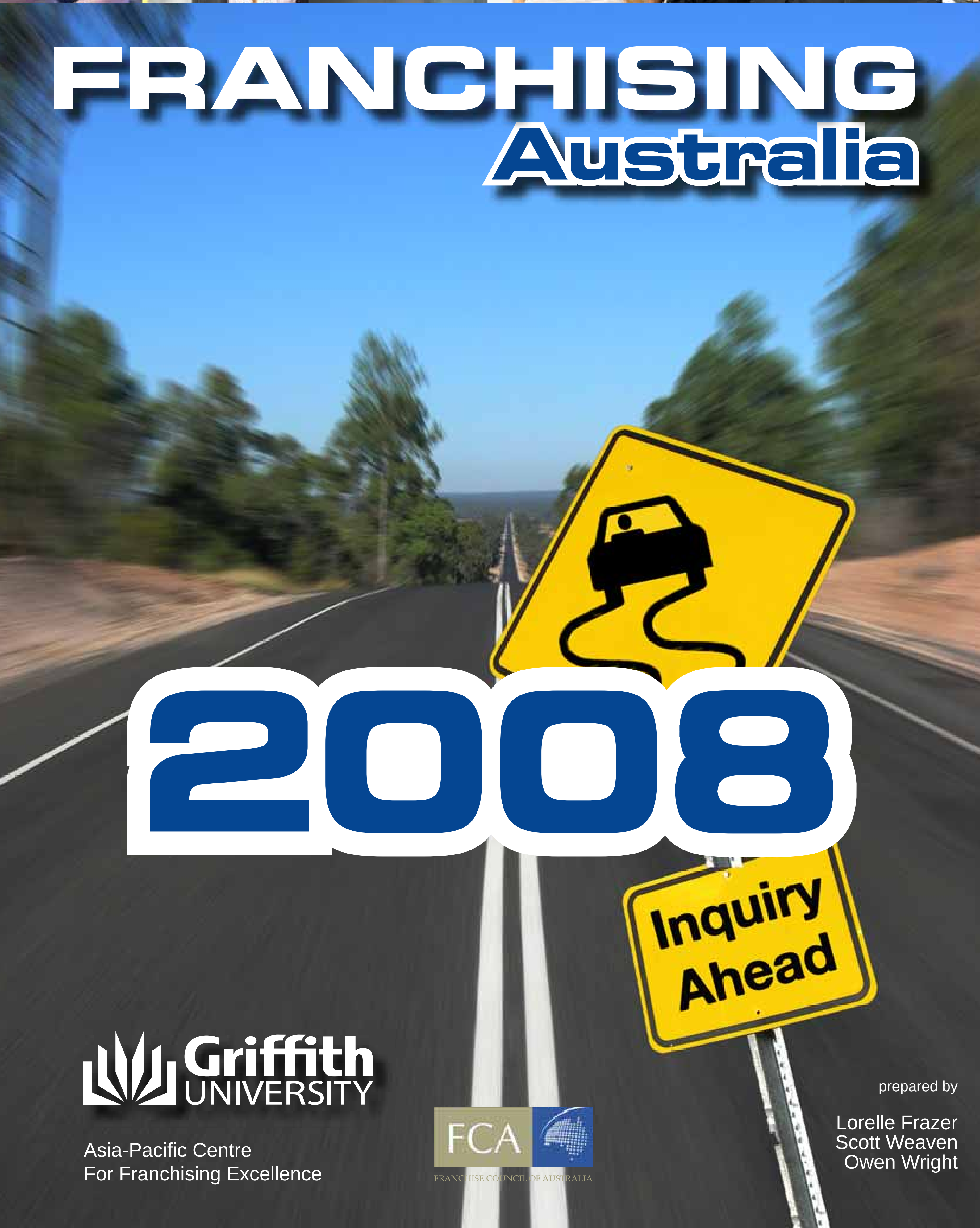
FRANCHISING Australia

2008



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Asia-Pacific Centre
For Franchising Excellence

FCA
FRANCHISE COUNCIL OF AUSTRALIA

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Executive Summary

The *Franchising Australia 2008* survey was conducted prior to the onset of a major global financial crisis. Many large economies around the world were already in or heading for recession. However, at the time of the survey, Australia's economy was still expanding and this situation is reflected in the survey findings. Whilst franchisors are not highly optimistic about the next 12 months, the sector has continued to grow since 2006.

The key findings of the *Franchising Australia 2008* survey are highlighted in this Executive Summary. Where possible, estimates have been included for the entire population of Australian business format franchises. Franchising activities in motor vehicle and fuel retailing were not captured in the survey due to the unique characteristics of these industries. However, relevant data on motor vehicle and fuel retail franchises have been generated from publicly available sources (including the Motor Trades Association of Australia, Australian Institute of Petroleum and Australian Bureau of Statistics) and this information has been incorporated into the Executive Summary only.

Below are the highlights of the *Franchising Australia 2008* survey.

Total number of franchisors in Australia

An extensive search and confirmation process has identified 1051 business format franchisors. This figure includes several systems that offer multiple concepts under a single brand name and these organisations have been counted only once. Hence, it can be estimated that there are *1100 business format franchise systems* operating in Australia in 2008. Of these, 91 percent are Australian-based franchise systems.

A profile of the growth of franchisors in the sector for the past decade is provided below:

1998	693 franchisors
1999	708 franchisors
2002	700 franchisors
2004	850 franchisors
2006	960 franchisors
2008	1100 franchisors

The growth rate of franchise systems from 2006 to 2008 was 14.6 percent, similar to the 12.9 percent growth reported from 2004 to 2006. This net growth accounts for both new franchise systems entering the sector as well as those exiting. A total of 28 franchisor organisations appeared in the 2008 BRW List of Top 500 Private Companies in Australia.

Total number of units in franchise systems in Australia

There are an estimated 63 500 business format franchised units and 7900 company-owned units, producing *a total of 71 400 units* operating in business format franchise systems in Australia. Most of these would be classified as small enterprises, thus representing some 3.7 percent of all small businesses in Australia[1]. An additional 8000 fuel retail outlets and 2500 motor vehicle retail outlets are estimated.

Growth of franchise units in Australia

A comparison of the 71 400 franchise units in 2008 with 61 860 estimated in 2006, indicates that the growth rate of franchise units is 15.4 percent. This is similar to the 14.6 percent growth rate reported from 2004 to 2006. Hence, the sector continues to expand and it is anticipated that any slow down in the economy will be reflected in the 2010 survey.

Turnover of the Australian franchising sector

The total sales turnover of business format franchise units was estimated at $61 billion in 2007. Together with estimated motor vehicle sales of $37 billion and fuel retail of $32 billion, the total sales turnover for the entire franchising sector was estimated to be $130 billion.

Employment in the Australian franchising sector

The total number of persons employed in business format franchise systems is estimated to be 413 500, made up as follows:

Employment status	Number of Employees	Percent
Permanent full time	154 900	37.5%
Permanent part time	96 210	23.3%
Casual	162 390	39.3%
Total	**413 500**	**100.0%**

Similar employment figures were reported in 2006 reflecting Australia's full employment economy. There has been a reduction in the proportion of permanent full time employees in favour of greater proportions of permanent part time and casual appointments. To service the reported growth in franchise units, it is possible that part-time and casual employees are working longer hours; however, the survey did not capture this data.

[1] Australian Bureau of Statistics, 8165.0 – Counts of Australian Businesses, including Entries and Exits, June 2003 to June 2007.

Profile of franchise systems in Australia

Industries. The majority of franchising continues to take place in retail trade which accounts for 28 percent of franchisors and 17 percent of franchise units. Accommodation and food service (including 'fast food') franchises represent 16 percent of franchisors and 23 percent of franchise units. Administration and support services account for 15 percent of franchisors but only 5 percent of franchise units. In general, franchise systems in the service sector are smaller than retail systems.

Size of systems. As with previous surveys, most franchise systems are relatively small, thus posing a challenge for sustainability. The median number of franchise units per system was 20, together with 1 company-owned unit. Whilst there are some very large systems, half the sector holds 20 or fewer units. These smaller systems were also younger and had been franchising for a median of 5 years, compared with 13 years for larger systems.

Age of systems. The sector shows signs of maturity and experience. Franchisors had been operating their businesses for a median of 15 years and franchising for 9 years. In general, concepts were pilot tested for a median of 4 years prior to launching the franchise. However, nearly one third of systems were franchised after operating for only one year or less.

Franchisor confidence

Although the survey data were collected in the first half of the year, franchisors were conservative in their outlook of the economic landscape. Whereas the majority were optimistic that their sales and profitability would be the same over the next 12 months, they also predicted that employment would remain static or decline within that timeframe. In brief, franchisors were trending toward a negative perception of the economy over the next 12 months.

Franchise sector trends

Part-time franchising. The survey gathered data about part-time franchising for the first time, due to a noticeable emphasis on this model in franchisor advertising. Slightly less than half the franchisors reported they had appointed franchisees who work in a part-time capacity of less than 40 hours per week. The franchising sector is thus catering for franchisees who require more flexibility in operations.

Specific growth strategies. The sector is moving away from the owner-operator, single franchise concept in an effort to stimulate system expansion in a limited market. Master franchising was utilised by just over one quarter of franchisors to overcome agency problems associated with geographically disparate operations and to provide local level support for franchisees. Exclusive territories were offered by 43 percent of franchisors and multiple unit ownership is permitted in almost a third of franchise systems.

Franchising disputes and unit closures

Substantial disputes (those referred to an external advisor for action) were experienced by 17 percent of franchisors in the previous 12 month period, but most disputes were with only 2 franchisees. Thus the proportion of franchisees in disputes is estimated at 2 percent. Franchisors in dispute tended to be larger and older systems involved in retailing, indicating that large retail systems may be more complex and have particular characteristics that lead to conflict in the franchisor-franchisee relationship if not addressed early. The most common causes of disputes were related to system compliance and level of profitability. Fewer than 10 percent of franchisors reported that their franchisees had associated for adversarial purposes.

Data on franchise unit ownership changes provide evidence of stability in the sector. During 2007, the majority of franchised units (93 percent) did not change ownership. Of the remainder, most changes occurred when franchisees sold their businesses to new franchisees or the franchisor (5 percent). Slightly more than 1 percent of franchised units ceased to operate and less than 1 percent of units were not renewed. Across the entire population of 63 500 business format franchised units, this would equate to approximately 825 unit closures and 190 non renewals during a 12 month period. Although franchise agreements are typically for a 5 year term, franchisees remain in the system for a median of 7 years.

International expansion by Australian franchise systems

Consistent with the 2006 survey, slightly more than one quarter of Australian based systems were franchising internationally in 2008. The majority of units were located in New Zealand, the United Kingdom and Canada. Despite Australia’s geographical proximity to South-East Asia, franchisors were targeting English speaking destinations for their expansion.

Most franchisors entered international markets within the last 8 years and held a median of 20 units in the domestic market prior to venturing overseas. Master franchising is by far the most common arrangement used by franchisors to gain access to new international markets.

Conclusion

The *Franchising Australia 2008* survey results portray a sector that is continuing to grow, despite an expected future economic downturn. As the data were collected prior to the major global financial crisis taking place in mid-2008, they reflect previous performance in the sector rather than future trends. Indeed, franchisor confidence was conservative rather than optimistic, reflecting major economic and political changes tipped to affect business more broadly and the franchise sector in particular.