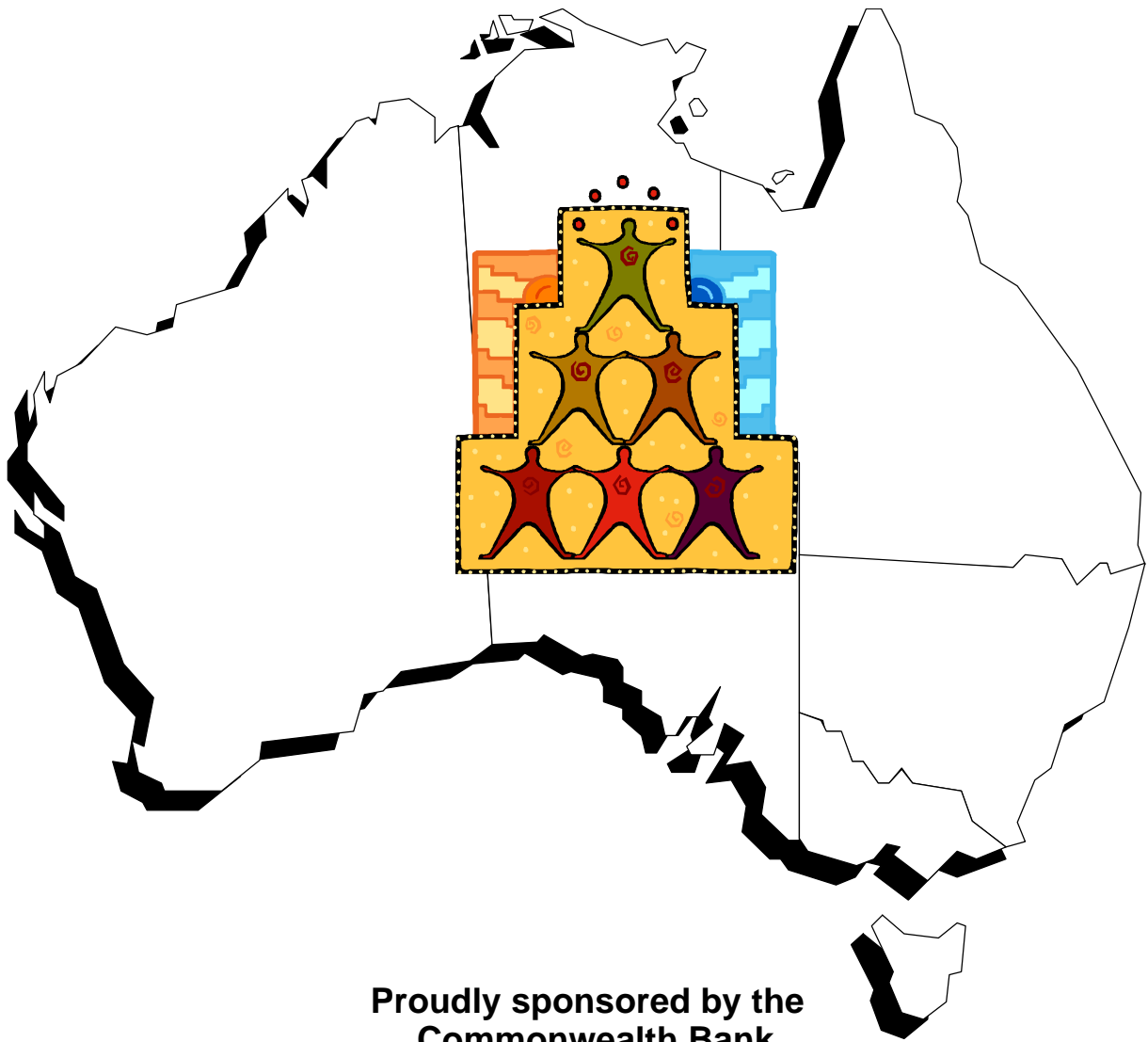




# Franchising Australia 2002



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# Franchising Australia 2002 Survey

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**Prepared by**  
Lorelle Frazer and Scott Weaven  
**Griffith University**

# Franchising Australia 2002

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## Acknowledgement

The following Griffith University final year information systems students are responsible for the technical design and support of the survey instrument:

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# Foreword

The Franchise Council of Australia, as the peak industry body representing the franchising community in Australia, is proud to endorse the *Franchising Australia 2002* survey sponsored by the Commonwealth Bank.

*Franchising Australia 2002* provides a comprehensive report on the status of the franchising sector in Australia. It is a timely document, given that the most recent data available was collected in 1999.

*Franchising Australia 2002* provides further evidence of the growth and maturity of franchising in Australia. For example the report confirms:-

- a 20% increase in the number of franchised outlets since 1999;
- more people are being permanently employed in franchising than ever before;
- permanent employment in franchised outlets has risen to 83.5% of the total workforce, creating greater security for employees;
- 25% of franchisors currently franchise overseas;
- 62% of franchisors intend to expand overseas, up 22% from 1999;
- A\$292 million p.a. in income is generated from overseas operations.

The level of disputation in franchising continues to fall, with less than 1% of franchisees in serious dispute with their franchisor. As with the 1999 survey, the top causes of substantial disputes were lack of compliance with the system (27%) and payment of fees (15%). Franchise re-sales provide further evidence of the strength of the sector, with 74% of franchisee exits resulting from sale of their business. Where the exit was due to franchisor or franchisee termination, lack of suitability to franchising and personal/family reasons were the main exit reasons identified.

*Franchising Australia 2002* also provides us with helpful information on policy issues. Although the Franchising Code of Conduct has improved franchisor/franchisee relationships (53%), been beneficial to the sector (79%) and required franchisors to keep more detailed records (62%), there remain issues to be addressed to improve the effectiveness of the Code. Despite the requirements of the Code to attempt to resolve disputes through mediation, more disputes were in fact resolved through litigation (23%) than mediation (17%). Cost of compliance, difficulty and uncertainty in compliance, excessive disclosure requirements and the ACCC influence over the sector rate highly as concerns in the regulatory area.

The data collected in this survey will provide much needed up-to-date information about Australia's franchising sector, and will help counteract some of the ill-informed speculation and generalisations. I commend the report to you, and thank the authors for their excellent efforts in producing the report, and the Commonwealth Bank for its sponsorship and support of this important franchising initiative.

Stephen Giles  
Chairman  
Franchise Council of Australia

# Executive Summary

As with the previous 1998 and 1999 surveys of the franchising sector, *Franchising Australia 2002* demonstrates that the sector is maturing and consolidating. Many of the practices reported in this document clearly indicate that the Australian franchising sector is increasingly professional in its operations.

In this Executive Summary the key results of the survey are highlighted and estimates have been included for the entire population of Australian business format franchise systems. Due to their unique characteristics, franchising activities in motor vehicle and fuel retailing were not collected in the current survey which was confined to business format franchise systems only. However, where possible data on motor vehicle and fuel retail franchises was obtained from the Australian Institute of Petroleum (2000) and the Motor Trades Association of Australia (1999) and included in the Executive Summary for completeness.

## **Total number of franchisors in Australia**

An extensive search conducted by the Franchise Council of Australia has identified a total of 677 business format franchisors. However, included in this figure are several systems offering multiple concepts under a single brand name. The practice of offering multiple concepts has grown recently with fewer instances apparent in 1998 and 1999. Hence, it is estimated that the number of franchise systems would be approximately 700. Of these, fully 92 percent are Australian-based franchise systems.

Compared with the 693 systems identified in 1998 and the 708 systems noted in 1999, it appears that the net growth of new franchise systems has slowed as expected following the introduction of the Franchising Code of Conduct in 1998. The consolidation of the Australian franchising sector in response to regulatory and economic conditions may be regarded as a sign of the sector's increasing maturity. Significantly this consolidation has not come at the expense of diversity: the Australian sector still has over three times the number of systems per capita than the United States.

## **Total number of units in franchise systems in Australia**

It is estimated that there are 44,400 business format franchised units operating together with 3,300 motor vehicle and 2,000 automotive fuel retail franchised units making a total of 49,700 franchised units. In addition, business format franchises hold approximately 6,700 company owned units. Estimates for company owned units in motor vehicle and fuel retail industries are unavailable.

## **Growth of franchise units in Australia**

A total of 44,400 business format franchised units is estimated to be operating in Australia. This has grown from an estimated 38,500 units in 1998 and 40,900 units in 1999. Hence, the growth rate of business format franchised units since 1999 is 8.5 percent which is higher than the 6.2 percent reported from 1998 to 1999. It

appears that although the number of franchise systems in Australia remains stable, growth within individual systems is strong.

### **Employment in the Australian franchising sector**

The total number of persons employed in business format franchise systems is estimated to be 388,500. Although this is lower than the figures reported in 1998 and 1999, there has been a significant swing away from the use of casual employment to permanent employment. This trend may reflect the growing confidence in the economy towards franchise organisations.

A comparison of employment figures since 1998 is shown below:

Employment type	2002	1999	1998
Permanent full time	171 300	186 700	167 000
Permanent part time	156 900	41 900	34 000
Casual	60 300	324 600	382 000
Total	388 500	553 200	583 000

In addition, the total number of employees in motor vehicle retail franchises was 45 000 (1999) and automotive fuel retail franchisees employed 45 400 (2000).

### **Age of franchise systems in Australia**

More than three quarters (81 percent) of the survey respondents began franchising after 1990. A further 17 percent began franchising in the 1980s. Franchisors had been operating for an average of 15 years and franchising for 9 years.

On average, organisations were in operation for four years prior to beginning franchising, indicating that sufficient experience was obtained before attempting to franchise the concept. However, slightly less than one third of franchisor respondents (29 percent) began franchising within the first year of operation. In contrast, 6 percent of organisations obtained more than 20 years' experience before commencing franchising.

### **Trends in Australian franchising**

There appears to be a growing acceptance of *multiple unit ownership* by franchisees, with 43 percent of franchisors encouraging the practice in their systems. Almost three quarters of franchisor respondents believe it is important to reward franchisee performance with the offer of additional units. The shortage of suitable franchisees, noted by many franchisors, may be partially overcome by encouraging greater ownership of units by individual franchisees.

Slightly more than half the franchisor respondents (52 percent) offer their franchises as either wholly *mobile services* or a combination of mobile and fixed site services. Franchisors appear to be offering more flexible delivery options for franchisees and customers, possibly in response to consumer trends.

## **Regulatory environment**

The Franchising Code of Conduct is well accepted by the franchising sector, and has made a positive contribution to franchise relationships. *Franchising Australia 2002* confirms that the Code has improved franchisor/franchisee relationships (53%), been beneficial to the sector (79%) and required franchisors to keep more detailed records (62%).

However there remain issues to be addressed to improve the effectiveness of the Code. Despite the requirements of the Code to attempt to resolve disputes through mediation, more disputes were in fact resolved through litigation (23%) than mediation (17%). Cost of compliance, difficulty and uncertainty in compliance, excessive disclosure requirements and the ACCC influence over the sector rate highly as concerns in the regulatory area.

### **Fewer disputes and unit closures in franchising**

There has been a marked reduction in serious disputes between franchisors and franchisees, and lower levels of termination of franchise agreements. "Serious disputes" are defined quite broadly to include not just disputes involving court action, but any dispute involving correspondence with a solicitor.

Fewer than 1 percent of franchisees of respondents have been involved in a substantial dispute over the past 12 months. 81% of franchisors reported no involvement at all in a serious dispute.

Most of the disputes (60 percent) were at the stage of correspondence with a solicitor. Despite the requirement of the Franchising Code of Conduct to attempt to resolve disputes through mediation, more had been resolved through litigation (23 percent) than mediation (17 percent), indicating that resolution through the courts was still necessary in some disputes. The most common causes of disputes were lack of franchisee compliance with the system, payment of franchise fees, and misrepresentation by franchisors.

Fewer than 10 percent of franchised units have changed their *ownership status* in the past 12 months. Most of these (72 percent) were franchisees who sold their units to another franchisee. This figure is higher than that reported in 1998 and 1999, indicating that franchise sales are active and do not appear to have been unduly affected by Code requirements.

Only 17 percent of franchise agreements were terminated in the past 12 months, similar to 1999 but lower than the 24 percent reported in 1998. Lack of suitability to franchising and personal/family reasons were the main exit reasons identified.

### **International expansion by Australian franchise systems**

A quarter of franchise systems of respondents has expanded internationally, although some 62 percent intend to export their systems within the next three years. New Zealand remains the most popular destination of respondents. On average,

franchisors hold 60 units domestically prior to franchising internationally. This practice is another positive sign of a maturing franchising sector as it indicates that franchisors achieve strong local brand equity prior to developing an international presence.

## **Conclusion**

*Franchising Australia 2002* confirms that the franchising sector continues to make a substantial contribution to the Australia economy.

Trends such as the consolidation of franchise systems, strong growth in franchise units, greater acceptance of multiple unit and mobile franchising practices, high acceptance of the Franchising Code of Conduct, lower levels of disputation and agreement terminations, and greater international expansion of operations provide strong evidence that the Australian franchising sector is maturing, and becoming more professional in its operations and performance.

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# Background

*Franchising Australia 2002* provides a comprehensive report on the status of the franchising sector in Australia. It is a timely document, given that the most recent data available was collected in 1999. Lorelle Frazer and Colin McCosker conducted previous surveys of the sector in 1998 and 1999. 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 was deemed important to gather current information about the sector in 2002 and to trace the effects of regulation on franchising practices and performance.

Rapid growth was experienced by the Australian franchising sector in the 1980s and 1990s, reflecting its level of early maturity and the lack of specific franchising legislation. In 1998 a total of 693 business format franchisors was identified, expanding to 708 in 1999. However, following the introduction of franchising legislation it was expected that the sector would consolidate and become stronger rather than larger. This appears to have occurred with a total of 677 business format franchisors confirmed in 2002. However this figure includes several systems that offer multiple concepts under a single brand name and these organisations have been counted only once. Hence, the true figure would be slightly higher at around 700 franchisors, indicating that the number of franchisors has remained fairly stable since the introduction of the Code. This is a positive signal for those operating in the sector as it indicates that the Code has been effective in its pursuit of a well-managed franchising sector.

The data collected in this survey will provide much needed up-to-date information about Australia's franchising sector which often suffers from speculation and generalisations. The results of the survey provide empirical support and evidence of positive franchising practices and performance.

# Introduction

The *Franchising Australia 2002* survey was conducted from May to July 2002. A sample of franchisors across all major industries 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 trace its progress since the introduction of franchising legislation. Data collected related to:

- a profile of the franchising sector in terms of age, size, growth and composition;
- operational practices employed by franchisors, including the use of multiple units, corporatisation, finance and insurance issues;
- the effects of the regulatory environment on franchising; and
- the extent of international expansion by Australian franchise systems.

# Conduct of the survey

## The Franchisors

Unlike the previous two surveys in 1998 and 1999 when the population of franchisors in Australia was surveyed, a sample of franchisors was used in the current survey. This decision was based on efficiency and accessibility considerations and was due in part to the introduction of privacy laws in Australia. A database of franchisors maintained by the Franchise Council of Australia (FCA) was used as the sample for this research.

The FCA updates the database regularly and uses it as a mailing list for disseminating franchising information to the sector. In addition, the FCA scanned recent business publications and major newspapers for new entrants. It also cross-checked the list with those found in industry directories and a Griffith University database to compile a comprehensive database. A total of 677 business format franchisors was identified.

The lack of any official registration requirements on franchisors makes it impossible to be entirely confident of the total population. However, the search conducted by the FCA was thorough and it is unlikely that any business format franchisors of significance have been overlooked.

Of the estimated population of 677 franchisors, email addresses were available for 540 organisations and it was decided to survey this sample.

## The Questionnaire

For the first time the survey was conducted electronically. A number of factors led to this choice of administration. Firstly, as the FCA had a database of franchisors with current email addresses, it was regarded an efficient and cost-effective means of conducting the survey. Secondly, because the franchising sector has been heavily surveyed for various purposes over the past few years, the research team felt that participants may be suffering from survey fatigue. Hence, it was decided to make the task as easy as possible for respondents to complete. Finally, privacy laws posed a restriction on the conduct of the survey making it necessary for the FCA to actually send out the survey invitation.

The questionnaire was pilot tested in two stages. In stage one, a sample of 10 franchisors, 4 franchising advisors and consultants, and 8 academics familiar with electronic surveys and/or franchising pilot tested a hard copy of the instrument. Based on this feedback several changes were made to the questionnaire and a revised version was pilot tested electronically to a sample of five franchisors and five academics and consultants. A final version of the questionnaire was then completed.

An email notification was sent by the FCA to its franchisor database 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 which were stored anonymously. Hence, it was not possible to know who had responded. Therefore, a follow-up letter was posted to the sample to encourage further response. Respondents could either complete and submit the survey electronically or print the questionnaire and mail or fax it to the researcher. At no stage did the FCA, which remained at arms length throughout the procedure, observe the questionnaires or raw data collected.

The limitations on the conduct of the survey imposed by the privacy regulations as well as the promise of anonymity to respondents meant that it was impossible to follow up nonrespondents in a systematic fashion. The response rate of the survey may have been improved if direct follow ups had taken place.

### **Survey responses**

A total of 540 franchisors comprising the FCA database was surveyed. This was an active database frequently used by the FCA to distribute information. As no emails were returned it may be assumed that the database was accurate. Of these, 107 responses were received electronically and 7 by fax or mail, totalling 114 useable responses overall and giving a response rate of 21.1 percent. This is similar to the 23 percent response rate received for the population of Australian franchisors in the 1999 survey.

### **Estimations for the whole franchising sector**

As a sample of the franchising sector was used in this survey, the problem exists of estimating results for the entire franchising sector. The sample included approximately 400 franchisor members of the FCA with non-members making up the balance. It is possible that FCA franchisor members differ from non-members in some way. For instance, the more professional operators may be FCA members or FCA members may be larger, more experienced franchised systems. Hence, there is a possibility that the survey results may be biased in favour of these organisations.

In addition, not all franchisors surveyed responded to the survey and there may be a difference between those who responded and those who chose not to participate. A common statistical test estimating the degree of such non-response bias was conducted by comparing early respondents with those who responded late. Late respondents are assumed to be similar to nonrespondents because they respond less readily and only after prompting. This test indicated that nonresponse bias was not a problem.

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 following part of the report.

# Survey results

## Franchising Australia 2002

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 retail and non-retail industries. Further industry breakdowns were not undertaken due to the small number of respondents in most industries.

# A. Franchise profile

## Industry

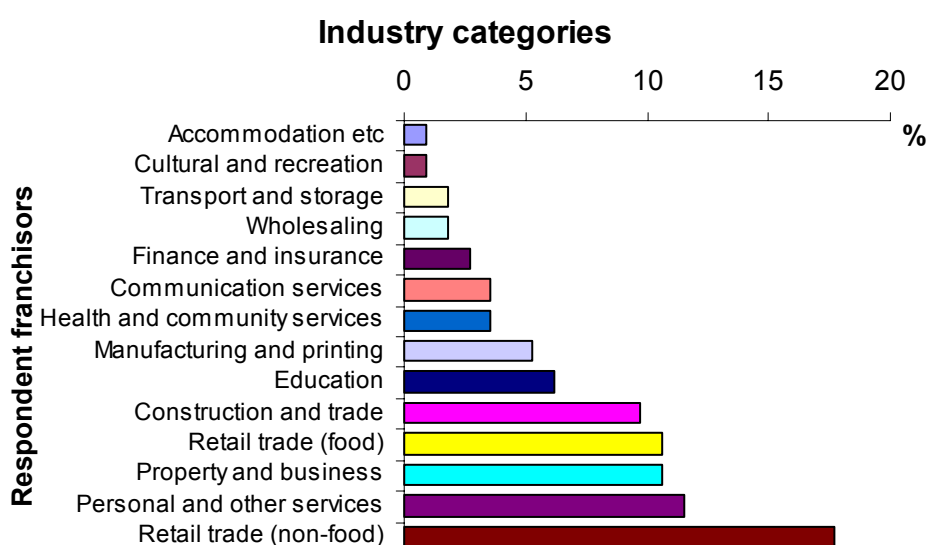
Franchisors involved in retail trade formed the largest group of industry *respondents* (28 percent). This was followed by personal services (12 percent), property and business services (11 percent), and construction and trade services (10 percent). Industry groups that have shown some growth since the last survey include construction (10 percent), education (6 percent), manufacturing (5 percent) and health and community services (4 percent). Several industry proportions differ from the 1999 results possibly due to respondents being required to self-select their industry.

### A1 *In which industry is your franchise system involved?*

Response (Industry)	Number of responses	Percent
Retail trade non-food (includes automotive services)	20	17.7
Personal and other services (includes video hire outlets, film processing and gardening services)	13	11.5
Property and business services	12	10.6
Retail trade food (includes fast-food operations)	12	10.6
Construction and trade services	11	9.7
Education	7	6.2
Manufacturing and printing	6	5.3
Communications services (includes postal, courier and telecommunication services)	4	3.5
Health and community services	4	3.5
Finance and insurance	3	2.7
Transport and storage	2	1.8
Wholesaling	2	1.8
Accommodation, cafes and restaurants	1	0.9
Cultural and recreation services	1	0.9
Unclassified	15	13.3
<b>Total</b>	<b>113</b>	<b>100.0</b>

Notes: 1) A total of 113 franchisors provided a response from an expected 114.

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.



### Age of franchise systems

Franchisors have been operating their businesses for an average of 15 years and franchising for 9 years. On average, they operated their business for 4 years prior to beginning franchising. However, nearly 29 percent began franchising within the first year of operation. In contrast, 6.4 percent of firms had more than 20 years' experience before commencing franchising.

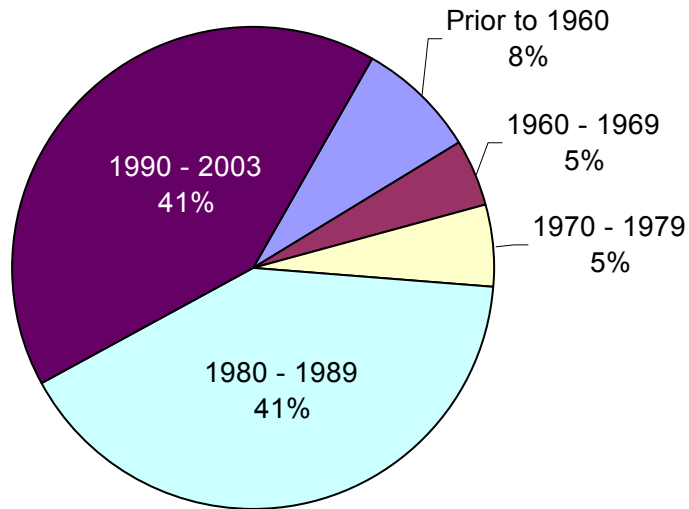
*A2 In which year did this business commence operations?*

*A3 In which year did this business commence franchising?*

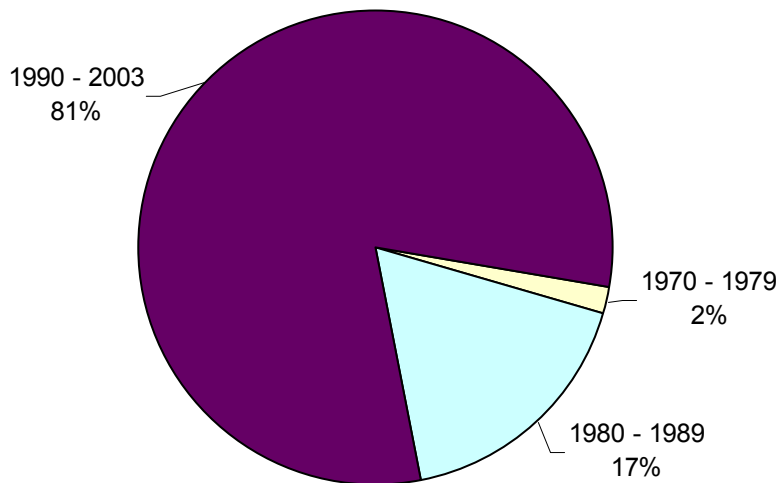
Response (Year)	Year commenced operations		Year commenced franchising	
	Number of responses	Percent	Number of responses	Percent
Prior to 1960	9	8.1	0	0.0
1960 – 1969	5	4.5	0	0.0
1970 – 1979	6	5.4	2	1.8
1980 – 1989	45	40.5	19	17.3
1990 – 2003	46	41.4	89	80.9
<b>Total</b>	<b>111</b>	<b>100.0</b>	<b>110</b>	<b>100.0</b>

- Notes: 1) A total of 110 franchisors provided a response from an expected 114.  
 2) The average number of years was: operating 15 years and franchising 9 years.  
 3) Businesses had been operating for a range of 1 to 155 years and franchising for a range of 1 to 32 years.

### Year commenced operations



### Year commenced franchising



### Growth of franchise systems

There has been consistent growth in the number of franchised units held by respondents over the past three years. Although franchisors are holding fewer company units within their systems, the average number of units held has increased by 10 percent on 1999 figures. The average number of franchised units per respondent grew from 22 in 1999 to 24 in 2001.

**A4** *How many franchised units were operating within your franchise system in Australia in each of the last three years?*

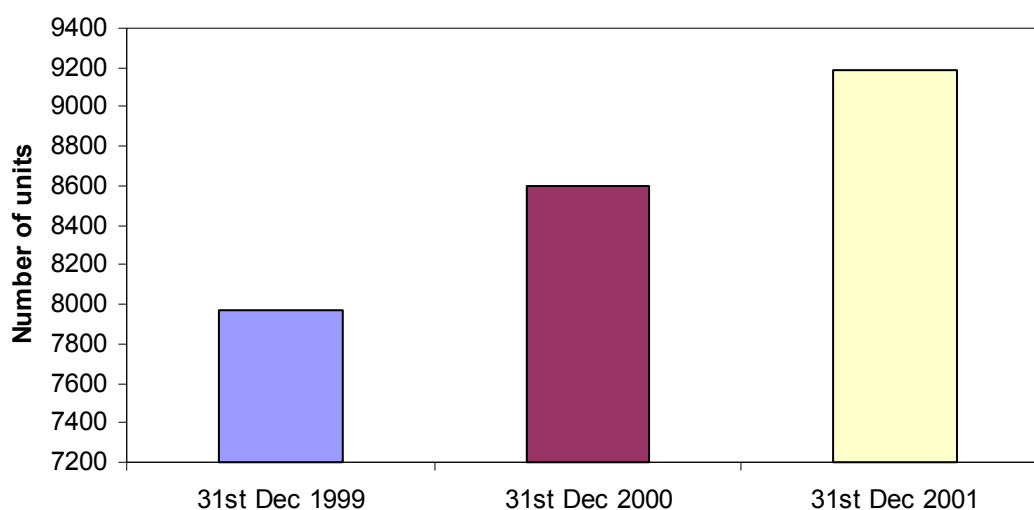
**A5** *How many company-owned units were operating within your franchise system in each of the last three years?*

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 1999	80	7967	23	72	1929	2
31 Dec 2000	87	8595	26	72	1699	2
31 Dec 2001	99	9187	24	82	1669	2

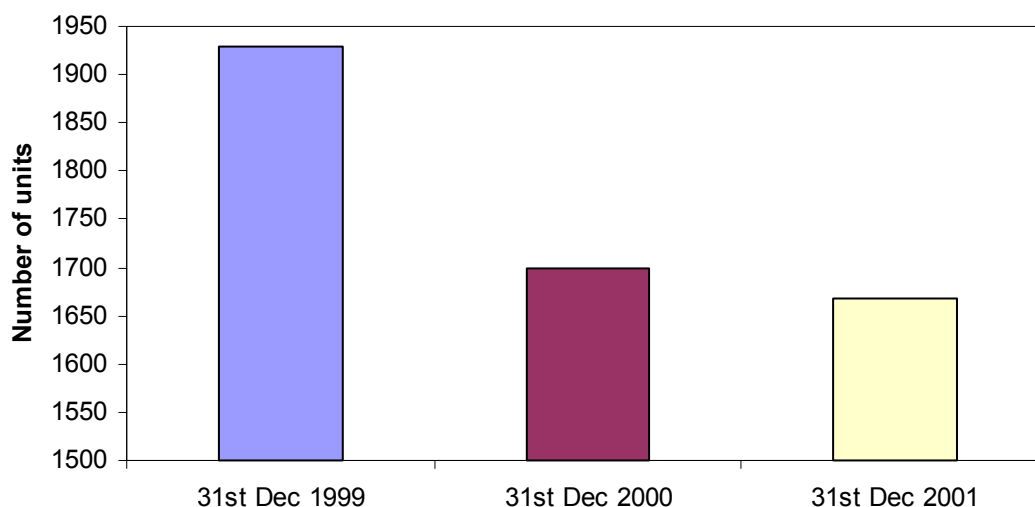
Notes: 1) *The number of franchised units ranged from 0 (temporarily) to 2975 in 2001.*

2) *The number of company owned units ranged from 0 to 897 in 2001.*

**Number of franchised units**



### Number of company-owned units



### Geographical distribution

Of the franchisors who responded, over one third of franchised and company units are based in New South Wales and the ACT. Consistent with 1999 results, just under a quarter of units are situated in Victoria and Queensland. In contrast, much smaller proportions are held in other states.

**A6** *How many franchised units do you currently operate in each state/territory?*

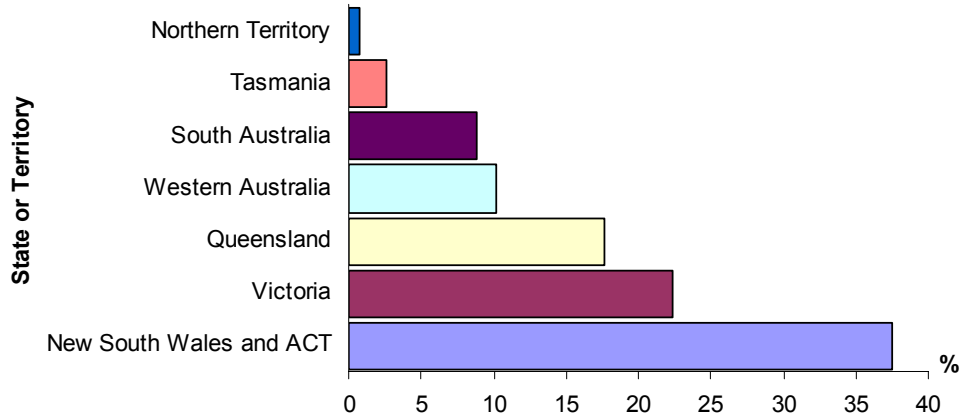
**A8** *How many company-owned units do you operate in each state/territory?*

Response (State)	Franchised units		Company-owned units		Total units	
	Total number	Percent	Total number	Percent	Total number	Percent
NSW and ACT	3401	37.5	481	31.4	3882	36.6
Victoria	2036	22.4	322	21.1	2358	22.2
Queensland	1606	17.7	377	24.6	1983	18.7
Western Australia	922	10.2	180	11.8	1102	10.4
South Australia	802	8.8	109	7.1	911	8.6
Tasmania	240	2.6	44	2.9	284	2.7
Northern Territory	72	0.8	17	1.1	89	0.8
<b>Total</b>	<b>9079</b>	<b>100.0</b>	<b>1530</b>	<b>100.0</b>	<b>10609</b>	<b>100.0</b>

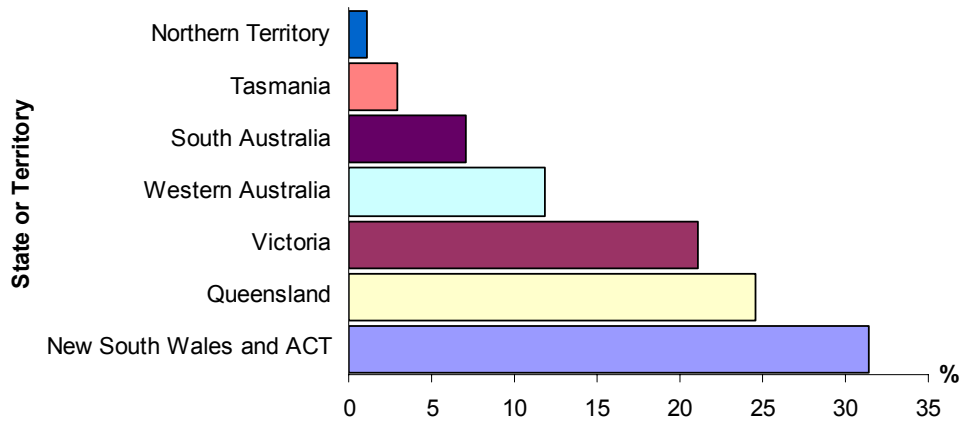
Notes: 1) A total of 112 franchisors provided a response to the number of franchised units held from an expected 114.

2) A total of 109 franchisors provided a response to the number of company owned units held from an expected 114.

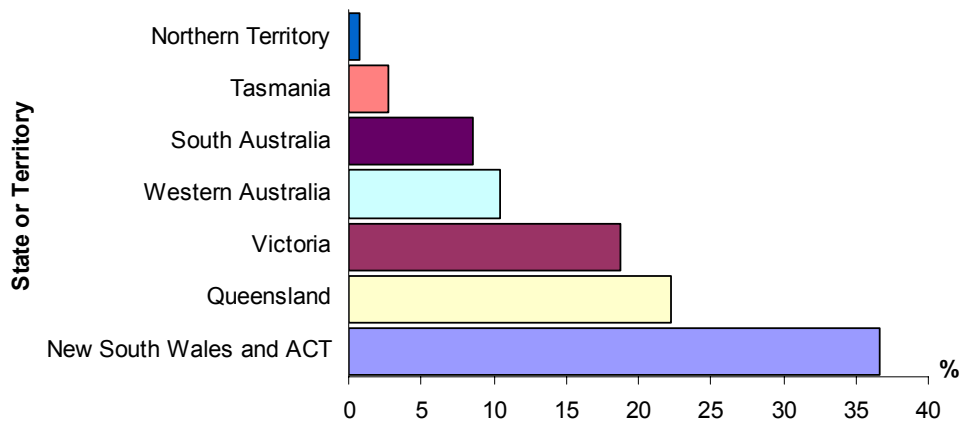
### Geographical distribution of franchised units



### Geographical distribution of company-owned units



### Geographical distribution of total units



**A7 Of the total number of franchised units listed in A6 above, how many franchisees hold those units?**

It was noted that a total of 5476 franchisees held 9079 franchise units, indicating multiple unit ownership by some franchisees. Individual franchise systems reported franchisee numbers ranging from 1 to 740. The average number of franchisees operating in retail systems was 29 while non-retail systems reported a slightly smaller average holding of 20 franchisees.

**Location of franchisor head office**

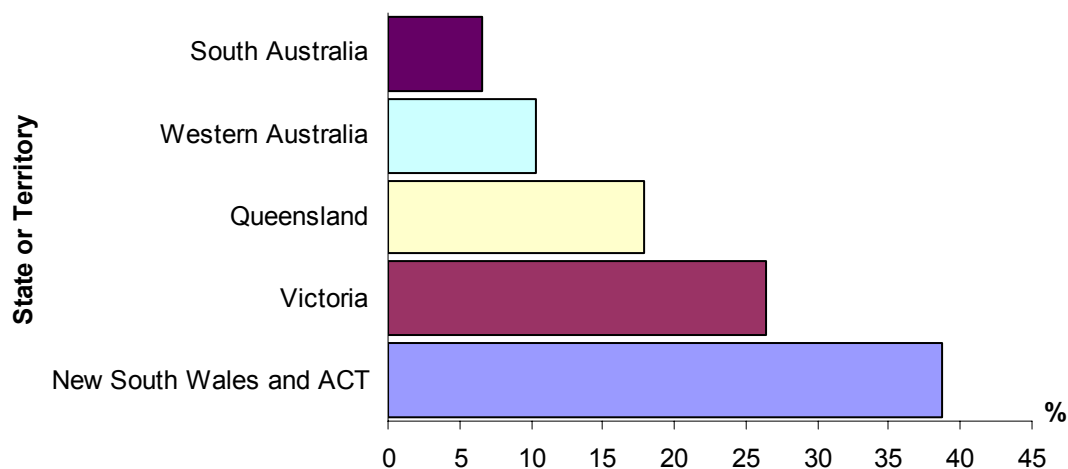
Results show that over one third of franchisor respondent head office premises are centralised in the New South Wales/ACT region. Around one quarter of head office operations are located in Victoria and a further 18 percent in Queensland. Interestingly, the favoured location of head office premises for retail franchise systems was evenly split between New South Wales and Victoria, while 40 percent of non-retail franchisors were located in New South Wales.

**A9 In which state/territory is your franchise head office located?**

Response (State)	Number of responses	Percent
NSW or ACT	41	38.7
Victoria	28	26.4
Queensland	19	17.9
South Australia	7	6.6
Western Australia	11	10.4
<b>Total</b>	<b>106</b>	<b>100.0</b>

Notes: 1) A total of 106 franchisors provided a response from an expected 114.

### Location of franchisor head office



### Mobile operations

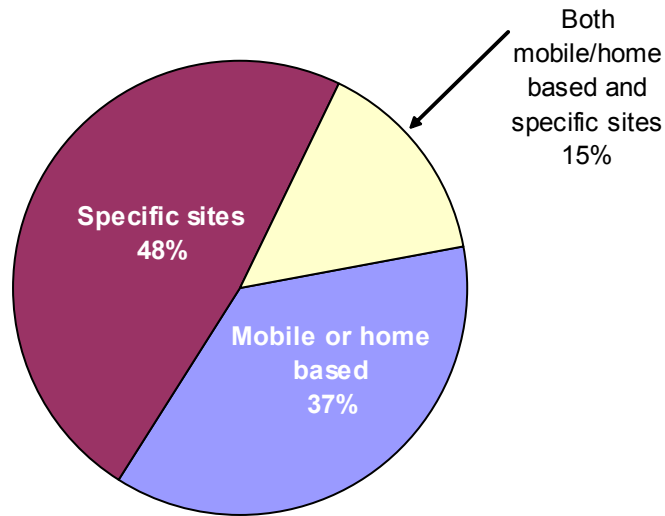
A total of 48 percent of franchisees operate from specific sites compared with 37 percent who operate mobile or home based franchises. The majority of mobile and home-based franchises was involved in construction, personal services and business services. Similarly, most fixed location franchises were in retail food and non-food systems. The start-up capital requirements for mobile and home-based businesses were an average of \$44 750 (excluding GST) representing a 28 percent increase since the 1999 survey. In contrast, the start-up capital requirements for fixed site franchises were \$195 000 (excluding GST) representing a 30 percent increase since 1999. In addition, there has been a significant increase in the number of respondent franchisors who allow both fixed and mobile operations since the last survey, which may be a reflection of increasingly flexible delivery options adopted in some franchising systems.

#### A10 Do you require franchisees to operate from specific sites?

Response (Sites)	Number of responses	Percent
Mobile or home-based	39	36.8
Specific sites	51	48.1
Both mobile/home-based and specific sites	16	15.1
<b>Total</b>	<b>106</b>	<b>100.0</b>

Notes: 1) A total of 106 franchisors provided a response from an expected 114.

### Mobile/specific site operations



### Master franchising

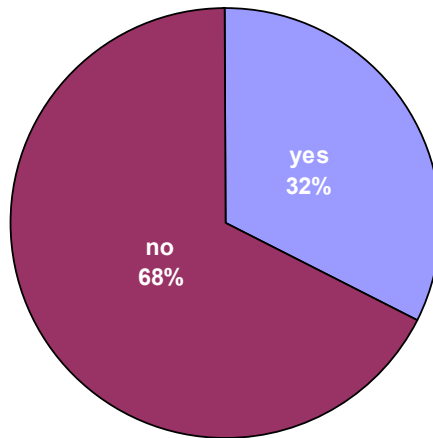
Results show that approximately one third of respondent franchisors use master franchising and area development arrangements. Franchisors marginally favour the use of area development agreements over other multiple unit expansionary strategies. Longitudinal comparisons with previous surveys may be problematic as the current questions measured current usage as apart from the franchisor’s willingness to engage in multiple unit franchising.

#### A11 Do you use master franchising arrangements?

Response (Master franchising)	Number of responses	Percent
Yes	34	32.4
No	71	67.6
<b>Total</b>	<b>105</b>	<b>100.0</b>

Notes: 1) A total of 105 franchisors provided a response from an expected 114.

### Master franchising arrangements



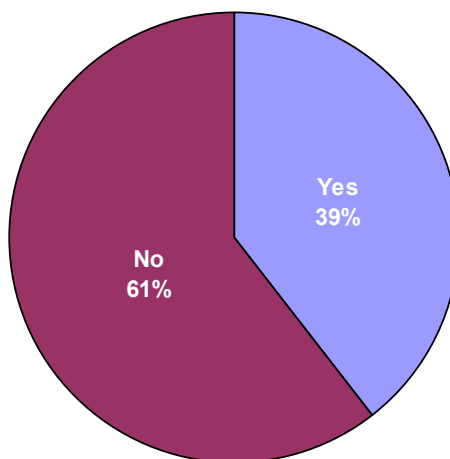
### A12 Do you grant area development rights to franchisees?

(Area development is defined as the right of a franchisee to open multiple units in an exclusive area over a specified period of time.)

Response (Area development)	Number of responses	Percent
Yes	41	39.4
No	63	60.6
<b>Total</b>	<b>104</b>	<b>100.0</b>

Notes: 1) A total of 104 franchisors provided a response from and expected 114.

### Area development rights



## Employment

The current trend in Australia to restructure staff to permanent part-time employment was evident in the franchising sector. Almost half of the total number of persons employed within franchised units are permanent part-time employees, up from 6 percent in 1999. In contrast, both company owned units and head office administration employ a greater proportion of full-time staff. The use of casual staff in franchise and company owned units has dropped significantly. In brief, the franchising sector is now employing more people in permanent positions, thus creating greater security for employees.

**A13** *How many staff are employed at head office in total?*

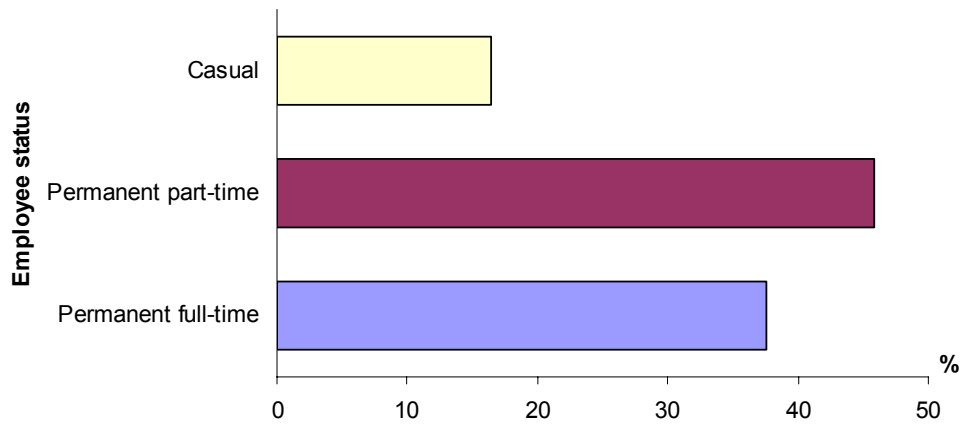
**A14** *How many staff are employed in your company-owned units in total?*

**A15** *How many staff are employed in your franchised units in total?*

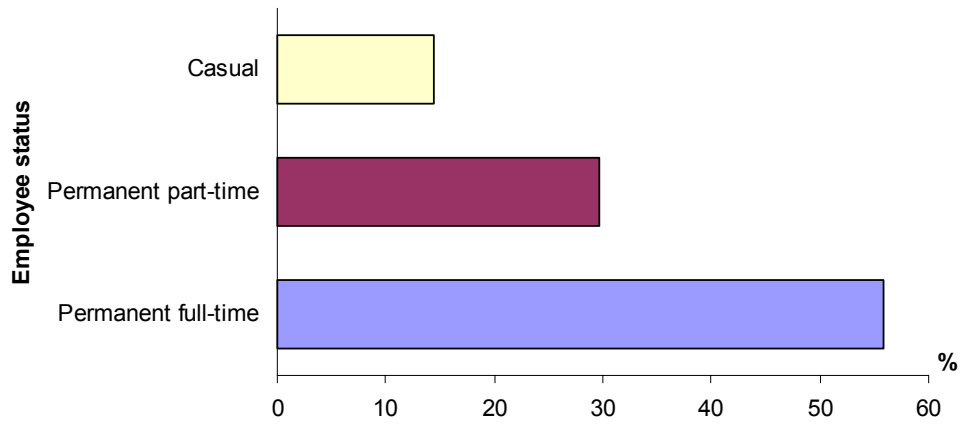
Response (Employee status)	Franchised units		Company-owned units		Franchisor head office	
	Number of employees	Percent	Number of employees	Percent	Number of employees	Percent
Permanent full-time	13 729	37.6	7 649	55.9	2 052	88.0
Permanent part-time	16 773	45.9	4 059	29.7	167	7.2
Casual	6 031	16.5	1 964	14.4	112	4.8
<b>Total</b>	<b>36 533</b>	<b>100.0</b>	<b>13 672</b>	<b>100.0</b>	<b>2331</b>	<b>100.0</b>

- Notes: 1) *A total of 92 franchisors provided a response to the number of employees in franchised units from an expected 114.*
- 2) *A total of 101 franchisors provided a response to the number of employees in company-owned units from an expected 114.*
- 3) *A total of 104 franchisors provided a response to the number of employees in franchisor head office from an expected 114*

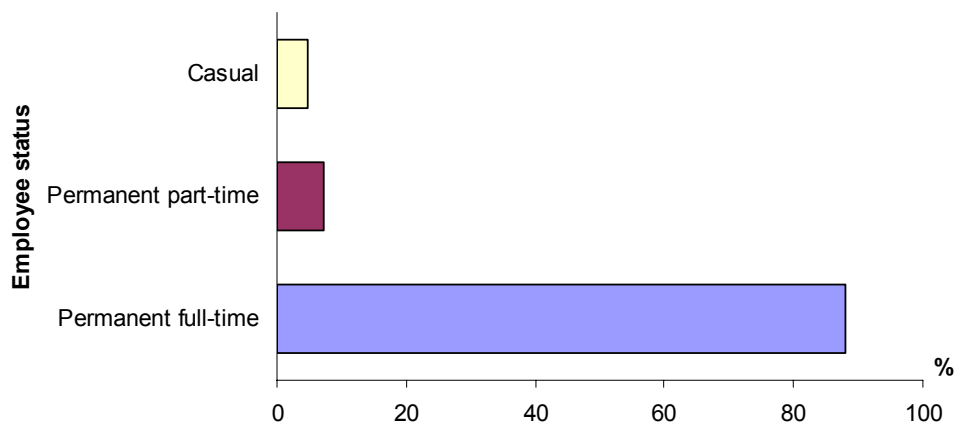
### Employment in franchised units



### Employment in company-owned units



### Employment in franchisor head office



# B. Operations

## Franchisees

### Hands-on franchisee operations

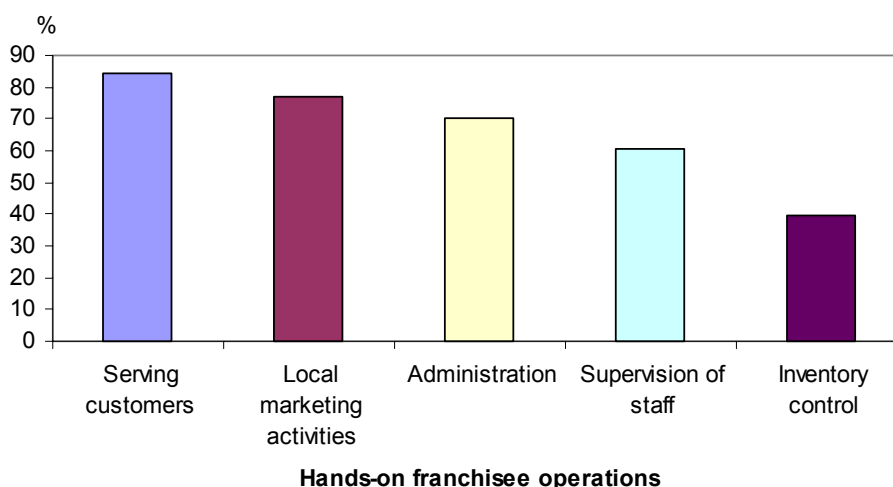
The franchisors surveyed prefer franchisees to be involved in the day-to-day operations of the business, despite a trend towards a greater use of multiple unit franchising arrangements. More than three quarters of franchisors expect their franchisees to be involved in customer service and local marketing activities, with slightly fewer requiring franchisees to carry out administration tasks and to directly supervise staff. Fewer than 40 percent of respondents expect franchisees to control inventory, although this may be of greater importance in retailing than in the service sector.

#### B1 Do you require franchisees to be substantially involved in (operations)?

Response (Hands-on franchisee operations)	Number of responses	Percent
Serving customers	96	84.2
Local marketing activities	88	77.2
Administration	80	70.2
Supervision of staff	69	60.5
Inventory control	45	39.5

Notes: 1) All 114 respondents answered the question.  
2) Multiple responses were recorded for some respondents.

#### Hands-on franchisee operations



## Multiple unit ownership

Although fewer than half (43 percent) of franchisors encourage suitable franchisees to hold multiple units in their systems, there appears to be a trend towards greater acceptance of this practice than reported in *Franchising Australia 1998*. Presumably, as franchise systems mature and grow and the availability of suitable franchisees becomes scarce, multiple unit franchising practices will be favoured. This trend has been evident in the more mature United States franchising sector for some time.

Where multiple ownership of franchisee units exists, franchisors reported that the granting of additional units generally occurs after the franchisees have had from one to three years' *experience*. In these cases the right to operate an additional unit may be related to satisfactory franchisee performance. However, 11 percent of franchisors allow franchisees to take up additional units within the first 12 months of operation.

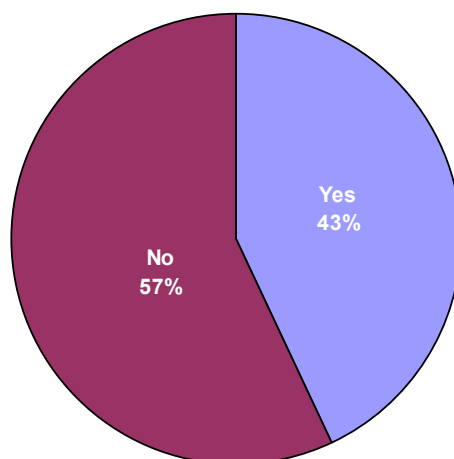
The geographical *proximity* of multiple units is an important factor with most being located in neighbouring suburbs (34 percent) or within a single city (13 percent). The earlier requirement for franchisees to have hands-on involvement in the business would necessitate such a strategy and to facilitate the franchisee's monitoring of units.

### **B2** *Do you encourage suitable franchisees to own multiple units in your system?*

Response (Multi-unit ownership)	Number of responses	Percent
Yes	65	43.0
No	49	57.0
<b>Total</b>	<b>114</b>	<b>100.0</b>

Notes: 1) All 114 respondents answered the question.

### Multiple unit ownership

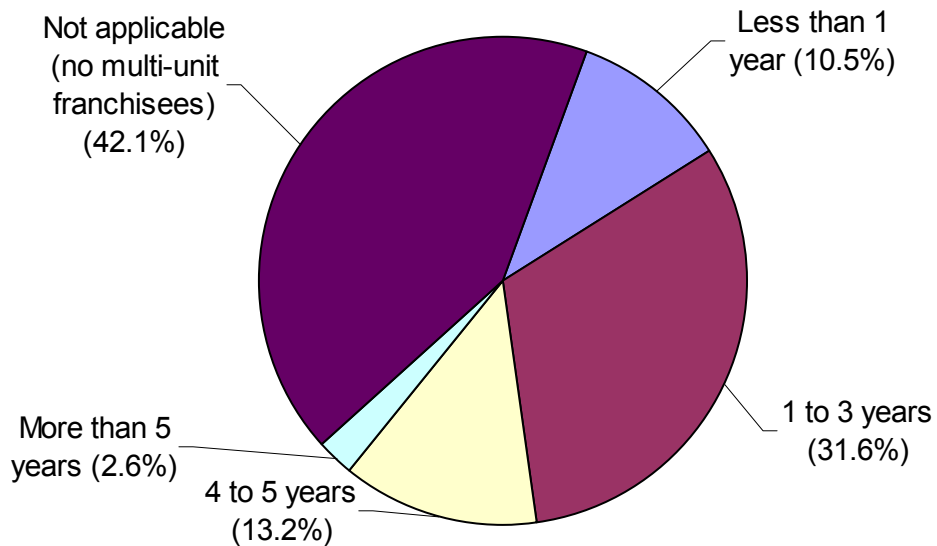


**B3** *If any of your franchisees hold multiple units, how many years' experience (on average) did they have in your system before being granted a second unit?*

Response (Level of franchisee experience)	Number of responses	Percent
Less than 1 year	12	10.5
1 to 3 years	36	31.6
4 to 5 years	15	13.2
More than 5 years	3	2.6
Not applicable (no multi-unit franchisees)	48	42.1
<b>Total</b>	<b>114</b>	<b>100.0</b>

Notes: 1) All 114 respondents answered the question

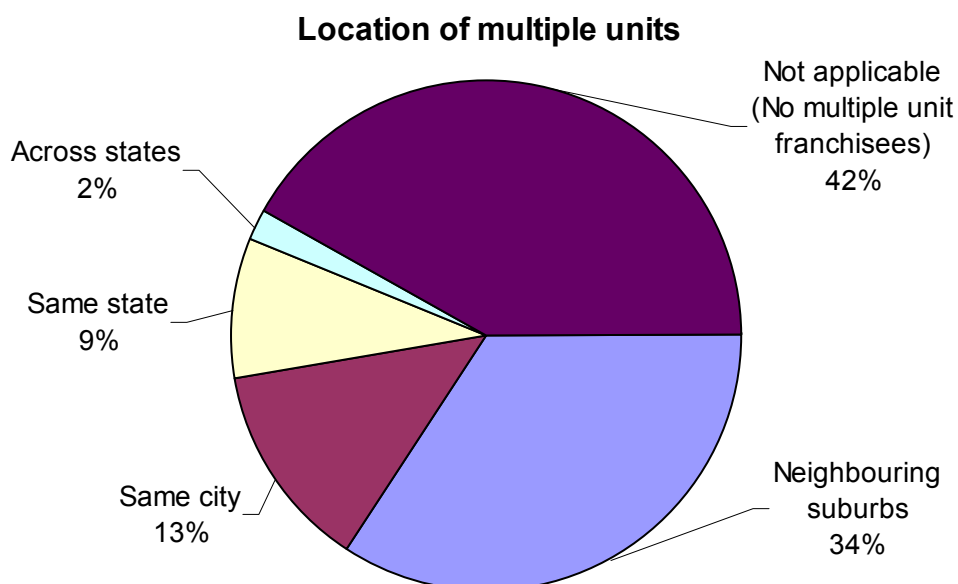
**Level of multiple-unit franchisee experience**



**B4** *If any of your franchisees hold multiple units, which of the following best describes their location?*

Response (Location of multiple units)	Number of responses	Percent
Neighbouring suburbs	39	34.2
Same city	15	13.2
Same state	10	8.8
Across states	2	1.8
Across countries	0	0.0
Not applicable (no multi-unit franchisees)	48	42.1
<b>Total</b>	<b>114</b>	<b>100.0</b>

Notes: 1) All 114 respondents answered the question



**Franchised unit start-up costs**

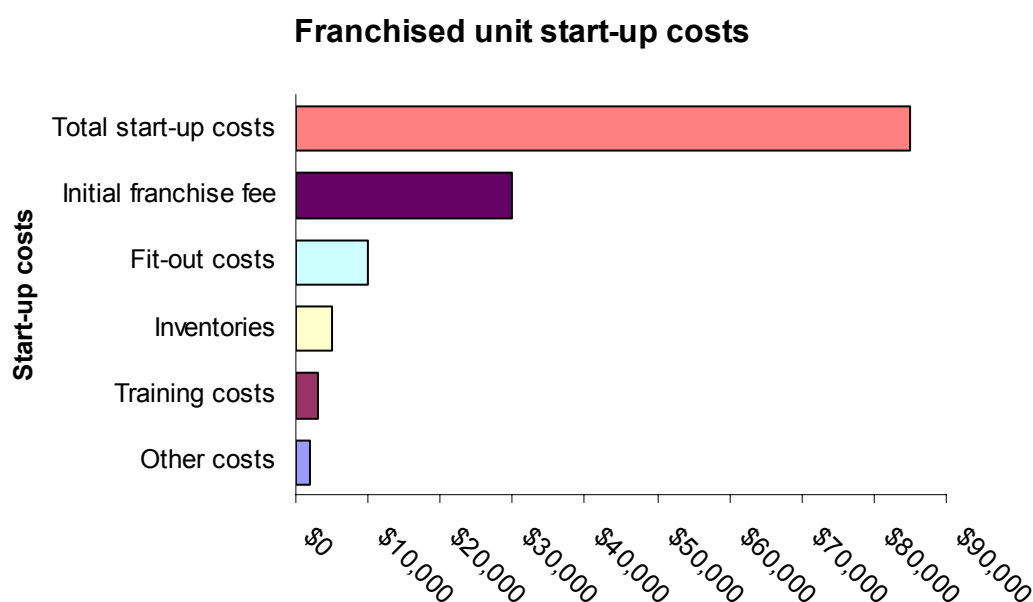
Start-up costs of a new franchised unit have increased slightly over the past three years. The total average start-up cost across all industries was \$85 000. However, retail units require more infrastructure and the average start-up cost in this sector was \$208 000 compared to \$62 500 in service industry franchises.

Most franchisors charge an initial franchise fee (fewer than 3 percent of respondents did not set an initial fee). The average fee across the sample was \$30 000. Retail franchises charge a higher fee (\$40 000) on average than service industry franchises (\$30 000). Training costs of \$3 000 were similar across all industry sectors.

**B5 What is the total start-up cost of a new franchised unit (excluding GST)?**

Response (Total start-up costs)	Average cost \$	Minimum \$	Maximum \$
Initial franchise fee	30 000	0	120 000
Inventories	5 000	0	500 000
Fit-out costs	10 000	0	300 000
Training costs	3 000	0	50 000
Other costs	2 000	0	281 178
Total start-up costs	85 000	4 025	785 000

Notes: 1) A total of 101 franchisors provided a response from an expected 114.



**Franchise unit reorganisation**

There are various possible explanations of why franchisees leave the franchise system. Just under three-quarters (72 percent) of franchisees who exited in the past 12 months sold their unit to another franchisee. This figure is higher than in the 1998 and 1999 surveys, indicating that business sales are active and do not appear to have been affected by Franchising Code of Conduct requirements.

Whereas 24 percent of franchisee exits in 1998 were due to franchise agreement terminations, these have dropped to 16-17 percent in 1999 and 2002. It appears that the Code may have had a positive effect on franchise agreement terminations, indicating improvement in franchising practices in the sector.

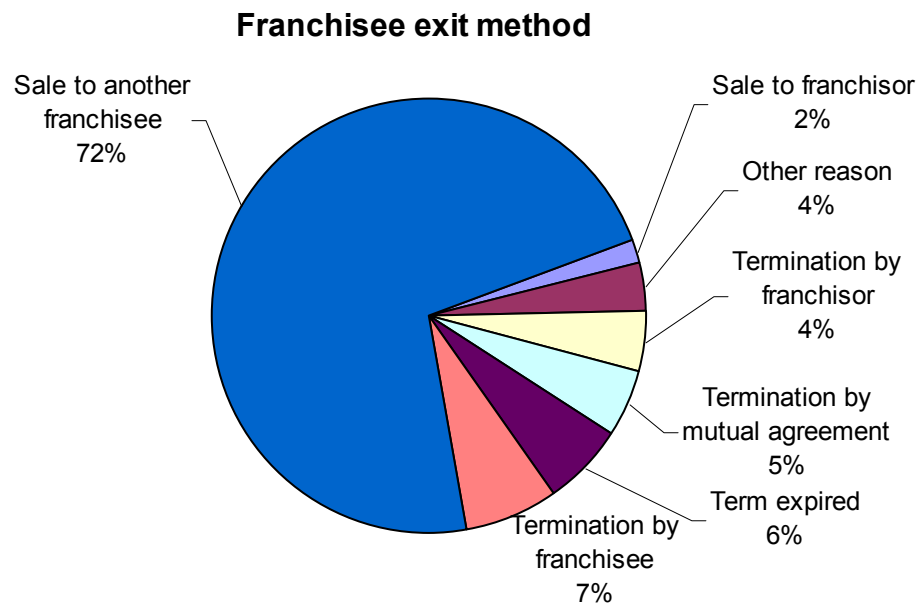
The majority of franchisees leave their franchise systems for positive reasons, as would be expected if they sell to another franchisee. Difficulties faced by the

remainder of the non-continuing franchisees appear to be related to their personal unsuitability to the franchise, personal or family reasons, and the franchise unit failing to make a profit.

**B6 How many franchisees have left your system in the past 12 months?**

Response (Exit method)	Total number of franchisees	Percent	Number of franchisors	Percent
Term expired	50	6.0	13	11.1
Sale to another franchisee	602	72.1	41	35.0
Sale to franchisor	15	1.8	11	9.4
Termination by franchisor	36	4.3	15	12.8
Termination by franchisee	59	7.1	13	11.1
Termination by mutual agreement	43	5.1	19	16.2
Other reason	30	3.6	5	4.3
<b>Total</b>	<b>835</b>	<b>100.0</b>	<b>117</b>	<b>100.0</b>

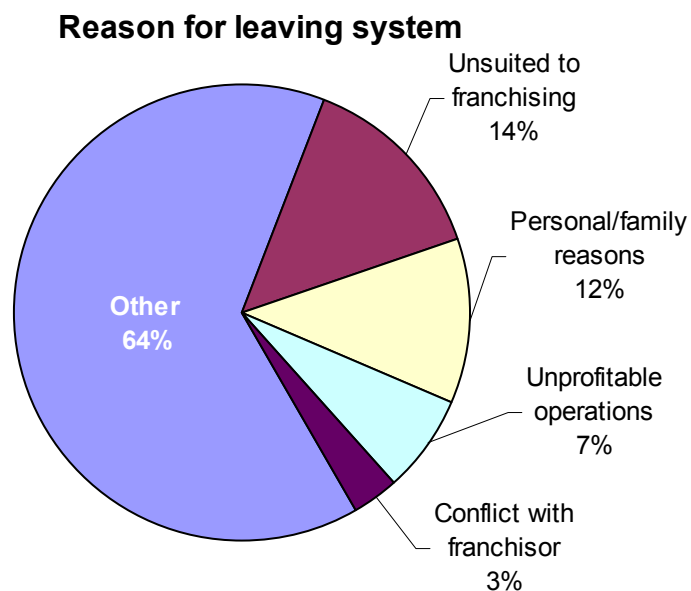
- Notes: 1) Twelve franchisors began franchising in 2002 and therefore were excluded from the analysis.  
 2) A total of 83 franchisors provided a response from an expected 102.  
 3) Multiple responses were recorded for some respondents.



**B7 How many franchisees left your system in the past 12 months (reasons given)?**

Response (Reason for leaving system)	Number of responses	Percent
Unsuited to franchising	52	13.9
Personal/family reasons	43	11.5
Unprofitable operations	27	7.2
Conflict with franchisor	12	3.2
Other reason	240	64.2
<b>Total</b>	<b>374</b>	<b>100.0</b>

- Notes: 1) Twelve franchisors began franchising in 2002 and therefore were excluded from the analysis.
- 2) This question was not applicable to 25 franchisors who reported no franchisees leaving the system.
- 3) A total of 51 franchisors provided a response from an expected 77.
- 4) Multiple responses were recorded for some respondents.



## Additional support for franchisees

Franchisors reported that they do not neglect franchisees who are experiencing difficulties, with none offering a lower level of support for underperformers. In fact, a large majority of franchisors (93 percent) provides additional support to franchisees who require assistance. Thus the allocation of franchisor resources, such as field staff visits, could be reduced if franchisors were able to predict more accurately which franchisees are likely to succeed.

Most franchisors (68 percent) feel that franchisees holding more than one unit demand a similar level of support to single unit franchisees. Whilst there may be advantages in offering franchisees multiple units, such as greater commitment by the franchisee, franchisors believe that the level of demand for their support structures does not change.

### **B8** *Franchisees experiencing difficulties are given (level of support):*

Response (Level of franchisee support)	Number of responses	Percent
Less support than other franchisees	0	0.0
Same level of support	7	7.3
More support	89	92.7
<b>Total</b>	<b>96</b>	<b>100.0</b>

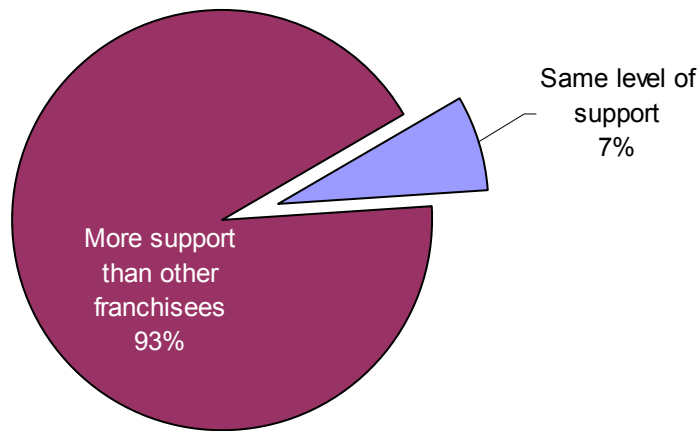
Notes: 1) A total of 96 franchisors provided a response from an expected 114.

### **B9** *Multiple unit franchisees require (level of support):*

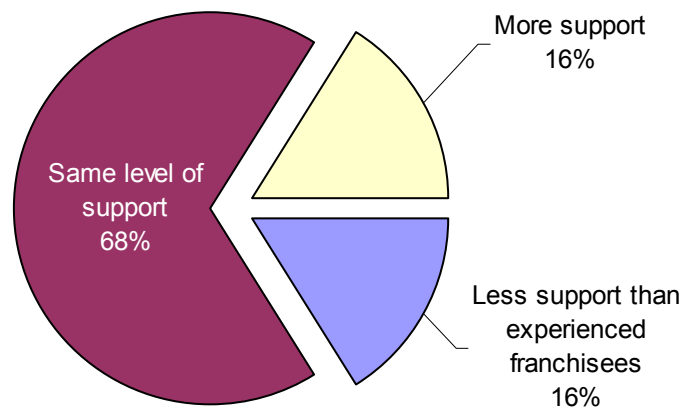
Response (Level of franchisee support)	Number of responses	Percent
Less support than experienced franchisees	14	16.1
Same level of support	59	67.8
More support	14	16.1
<b>Total</b>	<b>87</b>	<b>100.0</b>

Notes: 1) A total of 87 franchisors provided a response from an expected 114.

### Level of support given to franchisees experiencing difficulties



### Level of multiple-unit franchisee support



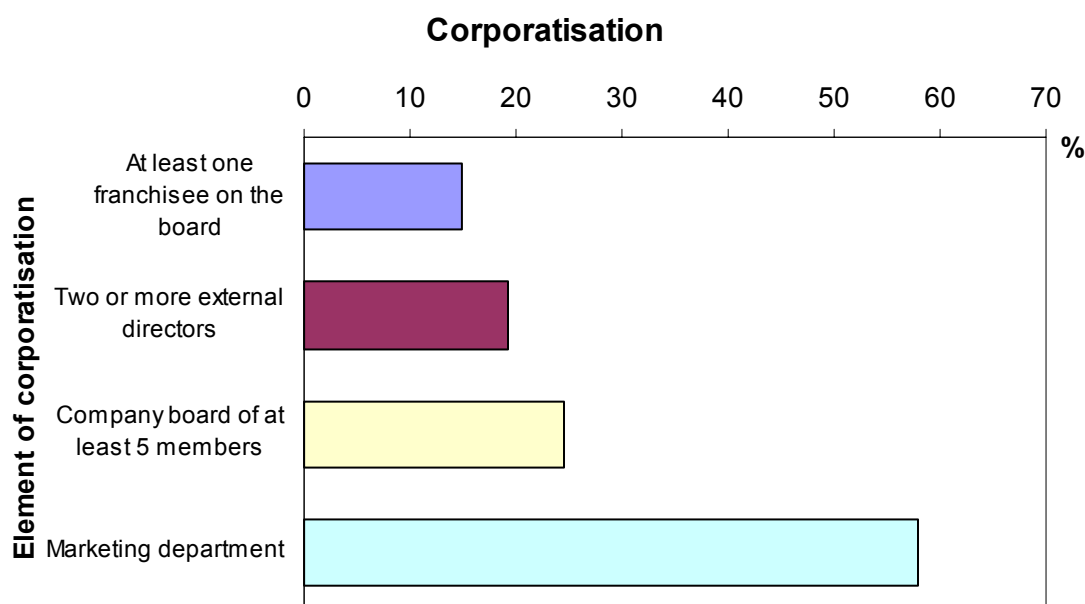
### Corporatisation of franchisor organisation

Very few franchise systems show signs of structural and procedural corporatisation, possibly due to the early stage of development of many organisations in the sector. Although more than half (58 percent) have a marketing department, only a quarter have a company board of at least five members and fewer still have more than one external member or a franchisee appointed to the Board.

**B10 Does your franchise system have (elements of corporatisation)?**

Response (Element of corporatisation)	Number of responses	Percent
Marketing department	66	57.9
Company board of at least five members	28	24.6
Two or more appointed board members who are external to the firm	22	19.3
At least one franchisee on the board	17	14.9

Notes: 1) All 114 respondents answered the question.  
2) Multiple responses were recorded for some respondents.



**Franchisee performance**

Almost three quarters of franchisors believe that it is important to reward franchisee performance with the offer of additional units, indicating that the sector is willing to embrace a greater adoption of multiple unit franchising practice. This attitude is a strong sign of growing maturity in the sector and may help to diffuse the difficulties reported by franchisors in attracting enough suitable franchisees to meet demand.

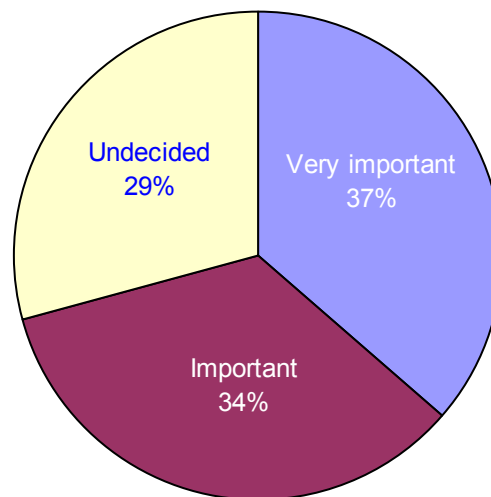
Franchisors in the survey report that the majority of their franchisees (90 percent) are operating profitably (that is, earning profits beyond employee wages). Younger franchise systems (0-3 years franchising) and smaller systems (1-20 units) reported higher levels of profitability amongst franchisees than more mature systems.

**B11 How important is it to reward the performance of franchisees by offering additional franchise units?**

Response (Level of importance)	Number of responses	Percent
Very important	36	36.4
Important	34	34.3
Undecided	29	29.3
<b>Total</b>	<b>99</b>	<b>100.0</b>

Notes: 1) A total of 99 franchisors responded from an expected 114.

**Offer of additional units to reward performance**



**B12 What proportion of your franchisees do you estimate are operating profitably (that is, earning profits beyond employee wages)?**

Average proportion of franchisees estimated to be operating profitably: 90%

Notes: 1) A total of 92 franchisors provided a response from an expected 114.

## Availability of franchisees

As reported in 1999, franchisors are faced with the difficulty of recruiting suitable franchisees. Almost half the sample (47 percent) responded that there were not enough prospective franchisees available to meet growth demands in their franchises. The lack of suitable franchisees may encourage franchisors to accept candidates who do not meet selection criteria standards, with possible negative consequences for both the unsuitable franchisee and the entire system at a later date.

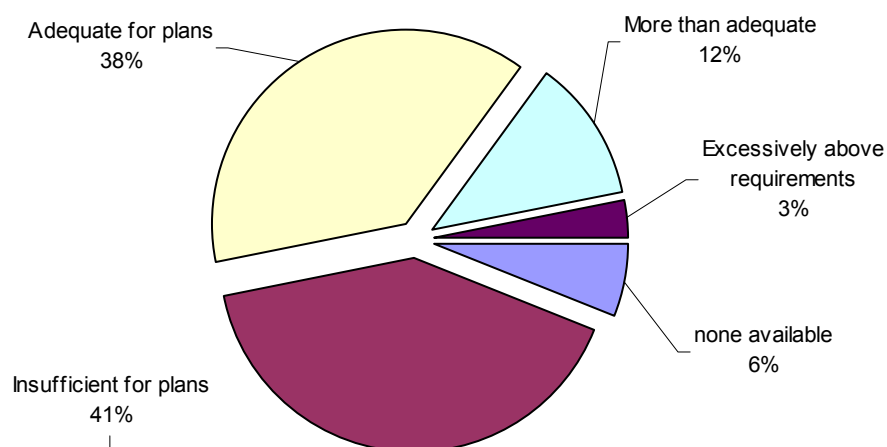
Similarly, 43 percent of franchisors report difficulties for new franchisees to attract finance. Both the shortage of suitable prospective franchisees and the lack of access to capital are hindrances to growth in the sector.

### **B13** *How do you rate the availability of suitable prospective franchisees over the past 12 months?*

Response (Level of availability of franchisees)	Number of responses	Percent
None available	6	6.0
Insufficient for plans	41	41.0
Adequate for plans	38	38.0
More than adequate	12	12.0
Excessively above requirements	3	3.0
<b>Total</b>	<b>100</b>	<b>100.0</b>

Notes: 1) A total of 100 franchisors provided a response from an expected 114.

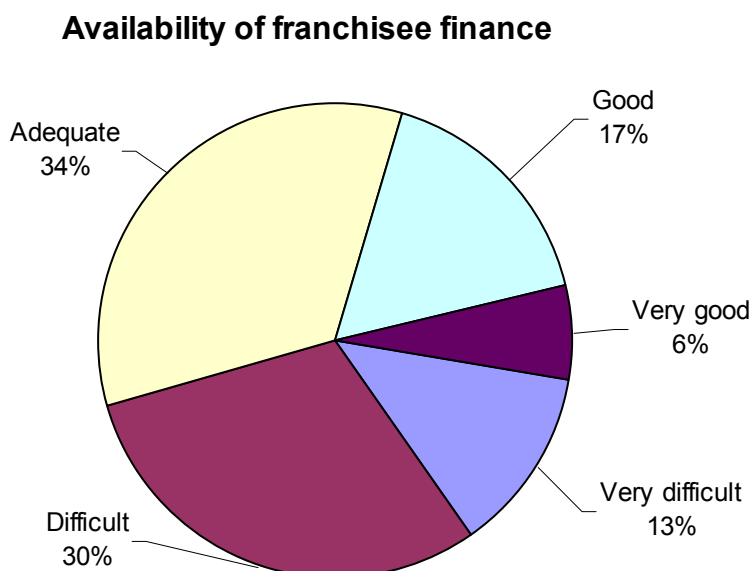
### Availability of franchisees



**B14** *If applicable, how do you rate the availability of finance for new franchisees over the past 12 months?*

Response (Level of availability of finance)	Number of responses	Percent
Very difficult	12	12.5
Difficult	29	30.2
Adequate	33	34.4
Good	16	16.7
Very good	6	6.3
<b>Total</b>	<b>96</b>	<b>100.0</b>

Notes: 1) A total of 96 franchisors provided a response from an expected 114.



### **Use of professional services**

Franchisors use a wide range of business financial services, including electronic banking, lending, business insurance and merchant services.

The majority of franchisor respondents (73 percent) indicated they are unlikely to require additional finance to expand their businesses over the next 12 months, possibly foreshadowing a further slowing of growth in the sector. Similarly, most franchisors (88 percent) feel they are unlikely to require investment advice in the near future.

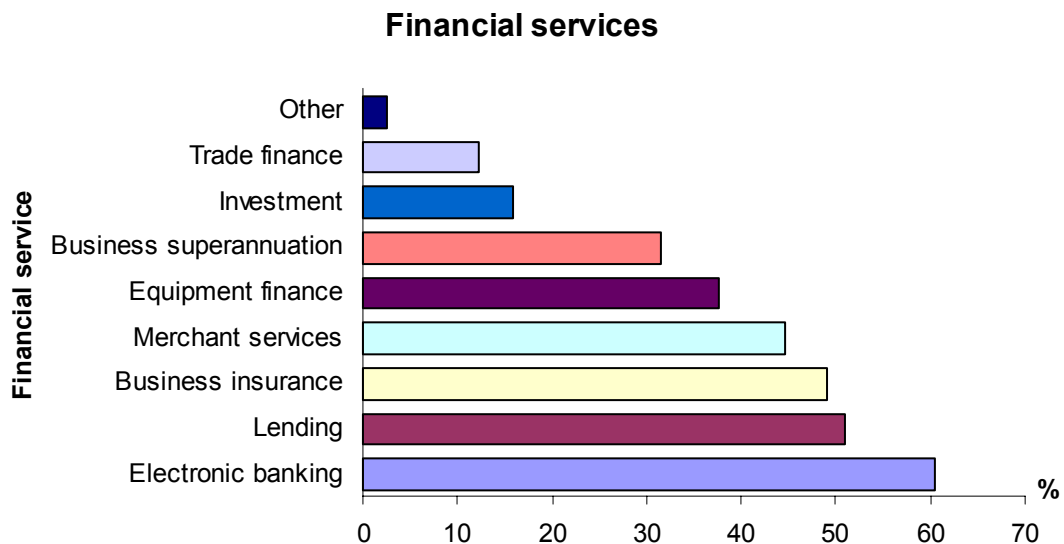
Just over half the franchisors surveyed carry Professional Indemnity Insurance. Around half of these reported no problems with their policy renewals but the others

noted an increase in premiums as being an issue of concern. Of the remainder, the main reasons for not holding Professional Indemnity Insurance were not specifically identified in the survey. However, very few reported that restrictions or unavailability of insurance cover or prohibitive premiums were responsible.

**B15 Which business financial services do you currently use?**

Response (Financial services)	Number of responses	Percent
Electronic banking	69	60.5
Lending	58	50.9
Business insurance	56	49.1
Merchant services	51	44.7
Equipment finance	43	37.7
Business superannuation	36	31.6
Investment	18	15.8
Trade finance	14	12.3
Other	3	2.6

Notes: 1) All 114 respondents answered the question.  
 2) Multiple responses were recorded for some respondents.

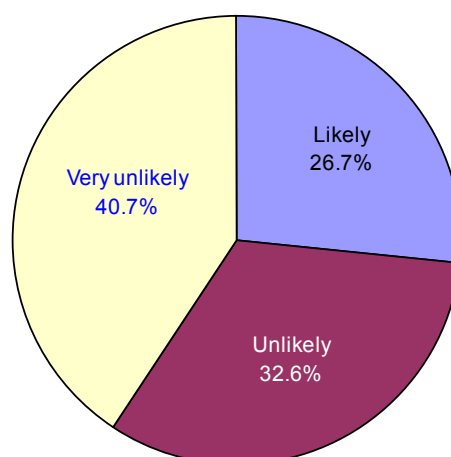


**B16** *How likely are you to require additional finances to expand your business over the next financial year?*

Response (Requirement for additional finances)	Number of responses	Percent
Very likely	0	0.0
Likely	23	26.7
Unlikely	28	32.6
Very unlikely	35	40.7
<b>Total</b>	<b>86</b>	<b>100.0</b>

Notes: 1) A total of 86 franchisors provided a response from an expected 114.

**Requirement for additional finances**

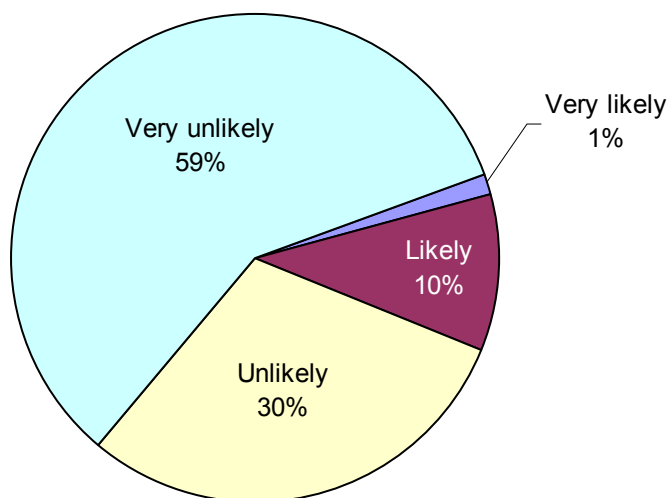


**B17** *How likely are you to require investment advice (regarding term deposits, managed funds, and other long-term investments) over the next financial year?*

Response (Requirement for investment advice)	Number of responses	Percent
Very likely	1	1.3
Likely	8	10.4
Unlikely	23	29.9
Very unlikely	45	58.4
<b>Total</b>	<b>77</b>	<b>100.0</b>

Notes: A total of 77 franchisors provided a response from an expected 114.

### Requirement for investment advice

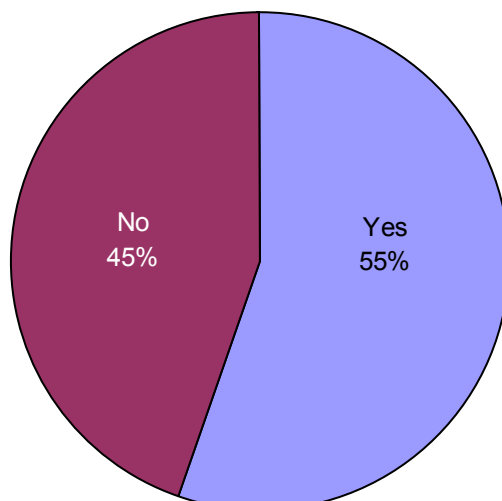


**B18** *Do you currently carry Professional Indemnity Insurance in respect of your activities as a franchisor?*

Response (Professional Indemnity Insurance)	Number of responses	Percent
Yes	56	55.4
No	45	44.6
<b>Total</b>	<b>101</b>	<b>100.0</b>

Notes: 1) A total of 101 franchisors provided a response from an expected 114.

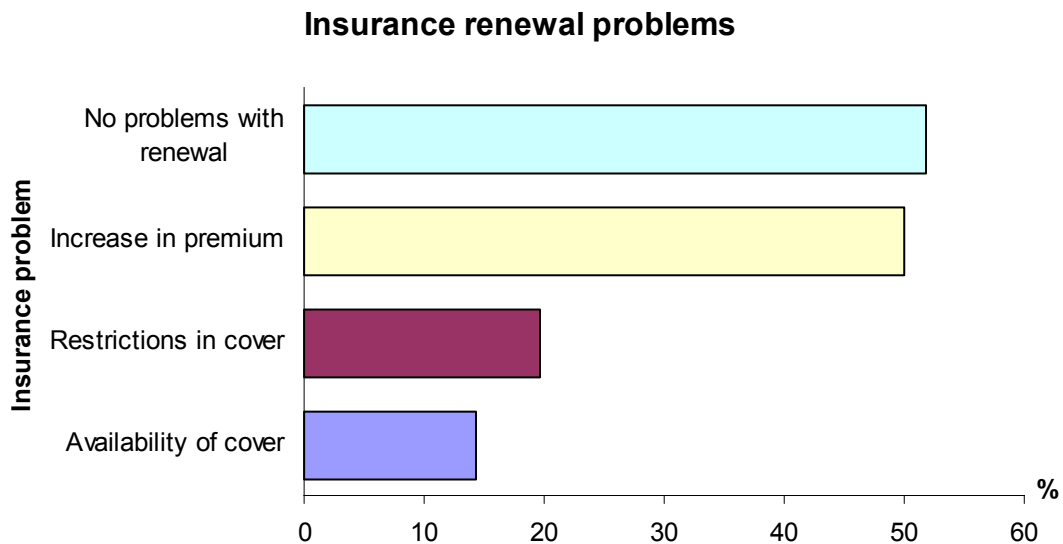
### Professional indemnity insurance



**B19 Have you had any problems with the following at your last insurance renewal?**

Response (Insurance problem)	Number of responses	Percent
Availability of cover	8	14.3
Restrictions in cover	11	19.6
Increase in premium	28	50.0
No problems with renewal	29	51.8

Notes: 1) The expected total of 56 respondents answered this question.  
 2) Multiple responses were recorded for some respondents.

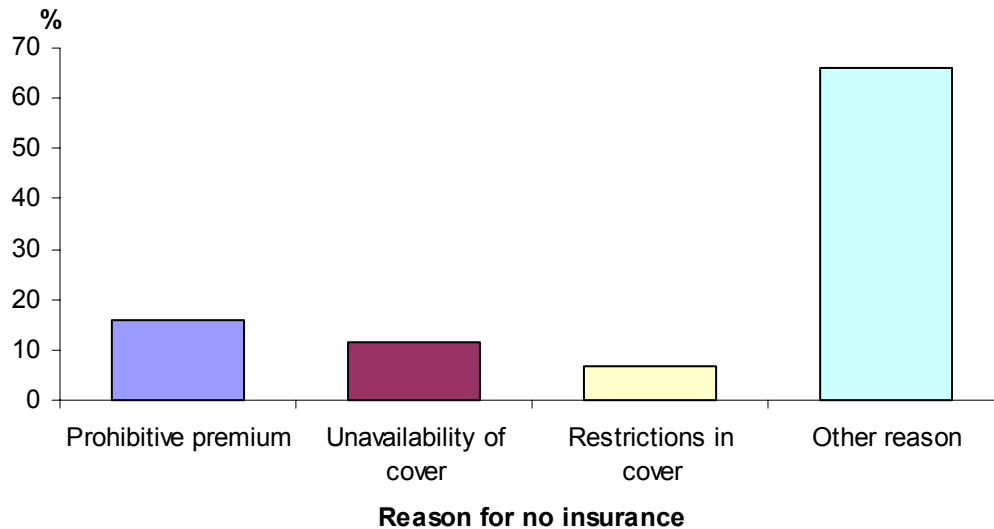


**B20 What are your reasons for not carrying Professional Indemnity Insurance?**

Response (Reason for no Insurance)	Number of responses	Percent
Prohibitive premium	7	15.9
Unavailability of cover	5	11.4
Restrictions in cover	3	6.8
Other reason	29	65.9

Notes: 1) A total of 44 franchisors provided a response from an expected 45.

### Reason for no Professional Indemnity Insurance



### Current issues in the sector

#### **B21** *What current issues in the franchising sector are of concern to you?*

Many respondents took the opportunity to express their concerns about issues affecting the franchising sector. The majority of these issues concerned regulation of the sector. The high cost of complying with the Franchising Code of Conduct and difficulties and uncertainty surrounding Code compliance were perceived as the main problems. Other issues of concern were the lack of availability of suitable franchisees and high insurance costs.

The comments made by respondents are summarised below. Each issue was mentioned once unless indicated in brackets.

#### **Issues relating to regulation of the franchising sector**

- Difficulty and uncertainty surrounding Code compliance and interpretation (5)
- High cost of Code compliance (5)
- Code has no power / is inadequate (3)
- Excessive Disclosure Document requirements (2)
- Over regulation of the sector (2)
- Australian Competition and Consumer Commission (ACCC) influence on sector (2)
- ACCC is not monitoring the implementation of the Code until it is too late
- Code requirements are a burden on the franchisor
- Code makes it difficult to sell new franchises
- Constant changes to the Code
- Provisions of the Privacy Act
- Loose definition of unconscionable conduct

- Lack of information dissemination by Government, such as legal updates
- Poor understanding by Government and ACCC about small business

### **Issues relating to franchisees**

- Lack of availability of suitable franchisees (9)
- Lack of finance for prospective franchisees (2)
- Managing underperforming franchisees
- Perception by franchisees that little effort is required
- Increased litigation by franchisees due to their lack of performance

### **Issues relating to franchisors**

- Overstated claims made by franchisors selling franchises
- Ease of entry into franchising by underqualified franchisors
- Unscrupulous franchisors selling franchises to unqualified franchisees
- Unethical franchisors

### **Financial concerns**

- Financing a new franchise system
- General lack of finance availability

### **General issues**

- Insurance cost/cover (7)
- High rental charges in shopping centres (3)
- Low profile of franchising as an effective business model (2)
- Cost of central telephone numbers (eg 1300 numbers) – rental and call costs are excessive
- Access to reasonably priced labour force
- GST
- Litigation by opportunistic people
- High business costs due to government charges and taxes
- Lack of government support for service industries
- Health professionals concerned with potential corporatisation of health care

# C. Regulatory Environment

## Franchising Code of Conduct

Franchisors recognise that many benefits have flowed on to the sector since the introduction of the Franchising Code of Conduct (the Code). The majority reports improvements in franchising relationships, greater care in franchisee selection procedures and more detailed record keeping concerning franchisees. Likewise, most franchisors disagree that the Code has placed them in a position of greater power, relative to franchisees.

Whilst 40 percent of respondents feel that the Code has provided assistance in the way franchising disputes are resolved, an equal proportion is uncertain, possibly because these systems have not experienced conflict. Where applicable, most franchisors have expressed a greater use of mediation to resolve disputes in preference to litigation or arbitration. However, the data on numbers of disputes collected in question C12 suggests otherwise. In addition, it appears that the number of franchising disputes has not increased since the introduction of the Code.

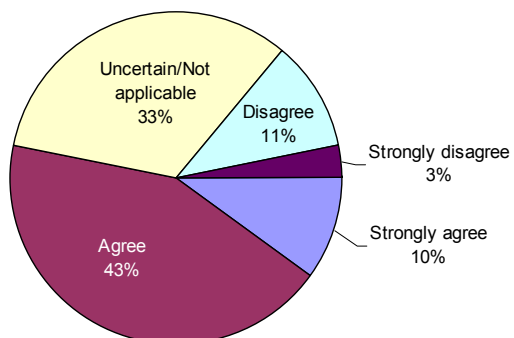
### Questions C1 to C10.

Item	Strongly agree	Agree	Uncertain/ Not applicable	Disagree	Strongly disagree
C1. The Code has improved franchisor/franchisee relationships in our system.	10%	43%	33%	11%	3%
C2. The Code has been beneficial to the franchising sector.	23%	56%	13%	8%	0%
C3. We are now more careful in our franchisee selection process since the introduction of the Code.	16%	35%	30%	16%	3%
C4. We keep more detailed records concerning our franchisees since the introduction of the Code.	16%	46%	19%	17%	2%
C5. Franchisors are now in a position of greater power relative to franchisees, since the introduction of the Code.	0%	13%	31%	46%	10%
C6. The Code has assisted in the way we resolve disputes.	2%	40%	41%	14%	3%

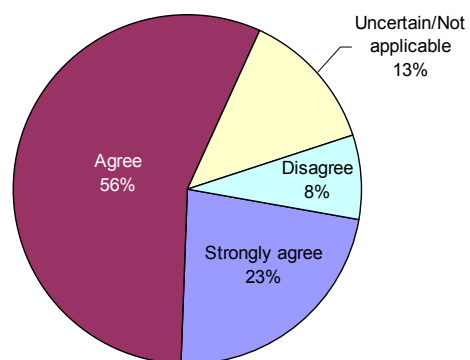
Item	Strongly agree	Agree	Uncertain/ Not applicable	Disagree	Strongly disagree
C7. Since the introduction of the Code, we are more likely to resolve disputes via mediation.	5%	39%	36%	20%	0%
C8. Since the introduction of the Code, we are more likely to resolve disputes via litigation.	12%	0%	38%	46%	4%
C9. Since the introduction of the Code, we are more likely to resolve disputes via arbitration.	0%	17%	59%	23%	1%
C10. There has been an increase in the number of disputes in our system since the introduction of the Code.	0%	4%	35%	42%	19%

Notes: Between 99 and 101 franchisors provided a response across all questions from an expected 114.

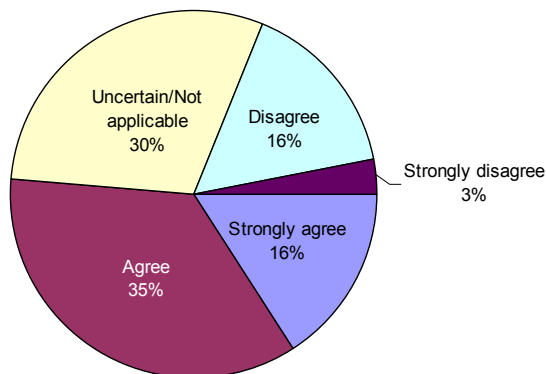
**The Code has improved franchising relationships**



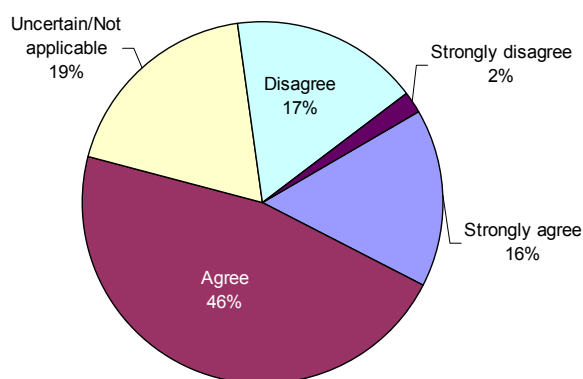
**The Code has been beneficial to the franchising sector**



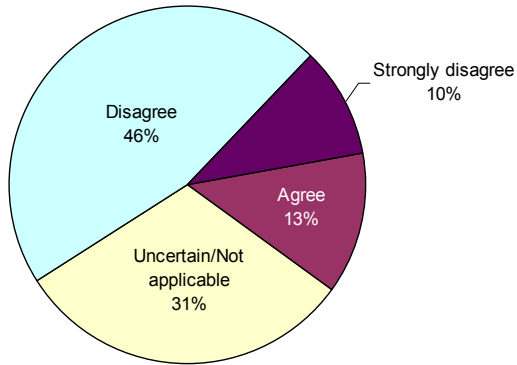
**Greater care in franchisee selection**



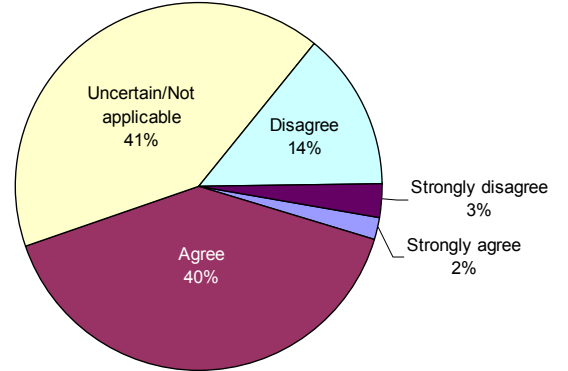
**More detailed records on franchisees**



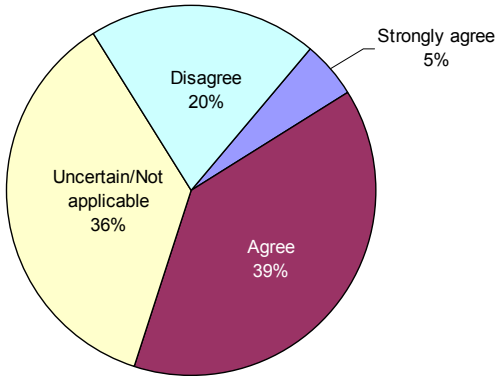
**The Code has resulted in greater franchisor power**



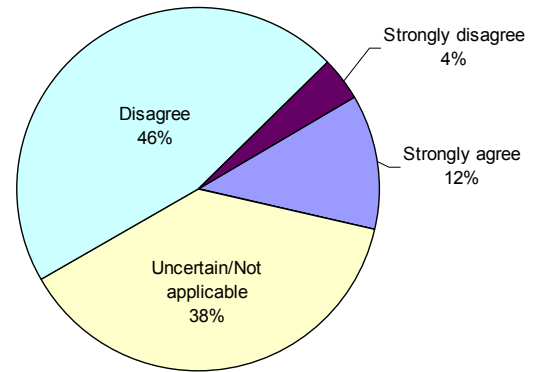
**The Code has assisted in dispute resolution**



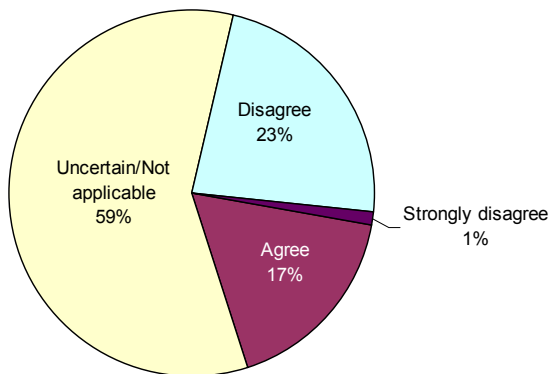
**Greater use of mediation**



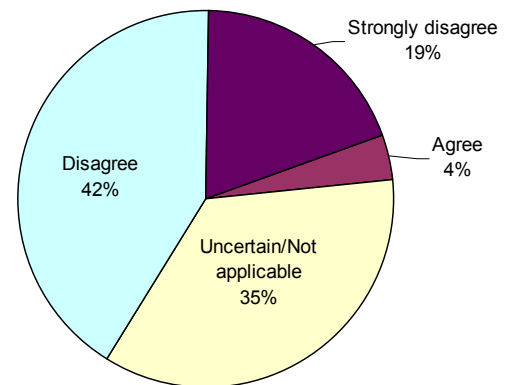
**Greater use of litigation**



**Greater use of arbitration**



**Increase in disputes**



## Franchising disputes

Fewer than 19 percent of franchisors reported they had been involved in a substantial dispute with a franchisee over the previous 12 month period. Whilst this is lower than the 24 percent reported in 1999 and similar to the 17 percent reported in 1998, a different definition of 'substantial dispute' was used this time, making comparisons difficult. Nevertheless, most of the disputes were with an average of only three franchisees.

Franchisors were only slightly more often responsible for initiating actions than franchisees. Most of the reported disputes were at the stage of correspondence with a solicitor (60 percent). Despite the requirement of the Code to attempt to resolve disputes through mediation, more were reported as resolved through litigation (23 percent) than mediation (17 percent). These results follow the same pattern as the 1999 data. Despite the existence of the Code, resolution of disputes through the courts has still been necessary in several cases. Nevertheless, the total of 84 franchisees involved in disputes is equivalent to less than 1 percent of the franchised units held by respondent franchisors. As in 1999, the top three causes of substantial disputes were lack of compliance with the system (27 percent), the payment of fees (15 percent) and misrepresentation issues (15 percent).

### ***C11 Have you been involved in any substantial disputes with franchisees in the last 12 months?***

(A 'substantial dispute' is defined as a dispute that has been referred to an external advisor for action.)

Response (Substantial disputes)	Number of responses	Percent
Yes	19	18.8
No	82	81.2
<b>Total</b>	<b>101</b>	<b>100.0</b>

Notes: 1) A total of 101 franchisors provided a response from an expected 114.

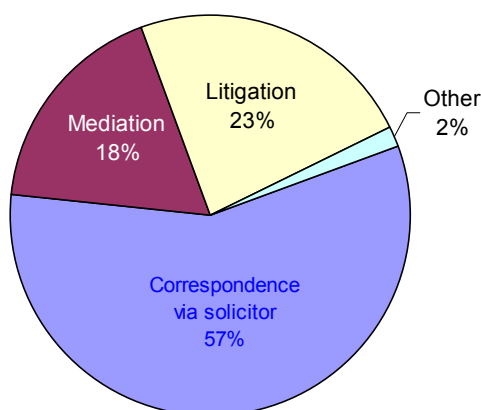
**C12 Please indicate the number of franchisees in substantial disputes, as follows.**

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	9	32	57.1	9	18	64.3
Mediation	6	10	17.9	3	4	14.3
Litigation	5	13	23.2	5	6	21.4
Other (franchisor or franchisee)	1	1	1.8			
<b>Total</b>		<b>56</b>	<b>100.0</b>		<b>28</b>	<b>100.0</b>

Notes: 1) The expected total of 19 respondents answered the question.

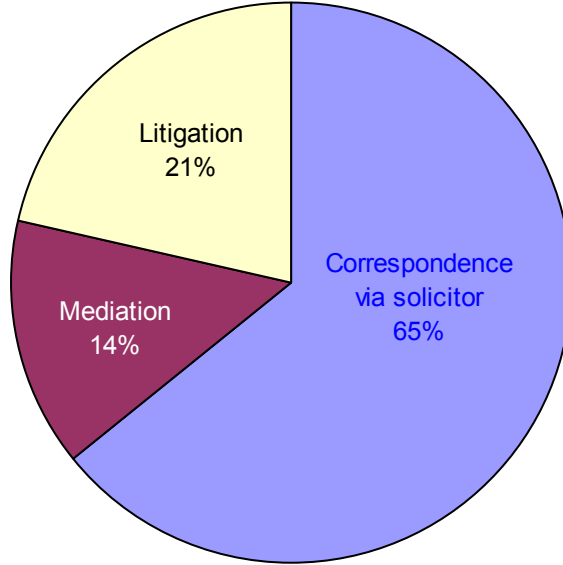
2) Multiple responses were recorded for some respondents

**Substantial disputes initiated by franchisor**

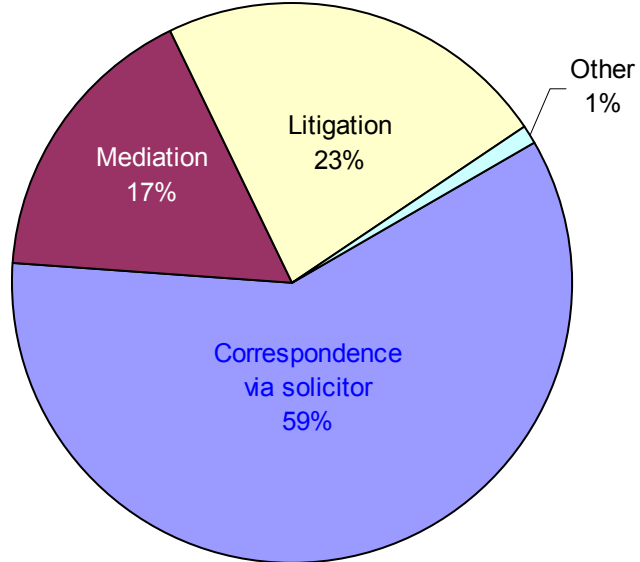


Response (Action)	Total disputes	
	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	50	59.5
Mediation	14	16.7
Litigation	19	22.6
Other	1	1.2
<b>Total</b>	<b>84</b>	<b>100.0</b>

**Substantial disputes initiated by franchisee**



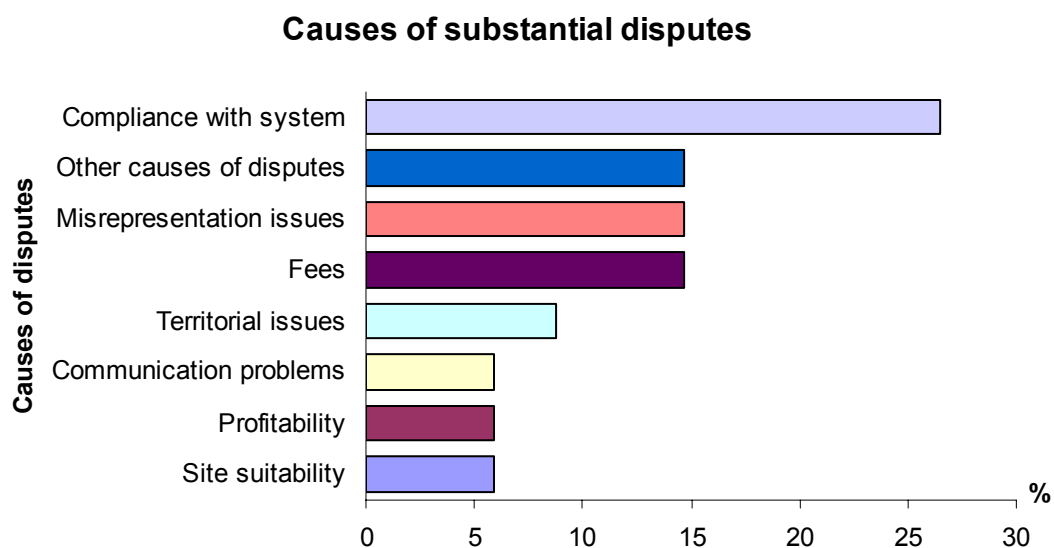
**Total disputes**



**C13 What do you consider were the main causes of these substantial disputes?**

Response (Causes of disputes)	Number of disputes	Percent
Compliance with system	9	26.5
Fees	5	14.7
Misrepresentation issues	5	14.7
Territorial issues	3	8.8
Site suitability	2	5.9
Profitability	2	5.9
Communication problems	2	5.9
Franchisor support	1	2.9
Marketing issues	0	0.0
Other cause of disputes	5	14.7
<b>Total</b>	<b>34</b>	<b>100.0</b>

Notes: 1) The expected total of 19 respondents answered the question.  
 2) Multiple responses were recorded for some respondents.



## D. International operations

Some 92 percent of respondents were Australian-based franchisors and a quarter of these operate franchises overseas. Approximately 62 percent of respondent franchisors indicated that they intended to expand internationally within the next three years, representing a 22 percent increase on 1999 results. A total of 4082 units was reported by respondents as currently franchised internationally with 29 percent of these being located within New Zealand\*. The other main concentrations were in Europe (excluding UK) (9 percent), Indonesia (9 percent), South Africa (5 percent), and the United Kingdom (5 percent). In contrast to the 1999 survey, these results show that many franchisors have a South-east Asian expansionary focus, although franchisors continue to emphasise European destinations in their future international expansionary strategies.

The estimated total income for respondents from overseas operations was A\$292.3 million representing a significant increase over 1999 figures. Interestingly, the growth in the supply of products to overseas destinations may reflect the increasing maturity of domestic franchisors' overseas operations, although these results may be due in part to differing respondents.

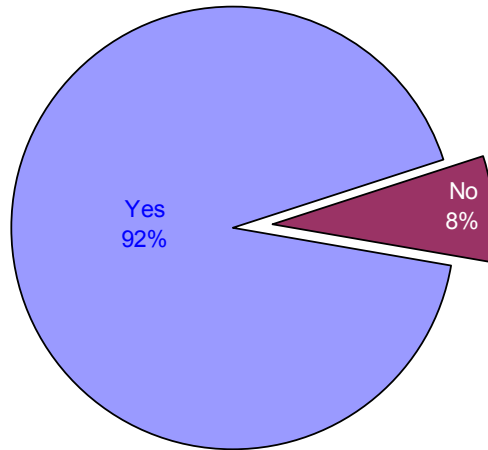
### D1 Are you an Australian-based franchisor?

Response (Australian-based franchisor)	Number of responses	Percent
Yes	93	92.1
No	8	7.9
<b>Total</b>	<b>101</b>	<b>100.0</b>

Notes: 1) A total of 101 franchisors provided a response from an expected 114.

\*Excluding USA and Canada outlier values.

**Australian-based franchisor**

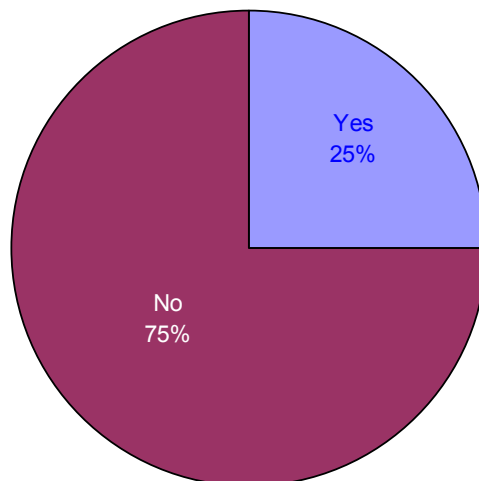


**D2 Are you currently franchising overseas?**

Response (Currently franchising overseas)	Number of responses	Percent
Yes	23	25.0
No	69	75.0
<b>Total</b>	<b>92</b>	<b>100.0</b>

Notes: 1) A total of 92 franchisors provided a response from an expected 93.

**Franchising overseas**



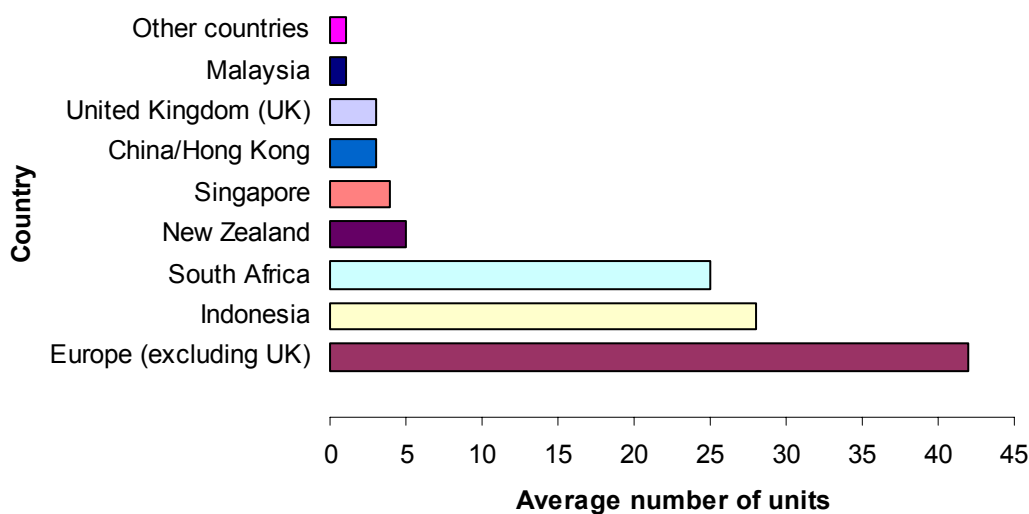
**D3 In which countries are you franchising?**

**D4 How many franchised and company-owned units in total are held in these countries?**

Response (Country)	Number of franchisors	Total number of units	Average number of units
Canada	1	231	na
China/Hong Kong	5	14	3
Europe (excluding UK)	2	83	42
Indonesia	3	82	28
Malaysia	4	11	1
New Zealand	16	264	5
Singapore	5	22	4
South Africa	2	49	25
United Kingdom (UK)	6	41	3
United States of America	2	2942	na
Other countries	8	343	1
<b>Total</b>	<b>54</b>	<b>4082</b>	

- Notes: 1) The expected total of 23 respondents answered this question concerning current overseas operations.
- 2) Multiple responses were recorded for some respondents.

**Average number of units by country**

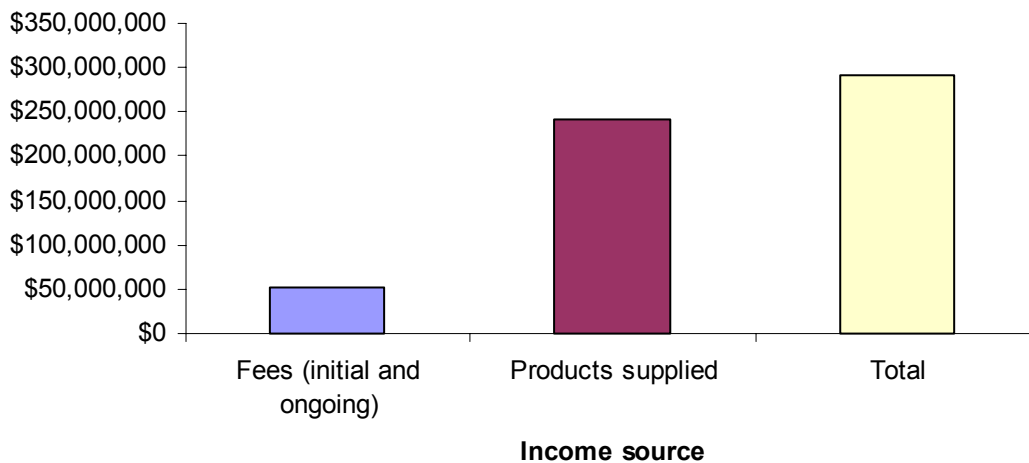


**D5 What is the total estimated income from overseas franchisees in the 2000-2001 financial year?**

Response (Income source)	Number of responses	Total income
Fees (initial and ongoing)	15	50 988 000
Products supplied	11	\$241 306 000
<b>Total</b>		<b>\$292 294 000</b>

- Notes: 1) A total of 15 franchisors provided a response from an expected 23.  
 2) Multiple responses were recorded for some respondents.

**Total estimated income from overseas franchisees  
(2000 - 2001)**



**D6 How many units did you hold in Australia prior to franchising overseas?**

On average, franchisors operated 60 units domestically prior to appointing their first international franchisee representing a 77 percent increase on 1999 figures. This practice indicates that franchisors are focusing upon building their local brand equity prior to embracing international development strategies.

Average number of franchised units prior to overseas expansion 60  
 Average number of company units prior to overseas expansion 1

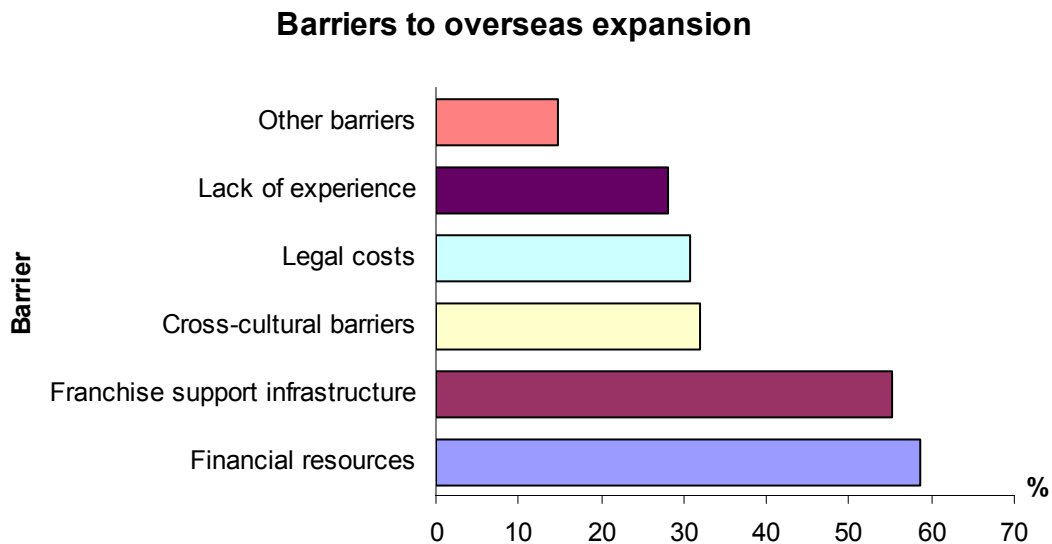
- Notes: 1) A total of 17 franchisors from an expected 23 answered this question.  
 2) The number of franchised units operated prior to overseas expansion ranged from 0 (temporarily) to 300 and the number of company owned units ranged from 0 to 10.

Slightly more than fifty percent of respondents believed that insufficient financial and structural resources were the greatest impediments for franchising overseas. Other barriers include cross cultural barriers (32 percent), legal costs (31 percent) and inexperience (28 percent).

**D7 What barriers may deter your franchise from expanding overseas?**

Response (Barrier)	Number of responses	Percent
Financial resource	44	58.7
Franchise support infrastructure	42	55.3
Cross-cultural barriers (eg. Language)	24	32.0
Legal costs	23	30.7
Lack of experience	21	28.0
Other barriers	11	14.7

- Notes: 1) A total of 75 franchisors responded to this question from an expected 92.  
 2) Multiple responses were recorded from some respondents.

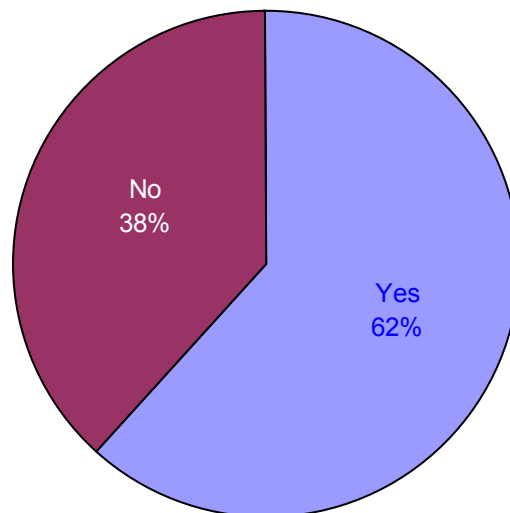


**D8** *Are you intending to expand overseas in the next three years?*

Response (Intention to expand overseas)	Number of responses	Percent
Yes	53	61.6
No	33	38.4
<b>Total</b>	<b>86</b>	<b>100.0</b>

Notes: 1) *A total of 86 franchisors answered this question concerning their intention to expand overseas from an expected 92.*

**Intention to expand overseas next 3 years**



The most popular destination for franchisors intending to franchise internationally was New Zealand (74 percent), followed by the United Kingdom (36 percent), United States of America (34 percent), Singapore (34 percent), Europe (excluding UK) (26 percent), South Africa (26 percent), Malaysia (25 percent) and Canada (20 percent).

**D9 In which countries do you intend to expand?**

Response (Country)	Number of responses	Percent
Canada	10	19.6
China/Hong Kong	8	15.1
Europe (excluding UK)	14	26.4
Indonesia	9	17.0
Malaysia	13	24.5
New Zealand	39	73.6
Singapore	18	34.0
South Africa	14	26.4
United Kingdom (UK)	19	35.8
United States of America	18	34.0
Other countries	8	15.1

- Notes: 1) The expected total of 53 franchisors responded to this question.  
 2) Multiple responses were recorded from some respondents.

**Intended overseas expansion**

