



“Managing Your International Franchise Network in the Time of the Coronavirus Pandemic”

IFA CORONAVIRUS
UPDATES



April 1, 2020

International Best Practices Agenda

- **The Current Situation**
- **Regional Situation**
- **Common International Issues Franchisors Are Dealing With**
- **International Legal Issues In These Times**
- **Specific Franchisor Issues & Solutions**
- **Government Programs**
- **Going Forward: “Keep calm and carry on”**

William Edwards, CEO, CFE

46 years of international experience, lived in 7 countries and worked on projects in 50+

Master Franchisee for AlphaGraphics® in China, the Czech Republic, Hungary, Poland and Turkey

Then SVP International Operations & Development for AlphaGraphics, Inc.

Founded Edwards Global Services, Inc. in 2001 to take U.S. franchises global

Received 2011 & 2015 U.S. President's Awards for Excellence In Exporting

Publishes GlobalVue™ country ranking analysis quarterly since 2001

Tao Xu, Partner, DLA Piper

Tao Xu is a partner with DLA Piper's Franchise & Distribution Practice Group. Tao counsels a broad range of clients in their international expansions, including master franchising, multi-unit licensing, area development, single-unit licensing and direct investment (both joint venture and wholly owned).

Tao is particularly active in food and beverage, hospitality and leisure, and retail industries, having acted for a number of high profile US brands in their international expansion efforts.

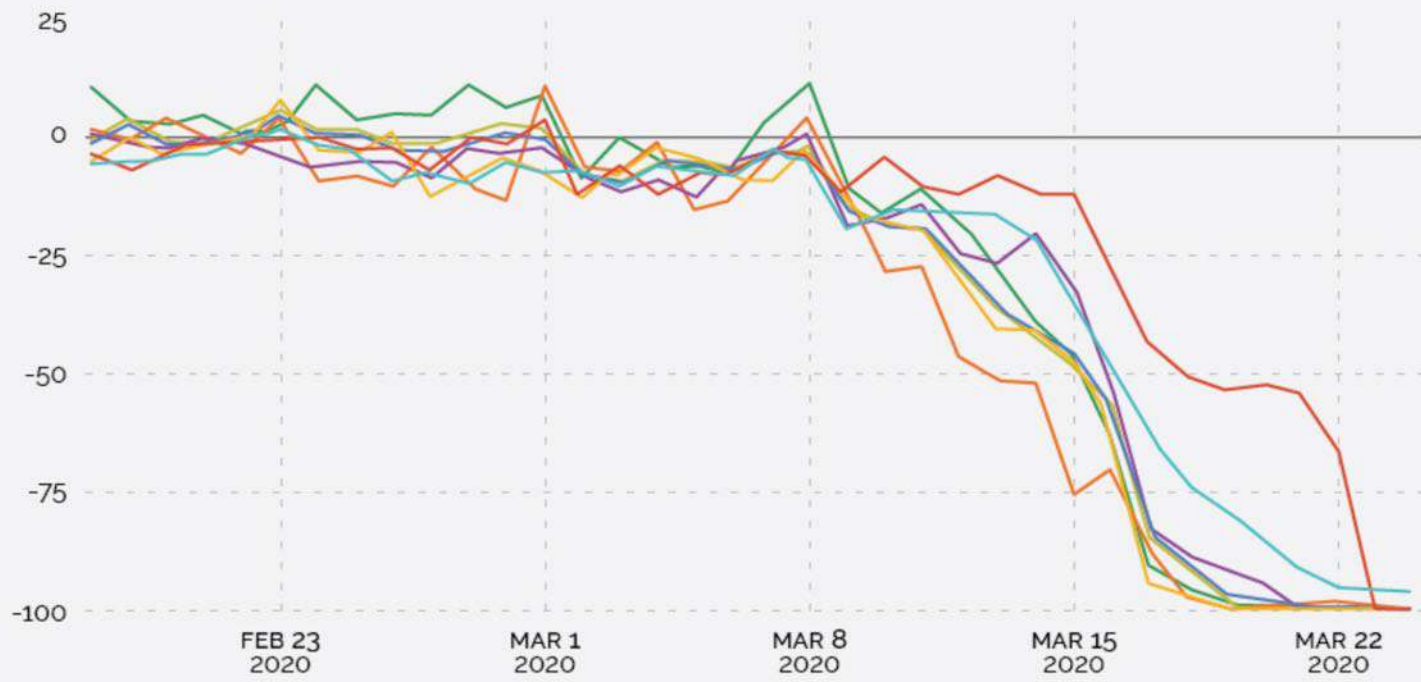
Tao is also deeply involved in franchising activities in China, having both acted for a number of clients in entering the Chinese market and lobbied on behalf of the International Franchise Association in connection with the Chinese government's franchise regulations and their implementation rules

The International Situation Today

- **Never have we seen an international disruption like this**
- **Franchisors have put into place 'no over water' travel policies and international travel is at a standstill**
- **Franchise expos have been postponed until at least late 2020**
- **Restaurant, retail and fitness franchisors have seen their units shut down worldwide which means drastically lower sales and royalties**

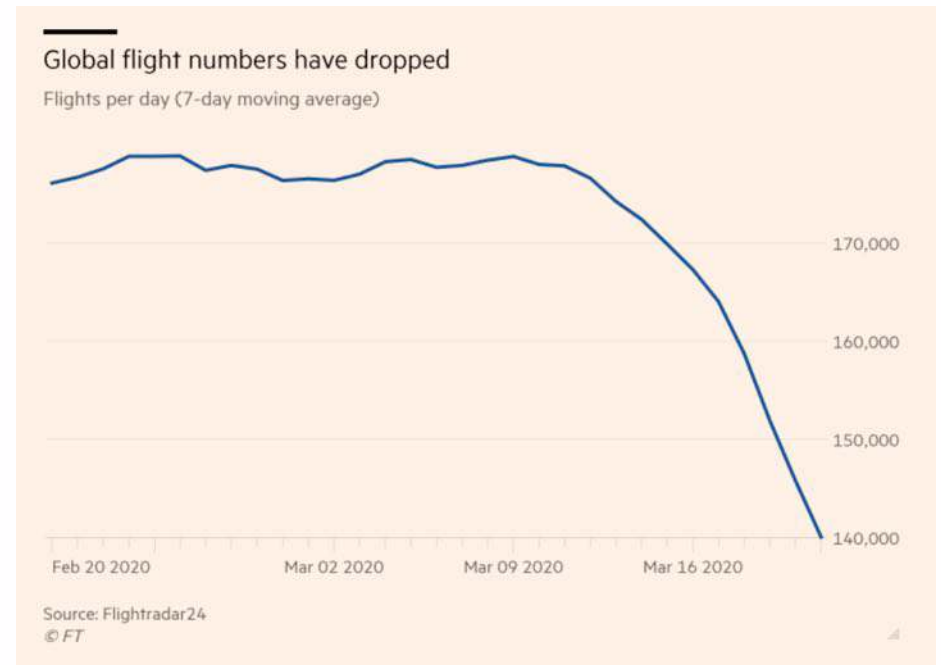
Seated Diners at Restaurants

% change from same day of the week a year before



Source: OpenTable

Charts From The 'Financial Times'



Regional Situation For Consumer Faced Businesses

- Asia Pacific – Australia, New Zealand, Malaysia shut down; Indonesia and Thailand open for now; China, Japan and Korea partially reopened
- Europe – France, Germany, Italy, Poland, Spain and now UK closed
- Latin America – Beginning to close businesses
- Middle & Near East – India and Saudi Arabia closed
- North America – Closed by region of the country

Common International Issues Franchisors Are Dealing With

Communication – Frequent, centralized, specific and consistent

Operations – Push standards, manage specific country challenges

Supply Chain – Manage ingredient inventory and simplifying menus

Marketing - Managing marketing calendar changes

Development - Market by market discussions related to royalty and development commitments

Remote support and monitoring

Financial Support

Marketing Contribution Suspension

Royalty Fee Deferral/Reduction (or, if appropriate, waiver)

Suspend Minimum Fee Payments

- ▶ For most, cash flow is the biggest challenge during this pandemic.
- ▶ Complete royalty fee waiver may not be the most appropriate or equitable action, especially considering that some franchisors themselves are already laying off corporate staff.



Non-Financial Support

Brand directives on cleaning, employee personal hygiene, reduced operations, store closures, etc.

Allowance for deferred maintenance and repair

Renegotiate development schedule

Provide information on government policies and available resources

Share information on what other companies in the same industry are doing

Support negotiation with the landlords for rent relief

Avoid force majeure discussions at the moment



Specific Industries

Restaurant Sector

- ▶ Support off-premises channels (take-out, delivery, third-party delivery service providers, etc.)
- ▶ Innovative ways to bring in revenue and support employees (e.g., turning restaurants into community pantries)



Retail Sector

- ▶ Repurchase of excess inventory, to the extent the franchisor has more capacity to sell off the inventory
- ▶ More engagement with the customers online, and use the franchisees' units as delivery/pickup points – Online-to-Offline (O2O) model



Hotel Sector

- ▶ Allowing the use of hotels for quarantine or by healthcare workers

Rod Young, Global Chairman of Cartridge World® and Chairman of DC Strategy in Australia

Travel Cancelled - International Development and Operations Executives are being proactive in moving to online video communication to prospects and Masters

Communication - sales have fallen so frequency of Webinars and Google Hangouts and Zoom meetings with all the Masters and Area Developers (or regions if many Masters) together to have each Master share their experience and ideas. Creates appreciation we are all in this together and ideas shared are valuable

Home Delivery - From food to printer cartridges Franchisors are going online and home delivery is now king in locked down or work from home countries

Franchisors are developing apps and protocols to facilitate both marketing of the home delivery service and operational modifications to focus outlets on hygienic delivery of products

Tailored Response - Not all Masters or regions are effected or are reacting the same so no simple cookie cutter solution.

Marc Mushkin, Vice President, International Franchise Sales & Development, CKE Restaurants Holdings, Inc. (Carl's Jr®)

Travel

All travel canceled – the entire team grounded indefinitely.

Tele-conferencing (using Microsoft Teams) is being used increasingly depending on the capabilities of the franchisees.

In the case of new franchise candidates (those who are still actively pursuing business, which is true in some cases), Teams is also being used to keep personal contact going.

Information / Communication:

Daily updates from the field to leadership on operating situation (closed units, limited operations, limited hours) – cascading in from the Franchise Business Consultants, Country Directors, Regional General Managers.

Daily updates on supply chain management – cascading in from regional Supply Chain Managers and Quality Assurance Managers.

Regular video “Town Hall” communications to team members and franchisees.

Regional GMs set up Whatsapp Groups specifically to facilitate regular communication.

All public announcements not directly handled by franchisees are coordinated through corporate PR and Marketing teams.

Marc Mushkin, Vice President, International Franchise Sales & Development, CKE Restaurants Holdings, Inc. (Carl's Jr®)

Operations:

Closure and conversion to delivery/take-out only procedures distributed to all affected international franchisees by regional GMs and support teams.

Re-opening procedures being developed to have in place prior to when opening is allowed.

Full sharing of safe practices shared system-wide. Examples:

Communicable Disease Prevention Course – Star Academy (CKE's "intranet")

LMS training course available on Star Academy in both English and Spanish to inform and educate teams on best practices to prevent the spread of communicable disease.

Frontline crew members required to wear gloves. This will be in addition to the current required disinfection of common touchpoints 3 times a day (

Non-Contact Drive-Thru and To-Go Procedures designed to remove any and all direct contact between the guest and our crew members.

When receiving payment from a guest, hold a 1/3 size pan out for the guest to place their cash or credit card in. This is the procedure for frontline and Drive-Thru transactions.

When providing change, the guest's credit and/or a receipt, use a 1/3 size pan. This will eliminate any direct contact between the guest and the crew member.

Disinfect the pan every 4 hours with Peroxide Disinfectant.

Franchisees instructed to institute a new protocol (for regions where takeout is permitted): place the bag and drink on a tray, and allow the guest to take their order off the tray.

Guidelines provided for routine cleaning and disinfection of HME external equipment such as drive-thru headsets.

Brad Houser, EVP - International Development, Dairy Queen

Communication:

- ▶ Managing relevant overall system / regional / market communication with all franchisee groups.
- ▶ Focused on ensuring that communication is centralized, specific and consistent
- ▶ Three buckets – ADQ staff / ADQ franchisees / DQ consumers
- ▶ All travel has been suspended until further notice
- ▶ Deciphering relevant communication as each region has different business models / stages in the crisis
- ▶ Daily updates are sent in regionally that manages unit closures / openings and specific government legislation to specific market activity
- ▶ Crisis management conference calls weekly with franchisees by region – China / Asia Pacific / MENA and Western Hemisphere
- ▶ Crisis management conference calls weekly with staff by region – China / Asia Pacific / MENA and Western Hemisphere – keeping them involved and how we can support differently
- ▶ Centralized PR management on a global basis and dealing with issues as they come up

Focus on Operations

- ▶ Re-enforced cleanliness procedures / food handling / store sanitizing with all groups
- ▶ Focus on delivery / take out / mobile ordering
- ▶ Managing specific country challenges on a one to one basis – Philippines as a example where they are in lockdown / majority of units closed
- ▶ Re-enforced store -re-opening procedures / training as things evolve and market conditions evolve

franchise.org/coronavirus

Brad says that this advice is 'fluid and changing as things evolve'!!

Focus on Marketing / Supply Chain

- ▶ Consistent consumer communication tools created for in-store / social media
- ▶ Managing marketing calendar changes market by market
- ▶ Emphasizing on delivery / take out / mobile and appropriate tools created for these vehicles
- ▶ Managing ingredient inventory / menu changes / shelf-life challenges

Development / obligations

- ▶ Development obligations on hold and will be managed on a market by market basis
- ▶ Working on keep busy projects – upcoming renovation projects / upcoming new unit designs / market relevant projects like franchise legislation Thailand / sub-franchising Philippines / value engineered design units for small cities in China / new 2021 design project
- ▶ Focus is on the current units and current business / staff / consumer health
- ▶ Payment plans being put in place for franchisees if required – market by market
- ▶ Market by market discussions related to royalty requirements / deferments – each market is at different stages

Doug Wong, CFE, Senior Director of Global Franchise Development for Denny's®

- ✓ **Communicate with candor and let international licensees know the U.S. situation and brand impact and share “best” practices**
- ✓ **By country, understand the impact of this crisis**
- ✓ **Use of social media to help communicate customer safety and operating hours**
- ✓ **Help monitor supply source and provide solutions such as smaller menu**
- ✓ **Provide solutions, where needed, for engagement with landlords and lenders.**
- ✓ **Postponed non-essential capital spending**
- ✓ **Royalty and advertising fund relief**
- ✓ **Work with government and seek relief programs**

Kathy Daniel, CFE

Director of International Business Development, Home Instead Senior Care®

- **Weekly group video calls with international master franchisees and their COOs**
- **Updates on current circumstances**
- **Sharing operational challenges/ideas/solutions**
- **We have a dedicated Intl Team Space on our intranet**
- **Our international network is sharing experiences, thoughts, ideas, best practices**
- **Our global headquarters is sharing practical resources - social media messages, samples of essential services letters, practical ways to keep our clients and caregivers safe, etc.**
- **Using our technology to keep seniors connected - isolation can lead to depression**
- **Clear messaging that seniors are at risk and home is probably the safest place for them to be right now.**



Our Situation:

Gyms in 20+ countries shut down by government mandate

Our Approach:

Internal COVID Response Team:

- ▶ Adopted guiding principles →
- ▶ Twice daily meetings
- ▶ 24/7 action through leveraging global offices across three continents

Our Offices and Staff:

- ▶ Travel restrictions starting in February
- ▶ Work from home implemented across the globe

Franchisee Support:

- ▶ Operational and marketing support
- ▶ Daily communications with resources and updates
- ▶ Town Hall and Webinars
- ▶ Financial support – waivers and deferrals
- ▶ Alternative revenue opportunities

Virtual Workouts free to everyone

- ▶ www.snapfitness.com/freeapp

Guiding principles during the COVID 19 crisis:

We will respond as quickly as possible to the ever- changing environment

We will make decisions based on the well-being of employees, franchisees, and our members

We will base our decisions on expert guidance from the Center for Disease Control and World Health Organization

We will follow all legislation and take direction from Government leaders, individual state departments, and local health agencies

We will cease all non-essential spending and unnecessary expenses to responsibly preserve cash

We will commit our resources to critical priorities while assisting our franchisees, master franchisees, and employees through the situation
We will communicate promptly and as fully as possible to support everybody

**Alison (Ali) McElroy, Chief Global Development Officer
& Chief Legal Officer, Lift Brands, Inc.**

Ray Titus, CEO of United Franchise Group

UFG has 7 franchises with international operations

They are doing personal phone calls to each of their Master License Partners

Also personal Video messages

Offering discounts on Royalties

Comments From Other International Franchise Sector Specialists

Take this time to fine tune menus, store designs and operations to prepare for better bottom lines once this crisis passes, Senior Executive of a large U.S. F&B franchisor

What to do now for supply chain issues: contact suppliers and customers, assessing supply chain interruptions and solutions, from a Faegre Drinker supply chain webinar

The best interests of your brand are essential, but think long term viability vs. short term fiscal deficit, Robert Shaw, President, Shaw Meridian

Plan ahead for new opportunities for your in-country franchisees which may become available, such as real estate locations and hiring of the new unemployed, William Gabbard, President, EGS

"In many markets around the world, including North America, we are advancing cash payments and rebates to restaurant owners so that they have this much-needed cash when they need it the most—right now." Restaurant Brands International's Jose Cil (Burger King®, Popeyes® and Tim Hortons®)

Common Actions By Franchisors

Clearly understand the country by country situation

Very frequent communication

Share best practices in both directions

Reduce non-essential expenses

Development schedule and royalty reductions

Prepare in detail for reopening

Use this time to look at innovation to cut costs

General Themes: Legal Perspective

- **Communication is key**
- **Universal approach vs. regional differences**
- **Operational changes – adapt to the changed market and regulatory environment on the fly**
- **Provide information to franchisees**
- **Share best practices**

Selected Legal Issues

- **Unilateral announcement vs. contract amendment**
- **Franchise disclosure issues**
- **Force majeure clauses**

Some Countries Government Small Business Relief Programs

Australia: Low interest loans of up to \$250,000 with an initial 12-month interest free period for businesses to retain staff. Each state has special one time grant programs for small businesses

New Zealand: Wage subsidy scheme, leave and self-isolation support, business cash flow and tax measures, business finance support loan and mortgage holidays for employers struggling to retain employees, self-employed existing businesses

United Kingdom: Tax payments deferred to Jan 2021 for the self employed. Job retention scheme will cover up to 80 per cent of wage costs for a period of three months or longer. New business loans will be interest free for 12 months. Self-employed to get 80% of average monthly profits paid by government - up to £2,500 (US\$3,000) a month

Some Countries Government Small Business Relief Programs

South Korea: a US\$9.8 billion stimulus package which includes small and medium business subsidies to help companies pay their workers.

France: US\$49 billion aid package that includes a fund to help shopkeepers and the self-employed. Also, guaranteed bank loans of up to US\$327 billion to help businesses.

Japan: Released a US\$4.6 billion package in February and a US\$15 billion package on March 11th. A new program of 0% interest loans to increase lending to businesses hurt by the virus.

Why Will Franchisors Keep Developing Other Countries?

95% of the world's consumers are outside the U.S. and Canada

2/3 of the world's new middle class consumers will be in Asia

“As Globalization has taken hold over the last 20 years, international growth has become a 'must' for any company seeking high rates of sustained future growth”, Catherine Monson

In Summary

“Keep calm and carry on”

Remember the world is not coming to an end

**“When one door closes, another door opens”, Alexander
Graham Bell**

Feel free to reach out to Bill Edwards to ask questions or offer your best practices advice at +1 949 375 1896 or bedwards@edwardsglobal.com. This is free, no charge, no commitment, lets just share in these times.