



FRANCHISING Australia



2004



Prepared by

Lorelle Frazer
and Scott Weaven

Franchising Australia 2004 Survey

Sponsored by
Australian Trade Commission
and
Franchise Council of Australia

Prepared by
Lorelle Frazer and Scott Weaven
Service Industry Research Centre
Griffith University



Australian Government
Australian Trade Commission

Franchising Australia 2004

Copyright © 2004
Griffith University

Enquiries may be directed to the authors via:

Associate Professor Lorelle Frazer
Service Industry Research Centre
Griffith University
Brisbane Q 4111
Tel: +61 7 3382 1142
Fax: +61 7 3382 1981
Email: L.Frazer@griffith.edu.au

Dr Scott Weaven
Service Industry Research Centre
Griffith University
Brisbane Q 4111
Tel: +61 7 5552 9216
Fax: +61 7 5552 8085
Email: S.Weaven@griffith.edu.au

Foreword

Griffith University is proud to endorse the *Franchising Australia 2004* survey sponsored by the Australian Trade Commission and the Franchise Council of Australia.

Franchising Australia 2004 provides a comprehensive report on the status of the Australian franchising sector from the franchisor perspective. It provides evidence of the continuing growth and maturity of franchising in this country. For example, the report indicates:

- There are approximately 850 business format franchise systems in Australia in 2004, compared with 700 in 2002.
- Fully 92 percent of franchise systems are of Australian origin.
- There are an estimated 54 000 units operating in business format franchises.
- The growth rate in franchised units from 2002 to 2004 is 14 percent.
- Some 507 000 persons are employed in business format franchise organisations.

In addition to the above impressive growth of franchising, there are signs of increasing maturity and solidarity in the sector. In the past 12 months, fewer than 2 percent of franchisees were involved in a substantial dispute with a franchisor. Mediation is being used to solve disputes more often than litigation, reflecting the effectiveness of the Franchising Code of Conduct. Similarly, fewer than 3 percent of franchised units ceased to operate over the past 12 months, supporting the notion that franchising failure rates are low.

The data collected in this survey has provided much needed up-to-date information about franchising in Australia. It will assist current and prospective franchisors in benchmarking their systems against others in Australia, and will assist current and prospective franchisees in making informed investment decisions.

I highly recommend this report to anyone with an interest in the Australian franchising sector. The authors are experienced franchising researchers who have produced a rigorous and detailed profile of franchising activities in this country. Griffith University is pleased to once again collaborate with the survey sponsors, the Australian Trade Commission and Franchise Council of Australia, in this important contribution to our knowledge of franchising in Australia.

Professor Christine Smith
Dean
Griffith Business School

Author profiles

Associate Professor Lorelle Frazer



Lorelle Frazer is an Associate Professor in the Department of Marketing and a member of the Service Industry Research Centre at Griffith University's Logan campus.

Associate Professor Frazer was the first person in Australia to complete a PhD in franchising and she has been an active franchising researcher for more than a decade. 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.

Associate Professor Frazer teaches franchising in the Griffith Business School at both undergraduate and postgraduate programs. Her postgraduate Franchise Structure and Management 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 in 1998, 1999, 2002 and 2004, have all been co-authored by Associate Professor Frazer.

Dr Scott Weaven



Dr Scott Weaven is an Associate Lecturer in the Department of Marketing and is a member of the Service Industry Research Centre at Griffith University's Gold Coast campus. He completed a PhD in franchising in 2004 and co-authored the *Franchising Australia* surveys in 2002 and 2004.

Dr Weaven is a member of the International Society of Franchising and has published his research in international academic refereed journals and conferences, including the *Journal of Marketing Channels*.

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

Sponsor profiles

The Australian Trade Commission and Franchise Council of Australia are pleased to endorse and sponsor the *Franchising Australia 2004* survey. The survey provides much needed current information about the status of the franchising sector and is an important research and educational tool for those interested in the sector's development. We congratulate Griffith University and researchers Associate Professor Lorelle Frazer and Dr Scott Weaven for once again producing a comprehensive report and for their ongoing commitment and contribution to Australian franchising.

Australian Trade Commission (Austrade)

Austrade is the federal government agency which helps Australian businesses, especially small to medium enterprises, win overseas business for their products and services. For franchise systems considering offshore expansion, Austrade can provide valuable assistance through its international network of representatives in over 100 locations around the world. From practical advice on internationalising, to assisting individual clients find overseas partners and buyers, Austrade helps to reduce the time, cost and risk involved in expanding internationally.

To discuss how Austrade can assist with international expansion plans, please contact:

Cheryl Scott
Industry Specialist – Franchising, Tourism and Service Exports
Austrade Sydney
Tel: +61 2 9390 2931
Email: cheryl.scott@austrade.gov.au



Franchise Council of Australia

The Franchise Council of Australia Limited (FCA) is the peak body for the Australian franchising sector, representing franchisees, franchisors and service providers to the sector.

Objectives

The Council was formed in 1983 as a non-profit trade association, with the following objectives:

- To establish standards of international best practice in business format franchising for Australian franchise systems;
- To provide information and education about franchising to existing and potential franchisees and franchisors; and
- To lobby state and federal governments on issues relevant to the sector.

Structure

The FCA is a nationally incorporated, not-for-profit association with its national head office in Melbourne, Victoria. It provides localised member services through five state chapters – one in each mainland state of Australia. Each state chapter elects a president who is automatically appointed to the national board. A further five national directors are appointed to the board by direct election from the membership, of whom three must be franchisor members and two from any membership category, making a total of 10 directors.

The FCA is closely associated with franchising associations around the world, and is a founding member of the Asia Pacific Franchise Conference (APFC). It is also a member of the World Franchise Council (WFC) and, in 1999 and 2000, was the Secretariat for the World Franchise Council.

Membership

Membership of the Franchise Council of Australia is voluntary, and is open to any organisation or individual involved in the franchising sector, including franchisees, franchisors, lawyers, accountants, banks, consultants, academics and publishers.



Executive summary

The results of the *Franchising Australia 2004* survey reveal that the Australian franchising sector continues to experience impressive growth. Franchising provides an efficient means of system expansion and continues to occur in a diversity of industries.

The key findings of the 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, data on motor vehicle and fuel retail franchises have been obtained from industry sources, including the Australian Bureau of Statistics, Australian Institute of Petroleum and the Motor Trades Association of Australia, and this information has been incorporated into the Executive Summary only.

Below are the highlights of the *Franchising Australia 2004* survey.

Total number of franchisors in Australia

Some 794 business format franchisors have been identified following an extensive search. However, 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 around 850 business format franchise systems operating in Australia in 2004. Of these, 92 percent are Australian-based franchise systems.

Following the introduction of the Franchising Code of Conduct (the Code) in 1998, growth in total systems slowed, but has again flourished as the comparison below reveals:

1998	693 franchisors
1999	708 franchisors
2002	700 franchisors
2004	850 franchisors

In brief, the increase in franchise systems over the past two years indicates that Australian entrepreneurs have embraced franchising as an effective and successful model for conducting business.

Total number of units in franchise systems in Australia

It is estimated that there are 50 600 business format franchised units operating together with some 3 400 company-owned units, producing a total of 54 000 units in

business format franchise systems. In addition, there are approximately 8 000 fuel retail outlets and 2 400 motor vehicle retail outlets.

Growth of franchise units in Australia

By comparing the estimated 50 600 business format franchised units operating in Australia in 2004 with the 44 400 units estimated in 2002, the franchising growth rate is 14 percent. This result represents a trend of continuous growth in the sector as indicated:

1998	38 500 business format franchise units
1999	40 900 units
2002	44 400 units
2004	50 600 units

Many franchise systems also hold company-owned units, often to train incoming franchisees or to trial new products and operational systems. The number of company-owned units has declined from 6 700 in 2002 to 3 400 units in 2004, indicating that franchisors are not acting opportunistically and taking over profitable franchised units. Moreover, given that approximately one third of franchisors provide finance to franchisees, it appears that franchisors are not using franchisees as a source of capital for expansion.

Hence, overall growth in the sector is strong, represented by significant increases in both the number of franchise systems and franchise units held.

Employment in the Australian franchising sector

The total number of persons employed in business format franchise systems is estimated to be 507 180. The growth in the sector noted above has been reflected in increased employment in franchising. In addition, the trend noted in 2002 of a greater use of permanent staff continues, indicating that franchising provides strong opportunities for those seeking career paths in the sector.

A comparison of employment figures since 1998 is as follows:

Employment type	2004	2002	1999	1998
Permanent full time	168 303	171 300	186 700	167 000
Permanent part time	252 595	156 900	41 900	34 000
Casual	86 282	60 300	324 600	382 000
Total	507 180	388 500	553 200	583 000

In addition, the total number of employees in motor vehicle retail franchises was approximately 45 000 and automotive fuel retail franchises employed 40 000.

Profile of franchise systems in Australia

Industries. The majority of franchising takes place in the retail non-food industry (30 percent of franchisors and 18 percent of franchise units). Next, the property and business services sector accounts for 24 percent of franchisors and some 21 percent of franchise units.

Age of systems. Franchisors have been operating their businesses for an average of 14 years and franchising for 11 years, demonstrating the level of maturity in the sector. On average, franchisors trialled their systems for two years prior to franchising, indicating that most ensured the concept was viable before using franchising to expand.

Size of systems. The average number of franchised units in 2001 was 20, rising to 26 in 2004. The majority of franchise systems are of small to medium size, with 60 percent of systems holding fewer than 30 franchised units. In contrast, some 15 percent of systems are large operations with more than 100 units.

Geographical distribution. The majority of franchising activity occurs in New South Wales (31 percent of total units). Both Queensland and Victoria hold 22 percent of total units. Generally, the degree of franchising activity is related to the population distribution across states.

System structure. Most franchise systems operate from specific commercial sites (69 percent), but some are home-based (24 percent) or mobile operations (25 percent), including combinations of these. Almost one third of franchisors use master franchising arrangements in their domestic operations.

Franchising disputes and unit closures

The level of disputes remains low in the franchising sector. Substantial disputes (those referred to an external advisor for action) were experienced by 39 percent of franchisors in the previous 12 month period, but most were with only 2 franchisees. Disputes resulting in mediation or litigation were experienced by only 18 percent of franchisors. The proportion of franchisees in disputes equates to less than 2 percent.

The effectiveness of the Franchising Code of Conduct is apparent in this area, with significantly more disputes being resolved through mediation than litigation. The most common causes of disputes were problems with system compliance and communication problems.

Patterns in changes in franchise unit ownership provide evidence of stability in the sector. During 2002-2003, the majority of franchised units (87 percent) did not change ownership. Of the remainder, most changes occurred when franchisees sold their businesses to new franchisees or the franchisor. Fewer than 3 percent of franchised units ceased to operate, supporting the notion that franchising failure rates are low. In addition, franchisees remain in the system for an average of 7 years, indicating that their businesses are operating profitably.

International expansion by Australian franchise systems

One third of Australian based systems are currently franchising internationally. Popular overseas destinations are New Zealand, Singapore, Malaysia, China, United Kingdom and the United States of America.

Those franchise systems which have expanded overseas have an average of 10 years' international experience. Despite this, the overseas holdings are quite small due to the many barriers faced by franchisors, including a lack of knowledge of foreign markets and lack of suitable business partners. Master franchising and joint venture arrangements are used by the majority of franchisors to structure their overseas operations.

Conclusion

The *Franchising Australia 2004* results provide evidence of the continuing growth and strength of the franchising sector in this country. Whilst there appears further room for growth domestically, many franchisors have begun exploring expansion opportunities internationally. Low levels of disputation and low failure rates indicate that franchising offers small business investors security and stability. In brief, the Australian franchising sector continues to mature and operate professionally.

Contents

Foreword	2
Author profiles	3
Sponsor profiles	5
Executive summary	7
Background	12
Introduction	13
Conduct of the survey	14
Survey results	17
A. Franchise operations	18
Franchise agreements	18
Franchisee recruitment and communication	20
Franchised unit changes	22
Franchised unit start-up costs	24
Franchise fees	25
Turnover (sales revenue) of franchise systems	28
Hindrances to growth	28
B. Franchisees	30
Availability of franchisees	30
Franchisee finance	31
Franchisee profile	33
Franchising disputes	36
C. International operations	42
International locations	42
International strategy	46
Preparation for international expansion	49
Contribution from international activity	52
D. Franchise profile	57
Industry	57
Location of franchisor corporate office	58
Age of franchise systems	59
Franchise structures	60
Growth of franchise systems	62
Geographical distribution	63
Mobile operations	66
Master franchising	67
Employment	67
Ownership structure	69
Current franchising issues	70

Background

Franchising Australia 2004 provides a detailed and comprehensive report on the status of the franchising sector in Australia. It continues the series of *Franchising Australia* surveys that were produced in 1998, 1999 and 2002. These regular reports provide snapshot views of franchising and enable comparisons to be made over time as the sector strengthens and matures.

Following the introduction of the Franchising Code of Conduct (the Code) in 1998 and the close scrutiny of the franchising sector by the Australian Competition and Consumer Commission (ACCC), it has been useful to gather information about the sector and to trace the effects of regulation on franchising practices and performance over time.

A major theme in the 2004 survey was to investigate the extent of international franchising operations by Australian franchisors. Given the current state of maturity of the sector, franchise systems need to look at innovative ways of maintaining growth. The 2004 survey examined these trends.

The Australian franchising sector experienced a period of rapid growth in the 1980s and 1990s, reflecting its level of early maturity and the lack of specific franchising legislation at that time. In 1998 a total of 693 business format franchisors was identified, expanding to 708 in 1999 and remaining at approximately 700 in 2002. This steadying of growth was predictable following the introduction of franchising legislation and a number of franchising system mergers.

In 2004, a total of 794 franchisors has been identified. However, 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 around 850 business format franchise systems operating in Australia in 2004. This represents significant growth in the past two years and indicates that the sector continues to strengthen and mature.

The data collected in the survey provides much needed current information about the Australian franchising sector, which often suffers from inaccurate reporting, speculation and generalisations. The results of the survey provide empirical support and evidence of continued positive franchising practices and performance in the sector.

Introduction

The *Franchising Australia 2004* survey was conducted from May to July 2004. The known population of business format franchisors was included in the survey.

The main purpose of the survey was to learn more about current practices and performance of the franchising sector and to enable meaningful comparisons to be made with data collected in previous years. The data collected in 2004 related to:

- A profile of the franchising sector in terms of age, size, growth and composition;
- Operational practices employed by franchisors, including franchise fee arrangements and dispute resolution procedures;
- A profile of franchisees; and
- The extent of international expansion by Australian franchisors.

Conduct of the survey

The Franchisors

Unlike the previous survey in 2002 when a sample of franchisors was surveyed, the current survey included the known population of Australian franchisors. During 2003, a database of franchisors was compiled by Griffith University researchers from 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 such as Franchising Magazine and capital city newspapers were scanned for information relating to franchise organisations. This resulted in the compilation of a database of 900 organisations assumed to be involved in franchising.

Following administration of the survey in 2004, the Griffith University database was modified to reflect information provided regarding active franchising arrangements. 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. Several organisations indicated that they were licensing arrangements, but as data was not routinely collected from nonrespondents, we are unable to say how widespread these arrangements are, or whether there is a trend towards licensing arrangements.

The lack of any official registration requirements on franchisors makes it impossible to state accurately the population. However, the search conducted by the researchers was extensive and we are confident that most franchisors were included in the survey. Hence, we estimate that the number of business format franchisors in Australia in 2004 is around 800. When multiple systems operating under a single brand name are considered, the number of franchise systems would approximate 850.

The Questionnaire

As with the 2002 survey, the current survey was conducted electronically via the internet. An online survey was chosen for a number of reasons. Firstly, it was an efficient and cost-effective means of administering the survey. Secondly, as the 2002 survey was successfully conducted electronically it was decided to use the same technique again. Finally, because the franchising sector is heavily surveyed for various purposes, it was decided to make the task as easy as possible for participants to complete.

However, there are drawbacks to conducting the survey online. Whereas a reasonable response was obtained in 2002 without requiring further follow-ups, we found it necessary to use an extensive series of follow-ups to elicit a similar response in 2004. The main reason appeared to be that email requests to complete the survey tended to be 'lost' in the huge volume of correspondence that is sent by email. In addition, some network security systems may have identified the emails as SPAM and automatically removed them. Furthermore, some email systems were incompatible with ours, causing the website link to be inactive. Similarly, some respondents

reported difficulty in reading the survey online, apparently because their internet browsers were an earlier version. In brief, whilst it was efficient to administer the survey online, it was inaccessible for some potential respondents.

The questionnaire was pilot tested in two stages. In stage one, a sample of 20 franchisors, 5 consultants and 10 academics pilot tested a hard copy of the survey instrument. Based on this feedback, several changes were made to the questionnaire and a revised version was pilot tested electronically to a new sample of 20 franchisors, 5 consultants and 16 academics. The franchisor feedback indicated that the survey was too long and seven questions were eliminated for the final version of the questionnaire. The 40 franchisors involved in the pilot tests were excluded from the main survey.

An email notification was sent by the chief researcher to the remaining franchisors, asking for their cooperation and providing a hypertext link to the survey website placed on a secure server at Griffith University. Only the chief researcher had access to the submitted surveys. Respondents were asked to name their systems in the survey responses, enabling the researcher to identify who had responded. Two follow-up emails and two follow-up telephone calls were made to nonrespondents over a period of two months. Respondents were invited to complete and submit the survey electronically or request a hard copy of the questionnaire in the mail. Several respondents were contacted to obtain missing data from their submissions. At no stage did either of the survey sponsors, Austrade or FCA, observe the questionnaires or raw data collected.

Survey responses

Surveys were sent to the known population of franchisors as follows:

Organisations listed on database		891
Less mergers and double ups (listings under different names)	4	
Less organisations assumed no longer operating	8	
Less organisations not yet franchising	12	
Less organisations no longer franchising	34	
Less organisations identifying as not involved in franchising	<u>39</u>	<u>97</u>
Confirmed population of franchisors		794
Less pilot study participants	40	
Less organisations who would not provide an email address	20	
Less returned emails (generally returned due to mailbox being full)	<u>34</u>	<u>94</u>
Total number of organisations included in sample		700

Of the 700 franchisors included in the sample, 126 responses were received electronically and 22 by mail, totalling 148 useable responses overall and giving a response rate of 21.1 percent. This is identical to the 21.1 percent response rate (114 responses) recorded in 2002, although it required a more intensive follow-up procedure to obtain this result in the current survey.

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. There may be a difference between those who responded and those who chose not to participate. Two tests were performed to determine whether nonresponse bias was evident.

Firstly, the common statistical test of comparing early with late respondents was conducted on several key variables (industry category, number of years operating, number of years franchising, number of franchised units, total number of units, initial franchise fee, percentage royalty, total start-up investment for a new franchise unit, and substantial disputes). Late respondents are assumed to be similar to nonrespondents because they respond less readily and only after prompting. Only the industry category variable showed a significant difference between the two groups.

Secondly, a simple random sample of 30 nonrespondents was compared with the 148 respondents on several key variables. Information for nonrespondents was obtained via publicly available information on company websites. The variables examined were corporate office location, industry category, number of years operating, total number of outlets, and total start-up investment for a new franchise unit. This test indicated that nonresponse bias did not exist. 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.

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 2004

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. For example, if a range of values was provided as a response, an average value was calculated. 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 as the 'average' unless otherwise stated.

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.

A. Franchise Operations

Franchise agreements

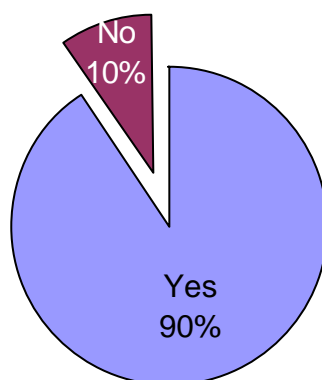
The majority of franchisors used a fixed term franchise agreement. Fully 91 percent of respondents specified a fixed period of time for their franchise agreements, with the remainder favouring a perpetual agreement. The average length of time granted in initial agreements was 5 years, with almost two thirds of franchisors choosing a term of this duration. The next most common term was 10 years, adopted by 21 percent of respondents. Some 62 percent of franchisors chose a renewal term of 5 years, with 23 percent favouring a 10 year term.

A1 *Is your current franchise agreement for a fixed term?*

Response (Fixed term agreement)	Number of responses	Percent
Yes	134	90.5
No	14	9.5
Total	148	100.0

Notes: 1) All 148 respondents answered this question.

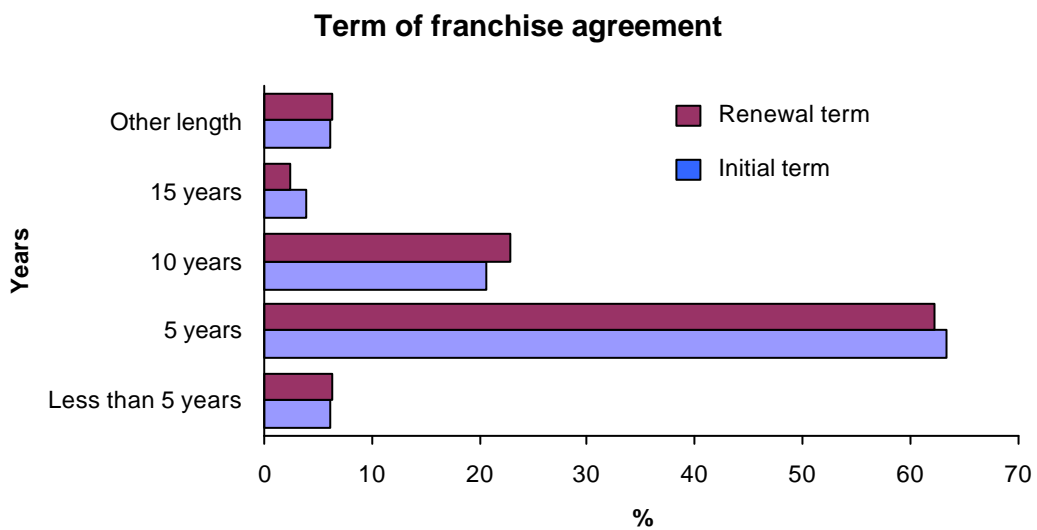
Fixed term franchise agreement



A2 What is the term of your current franchise agreement?

Response (Term of agreement)	Number of responses	Percent
Initial term		
Less than 5 years	8	6.1
5 years	83	63.4
10 years	27	20.6
15 years	5	3.8
Other length	8	6.1
Total	131	100.0
Renewal term		
Less than 5 years	8	6.3
5 years	79	62.2
10 years	29	22.8
15 years	3	2.4
Other length	8	6.3
Total	127	100.0

- Notes: 1) A total of 131 franchisors provided a response to the initial term from an expected 134.
 2) A total of 127 franchisors provided a response to the renewal term from an expected 130.
 3) The average length of a fixed term franchise agreement was 5 years, and average renewal term was 5 years.
 4) Both initial and renewal terms ranged from 1 to 20 years.



Franchisee recruitment and communication

Franchisee recruitment and communication

Franchisor respondents reported using a wide variety of methods to attract new franchisees, but clearly were most reliant upon promotion through their own website (74 percent), print media advertising in newspapers (68 percent), personal recommendations from existing franchisees (63 percent) and franchise directories and business magazines (45 percent). In addition, more than one third used franchising directories, franchise and business opportunity expos, and franchising directories on the internet to promote their businesses to prospective investors.

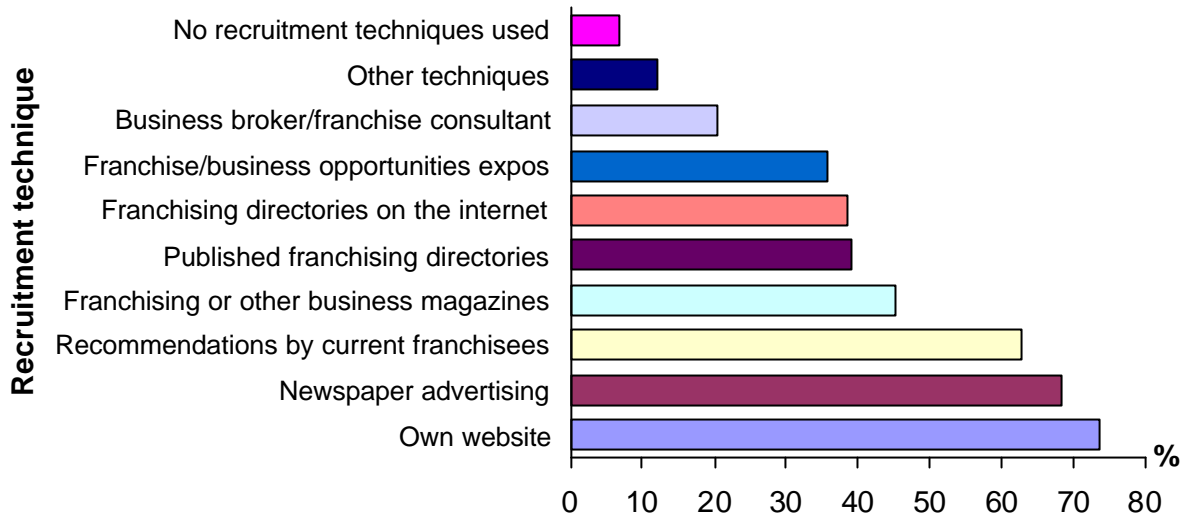
More than half of the franchisor respondents favoured communicating with franchisees through face-to-face meetings and field visits (58 percent). In contrast, only 16 percent of franchisors felt that email, the internet or local intranets provided an effective means of communication. Group meetings, telephone contact and newsletters were seen as the least effective means of communicating with franchisees.

A3 Which of the following techniques do you use for recruiting franchisees

Response (Recruitment technique)	Number of responses	Percent
Own website	109	73.6
Newspaper advertising	101	68.2
Recommendations by current franchisees	93	62.8
Franchising or other business magazines	67	45.3
Published franchising directories	58	39.2
Franchising directories on the internet	57	38.5
Franchise/business opportunities expos	53	35.8
Business broker/franchise consultant	30	20.3
Other techniques	18	12.2
No recruitment techniques used	10	6.8

Notes: 1) The expected total of 148 respondents answered this question.
2) Multiple responses were recorded from some respondents.

Franchisee recruitment methods

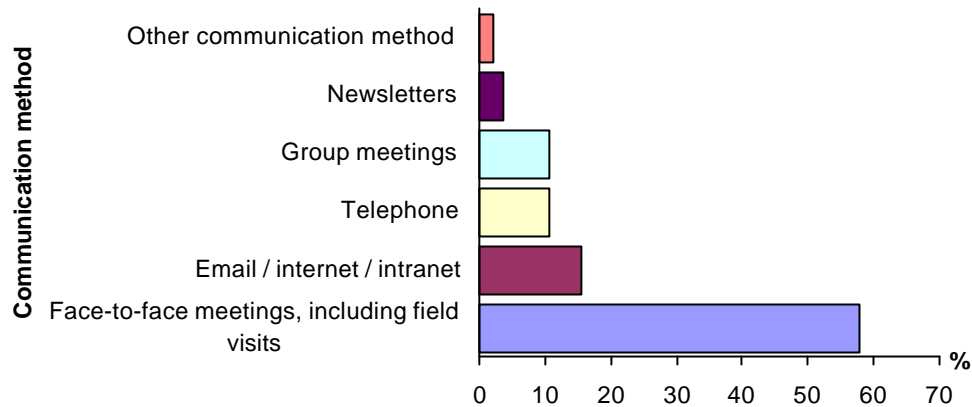


A4 *Please indicate which of the following methods is considered the most effective when communicating with franchisees.*

Response (Communication method)	Number of responses	Percent
Face-to-face meetings, including field visits	82	57.7
Email / internet / intranet	22	15.5
Telephone	15	10.6
Group meetings	15	10.6
Newsletters	5	3.5
Other communication method	3	2.1
Total	142	100.0

Notes: 1) A total of 142 franchisors provided a response from an expected 148.

Franchisee communication methods



Franchised unit changes

Data was gathered tracking the changes in franchised units over a three-year period. The patterns were similar across the three years, apart from slightly fewer franchise agreement terminations in the 2002-2003 financial year. If this trend continues, it will mark a positive development in the sector.

In the 2002-2003 financial year approximately 13 percent of total franchised units experienced some form of change in ownership. Thus, the majority of franchised units (87 percent) experienced no change. The most common cause of changes in franchised units was due to franchisees selling their businesses to new franchisees or the franchisor. Fewer than 3 percent of franchised units ceased to operate within this 12-month period, supporting the notion that franchising failure rates are low.

A5 *Please obtain data from your Disclosure Document to answer this question (Annexure 1, Section 6.4). For each of the last three financial years, please state the number of franchised units involved in:*

2000-2001

Response	Number of franchisees affected	Percent
Franchise was transferred	498	43.3
Franchise business ceased to operate	219	19.0
Franchise agreement terminated by franchisor	79	6.9
Franchise agreement terminated by franchisee	57	5.0
Franchise agreement not renewed when expired	17	1.5
Franchise business bought back by franchisor	152	13.2
Franchise agreement terminated and franchised business acquired by franchisor	128	11.1
Total	1 150	100.0

Notes: 1) A total of 128 franchisors provided a response from an expected 137.

2001-2002

Response	Number of franchisees affected	Percent
Franchise was transferred	616	41.2
Franchise business ceased to operate	300	20.1
Franchise agreement terminated by franchisor	62	4.1
Franchise agreement terminated by franchisee	57	3.8
Franchise agreement not renewed when expired	31	2.1
Franchise business bought back by franchisor	241	16.1
Franchise agreement terminated and franchised business acquired by franchisor	188	12.6
Total	1 495	100.0

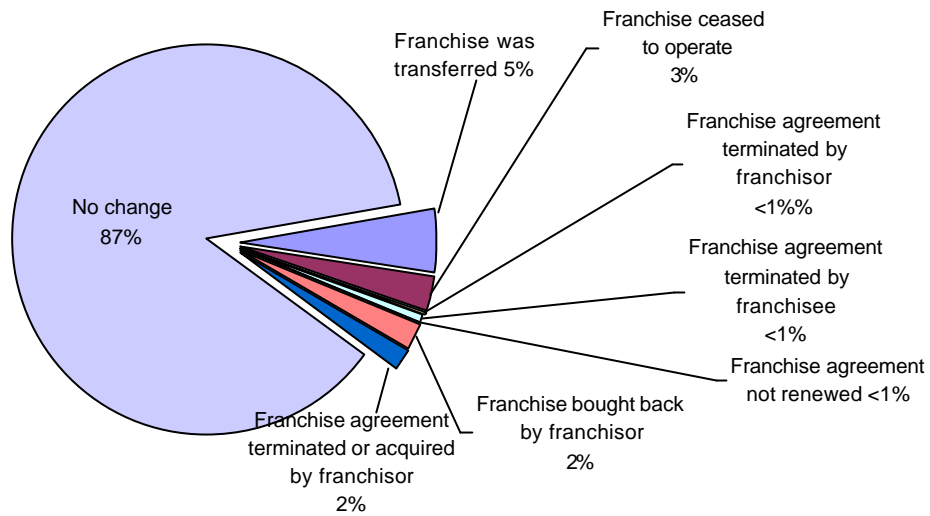
Notes: 1) A total of 129 franchisors provided a response from an expected 135.

2002-2003

Response	Number of franchisees affected	Percent	Percentage of total (12510) franchised units held
Franchise was transferred	675	42.6	5.4
Franchise business ceased to operate	328	20.7	2.6
Franchise agreement terminated by franchisor	44	2.8	0.4
Franchise agreement terminated by franchisee	45	2.8	0.4
Franchise agreement not renewed when expired	24	1.5	0.2
Franchise business bought back by franchisor	248	15.7	2.0
Franchise agreement terminated and franchised business acquired by franchisor	220	13.9	1.8
Total	1 584	100.0	12.8

Notes: 1) A total of 138 franchisors provided a response from an expected 145.

Franchise unit changes 2002-2003



Franchised unit start-up costs

Start-up costs of new franchised units have increased slightly over the past two years. The total average start-up cost across all industries was \$120 000. However, retail units require more infrastructure and the average start-up cost in this sector was \$206 500 compared with \$60 000 in non-retail franchises.

Most franchisors charged an initial franchisee fee averaging \$35 000 (fewer than 3 percent of respondents did not set an initial fee which is consistent with findings in previous surveys). Retail franchises charge a higher initial fee (\$40 000) on average than non-retail franchises (\$34 000). More than 61 percent of franchisors did not isolate charges for training costs.

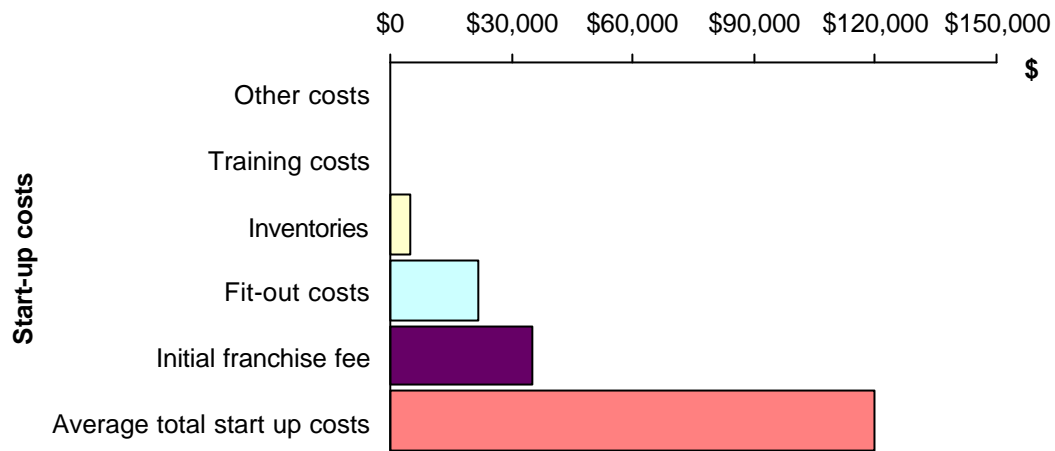
A6 What is the total start-up cost of a new franchised unit (excluding GST)?

Response (Total start-up costs)	Average cost \$	Range \$
Initial franchise fee	35 000	\$0 - 400 000
Inventories	5 000	\$0 - 300 000
Fit-out costs	21 737	\$0 - 700 000
Training costs	0	\$0 - 40 000
Other costs	0	\$0 - 300 000
Total start-up costs	120 000	\$2 500 - 870 000

Notes: 1) A total of 110 respondents answered this question from an expected 115.

2) Whilst the median training and other costs were zero, the arithmetical average was \$3 700 training costs and \$17 285 other costs.

Franchise start-up costs



Franchise fees

Ongoing franchise fees were charged by 96 percent of franchisors, with over three quarters of respondents favouring fee structures calculated as a percentage of gross sales (78 percent). The next most popular method of fees calculation was a flat fee structure (18 percent), with only 3 percent of franchisor respondents favouring fees as a percentage of gross purchases.

Fees based upon sales averaged 6 percent, ranging from 1 to 15 percent, and averaging 5 percent in retail franchises and 8 percent in non-retail franchises. Flat fees averaged \$380 per month, but there was considerable variety ranging from a nominal fee of \$1 up to \$2 400, and averaging \$500 per month in retail and \$300 in non-retail franchises.

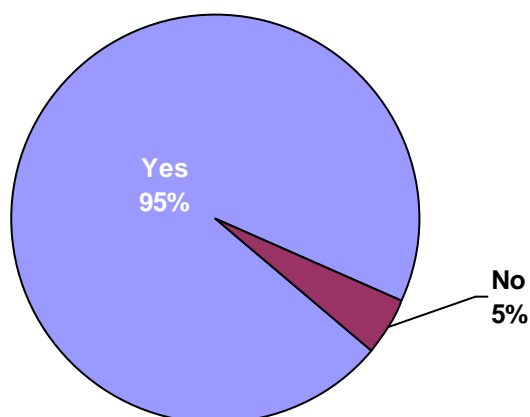
Some 71 percent of franchisor respondents collected an advertising or marketing levy, with 78 percent of these using a percentage of sales as the basis and 19 percent a flat fee. The average marketing levy based on sales was 3 percent, varying from 1 to 15 percent and holding constant across industries. Flat marketing levies averaged \$100 per month, ranging from \$28 to \$3 000, and averaging \$600 per month in retail and \$100 in non-retail franchises.

A7 *Do you charge royalties or franchise service fees throughout the term of the franchise agreement?*

Response	Number of responses	Percent
Yes	107	95.5
No	5	4.5
Total	112	100.0

Notes: 1) A total of 112 franchisors provided a response from an expected 148.

Royalties and franchise service fees

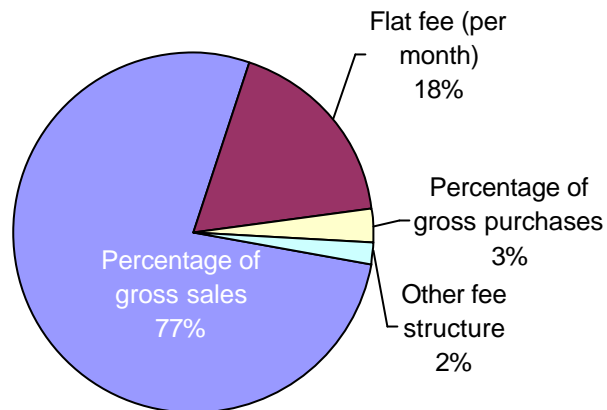


A8 *Please nominate the type and amount of royalty or franchise service fee charged.*

Response (Royalty or franchise service fee)	Number of responses	Percent	Average fee	Range
Percentage of gross sales	83	77.5	6%	1 – 15%
Flat fee (per month)	19	17.8	\$380	\$1 - \$2400
Percentage of gross purchases	3	2.8	5%	4 – 10%
Other fee structure	2	1.9	N/A	N/A
Total	107	100.0		

Notes: 1) A total of 103 franchisors responded from an expected 107.
2) More than one method was used by some respondents.

Basis of royalty / franchise service fee

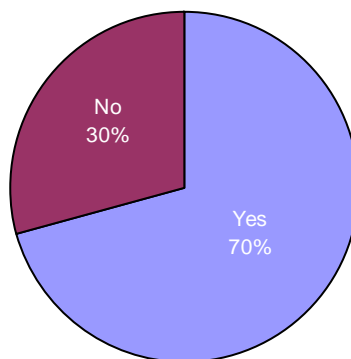


A9 *Do you collect an advertising or marketing levy from franchisees for allocation to a central marketing fund?*

Response	Number of responses	Percent
Yes	79	70.5
No	33	29.5
Total	112	100.0

Notes: 1) A total of 112 franchisors answered this question from an expected 148.

Advertising / marketing levy

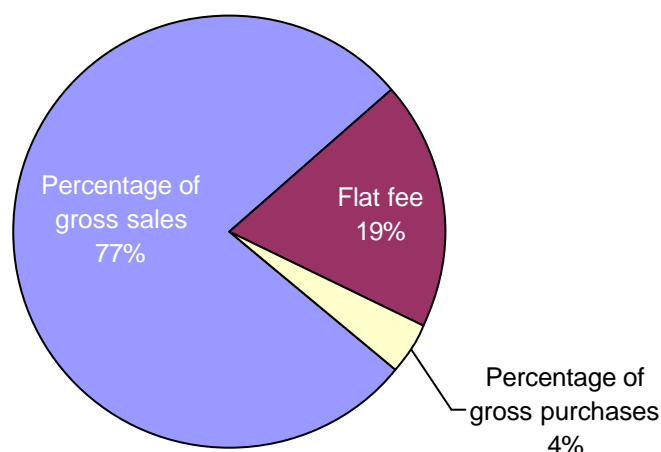


A10 Please nominate the type and amount of advertising or marketing levy.

Response (Advertising or marketing levy)	Number of responses	Percent	Average fee	Range
Percentage of gross sales	62	77.5	3%	1 – 15%
Flat fee	15	18.7	\$100	\$28 - \$3000
Percentage of gross purchases	3	3.8	3%	2 – 4%
Total	80	100.0		

Notes: 1) A total of 77 franchisors answered this question from an expected 79.
2) More than one method was used by some respondents.

Basis of advertising or marketing levy



Turnover (sales revenue) of franchise systems

Question A11 in the survey asked respondents to nominate their actual or estimated total turnover for the past three financial years for all franchised and company-owned units in Australia. Given the perceived sensitive nature of this question, insufficient responses were supplied and therefore results are not reported here.

Hindrances to growth

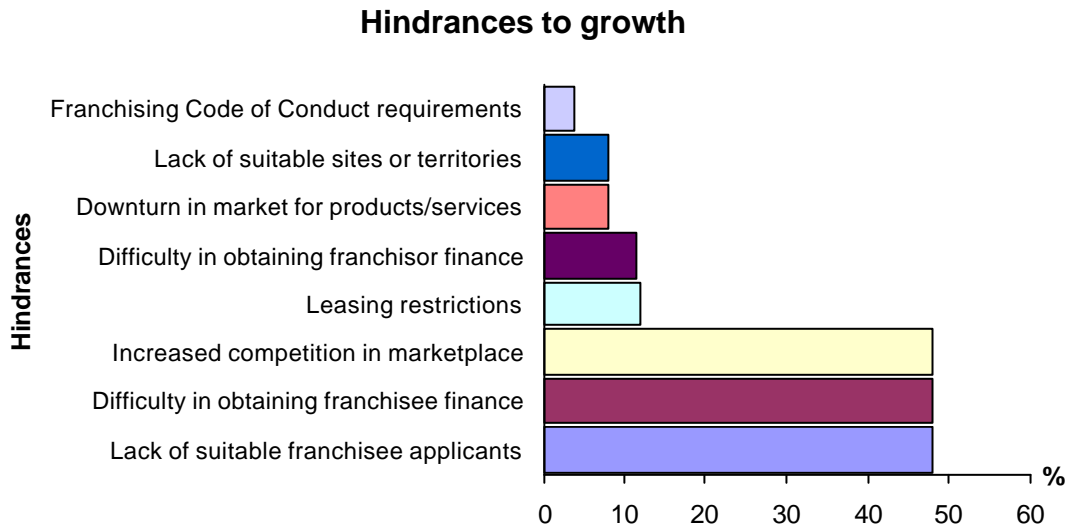
The most prevalent hindrances to growth cited by franchisors included the lack of suitable franchisees, either in their personal or financial capabilities (48 percent), increased competition in the marketplace (48 percent), leasing restrictions (12 percent), and difficulties in obtaining franchisor expansionary capital (12 percent). Apart from other common business problems, only a small proportion (4 percent) of respondents cited growth impediments stemming from Franchising Code of Conduct

requirements, which is lower than previous surveys, suggesting a growing acceptance of the Code by franchising participants.

A12 *Has the franchise system experienced any of the following major hindrances to unit growth over the past 12 months?*

Response (Hindrances to unit growth)	Number of responses	Percent
Lack of suitable franchisee applicants	71	48.3
Difficulty in obtaining franchisee finance	71	48.3
Increased competition in marketplace	71	48.3
Leasing restrictions	18	12.2
Difficulty in obtaining franchisor finance	17	11.6
Downturn in market for products/services	12	8.2
Lack of suitable sites or territories	12	8.2
Franchising Code of Conduct requirements	6	4.1
Other hindrances	47	32.0

Notes: 1) A total of 147 respondents responded from an expected 148.
 2) Multiple responses were recorded for some respondents.



B Franchisees

Availability of franchisees

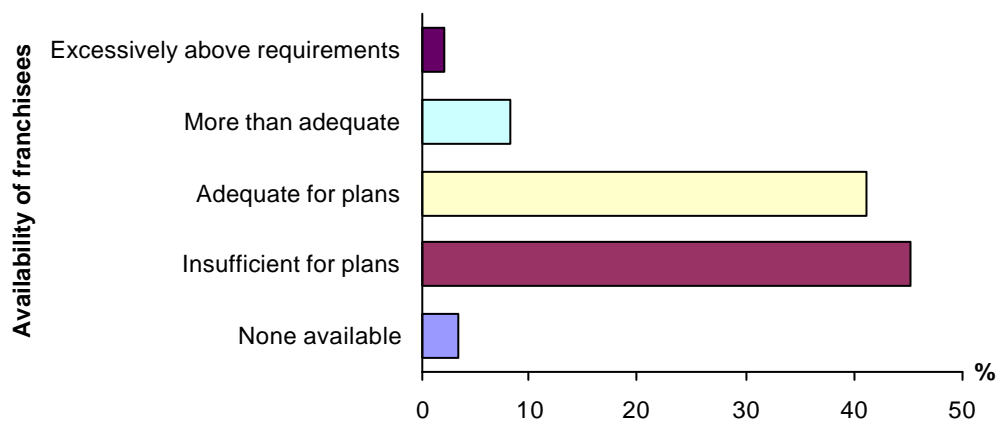
Previous surveys in 1999 and 2002 showed that franchisors were faced with the difficulty of recruiting suitable franchisee candidates. In the current survey, just under half of the sample (49 percent) responded that there were not enough prospective franchisees available to meet growth demands in their franchise systems. This lack of suitable applicants may encourage franchisors to accept new franchisee candidates that do not meet selection criteria standards, possibly resulting in difficulties in managing the franchising relationship in the future. However, the remaining respondents (51 percent) were satisfied with the current availability of suitable candidates.

B1 *How do you rate the availability of suitable prospective franchisees over the past 12 months?*

Response (Availability of franchisees)	Number of responses	Percent
None available	5	3.4
Insufficient for plans	66	45.2
Adequate for plans	60	41.1
More than adequate	12	8.2
Excessively above requirements	3	2.1
Total	146	100.0

Notes: 1) A total of 146 franchisors provided a response from an expected 148.

Availability of suitable prospective franchisees



Franchisee finance

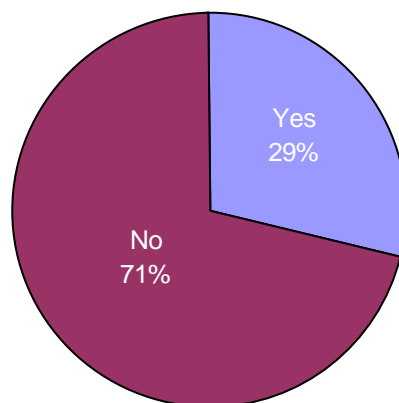
Slightly under one third of the franchisor respondents (29 percent) reported that they provided finance to franchisees, with the most popular methods being direct finance supplied by the franchisor (59 percent) and finance from third parties (39 percent). Generally, 64 percent of franchisors offering this service required a personal guarantee of the franchisee's directors, a charge over the items financed (48 percent), or security in the form of a mortgage over the franchisee's assets (29 percent). The franchisors providing finance to franchisees tended to be larger and older systems.

B2 Do you provide finance to franchisees?

Response	Number of responses	Percent
Yes	42	29.0
No	103	71.0
Total	145	100.0

Notes: 1) A total of 145 respondents answered this question from an expected 148.

Franchisee finance

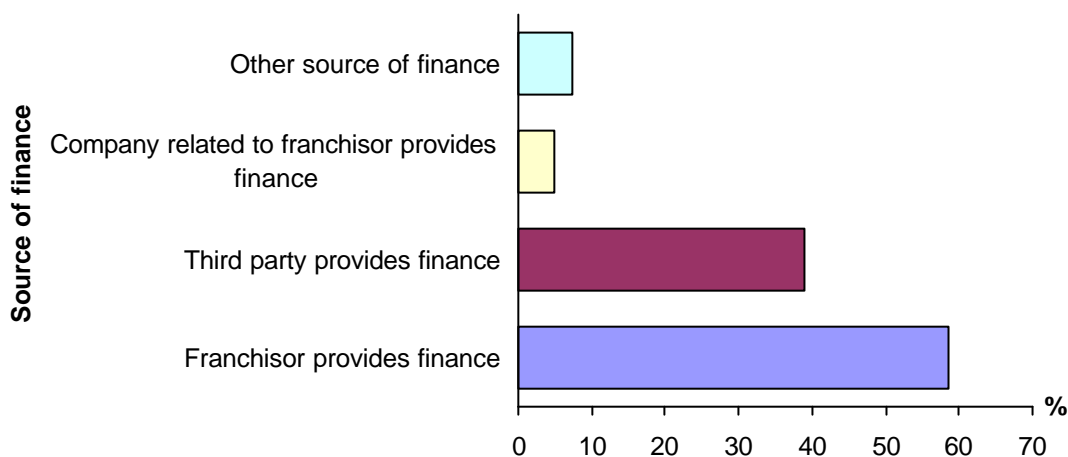


B3 *What is the source of the finance offered to franchisees?*

Response (Source of finance)	Number of responses	Percent
Franchisor provides finance	24	58.5
Third party provides finance	16	39.0
Company related to franchisor provides finance	2	4.9
Other source of finance	3	7.3

Notes 1) A total of 41 franchisors provided a response from an expected 42.
2) Multiple responses were recorded for some respondents.

Sources of franchisee finance

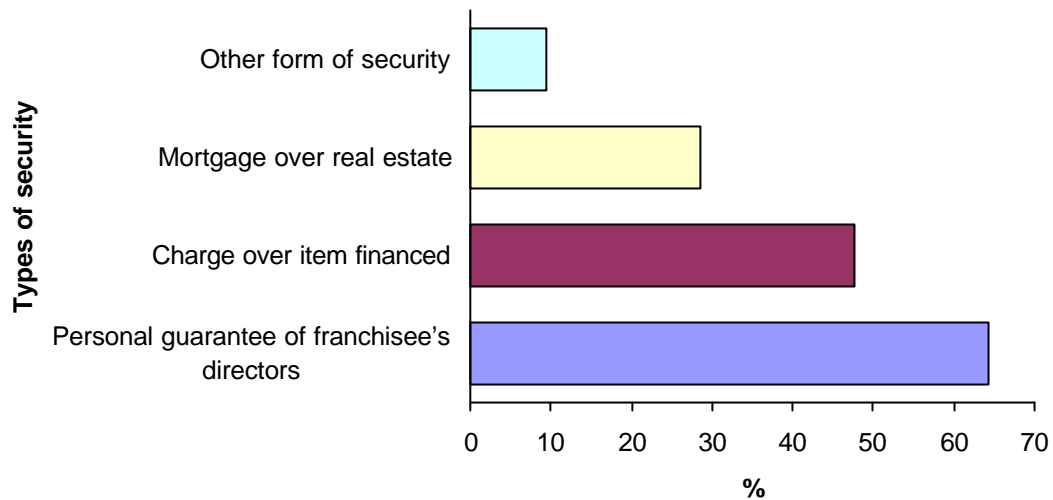


B4 *What security is required for a loan provided to a franchisee?*

Response (Type of security)	Number of responses	Percent
Personal guarantee of franchisee's directors	27	64.3
Charge over item financed	20	47.6
Mortgage over real estate	12	28.6
Other form of security	4	9.5

Notes: 1) The expected total of 42 respondents answered the question.
2) Multiple responses were recorded for some respondents.

Security provided for franchisee loans



Franchisee profile

Franchisee operations are currently dominated by men, indicating that opportunities may be available for women in franchising. Franchisors reported that there were more male sole owners (28 percent) than female sole owners (11 percent) in their franchise systems. When joint ownership involving spouses is considered, the gender difference was more pronounced, with male involvement in two thirds (66 percent) of all franchises and female involvement in less than a quarter (23 percent). A comparison with Australian Bureau of Statistics (ABS) data reveals that the proportion of women is lower in franchising than small business ownership in general. Other ownership arrangements account for 10 percent of franchisee units.

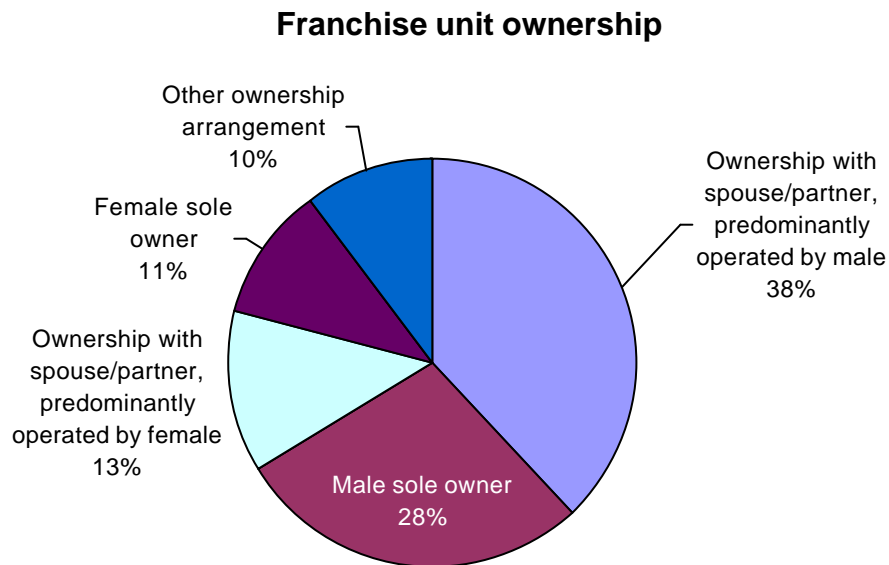
Franchisees are concentrated within the 31 to 50 year age group with 72 percent of franchisees fitting this profile. Since many franchisors seek prior industry and management experience, this may be reflected in the ages of the franchisees and possibly the recruitment of retrenched middle managers or those seeking a career change. Fewer than 10 percent of franchisees were under 30 years of age, and 18 percent were over 50 years.

Franchise unit ownership was stable, with franchisees remaining in the system for an average of 7 years. Franchisors estimated that 80 percent of franchisees were earning profits beyond employee wages. These two findings are complementary as it is unlikely that franchisees would remain in the system if they were not operating profitably.

B5 *Approximately what percentage of your franchised units do the following groups hold?*

Response (Franchisees)	Percentage of franchisees
Ownership with spouse/partner, predominantly operated by male	38.0
Male sole owner	28.4
Ownership with spouse/partner, predominantly operated by female	12.7
Female sole owner	10.5
Other ownership arrangement	10.4
Total	100.0

Notes: 1) A total of 142 franchisors answered this question from an expected 148.
 2) As the data are normally distributed, the mean has been reported as the average.

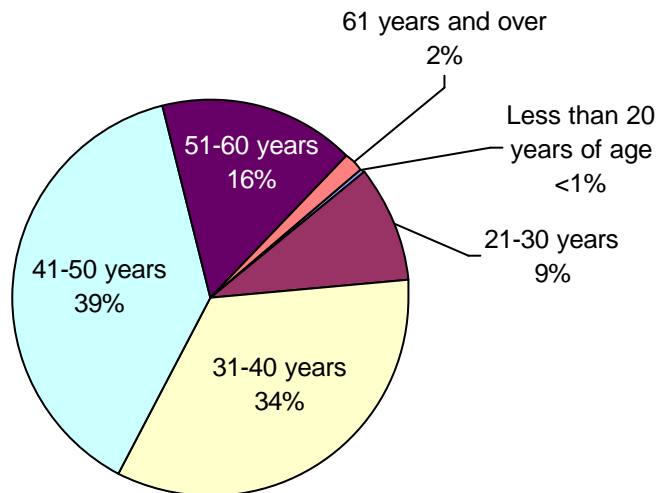


B6 *Approximately what percentage of your franchisees fit into the following age groups?*

Response (Age of franchisees)	Percent
Less than 20 years of age	0.4
21-30 years	9.4
31-40 years	33.8
41-50 years	38.5
51-60 years	16.2
61 years and over	1.7
Total	100.0

Notes: 1) A total of 143 franchisors answered this question from an expected 148.
 2) As the data are normally distributed, the mean has been reported as the average.

Age of franchisees



B7 *If you have been franchising for more than five years, what is the average length of time (years) that a franchisee remains in your system?*

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

Notes: 1) A total of 102 franchisors responded to this question from an expected 113.
 2) The length of time ranged from less than 1 year to 20 years.

B8 *Please estimate the proportion (percentage) of your franchisees who earn profits beyond employee wages.*

The average proportion of franchisees estimated to be earning profits beyond employee wages was reported as 80 percent. No industry differences were observed.

*Notes: 1) A total of 127 franchisor respondents answered this question from an expected 148.
2) Responses ranged from 0 (reported by 3 franchisors) to 100 percent (reported by 21 percent of franchisors).*

Franchising disputes

Some 39 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). However, most of the disputes were with an average of only 2 franchisees. Moreover, most of the reported disputes were at the stage of correspondence with a solicitor and if these are isolated, only 18 percent of franchisors were involved in mediation or litigation with a franchisee. The number of franchisees involved in a dispute equates to less than 2 percent of all franchisees.

Franchisor initiated actions were only slightly higher than those initiated by franchisees. Most of the reported disputes were at an early stage of correspondence with a solicitor (68 percent). As a possible indication of the continuing effectiveness of the Franchising Code of Conduct, more disputes were reported as resolved through mediation (21 percent) than through litigation (11 percent) which represents an improvement on 2002 results. Major causes of substantial disputes were lack of system compliance (55 percent) and communication problems (26 percent), with disputes over fees (16 percent) and misrepresentation issues (15 percent) ranked as less important.

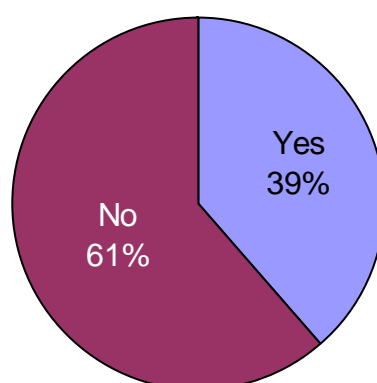
The issue of franchisees departing the franchise system but continuing to operate independently was investigated for the first time in this survey. One third of franchisors (33 percent) reported that they had experienced this problem, but for most only one franchisee had left the franchise under these circumstances. Approximately one quarter of franchisors (24 percent) had or intended to take legal action against their former franchisees. This phenomenon occurred roughly equally in retail and non-retail franchises.

B9 *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	56	38.6
No	89	61.4
Total	145	100.0

Notes: 1) A total of 145 franchisor respondents answered this question from an expected 148.

Disputes within franchise systems



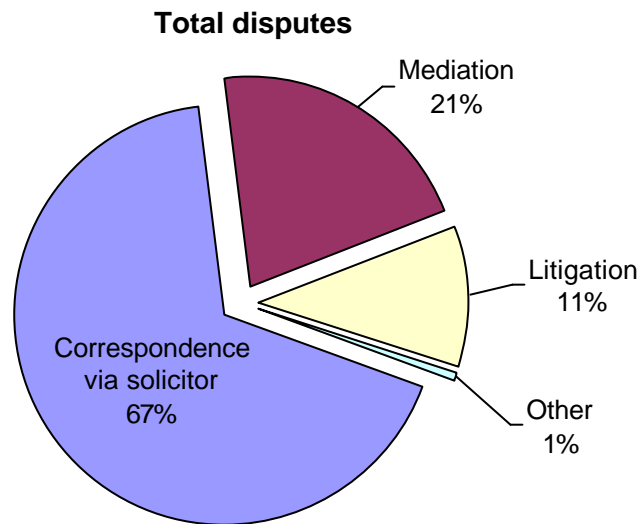
B10 *Please indicate the number of franchisees in these disputes, as follows:*

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	37	81	60.4	24	75	77.3
Mediation	23	40	29.9	6	9	9.3
Litigation	9	12	9.0	13	13	13.4
Other (franchisor or franchisee)	1	1	0.7			
Total		134	100.0		97	100.0

Notes: 1) A total of 55 franchisors responded to this question from an expected 56.

2) Multiple responses were recorded for some respondents.

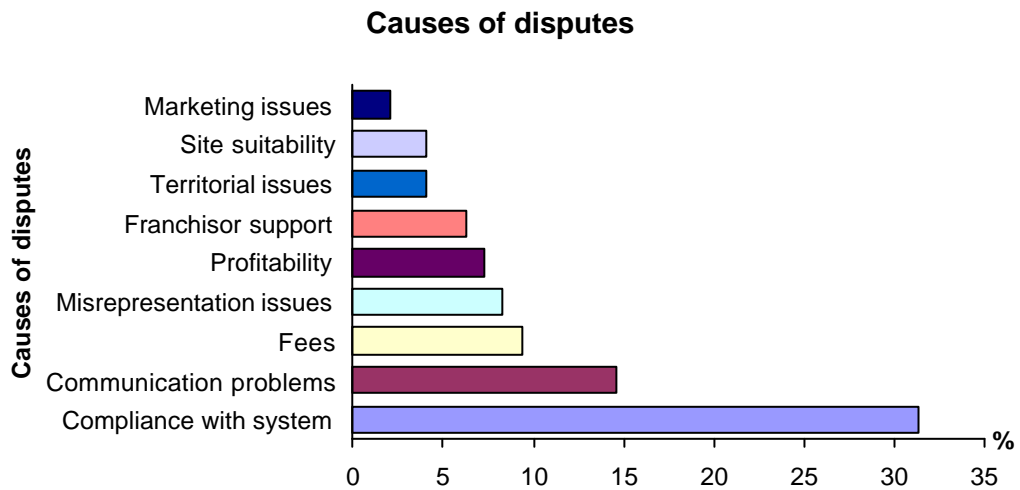
Response (Action)	Total disputes	
	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	156	67.5
Mediation	49	21.2
Litigation	25	10.8
Other	1	0.5
Total	231	100.0



B11 *What do you consider were the main causes of these disputes?*

Response (Causes of disputes)	Number of responses	Percent
Compliance with system	30	54.5
Communication problems	14	25.5
Fees	9	16.4
Misrepresentation issues	8	14.5
Profitability	7	12.7
Franchisor support	6	10.9
Territorial issues	4	7.3
Site suitability	4	3.6
Marketing issues	2	3.6
Other cause of disputes	12	21.8

Notes: 1) A total of 55 franchisors responded to this question from an expected 56.
 2) Multiple responses were recorded for some respondents.

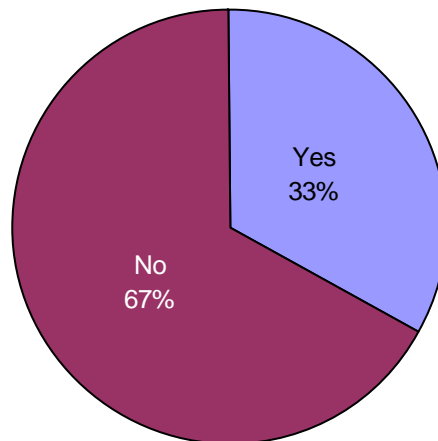


B12 *Have any of your franchisees left the franchise but continued to operate a similar business independently?*

Response	Number of responses	Percent
Yes	45	33.1
No	91	66.9
Total	136	100.0

Notes: 1) A total of 136 franchisors provided a response from an expected 148.

Franchisee operation of similar independent business



B13 **How many franchisees have left the franchise to operate independently over the last 24 months?**

Average number of franchisees per franchise system that have left to operate independently: 1

Notes: 1) A total of 43 franchisees responded to this question from an expected 45.
2) Responses ranged from 1 to 20 franchisees.

B14 *Have you, or do you intend to, take legal action against these former franchisees?*

Response	Number of responses	Percent
Yes	10	23.8
No	32	76.2
Total	42	100.0

Notes: 1) A total of 42 franchisors answered this question from an expected 45.

C. International Operations

International locations

Most franchise systems were Australian based (92 percent) and this proportion has not changed since the 2002 survey. Despite popular belief, most franchises are home-grown systems rather than overseas imports. Of the 8 percent of franchise systems that were overseas based, two thirds had expansion rights outside Australia.

One third (33 percent) of eligible systems were currently franchising overseas. The most popular destination remained New Zealand (70 percent), which is geographically, politically and culturally close to Australia. Popular south-east Asian destinations included Singapore (28 percent), Malaysia (26 percent), China (19 percent), Hong Kong (17 percent), and Indonesia (15 percent).

Large English-speaking nations were also favoured: United Kingdom (21 percent), United States of America (19 percent) and Canada (15 percent). Various European destinations accounted for 15 percent of international expansion activity.

A further 17 percent of franchisors were currently franchising in a range of other countries, including Fiji, Japan, Korea, the Middle East, New Caledonia, Vietnam and Venezuela.

Of the 47 franchise systems that were currently operating overseas, almost two thirds were from three major industry segments: property and business services (19 percent), retail food (26 percent), and retail non food (21 percent). These are also the three largest industries in which franchisors operate domestically.

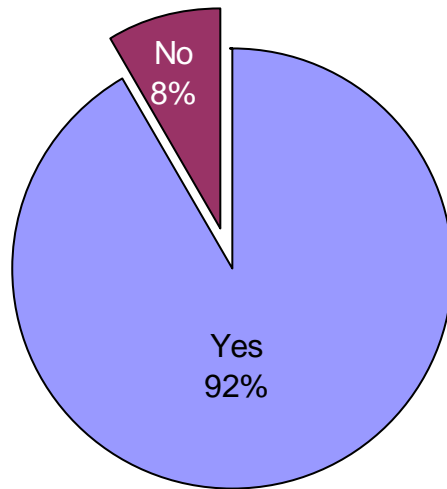
Two major reasons prompted franchisors to choose the above countries for their international expansion. Approximately half the respondents indicated that similarity with the local market (49 percent) and opportunities in overseas markets (also 49 percent) were major drivers in choice of destination. Reaction to requests from overseas investors (45 percent) was another reason for country choice.

C1 *Are you an Australian-based franchisor?*

Response (Australian-based franchisor)	Number of responses	Percent
Yes	134	91.8
No	12	8.2
Total	146	100.0

Notes: 1) A total of 146 franchisors provided a response from an expected 148.

Australian based franchisor

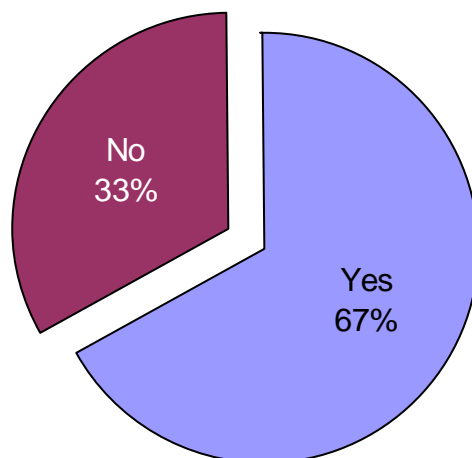


C2 Do you have expansion rights outside Australia?

Response (Expansion rights)	Number of responses	Percent
Yes	8	66.7
No	4	33.3
Total	12	100.0

Notes: 1) The expected total of 12 respondents answered the question.

International expansion rights

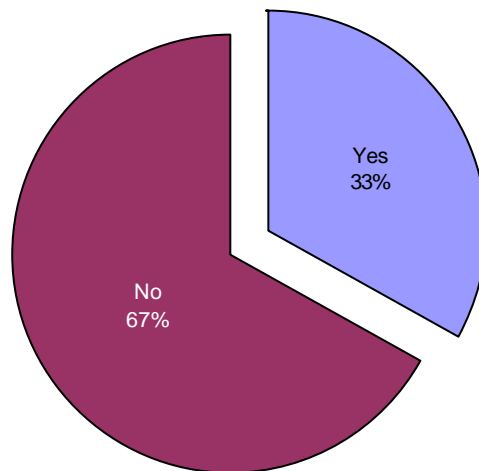


C3 *Are you currently franchising overseas?*

Response (Currently franchising overseas)	Number of responses	Percent
Yes	47	33.1
No	95	66.9
Total	142	100.0

Notes: 1) The expected total of 142 respondents answered the question.

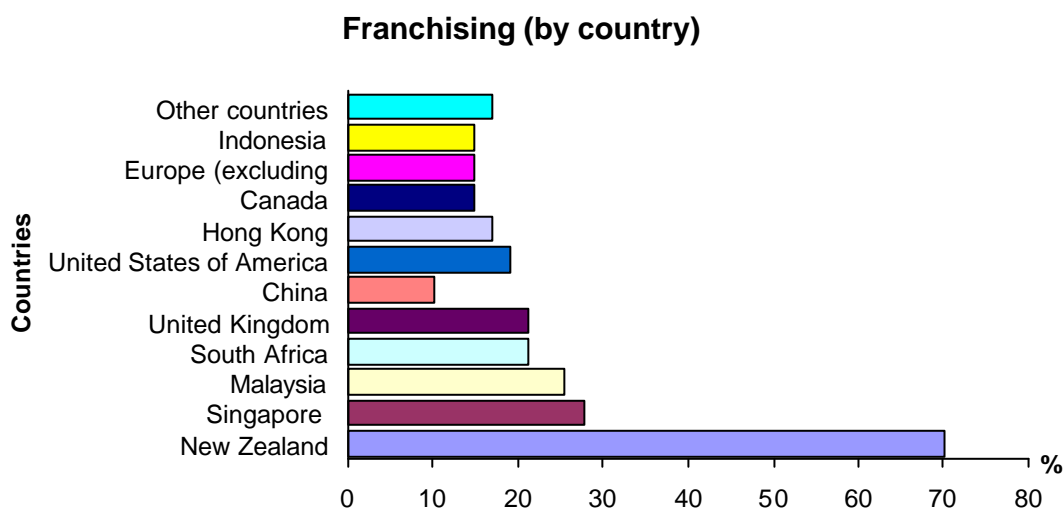
Franchising overseas



C4 In which countries are you franchising?

Response (Countries)	Number of franchisors	Percent
New Zealand	33	70.2
Singapore	13	27.7
Malaysia	12	25.5
South Africa	10	21.3
United Kingdom	10	21.3
China	9	19.1
United States of America	9	19.1
Hong Kong	8	17.0
Canada	7	14.9
Europe (excluding United Kingdom)	7	14.9
Indonesia	7	14.9
Other countries	8	17.0

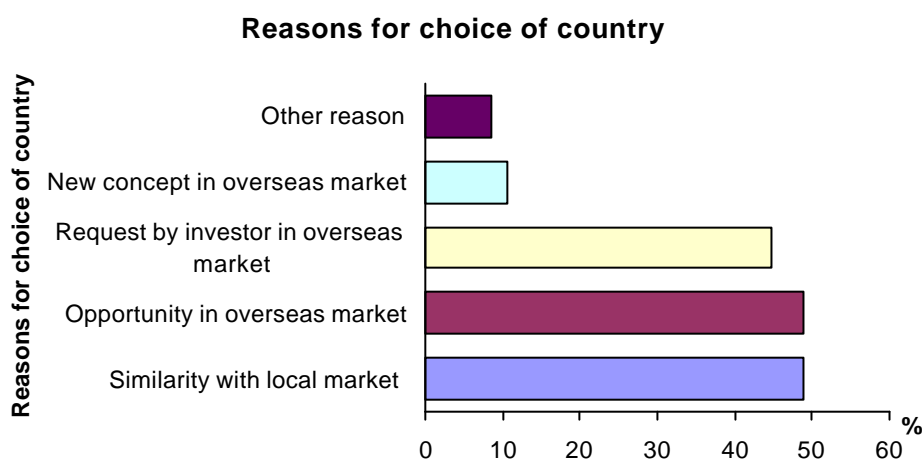
- Notes: 1) The expected total of 47 respondents answered the question.
 2) Multiple responses were recorded for some respondents.
 3) A range of other countries was reported by 8 respondents (Fiji, Japan, Korea, Middle East, New Caledonia, Vietnam, Venezuela).



C5 Why did you choose the above country/countries for your international expansion?

Response (Reason for choice of country)	Number of responses	Percent
Similarity with local market	23	48.9
Opportunity in overseas market	23	48.9
Request by investor in overseas market	21	44.7
New concept in overseas market	5	10.6
Other reason	4	8.5

Notes: 1) The expected total of 47 respondents answered the question.
2) Multiple responses were recorded for some respondents.



International strategy

Franchisors have been operating overseas for an average of 10 years, indicating that many systems are experienced in international markets, although as discussed later in this report most overseas operations are small. Franchisors held an average of 33 franchised units prior to franchising overseas, indicating that organisations may be venturing overseas whilst they are still expanding domestically, as shown next.

Some two thirds of franchisors (66 percent) reported that they expanded overseas as a means of increasing the size of their organisations. Australia’s relatively small population base requires some systems to be proactive and venture overseas in order to expand. Success in the domestic market (36 percent) also provided encouragement to look beyond Australia. Some 45 percent of franchisors responded to requests from international investors, indicating a more reactive international expansion strategy.

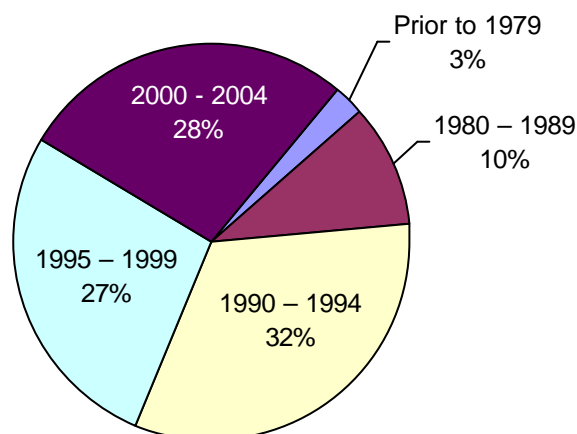
Master franchising (64 percent) and joint venture arrangements (31 percent) were favoured by franchisors as a method of international expansion. Other arrangements included 100% company ownership overseas (13 percent), area development arrangements (11 percent) and the use of wholly owned subsidiaries (11 percent).

C6 In what year did you commence international operations?

Response (Year)	Number of responses	Percent
Prior to 1979	1	2.5
1980 – 1989	4	10.0
1990 – 1994	13	32.5
1995 – 1999	11	27.5
2000 - 2004	11	27.5
Total	40	100.0

Notes: 1) A total of 40 franchisors provided a response from an expected 47.
 2) Franchisors had been operating internationally for an average of 10 years.

Year commenced international operations



C7 How many units did you hold in Australia prior to franchising overseas?

Average number of franchised units prior to overseas expansion 33
 Average number of company units prior to overseas expansion 0

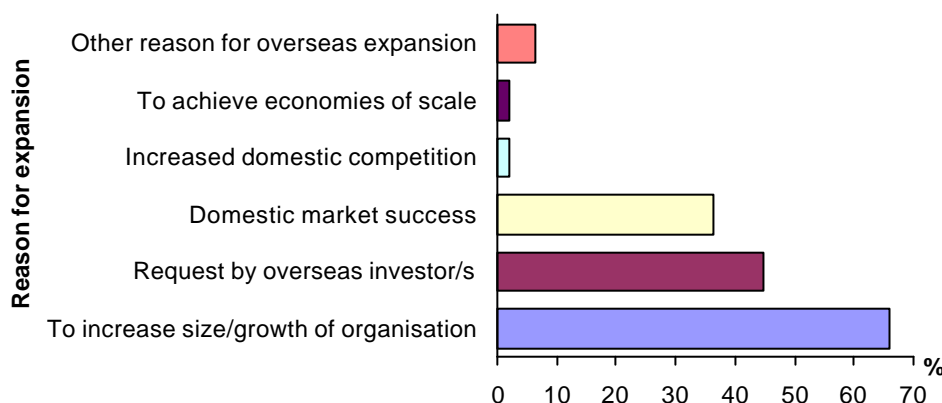
Notes: 1) A total of 40 franchisors from an expected 47 answered the question.
 2) The number of franchised units ranged from 0 to 600, and the number of company units ranged from 0 to 100.

C8 Why did you expand your operations overseas?

Response (Reason for expansion)	Number of responses	Percent
To increase size/growth of organisation	31	66.0
Request by overseas investor/s	21	44.7
Domestic market success	17	36.2
Increased domestic competition	1	2.1
To achieve economies of scale	1	2.1
Downturn in domestic market	0	0.0
Other reason for overseas expansion	3	6.4

Notes: 1) The expected total of 47 respondents answered the question.
2) Multiple responses were recorded by some respondents.

Reasons for international expansion

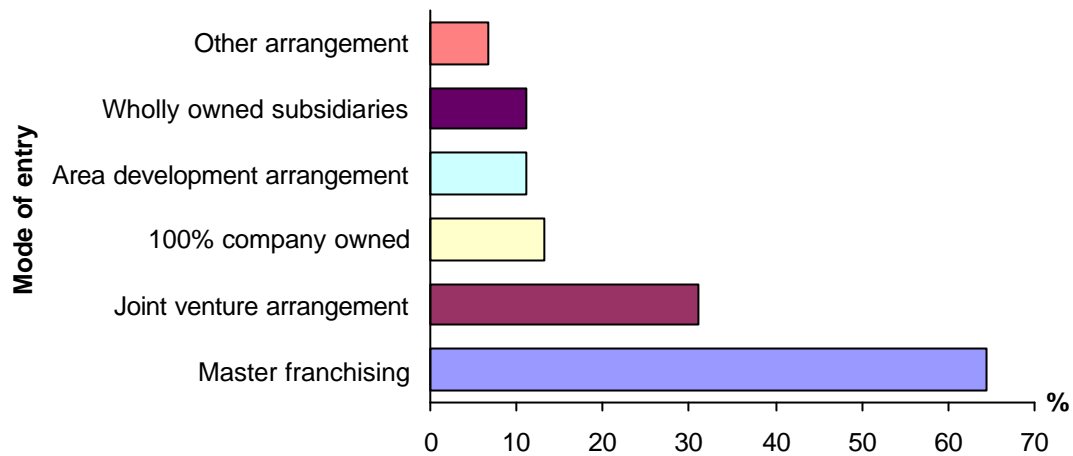


C9 Which method of entry did you choose for international expansion?

Response (Mode of entry)	Number of responses	Percent
Master franchising	29	64.4
Joint venture arrangement	14	31.1
100% company owned	6	13.3
Area development arrangement	5	11.1
Wholly owned subsidiaries	5	11.1
Other arrangement	3	6.7

Notes: 1) A total of 45 franchisors from an expected 47 answered the question.
2) Multiple responses were recorded by some respondents.

Methods of international expansion



Preparation for international expansion

Franchisors made use of a wide range of sources of information and carried out preliminary research prior to expanding overseas. Most emphasised thorough legal preparation, with 74 percent of franchisors preparing legal documents and protecting their intellectual property, and approximately half seeking assistance from lawyers in Australia (51 percent) and overseas (47 percent). Other information sources were other franchisors (22 percent), accountants (20 percent), Austrade (18 percent) and franchise consultants in Australia (16 percent). Very few franchisors used overseas franchise consultants (4 percent).

In addition to legal preparation, franchisors paid attention to business planning and marketing. Business plans were prepared by 61 percent of franchisors, target markets were selected (49 percent), international partners were recruited and selected (42 percent), and modifications were made to operational systems (42 percent). Just under one third of franchisors promoted the franchise brand in the destination country (33 percent), conducted market research prior to entering (30 percent), and sourced suitable suppliers (30 percent).

The most common form of franchisee recruitment in destination countries was via advertising (39 percent), responding to requests from potential investors (34 percent), and use of agents (21 percent). Trade show exhibits also resulted in enquiries, with overseas exhibitions used by 18 percent of franchisors and Australian exhibitions used by 11 percent.

C10 Which of the following activities did you conduct prior to expanding internationally?

Response (Activity)	Number of responses	Percent
Legal preparation (eg disclosure, agreements)	32	74.4
Protection of intellectual property (eg registration of brands and trademarks)	32	74.4
Business planning for new venture	26	60.5
Selection of target market in new country	21	48.8
Recruitment and selection of international partner	18	41.9
Operational system modification for new market	18	41.9
Marketing and promotion of brand in new country	14	32.6
Market research and testing in new country	13	30.2
Sourcing of suppliers	13	30.2
Product modifications for new market	12	27.9
Pilot outlet in new country	8	18.6
Financing of new venture	6	14.0
Other activity	4	9.3

Notes: 1) A total of 43 franchisors from an expected 47 answered the question.
 2) Multiple responses were recorded by some respondents.

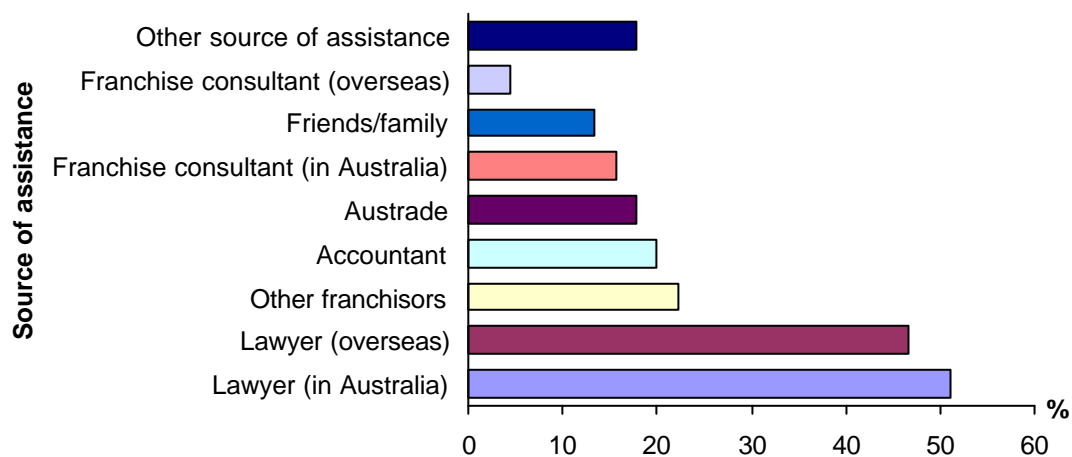


C11 Where did you seek assistance prior to expanding internationally?

Response (Source of assistance)	Number of responses	Percent
Lawyer (in Australia)	23	51.1
Lawyer (overseas)	21	46.7
Other franchisors	10	22.2
Accountant	9	20.0
Austrade	8	17.8
Franchise consultant (in Australia)	7	15.6
Friends/family	6	13.3
Franchise consultant (overseas)	2	4.4
Other source of assistance	8	17.8

Notes: 1) A total of 45 franchisors from an expected 47 answered the question.
 2) Multiple responses were recorded by some respondents.

Source of assistance prior to international expansion



C12 How did you recruit your international franchisees?

Response (Franchisee recruitment method)	Number of responses	Percent
Advertised in overseas country	17	38.6
Responded to request from potential franchisee	15	34.1
Used an agent to recruit	9	20.5
Enquiry from exhibition/trade shows overseas	8	18.2
Enquiry from exhibition/trade shows in Australia	5	11.4
Other recruitment method	12	27.3

Notes: 1) A total of 44 franchisors from an expected 47 answered the question.
2) Multiple responses were recorded by some respondents.



Contribution from international activity

Most franchise systems have only a small number of overseas franchise units. Although ranging from zero to 450, the average number of overseas units was 8. At this stage of franchise sector development, overseas income reported is modest. The total estimated income from overseas franchisees in the 2002-2003 financial year was approaching \$14 million and the estimate for 2003-2004 was \$16.5 million, indicating that little growth is expected to occur.

Several franchisors who were not Australian based also supplied information and this has been excluded from the report. In the 2002 report, respondents were anonymous, so similar cases were not likewise excluded. Hence, it is not possible to make comparisons with the 2002 analysis.

Whilst many Australian franchise systems are currently operating overseas, they are at an early stage of development. It appears that further support is warranted to assist franchisors to export their systems. The major barriers reported by those wanting to

expand internationally included a lack of knowledge about foreign markets (23 percent), a lack of suitable partners (22 percent), and development of a suitable franchise support infrastructure (20 percent).

C13 *How many franchised and company-owned units operate overseas?*

Average number of franchised units operating overseas	8
Average number of company units operating overseas	0

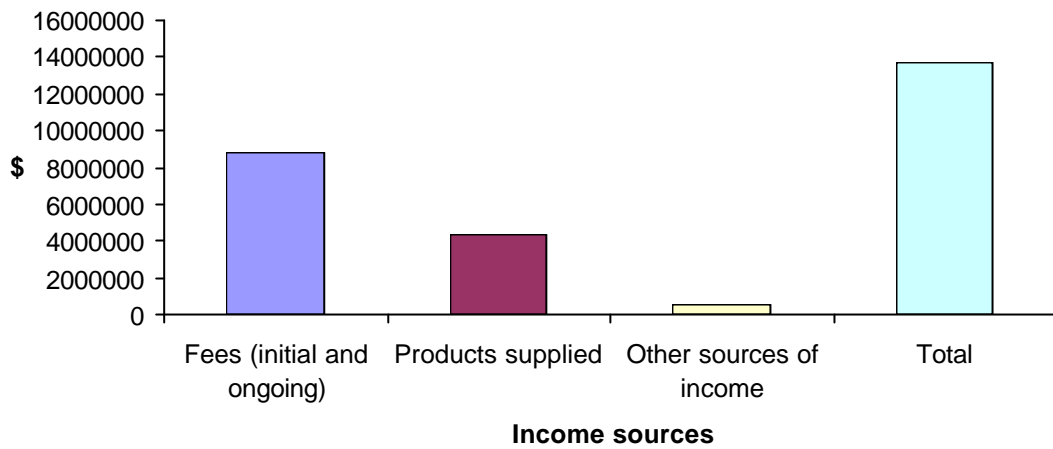
Notes: 1) A total of 40 franchisors from an expected 47 answered the question.
 2) The number of franchised units operating overseas ranged from zero to 450.
 The number of company units ranged from zero to 30.

C14 *What was the total estimated income from overseas franchisees in the 2002-2003 financial year (A\$)?*

Response (Income source)	Number of responses	A\$
Fees (initial and ongoing)	19	8 827 600
Products supplied	22	4 343 585
Other sources of income	22	500 000
Total		\$13 671 185

Notes: 1) A total of 22 franchisors provided a response from an expected 47.
 2) Multiple responses were recorded for some respondents.
 3) The average overseas income from initial and ongoing franchise fees was \$24 000.
 4) The income reported for products supplied was from 5 respondents; the remaining 17 reported zero income.
 5) Only 1 respondent reported the \$500 000 income from other sources; the remaining 21 reported zero income.

Sources of income from overseas franchisees (2002-2003)

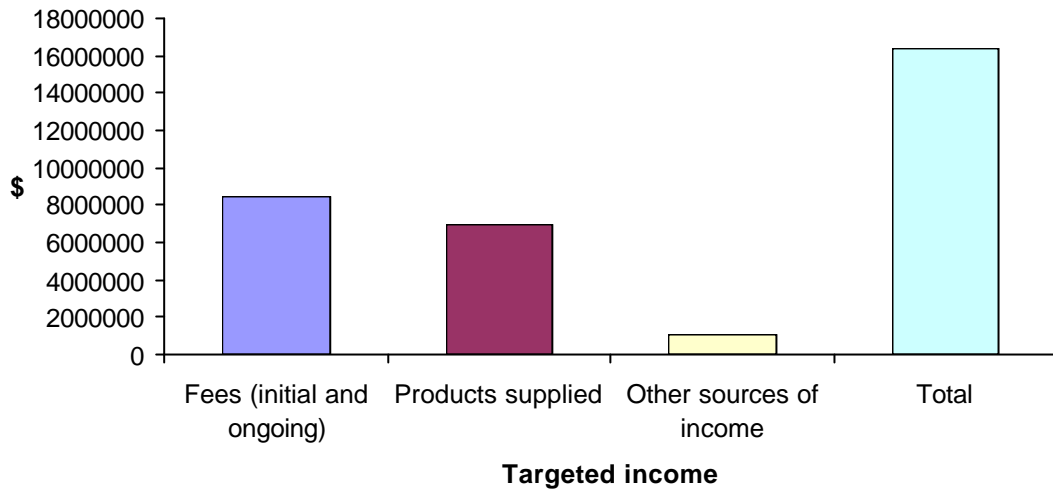


C15 *What is the targeted income from overseas franchisees in the 2003-2004 financial year (A\$)?*

Response (Targeted income)	Number of responses	A\$
Fees (initial and ongoing)	18	8 447 960
Products supplied	21	6 944 000
Other sources of income	21	1 040 000
Total		\$16 431 960

Notes: 1) A total of 21 franchisors provided a response from an expected 47.
 2) Multiple responses were recorded for some respondents.
 3) The average targeted overseas income from initial and ongoing fees was \$57 500.
 4) Some 15 respondents reported zero targeted income from product supplies and 19 reported zero targeted income from other sources.

Targeted income from overseas franchises (2003-2004)

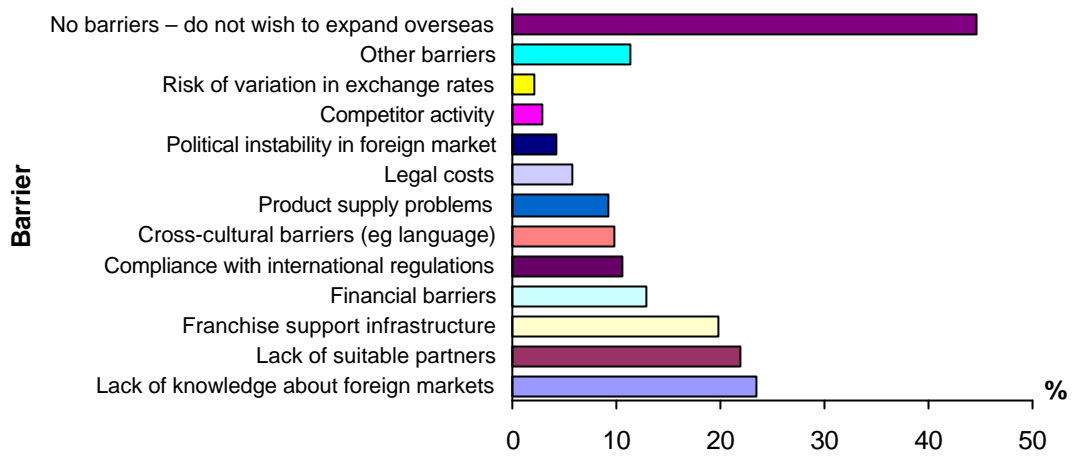


C16 What major barriers have inhibited your franchise from expanding overseas?

Response (Barrier)	Number of responses	Percent
Lack of knowledge about foreign markets	33	23.4
Lack of suitable partners	31	22.0
Franchise support infrastructure	28	19.9
Financial barriers	18	12.8
Compliance with international regulations	15	10.6
Cross-cultural barriers (eg language)	14	9.9
Product supply problems	13	9.2
Legal costs	8	5.7
Political instability in foreign market	6	4.3
Competitor activity	4	2.8
Risk of variation in exchange rates	3	2.1
Other barriers	16	11.3
No barriers – do not wish to expand overseas	63	44.7

Notes: 1) A total of 141 franchisors provided a response from an expected 144.
2) Multiple responses were recorded for some respondents.

Barriers to overseas expansion



D Franchise Profile

Industry

The population of 794 franchisors has been categorised by industry for comparison with the survey respondents. Proportions across the two groups are similar, indicating that the respondents are roughly representative of the population.

The largest industry group participating in the survey comprised franchisors operating in retail trade (non food - 31 percent). Property and business services accounted for the activities of 19 percent of franchisors, followed by retail trade (food – 15 percent).

The total units held by franchisor respondents are also classified below. Proportions of units equate roughly to franchisor proportions, apart from one large franchise system operating in the communications industry.

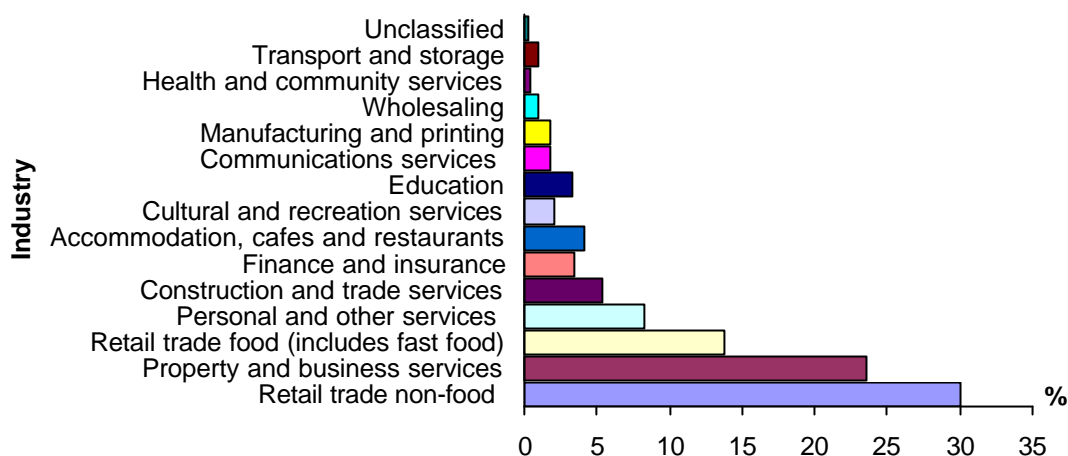
D1 Industry category
(Please provide the trading name of the franchise system you are describing in this survey.)

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 non-food (includes automotive services)	239	30.1	46	31.1	2 396	17.6
Property and business services	187	23.6	28	18.9	2 833	20.8
Retail trade food (includes fast food)	109	13.7	22	14.9	2 191	16.1
Personal and other services (includes video hire and gardening services)	65	8.2	12	8.1	736	5.4
Construction and trade services	43	5.4	8	5.4	190	1.4
Finance and insurance	27	3.4	6	4.1	477	3.5
Accommodation, cafes and restaurants	33	4.2	5	3.4	381	2.8
Cultural and recreation services	17	2.1	5	3.4	71	0.5
Education	26	3.3	4	2.7	92	0.7
Communications services (includes postal, courier & telecommunications)	14	1.8	4	2.7	3 872	28.4
Manufacturing and printing	14	1.8	2	1.4	243	1.8
Wholesaling	8	1.0	2	1.4	83	0.6
Health and community services	3	0.4	0	0.0	0	0.0
Transport and storage	7	0.9	0	0.0	0	0.0
Unclassified	2	0.3	4	2.7	51	0.4
Total	794	100.0	148	100.0	13 616	100.0

Notes: 1) A total of 144 out of 148 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.

Industry categories



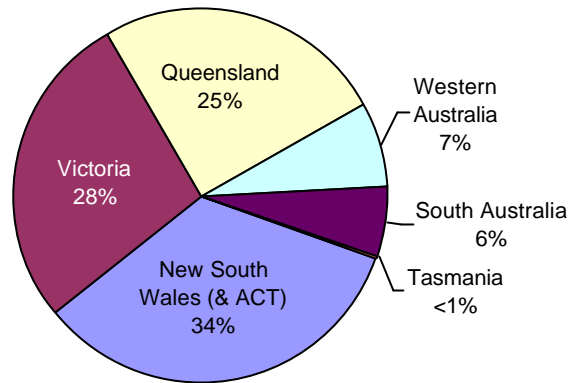
Location of franchisor corporate office

In addition, the location of the franchisor’s corporate office has been classified by state. Approximately one third of franchisors are located in New South Wales (34 percent) and slightly less in Victoria (28 percent) and Queensland (25 percent). These three states dominate franchising activity in line with other commercial operations in Australia.

State	Number of franchisors	Percent
New South Wales (& ACT)	266	33.5
Victoria	219	27.6
Queensland	201	25.3
Western Australia	58	7.3
South Australia	47	5.9
Tasmania	3	0.4
Total	794	100.0

Notes: 1) Source: Griffith University database

Location of franchisor corporate office



Age of franchise systems

The greatest growth in franchising has taken place from the 1990s to the present. Franchisors have been operating their businesses for an average of 14 years and franchising for 11 years, indicating they run pilot operations before attempting to franchise the concept. Whilst the average operational experience was two years prior to franchising, more than one quarter of franchisors (27 percent) began franchising within 12 months of operation. However, 40 percent of franchisors waited five years before adopting a franchising strategy.

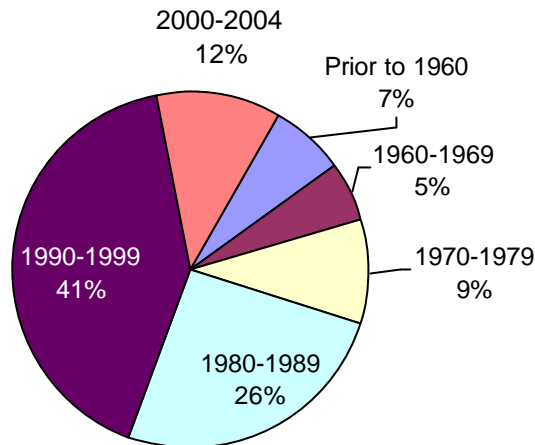
D2 *In which year did this business commence operation?*

D3 *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	10	6.8	0	0.0
1960-1969	8	5.4	2	1.4
1970-1979	14	9.5	9	6.1
1980-1989	38	25.7	26	17.6
1990-1999	61	41.2	72	48.6
2000-2004	17	11.5	39	26.4
Total	148	100.0	148	100.0

- Notes: 1) All 148 respondents answered the question.
 2) The average number of years was: operating 14 years and franchising 11 years.
 3) Businesses had been operating for a range of 2 to 196 years and franchising for a range of 1 to 45 years.

Year commenced operations



Franchise structures

Several franchises have adopted specific growth strategies, reflecting the ability of franchisors to maximise franchising opportunities. Some 14 percent of respondents operated multiple franchise systems under different names, enabling franchisors to diversify their portfolios. Similarly, 11 percent of respondents offered multiple franchise concepts under a single franchise brand, enabling franchisors to economise operational costs.

In addition, some franchisors were involved in co-branding activities such as advertising jointly (10 percent), combining products and services (10 percent), and sharing retail space (7 percent). Almost two thirds of these franchisors operated in retailing (food and non food).

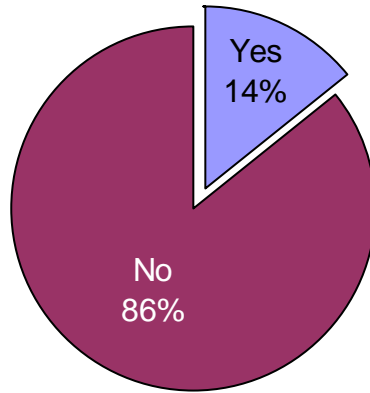
The above activities are evidence that franchisors are moving beyond single franchise concept offerings in order to stimulate system expansion in a limited market.

D4 *Do you hold multiple franchise systems operating under different names? (eg ABC Retail and XYZ Services)*

Response (Multiple systems)	Number of responses	Percent
Yes	21	14.2
No	127	85.8
Total	148	100.0

Notes: 1) All 148 respondents answered the question.

Multiple franchise systems

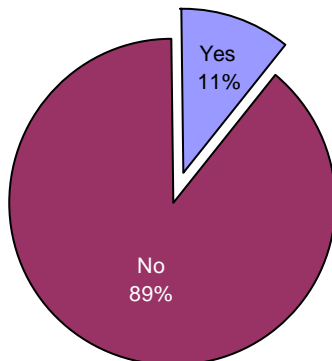


D5 *Do you hold multiple franchise concepts under a common brand name?
(eg Mike’s Mowing, Mike’s Cleaning)*

Response (Multiple concepts)	Number of responses	Percent
Yes	16	10.9
No	131	89.1
Total	147	100.0

Notes: 1) A total of 147 franchisors provided a response from an expected 148.

Multiple concept franchising

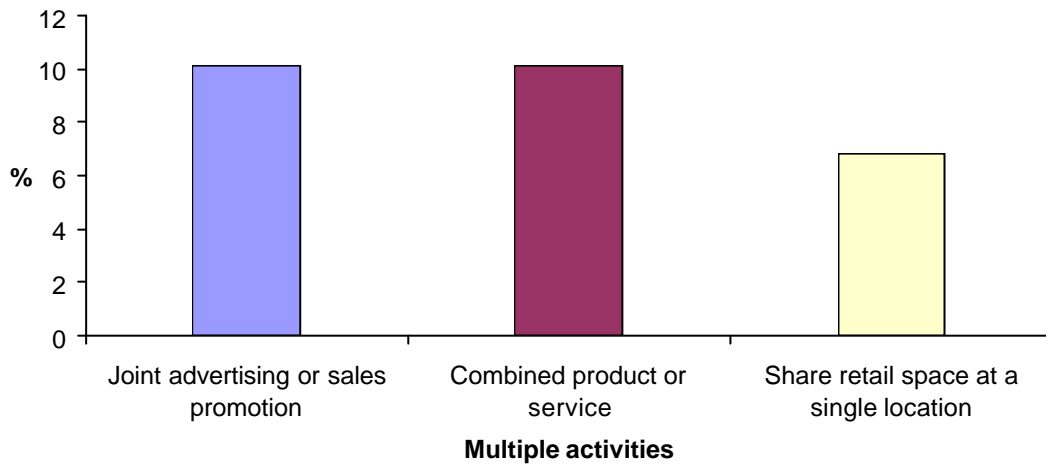


D6 *Do you conduct any of the following activities with another brand name?
(eg Marty's Pizza with Action Video)*

Response (Multiple activities)	Number of responses	Percent
Joint advertising or sales promotion	15	10.1
Combined product or service	15	10.1
Share retail space at a single location	10	6.8

Notes: 1) All 148 respondents answered the question.
2) Multiple responses were recorded for some respondents.

Cobranding activities



Growth of franchise systems

Franchisors are growing their systems at a moderate rate. The average number of franchised units held by respondents in 2001 was 20, rising to 26 in 2004. In contrast, the average number of company-owned units over that period of time was one unit and has remained steady. It appears that most franchisors keep one company unit for strategic reasons, but seek to expand their systems via franchising. Overall, it can be concluded that the majority of franchise systems were of small to medium size, with 60 percent of systems having fewer than 30 franchised units. In contrast, some 15 percent of systems were large operations with more than 100 franchised units.

D7 *How many franchised units were operating within your franchise system in Australia in each of the last three years?*

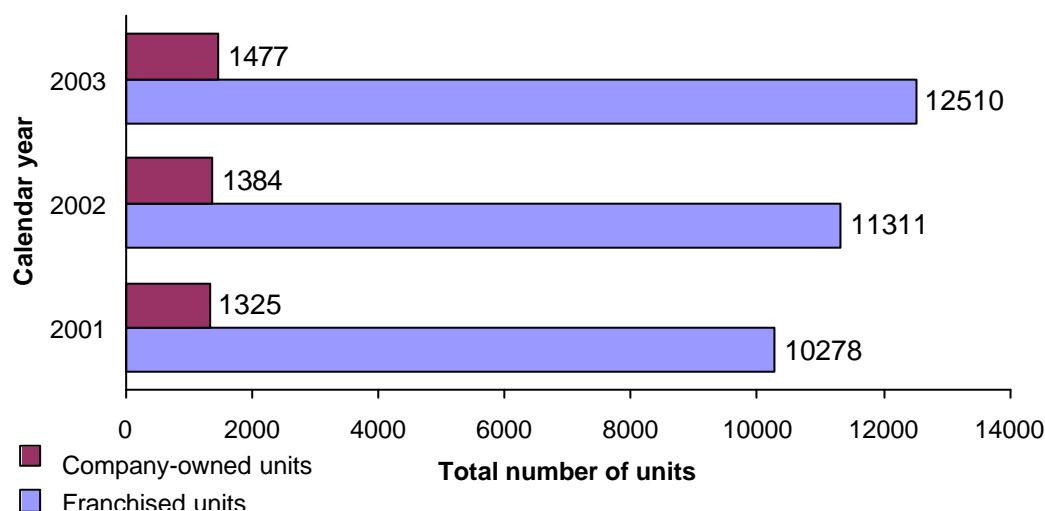
D8 *How many company-owned units were operating within your franchise system in Australia in each of the last three years?*

Response (Calendar year)	Franchised units			Company-owned units		
	Number of responses	Total number of units	Average number of units	Number of responses	Total number of units	Average number of units
31 Dec 2001	118	10 278	20	136	1 325	1
31 Dec 2002	126	11 311	21	139	1 384	1
31 Dec 2003	138	12 510	26	144	1 477	1

Notes: 1) The number of franchised units ranged from 1 to 3700 in 2003.

2) The number of company-owned units ranged from zero to 800 in 2003.

Franchised and company-owned units (2001-2003)



Geographical distribution

Consistent with previous surveys, the majority of franchising activity occurs in New South Wales (31 percent of total units). Queensland now has a greater proportion of activity, matching Victoria (both 22 percent). Generally, the degree of franchising activity is related to the population distribution across states.

Franchisors predict that the number of franchise units will increase by approximately 22 percent by the end of 2004, whereas company unit ownership is anticipated to decline by 26 percent. There is no evidence to suggest that franchisors are systematically acquiring franchise units. It appears that the current low level of company unit ownership will decline, suggesting that in some systems the ownership of units is only a temporary strategy.

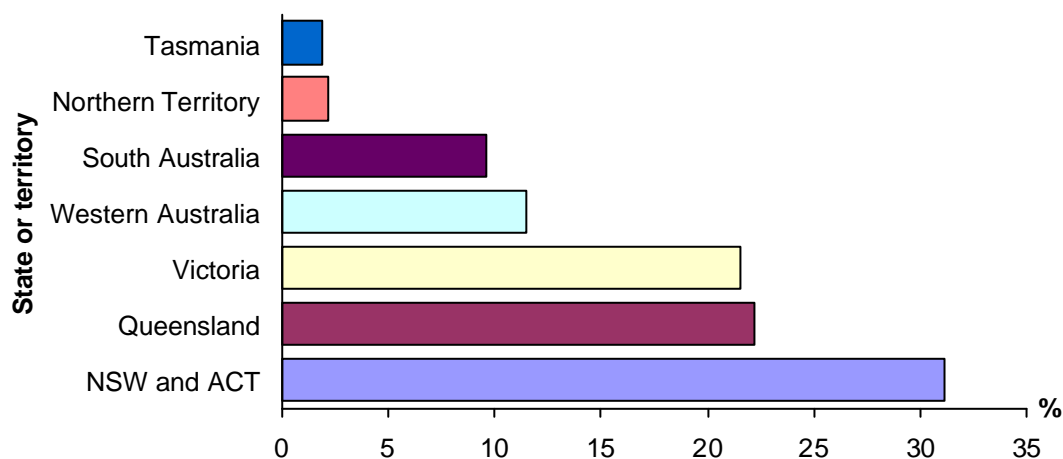
D9 *How many franchised units do you currently operate in each state/territory?*

D11 *How many company-owned units do you currently operate in each state/territory?*

Response (State)	Franchised units		Company-owned units		Total units	
	Total number	Percent	Total number	Percent	Total number	Percent
NSW and ACT	4060	31.2	181	29.9	4241	31.1
Queensland	2820	21.7	209	34.5	3029	22.2
Victoria	2817	21.7	107	17.7	2924	21.5
Western Australia	1507	11.6	53	8.8	1560	11.5
South Australia	1265	9.7	46	7.6	1311	9.6
Northern Territory	292	2.2	4	0.7	296	2.2
Tasmania	250	1.9	5	0.8	255	1.9
Total	13011	100.0	605	100.0	13616	100.0

Notes: 1) A total of 147 franchisors provided a response to the number of franchised units held from an expected 148.
 2) A total of 143 franchisors provided a response to the number of company-owned units held from an expected 148.

Geographical distribution of total units



D10 *Of the total number of franchised units listed in the above question, how many franchisees hold those units?*

Some 11 146 franchisees held the total of 13 011 units in respondent franchise systems, indicating multiple unit ownership by some franchisees. Individual franchise systems reported franchisee numbers ranging from 0 to 3700, with the average number of franchisees being 28. In retail systems, the average was 30 compared with 24 in non-retail systems.

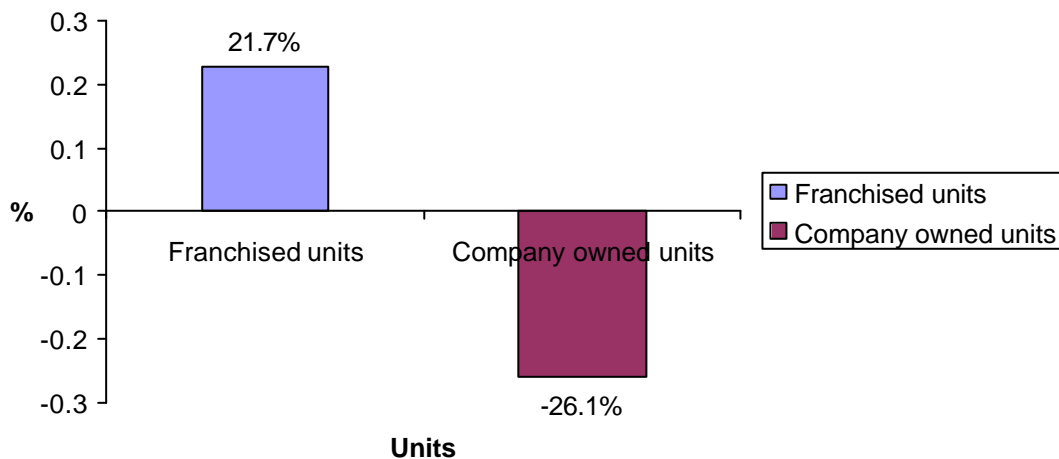
Notes: 1) A total of 143 franchisors provided a response from an expected 148.

D12 *What number of units have you targeted by December 2004?*

Franchised units			Company-owned units		
Actual number	Estimated number	% Change	Actual number	Estimated number	% Change
13 011	15 832	+21.7%	605	447	-26.1%

Notes: 1) Where a response was not provided, the actual number of units was substituted for the estimated number.

Targeted growth in franchise and company-owned units



Mobile operations

Most franchise systems offer units from specific commercial sites (69 percent). Mobile operations are available in 25 percent of systems, and home-based businesses in 24 percent. Most of the mobile and home-based franchises were involved in property and business services, personal services, and retail non-food industries. Franchises operating from specific commercial sites were concentrated in retailing (food and non food).

The start-up capital requirements (excluding GST) for mobile and home-based operations were an average of \$50 000, compared with \$215 250 for franchises operating from specific commercial sites. These figures have increased approximately 11 percent since 2002.

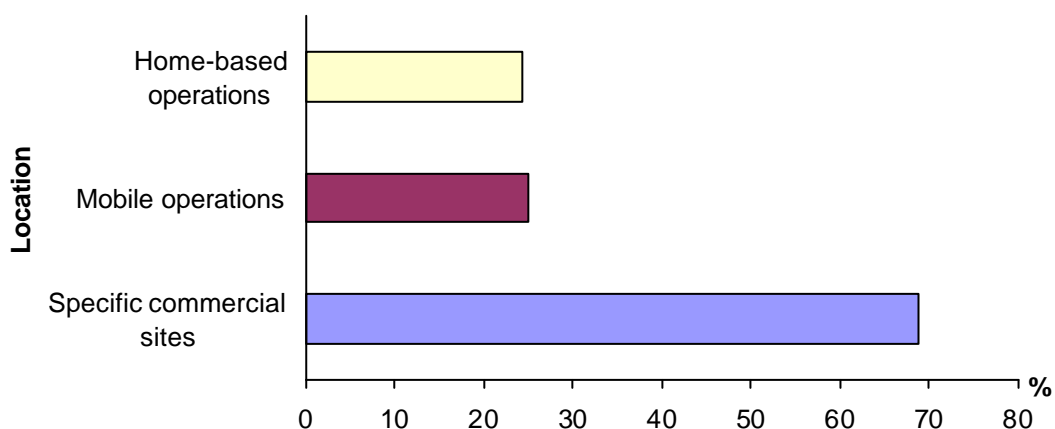
It is apparent that combinations of specific sites, mobile and home-based locations are being used to deliver a range of franchise services and products to consumers.

D13 *Please indicate whether your franchisees operate from specific commercial sites.*

Response (Sites)	Number of responses	Percent
Specific commercial sites	102	68.9
Mobile operations	37	25.0
Home-based operations	36	24.3

Notes: 1) All 148 franchisors answered the question.
2) Multiple responses were recorded for some respondents.

Location of franchise operations



Master franchising

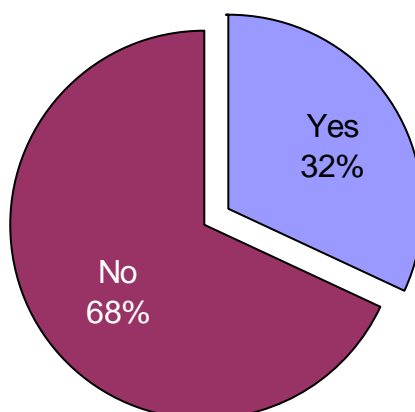
Almost one third of franchisors employ master franchising arrangements in their domestic operations. The same proportion was reported in the 2002 survey, indicating that there is no trend towards increased use of this expansion and quality control strategy.

D14 Do you use master franchising arrangements for your domestic operations?

Response (Master franchising)	Number of responses	Percent
Yes	46	31.9
No	98	68.1
Total	144	100.0

Notes: 1) A total of 144 franchisors provided a response from an expected 148.

Master franchising arrangements



Employment

The positive trend, noted in the 2002 survey, of a move towards a higher proportion of permanent staff in the franchising sector continues. In 2004, approximately three quarters of all persons employed in franchising were in permanent (full-time and part-time positions). Indeed, almost half the number of persons employed were in full-time positions. Larger proportions of full-time employees were observed in company-

owned units and franchisor head office positions. A greater use of casual staffing was observed in the food retail industry. In brief, the franchising sector continues to offer people secure employment across a variety of industries.

D15 *How many staff are employed at head office in total?*

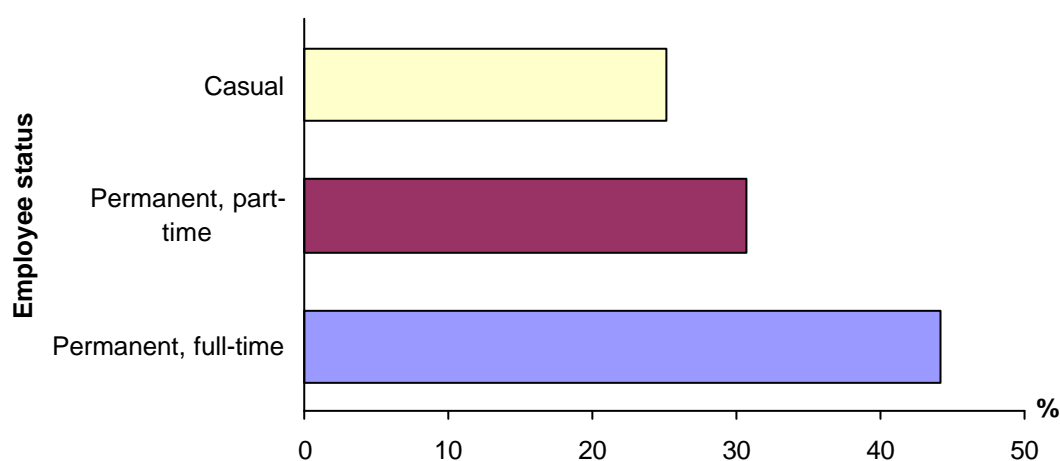
D16 *How many staff are employed in your company-owned units in total?*

D17 *How many staff are employed in your franchised units in total?*

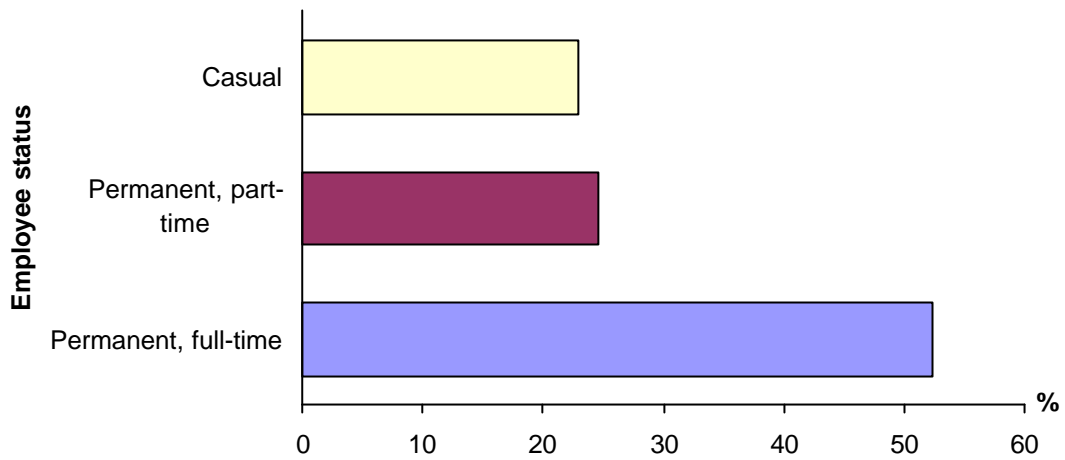
Response (Employee status)	Franchised units		Company-owned units		Franchisor head office	
	Number of employees	Percent	Number of employees	Percent	Number of employees	Percent
Permanent, full-time	18 777	44.2	3 920	52.4	2 006	90.9
Permanent, part-time	13 038	30.7	1 838	24.6	137	6.2
Casual	10 684	25.1	1 727	23.0	65	2.9
Total	42 499	100.0	7 485	100.0	2 208	100.0

- Notes:
- 1) A total of 147 franchisors provided a response to the number of employees in franchisor head office from an expected 148.
 - 2) A total of 90 franchisors provided a response to the number of employees in company-owned units from an expected 92.
 - 3) A total of 137 franchisors provided a response to the number of employees in franchised units from an expected 146.

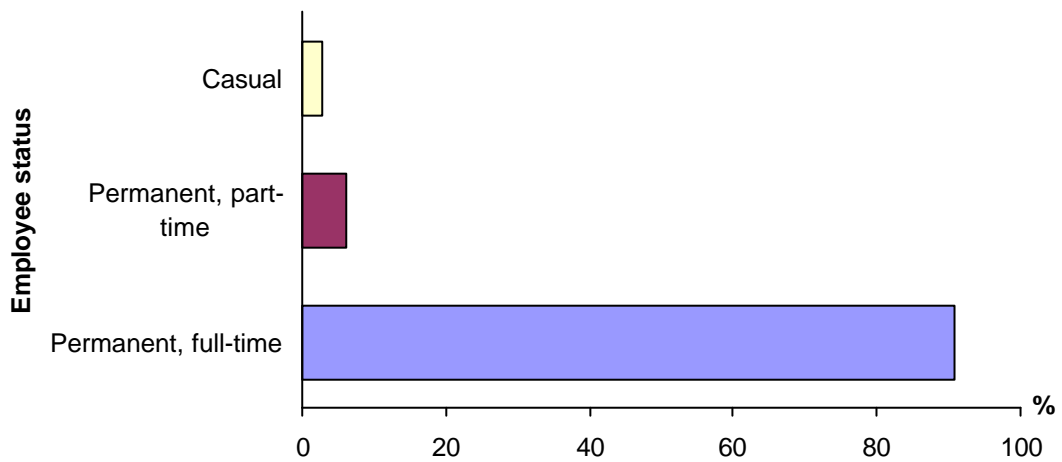
Employment in franchised units



Employment in company-owned units



Employment in franchisor head office



Ownership structure

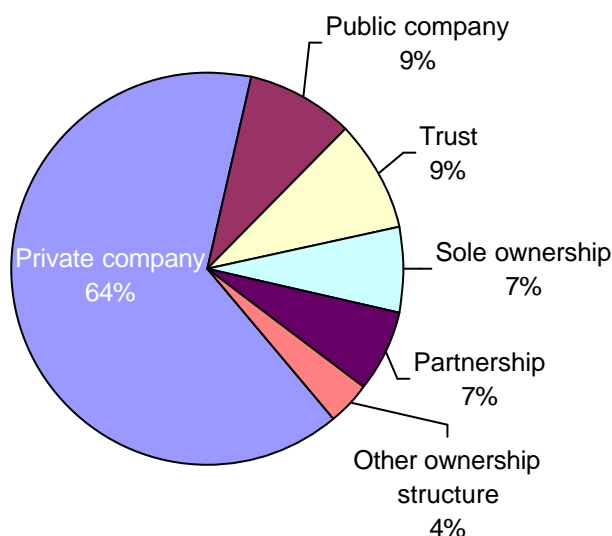
Most franchisors use private companies to organise the ownership structure of the franchise (65 percent). A further 9 percent each are public companies or trusts. Sole ownership arrangements and partnerships are each used by 7 percent of franchisors.

D18 What is the legal ownership structure of the franchise?

Response (Ownership structure)	Number of responses	Percent
Private company	93	64.6
Public company	13	9.0
Trust	13	9.0
Sole ownership	10	6.9
Partnership	10	6.9
Other ownership structure	5	3.5
Total	144	100.0

Notes: 1) A total of 144 franchisors provided a response from an expected 148.
 2) Explanations provided for 'other ownership structure' revealed that this question was interpreted by 8 respondents as referring to franchisees, instead of the franchisor organisation.

Franchise system ownership structure



Current franchising issues

Several issues were noted by respondents as being current concerns in the franchising sector. The most commonly reported issues were:

- Franchising Code of Conduct and related legal matters
- Leasing costs and issues relating to landlords and shopping centres
- Calibre and availability of franchisee applicants.



Design by Shane Blackwell
Blackwell@ion.com.au
Mobile: 0416 217 849