

REMARKS BY MATTHEW R. SHAY, PRESIDENT
INTERNATIONAL FRANCHISE ASSOCIATION
TO THE
34TH INTERNATIONAL SMALL BUSINESS CONGRESS
BANGKOK, THAILAND
NOVEMBER 12, 2007

GOOD AFTERNOON.

PRESIDENT STOTTLEMYER AND DISTINGUISHED PANELISTS AND GUESTS, THE INTERNATIONAL FRANCHISE ASSOCIATION IS PLEASED TO PARTICIPATE IN THIS IMPORTANT CONGRESS.

(PAUSE FOR INTERPRETER)

ON BEHALF OF THE BOARD OF DIRECTORS AND MEMBERS OF THE ASSOCIATION, I BRING YOU GREETINGS FROM AN INDUSTRY THAT REPRESENTS SOME OF THE MOST POPULAR BUSINESS SYSTEMS IN THE WORLD.

THE CONCEPT OF BUSINESS-FORMAT FRANCHISING IS, AS YOU KNOW, ONE OF THE LEADING METHODS OF ENTREPRENEURIAL EXPANSION.

(PAUSE FOR INTERPRETER)

ONE OF THE MAJOR MISSIONS OF THE INTERNATIONAL FRANCHISE ASSOCIATION IS ASSISTING COMPANIES IN EXPANDING THEIR FRANCHISES THROUGHOUT THE WORLD. WE DO THAT BY HELPING ORGANIZE TRADE MISSIONS, EXHIBITIONS AND DEVELOPING RELATIONSHIPS WITH A WIDE VARIETY OF COUNTRIES.

(PAUSE FOR INTERPRETER)

WE ARE ACTIVE MEMBERS OF THE WORLD FRANCHISE COUNCIL, A NON-POLITICAL COLLECTION OF NATIONAL FRANCHISE ASSOCIATIONS. IT IS DESIGNED TO SERVE AS AN INFORMATION-SHARING BODY TO REPRESENT INTERNATIONAL FRANCHISING.

THE FRANCHISE ASSOCIATIONS OF MORE THAN TWO DOZEN NATIONS PRESENTLY HOLD MEMBERSHIP IN THE COUNCIL.

(PAUSE FOR INTERPRETER)

TO PUT GLOBAL FRANCHISING INTO PERSPECTIVE, LET'S LOOK AT SOME RECENT STATISTICS. TODAY, THERE ARE MORE THAN 16-THOUSAND FRANCHISE COMPANIES OPERATING AROUND THE WORLD.

AMONG THOSE, ARE MORE THAN ONE-AND-A-HALF MILLION FRANCHISEE OWNER-OPERATORS WHO, COLLECTIVELY, GENERATE AN ESTIMATED TWO TRILLION DOLLARS IN SALES EACH YEAR.

(PAUSE FOR INTERPRETER)

NATURALLY WE'RE ALL INTERESTED IN JOB CREATION. OUR RESEARCH HAS DETERMINED THAT THERE ARE NEARLY 20 MILLION PEOPLE DIRECTLY EMPLOYED BY FRANCHISES INTERNATIONALLY.

(PAUSE FOR INTERPRETER)

ANOTHER SURVEY THAT REVIEWED IFA ASSOCIATION MEMBER-COMPANIES REVEALED THAT SIGNIFICANT NUMBERS ARE CONDUCTING BUSINESS OPERATIONS OUTSIDE THE UNITED STATES.

SOME ARE OPERATING IN MORE THAN 120 DIFFERENT COUNTRIES. ASIA, ESPECIALLY, IS A POPULAR REGION AMONG IFA MEMBERS THESE DAYS.

(PAUSE FOR INTERPRETER)

THESE COMPANIES APPROACH THEIR EXPANSION INTO OTHER NATIONS FROM A STRATEGIC STANDPOINT.

THAT'S CRUCIAL THESE DAYS IN VIEW OF THE CONSTANT IMPROVEMENT IN COMMUNICATIONS TECHNOLOGY, EASE OF TRAVEL AND THE REAL-TIME EXCHANGE OF BUSINESS IDEAS.

(PAUSE FOR INTERPRETER)

IT SIGNIFIES THAT FRANCHISES ARE MORE ACUTELY AWARE OF THE IMPORTANCE OF SERVING CUSTOMERS OF ALL LOCATIONS, CULTURES AND LANGUAGES.

TODAY'S SUCCESSFUL FRANCHISES FULLY UNDERSTAND THE IMPORTANCE OF ADDRESSING THESE DIFFERENCES WHEN PLANNING TO ENTER A COUNTRY AND ESTABLISH OPERATIONS FOR THE FIRST TIME.

(PAUSE FOR INTERPRETER)

CULTURAL AWARENESS IS CRITICAL IN BUILDING EFFECTIVE RELATIONSHIPS WITH NEW PARTNERS OR CUSTOMERS IN OTHER NATIONS.

BUT FRANCHISES, MORE OFTEN THAN OTHER TYPES OF BUSINESSES, ARE PREPARED TO REACT FAVORABLY AND QUICKLY TO OTHER INFLUENCES WHEN ESTABLISHING INTERNATIONAL OPERATIONS.

(PAUSE FOR INTERPRETER)

IN STUDYING THE ABILITY OF FRANCHISES TO ADAPT, IT WAS FOUND THAT TWO-THIRDS OF THE FRANCHISE SYSTEMS THAT MADE THE DECISION TO ESTABLISH OPERATIONS IN OTHER COUNTRIES DID SO MAINLY BECAUSE OF A REQUEST FROM A PROSPECTIVE FRANCHISEE.

(PAUSE FOR INTERPRETER)

BEFORE DECIDING TO ENTER OTHER COUNTRIES FOR THE FIRST TIME, MOST FRANCHISE SYSTEMS WILL CONDUCT CAREFUL EVALUATIONS TO DETERMINE WHETHER SUCH A MOVE IS BENEFICIAL.

AT THE OUTSET, THESE COMPANIES ARE INTERESTED IN LEARNING IF ENTERING A NEW COUNTRY WILL IMPROVE THEIR EARNINGS AND PROFITS.

(PAUSE FOR INTERPRETER)

NEXT, THEY CONCERN THEMSELVES WITH STUDYING THE POTENTIAL FOR GAINING GREATER MARKET SHARE. THEN THEY CONSIDER THE POSSIBILITIES OF IMPROVING THEIR COMPANY'S BRAND OR NAME RECOGNITION.

(PAUSE FOR INTERPRETER)

OBVIOUSLY, RISK IS ALSO A KEY FACTOR THAT A FRANCHISE SYSTEM MUST CONSIDER. THEIR INITIAL CONCERN WHEN EXPANDING OUTSIDE THEIR COUNTRY OF ORIGIN IS WHETHER THEY WILL HAVE AMPLE CONTROL OVER THEIR BUSINESS CONCEPT.

(PAUSE FOR INTERPRETER)

AND, THE CHALLENGES OF SUPPORTING FRANCHISEES DEMAND ATTENTION SINCE THERE ARE MANY ESSENTIAL NEEDS THEY WILL HAVE, ESPECIALLY IN THE EARLY STAGES OF OPENING A BUSINESS.

(PAUSE FOR INTERPRETER)

FRANCHISING IS A VERY RESILIENT FORM OF BUSINESS. BY DESIGN, IT CAN OVERCOME VARIOUS CHALLENGES AND ADAPT TO NEW AREAS REGARDLESS OF THE GEOGRAPHIC LOCATION.

THIS IS NOT SOMETHING THAT MOST OTHER FORMS OF BUSINESS ARE CAPABLE OF.

(PAUSE FOR INTERPRETER)

A FRANCHISE INCLUDES OTHER STRUCTURAL ADVANTAGES WHICH ALLOW CLOSER INTERACTION BETWEEN THE PARENT COMPANY, THOSE WHO RUN THE ESTABLISHMENTS, THEIR VENDORS AND, OF COURSE, THE ALL-IMPORTANT CUSTOMERS.

(PAUSE FOR INTERPRETER)

THIS INTERACTION AT EACH STAGE HAS LED FRANCHISING TO A LEVEL OF PRODUCTIVITY THAT CAN GENERATE SIGNIFICANT BENEFITS FOR ANY NATION'S ECONOMY.

MANY OF THE WORLD'S MOST POPULAR FRANCHISE BRANDS HAVE NOT ONLY SURVIVED DIFFICULT ECONOMIC PERIODS, BUT HAVE THRIVED BECAUSE THEY HAD THE DISCIPLINE TO ADHERE TO THEIR CHOSEN STRATEGY.

(PAUSE FOR INTERPRETER)

NEW AND EXCITING IDEAS ARE COMING INTO THE MARKETPLACE WITH INCREASING REGULARITY TODAY AS WELL. WITH THE GROWING ATTENTION ON FRANCHISING, MORE AND MORE ENTREPRENEURS ARE COMING FORWARD TO TEST THEIR IDEAS AS FRANCHISED BUSINESSES.

(PAUSE FOR INTERPRETER)

ANOTHER RECENT REVIEW OF U.S. FRANCHISES THAT THE ASSOCIATION CONDUCTED, DETERMINED THAT NEW FRANCHISES ARE BEING STARTED AT AN ASTONISHING RATE. IN JUST THE PAST FOUR YEARS, MORE THAN ONE-THOUSAND, TWO-HUNDRED NEW BUSINESSES BEGAN FRANCHISING FOR THE FIRST TIME.

THAT IS PARTLY DUE TO ENTREPRENEURS FINDING NEW AND DIFFERENT LINES OF BUSINESS TO OPERATE IN. TODAY, THERE ARE MORE THAN 230 LINES OF BUSINESS IN WHICH ONE CAN FIND FRANCHISES.

(PAUSE FOR INTERPRETER)

WHAT'S MORE, ESTABLISHED FRANCHISES ARE ALSO EXPANDING THEIR UNIT SIZE. ACCORDING TO OUR DATA, THE NUMBER OF STORES THESE EXISTING FRANCHISES OPENED LAST YEAR GREW BY AN AVERAGE OF FOUR PERCENT.

(PAUSE FOR INTERPRETER)

AS MORE AND MORE COMPANIES EMPLOY THIS PROVEN BUSINESS FORMAT TO REACH FAR-AWAY MARKETS, THE STRATEGIES AND OPERATIONS INVOLVED IN INTERNATIONAL FRANCHISING CONTINUE TO MATURE.

THE UNPRECEDENTED EXPANSION AND POPULARITY OF ELECTRONIC TECHNOLOGY AND ITS EASY ACCESS THROUGH THE WORLD WIDE WEB ARE FUELING THE IMAGINATIONS OF TOMORROW'S FRANCHISE ENTREPRENEURS TO CREATE BUSINESSES IN INDUSTRIES WHERE NONE EXISTED PREVIOUSLY.

(PAUSE FOR INTERPRETER)

AS YOU CAN IMAGINE, THE INTERNATIONAL FRANCHISE ASSOCIATION IS ESPECIALLY PROUD OF OUR SUCCESS IN AIDING ENTREPRENEURS TO FRANCHISE THEIR SMALL BUSINESSES.

WE ARE OFTEN CALLED UPON TO GUIDE NEW FRANCHISES INTO DIFFERENT AREAS OF THE WORLD WHERE THERE IS GREAT DEMAND FOR THEIR GOODS AND SERVICES.

(PAUSE FOR INTERPRETER)

WHAT IS BEING FRANCHISED? VIRTUALLY EVERY TYPE OF BUSINESS YOU CAN IMAGINE.

FROM INDUSTRIAL SERVICES TO PERSONAL FITNESS TO INSECT CONTROL, NEW AND DIFFERENT LINES OF BUSINESS ARE TURNING TO THE FRANCHISE MODEL WITH EACH PASSING WEEK.

(PAUSE FOR INTERPRETER)

NOT LONG AGO, FEW PEOPLE WOULD CONSIDER SEEKING A MATE THROUGH A FRANCHISE. BUT TODAY, DATING SERVICES ARE BECOMING VERY POPULAR.

LIKEWISE, THE CARE OF SENIOR CITIZENS, HISTORICALLY, WAS SOMETHING THAT ONLY FAMILIES OR GOVERNMENT INSTITUTIONS UNDERTOOK. BUT NOW, FRANCHISES NOT ONLY EXIST IN THAT MARKET, THEY ARE THRIVING AND GROWING.

(PAUSE FOR INTERPRETER)

PART OF THE EXPLANATION FOR THAT GROWTH COMES FROM THE WILLINGNESS OF FRANCHISORS TO EMBRACE NEW METHODS OF DOING BUSINESS.

(PAUSE FOR INTERPRETER)

NOT LONG AGO, FRANCHISE COMPANIES OFFERED ONLY ONE BRAND AND FROWNED UPON THE IDEA OF A FRANCHISEE OPERATING ANY TYPE OF ENTERPRISE OTHER THAN THEIR PARTICULAR BUSINESS.

BUT TODAY, THE CONCEPT OF CO-BRANDING—WHERE MORE THAN ONE BRAND CAN BE OPERATED IN THE SAME LOCATION BY A FRANCHISEE—IS A WELCOME GROWTH STRATEGY FOR MANY COMPANIES.

(PAUSE FOR INTERPRETER)

MANY EXISTING BUSINESSES CONTINUE TO UNDERGO MERGERS AND ACQUISITIONS BY INVESTOR GROUPS SUCH AS PRIVATE-EQUITY COMPANIES.

THIS STRATEGY HAS BECOME POPULAR AS A WAY TO FINANCIALLY RE-VITALIZE AN AGING FRANCHISE BRAND AND, AT THE SAME TIME, REWARD INVESTORS FOR TAKING RISKS.

(PAUSE FOR INTERPRETER)

FREE TRADE AGREEMENTS ARE AIDING THIS MOVEMENT TOO. THE UNITED STATES DEPARTMENT OF COMMERCE AND OTHER U.S. FEDERAL AGENCIES WORK CLOSELY WITH IFA TO FACILITATE TRADE MISSIONS AND MATCH COMPANIES WITH INVESTORS IN MANY DIFFERENT COUNTRIES.

(PAUSE FOR INTERPRETER)

HOWEVER, THERE ARE SOME THINGS THAT ARE CONSTANT AND UNCHANGING IN FRANCHISING.

WHETHER A FRANCHISE ORIGINATES IN BANGKOK OR BOSTON, AN ESSENTIAL INGREDIENT OF ITS OPERATION IS THE RELATIONSHIP BETWEEN THE PARENT COMPANY AND ITS FRANCHISEES.

(PAUSE FOR INTERPRETER)

FRANCHISES ARE RELATIONSHIP BUSINESSES. THEY FUNCTION IN A MANNER THAT REQUIRES THE FRANCHISE PARENT COMPANY AND THE INDIVIDUALS WHO OPERATE ITS ESTABLISHMENTS TO AGREE ON ALL ASPECTS OF THE BUSINESS AND WORK TOWARD A COMMON GOAL.

THAT COMMON GOAL IS, OF COURSE, FINANCIAL SUCCESS.

(PAUSE FOR INTERPRETER)

OUR ASSOCIATION MAKES A CONCERTED EFFORT TO STRESS THAT A FRANCHISE STORE OR UNIT IS, FIRST AND FOREMOST, A SMALL BUSINESS.

WE INFORM PROSPECTIVE FRANCHISEES THAT THEIR OPERATIONS WILL BE SUBJECT TO THE SAME CHALLENGES THAT ANY SMALL BUSINESS FACES IN THE MARKETPLACE.

(PAUSE FOR INTERPRETER)

JUST BECAUSE A FRANCHISE HAS NUMEROUS ADVANTAGES, IT STILL REQUIRES LONG HOURS, HARD WORK AND AMPLE OPERATING CAPITAL TO ACHIEVE PROFITABILITY.

(PAUSE FOR INTERPRETER)

THE AGREEMENT THAT A FRANCHISEE AND A FRANCHISE COMPANY ENTER INTO IS, ON AVERAGE, A PERIOD OF ABOUT 10 YEARS IN LENGTH. THEREFORE IT IS CRUCIAL THAT BOTH PARTIES UNDERSTAND THEIR RESPECTIVE RESPONSIBILITIES AND STRIVE TO CARRY THEM OUT.

(PAUSE FOR INTERPRETER)

GOOD FRANCHISE RELATIONS REQUIRE THAT THE FRANCHISOR PROVIDES EVERYTHING IT AGREES TO AND THAT THE FRANCHISEES LIVE UP TO THEIR END OF THE BARGAIN.

THIS MUTUALLY-BENEFICIAL ARRANGEMENT IS AN IMPORTANT COMPONENT OF FRANCHISING BECAUSE THESE SMALL BUSINESSES ARE SOMEWHAT COMPLEX OPERATIONS.

(PAUSE FOR INTERPRETER)

A FRANCHISE RELATIONSHIP CAN BE VIEWED LIKE A FAMILY RELATIONSHIP. EACH PARTY IS DIFFERENT, YET EACH PARTY HAS A KEY ROLE TO PLAY IN MAKING SURE THAT THE FAMILY LIVES IN HARMONY.

(PAUSE FOR INTERPRETER)

SOMETIMES FAMILIES HAVE DIFFERING VIEWPOINTS AND DISAGREE ON HOW THINGS SHOULD BE DONE. BUT TO FUNCTION PROPERLY AND REACH A SUCCESSFUL RESULT, THERE MUST BE COMPROMISES AS WELL AS CONTRIBUTIONS.

IN SOME FAMILIES, THERE ARE THOSE WHO ARE COMPLIANT AND THOSE WHO ARE VERY INDEPENDENT. THIS IS TRUE OF MANY FRANCHISES.

(PAUSE FOR INTERPRETER)

IN FRANCHISES, THE REQUIREMENT THAT FRANCHISEES MUST STRICTLY ADHERE TO THE TERMS OF THE FRANCHISE BUSINESS AND OPERATING PLAN IS NOT SOMETHING THAT CAN BE THE SUBJECT OF COMPROMISE.

AFTER ALL, THE FRANCHISEE INVESTED IN THE BUSINESS TO TAKE ADVANTAGE OF THE PLAN; IF THE FRANCHISEE IS GOING TO CHALLENGE THE OPERATING PLAN, HE OR SHE MIGHT AS WELL OPERATE AN INDEPENDENT BUSINESS.

(PAUSE FOR INTERPRETER)

WISE FRANCHISE ENTREPRENEURS RECOGNIZE THAT FRANCHISEES ARE CLOSER TO CUSTOMERS THAN THEY ARE. THEREFORE, THEY UNDERSTAND THAT THE FRANCHISEES MAY BE ABLE TO SEE OPPORTUNITIES OR CHALLENGES THAT ARE NOT EVIDENT TO THOSE AT COMPANY HEADQUARTERS.

(PAUSE FOR INTERPRETER)

ONE OF THE WORLD'S LARGEST AND MOST SUCCESSFUL FRANCHISES-- MCDONALD'S—ENJOYS SUCCESS LARGELY BECAUSE IT LISTENS CLOSELY TO ITS FRANCHISEES WHO SERVE AS THE EYES AND EARS OF CUSTOMERS--AND ADAPTS ITS OPERATIONS QUICKLY IN RESPONSE.

(PAUSE FOR INTERPRETER)

FOR EXAMPLE, MCDONALD'S MOST FAMOUS SANDWICH—THE BIG MAC—REMAINS ONE OF THE COMPANIES MOST POPULAR MENU ITEMS.

BUT THE IDEA FOR THAT SANDWICH DID NOT ORIGINATE AT HEADQUARTERS. IT WAS AN IDEA THAT BEGAN WITH A FRANCHISEE WHO PAID CAREFUL ATTENTION TO HIS CUSTOMERS AND THEN SHARED THAT INFORMATION WITH THE PARENT COMPANY.

(PAUSE FOR INTERPRETER)

THIS ILLUSTRATES THE IMPORTANCE OF CLOSE COMMUNICATION, RESPECT AND GOOD FRANCHISE RELATIONS BETWEEN HEADQUARTERS AND THOSE WHO OWN AND OPERATE THE INDIVIDUAL ESTABLISHMENTS.

ALTHOUGH FRANCHISEES MAY SOMETIMES FEEL THAT THEY ARE FAR AWAY FROM A FRANCHISE'S HEADQUARTERS, TO KNOW THAT THE PARENT COMPANY HONORS OPEN AND HONEST DISCUSSION PROVIDES AN AVENUE FOR UNDERSTANDING AND INSPIRATION.

(PAUSE FOR INTERPRETER)

MANY INDIVIDUALS IN TODAY'S FAST-PACED WORLD HAVE THE KNACK TO RECOGNIZE ENTREPRENEURIAL OPPORTUNITIES AND ACT UPON THEM. THEY OFTEN DO THAT BY CREATING THEIR OWN SMALL BUSINESS.

(PAUSE FOR INTERPRETER)

WE ALL RECOGNIZE THAT SMALL BUSINESSES ARE AN IMPORTANT ASPECT OF ANY NATION'S ECONOMY BECAUSE THEY PROVIDE FINANCIAL STRENGTH, EMPLOYMENT FOR OTHERS AND GENERATE NEW IDEAS THAT SERVE THE NEEDS OF CONSUMERS.

WE, AT THE INTERNATIONAL FRANCHISE ASSOCIATION, HONOR AND RESPECT THOSE WHO CREATE INDEPENDENT SMALL BUSINESSES. THESE SMALL ENTERPRISES ARE OFTEN THE SEEDS FROM WHICH A GREAT FRANCHISE SYSTEM GROWS.

(PAUSE FOR INTERPRETER)

INDEPENDENCE IN BUSINESS IS REWARDING, ESPECIALLY TO THOSE WHO PREFER TO WORK FOR THEMSELVES.

BUT INDEPENDENCE IS NOT ONE OF THE KEYS TO FRANCHISING. RATHER, IT IS INTER-DEPENDENCE THAT IS A CRUCIAL FACTOR.

(PAUSE FOR INTERPRETER)

FIRST, A FRANCHISE IS A SYSTEM THAT HAS BEEN CREATED FROM AN IDEA, FORMED WITHIN A LINE OF BUSINESS, TESTED IN THE MARKETPLACE AND THEN PERFECTED TO MEET THE NEEDS OF ITS CUSTOMERS.

ONE OF THE MOST IMPORTANT STRENGTHS OF A FRANCHISE IS THE SYSTEM THAT THE ENTREPRENEUR DESIGNED. BUT TO SUCCEED AND GROW, THAT SYSTEM MUST BE FOLLOWED CAREFULLY AND SPECIFICALLY AS IT WAS DESIGNED.

(PAUSE FOR INTERPRETER)

WHEN AN INVESTOR SIGNS A FRANCHISE CONTRACT, HE OR SHE LEGALLY AGREES TO CONDUCT THAT BUSINESS IN STRICT ACCORDANCE WITH THE REQUIREMENTS AS DETERMINED BY THE FRANCHISOR.

THIS PROHIBITS THE FRANCHISEE FROM MAKING CHANGES TO THE WAY THAT BUSINESS IS OPERATED OR TO THE GOODS OR SERVICES THAT IT SELLS. THIS ALSO ENSURES THAT THE INVESTMENT OTHER FRANCHISEES MADE IN THE BUSINESS WILL NOT BE JEOPARDIZED BY THE ACTIONS OF A SUB-STANDARD FRANCHISEE.

(PAUSE FOR INTERPRETER)

ALTERING THE WAY A FRANCHISE SYSTEM OPERATES OR CHANGING ITS PROFIT ITEMS IS SOMETHING THAT IS THE DOMAIN AND THE RESPONSIBILITY OF THE FRANCHISE PARENT COMPANY.

OPERATING THAT BUSINESS IN ACCORDANCE WITH THOSE STANDARDS IS ANOTHER KEY TO SUCCESS. THE PARENT COMPANY MUST ENSURE THAT ALL OF ITS FRANCHISE OPERATORS ADHERE TO THE STANDARDS AS AGREED UPON.

(PAUSE FOR INTERPRETER)

IF THE PARENT COMPANY DOES NOT ACT TO GUIDE FRANCHISEES INTO ACCORDANCE WITH ESTABLISHED STANDARDS BY ENFORCING THEM, CUSTOMERS WILL SOON REALIZE THAT THERE IS NO CONSISTENCY WITHIN THE SYSTEM AND ULTIMATELY LOSE CONFIDENCE IN THE BRAND.

(PAUSE FOR INTERPRETER)

IN A FRANCHISE SYSTEM, WHEN SOME FRANCHISEES DECIDE TO OPERATE DIFFERENTLY FROM OTHERS AND IGNORE THE PERFECTED BUSINESS MODEL, THE POTENTIAL FOR DISASTER ARISES. THE BRAND WILL LOSE VALUE IN THE EYES OF ITS CUSTOMERS AND THE INDIVIDUAL FRANCHISEES WILL ULTIMATELY LOSE THE VALUE OF THEIR INVESTMENT IN THE BUSINESS.

(PAUSE FOR INTERPRETER)

FRANCHISE SYSTEMS, AS I MENTIONED EARLIER, MUST BE FLEXIBLE TO ADAPT TO DIFFERENT LOCATIONS, CULTURES AND CONDITIONS. AND THAT'S WHY MANY CAN CREATE STANDARDS THAT ALLOW FOR DIFFERENCES AMONG THEIR FRANCHISEES.

SYSTEMS MUST ALSO BE WILLING TO CHANGE QUICKLY TO MEET THE CHALLENGES OF COMPETITION. NOTHING IS A GREATER THREAT TO THE FRANCHISE SYSTEM THAN THE FAILURE TO ADEQUATELY RESPOND TO CHANGES IN THE COMPETITIVE ENVIRONMENT.

(PAUSE FOR INTERPRETER)

A FRANCHISE THAT DEPENDS UPON OUTDATED TECHNOLOGY COULD FIND ITSELF AT A DISADVANTAGE IF ITS COMPETITION USES MUCH NEWER AND FASTER EQUIPMENT AND SOFTWARE.

BUT THE FRANCHISEE, UNDER THE SIGNED AGREEMENT, IS MOST OFTEN REQUIRED TO PAY FOR AND IMPLEMENT SUCH UPGRADES. THAT'S ONE OF THE REASONS IT IS IMPORTANT FOR PROSPECTIVE FRANCHISEES TO CAREFULLY READ THE DISCLOSURE DOCUMENTS PROVIDED.

(PAUSE FOR INTERPRETER)

IMAGINE A FRANCHISE WHOSE BRAND NAME HAS BECOME OUTDATED AND UNFASHIONABLE. IT HAS NO CHOICE BUT TO CREATE NEW AND APPEALING MARKETING CAMPAIGNS IF IT WANTS TO STAY AHEAD OF COMPETITORS. HERE AGAIN, THE RESPONSIBILITY FOR PAYMENT AND IMPLEMENTATION IS MOST OFTEN BORNE BY THE FRANCHISEES.

(PAUSE FOR INTERPRETER)

A FRANCHISE IS A COMPLEX ENTERPRISE THAT HAS MANY PARTS. SOME ARE SIMPLER THAN OTHERS, BUT ALL FRANCHISES, IF THEY ARE PROPERLY STRUCTURED, WILL ADDRESS EVERY OPERATIONAL ELEMENT, LEAVING NOTHING TO CHANCE.

(PAUSE FOR INTERPRETER)

POTENTIAL INVESTORS SOMETIMES BECOME TOO EXCITED ABOUT OWNING A FRANCHISE AND OVERLOOK THE IMPORTANCE OF PAYING ATTENTION TO THE DETAILS OF A FRANCHISE AGREEMENT. THEY ARE EAGER TO START THE BUSINESS AND MAKE MONEY. BUT TAKING SHORTCUTS IN THE INVESTIGATIVE PROCESS IS VERY UNWISE.

(PAUSE FOR INTERPRETER)

TO THOSE PROSPECTIVE INVESTORS WHO HAVE DOUBTS ABOUT STRICTLY FOLLOWING A FRANCHISE'S SYSTEM, WE STRONGLY SUGGEST THEY CONSIDER LOOKING AT OTHER TYPES OF BUSINESSES OR STARTING THEIR OWN SMALL FIRM.

BUT WE NEVER FORGET THAT VIRTUALLY ALL FRANCHISES BEGAN LIFE AS SMALL BUSINESSES. SO WE HOPE THAT THOSE ENTREPRENEURIAL ENDEAVORS WILL ONE DAY FIND THEIR WAY TO OUR DOOR.

(PAUSE FOR INTERPRETER)

A FRANCHISE PARENT COMPANY HAS AN OBLIGATION TO MAKE SURE THAT A POTENTIAL INVESTOR UNDERSTANDS ALL THE RULES. AFTER ALL, ANY FAILURE ON THE FRANCHISEE'S PART OFTEN LEADS TO A BAD REFLECTION ON THE BRAND.

THE BRAND, OF COURSE, IS THE PRIMARY REASON ONE PURCHASES A FRANCHISE. IT OFFERS THE RIGHT TO ASSOCIATE WITH THE COMPANY'S NAME. THE MORE RECOGNIZED THE NAME, THE MORE LIKELY IT WILL DRAW CUSTOMERS WHO KNOW ITS PRODUCTS OR SERVICES.

(PAUSE FOR INTERPRETER)

A GROWING FRANCHISE SYSTEM INCREASES THE BRAND'S NAME RECOGNITION AND ENABLES IT TO ATTRACT CUSTOMERS TO ITS ESTABLISHMENTS. BUT GROWTH ALONE DOES NOT ENSURE SUCCESSFUL FRANCHISEES.

(PAUSE FOR INTERPRETER)

GROWTH THAT IS TOO RAPID MAY PLACE THE COMPANY IN A POSITION WHERE IT IS UNABLE TO SUPPORT ITS FRANCHISEES PROPERLY. THIS IS ANOTHER POTENTIAL AREA THAT CAN BE PROBLEMATIC FOR FRANCHISES AND ONE THAT MUST NOT BE IGNORED.

(PAUSE FOR INTERPRETER)

FRANCHISING IS AN EXCITING NEW-BUSINESS CREATION TOOL. IT IS, LIKE ANY BUSINESS MODEL, NOT PERFECT.

BUT WHEN PROPERLY STRUCTURED, STRATEGICALLY FOCUSED AND GROUNDED IN THE PRINCIPLES OF FREE ENTERPRISE, IT HAS THE POTENTIAL FOR WEALTH GENERATION AND JOB CREATION THAT IS UNMATCHED.

(PAUSE FOR INTERPRETER)

THANK YOU.

(PAUSE FOR INTERPRETER)

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