

How to Bring a Franchise Brand to the US

November 15, 2023

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Originally posted 2/3/2015. No content changes.

What's the best way for a successful franchisor outside the U.S. to launch its brand within the U.S.? Here is one suggested approach:

- Start small. Begin with a test. See what works and what doesn't work. What are the costs? What are the best sources of supply? Who are the competitors and what do they offer? What prices make sense? What local talent can join the venture and bring U.S. industry expertise? A test will allow the brand owner to modify the system to meet the challenges of the market and then to offer a proven concept when prospective franchisees come into the picture.
- Form a wholly owned subsidiary in the U.S. to run the test. This will not require franchise law compliance because the U.S. operation is not a franchise. A wholly-owned subsidiary gives the brand owner full control and limits taxes and other liabilities to the U.S. entity.
- Form the subsidiary as a corporation in the state in which the company's U.S. headquarters will be located. There is little or no advantage to incorporating in Delaware when the company has no plans to raise capital or go public.
- Apply for federal trademark registration. The trademark can be owned either by the brand owner abroad or by the U.S. subsidiary. Of course, the mark itself must be available and must make sense in the U.S. market.
- The experience from the test will facilitate preparation of the operating manual and training program as well as the franchise agreement and franchise disclosure document. The franchise offering will be made by a company to be formed when the documents are close to completion.
- Just before launching franchise sales, form a new company to be the franchisor. This can be either a corporation or a limited liability company. This entity shields the operating company from the liabilities of the franchise business and usually avoids the need to disclose financial information about the parent company.
- Have your outside accounting firm prepare an audit of the opening balance sheet of the franchisor entity. This will be required for registration in New York and possibly one or more other states. If you avoid these states, you can phase in the audits over three years.
- Don't grant master franchise rights. If you do, the brand owner abroad that grants master franchise rights in the U.S. may be obligated to comply with the federal and state franchise laws and may risk potential liability for violation of those laws by the master franchisee.

You can read a more detailed explanation of this process in a paper I recently wrote for offshore franchisors considering U.S. expansion.

A number of companies based in various countries that have successfully expanded their franchise brands into the U.S. Here are a few examples:

Australia

Action Coach – business coaching – www.actioncoachfranchise.com

Bark Busters – home dog training – www.barkbusters.com

Cartridge World – printer cartridges – www.cartridgeworld.com

Canada

Proshred – mobile shredding – www.proshred.com

Yogen Früz – frozen yogurt – www.yogenfruz.com

Denmark

BoConcept – furniture stores – www.boconcept.com

England

The Body Shop – beauty products – www.thebodyshop.com

Germany

Engel & Voelkers – real estate brokerage – www.evusa.com

Japan

Beard Pappa's – cream puffs – www.muginohointl.com

Kumon – after-school enrichment – www.kumonfranchise.com

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