



FRANCHISING Australia



2008

**Inquiry
Ahead**



Asia-Pacific Centre
For Franchising Excellence



FRANCHISE COUNCIL OF AUSTRALIA

prepared by

Lorelle Frazer
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Franchising Australia 2008 Survey

Sponsored by



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Asia-Pacific Centre for Franchising Excellence

Franchising Australia 2008

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Foreword

Griffith University is proud to endorse the *Franchising Australia 2008* survey sponsored by the Franchise Council of Australia. This is the sixth survey in the series. As well as providing a comprehensive report on the status of the Australian franchising sector, the series of *Franchising Australia* surveys provides a valuable longitudinal study of Australia's franchising sector.

Franchising Australia 2008 reveals that the sector is continuing to expand. For instance:

- There are approximately 1100 business format franchisors in Australia in 2008, compared with 960 in 2006 and 850 in 2004.
- There are an estimated 71 400 units operating in business format franchises.
- The growth rate in franchised units from 2006 to 2008 was 15.4 percent.
- More than 400 000 persons are employed in business format franchise organisations.
- Sales turnover of the entire franchising sector was estimated at \$130 billion in 2007.
- Some 91 percent of franchisors are Australian home-grown systems.
- More than one quarter of Australian based franchisors are currently operating internationally.

The continued growth and maturation of Australian franchising is impressive, particularly considering the current economic outlook, a recent change of government, and a franchising sector that has faced close government scrutiny. Not surprisingly, franchisors view the next 12 months as challenging, but conservatively estimate that sales and profitability will remain constant whereas the employment market is expected to tighten.

The data provided in this survey provides a reliable source of information about the current status of the Australian franchising sector, which is not available from any other source. It will assist franchising sector stakeholders to make informed comparisons and investment decisions. I am pleased to recommend the *Franchising Australia 2008* survey results to interested participants of the franchising sector. The authors have produced the series of reports for several years and their experience is reflected in this rigorous and comprehensive report. Griffith University is pleased to be able to collaborate with the peak body of franchising representation, the Franchise Council of Australia, in this important research.



Professor Michael Powell
Pro-Vice Chancellor (Business)
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Author profiles

Professor Lorelle Frazer



Professor Lorelle Frazer is the Director of the *Asia-Pacific Centre for Franchising Excellence* and the Dean, Learning & Teaching, of the Griffith Business School.

Professor Frazer was the first person in Australia to complete a PhD in franchising and she has been an active franchising researcher for the past 15 years. Her research has been published in international academic refereed journals, including the *Journal of Business Research*, *European Journal of Marketing*, *Journal of Marketing Channels* and the *Australasian Marketing Journal*. She is a member of the International Society of Franchising, which meets annually to debate worldwide franchising issues.

Professor Frazer teaches franchising in the Griffith Business School at both undergraduate and postgraduate programs. Her postgraduate Franchising course has been commended by the University for its innovative teaching approach and strong support from industry.

The series of *Franchising Australia* surveys, which have been published since 1998, have all been co-authored by Professor Frazer.

Dr Scott Weaven



Dr Scott Weaven is a Senior Lecturer in the Department of Marketing, Griffith University and is Deputy Director of the Asia-Pacific Centre for Franchising Excellence. He has a PhD in franchising and has co-authored the *Franchising Australia* surveys since 2002.

Dr Weaven is a member of the International Society of Franchising and has published his research in international academic refereed journals including the *European Journal of Marketing*, *Academy of Marketing Science Review*, *International Small Business Journal*, *Asia Pacific Journal of Marketing and Logistics* and the *Journal of Business Ethics*.

Currently, Dr. Weaven is working on an Australian Research Council grant (with the Australian Competition and Consumer Commission) to develop strategies to manage conflict within franchise systems. In addition, he is investigating consumer perceptions towards brand extensions in franchising and the role of personality in franchisee recruitment and selection.

Dr Weaven teaches marketing and entrepreneurship in the Griffith Business School.

Owen Wright



Mr Owen Wright is a Lecturer in the Department of Marketing and a PhD candidate in the Asia-Pacific Centre for Franchising Excellence at Griffith University. His extensive industry experience includes marketing management roles within the franchising sector and as a consultant to franchisors. He is an accredited mediator and facilitator with the Office of the Mediation Advisor and the Queensland Department of Justice and Attorney-General, with experience in over 400 mediations and facilitations. Mr Wright is also an active member of the International Society of Franchising, the Australian and New Zealand Marketing Academy and the European Marketing Academy.

His research focuses on expansion models in a mature Australian franchising sector, especially co-branding arrangements. As a result, he has published his research in international academic refereed journals including the *Journal of Marketing Management*, *Journal of Brand Management*, and the *Australasian Marketing Journal*. The *Franchising Australia* surveys in 2006 and 2008 have both been co-authored by Mr Wright.

He teaches franchising, branding and retailing in both undergraduate and postgraduate programs at the Griffith Business School.

Sponsor profile

The Franchise Council of Australia (FCA) is the industry body representing, and working for the benefit of, the Australian franchise sector. A sector worth over \$130 billion is worth supporting.

Whether we are offering advice on best practice franchising, scrutinising government policies affecting the sector, promoting franchising in the media or providing professional development services to our members, the FCA does its part to make the Australian franchise sector a positive, sustainable place to earn a living.

The FCA is here to help all members of the Australian franchise sector – **franchisors, franchisees and suppliers** - in a variety of different ways, to make sure the sector is a vibrant place to do business.



Mr Steve Wright, Executive Director

The FCA is a nationally incorporated not-for-profit association with its national head office in Melbourne, Victoria.

The FCA is closely affiliated with franchising associations around the world, and is a founding member of the Asia Pacific Franchise Confederation (APFC). It is also a member of the World Franchise Council (WFC).

Membership

Membership of the FCA is voluntary, and is open to any organisation or individual involved in the franchise sector, including franchisees, franchisors, lawyers, accountants, banks, consultants, academics, publishers and others.

Membership means solidarity. FCA members belong to an association where their peers work together for the betterment of the sector. FCA members share a common method of doing business – not a common business. For this reason, franchisors, franchisees and suppliers can freely exchange ideas without fear of losing a competitive edge.

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The *Asia-Pacific Centre for Franchising Excellence* was formed at Griffith University in 2008. Its vision is to be the leader in franchising research, teaching and learning in the Asia-Pacific region and for Griffith to be synonymous with franchising excellence.

The Purpose of the Centre

- To strengthen Griffith's stature as national and Asia-Pacific leader in the field of franchising research, teaching and training;
- To identify and form intimate relationships with national and regional funding sources;
- To conduct leading-edge research which leads thinking and provides leadership and advice to Government and industry;
- To work synergistically to increase the capacity and capability of research;
- To be the acknowledged focal point for Government, industry and media on franchising issues;
- To encourage and nurture new academics in this field; and
- To have a highly recognisable Centre that is synonymous with franchising in Australian and the Asia-Pacific and which contributes to Griffith's brand equity nationally and internationally.

Academics and research students from the *Asia-Pacific Centre for Franchising Excellence* work closely with industry to broaden the sector's knowledge about franchising.

Ms Kerry Miles has been appointed as the Chief Operating Officer to set and implement the Centre's strategic direction. Professor Lorelle Frazer has been appointed as Director and Dr Scott Weaven is Deputy Director.

Asia-Pacific Centre for Franchising Excellence

<http://www.griffith.edu.au/business/asia-pacific-centre-franchising-excellence>

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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 Australia¹. 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.

Background

Franchising Australia 2008 provides a detailed and comprehensive report on the status of the Australian franchising sector. It continues the series of *Franchising Australia* surveys that have been produced since 1998, thus providing the opportunity to gain a longitudinal perspective of the development of the sector.

Data for the current report were collected in the first half of 2008, just prior to major changes in the global financial environment. In addition, the franchising sector has witnessed a change of federal government in 2007 as well as several formal inquiries into franchising in recent times, beginning with the Matthews Inquiry² (which led to changes to the Franchising Code of Conduct in 2008), inquiries by the Western Australian³ and South Australian parliaments⁴, and a further Federal Government inquiry into franchising taking place in 2008⁵. In light of the heavy focus on franchising and the global economy, the 2008 report reflects a tentative outlook by many franchisors.

Despite any uncertainty in the franchising sector, and the economy more generally, Australian franchising continues to expand. The sector experienced rapid growth during the 1980s and 1990s prior to the introduction of specific franchising legislation. In the first survey in 1998 a total of 693 business format franchisors was identified. The Franchising Code of Conduct was introduced in the same year and the number of franchise systems did not rise substantially until 2004 when 850 franchisors were documented. The growth has continued, with 960 franchisors listed in 2006 and 1100 business format franchise systems identified in 2008.

Franchising Australia 2008 provides reliable up-to-date information about the sector during a period of intense investigation by government and stakeholders. The survey results are robust and provide strong evidence of the status of the franchising sector in Australia.

² *Review of the Disclosure Provisions of the Franchising Code of Conduct*, Office of Small Business, Canberra, October 2006.

³ *Inquiry into the Operation of Franchise Businesses in Western Australia*, Government of Western Australia, April 2008.

⁴ *Franchises*, Sixty-fifth report of the Economic and Finance Committee, Parliament of South Australia, May 2008.

⁵ *Inquiry into Franchising Code of Conduct*, Parliament of Australia (due to report December 2008).

Introduction

The *Franchising Australia 2008* survey was conducted from May to August 2008. The identified population of business format franchisors was included in the survey.

The primary purpose of the survey was to obtain current information about the practices and performance of the Australian franchising sector, including recent trends. The series of surveys from 1998 provides a decade of data from which a longitudinal analysis of the sector may be performed, something not available in any other country, including those with mature franchising sectors such as the United States or United Kingdom.

In 2008 the survey gathered data relating to:

- A profile of the franchising sector in terms of age, size, growth, composition and international expansion;
- Operational practices employed by franchisors, including growth strategies, dispute resolution procedures, franchise start-up costs, and employment;
- A profile of franchisees in terms of age, gender, background, franchise life cycle, and hours worked;
- Measures of franchisor confidence in business and the national economy.

Conduct of the survey

The Franchisors

The *Franchising Australia 2008* survey included the identified population of Australian business format franchisors. A comprehensive database maintained by Griffith University was updated and confirmed, using a number of sources. Several existing databases on the internet, including that of the Franchise Council of Australia, were scrutinised, as well as published franchising directories. In addition, trade journals and capital city newspapers were scanned for information. This extensive search resulted in the identification of 1264 organisations assumed to be involved in franchising.

All of these organisations were personally contacted to confirm their status. Organisations were removed from the database if they appeared to be no longer operating or if they indicated they were either no longer franchising, not yet franchising, or were not involved in franchising arrangements.

The lack of any official registration requirements on franchisors makes it impossible to accurately identify the population. However, the search conducted by the research team was extensive, leading to confidence that the database has a high degree of accuracy. Thus, sampling error is not a concern in this survey. The number of business format franchisors in Australia in 2008 is estimated at 1051. When multiple concepts operating under a single brand name are included, the number of franchise systems approximates to 1100.

The Questionnaire

The survey was conducted electronically via the internet. The questionnaire was pilot tested in two stages. In stage one, conducted in 2007, a sample of 19 consultants and 19 academics pilot tested a hard copy of the survey instrument and provided feedback to the research team. Pilot test participants consistently advised that the survey was too complex and too long and so a shorter and simpler version was pilot tested electronically to a new sample of 10 franchisors, 5 consultants and 5 academics. Only minor formatting and word changes were required for the final questionnaire. The 10 franchisors involved in the second test were excluded from the main survey.

An email notification was sent by the chief researcher to the remaining database of franchisors, asking for their cooperation and providing a hypertext link to the survey website. Full ethical clearance was granted by the University's Human Research Ethics Committee and was disclosed at the beginning of the survey. Only the three survey authors had access to the submitted surveys. Participants were asked to name their systems in the survey responses, enabling identification of respondents in most cases. Several follow-up emails and telephone calls were made to nonrespondents over a period of three months.

Respondents were invited to complete and submit the survey electronically or to request a hard copy of the questionnaire in the mail. Only one hard copy survey was returned, although several were requested. Several respondents were contacted to obtain missing data from their submissions or to correct inconsistent responses. At no stage did the survey sponsor, the Franchise Council of Australia, observe the responses or raw data collected.

To promote participation in the survey a prize draw of \$1000.00 was offered. Upon closure of the survey, the winner was randomly selected from the list of respondents and notified by telephone and email. An improvement in the response rate was evident as noted below.

Survey responses

Surveys were sent to the identified population of business format franchisors as indicated below:

Organisations listed on database		1264
Less exclusions:		
Mergers and multiple listings under different names	32	
Organisations assumed no longer operating	25	
Organisations no longer franchising	80	
Organisations identifying as not involved in franchising	75	
Organisations in receivership or under administration	<u>1</u>	<u>213</u>
Confirmed population of franchisors		1051
Less pilot study participants	10	
Less organisations which would not provide an email address	10	
Less returned emails (mailbox full)	<u>27</u>	<u>47</u>
Total number of organisations included in sample		1004

Of the 1004 franchisors included in the sample, some 286 completed the survey. An additional 46 responses were attempted but not completed, so these were deemed unusable. Thus the 286 responses resulted in a *response rate of 28.5 percent*. This is higher than the 25.2 percent response rate (217 responses) recorded in 2006, and was obtained through a rigorous survey administration procedure involving personalised telephone and email reminders. Response rates have been improving since online surveys were introduced in 2002, reflecting increasing confidence in the survey and the escalating professionalism and collective goodwill of franchisors.

Estimations for the whole franchising sector

As not all franchisors responded to the survey, the problem exists of estimating results for the entire franchising sector with confidence. Non-sampling errors may occur when estimates are derived from a sample. These include errors that occur because not all franchises are included in the sample of respondents. In particular, there may be a difference between those who responded and those who chose not to participate. Two tests were performed to determine whether such nonresponse bias was evident.

Firstly, the common statistical test of comparing early with late respondents was conducted on key variables. Late respondents are assumed to be similar to nonrespondents because they respond less readily and only after prompting. The results of this test indicated that there were no significant differences between the two groups.

A second test compared a sample of 70 nonrespondents with the 286 survey respondents on key variables. Information for nonrespondents was obtained from the *Franchising 2008 Yearbook and Directory*. This test also confirmed that there were no significant differences between the two samples. Hence, it can be concluded that nonresponse bias was not a problem in this survey and that there are no significant differences between franchisors who responded and those who did not. Thus, the survey results may be generalised to the entire population of business format franchisors.

Another form of non-sampling error may occur due to incorrect responses being provided by respondents. To minimise this possibility, the data were checked carefully for out-of-range values, and where possible, respondents were contacted to verify irregular responses.

Since no franchisors in the fuel and automotive manufacturing industries were included in the survey, and these are known to be extremely large and not comparable with franchisors in other industries, this has been taken into account by excluding them from the estimations and listing them separately, where possible, in the Executive Summary.

The estimated results for the whole franchising sector are included only in the Executive Summary. However, the actual results for each individual question, together with comments, are included in the main report.

Survey results

Franchising Australia 2008

The survey results in this report are presented in the order of appearance in the questionnaire. Responses have not been manipulated in any way, apart from the correction of obvious errors made by participants. To assist comprehension, additional tables have been included summarising common responses.

Hence, the data presented have not been estimated to infer results for the population of franchisors. In this section, the data relate only to respondents of the survey. Due to the non-normal distribution of the data, which has occurred because of the large variation in responses, the median figure (that is, the middle figure in a graded list of responses to a question) has been reported rather than the mean value (that is, the arithmetic average of a set of values) in most cases.

To aid in the interpretation of results, some comparisons are made between sub classifications of data where appropriate. This analysis has been included in the report. Due to the rounding of figures in the tables, discrepancies may occur between the sum of component items and the total (that is, not all percentages will add exactly to 100%).

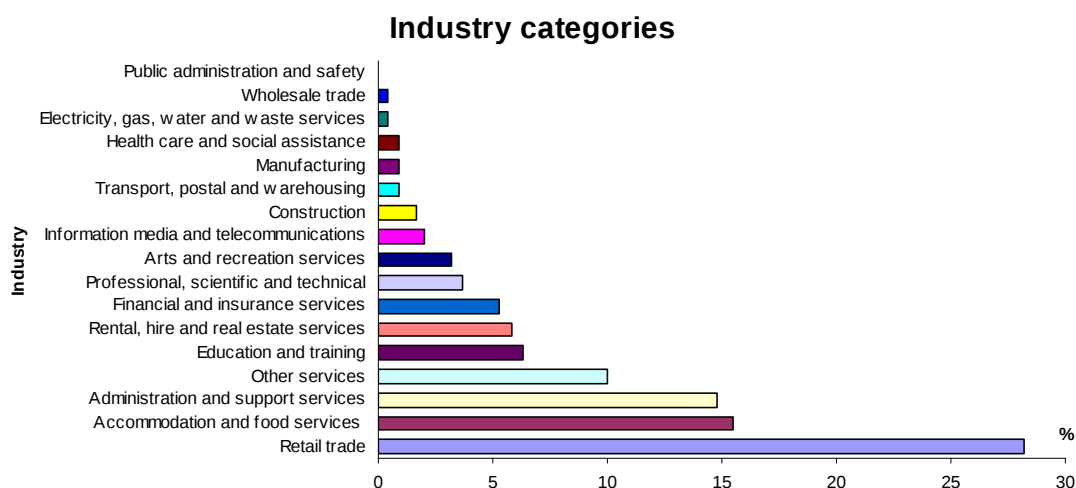
A Franchise Profile

Industry

Industry classifications of the 286 survey *respondents* were compared with the *population* of 1051 business format franchisors in Australia. The pattern of survey responses roughly reflects the composition of the population, but with a smaller proportion in both retail trade and administration and support services industries.

The largest industry segment continues to be *retail trade*, which accounts for 28 percent of franchisors. Accommodation and food services, which includes food retail, fast food and coffee shops, represents 16 percent of franchisor activity. Similarly, administration and support services (including travel agencies, office services, domestic and industrial cleaning, gardening services and lawn mowing) account for another 15 percent of franchisors. However, these *systems* are smaller, representing only 5 percent of franchise units in the sample, compared with 23 percent of units in food services.

Some 10 percent of franchisors are involved in ‘other services’, (including personal services, pet services, auto repairs and servicing and IT services). Whilst franchising occurs in a wide range of industry sectors, the remaining segments are less prominent.



A1 In what product or service does this franchise system predominantly deal?

Response (Industry)	Population of franchisors		Respondent franchisors		Total number of respondents' units per industry	
	Number	Percent	Number of responses	Percent	Number of units	Percent
Retail trade	296	28.2	73	25.5	3501	16.8
Accommodation and food services (includes food retail, fast food, coffee shops etc)	163	15.5	47	16.4	4684	22.5
Administration and support services (includes travel agencies, office services, domestic and industrial cleaning, gardening services, lawn mowing etc)	156	14.8	28	9.8	1116	5.4
Other services (includes personal services, pet services, auto repairs and servicing, IT services etc)	105	10.0	43	15.0	2256	10.8
Education and training	66	6.3	17	5.9	295	1.4
Rental, hire and real estate services	61	5.8	24	8.4	2072	10.0
Financial and insurance services	56	5.3	12	4.2	1108	5.3
Professional, scientific and technical	39	3.7	14	4.9	462	2.2
Arts and recreation services	34	3.2	6	2.1	683	3.3
Information media and telecommunications	21	2.0	8	2.8	596	2.9
Construction	18	1.7	3	1.0	131	0.6
Transport, postal and warehousing	9	0.9	8	2.8	3731	17.9
Manufacturing	9	0.9	1	0.3	148	0.7
Health care and social assistance	9	0.9	1	0.3	8	0.1
Electricity, gas, water and waste services	4	0.4	0	0.0	0	0.0
Wholesale trade	4	0.4	0	0.0	0	0.0
Public administration and safety	1	0.1	0	0.0	0	0.0
Unclassified	0	0.0	1	0.3	19	0.1
Total	1051	100.0	286	100.0	20810	100.0

- Notes: 1) Some 285 out of 286 respondents were able to be classified.
2) Franchisors were coded according to industry type using the major categories provided under the Australian and New Zealand Standard Industrial Classification (ANZSIC) coding system. This system was revised in 2006, thus it is not possible to make direct comparisons with previous Franchising Australia reports on industry classification.
3) A total of 264 franchisors provided a response regarding the number of units held from an expected 286.

Age of franchise systems

Although the franchising sector is approaching maturity, many new entrants begin franchising with limited experience. Franchisors had been operating their businesses for a median of 15 years and franchising for 9 years. Entrepreneurs pilot tested their concepts for a median of four years prior to franchising. However, nearly one third of respondents began franchising very early, with 14 percent operating for just one year prior to franchising and a further 17 percent franchising immediately or within the first year of operation.

Slightly more than half the sample (51 percent) began franchising since 2000, possibly reflecting the strong economic conditions experienced in Australia over that period of time. Consistent with the reported increase in service sector franchising in the past decade, respondents from the retail sector were significantly more experienced than those in the non-retail sector.

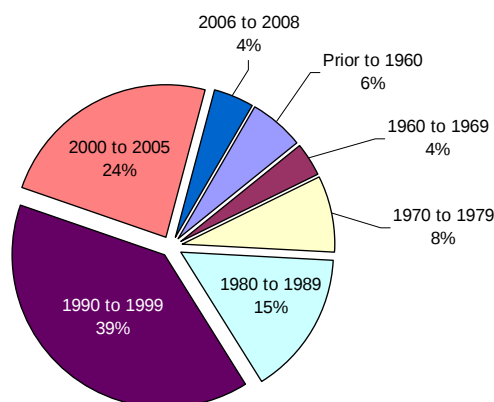
A2 In which year did this business commence operations?

A3 In which year did this business commence franchising?

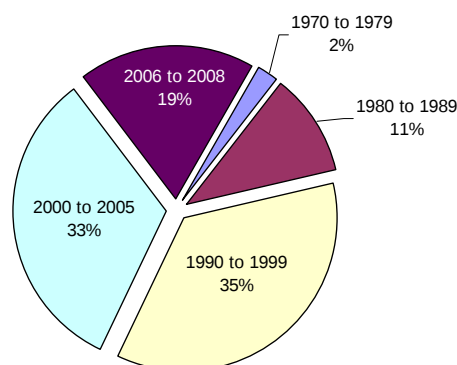
Response (Year)	Year commenced operations		Year commenced franchising	
	Number of responses	Percent	Number of responses	Percent
Prior to 1960	17	5.9	0	0.0
1960 to 1969	10	3.5	0	0.0
1970 to 1979	23	8.0	6	2.1
1980 to 1989	45	15.7	31	11.0
1990 to 1999	112	39.2	100	35.6
2000 to 2005	68	23.8	92	32.7
2006 to 2008	11	3.9	52	18.5
Total	286	100.0	281	100.0

- Notes: 1) All 286 franchisors provided a response regarding the year they commenced operations; 281 franchisors provided a response regarding the year they commenced franchising.
2) The median number of years was: operating 15 years and franchising 9 years.
3) Businesses had been operating for a range of 1 to 200 years and franchising for a range of 1 to 39 years.

Year commenced operations



Year commenced franchising



Franchise agreements

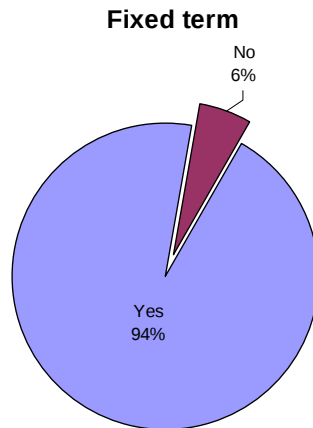
Consistent with previous surveys, the majority of franchisors used a fixed term franchise agreement. Fully 94 percent of respondents specify a fixed period of time for their franchise agreements. The most common length of time granted was five years, with two thirds of respondents favouring this arrangement. Ten year terms were also popular, used by 17 percent of franchisors. Although only a small proportion, 6 percent of franchisors granted franchise agreements for 3 years or less.

Over half the franchisors (52 percent) reported that 98 percent of their franchisees had renewed their agreements upon expiration of the initial term. Only 5 percent of franchisors indicated that none of their eligible franchisees had renewed. Overall, franchise agreement renewal was standard practice in the sector.

A4 Is your current franchise agreement for a fixed term?

Response (Fixed term agreement)	Number of responses	Percent
Yes	269	94.4
No	16	5.6
Total	285	100.0

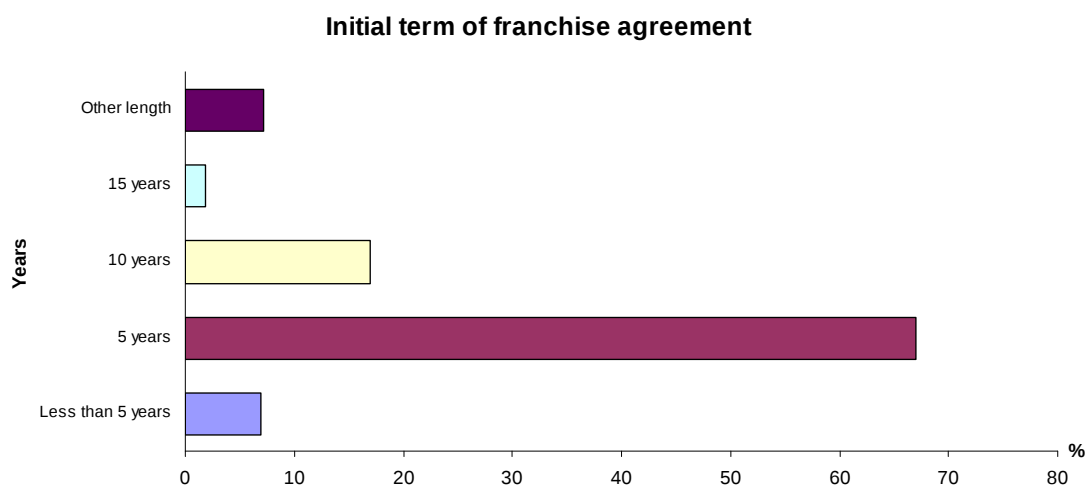
Note: 1) A total of 285 franchisors provided a response from an expected 286.



A5 *What is the initial term of your current franchise agreement?*

Response (Term of agreement)	Number of responses	Percent
Less than 5 years	18	6.9
5 years	177	67.0
10 years	45	17.0
15 years	5	1.9
Other length	19	7.2
Total	264	100.0

Notes: 1) A total of 264 franchisors responded from an expected total of 269.
 2) The median length of a franchise agreement was 5 years.
 3) The initial term of franchise agreements ranged from 1 to 50 years.



A6 If applicable, what percentage of your franchisees have renewed their agreements at the completion of the initial term?

Percentage of franchisees that have renewed their initial agreements 98 percent

Notes: 1) A total of 149 franchisors responded from an expected total of 173.

Size of franchise systems

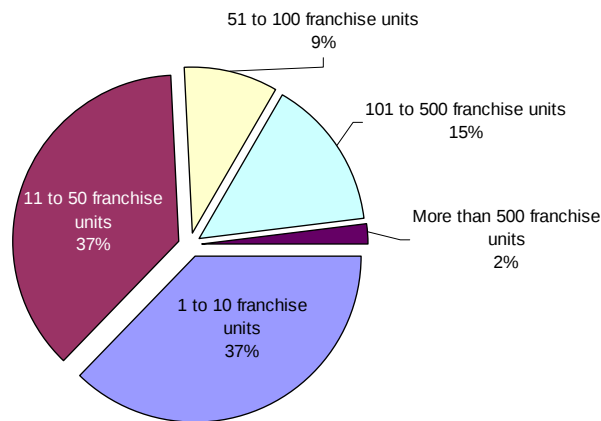
Consistent with previous *Franchising Australia* surveys, a major challenge facing franchise systems is size. The median number of franchise units per system was 20, accompanied by a median of 1 company-owned unit. This means that half the sample of franchisor respondents holds very small systems which will not be economically sustainable unless the systems continue to grow. More than one third of franchisor organisations (37 percent) could be described as ‘micro’ franchises, holding no more than 10 franchise units. A similar proportion (34 percent) of systems was completely franchised (that is, they held no company units).

A7 How many franchised units were operating within your franchise in Australia as at 31 December 2007?

Response (Franchise units)	Number of responses	Percent
1 to 10 franchise units	98	37.1
11 to 50 franchise units	98	37.1
51 to 100 franchise units	24	9.1
101 to 500 franchise units	39	14.8
More than 500 franchise units	5	1.9
Total	264	100.0

Notes: 1) A total of 264 franchisors provided a response from an expected 286.
2) The median number of franchise units was 20.
3) Responses ranged from 1 to 2950 franchise units.

Franchise units 2007



A8 *How many company owned units were operating within your franchise system in Australia as at 31 December 2007?*

Median number of company owned units

1 company owned unit

- Notes: 1) A total of 264 franchisors provided a response from an expected 286.
 2) Responses ranged from 0 to 280 company owned units.

Due to the large variation in the size of systems (ranging from 1 to 2950 total units), a clearer picture can be obtained by categorising the sample into small (up to 20 units), medium (21 to 50 units) and large franchise systems (over 50 units). Small systems had a median of 7 units, compared with 34 in medium systems and 122 in large franchise systems as shown below.

Size of franchise system	Number of franchisors	Percent	Median number of units
Small (1-20 units)	119	45.1	7
Medium (21 – 50 units)	65	24.6	34
Large (More than 50 units)	80	30.3	122
Total	264	100.0	

Turnover of franchise systems

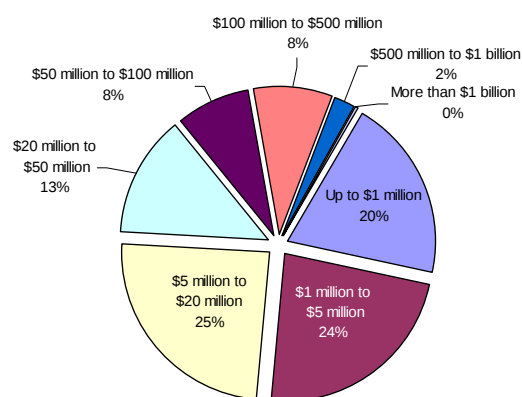
System turnover varied immensely across industries and in conjunction with the size of the franchise. Approximately two thirds of franchisors reported a total system turnover below \$20 million. The median turnover was \$7.5 million (\$20 million in retail systems and only \$3.6 million in non-retail franchises).

A9 What was your system turnover (total annual sales for all company and franchised units) in Australia for the year ended 31 December 2007?

Response (Total system turnover)	Number of responses	Percent
Up to \$1 million	45	20.0
\$1 million to \$5 million	52	23.1
\$5 million to \$20 million	55	24.4
\$20 million to \$50 million	30	13.3
\$50 million to \$100 million	18	8.0
\$100 million to \$500 million	19	8.4
\$500 million to \$1 billion	5	2.2
More than \$1 billion	1	0.4
Total	225	100.0

Notes: 1) A total of 225 franchisors provided a response from an expected 286.
2) Responses ranged from \$30 000 to \$1.3 billion.

Total System Turnover



Franchise unit location

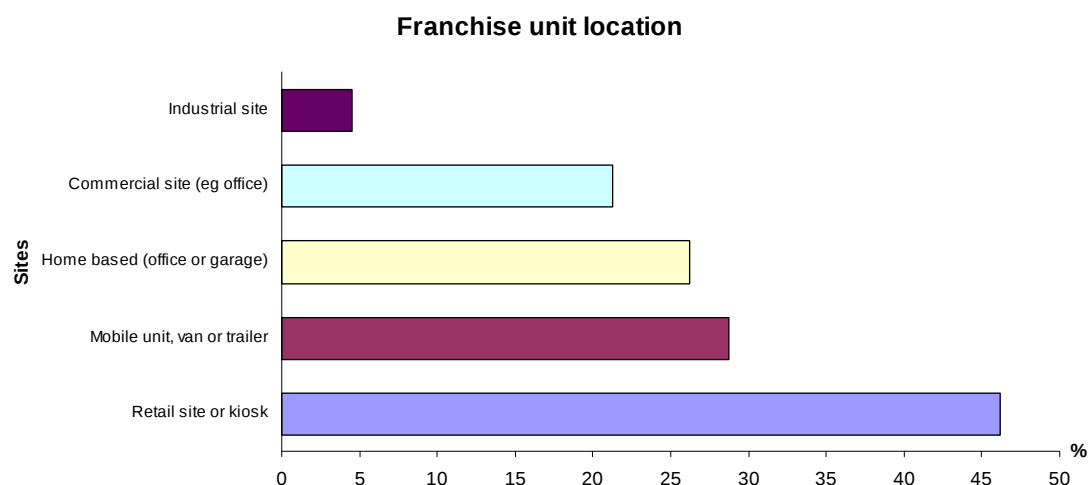
Fixed sites, either a retail site or kiosk (47 percent), commercial (22 percent) or industrial site (5 percent), were the most common locations from which franchisees operate their businesses. In addition, 29 percent of franchisors indicated their franchisees operated from mobile units and a further 27 percent had franchisees who were home-based operators.

Some 81 percent of mobile and home-based franchisees operate in the non-retail sector. These include businesses such as lawn mowing, domestic cleaning, and bookkeeping. The service sector has been embraced by franchising, enabling franchisees to deliver personalised services to customers and, at the same time, saving on administrative and overhead costs by operating from home offices.

A10 How do your franchisees operate their businesses?

Response (Sites)	Number of responses	Percent
Retail site or kiosk	132	47.1
Mobile unit, van or trailer	82	29.3
Home based (office or garage)	75	26.8
Commercial site (eg office)	61	21.8
Industrial site	13	4.6

- Notes: 1) A total of 280 franchisors provided a response from an expected 286.
 2) Multiple responses were recorded for some respondents.
 3) A total of 71 franchisors (25 percent) responded that a mixture of locations was used within their systems.



Employment

Employment numbers remain consistent with the 2006 survey. Some 39 percent of employees are engaged in franchise systems on a permanent full time basis. A further 23 percent are employed on a permanent part time basis. In addition, 38 percent of employees are engaged on a casual basis. In comparison with 2006, a greater proportion of employees was working part time or on a casual basis.

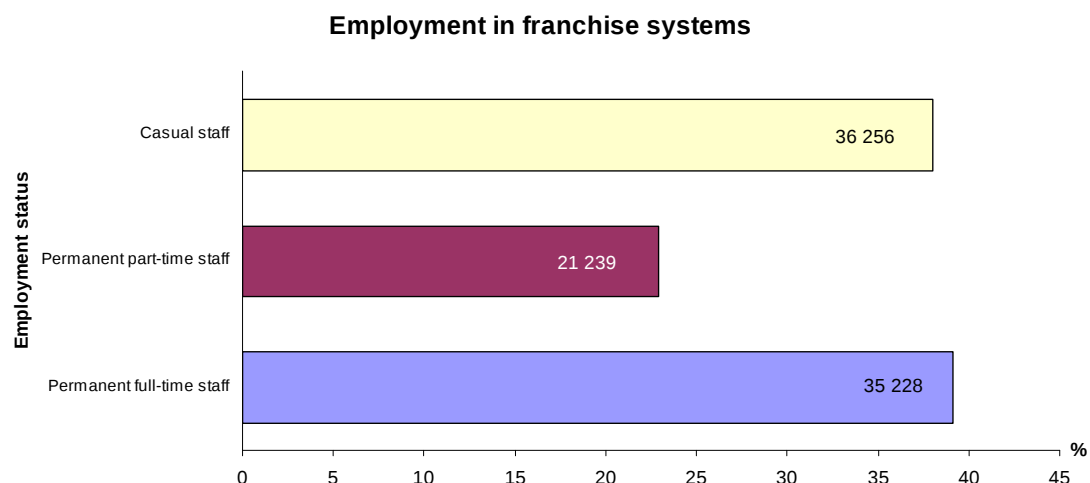
A11 *How many staff are employed in your system (head office, franchised units and company owned units all combined)?*

Response (Employee status)	Number of employees	Percent
Permanent full-time staff	36 256	39.1
Permanent part-time staff	21 239	22.9
Casual staff	35 228	38.0
Total	92 723	100.0

Notes: 1) A total of 246 franchisors provided a response to the number of full-time staff from an expected 286.
 2) A total of 232 franchisors provided a response to the number of part-time staff from an expected 286.
 3) A total of 228 franchisors provided a response to the number of casual staff from an expected 286.

The number of employees is dependent on system size as indicated in the comparison below between small, medium and large systems.

Size of franchise system	Number of franchisors	Percent	Median number of permanent full-time staff	Median number of permanent part-time staff	Median number of casual staff
Small (1-20 units)	114	46.7	8	2	1
Medium (21 – 50 units)	60	24.6	69	10	5
Large (More than 50 units)	70	28.7	213	15	40
Total	244	100.0			



Franchised unit start-up costs

The total median *start-up cost* of a new franchised unit across all industries was \$100 000 (compared with \$78 000 in the 2006 survey). Start-up costs vary considerably across industries. A significant difference was found between retail and non-retail systems. In the retail sector the median total start-up cost was \$246 250, compared with \$51 000 in non-retail industries. No significant difference was evident between food and non-food retail systems. Food retailing start-up costs averaged \$280 000, compared with a median of \$210 000 in non-food retailing.

The majority of franchisors (96 percent) charged an *initial fee* for entering the system. The median initial fee across all industry segments was \$30 000. This fee has remained constant since the 2006 survey. The initial fee applied in retail franchises averaged \$40 000 compared with \$25 000 in non-retail industries. Initial fees ranged from zero to \$200 000.

The median cost of *inventories* was \$5000 across all industries. However, inventories are not normally required in service sector franchises, thus the median inventory in retail franchises was \$20 000 compared with \$1088 in non-retail franchises.

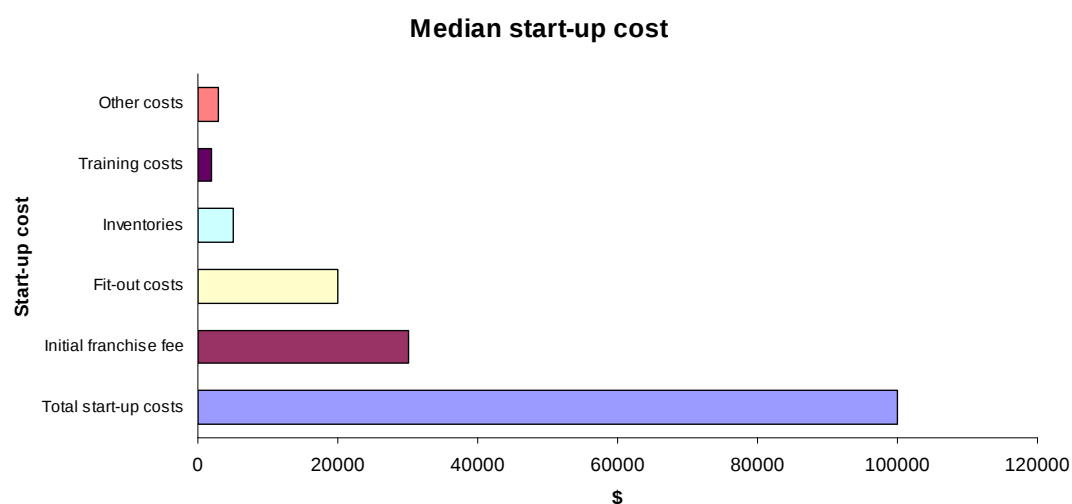
Median *fit-out costs* were \$20 000, but once again there was considerable variation between industry segments as these costs are more relevant to retail operations. Almost one third (31 percent) of franchisors reported there were no fit-out costs required in their systems. Costs ranged from zero to \$550 000, with the median fit-out cost in retailing being \$150 000, compared with \$4000 in non-retail franchises.

The median *training cost* was \$2000, although 41 percent of franchisors did not allocate a specific fee towards training. It is possible that in such cases the training costs are subsumed in the initial fee. Training is more complex in retailing where the median cost was \$5000 compared with \$2000 in non-retail franchises. Costs for training ranged from zero to \$40 000.

A12 What is the total start-up cost of a new franchised unit (excluding GST)?

Response (Total start-up costs)	Median cost \$	Range \$
Initial franchise fee	\$30 000	\$0-200 000
Inventories	5 000	\$0-350 000
Fit-out costs	20 000	\$0-550 000
Training costs	2 000	\$0-40 000
Other costs	3 000	\$0-1 400 000
Total start-up costs	\$100 000	\$5000-1 402 500

Notes: 1) A total of 252 franchisors provided a response from an expected 286.



B. Franchisees

Gender and age

Consistent with findings reported in previous surveys (2004 and 2006), franchise unit ownership is dominated by men, although there is some indication of growth in female ownership of franchise operations. Female sole ownership currently accounts for 17 percent of total franchise units, compared with 11 percent in 2006. In contrast, male sole ownership has dropped slightly to 30 percent, down from 37 percent in 2006. Within the context of joint ownership involving spouses, the gender difference is more pronounced, with male ownership/involvement being just under two thirds (61 percent) of all franchises and female involvement in just over a quarter (28 percent). Although these results may be indicative of the growing recognition of the value of encouraging female participation in franchising, the proportion of women remains lower in franchising than small business ownership in general.⁶ Other ownership arrangements account for 11 percent of franchisee units.

The majority of franchisees are concentrated within the 30 to 50 year age group with approximately 69 percent of franchisees falling within this profile. Franchisors appear to emphasise recruitment of prospects in this cohort to minimise experiential and capital barriers to franchise ownership and operation. For instance, only 6 percent of men and 4 percent of women were under 30 years of age which may be due to difficulties that this cohort encounters in raising finance. Similar patterns were found in mature age franchisees with 16 percent of men and 4 percent of women aged over 50 years which is marginally lower than results reported in 2006.

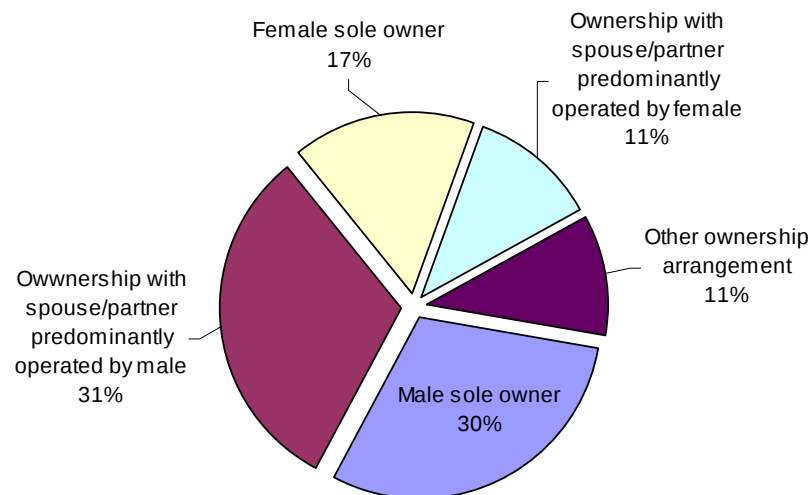
⁶ Australian Bureau of Statistics 8175.0 – Counts of Australian Business Operators, 2006 to 2007.

B1 *Approximately what percentage of your franchised units are operated by the following groups?*

Response (Franchisees)	Percentage of franchisees	Percentage by gender
Male sole owner	30.1	
Ownership with spouse/partner predominantly operated by male	31.2	61.3
Female sole owner	16.5	
Ownership with spouse/partner predominantly operated by female	11.4	27.9
Other ownership arrangement	10.8	10.8
Total	100.0	100.0

Notes: 1) A total of 233 franchisors provided a response from an expected 286.
2) As the data are normally distributed, the mean has been reported as the average.

Ownership structure

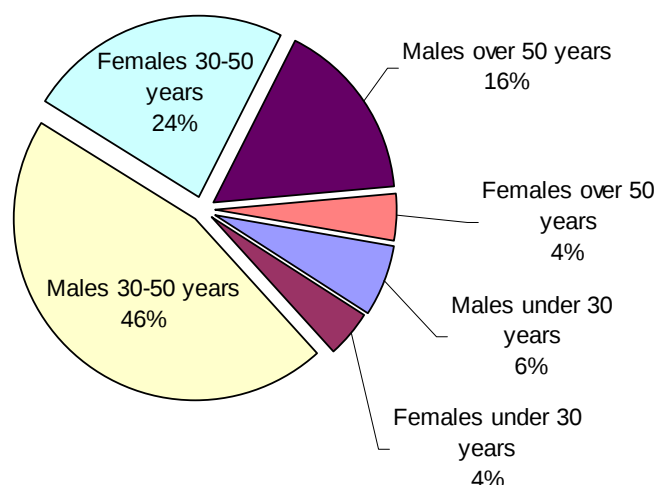


B2 *Approximately what percentage of your male and female franchisees fit into the following age groups?*

Response (Age of franchisees)	Percentage of franchisees	Percentage by age
Males under 30 years Females under 30 years	6.4 4.1	10.5
Males 30-50 years Females 30-50 years	45.6 23.7	69.3
Males over 50 years Females over 50 years	15.9 4.3	20.2
Total	100.0	100.0

Notes: 1) A total of 227 franchisors provided a response from an expected 286.
2) As the data are normally distributed, the mean has been reported as the average.

Age of franchisees



Part-time franchising

Part-time franchising appears to be a growing trend with individuals seeking a form of independent business ownership that accommodates existing employment and family commitments. Just under half of franchisors (43 percent) reported having franchisees that worked on a part-time basis (less than 40 hours per week) in their franchise. A median of 20 percent of franchisees within these systems worked part time, although 12 percent of these systems had more than 50 percent of their franchisees working on

a part-time basis. Generally, these franchisees worked a median of 25 hours a week as compared to full-time franchisees who worked a median of 45 hours a week in franchise operations. Of the 105 systems reporting part-time franchisees in their system, one quarter were located in the accommodation and food services sector, 18 percent in retail trade, 10 percent in administration and support services and 8 percent in education and training.

B3 *Do you have any franchisees that work on a part-time basis in your franchise? (i.e. Less than 40 hours per week).*

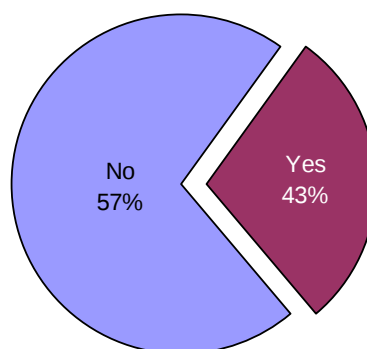
B4 *What proportion of your franchisees work on a part-time basis in the franchise?*

B5 *What is the average number of hours per week that your franchisees work?*

Response (Part time)	Number of systems	Percentage of franchisees
Yes	105	42.7
No	141	57.3
Total	246	100.0

Notes: 1) A total of 246 franchisors provided a response from an expected 286.

Part time franchising



Franchisee experience and education

Fully 38 percent of franchisees have prior business and/or employment experience in the same industry in which their franchise operates. In comparison a majority of franchisees (58 percent) have business and/or employment experience in different industries. This indicates that although franchisors recognise the importance of prior managerial experience, industry specific knowledge is not necessarily required possibly due to recognition of the effectiveness of existing training and supervision programmes in most systems. In relation to prior education, just under half of all franchisees had completed secondary education (49 percent) and nearly one quarter (22 percent) had additional technical or trade qualifications. Fully 21 percent of franchisees had university qualifications.

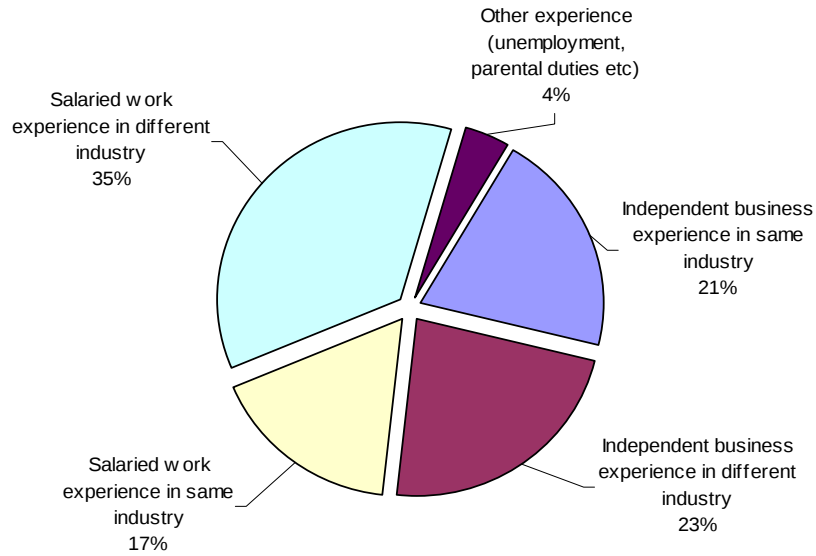
B6 *Immediately prior to entering the franchise, approximately what percentage of your franchisees had:*

- a. Previous independent business experience in the same industry.*
- b. Previous independent business experience in a different industry.*
- c. Salaried work experience in the same industry.*
- d. Salaried work experience in a different industry.*
- e. Other (e.g. Unemployed, parental duties etc).*

Response (Franchisee industry experience)	Percentage of franchisees
Independent business experience in same industry	20.6
Independent business experience in different industry	22.8
Salaried work experience in same industry	17.0
Salaried work experience in different industry	35.6
Other experience (unemployment, parental duties etc)	4.0
Total	100.0

Notes: 1) A total of 220 franchisors provided a response from an expected 286.
2) As the data are normally distributed, the mean has been reported as the average.

Franchisee experience

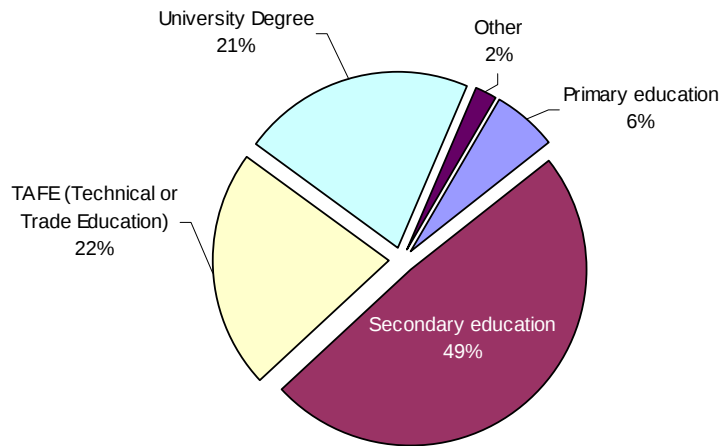


B7 *Approximately what percentage of your franchisees have completed the highest education levels below?*

Response (Franchisee education)	Percentage of franchisees
Secondary education	48.7
TAFE (Technical or Trade Education)	22.0
University Degree	21.4
Primary Education	6.0
Other	1.9
Total	100.0

Notes: 1) A total of 212 franchisors provided a response from an expected 286.
2) As the data are normally distributed, the mean has been reported as the average.

Franchisee education



Franchisee life cycle

As with the 2006 survey, the median time that franchisees are remaining in a system was once again reported to be 7 years, although 25 percent of respondents reported that franchisees remained in the system for in excess of 10 years. Industry differences were not apparent, with the median franchisee life span being 7 years in both the retail and service sectors.

B8 *If you have been franchising for more than five years, what is the average length of time (years) that a franchisee remains in the system?*

Median length of time that franchisees remain in the system: 7 years

Notes: 1) A total of 132 franchisors provided a response from an expected 286.
 2) The length of time ranged from 3 to 20 years.

Franchising relationship

Franchisors were asked to report their level of agreement with a series of statements detailing approaches to dealing with and negotiating with franchisees in their system. Overall, a majority of respondents confirmed the importance of open communication, inclusive decision-making, clarifying roles and priorities and conciliatory behaviours in arriving at mutually beneficial outcomes. Slightly higher support was given to the importance of factors such as directly discussing problems (96 percent agreement), showing benefits to franchisees (95 percent agreement), clarifying and communicating priorities clearly (94 percent agreement), and getting concerns and issues out in the open (92 percent agreement). Less support was shown towards finding middle ground with franchisees (79 percent agreement), appeasing negative feelings by meeting half-way (48 percent agreement), making convincing arguments to achieve desired outcomes (55 percent agreement), and allowing franchisees to have some of their demands met in an attempt to realise franchisor demands (32 percent agreement).

Generally, franchisor respondents indicated that they adopted flexible and inclusive approaches to managing franchising relationships. Although a majority of franchisors reported the importance of making convincing arguments to achieve their own ends (55 percent agreement), less than half (43 percent) confirmed a commitment to initial positions throughout resolution processes and only 7 percent of respondents agreed that they would terminate a relationship should franchisees not accept their current position. Fully 83 percent of franchisors agreed that they would not resort to making implicit threats to ensure compliance and just under three quarter of respondents (74 percent) would accommodate franchisees challenging approaches to franchisor policy.

B9 *Using the scale provided, please rate the following statements when working or negotiating with franchisees.*

Response (Strategies for negotiating with franchisees)	Strongly disagree	Disagree	Neither	Agree	Strongly agree
	Percent	Percent	Percent	Percent	Percent
Lean toward a direct discussion of the problem	0.5	0.0	3.2	44.1	52.3
Try to show them the logic and benefits of our position	0.5	0.0	4.1	47.7	47.7
Communicate our priorities clearly	0.5	1.4	4.5	52.7	40.9
Attempt to get all our concerns and issues in the open	0.5	0.5	7.3	44.5	47.3
Try to find the middle ground between our position and theirs	0.5	4.1	16.8	61.8	16.8
Try to soothe their feelings and preserve our relationship by meeting them half way	1.4	17.3	33.2	37.7	10.5
Try to find a fair combination of gains and losses for both of us	5.5	0.0	25.8	53.0	15.7
Let them have some of their positions if they let us have some of ours	5.1	23.6	38.9	24.1	8.3
Make convincing arguments to achieve our own end	3.2	15.5	26.4	43.2	11.8
Are committed to our initial position throughout the resolution process	4.1	17.0	36.2	37.2	5.5
Try to create the impression there is nothing we can do to change the terms of our position	13.4	47.7	25.5	11.6	1.9
Insist our position is the best alternative to solve the dispute	12.8	29.4	41.3	13.8	2.8
Threaten to break off the relationship if they refuse to accept our position	33.9	42.7	17.0	6.0	0.5
Make implicit threats should they not comply with our request	49.5	33.0	13.8	3.2	0.5
Express strong displeasure with their behaviour when they challenge our stand	34.9	39.4	17.4	7.3	0.9
Try to win our position by any means	52.1	31.8	13.8	2.3	0.0

Notes 1) A total of 216 franchisors provided a response from an expected 286.

Franchising disputes

Some 17 percent of franchisors reported that they had been involved in a substantial dispute with a franchisee over the previous 12 month period (that is, a dispute with a franchisee referred to an external advisor for action). This represents a reduction from the 35 percent figure reported in 2006. The majority of disputes occurred within the accommodation and food services sector (40 percent), retail trade operations (21 percent), and the transport, postal and warehousing industry (8 percent). On average, franchisors that were in dispute were in larger and older systems that had been franchising for longer periods than those that were not. Generally these franchisors had in excess of 50 units and had been franchising for in excess of 14 years. In comparison, franchisors not in dispute had around 20 units and had been franchising for approximately 9 years. Given this, the current level of dispute may be a reflection of the size and tenure of many franchise systems in Australia which may change as systems (and the franchising sector) matures.

Most of the disputes were with an average of 2 franchisees. Reported disputes were at the stage of correspondence with a solicitor (66 percent), mediation (28 percent) and litigation with a franchisee (6 percent). The larger proportion of disputes being resolved through mediation, rather than litigation, is consistent with the findings reported in 2006. Franchisor initiated actions were only slightly higher than those initiated by franchisees.

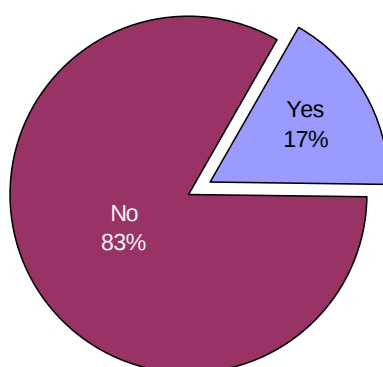
Major causes of substantial disputes were compliance with the system (66 percent), profitability (37 percent), territorial issues (21 percent), communication problems (18 percent) and fees (16 percent). Other causes of disputes nominated by franchisors included unrealistic franchisee expectations, lack of franchisee commitment to franchise operations, and insufficient correspondence from franchisee legal representatives regarding disclosure document requirements.

B10 *In the past 12 months, has your organisation been involved in any dispute with a franchisee that has been referred to an external advisor for action?*

Response (Disputes)	Number of responses	Percent
Yes	38	17
No	186	83
Total	224	100.0

Notes: 1) A total of 224 franchisors provided a response from an expected 286.

Disputes

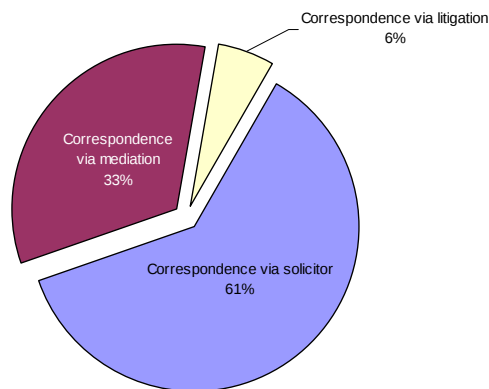


B11 Please indicate the number of franchisees involved in these disputes.

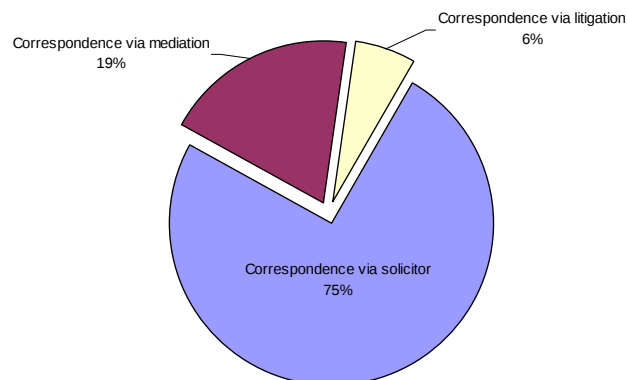
Response (Action)	Initiated by franchisor			Initiated by franchisee		
	Number of Franchisors	Number of franchisees	Percentage of franchisees	Number of franchisors	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	21	76	61.3	21	50	74.6
Mediation	17	41	33.1	10	13	19.4
Litigation	4	7	5.6	4	4	6.0
Total		124	100.0		67	100.0

Notes: 1) A total of 35 franchisors provided a response from an expected 38.
2) Multiple responses were recorded for some respondents.

**Disputes initiated by franchisor
Proportion of franchisees**

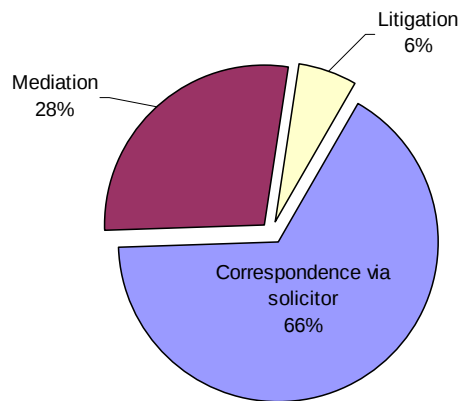


**Disputes initiated by franchisees
Proportion of franchisees**



Response (Action)	Total disputes	
	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	126	66.0
Mediation	54	28.3
Litigation	11	5.7
Total	191	100.0

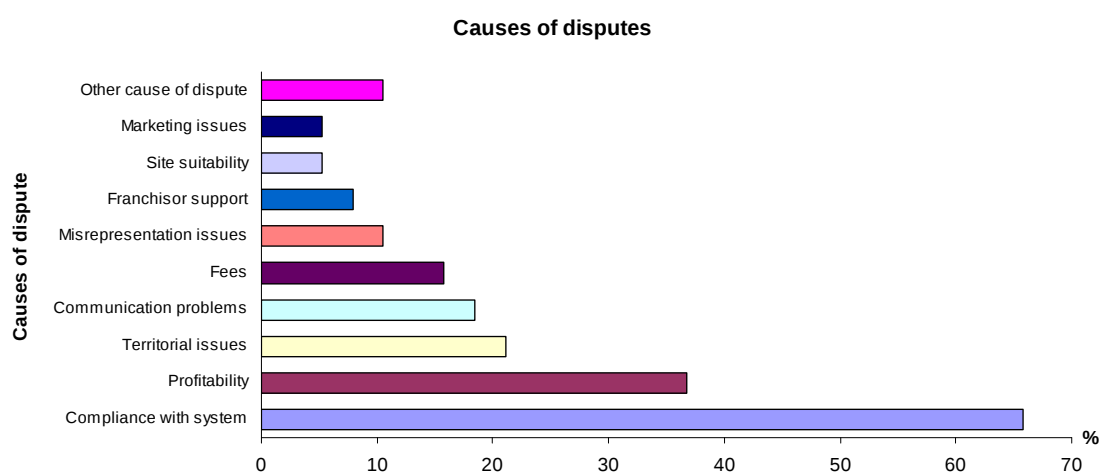
Total disputes
Proportion of franchisees



B12 *What do you consider were the main causes of these disputes?*

Response (Causes of disputes)	Number of responses	Percent
Compliance with system	25	65.8
Profitability	14	36.8
Territorial issues	8	21.1
Communication problems	7	18.4
Fees	6	15.8
Misrepresentation issues	4	10.5
Franchisor support	3	7.9
Site suitability	2	5.3
Marketing issues	2	5.3
Other cause of dispute	4	10.5

Notes: 1) The expected total of 38 franchisors provided a response.
2) Multiple responses were recorded for some respondents.



Franchisee conflict

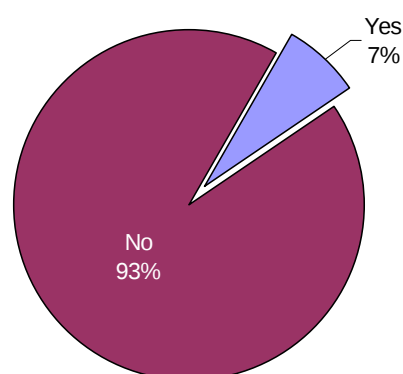
Less than 10 percent of franchisors indicated that their franchisees had associated for adversarial purposes such as class actions or franchisee membership associations. This may be indicative of low levels of conflict in the sector, or alternatively, that franchisors are unaware of franchisee activities. Franchisors reported that when franchisees sought to communicate negative messages about the franchise system they most often used franchisee meetings , chain emails, and websites/blogs.

B13 *Have any of your franchisees associated in any way for adversarial purposes?*

Response (Franchisees associated)	Number of responses	Percent
Yes	15	7.2
No/Don't know	194	92.8
Total	209	100.0

Notes: 1) A total of 209 franchisors provided a response from an expected 286.

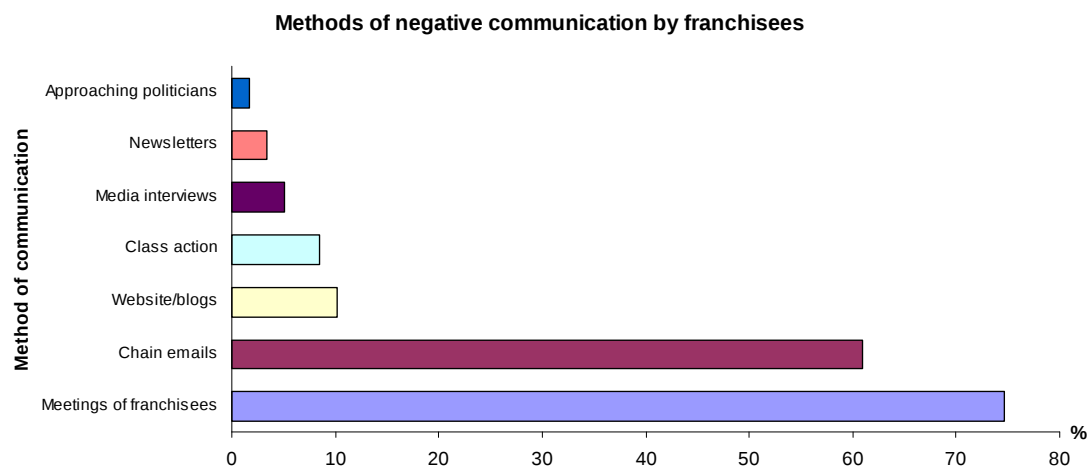
Franchisees associated for adversarial purposes



B14 *Have any of your current or former franchisees used any of the following methods to communicate negative messages about your system?*

Response (Methods of negative communication)	Number of responses	Percent
Meetings of franchisees	44	74.6
Chain emails	36	61.0
Website/blogs	6	10.2
Class action	5	8.5
Media interviews	3	5.1
Newsletters	2	3.4
Approaching politicians	1	1.7

Notes: 1) A total of 59 franchisors provided a response from an expected 286.
2) Multiple responses were recorded for some respondents.



Franchised unit changes

In the 2007 financial year approximately 9 percent of total franchised units experienced some form of change in ownership which is consistent with 2006 results. Thus, the majority of franchised units (91 percent) experienced no change of ownership. Only 1 percent of franchise agreements were terminated. Similarly, fewer than 2 percent of franchised units ceased to operate within this 12-month period, continuing to support the notion that franchising failure rates are low.

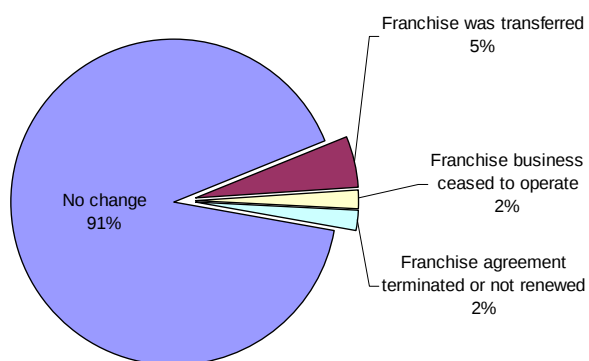
The most common cause of changes in franchised units was due to franchisees attaining their personal goals (29 percent of total units). However, the franchisees' lack of suitability was cited as a reason for changeover in 17 percent of cases and personal or family reasons was the cause in 18 percent of unit changes.

B15 *Please obtain data from your disclosure document to answer this question (Annexure 1 S6.4). For the last financial year (2007), please state the number of franchise units involved in the following activities.*

Response (Franchise unit change)	Number of franchisees affected	Percent	Percentage of total (15875) franchised units held
Franchise was transferred	855	62.5	5.4
Franchise business ceased to operate	238	17.4	1.5
Franchise agreement terminated by franchisor	76	5.6	0.5
Franchise agreement terminated by franchisee	65	4.7	0.4
Franchise agreement not renewed when expired	48	3.5	0.3
Franchise business bought back by franchisor	59	4.3	0.4
Franchise agreement terminated and franchised business acquired by franchisor	28	2.0	0.2
Total	1369	100.0	8.7

Notes: 1) A total of 189 franchisors provided a response from an expected 286.

Franchised unit changes 2007

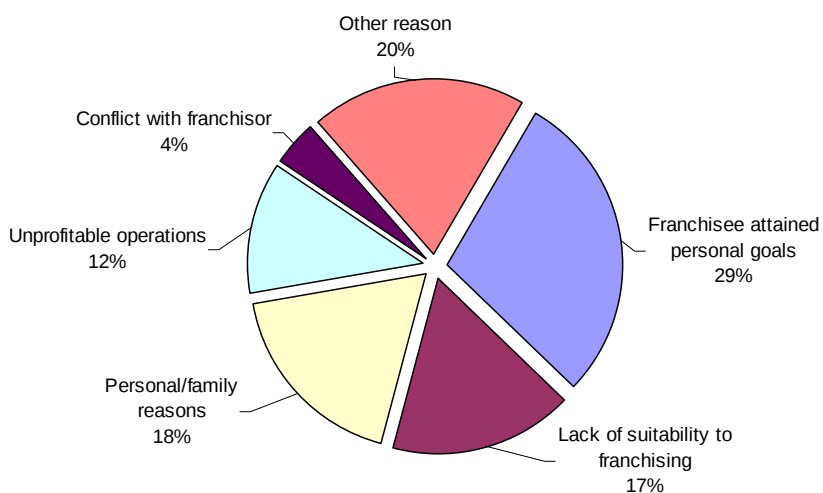


B16 What percentage of units from the previous question are due to:

Response (Reasons for unit exits and transfers)	Percentage of franchisees
Franchisee attained personal goals	28.8
Personal/family reasons	18.2
Lack of suitability to franchising	17.0
Unprofitable operations	12.1
Conflict with franchisor	4.1
Other reason	19.8
Total	100.0

Notes: 1) A total of 143 franchisors provided a response from an expected 189.
 2) As the data are normally distributed, the mean has been reported as the average.

Reasons for franchised unit changes 2007



C. Franchise operations

Franchising strategies

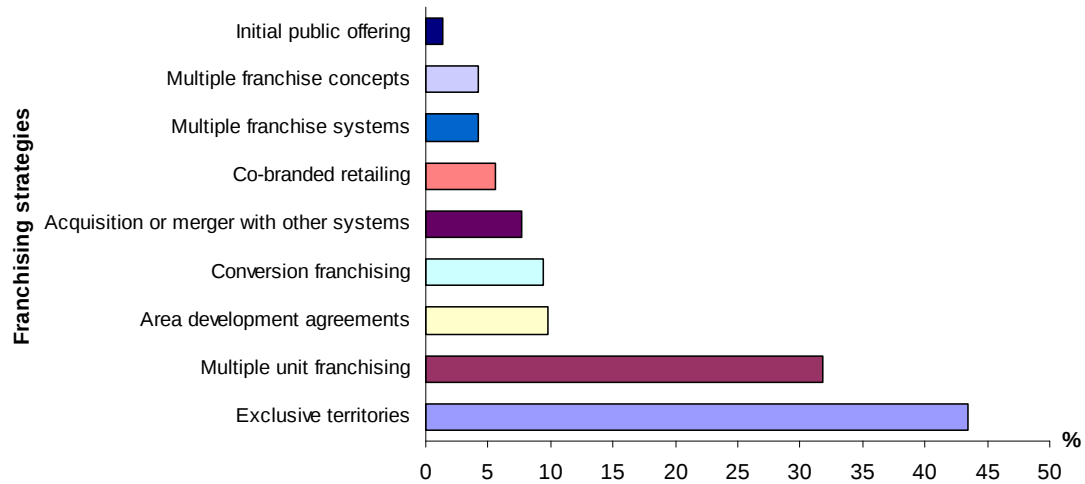
Consistent with results reported in the 2004 and 2006 survey, many systems have continued to adopt specific growth strategies, reflecting an increased ability for franchisors to focus on more sophisticated franchise opportunities. The most frequently used strategies were exclusive territories (43 percent) and multiple unit franchising (32 percent). Both of these activities occur predominantly in retailing. Other commonly used growth strategies were area development agreements (10 percent), conversion franchising (9 percent), acquisition or merger with another system (8 percent), and co-branded retailing (6 percent). The trend towards operation of multiple franchise systems utilising different names and multiple concepts continued, enabling franchisors to diversify their portfolios and reduce operational costs. The above activities suggest that franchisors are moving beyond single franchise concept offerings in order to stimulate system expansion in a maturing market.

C1 Do you use any of the following franchising strategies?

Response (Franchising Strategies)	Number of responses	Percent
Exclusive territories	124	43.4
Multiple unit franchising	91	31.8
Area development agreements	28	9.8
Conversion franchising	27	9.4
Acquisition or merger with other systems	22	7.7
Co-branded retailing	16	5.6
Multiple franchise systems	12	4.2
Multiple franchise concepts	12	4.2
Initial public offering	4	1.4
Other strategy	5	1.5

Notes: 1) All 286 franchisors provided a response.
 2) Multiple responses were recorded for some respondents.

Franchising growth strategies



Master franchising

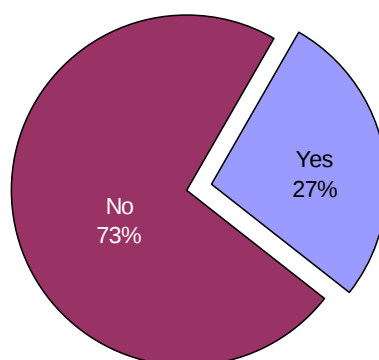
Just over one quarter (27 percent) of franchisors, in both retail and non-retail sectors, utilised a master franchising strategy. In most cases only one master franchisee was appointed. The majority of franchisors (91 percent) who used master franchising arrangements agreed that their primary motivation for doing so was due to the distance of operations from the corporate office. Fully 63 percent stated that master franchising was used as a method of providing additional support for franchisees, while reasons such as risk reduction (9 percent) and minimising contact with franchisees (7 percent) were regarded as less important.

C2 Do you use a master franchising arrangement within Australia?

Response (Master Franchising)	Number of responses	Percent
Yes	57	27.3
No	152	72.7
Total	209	100.0

Notes: 1) A total of 209 franchisors responded from an expected 286.

Master franchising



C3 How many master franchisees have you appointed in Australia?

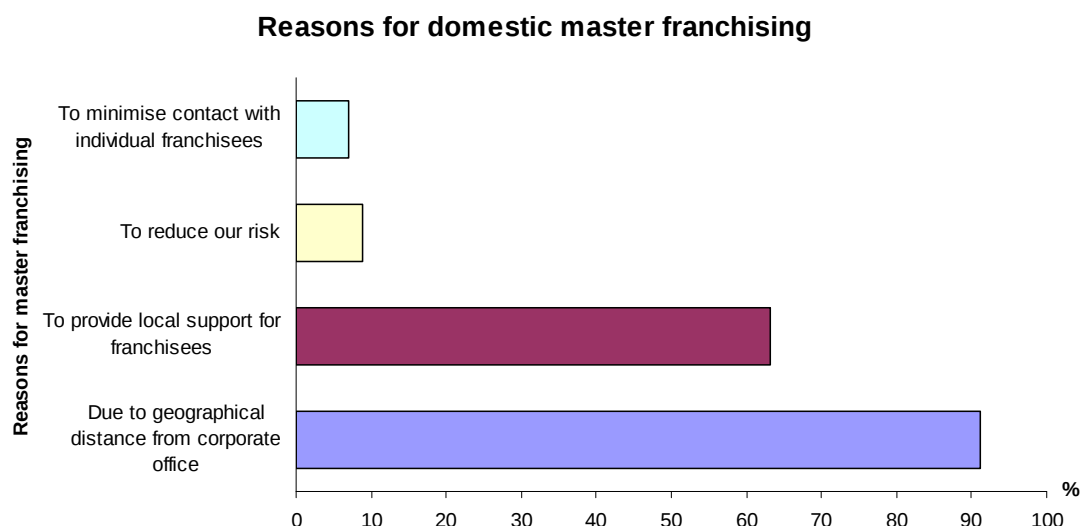
Median number of master franchisees appointed in Australia 1 master franchisee

- Notes: 1) The expected total of 57 franchisors provided a response.
 2) The number of master franchisees ranged from 1 to 8.

C4 Why do you use a master franchising arrangement in Australia?

Response (Reason for Master Franchising)	Number of responses	Percent
Due to geographical distance from corporate office	52	91.2
To provide local support for franchisees	36	63.2
To reduce our risk	5	8.8
To minimise contact with individual franchisees	4	7.0

- Notes: 1) The expected total of 57 franchisors provided a response.
 2) Multiple responses were recorded for some respondents.



International operations

Most franchise systems were Australian based operations (91 percent), which is consistent with previous survey results. This indicates that the majority of franchises are home-grown systems rather than overseas imports. Of the limited number of non-Australian based franchises operating domestically, only a further 3 percent reported that they possessed expansion rights outside of Australia. Of those franchisors who have the capacity to franchise internationally, just over one quarter (27 percent) responded that they were *currently* franchising overseas. The largest concentration of exported systems was in retailing. Franchisors operating internationally had been franchising for a median of 13 years and currently held a median of 47 franchised units in the domestic market.

New Zealand was the destination favoured by the majority of franchisors (67 percent), followed by the United Kingdom (22 percent), Europe (20 percent) and the United States of America (16 percent). In comparison, fewer franchisors were establishing operations in South-east Asia or the Middle East.

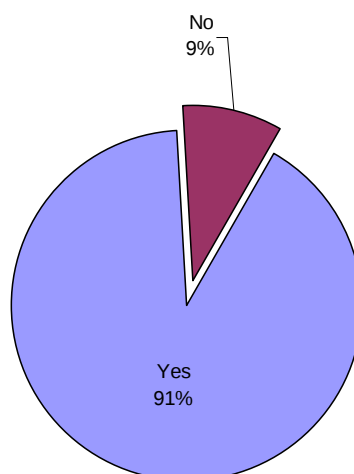
Two thirds (68 percent) of the international franchised and company-owned units were located within the English speaking nations of New Zealand, United Kingdom, Canada and United States of America. Some 12 percent of units were held in Europe and the remainder were mostly in South-East Asia.

C5 *Are you an Australian-based franchisor?*

Response (Australian-based franchisor)	Number of responses	Percent
Yes	231	90.9
No	23	9.1
Total	254	100.0

Notes: 1) A total of 254 franchisors provided a response from an expected 286.

Australian based franchisors

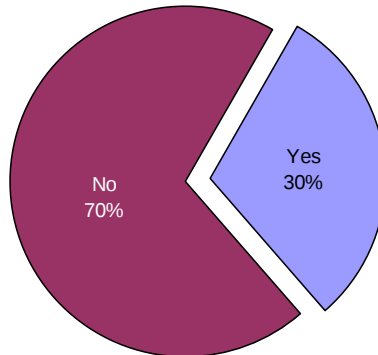


C6 *Do you have expansion rights outside Australia?*

Response (Expansion rights)	Number of responses	Percent
Yes	7	30.4
No	16	69.6
Total	23	100.0

Notes: 1) The expected total of 23 franchisors provided a response.

International expansion rights
Non-Australian-based franchisors

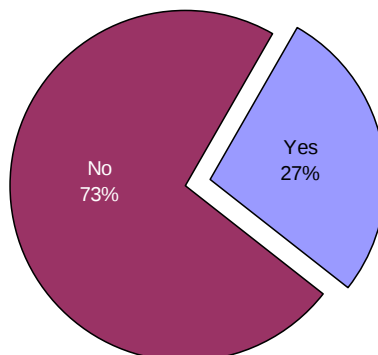


C7 *Are you franchising overseas?*

Response (Currently franchising overseas)	Number of responses	Percent
Yes	64	27.2
No	171	72.8
Total	235	100.0

Notes: 1) A total of 235 franchisors provided a response from an expected 238.

Franchising overseas



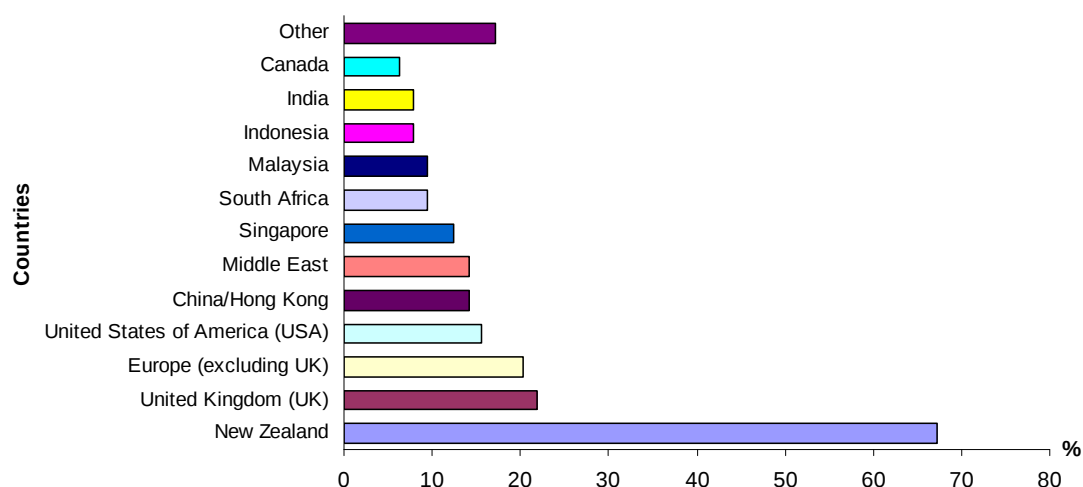
C8 *How many units (franchised and company-owned units) are held in these countries or regions?*

C9 *Are there any other countries or regions in which you are currently franchising?*

Response (Overseas units)	Franchised and company owned units			
	Number of franchisors	Percent	Total number of units	Percent
New Zealand	43	67.2	827	25.2
United Kingdom (UK)	14	21.9	653	19.9
Europe (excluding UK)	13	20.3	376	11.5
United States of America (USA)	10	15.6	137	4.2
China/Hong Kong	9	14.1	122	3.7
Middle East	9	14.2	89	2.7
Singapore	8	12.5	69	2.1
South Africa	6	9.4	56	1.7
Malaysia	6	9.4	24	0.7
Indonesia	5	7.8	279	8.5
India	5	7.8	23	0.7
Canada	4	6.3	625	19.1
Other	11	17.2	N/A	N/A
Total			3280	100.0

Notes: 1) The expected total of 64 franchisors provided a response.
2) Multiple responses were recorded for some respondents.
3) Other countries included Central America, Egypt, Nigeria, Zambia, Botswana, Fiji, Vanuatu, Korea, Thailand, Mexico, Chile, New Caledonia, Philippines and Poland.

Franchising by country



Reasons for international expansion

The majority of franchisors (59 percent) have been operating overseas since 2000, suggesting that international expansion remains a relatively new strategy for most. Franchisors held a median of 20 units (combined company-owned and franchised) prior to operating overseas, indicating that firms are proactively entering international markets prior to reaching domestic saturation. Some 14 percent of franchisors held no units in Australia prior to entering international markets.

Fully 88 percent of franchisor respondents suggested that they favoured new opportunities in overseas markets. Other drivers of international expansion included international expansion in geographical regions that were culturally similar with their local market (85 percent), requests by overseas investors (51 percent) and introducing new concepts in international markets (27 percent).

System growth was the most common reason for expanding franchise operations overseas (53 percent). This is further acknowledgement that Australia's small population and high (per-capita) concentration of franchise systems may encourage franchisors in many industries to enter overseas markets in order to expand operations. Requests by overseas investors (25 percent) and success in domestic markets (16 percent) encouraged international expansion. Factors rating as unimportant by franchisors included increased domestic market competition, falling domestic demand and international expansion as a means of accruing savings resulting from economies of scale.

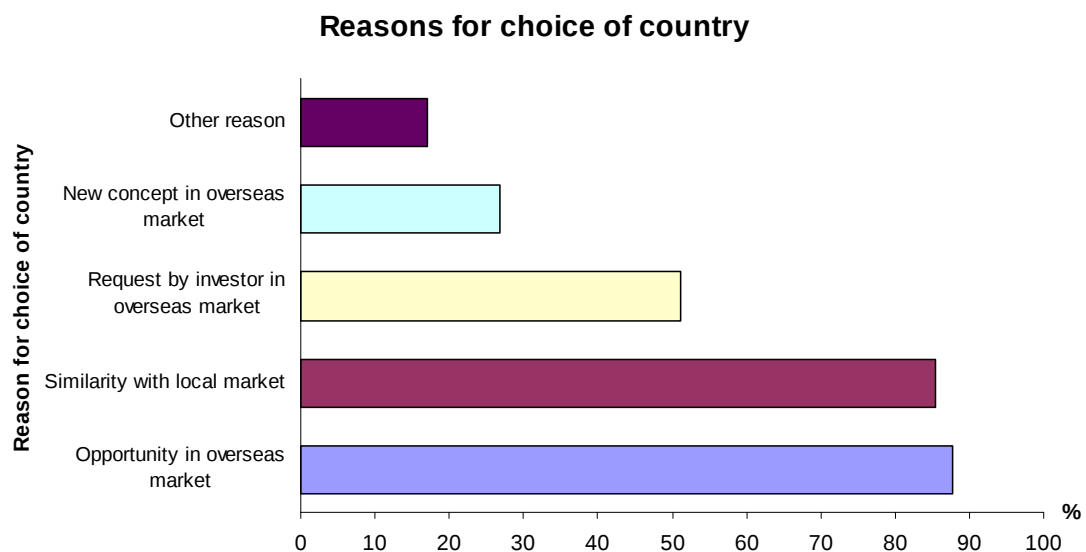
Master franchising was favoured by two thirds of franchisors (64 percent) as a means of international expansion, indicating that franchisors may view this entry mode as a means of minimising risk through delegating some recruitment and operational responsibility to sub-franchisors in distant markets. Others favoured 100 percent company ownership (17 percent), wholly-owned subsidiaries (16 percent), joint venture arrangements (14 percent) and area development contracts (8 percent).

Franchisors are optimistic about their domestic expansion plans, anticipating opening a median of 5 new franchise units in 2008 and a further 8 in 2009.

C10 Why did you choose the above country/countries for your international expansion?

Response (Reason for choice of country)	Number of responses	Percent
Opportunity in overseas market	36	87.8
Similarity with local market	35	85.4
Request by investor in overseas market	21	51.2
New concept in overseas market	11	26.8
Other reason	7	17.1

- Notes: 1) A total of 41 franchisors provided a response from an expected 64.
 2) Multiple responses were recorded for some respondents.
 3) A range of other motivations was reported by 7 respondents (country of origin of franchise founders, recommendations from Austrade, proximity to Australia, English speaking countries).

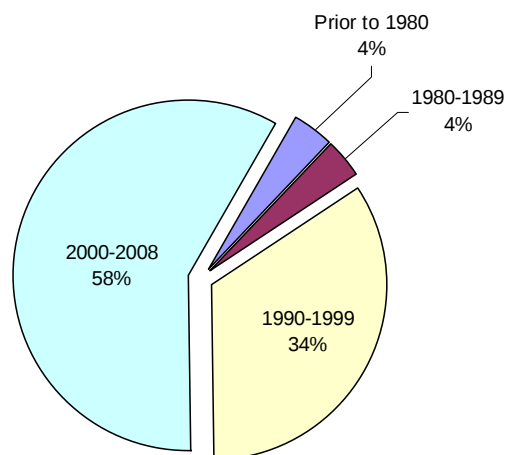


C11 In what year did you commence international operations?

Response (Year)	Number of responses	Percent
Prior to 1980	2	3.8
1980-1989	2	3.8
1990-1999	18	33.9
2000-2008	31	58.5
Total	53	100.0

Notes 1) A total of 53 franchisors provided a response from an expected 64.

Year commenced international operations



C12 How many units did you hold in Australia prior to franchising overseas?

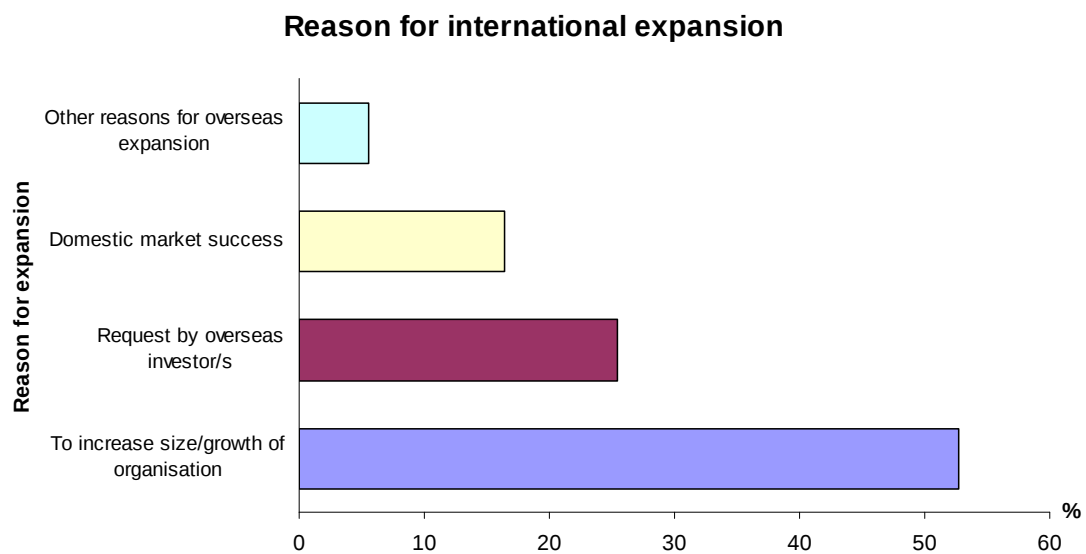
Median number of combined franchised and company-owned units prior to overseas expansion – 20

- Notes:
- 1) A total of 50 franchisors provided a response from an expected 64.
 - 2) The number of franchised and company-owned units ranged from 0 to 400.
 - 3) Seven franchisors held no domestic franchised units prior to expanding overseas.

C13 Why did you expand your operations overseas?

Response (Reason for expansion)	Number of responses	Percent
To increase size/growth of organisation	29	52.7
Request by overseas investor/s	14	25.4
Domestic market success	9	16.4
To achieve economies of scale	0	0.0
Increased domestic competition	0	0.0
Downturn in domestic market	0	0.0
Other reasons for overseas expansion	3	5.5
Total	55	100.0

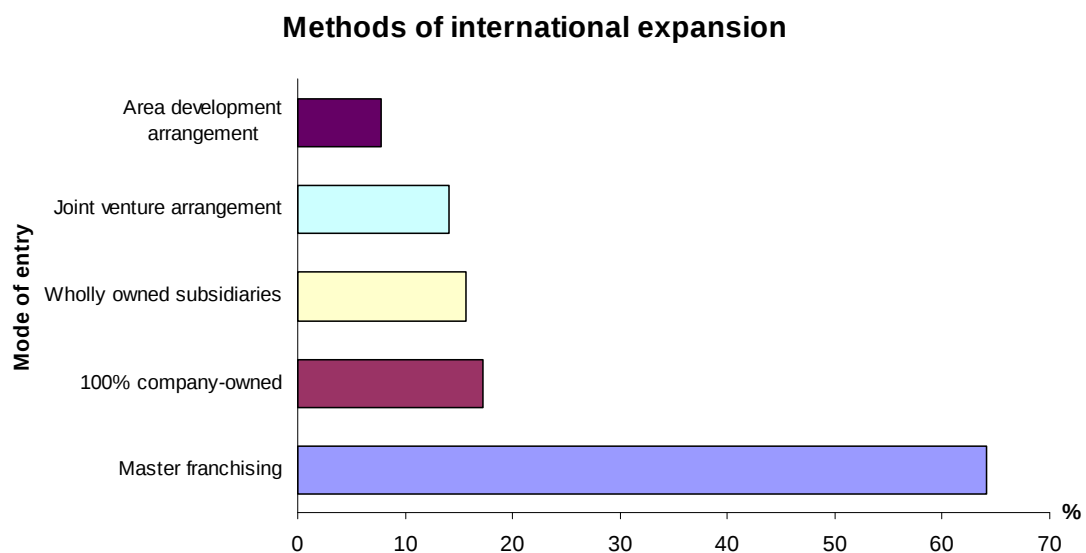
Notes: 1) A total of 55 franchisors provided a response from an expected 64.



C14 Which method of entry did you choose for international expansion?

Response (Mode of entry)	Number of responses	Percent
Master franchising	41	64.1
100% company-owned	11	17.2
Wholly owned subsidiaries	10	15.6
Joint venture arrangement	9	14.1
Area development arrangement	5	7.8

Notes 1) The expected total of 64 franchisors provided a response.
2) Multiple responses were recorded for some respondents.

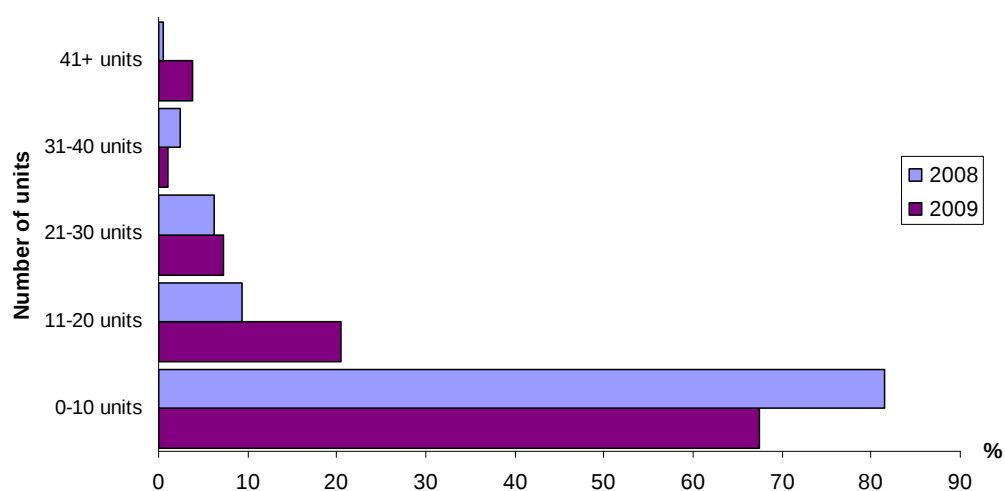


C15 *How many franchise and company owned units (in total) do you expect to open in Australia over the next two years?*

Response (Forecasted growth)	2008		2009	
	Number of franchisors	Percent	Number of franchisors	Percent
0-10 units	167	81.5	138	67.4
11-20 units	19	9.3	42	20.4
21-30 units	13	6.3	15	7.3
31-40 units	5	2.4	2	1.0
41+ units	1	0.5	8	3.9
Total	205	100.0	205	100.0

- Notes: 1) A total of 205 franchisors provided a response from an expected 286.
2) Franchisors expected a median increase of 5 units in 2008 and 8 units in 2009.
3) A total of 14 franchisors expected no growth in 2008 and 9 expected no growth in 2009.
4) Franchisors reported expected growth ranging from 0 to 71 units in 2008 and 0 to 100 units in 2009.

Forecasted growth in domestic operations 2008-2009



Franchisor confidence

In this section, franchisors were asked a series of questions to assess current levels of confidence in franchise business operations and the national economy. In addition, respondents were asked to detail types of assistance they felt were required to assist in business development and what specific economic conditions, industry/government assistance and infrastructure should be available to promote sustainable franchise systems.

The combined responses of franchisors reflect weak business sentiment with a marginal improvement in outlook for external market and economic conditions affecting their businesses over the next 12 months. Overall, franchisors have less confidence in the national economy performing effectively over the next 12 months.

Franchisors were also asked to comment on levels of gross sales/revenue, profitability, staffing levels, capital investment and research and development investment in their systems over the past 12 months and over the next year. The majority of franchisors responded that sales and profitability levels had increased over the past 12 months and would continue this trend for the next 12 months. Conversely, staffing levels and capital/research and development investment were reported to be static or in decline over the past 12 months, with this trend expecting to continue in the near future.

When comparing these figures with confidence levels, it is apparent that franchisors have a negative perception of the economy over the next 12 months. This is further supported by the data presented in the next section (franchise sustainability) where interest rates and national/international economic performance are seen as critical for the future sector development and prosperity.

C16 *How do you rate current business conditions in your industry versus 12 months ago?*

Response (Important issues for franchise confidence)	Very poor	Poor	No change	Good	Very good
	Percent response	Percent response	Percent response	Percent response	Percent response
How do you rate current business conditions in your industry versus 12 months ago?	2.4	28.5	23.7	39.1	6.3
How do you expect your industry to perform over the next 12 months?	1.9	15.5	23.2	47.3	12.1
How do you expect the national economy to perform over the next 12 months?	3.9	49.8	26.6	18.8	0.9

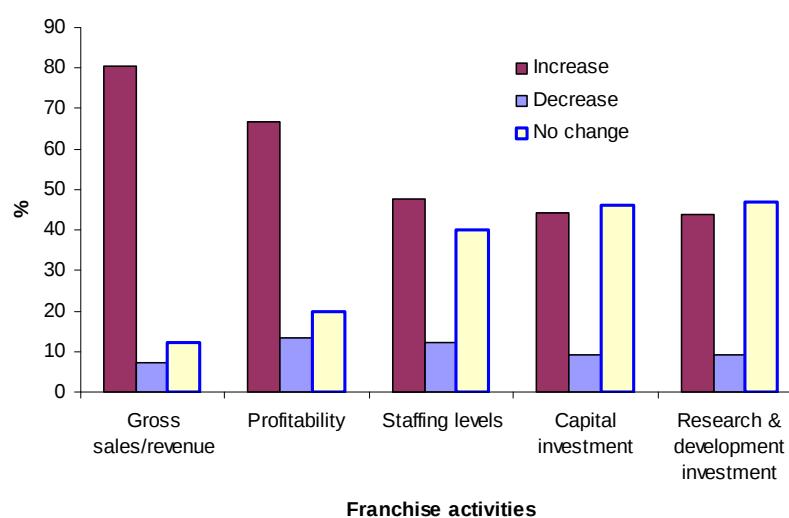
Notes: 1) A total of 207 franchisors provided a response from an expected 286.

C17 *In your franchise system, please indicate whether you expect an increase, decrease or no change over the next 12 months for the following areas:*

Response (Level of franchise system activity)	Increase	Decrease	No change
	Percent	Percent	Percent
Gross sales/revenue	80.5	7.3	12.2
Profitability	66.8	13.2	20.0
Staffing levels	47.8	12.2	40.0
Capital investment	44.4	9.3	46.3
Research & development investment	43.9	9.3	46.8

Notes 1) A total of 205 franchisors provided a response from an expected 286.

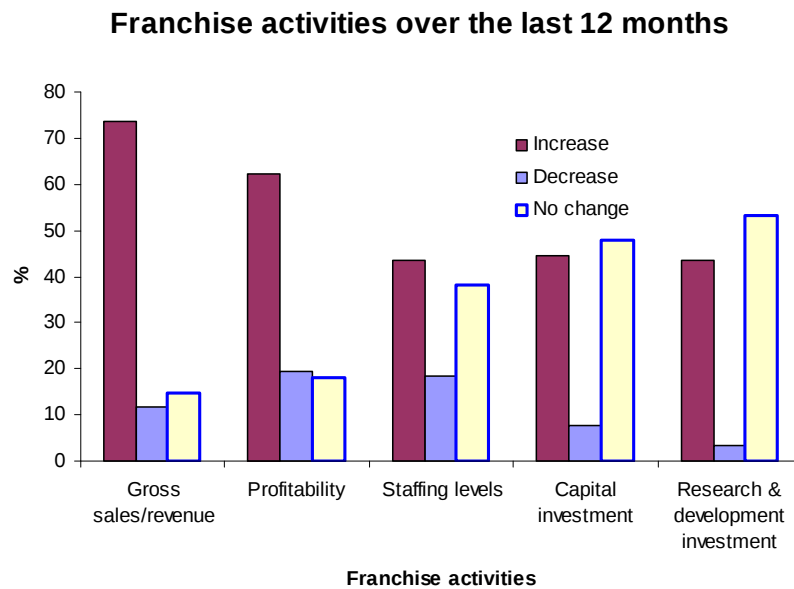
Franchisor expectations of operations over next 12 months



C18 Did any of the following activities in your franchise system over the past 12 months increase, decrease or remain stable?

Response (Level of franchise system activity)	Increase	Decrease	No change
	Percent	Percent	Percent
Gross sales/revenue	73.7	11.7	14.6
Profitability	62.4	19.5	18.1
Staffing levels	43.4	18.5	38.1
Capital investment	44.4	7.8	47.8
Research & development investment	43.4	3.4	53.2

Notes 1) A total of 205 franchisors provided a response from an expected 286.



Franchise assistance and sustainability

In this section franchisors were asked to respond to a range of issues concerning internal and external business assistance. Franchisors reported that business planning was a key area in which they require assistance, possibly reflecting the volatile nature of retailing in the Australian economy. Staff and management training and recruitment were seen as important areas reflecting the expected shortage of labour in the national economy. Further areas of marketing training, access to new markets, access to capital, information on existing and/or new markets, supply chain improvements and transport efficiencies were all seen as reasonably important areas in which franchisors require support to further grow their business operations.

C19 *On the scale provided please indicate which of the following areas of assistance you require to grow your business:*

Response (Assistance required to grow business)	Very unimportant	Unimportant	Neither	Important	Very important
	Percent	Percent	Percent	Percent	Percent
Staff training	1.0	2.9	10.7	45.1	40.3
Management training	1.0	1.9	13.6	50.0	33.5
Business planning	1.0	1.0	15.5	39.8	42.7
Access to new markets	0.5	6.8	26.2	45.6	20.9
Access to capital	2.4	8.2	24.3	47.6	17.5
Information on existing and/or new markets	0.5	6.8	29.6	50.0	13.1
Recruitment of qualified staff	0.5	3.4	24.8	43.2	28.1
Marketing training	1.0	2.9	27.2	51.4	17.5
Supply chain improvements	4.4	8.7	36.4	39.3	11.2
Transport efficiencies	7.2	11.2	39.3	31.1	11.2

Notes 1) A total of 206 franchisors provided a response from an expected 286.

Franchisors were also asked to respond to a range of issues that may potentially impact their businesses. This is also relative to the section on current business conditions which asked broadly about external influences to their franchise systems. Franchisors perceived that interest rates are critical to franchise sustainability, with broadband access, regulation compliance, availability of skilled staff and access to training/education also rating very highly. Areas such as global/national economic performance, availability of capital funding, population growth, access to industry networks, industrial relations environment, availability of unskilled/semi-skilled staff and transport and infrastructure were rated as less important. The Australian dollar exchange rate and access to government funding were rated as ‘neither important or unimportant’ by a majority of respondents.

C20 *On the scale provided please indicate the importance of the following issues in relation to your franchise system sustainability:*

Response (Important issues for franchise sustainability)	Very unimportant	Unimportant	Neither	Important	Very important
	Percent	Percent	Percent	Percent	Percent
Population growth	0.9	6.3	38.8	44.2	9.7
Availability of unskilled/semi-skilled staff	6.7	14.5	33.0	33.5	12.1
Availability of skilled staff	2.4	7.3	23.3	45.1	21.8
Australian dollar exchange rate	8.7	17.9	42.2	25.2	5.8
Interest rate (reductions)	1.9	6.3	17.4	51.4	22.8
Global/national economic performance	1.9	4.8	27.6	53.8	11.6
Regulation compliance	1.4	4.3	30.1	43.2	20.8
Transport and infrastructure	5.3	11.1	45.1	33.0	5.3
Availability of capital funding	1.9	6.3	34.9	42.2	14.5
Access to training/education	0.9	4.3	27.6	53.4	13.6
Industrial relations environment	2.9	10.2	45.1	31.5	10.2
Broadband access	1.9	8.7	23.8	37.8	27.6
Access to industry networks	1.9	9.2	43.2	35.9	9.7
Access to government funding	5.3	19.4	54.3	16.0	4.8
Other sustainability issues	0.0	0.0	0.0	0.0	2.9

- Notes 1) A total of 206 franchisors provided a response from an expected 286.
2) Other sustainability issues reported by 6 franchisors included changes in regulation of specific industries, the price of fuel, and green products.

