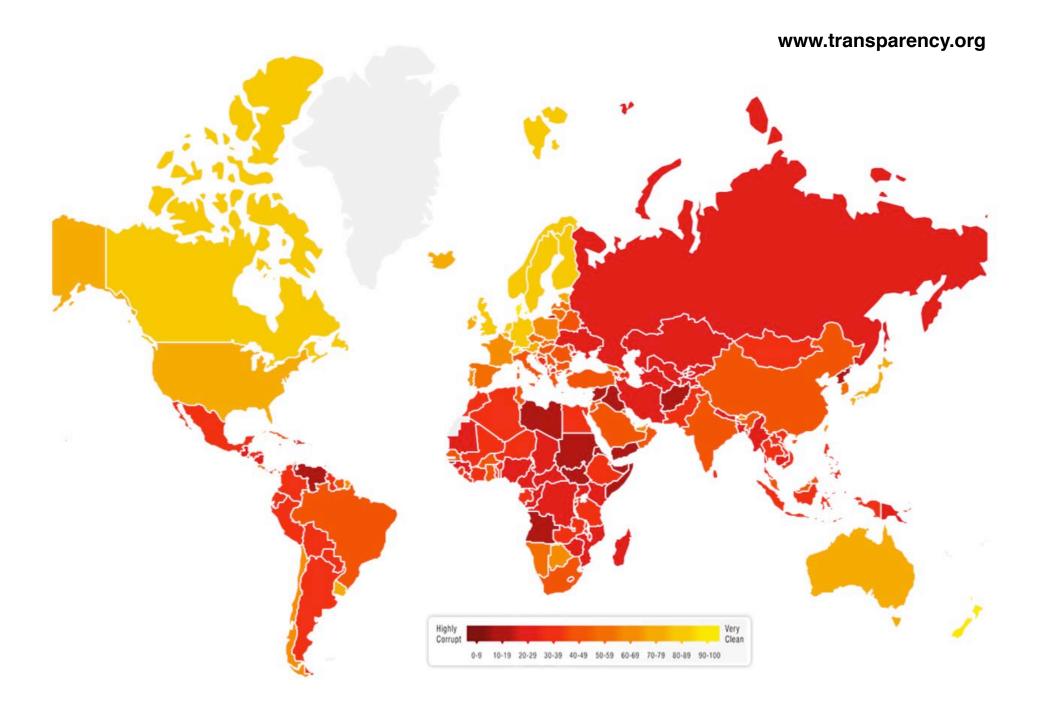


#### Democracy around the regions in 2016

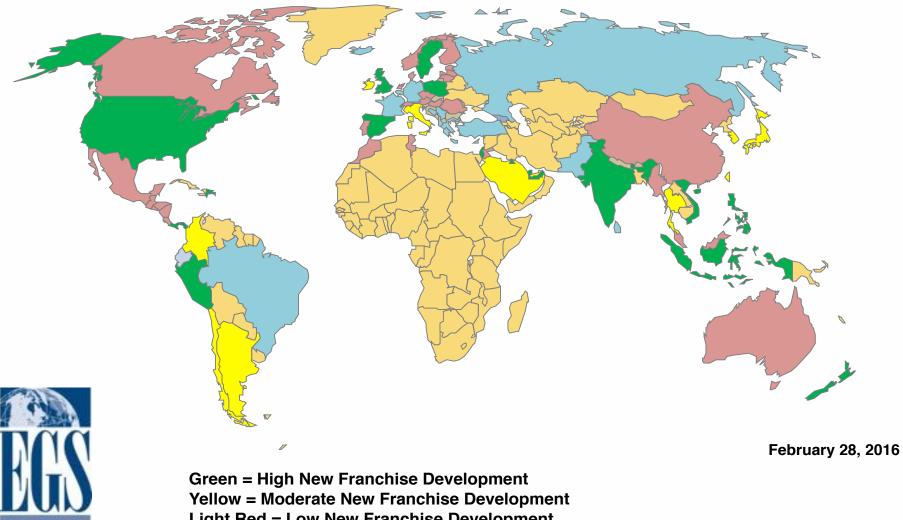
The developed OECD countries of Europe dominate among the world's "full democracies"; there are the two Australasian countries (but no Asian ones), one Latin American country (Uruguay) and one African country (Mauritius). The almost complete predominance of OECD countries among those ranked as "full democracies" suggests that level of economic development is a significant, if not a binding, constraint on democratic development. "Flawed democracies" are concentrated in Latin



### **CORRUPTION PERCEPTIONS INDEX 2016**



#### EGS 2017 New Franchise Investment Ranking Map



Light Red = Low New Franchise Development Light Blue = Very Little New Franchise Development Tan = Not A Current New Franchise Country

### GlobalVue™ - Sorted On <u>Projected</u> <u>Annual GDP Growth</u>

O	Projected	Market	Legal	Ease Of Intl.	Corruption	Political	Economic	Investment	Overall
Countries/Regions	2017 GDP Growth	Size (Customers)	Concerns For Intl. Brands	Intl Brand Entry	Index	Meltdowns	Disasters	Risk Level	Country Ranking
Australia	1	2	2	3	1	1	2	1	1.6
China	1	1	2	3	2	2	2	3	2.0
India	1	1	2	3	2	2	1	2	1.8
Indonesia	1	1	3	2	3	2	1	2	1.9
Malaysia	1	2	3	3	3	3	2	2	2.4
Peru	1	3	2	2	3	1	1	2	1.9
Philippines	1	2	2	1	3	2	1	2	1.8
Thailand	1	2	2	2	3	3	2	2	2.1
Viet Nam	1	2	2	2	3	2	1	3	2.0
Chile	2	3	1	1	1	1	2	1	1.5
Ireland	2	4	1	1	1	1	2	1	1.6
New Zealand	2	4	1	1	1	1	1	2	1.6
Poland	2	2	3	2	1	2	1	2	1.9
Saudi Arabia	2	3	2	2	2	2	2	2	2.1
South Korea	2	2	3	3	2	1	2	2	2.1
Spain	2	1	2	1	1	2	2	2	1.6
United Arab Emirates	2	2	2	3	1	1	1	1	1.6
USA	2	1	2	2	1	2	1	1	1.5
Canada	3	2	2	2	1	1	3	1	1.9
France	3	1	2	3	1	2	3	2	2.1
Germany	3	1	2	3	1	1	2	1	1.8
Japan	3	1	2	2	1	1	3	1	1.8
Mexico	3	1	2	1	3	2	3	3	2.3
Singapore	3	4	1	3	1	1	1	1	1.9
South Africa	3	2	2	2	2	3	3	3	2.5
Turkey	3	2	2	2	2	3	3	3	2.5
United Kingdom	3	1	2	2	1	1	2	1	1.6
Brazil	4	1	2	3	2	4	4	2	2.8
Russia	4	1	3	3	3	4	4	4	3.3

'1' Is Best, '4' Is Worst

#### EGS Client GlobalVue<sup>™</sup> Sorted On A <u>Country's Overall</u> <u>Ranking</u> As A Place To Do Business Today

Countries/Regions	Projected 2017 GDP	Market Size	Legal Concerns For	Ease Of Intl. Intl Brand	Corruption Index	Political Meltdowns	Economic Disasters	Investment Risk	Overall Country
Countries/Regions	Growth	(Customers)	Intl. Brands	Entry	Index	Mendowiis	Disasters	Level	Ranking
Chile	2	3	1	1	1	1	2	1	1.5
New Zealand	2	4	1	1	1	1	1	1	1.5
USA	2	1	2	2	1	2	1	1	1.5
Spain	2	1	2	1	1	2	2	2	1.6
Australia	1	2	2	3	1	1	2	1	1.6
United Kingdom	3	1	2	2	1	1	2	1	1.6
United Arab Emirates	2	2	2	3	1	1	1	1	1.6
Ireland	2	4	1	1	1	1	2	2	1.8
India	1	1	2	3	2	2	1	2	1.8
Germany	3	1	2	3	1	1	2	1	1.8
Japan	3	1	2	2	1	1	3	1	1.8
Philippines	1	2	2	1	3	2	1	2	1.8
Poland	2	2	3	2	1	2	1	2	1.9
Peru	1	3	2	2	3	11	11	2	1.9
Indonesia	1	1	3	2	3	2	1	2	1.9
Singapore	3	4	1	3	1	1	1	1	1.9
Canada	3	2	2	2	1	1	3	1	1.9
China	1	1	2	3	2	2	2	2	1.9
Viet Nam	1	2	2	2	3	2	1	3	2.0
France	3	1	2	3	1	2	3	2	2.1
South Korea	2	2	3	3	2	1	2	2	2.1
Saudi Arabia	2	3	2	2	2	2	2	2	2.1
Thailand	1	2	2	2	3	3	2	2	2.1
Mexico	3	1	2	1	3	2	3	3	2.3
Malaysia	1	2	3	3	3	3	2	2	2.4
Turkey	3	2	2	2	2	3	3	3	2.5
South Africa	3	2	2	2	2	3	3	3	2.5
Brazil	4	1	2	3	2	4	4	3	2.9
Russia	4	1	3	3	3	4	4	4	3.3

## The GlobalVue<sup>™</sup> Categories

Projected 2017 GDP Growth	2017 GDP growth projections are an average of rankings from 10 sources
Market Size ( Customers)	A measure of the middle, upper middle and upper class consumers in a country
Legal Concerns for Intl Brands	'1' means low IP and legal risk. '4' means little chance of controlling the brand if problems
Ease of International Brand Entry	How open a country is to international brands
Corruption Index	Transparency International Index. The larger the number the harder it is to do business
Political Meltdowns	Stability of the political system, presence of democracy, level of regulation
Economic Disasters	This is an average of research from 10+/- sources
Investment Risk Level	Ability to get cash out, make an acceptable ROI, treatment of foreign companies vs. locals

<u>Sources</u>: Deloitte, 'Economist', Economist Intelligence Unit, Heritage Foundation, World Bank, Fraser Institute, World Economic Forum, Euromonitor, U.S. Commercial Service, GlobalEdge®, Eules Hermes Risk Monitor, McKinsey, Freidman Report, Boston Consulting Group, GeoFutures, Overseas Private Investment Corporation, the 'Financial Times', International Monetary Fund, 'Foreign Affairs' and the EGS' GlobalTeam<sup>™</sup> on the ground in 35 Countries



GlobalVue<sup>™</sup> has been published quarterly since 2001

### **Cultural Competence:** To succeed abroad, learn—and respect—differences

- "Culture illustrates the accepted norms, values and traditional behavior of a group... 'the way we do things around here.' The culture of each country has its own beliefs, values, and activities."
- While business processes may be flattening around the world, cultures are not. To succeed in global business you must add the cultural factor to your approach to people and companies. Ignore the local way of doing business and you *will* fail.
- Linear Culture aggressive, time is money, task-focused, individualistic, the "John Wayne" approach (North America, Australia, and Northern Europe)
- Multi-active Culture relationship comes *first* and *before* business, topheavy hierarchy, only meet with decision-makers (Mediterranean, Latin America, Middle East, and India); and
- **Reactive Culture** relationships first, quiet nodding (nodding simply means they may understand what you are saying, not that they are agreeing with you), listeners, group decisions (Asia, except India.)

## **Information Sources**

International Franchise Association www.franchise.org http://www.thebfa.org The British Franchise Association http://www.doingbusiness.org/rankings Ease Of Doing Business Index www.euromonitor.com www.eulerhermes.com Country Risk Map www.worldatlas.com www.fraserinstitute.ca Economic Freedom Index **Country Corruption Index** www.transparency.org 'The Economist' www.economist.com www.eiu.com **Economist Intelligence Unit** 'Financial Times' www.ft.com



https://dits.deloitte.com/#TaxGuides

**Deloitte Country Tax Guides** 

"Kiss, Bow, or Shake Hands" by Terri Morrison et al - <u>The</u> business culture and practice reference for international business



## The Keys To Successful International Franchise Development

- Focus on countries that have the highest ROI for your franchise
- Determine the level of investment risk your franchise finds comfortable
- Find and use the best and most cost effective international development resources
- Find the right licensees to build a long term revenue stream for your franchise





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