

Recruiting & Selecting International Franchisees

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In international franchising, your local business representative can make or break your entry into the new market. Whether you are offering direct franchises, area development, or master franchises, your local representative is the face of the brand in the local market. Particularly in the international arena - where

identifying the adaptations to the system necessary to appeal to local tastes and customs is so crucial - a good local business representative is an indispensable resource.

The distance, language and cultural differences and the greater responsibilities of an international franchisee compared to a franchisee in your home market add to both the challenge and importance of carefully selecting franchisees for international development. Franchisor and franchisees should both be carefully evaluating whether they are a good match. From a business perspective, in identifying the right franchisee for your company, it makes

sense to create a profile for the ideal local business representative, identify candidates, and research their backgrounds. Too often franchisors make their international decisions on the candidate's willingness to pay the initial franchise fee, rather than a much more complete due diligence process.

Good candidates will have the financial ability, business experience and character to promote your brand. Doing it right makes sense—you have expended an enormous amount of time and energy to build your brand and your local business representative will affect the perception of the brand in the local market like no one else. Good partnering decisions allow both parties to focus on building the brand in the local market and success of the system.

A good fit between a franchisor and its franchisee in a market can lead to maximizing the potential in the market, working together to build the brand and system in the market. On the other hand, choosing the wrong representative in a market can damage the reputation and development of the brand. It can also mean substantial business and legal costs to end the relationship.

Additionally, from a legal perspective, in today's investment climate, knowing your local representative is critical. For U.S. franchisors, compliance with U.S. anti-terrorism laws, sanction programs, and the Foreign Corrupt Practices Act requires detailed due diligence into prospective international franchisees.

The cost of good due diligence up front is much less than the time, energy and cost of dealing with a bad fit, engaging in a legal battle or repairing the reputation of the brand in a market. Steps to avoid issues in international franchise selection include:

- » Conduct thorough background investigations on prospective franchisees.
- » Independently verify the reputation and financial resources of a candidate.
- » Engage local counsel who is familiar with the resources and issues faced by foreign franchisors entering their market.
- » Know your legal obligations and communicate them to prospective franchisees.
- » Clearly communicate your expectations for the franchisee and development in the local market.

» Go to the local market and spend time with the candidate to ensure they have the resources and experience they claim.

» Negotiate reasonable and achievable development schedules that will allow the franchisees to understand the operational aspects of the business, rather than just opening units.

» If granting master franchiser rights, ensure the master franchisee understands all operational and other aspects of the business before the master begins to sub-franchise to third parties.

Due diligence shortcuts will lead to significant problems and curtail international growth opportunities. Dealing with rogue individuals overseas can be very disruptive and expensive. Legal issues, however, can be prevented by taking affirmative steps at the start. A detailed due diligence approach also enhances the opportunities for success for both franchisors and international franchisees.

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