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GOING INTERNATIONAL: Steps in the Process and Working with Consultants

by

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EXECUTIVE SUMMARY AND OVERVIEW

As we noted in our last article, a franchise system planning to expand internationally will generally give serious consideration to hiring one or more consultants to assist it in international expansion. In that article, we explored some of the rationales for engaging consultants and discussed guidelines for selection of them. This column follows up on the next logical stage in the process: identifying the steps in the process of hiring consultants and working effectively with them.

A PLAN

The most useful thing you can do before starting a project that requires outside consultants and lawyers is to develop a Project Plan. This will give you the steps, effort needed and time required to complete the project. Then use this plan to identify what type of consultants you will need, what they will do and for how long.

Here again are some of the areas where you may need consultants to help take your franchise concept international:

Market research	Marketing
Competitor analysis	Public relations
Trademark registration	Franchise sales
Franchise agreements	Franchise training
Government registrations	Franchise support

BUSINESS CONSULTANTS

It's probably useful to think about franchise sector consultants, including those utilized in international expansion, as falling into two major classifications: business consultants and lawyers. First of all, let's discuss business consultants, and then turn to the lawyers.

In hiring business consultants to assist your system in international expansion, the starting point is to decide exactly what the consultant's scope of services will be – see 'A Plan' above. In our experience, the most likely area where problems can arise is where the Franchisor and the consultant lack a clear understanding of what exactly the consultant is being hired to accomplish.

Let's think, then, about some of the choices to be made in structuring the relationship:

Full-time vs. part-time

Obviously, a full-time consultant offers a greater level of commitment and attention than a part-timer can normally deliver and, depending on what exactly you want the consultant to accomplish, the decision as to level of time commitment may be relatively easy to make.

For example, if the consultant will be resident in the target market and responsible for full management of the franchise system's expansion into that market, a full-time consultant may be exactly what's needed, and the level of investment in his or her services will be correspondingly greater. On the other hand, if the way you plan to expand internationally is to award country-wide master franchises and not have a "hands-on" management presence in the target market, then there will be no need to have a full-time consultant serving the function of in-country management. One benefit of this approach is, of course, that the costs involved in engaging a part-time consultant will generally be reduced.

Note, however, that even if your system adopts the strategy of awarding country-wide master franchises, a full-time consultant may be needed, either operating from your home office or resident in the target markets. You may choose to appoint the consultant as, in effect, your senior executive in charge of international development. In that case, an aggressive marketing and development program will probably require a full-time commitment. But be mindful that bringing a consultant into your organization at that level raises significant issues of personal chemistry and human interactions particularly if the consultant evolves into a line manager, rather than merely a "hired gun" engaged on a short-term and limited basis, the next area we should discuss.

The human component

If pressed, we might argue that the single most important issue in working with international expansion consultants is the matter of personal chemistry. In fact, assuming that the consultant brings adequate professional credentials to the table (and if they don't, they shouldn't be in the business), the ability of the consultant to not merely work well with the Franchisor's CEO, but also to "fit" appropriately with the rest of the management team, may be determinative of the effectiveness of the consultant and can have a disproportionate influence on the success of the whole international expansion effort.

Obviously, no hard and fast rules can be established here. After all, we're dealing with human beings, the single most variable factor in franchising. But we do have a few suggestions designed to improve that chances of finding an individual who can work effectively with your existing team.

First, check out the prospective consultant's references, not merely as to the usual objective criteria, but also as to subjective factors. How well did the consultant work with prior client's management teams? Was he/she able to integrate his/her working style with the "culture" of the franchise system's senior

executives? Was the consultant creative, as well as perceived as being a team player without an excessive amount of ego? Was the consultant able to diplomatically make his or her contribution, particularly if it involved suggested changes in staffing, responsibilities, evolution of operating systems, etc? In particular, were there any personality issues that emerged in the relationship and would prior clients have any problem in working with the individual again?

Second, make sure that the prospective consultant is interviewed by (not merely introduced to) your senior management team. Inevitably, the consultant will attempt to “sell” himself or herself to the CEO and any one of us is capable of being “sold” by an engaging personality. However, if the prospective consultant is interviewed by your CFO, operations VP, franchise development executive and legal counsel, the chances that an individual who may not work well with your team slipping through are radically reduced. This may be one more area where the old adage “all of us together are a lot smarter than any one of us individually” definitely applies”

Finally, trust your instincts. If a prospective consultant has the greatest CV in the world, but something doesn't seem right when you envision them working with your staff, move on to someone else. It's not an insult to you or them. If the chemistry isn't there at the start, then it's likely it won't be there later. Save yourself time and money and be sure that you believe that the individual chosen is right for you and your team.

Compensation and estimates

Compensation arrangements vary widely, depending on the scope of work the consultant will be undertaking for you and the particular consultant involved. We've see arrangements based on: (1) hourly compensation (generally in the legal field, more than on the business side); (2) monthly compensation arrangements where the consultant commits to be available for a set number of days or hours; (3) retainer arrangements (where the consultant is “on call” up to a maximum number of days or hours); and (4) fixed fee arrangements covering a particular project.

If the consultant's responsibilities involve franchise marketing, commission arrangements are common, but there are some potential problem areas you should be aware of. If a substantial part of the consultant's compensation will come from master or unit franchise awards, there may be an incentive, with less ethical consultants, to focus on the quantity of prospective franchisees rather than their quality.

This may be a case of “Be careful what you wish for”: If the consultant's primary compensation is based on numbers of sales, that's probably where his or her attention and efforts will be focused and contributions toward system organization, long-term planning and adaptation of the system to the foreign market may suffer accordingly. Perhaps the best advice is to be clear as to exactly what you want the consultant to do for the benefit of your franchise

system and then structure a compensation package providing the incentives to deliver exactly what you want and not something else!

Perhaps obviously, get estimates of the costs necessary to accomplish the tasks (business plan development, system adaptation, etc.) the consultant is being hired to do. Then keep close watch on expenditures but have the flexibility to adjust the budget when good reasons arise to do so.

In this area, as in all others associated with international expansion, don't adopt the attitude of "Wake me up when it's over." If you abandon close supervision of the consultant's activities, particularly if they're abroad and working on their own, you may awake from a nightmare. You and the consultant are a team, with you bringing your knowledge of you franchise system and it's long-term goals to the table, and the consultant bringing specialized knowledge and skills, contacts, etc.

Establish clear communications lines and report requirements before you start. Working closely together you're likely to be successful; otherwise the possibility of missteps arising escalates to an unacceptable level.

LAWYERS

Most of what's been said above regarding business consultants applies with equal force to lawyers. Believe it or not, lawyers are human too (well, most of them are!) and the same issues of personal chemistry, professionalism and economics will apply to the lawyers that you hire, particularly those in foreign countries. Here, references are vital, and finding one good lawyer experienced in international franchising should give you access to his or her colleagues in many other countries, a valuable resource as you expand across the globe.

At the same time, a few additional considerations apply to your relationship with your international franchising lawyer or lawyers:

First, respect the lawyer's legal advice. As simplistic as this may seem, we've seen more than one instance where the client is (a) paying for professional advice, (b) receiving it and then (c) not following it! (This seems to take place with business consultants too!) These three items are logically (and financially!) inconsistent and at least one should be changed, preferably (c).

Second, don't make the mistake of trying to convince your international franchising lawyer to give you an opinion you think will be consistent with the business direction you want to go. His job is to tell you what the law is and then creatively suggest ways to adapt to it to accomplish your objective. Good international franchise lawyers are highly skilled at this and can serve you well. Good international businessmen and women learn to live within the structure of the law; experienced international franchise lawyers show them how to reach

their objectives with alternative approaches drawn from experience that still stay within the law.

Third, remember that an experienced international franchise lawyer is just that; experienced. Draw on that experience with regard to business issues, as well as purely legal ones. For example, there are many ways of structuring your international expansion, most of which are entirely “legal.” But some have been proven over time to be more effective than others, or offer advantages which may relate to your particular circumstances. The experienced international franchise lawyer has seen what works and what doesn’t and you’ll probably be best served if you “rent the whole brain.”

Mr. Holmes is the Managing Partner of Holmes & Lofstrom, LLP, a U. S. -based law firm which is a member of the International Franchise Association, and specializes in international franchising, including bringing Australian-based concepts to North America. He has been involved in the legal and business aspects of franchising for nearly 30 years and can be reached at D.Holmes@HolmesLofstrom.com or in the firm's Northern California office at 805-547-0697. Firm references and biographies are available on request. As always, these materials are general in nature, do not take account of your specific factual or legal elements and should not be relied on in the absence of consultation with competent legal professionals.

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