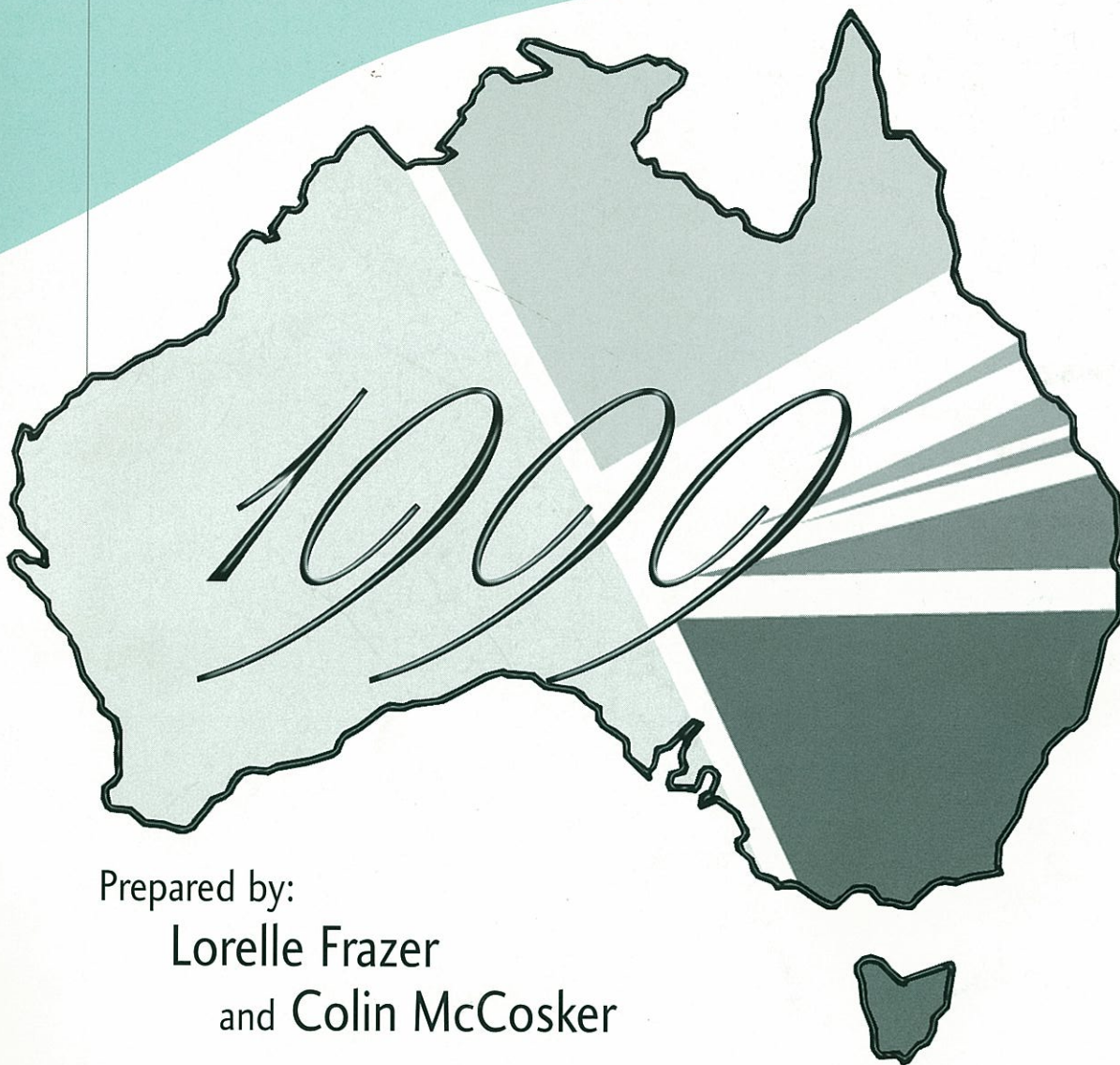


# FRANCHISING AUSTRALIA 1999

*A survey of Franchising  
Practices and Performance*



Prepared by:  
Lorelle Frazer  
and Colin McCosker



# Franchising Australia 1999

**A survey of franchising  
practices and performance**

**Lorelle Frazer and Colin McCosker**

*The University of Queensland*

*The University of Southern Queensland*

*Enquiries may be directed to the authors via:*

Faculty of Business

The University of Southern Queensland

Toowoomba Qld 4350

*Phone:* (07) 4631 2432

*Fax:* (07) 4631 2811

*Email:* [mccosker@usq.edu.au](mailto:mccosker@usq.edu.au)

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# FOREWORD

The Franchise Council of Australia, as the peak industry body representing the franchising community in Australia, is proud to sponsor and endorse the *Franchising Australia 1999* survey.

*Franchising Australia 1999*, conducted by Lorelle Frazer from The University of Queensland and Colin McCosker from the University of Southern Queensland, provides important empirical information to Government, industry participants and the public. Lorelle Frazer and Colin McCosker are Australia's foremost research academics in the sector, with a long and distinguished history of important franchising research.

When the Franchise Council of Australia commissioned *Franchising Australia 1998*, we expressed a desire for there to be an annual survey on the franchising sector. This enables Government and industry participants to see emerging trends, and to conduct annual benchmarking locally and internationally using the most up to date information. *Franchising Australia 1999* builds upon the important information provided by *Franchising Australia 1998*.

*Franchising Australia 1999* confirms that there has never been a better time to be involved in franchising in Australia.

The number of business format franchised units in the sector has continued to grow since 1998 at a healthy 6.2 percent, with sector turnover estimated at \$76.5 billion. People employed in franchising now total over 650 000, providing evidence of the importance of the sector to the Australian economy.

Interest rates are at historical lows, consumer confidence is high and retail sales are strong across most sectors. The level of disputes continues to be low, with only 1.0 percent of franchisees covered by the survey being involved in disputes, and around 0.24 percent actually in litigation. Mediation continues to be a popular option for dispute resolution.

The protection provided by the Franchising Code of Conduct and the reforms to the Trade Practices Act give added security and comfort to prospective franchise owners. It appears the sector has absorbed the substantial cost of industry regulation, although the direct cost to the sector of over \$10 million is excessive and should be addressed by Government.

The Franchise Council of Australia welcomes and warmly endorses *Franchising Australia 1999*. We congratulate Lorelle Frazer and Colin McCosker on their excellent contribution to Australian franchising, and look forward to working with them to assist them to produce *Franchising Australia 2000*.

***Stephen Giles***

Chairman

Franchise Council of Australia

# EXECUTIVE SUMMARY

Following *Franchising Australia 1998*, the results of the *Franchising Australia 1999* survey confirm great diversity in the characteristics of firms that make up the franchising sector. Franchise systems operate in many industries and varied locations, and the needs of the differing markets are reflected in the many ways in which the franchising concept is carried out.

In the following, the results of the survey have been summarised and estimates are included for the whole Australian population of business format franchise systems, based on the survey findings. Definitive data are not available on franchising in motor retailing and fuel retailing but estimates of franchisee activities are included based on information gathered from the Australian Institute of Petroleum and the Australian Bureau of Statistics.

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

After surveying all known franchisors operating in Australia, the research identified a total of 708 business format franchisors. In addition, 33 motor vehicle retail and 6 automotive fuel retail franchisors were identified, making a combined total of 747 franchisors.

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

It is estimated there are 40 900 business format franchised units operating together with 5 900 motor vehicle and 2 600 automotive fuel retail franchised units making a total of 49 400 franchised units. In addition, business format franchises have 5 200 company owned units and there are an unknown number of motor vehicle and fuel company units.

## ***Growth of franchise systems in Australia***

This survey identified a total of 40 900 business format franchised units. By comparison, in the 1998 survey the total was 38 500 units. This represents a growth of 6.2 percent over the year which is considerably lower than the growth reported for the past decade.

## ***Total turnover of the Australian franchising sector 1998-1999***

The total turnover of business format franchised units was \$26.6 billion and \$10.4 billion for company units bringing the combined total to \$37 billion. Again, motor vehicle and automotive fuel retailers were not included in these figures. Motor vehicle retail sales estimates by franchisees for 1997 were \$29.1 billion and together with \$10.4 billion estimated automotive fuel retail sales by franchisees, the total turnover of the franchising sector is approximately \$76.5 billion.

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

The total number of persons employed in business format franchise systems was an estimated 553 200 of which 403 300 were in franchised units. Altogether there were 186 700 permanent full-time employees, 41 900 permanent part-time and 324 600 casual employees. In addition, the total number of employees in 1997 in motor vehicle retail franchises was 70 000 and automotive fuel retail franchisees employed 28 700. There appears to have been an increased use of permanent employees at the expense of some casuals.

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

Of the firms responding, 14 percent had been operating prior to 1970 although only 1 percent were franchising at that time. By 1980, 26 percent had commenced operating with 10 percent franchising. The proportions had risen to 57 percent and 35 percent respectively by 1990. It was noted that two-thirds of current franchisors began franchising in the 1990s and, in fact, one-third has done so in the past 5 years.

The average length of time that current franchisors have been franchising is 8 years, whereas the average number of years operating is 11 years.

## ***Disputes and unit closures in franchising***

Currently 1.0 percent of franchisees of respondents and 24 percent of respondent franchisors are involved in a substantial dispute. In 60 percent of cases this action was confined to correspondence through a solicitor, more often acting on behalf of the franchisor. In 24 percent of disputes litigation was commenced and in 15 percent mediation was used, in most cases instigated by the franchisee. The common causes of disputes cited related to fees, adherence to the system and misrepresentation issues. In the majority of franchises the disputes were with no more than two franchisees.

Also during the previous three years, 27 percent of franchised units have changed their ownership status. Of these, 75 percent had been sold by franchisees and 16 percent had been terminated by either the franchisee or franchisor. Most units where the agreements were terminated or the term not renewed were either closed or became independent operations. In total they represent 4 percent of the current franchised units of respondents, or a little more than 1 percent per year. However, this is a conservative estimate as it is not known how many franchisors had ceased operating over the past three years and the resulting effect on franchisee numbers.

## ***Regulation of Australian franchising***

The introduction of the mandatory Franchising Code of Conduct has had a major impact on the franchising sector in the last year. Reactions by franchisors have been varied but the majority appears to have set about adjusting to its presence. With the use of external advisors there appears a moderate to high level of awareness of the Code and a belief that

most have achieved high compliance with its provisions, although some uncertainty is evident.

Advantages of the Code are seen as centring on restricting the entry of substandard operators and improving the reputation of franchising, so providing increased protection for participants. Disadvantages are mainly seen as the costs of compliance and increased administrative burdens with the Code criticised as too detailed and bureaucratic. On average, the total cost of meeting the Code's requirements was reported as \$15 000 with 21 percent up to \$5 000 and 14 percent over \$50 000. Many suggestions for improvements were provided, mostly focussing on simplification and lesser requirements for smaller franchises.

Concerning the Australian Competition and Consumer Commission (ACCC) role in administration of the Code, the majority of franchisors considered it had a fair understanding or better, but almost one-half was doubtful about its effectiveness in communicating the requirements of the Code. Overall, there are clearly some concerns among franchisors about the introduction of the Code and its implementation but given the recent nature of its introduction, the majority appears to have seriously set about meeting its requirements.

### ***Geographical distribution of franchise systems***

Franchising continues to expand through all regions of Australia. New South Wales and Australian Capital Territory (32 percent) have the greatest number of units, similar to the population distribution. However, Queensland (23 percent) continues to exhibit a greater acceptance of franchise systems in hosting a noticeably larger proportion than its population.

### ***International expansion by Australian franchisors***

The continuing trend towards international expansion was evident with 24 percent of respondents operating overseas and a further 27 percent planning to do so within the next three years. New Zealand remains the most popular destination of the respondents franchising internationally. Some 79 percent have established themselves in New Zealand but United Kingdom/Europe, South East Asia, North America and South Africa are also popular both currently and in future plans. Individual franchises are scattered throughout many other countries as well.

### ***Conclusion***

Summarised details of responses for all survey questions are included in the following report. Overall, they confirm that the franchising sector continues to expand throughout Australia and internationally, although the net growth in franchisors and new units appears to be relatively small in comparison with recent performance.

The introduction of the mandatory Franchising Code of Conduct has created some uncertainty in the sector which may have been a contributor to the slower growth rate in the past year. Future surveys should reveal whether the expected benefits of the Code will result once the initial operational changes and costs have been overcome.

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# BACKGROUND

*Franchising Australia 1999* reports on a survey intended to provide current information concerning the size, growth and features of the franchising sector in Australia. It comes at a crucial stage in the development of franchising due to the recent introduction by the Australian Government of a mandatory Franchising Code of Conduct. As a result, the practices of those in the franchising sector are now under the scrutiny of the Australian Competition and Consumer Commission (ACCC). This survey attempted to include all known business format franchisors in Australia and provides information on the practices, performance and some problems in franchising today.

This is the fifth comprehensive survey of franchising in Australia and has been carried out by Lorelle Frazer and Colin McCosker of The University of Queensland and University of Southern Queensland respectively, sponsored as in 1998 by the Franchise Council of Australia. The Australian Government was responsible for earlier efforts, having carried out surveys in 1988, 1991 and 1994. These surveys trace the steadily increasing growth of franchising and the current survey confirms that franchising remains an important part of the national economy.

The assistance provided by franchisors in the creation of new business and the management training and ongoing support service provided to franchisees make the maintenance and development of a healthy efficient franchising sector vital. Reliable up-to-date information is a much-needed ingredient in achieving this goal. Information gathered is providing a better understanding of the evolving practices of franchising in Australia today which can do much to assist efforts to improve existing franchises and provide guidance for those commencing.

# INTRODUCTION

The *Franchising Australia 1999* survey was conducted from April to June 1999. All businesses believed to be business format franchisors were 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 development. Data sought related to:

- a composite description of the franchising sector – its age, size and geographical expansion;
- franchisee-related information – availability of suitable applicants, proportion appointed and retained, key attributes, legal structure, reasons for departure, level of disputes;
- franchisor-related information – motivations, policies, goals, legal structure, hindrances; and
- franchise regulation – awareness, advantages and disadvantages, costs, compliance, effects.

The data collected should be helpful to those involved with the franchising sector, whether as participants, as service providers to them, or government personnel seeking to formulate policies and programs to encourage efficient and ethical practices.

# CONDUCT OF THE SURVEY

## The Franchisors

The absence of any official registration requirements on franchisors makes it impossible to be entirely confident of the total population. The list of franchisors used as the basis of the survey was begun over a decade ago by Colin McCosker of the University of Southern Queensland and updated in recent years with research colleague Dr Lorelle Frazer. Franchisors were added by ongoing scanning of national and capital city newspapers, Franchising Magazine, franchise directories, franchise exhibition participants, Franchise Council of Australia (FCA) membership and personal observations. New entrants appear regularly and each survey reveals the departure of others through a decision to cease franchising, by merger or takeover, or due to cessation of operations. The ongoing nature of the records makes it unlikely that any business format franchisors of significance have been overlooked except those firms not previously considered as such but apparently included by the Code definition.

## The Questionnaire

The survey was conducted by means of a mailed questionnaire. A total of 43 questions was included. Not all were relevant to every respondent and some answers required additional explanatory information, so the amount of information required varied between respondents. Questions were grouped under the headings Franchisees, Domestic Operations, International Operations, Regulation and Franchise Profile. Questions were chosen and designed with reference to the earlier surveys together with other research by the authors.

The first draft of the questionnaire was pilot tested with 11 franchisors (8 responded), 1 franchisee, 9 franchising consultants and 3 franchising academics. As a result of responses, some modifications were made to wording and additional questions included, mainly relevant to regulatory matters. The franchisors were contacted again to obtain responses to the revised questionnaire and their responses were included in the analysis.

The questionnaire in its final form was mailed to franchisors with a covering letter emphasising its importance to them and the confidentiality of the survey, together with a reply paid envelope. Two incentives were offered to encourage early response – registration at the FCA conference and a set of franchising books. After two weeks a follow-up letter was sent to nonrespondents, including a request to advise if they were not franchising so that they could be removed from the mailing list. After a further three weeks, reminder telephone calls were made to all nonrespondents and a check was made to confirm their status as a franchisor and details of industry. The Telstra White Pages website was used to locate changed numbers or to ascertain that the firm was no longer operating. A further fax request was forwarded to nonrespondents.

## Survey responses

In total, 803 surveys were mailed to firms believed to be involved in business format franchising. After responses and follow-ups were completed, it was inferred that 708 of the firms were currently franchising.

The 95 firms deleted were:

Not a franchise	31
Not yet franchising	9
No longer franchising	38
Merged with another franchise	5
Confirmed as no longer operating	<u>12</u>
	<b>95</b>

In total, 178 responses were received but of these, 3 were rejected as unusable and 10 as too late for inclusion. As a result 165 responses were analysed, giving a response rate of 23 percent. Analysis of the 165 responses provides valuable indications of the size, growth and features of franchising in Australia, which should be helpful to those participating in or servicing the sector.

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

Since not all franchisors responded to the survey, the problem exists of estimating results for the whole franchising sector. Two major tests were carried out for nonresponse bias. In the first strategy, the first half of questionnaires received was tested against those received later. 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. In the second more rigorous strategy, data on 6 major variables collected from the *Franchising Yearbook and Directory 1999* on a sample of 243 nonrespondents were compared with those who responded. The results of this test indicated that some nonresponse bias may be present. When considering the overall results of the two tests it is acknowledged that differences may exist between those who responded to the survey and those who did not. Hence, when inferring overall results for the franchising sector this possibility must be considered.

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 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 section.

# SURVEY RESULTS

## Franchising Australia 1999

The survey results following are presented in the order they appeared in the questionnaire. Responses have not been manipulated in any way, apart from the correction of obvious errors made by firms participating. In some cases respondents were telephoned to clarify their responses where data were out of range. 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 Franchisees

## Availability of franchisees and franchisee finance

The availability of suitable prospective franchisees may be hindering franchise system growth with more than half the franchisor respondents (57 percent) indicating there were insufficient prospects for future plans. Around one-third of franchisors (35 percent) had experienced adequate enquiries from prospective franchisees over the past 12 months.

Conversely, most franchisors (66 percent) indicated that finance for new franchisees was readily available over the same time period. There were no significant differences in this pattern of results across franchise systems in terms of industry, age or size.

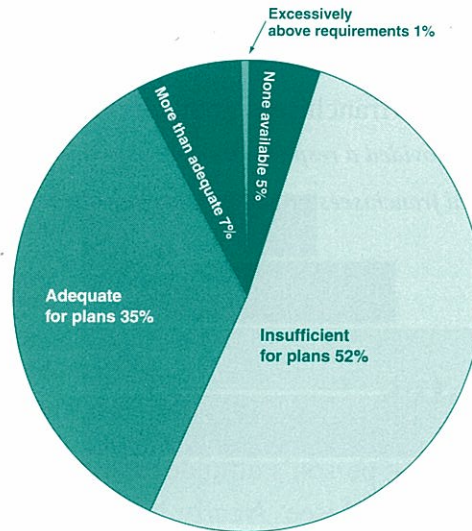
Only 60 percent of potential franchisees submitting formal applications are granted a franchise, indicating that despite the lack of availability of applicants franchisors are applying screening mechanisms to select suitable franchisees. It was noted that in high-cost franchise systems of \$150 000 or more, on average only 50 percent of applicants were successful. In low-cost franchise systems of \$30 000 or less, a greater proportion (70 percent) of applicants was successful. These findings were consistent across all industries, ages and sizes of franchise systems.

### **Question A1**     *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	8	4.9
Insufficient for plans	85	51.8
Adequate for plans	58	35.4
More than adequate	12	7.3
Excessively above requirements	1	0.6
<b>Total</b>	<b>164</b>	<b>100.0</b>

*Note:*     A total of 164 franchisors provided a response from an expected 165.

### Availability of suitable franchisees

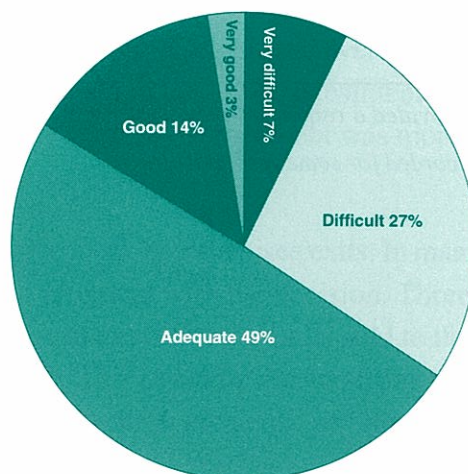


**Question A2** *If applicable, how do you rate the availability of finance for new franchisees over the past 12 months?*

Response (Availability of franchisee finance)	Number of responses	Percent
Very difficult	11	7.2
Difficult	41	27.0
Adequate	75	49.3
Good	21	13.8
Very good	4	2.6
<b>Total</b>	<b>152</b>	<b>100.0</b>

- Notes:
- 1) The question was not applicable to 8 respondents.
  - 2) A total of 152 franchisors provided a response from an expected 157.

### Availability of finance for franchisees



**Question A3**      ***Approximately what percentage of potential franchisees who submit a formal application are granted a franchise?***

Average percentage of potential franchisees granted a franchise: 60 percent

Notes:    1) A total of 154 franchisors provided a response from an expected 165.

          2) The percentage of potential franchisees granted a franchise ranged from 1 to 100 percent.

**Franchisee attributes**

Fully 61 percent of franchisors view a person's attitude, enthusiasm and work ethic as an important attribute when selecting a suitable franchisee. Nearly half (48 percent) require applicants to have business or management ability or experience in order to be considered. Other qualities rated highly by franchisors are communication/people skills (34 percent) and personality, honesty or integrity (25 percent). Many other attributes were noted that were specific to the requirements of the franchise, such as licensing requirements in real estate or a love of the outdoors in mowing and gardening franchises.

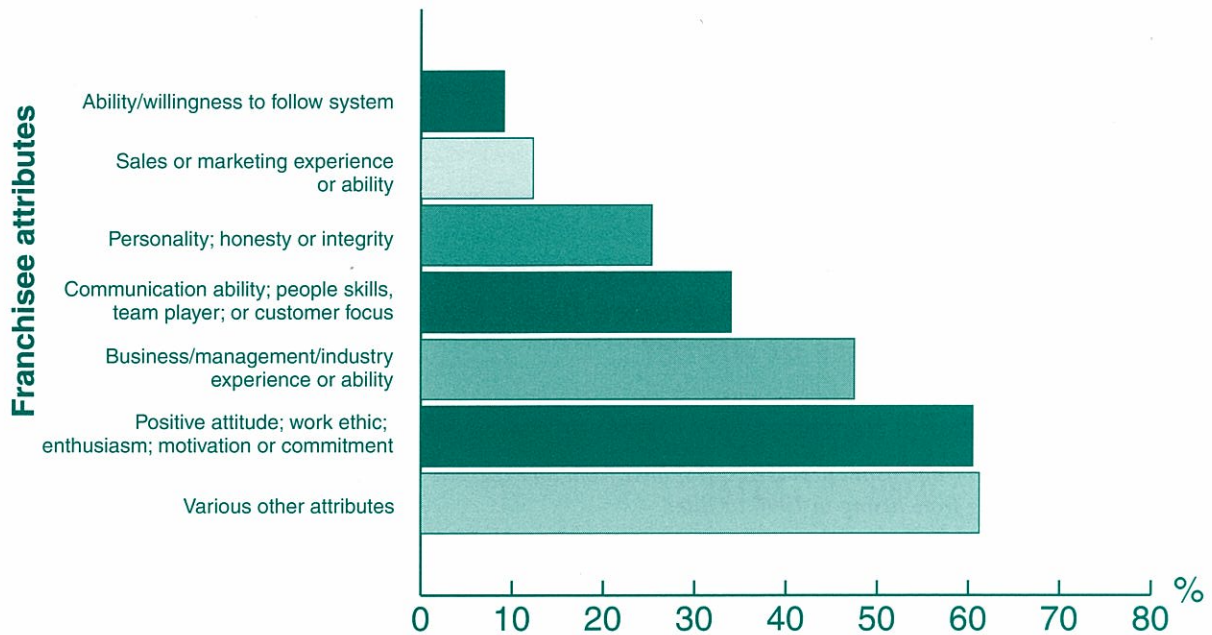
**Question A4**      ***Excluding finance, what three attributes do you consider are the most important when selecting franchisees?***

Response (Franchisee attributes)	Number of responses	Percent
Positive attitude; work ethic; enthusiasm; motivation or commitment	98	60.5
Business/management/industry experience or ability	77	47.5
Communication ability; people skills; team player; or customer focus	55	34.0
Personality; honesty or integrity	41	25.3
Sales or marketing experience or ability	20	12.3
Ability/willingness to follow system	15	9.1
Various other attributes	90	61.2

Notes:    1) A total of 162 franchisors provided a response from an expected 165.

          2) Multiple responses were recorded for some respondents.

## Important franchisee attributes



## Franchisee unit ownership

It was found that 35 percent of franchisors had been operating prior to 1990. These respondents reported an average of 51 franchised units (compared with an average of 22 overall), of which 33 had been operating for five years or more.

All responding franchisors who had franchisees operating beyond their original terms (40 percent) claimed to have approved every application for franchise agreement renewal on expiration of the term. However, it was noted that 60 percent had not yet reached that situation or had perpetual agreements. Franchisors facing applications for transfer of a franchise agreement (60 percent of respondents) claimed to have approved the transfer in 90 percent of cases. It was noticed that there was a higher rate of approval of transfers in franchises where a larger investment was required, possibly a reflection that only capable investors would have the required capital.

Sole ownership (30 percent) or partnership (20 percent) were the legal structures chosen by one-half of franchisees and were used more often in the lower investment franchises. In contrast, 40 percent of franchisees used a private company and this arrangement was more prevalent where there were larger investments.

Terminations accounted for only one in six of franchisee exits. In many of these, the franchisee appeared to have been the instigator or in agreement with the decision. Three-quarters of exits were due to the unit being sold, mostly to new franchisees. Of those units sold to the franchisor, almost two-thirds are currently operated by the franchisor. This could be due to efforts to improve their performance before resale but it does not seem to indicate a high incidence of 'churning'.

Of those units terminated by either the franchisor, franchisee or mutual agreement, two-thirds had been closed. One-half of those where there was no renewal on expiration of their term were also closed, so there seems no indication of any widespread franchisor misuse of power to take over franchised units. The number of units closed or now independent represents four percent of the total franchised units held by respondents.

**Question A5** *If you commenced franchising before 1990, how many franchisees have been in your franchise for five years or more?*

Average number of franchisees per system operating 5+ years: 33

Note: A total of 48 franchisors provided a response from an expected 58 with the balance of 107 respondents commencing franchising in 1990 or later.

**Question A6** *What percentage of franchisee applications have been approved for agreement renewals or sales to their franchisees?*

Average percentage of agreement renewal applications approved: 100 percent

Average percentage of applications for assignment approved: 90 percent

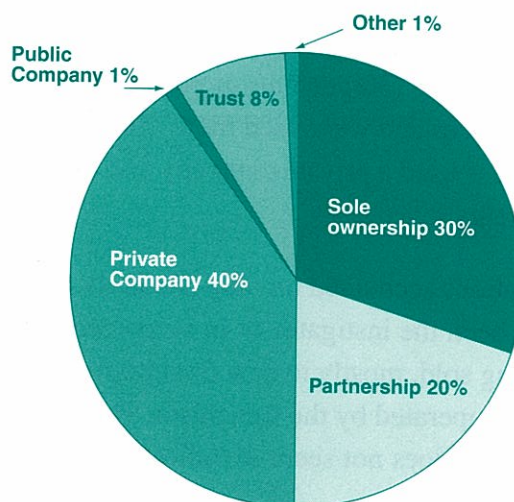
Notes: 1) The question was not applicable to 92 respondents (agreement renewals) and 62 respondents (assignment applications).

2) A total of 154 franchisors provided a response from an expected 165.

**Question A7** *What legal ownership structure is used by your franchisees?*

Response (Ownership structure)	Percent
Sole ownership	30
Partnership	20
Private Company	40
Public Company	1
Trust	8
Other	1
<b>Total</b>	<b>100</b>

**Franchisee ownership structure**



Notes: 1) A total of 158 franchisors provided a response from an expected 165.

2) The mean has been reported as the "average percent" due to the normal distribution of the data.

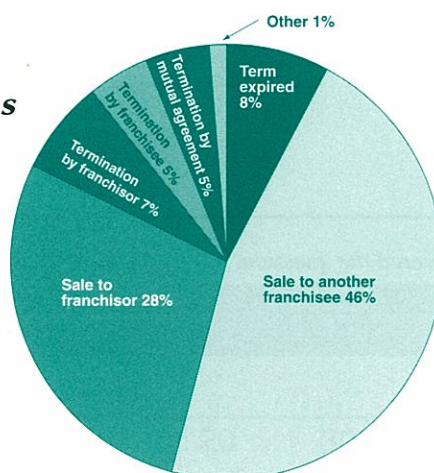
**Question A8** *Of the franchisees who have left your franchise system in the last three years what is the current status of the units?*

Response (Reason franchisees left)	Total number of franchisees	Percent	Number of franchisors
Term expired	194	7.7	16
Sale to another franchisee	1164	46.4	85
Sale to franchisor	709	28.2	44
Termination by franchisor	176	7.0	48
Termination by franchisee	115	4.6	27
Termination by mutual agreement	121	4.8	37
Other	32	1.3	8
<b>Total</b>	<b>2511</b>	<b>100.0</b>	

Response (Reasons franchisees left)	Total number franchisees	Current status of units		
		Number franchisee operated No. (%)	Number company operated No. (%)	Number closed or independent No. (%)
Term expired	194	93 (48.0%)	2 (1.0%)	99 (51.0%)
Sale to another franchisee	1164	1157 (99.4%)	6 (0.5%)	1 (0.1%)
Sale to franchisor	709	256 (36.1%)	451 (63.6%)	2 (0.3%)
Termination by franchisor	176	52 (29.0%)	14 (8.0%)	110 (63.0%)
Termination by franchisee	115	23 (20.0%)	14 (12.0%)	78 (68.0%)
Termination by mutual agreement	121	17 (14.0%)	6 (5.0%)	98 (81.0%)
Other	32	16 (50.0%)	1 (3.0%)	15 (47.0%)
<b>Total</b>	<b>2511</b>	<b>1614 (64.0%)</b>	<b>494 (20.0%)</b>	<b>403 (16.0%)</b>

- Notes: 1) A total of 153 franchisors provided a response from an expected 161.  
 2) Four franchisors began franchising in 1999 and therefore were excluded from the analysis.  
 3) Multiple responses were recorded for some respondents.

**Reasons franchisees left the franchise**



## B Domestic Operations

### Commencing franchising

Regarding the ownership of franchises it was found that for 82 percent of respondents the founders were still actively involved. Of those franchisors who were not the original owners, one-half had purchased the franchise since 1995 and most of the remainder had done so in the previous five years.

It appears that Australian franchising has matured to the stage that some founding franchisors now are selling their franchises. This developing trend is supported by reported plans by others to sell (21 percent) or merge (7 percent) (see question B8).

The motivations for commencing franchising were varied, incorporating a mixture of financial, marketing and administrative reasons. Expansion was a common theme although it was not always clear whether franchisors were thinking mainly in financial or geographic terms.

The practice of having either a few or no company units was popular with the majority of franchisors, although only 42 percent reported having a definite policy on the desired proportion. Those with up to 20 franchised units were found to be less likely to have adopted a policy, possibly due to their limited experience and development. Of those with a stated policy, 42 percent had decided to operate without company units and looking at all respondents, it was found that 34 percent did not have any company units.

A low number of company units was targeted by 46 percent of franchisors and it was noted that 47 percent of all respondents had no more than five of these. While two-thirds operate one or more company units, only a small proportion of franchisors have retained a strong involvement in selling their products or services, having become primarily involved in servicing their franchisees. However, the fact that 59 percent have no policy on the proportions of company and franchised units suggests there is limited involvement in planning.

#### **Question B1**     *Is the founder of the franchise system still active in its ownership?*

Response	Number of responses	Percent
Yes	135	81.8
No	30	18.2
<b>Total</b>	<b>165</b>	<b>100.0</b>

Note: All 165 respondents answered the question.

***If not, in which year was the franchise system purchased by the current owner?***

Response (Year system purchased)	Number of responses	Percent
1970s	1	4.2
1980s	2	8.3
1990-1994	9	37.5
1995-1999	12	50.0
<b>Total</b>	<b>24</b>	<b>100.0</b>

Note: A total of 24 franchisors provided a response from an expected 30.

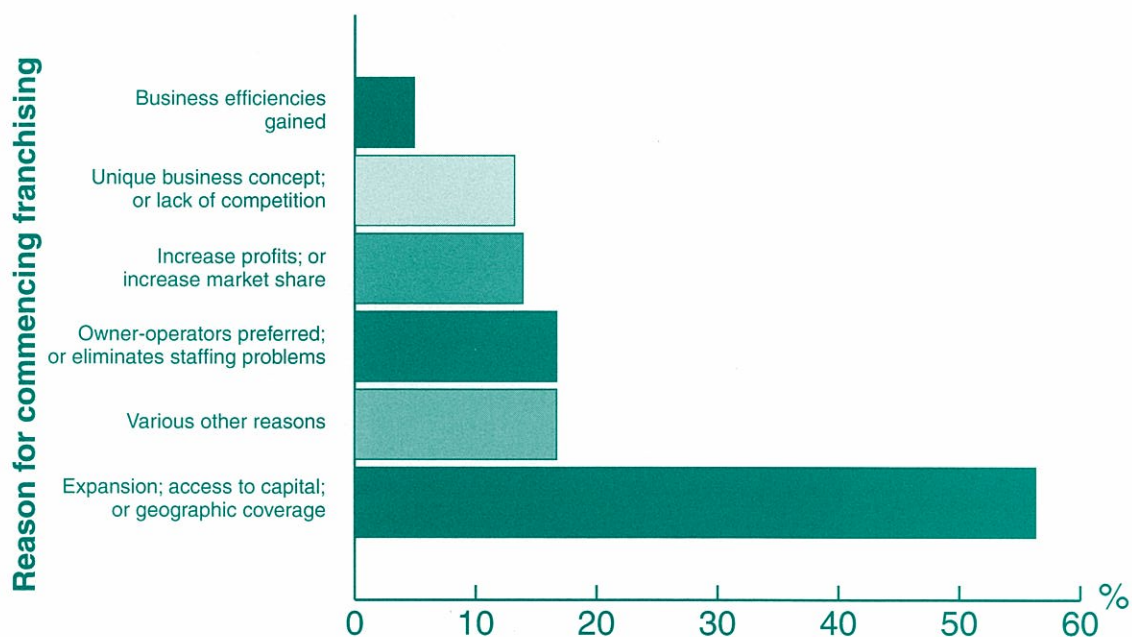
**Question B2** ***What were the main reasons for commencing franchising?***

Response (Reason for commencing franchising)	Number of responses	Percent
Expansion; access to capital; or geographic coverage	81	56.3
Owner-operators preferred; or eliminates staffing problems	24	16.7
Increase profits; or increase market share	20	13.9
Unique business concept; or lack of competition	19	13.2
Business efficiencies gained	7	4.9
Various other reasons	24	16.7

Notes: 1) A total of 144 franchisors provided a response from an expected 165.

2) Multiple responses were recorded for some respondents.

***Reasons for commencing franchising***



**Question B3** *Does the franchise system have a policy about the desired proportion of company-owned units?*

Response	Number of responses	Percent
No	96	58.5
Yes	68	41.5
<b>Total</b>	<b>164</b>	<b>100.0</b>

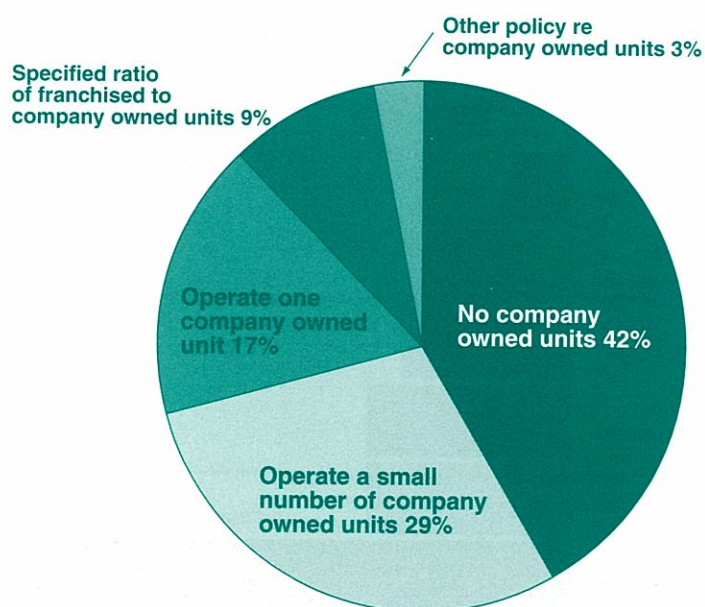
Note: A total of 164 franchisors provided a response from an expected 165.

**Please explain the policy.**

Response (Policy re proportion of company units)	Number of responses	Percent
No company owned units	27	41.6
Operate a small number of company owned units	19	29.2
Operate one company owned unit	11	16.9
Specified ratio of franchised to company owned units	6	9.2
Other policy re company owned units	2	3.1
<b>Total</b>	<b>65</b>	<b>100.0</b>

Note: A total of 65 franchisors provided a response from an expected 68.

**Policy on proportion of company owned units**



## Franchised unit start-up costs

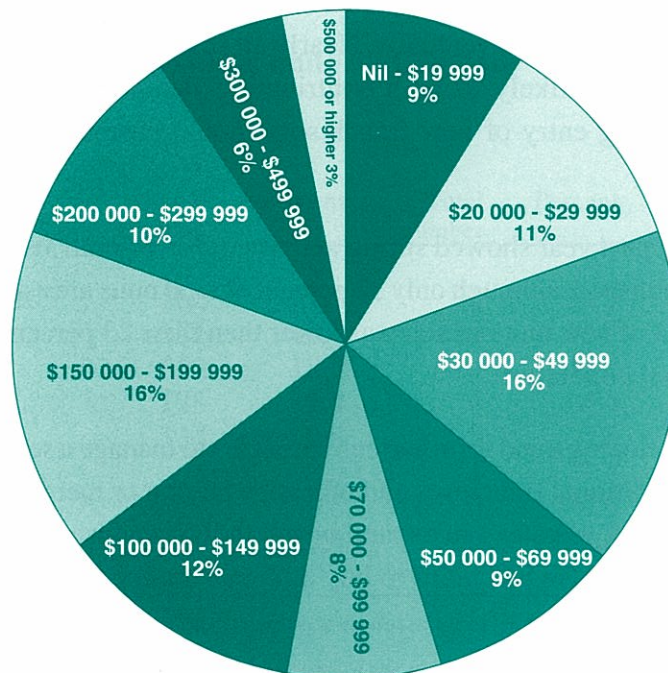
A wide range of total start-up costs for new franchised units was reported, ranging from \$3 000 to \$900 000 with an average of \$80 000. However, in the retail industry the average start-up cost was higher at \$170 000 compared with \$45 000 in non-retail industries, although franchises were offering in all investment sizes.

### Question B4 *What is the total start-up cost of a new franchised unit, including initial franchise fee?*

Response (Total start-up cost)	Number of responses	Percent
Nil - \$19 999	14	8.8
\$20 000 - \$29 999	17	10.7
\$30 000 - \$49 999	26	16.4
\$50 000 - \$69 999	15	9.4
\$70 000 - \$99 999	12	7.5
\$100 000 - \$149 999	19	11.9
\$150 000 - \$199 999	25	15.7
\$200 000 - \$299 999	16	10.1
\$300 000 - \$499 999	10	6.3
\$500 000 or higher	5	3.1
<b>Total</b>	<b>159</b>	<b>100.0</b>

Note: A total of 159 franchisors provided a response from an expected 165.

### Total start-up costs



## Turnover

When reporting on the performance, company operations had an average unit turnover of \$276 700 which was slightly higher than franchised units (\$235 300). As locations of company units were not stated, the difference may be partly due to being located mostly in state capitals near to the head offices.

**Question B5**      *What is the actual or estimated total turnover for the previous two financial years for all your franchised and company-owned units in Australia?*

Financial year	Franchised units			Company-owned units		
	Number of responses	Average total turnover per system	Average unit turnover	Number of responses	Average total turnover per system	Average unit turnover
1998/99 (est.)	128	\$4 000 000	\$235 300	75	\$780 000	\$276 700
1997/98	120	\$3 500 000	250 000	72	760 000	375 000

## Franchise system goals and growth

In regard to expansion planning, only 18 percent of franchisors did not provide information on a goal for total units in Australia. Concerning company units, 84 percent stated their intention to have no more than five. The apparent low expectations overall by almost half the respondents were seen in that 18 percent planned for a maximum of 25 franchised units and an additional 26 percent were aiming for up to 50, possibly a reflection of the size of Australia's population. However, more than one-third were looking to over 100 franchised units eventually. Nearly all (87 percent) expected to reach their goal by 2005 in Australia and this is likely to be a contributing factor in the trend towards franchising internationally. The ongoing entry of new franchisors should ensure continuation of growth in the sector beyond 2005.

The actual growth in the past year showed strong activity in New South Wales/ACT where 41 percent of all *new units* were established, although only 32 percent of total units are established there. Queensland accounted for 19 percent of new units which was lower than their 23 percent of all units but similar to their share of the national population.

There appears to be a developing trend for some entrepreneurs to manage a series or a group of franchises, some through creating additional franchises and others by buying or merging with existing franchises. One-third of franchisors had a strategy to expand or sell their franchises and of those planning to sell, seven franchisors stated they also had plans to buy or create another.

**Question B6**      **What goal, if any, has your franchise system planned for total units in Australia?**

Goal for franchised units			Goal for company units		
Number of units	Number of responses	Percent	Number of units	Number of responses	Percent
1-25	24	18.0	0	68	51.1
26-50	34	25.6	1-5	44	33.1
51-100	25	18.8	6-10	13	9.8
101-200	25	18.8	11-20	4	3.0
201-500	16	12.0	21-100	3	2.3
500+	9	6.8	101+	1	0.8
<b>Total</b>	<b>133</b>	<b>100.0</b>	<b>Total</b>	<b>133</b>	<b>100.0</b>

*Note:* A total of 163 respondents provided a response from an expected 165. Of these, 133 franchisors indicated their franchise system had a goal for expansion and 30 franchisors indicated they had no specific goal.

**Expected year of goal achievement**

Year	Number of responses	Percent
1999-2000	15	12.0
2001-2005	94	75.2
2006-2010	13	10.4
2011-2020	3	2.4
<b>Total</b>	<b>125</b>	<b>100.0</b>

**Question B7**      **How many units did the franchise system open in Australia in the last 12 months?**

Response (State in which units opened)	Franchised units		Company units		Total units	
	Total number	Percent	Total number	Percent	Total number	Percent
New South Wales / ACT	562	41.1	31	34.5	593	40.7
Victoria	271	19.8	20	22.2	291	20.0
Queensland	252	18.5	29	32.2	281	19.3
South Australia	128	9.4	4	4.4	132	9.1
Western Australia	134	9.8	5	5.6	139	9.5
Tasmania	8	0.6	1	1.1	9	0.6
Northern Territory	11	0.8	0	0.0	11	0.8
<b>Total</b>	<b>1366</b>	<b>100.0</b>	<b>90</b>	<b>100.0</b>	<b>1456</b>	<b>100.0</b>

*Notes:* 1) A total of 159 franchisors provided a response to the number of franchised units from an expected 165.  
2) A total of 160 franchisors provided a response to the number of company units from an expected 165.

**Question B8**      *Within the next three years are you contemplating selling the franchise system, buying another franchise system, merging with another franchise system, or creating another franchise system?*

Response	Planned strategy							
	Sell the franchise		Buy new franchise		Merge with another franchise		Create another franchise	
	Number of responses	Percent	Number of responses	Percent	Number of responses	Percent	Number of responses	Percent
Yes	34	21.0	21	13.1	11	7.0	32	20.1
No	128	79.0	139	86.9	147	93.0	127	79.9
<b>Total</b>	<b>162</b>	<b>100.0</b>	<b>160</b>	<b>100.0</b>	<b>158</b>	<b>100.0</b>	<b>159</b>	<b>100.0</b>

Note: Multiple responses were recorded for some respondents.

## Franchisor finance

Expansion plans often require finance and 43 percent reported having sought finance in the previous year. Three-quarters of these found that finance was available without too much difficulty and only 4 percent reported that it was unavailable to them.

**Question B9**      *Have you, the franchisor, applied for finance in the past 12 months?*

Response	Number of responses	Percent
No	93	57.4
Yes	69	42.6
<b>Total</b>	<b>162</b>	<b>100.0</b>

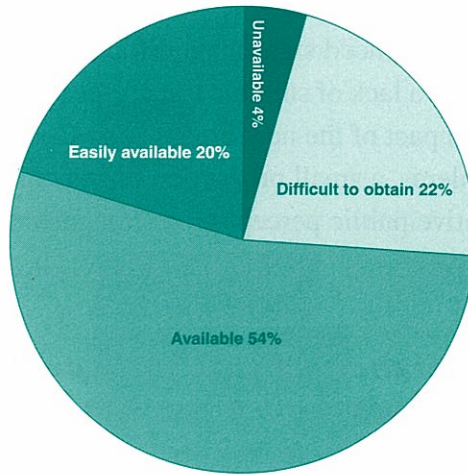
Note: A total of 162 franchisors provided a response from an expected 165.

***How do you rate the availability of finance for franchisors?***

Response (Availability of finance)	Number of responses	Percent
Unavailable	3	4.3
Difficult to obtain	15	21.7
Available	37	53.6
Easily available	14	20.3
<b>Total</b>	<b>69</b>	<b>100.0</b>

Note: The expected total of 69 respondents answered this question.

## Availability of franchisor finance



## Franchisor ownership structure

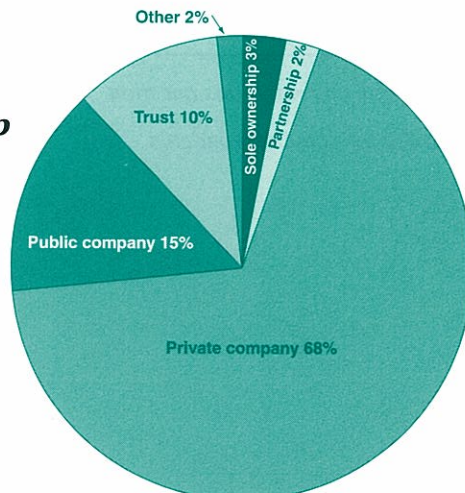
It was noted that 68 percent of franchisors chose a private company as their legal structure and 15 percent are now operating as public companies. The latter are larger than most, having an average of 58 franchised units and operating 9 years.

### **Question B10**    *What is the legal ownership structure of the franchise?*

Response (Ownership structure)	Number of responses	Percent
Sole ownership	5	3.0
Partnership	4	2.4
Private Company	112	67.9
Public Company	24	14.5
Trust	17	10.3
Other	3	1.8
<b>Total</b>	<b>165</b>	<b>100.0</b>

*Note:*    All 165 respondents answered the question.

### **Franchisor ownership structure**



## Hindrances to growth

Some 58 percent of respondents experienced significant difficulties in their expansion activities. The most prevalent hindrances cited were a lack of suitable franchisees, either in their personal or financial capabilities (37 percent), and the impact of the new Franchising Code of Conduct (30 percent). Apart from other common business problems, a small proportion of franchisors (6 percent) considered they were adversely affected by a negative public perception of franchising as a business method.

### **Question B11** *Has the franchise system experienced any significant hindrances to unit growth over the past 12 months?*

Response	Number of responses	Percent
No	69	41.8
Yes	96	58.2
<b>Total</b>	<b>165</b>	<b>100.0</b>

Note: All 165 respondents answered this question.

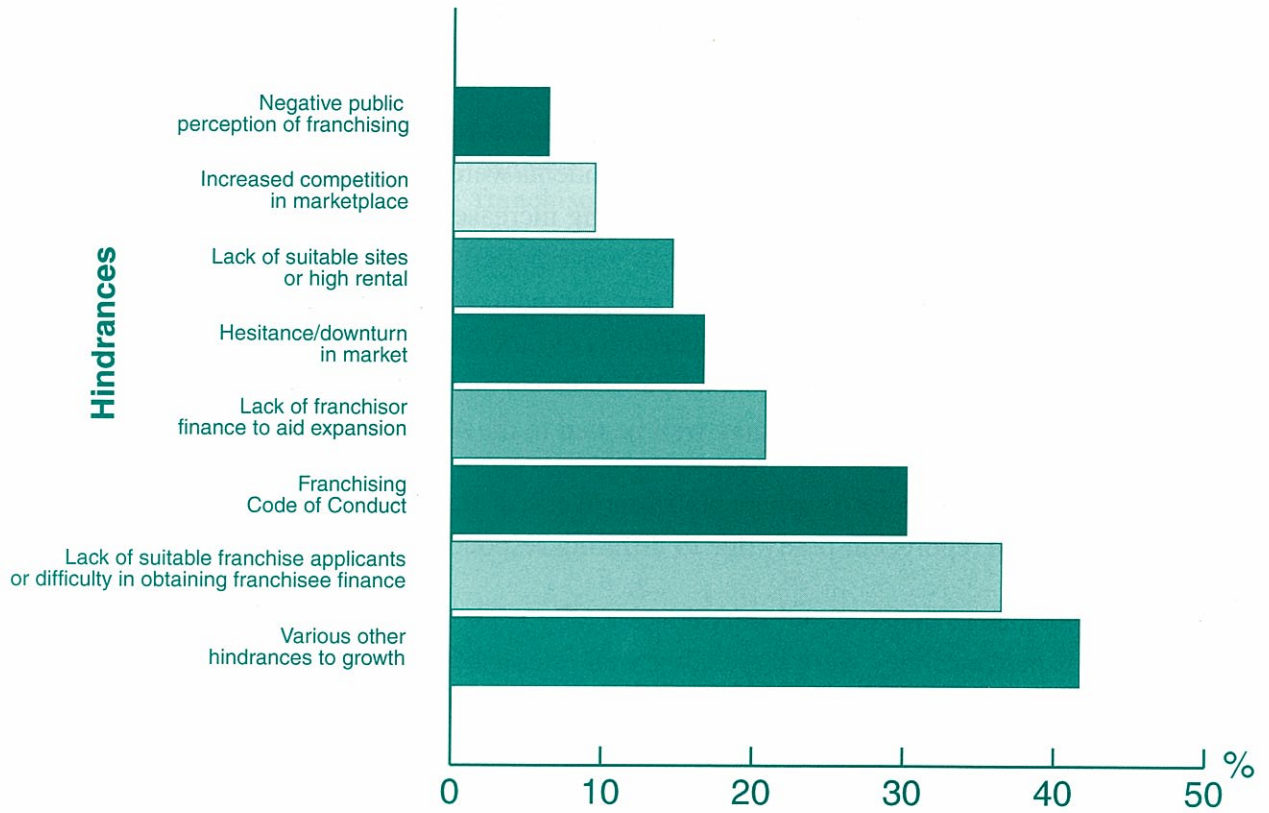
### *Please describe up to three main hindrances in order of importance.*

Response (Hindrances)	Number of responses	Percent
Lack of suitable franchisee applicants or difficulty in obtaining franchisee finance	35	36.5
Franchising Code of Conduct	29	30.2
Lack of franchisor finance to aid expansion	20	20.8
Hesitance/downturn in market	16	16.7
Lack of suitable sites or high rentals	14	14.6
Increased competition in marketplace	9	9.4
Negative public perception of franchising	6	6.3
Various other hindrances to growth	40	41.7

Notes: 1) The expected total of 96 respondents answered this question.

2) Multiple responses were recorded for some respondents.

## Hindrances to growth



## C International Operations

The trend towards international expansion continues with 51 percent of Australian franchisors stating they had appointed franchisees overseas or planned to do so within the next three years, up from 41 percent in the 1998 survey. Some 24 percent of respondents were already operating internationally and 27 percent were planning to join them, demonstrating increases from the 20 percent and 21 percent respectively reported in 1998. A total of 1337 units was reported as currently franchised internationally, with 56 percent of these being in New Zealand. The other main concentrations were in Europe, excluding the United Kingdom (13 percent), United Kingdom (11 percent) and Canada (7 percent), with South Africa, United States of America, Singapore and Malaysia also popular. The swing towards Europe with less emphasis on south-east Asia may well be tied to the Asian economic problems.

The estimated total income for respondents from overseas franchisees was A\$11.9 million, down somewhat from 1998 reports but partly due to differing respondents.

On average, franchisors operated 34 units domestically prior to appointing their first international franchisee. This indicates they were reasonably well established locally before moving overseas but unlikely to have reached saturation.

Clearly the 1990s have experienced the greatest period of overseas expansion with 85 percent making the move in the last decade. Most international franchisees were appointed in the last four years and further expansion is planned, with a broader range of franchisors involved.

### **Question C1** *Have you appointed, or do you plan to appoint, any franchisees overseas, within the next three years?*

Response	Number of responses	Percent
No	80	49.4
Yes	82	50.6
<b>Total</b>	<b>162</b>	<b>100.0</b>

*Note:* A total of 162 franchisors provided a response from an expected 165.

### *In which countries?*

Response (Country)	Currently operating			Planned expansion next three years
	Number of franchisors	Total number of units	Average number of units	Number of franchisors
New Zealand	31	746	4	56
United States of America	6	35	3	29
Canada	3	100	37	17
United Kingdom (UK)	6	151	4	34
Europe (excluding UK)	5	174	5	16
China/Hong Kong	6	9	1	11
Indonesia	2	16	1	9
Malaysia	6	24	1	17
Singapore	8	24	2	23
South Africa	4	48	3	18
Other countries	7	10	1	12
<b>Total</b>		<b>1337</b>		

- Notes:
- 1) The expected total of 82 respondents answered this question – 39 currently operating internationally and a further 43 planning to do so.
  - 2) Some franchisors currently operating internationally are included in those planning future international expansion.
  - 3) Multiple responses were recorded from some respondents.

### **Question C2**      *What is the total estimated income from overseas franchisees in 1998/99?*

Response (Income source)	Number of responses	Percent
Fees (initial and ongoing)	30	\$10 328 000
Products supplied	8	1 301 000
Other sources	2	280 000
<b>Total</b>		<b>\$11 909 000</b>

- Notes:
- 1) A total of 32 franchisors provided a response from an expected 39.
  - 2) Multiple responses were recorded for some respondents.

**Question C3**     ***How many units of the franchise system operated in Australia prior to the first overseas unit?***

Average number of franchised units prior to overseas expansion:     34

Average number of company units prior to overseas expansion:     1

Notes:     1) *The expected total of 39 respondents answered this question.*

2) *The number of franchised units operated prior to overseas expansion ranged from 0 to 1000 and the number of company units ranged from 0 to 32.*

***In which year did the franchise system expand overseas?***

Response (Year expanded overseas)	Number of responses	Percent
1970-1979	2	5.1
1980-1989	4	10.3
1990-1994	10	25.6
1995-1999	23	59.0
<b>Total</b>	<b>39</b>	<b>100.0</b>

Note:     *The expected total of 39 respondents answered this question.*

***Why did the franchise system begin operating overseas?***

Response (Reason for overseas expansion)	Number of responses	Percent
Market opportunities or growth potential overseas	21	55.3
Demand for franchise system overseas	11	28.9
Other reason for overseas expansion	6	15.8
<b>Total</b>	<b>38</b>	<b>100.0</b>

Note:     *A total of 38 franchisors provided a response from an expected 39.*

# D Regulation

## Perceived advantages and disadvantages of Franchising Code of Conduct

There is a high level of awareness of the requirements of the Franchising Code of Conduct among franchisors. Fully 80 percent of respondents rated themselves as having either a detailed or higher than moderate awareness of the Code's provisions. Conversely, only 6 percent of franchisors responding felt their level of awareness was less than moderate. This positive outcome has been achieved within the first 12 months of the Code's existence indicating that the majority of franchisors have placed a high priority on the importance of understanding the Code's requirements.

### Question D1 *How do you rate your awareness of the requirements of the Franchising Code of Conduct?*

Response (Awareness of Code)	Number of responses	Percent
Very limited awareness	2	1.2
Limited awareness	7	4.3
Moderate awareness	24	14.7
More than moderate awareness	56	34.4
Detailed awareness	74	45.4
<b>Total</b>	<b>163</b>	<b>100.0</b>

Note: A total of 163 franchisors provided a response from an expected 165.

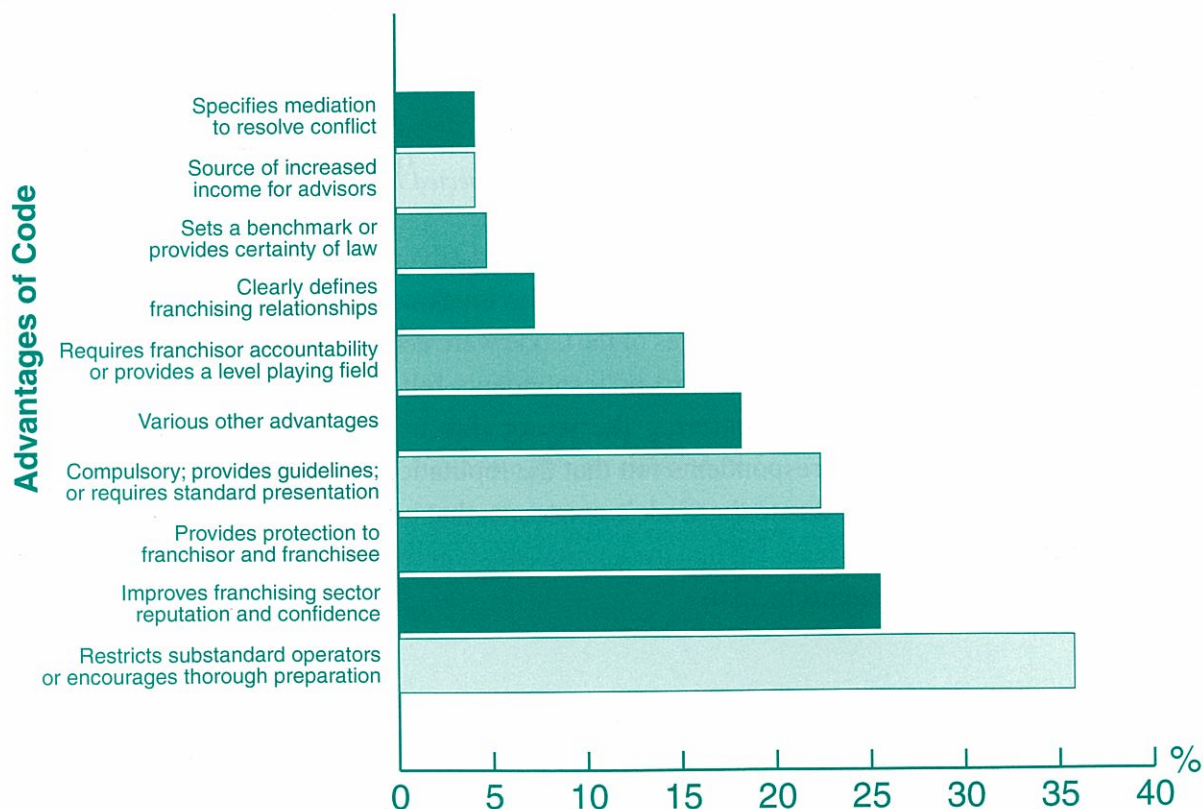
Many positive comments were made regarding perceived advantages of the Code. Most franchisors were able to see substantial potential benefits with the introduction of legislation in the franchising sector. The most commonly cited advantages of the Code were concerned with giving greater credibility to those in the sector. More than one-third of respondents felt that the Code's requirements would deter substandard operators from entering the sector due to the thorough preparation required. Approximately one-quarter of respondents felt that the reputation of the sector and public confidence in franchising would improve due to the Code's existence, that better protection would be experienced by both franchisors and franchisees and that the compulsory nature of the Code meant that documentation would be prepared in a standard format.

**Question D2**     **What do you consider to be advantages of the Code, if any?**

Response (Advantages of Code)	Number of responses	Percent
Restricts substandard operators or encourages thorough preparation	59	35.8
Improves franchising sector reputation and confidence	42	25.5
Provides protection to franchisor and franchisee	39	23.6
Compulsory; provides guidelines; or requires standard presentation	37	22.4
Requires franchisor accountability or provides a level playing field	25	15.2
Clearly defines franchising relationships	12	7.3
Sets a benchmark or provides certainty of law	8	4.8
Source of increased income for advisors	7	4.2
Specifies mediation to resolve conflict	5	4.2
Various other advantages	30	18.2

- Notes:    1) All 165 respondents answered the question.  
           2) Multiple responses were recorded for some respondents.

**Advantages of the Franchising Code of Conduct**



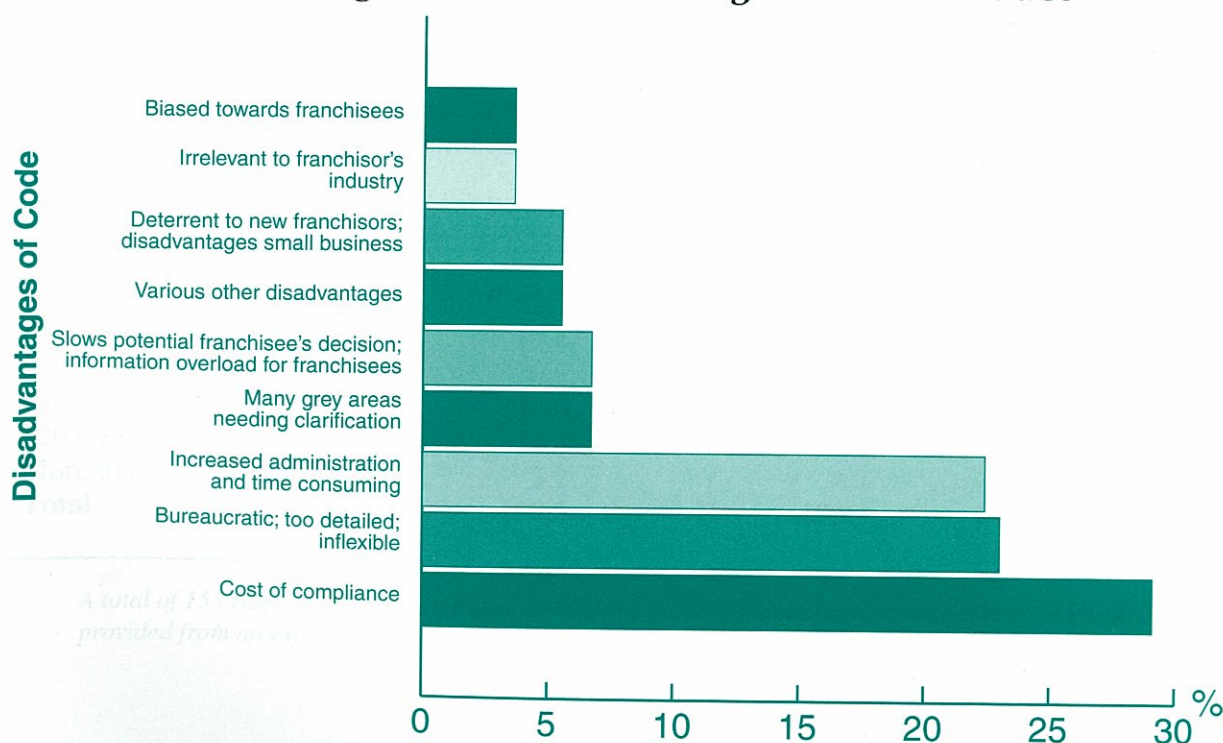
Several disadvantages resulting from the Code were also cited by respondents illustrating a wide range of opinions on the costs required to gain the advantages offered. The major concerns were related to the use of financial and labour resources to meet the Code's requirements. Slightly under one-third of respondents commented that the costs of compliance were high and almost one-quarter felt that the Code was too detailed and inflexible or was time consuming and required increased administration of the franchise system. A few franchisors felt that the Code was a deterrent in various ways to entering franchising either as franchisor or franchisee.

**Question D3 What do you consider to be disadvantages of the Code, if any?**

Response (Disadvantages of Code)	Number of responses	Percent
Cost of compliance	48	29.1
Bureaucratic; too detailed; inflexible	38	23.0
Increased administration and time consuming	37	22.4
Slows potential franchisee's decision; information overload for franchisees	11	6.7
Many grey areas needing clarification	11	6.7
Deterrent to new franchisors; disadvantages small businesses	9	5.5
Irrelevant to franchisor's industry	6	3.6
Biased towards franchisees	6	3.6
Various other disadvantages	50	5.5

- Notes: 1) All 165 respondents answered the question.  
2) Multiple responses were recorded for some respondents.

**Disadvantages of the Franchising Code of Conduct**



## Effects of the Franchising Code of Conduct on operations

Respondents reported a high degree of compliance with the precise wording of the Code. Fewer than 5 percent of franchisors felt they were below 90 percent compliant with the Code after its first year of operation. The majority (60 percent) of respondents considered they were fully compliant with the Code's requirements.

Of those who felt they were not yet compliant, just under one-half indicated they were uncertain of the areas needing attention but expected these would be only minor. Difficulties with disclosure requirements were cited by 14 percent of respondents.

A wide range of Code compliance costs was reported. The average cost of external assistance from professionals in order to comply with the Code was \$8 000 with the average cost of internal staff and associated expenses being \$5 000. Both internal and external costs ranged from zero to \$200 000 across all respondents. The average total cost of Code compliance was reported as \$15 000, ranging from zero to \$400 000. No significant differences in costs were apparent across industries. However, the costs of Code compliance were significantly higher in the larger franchise systems where presumably compliance was a more complex process.

### **Question D4**     *To what extent do you consider you comply with the precise wording of the Code?*

Response (Level of compliance with Code)	Number of responses	Percent
0-64%	3	1.9
65-79%	1	0.6
80-89%	3	1.9
90-94%	20	12.9
95-99%	36	23.2
100%	92	59.5
<b>Total</b>	<b>155</b>	<b>100.0</b>

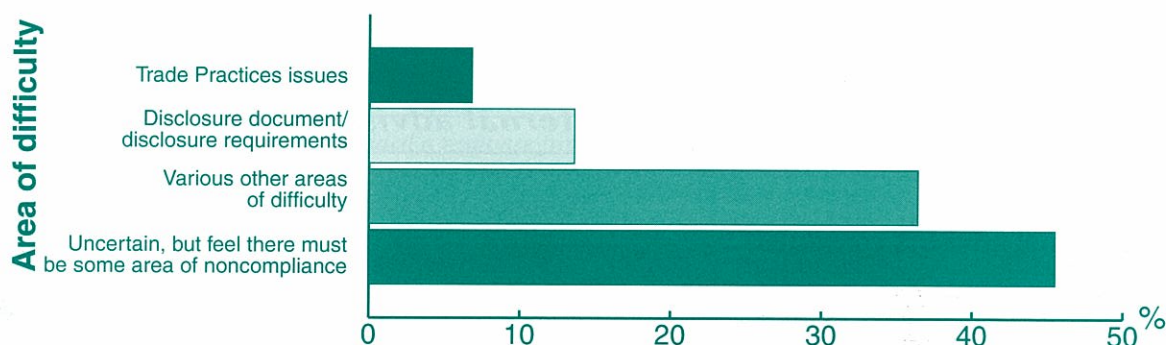
*Note:*     A total of 155 franchisors provided a response from an expected 165.

***If you are not fully compliant with the Code, which area(s) caused you difficulties?***

Response (Area of difficulty)	Number of responses	Percent
Uncertain, but feel there must be some area of noncompliance	20	45.5
Disclosure document/disclosure requirements	6	13.6
Trade Practices issues	3	6.8
Various other areas of difficulty	16	36.4

Notes: 1) A total of 44 franchisors provided a response from an expected 63.  
2) Multiple responses were recorded for some respondents.

***Areas of Code causing difficulty with compliance***



***Question D5 What additional costs, if any, have you incurred in meeting the requirements of the Code?***

Response (Costs incurred)	Cost of external assistance from professionals		Cost of internal staff and other expenses		Total cost of compliance	
	Number of responses	Percent	Number of responses	Percent	Number of responses	Percent
\$0 - \$2 000	35	22.9	48	32.2	13	8.7
\$2 001 - \$5 000	30	19.6	31	20.8	18	12.1
\$5 001 - \$10 000	32	20.9	31	20.8	27	18.1
\$10 001 - \$20 000	26	17.0	15	10.1	34	22.8
\$20 000 - \$50 000	22	14.4	17	11.4	36	24.2
More than \$50 000	8	5.2	7	4.7	21	14.1
<b>Total</b>	<b>153</b>	<b>100.0</b>	<b>149</b>	<b>100.0</b>	<b>149</b>	<b>100.0</b>

Note: A total of 153 responses regarding professional costs and 149 responses regarding internal costs was provided from an expected 165.

The higher cost of external assistance noted above was reflected in the large proportion (85 percent) of franchisors who consulted external advisors. Nearly all (97 percent) consulted a lawyer with 35 percent using the services of an accountant and a further 29 percent seeking advice from a franchising consultant. Just over half the respondents (51 percent) used more than one advisor when seeking Code compliance.

**Question D6** *Have you consulted any external advisors to enable your compliance with the Code?*

Response	Number of responses	Percent
No	24	14.8
Yes	138	85.2
<b>Total</b>	<b>162</b>	<b>100.0</b>

Note: A total of 162 franchisors provided a response from an expected 165.

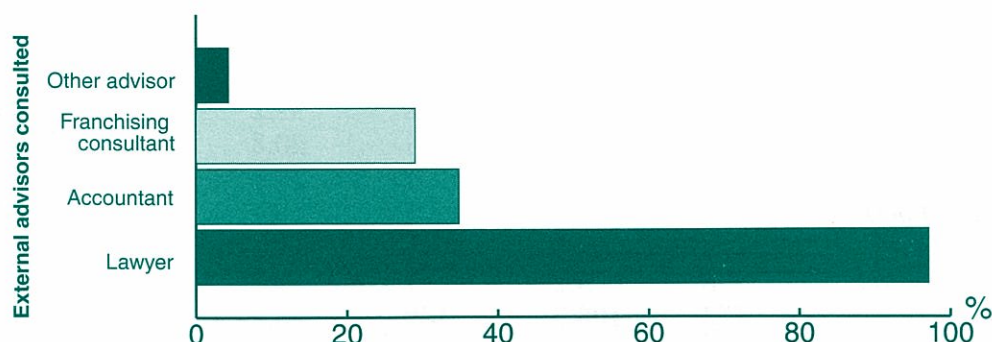
**Please indicate external advisors consulted**

Response (External advisors consulted)	Number of responses	Percent
Lawyer	134	97.1
Accountant	48	34.8
Franchising consultant	40	29.0
Other advisor	6	4.3

Notes: 1) The expected total of 138 respondents answered this question.

2) Multiple responses were recorded for some respondents.

**Use of external advisors to comply with Code**



Slightly under one-half of franchisors felt that the introduction of the Code had not affected their franchise systems. Around one-quarter reported positive effects and the same proportion experienced negative consequences. The most common positive effects reported were improved system and standards (22 percent) and greater credibility and transparency due to the Code (20 percent), although both were claimed by a minority of respondents. Negative repercussions included a slowdown in franchise sales due to fewer franchisee applicants (22 percent) and the cost and time involved in compliance (18 percent). Two franchisors reported that they would discontinue their franchising activities.

**Question D7** *Has the introduction of the Code affected your franchise system, either positively or negatively?*

Response	Number of responses	Percent
No	77	47.5
Yes, positively	39	24.1
Yes, negatively	40	24.7
Both positive and negative	6	3.7
<b>Total</b>	<b>162</b>	<b>100.0</b>

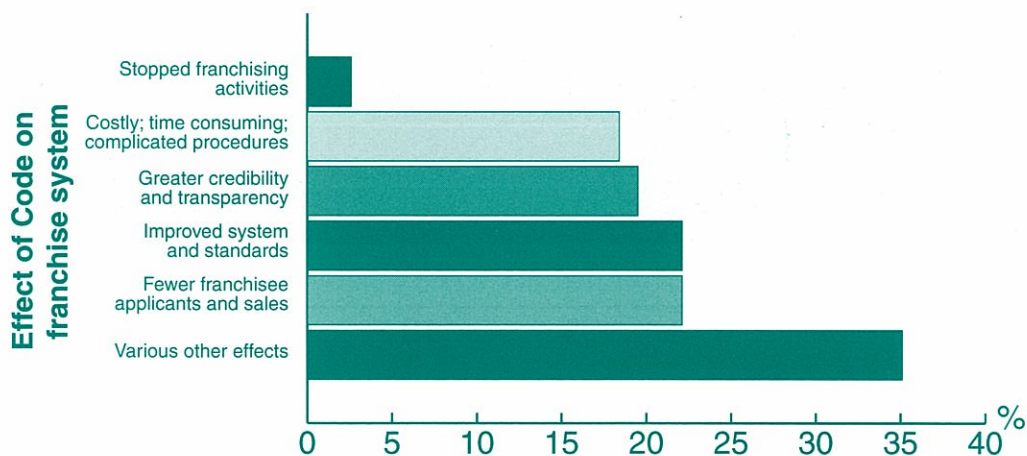
Note: A total of 162 franchisors provided a response from an expected 165.

Response (Effect of Code on franchise system)	Number of responses	Percent of affected franchises
Fewer franchisee applicants and sales	17	22.1
Improved system and standards	17	22.1
Greater credibility and transparency	15	19.5
Costly; time consuming; complicated procedures	14	18.4
Stopped franchising activities	2	2.6
Various other effects	27	35.1

Notes: 1) A total of 77 franchisors provided a response from an expected 85.

2) Multiple responses were recorded for some respondents.

**Effect of Code on franchise systems**



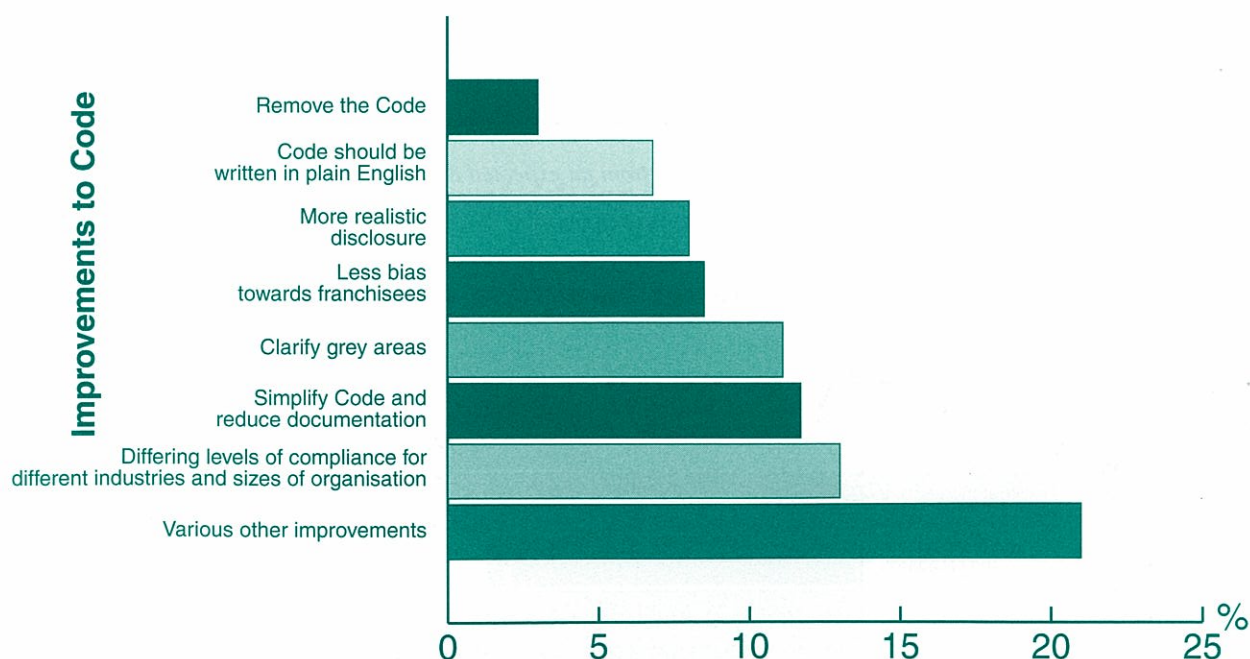
A wide variety of suggestions for improvements to the Code was provided by franchisors. The diverse nature of these suggestions made it difficult to summarise results. The most commonly cited suggestion was that the Code needs differing levels of compliance to suit different industries and sizes of systems (13 percent). Also noted were the need to simplify the Code and its documentation (12 percent) and to clarify ambiguous areas of the Code (11 percent).

**Question D8** *What improvements, if any, would you like to see incorporated in the Code?*

Response (Improvements to Code)	Number of responses	Percent
Differing levels of compliance for different industries and sizes of organisation	21	13.0
Simplify Code and reduce documentation	19	11.7
Clarify grey areas	18	11.1
More realistic disclosure	13	8.0
Less bias towards franchisees	14	8.5
Code should be written in plain English	11	6.8
Remove the Code	5	3.0
Various other improvements	34	21.0

- Notes: 1) All 165 respondents answered the question, although 3 franchisors indicated there were too many improvements to offer, reducing the number of respondents providing suggestions to 162.  
2) Multiple responses were recorded for some respondents.

**Suggested improvements to Code**



Nearly two-thirds of respondents (62 percent) have not made, or do not intend to make, changes to their franchise operations due to the Code's introduction. Of the remainder, the two most consistently cited modifications were the practice of keeping more detailed records or systems (48 percent) and paying greater attention to the franchisee selection process (21 percent). However, these alterations were being carried out by only small numbers of franchisors overall.

**Question D9** *Will you or have you made any changes to your franchise operations as a result of the introduction of the Code, in addition to meeting legal requirements?*

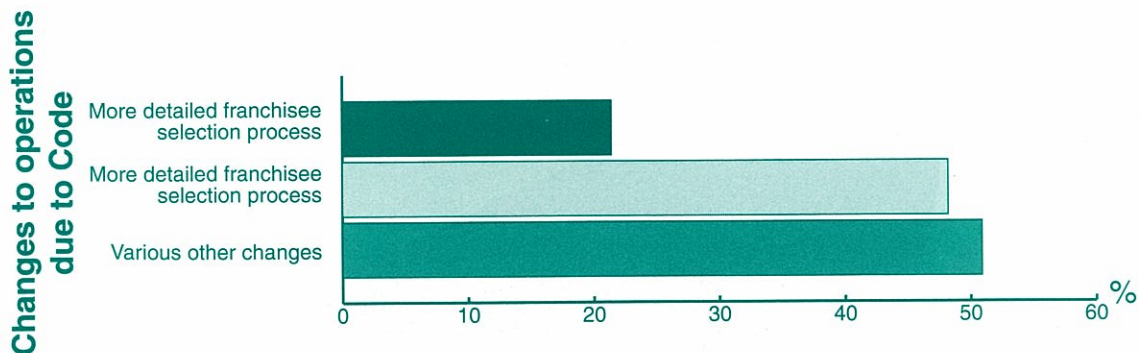
Response	Number of responses	Percent
No	97	61.8
Yes	60	38.2
<b>Total</b>	<b>157</b>	<b>100.0</b>

*Note:* A total of 161 franchisors provided a response from an expected 165. However, four of these were excluded from the analysis as they began franchising in 1999 after the introduction of the Code.

Response (Changes to operations due to Code)	Number of responses	Percent
More detailed record keeping/systems	27	48.2
More detailed franchisee selection process	12	21.4
Various other changes	29	50.9

*Notes:* 1) A total of 56 franchisors provided a response from an expected 60.  
2) Multiple responses were recorded for some respondents.

**Changes to franchise operations due to the Code**



## Perceptions of Government's role in the Code

Whilst two-thirds of respondents (68 percent) felt that the Australian Competition and Consumer Commission (ACCC) had at least a fair understanding of franchising, very few respondents (14 percent) rated the ACCC as having a good appreciation of the particular needs of the sector.

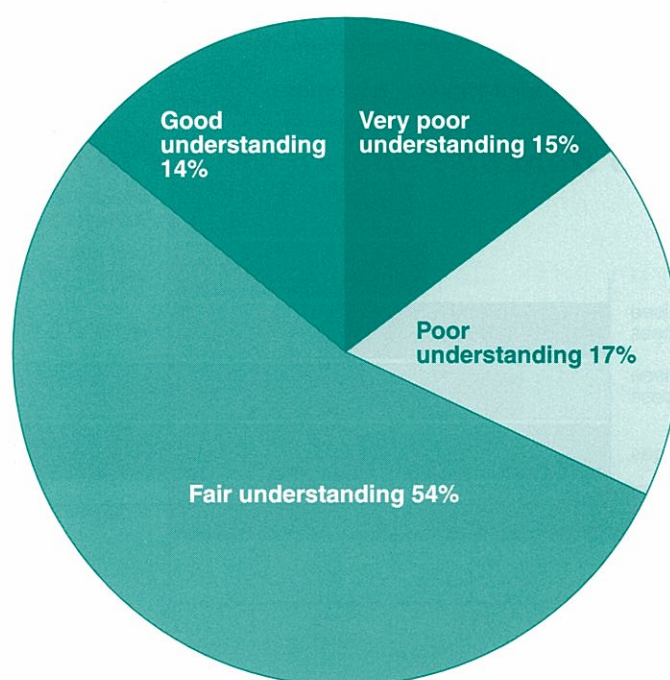
Lower confidence was apparent concerning the perceived effectiveness of ACCC efforts to inform the franchising sector about the Code. The majority of respondents (58 percent) felt that the ACCC's publicity efforts were of limited or very limited effectiveness.

**Question D10** *In view of its role to administer the Code, to what extent do you consider the Australian Competition and Consumer Commission (ACCC) understands franchising and its needs?*

Response (ACCC understanding of franchising)	Number of responses	Percent
Very poor understanding	23	14.7
Poor understanding	27	17.3
Fair understanding	84	53.8
Good understanding	22	14.1
Very good understanding	0	0
<b>Total</b>	<b>156</b>	<b>100.0</b>

Note: A total of 156 franchisors provided a response from an expected 165.

### ACCC understanding of franchising

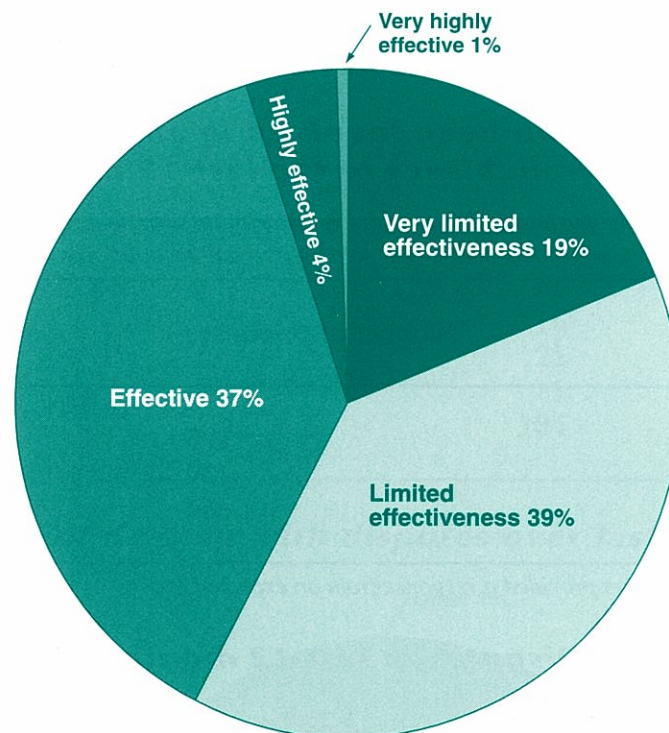


**Question D11** *How effective are ACCC efforts to inform the franchising sector about the Code?*

Response (Effectiveness of ACCC communication about Code)	Number of responses	Percent
Very limited effectiveness	30	18.8
Limited effectiveness	62	38.8
Effective	60	37.5
Highly effective	7	4.4
Very highly effective	1	0.6
<b>Total</b>	<b>160</b>	<b>100.0</b>

Note: A total of 160 franchisors provided a response from an expected 165.

**Effectiveness of ACCC communication about Code**



# Disputes

Over the 12 month period prior to the survey 24 percent of franchisors reported they were involved in a substantial dispute with a franchisee. This figure was higher than the 17 percent reported in the 1998 survey. Of those experiencing disputes, most were with only one or two franchisees. The incidence of disputes did not vary significantly across different industries, age or size of firms, or according to start-up capital requirements.

The actions in these cases were initiated slightly more often by franchisors than by franchisees. Most resulted in or were at the stage of correspondence with a solicitor (60 percent). More disputes were resolved via litigation (24 percent) than mediation (15 percent) despite the Code's requirements to mediate disputes. As disputes of a substantial nature are often drawn out over several months it is possible that the effects of the Code have not been captured at this early stage. The total of 104 franchisees currently in dispute with their franchisors is equivalent to 1.0 percent of the franchised units of respondents.

The most common causes of disputes were related to fees (22 percent), adherence to the franchise system (20 percent), misrepresentations (20 percent), and profitability of the franchisee's unit (12 percent). In brief, most disputes were due to either financial or compliance issues.

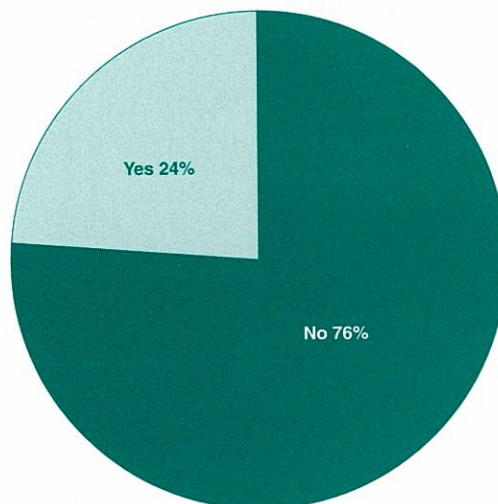
**Question D12** *Have you been involved in any substantial disputes with franchisees in the last 12 months?*

*(For the purposes of this survey, a 'substantial dispute' is an ongoing dispute of a serious nature which has not been settled by internal negotiation within 3 months.)*

Response	Number of responses	Percent
No	125	76.2
Yes	39	23.8
<b>Total</b>	<b>164</b>	<b>100.0</b>

Note: A total of 164 franchisors provided a response from an expected 165.

**Disputes in last 12 months**



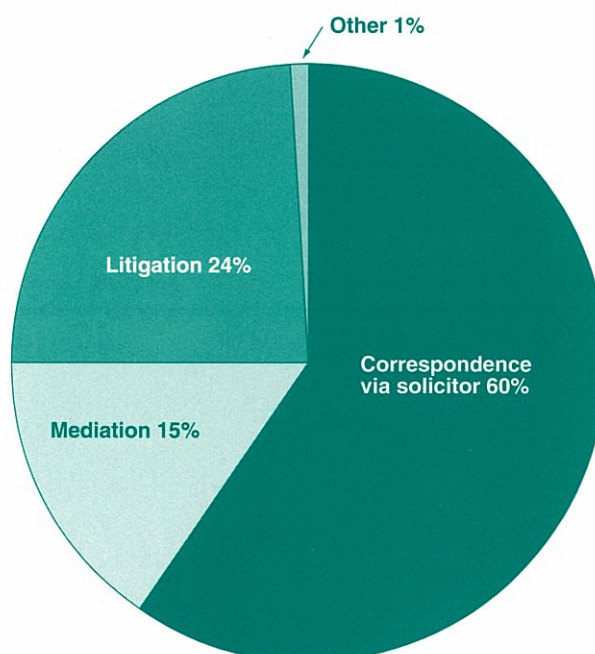
**Please indicate the numbers of franchisees in substantial disputes**

Response (Action)	Instigated by franchisor			Instigated by franchisee		
	Number of franchisors	Number of franchisees	Percentage of franchisees	Number of franchisors	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	18	41	73.2	15	21	43.8
Mediation	4	5	8.9	8	11	22.9
Litigation	9	10	17.9	10	15	31.3
Other	0	0	0.0	1	1	2.1
<b>Total</b>		<b>56</b>	<b>100.0</b>		<b>48</b>	<b>100.0</b>

Notes: 1) The expected total of 39 respondents answered the question.  
2) Multiple responses were recorded for some respondents.

Response (Action)	Total disputes	
	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	62	59.6
Mediation	16	15.4
Litigation	25	24.0
Other	1	1.0
<b>Total</b>	<b>104</b>	<b>100.0</b>

**Methods of dealing with disputes over last 12 months**

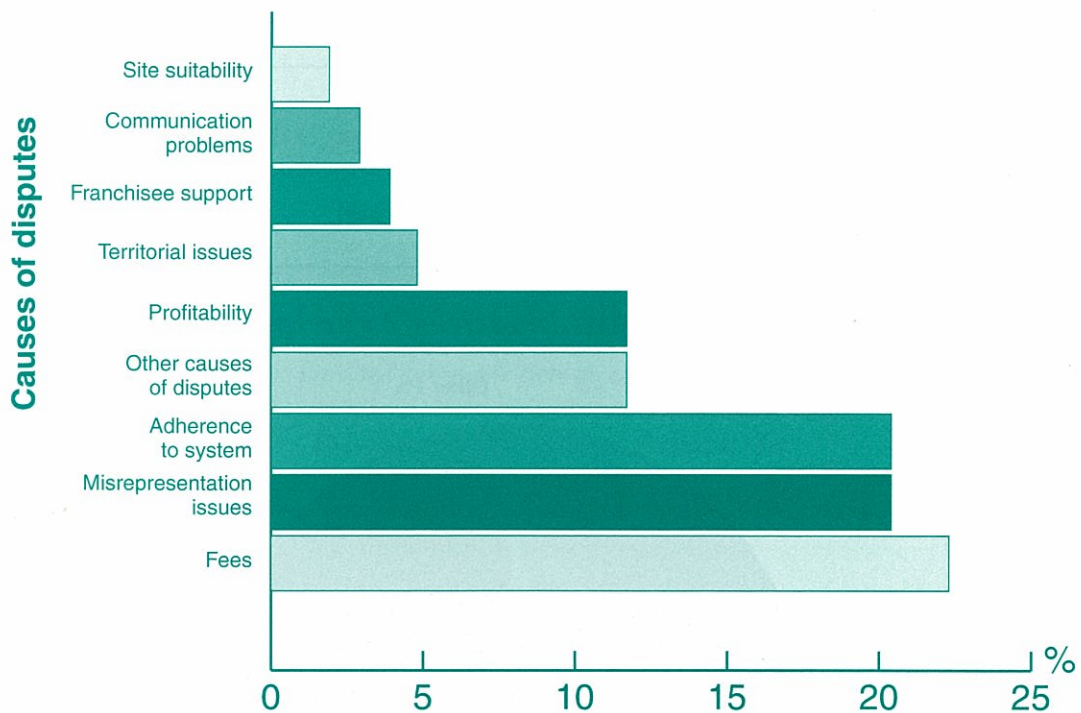


**Question D13 What do you consider were the main causes of each substantial dispute?**

Response (Causes of disputes)	Number of disputes	Percent
Fees	23	22.3
Adherence to system	21	20.4
Misrepresentation issues	21	20.4
Profitability	12	11.7
Territorial issues	5	4.8
Franchisee support	4	3.9
Communication problems	3	2.9
Site suitability	2	1.9
Marketing issues	0	0.0
Other causes of disputes	12	11.7
<b>Total</b>	<b>103</b>	<b>100.0</b>

- Notes: 1) A total of 38 franchisors provided a response from an expected 39.  
 2) Multiple responses were recorded for some respondents.

**Causes of disputes**



# E Franchise Profile

## Industry

Franchisors involved in retail trade formed the largest industry group of *respondents* (42 percent). This was followed by property and business services (28 percent), construction and trade services (7 percent), and personal and other services (7 percent). The industry groups of the *population* of franchisors were obtained for comparative purposes. The franchisors who responded to the survey fall into roughly similar groups as that of the population, with the exception of the property and business services industry which had a greater representation in the sample of respondents.

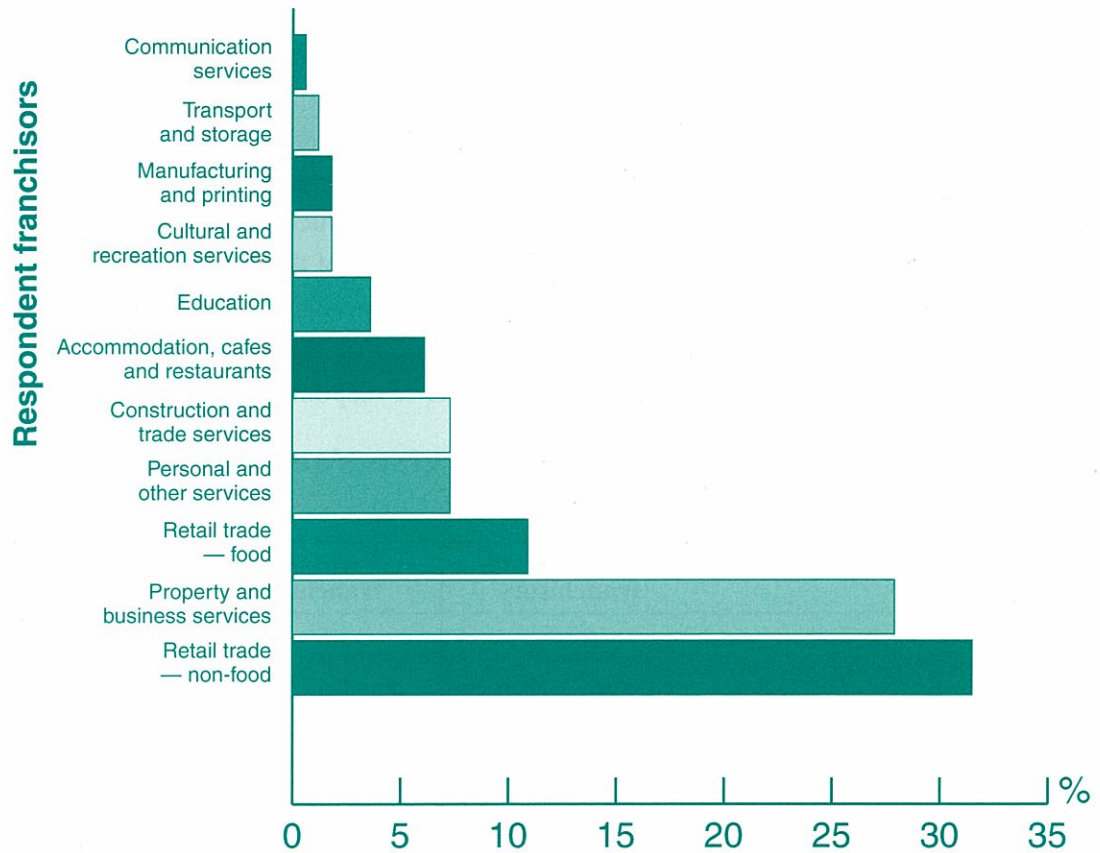
### Question E2 *In what product or service does this franchise system predominantly deal?*

Response (Industry)	Population of franchisors		Respondent franchisors		Total number of respondents' units per industry	
	Number	Percent	Number of responses	Percent	Number of units	Percent
Manufacturing and printing	20	2.8	3	1.8	134	1.1
Construction and trade services	44	6.2	12	7.3	246	2.0
Wholesaling	1	0.1	0	0.0	0	0.0
Retail trade – food	102	14.4	18	10.9	1 560	12.8
Retail trade – non-food	224	31.6	52	31.5	2 886	23.6
Accommodation, cafes and restaurants	29	4.1	10	6.1	1 125	9.2
Transport and storage	5	0.7	2	1.2	33	0.3
Property and business services	144	20.3	46	27.9	4 227	34.5
Education	25	3.5	6	3.6	104	0.8
Cultural and recreation services	25	3.5	3	1.8	10	0.1
Personal and other services	49	6.9	12	7.3	1 897	15.5
Communication services	4	0.6	1	0.6	18	0.1
Finance and insurance	13	1.8	0	0.0	0	0.0
Unclassified	23	3.3	0	0.0	0	0.0
<b>Total</b>	<b>708</b>	<b>100.0</b>	<b>165</b>	<b>100.0</b>	<b>12 240</b>	<b>100.0</b>

Notes: 1) All 165 respondents answered the question.

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



## Mobile operations

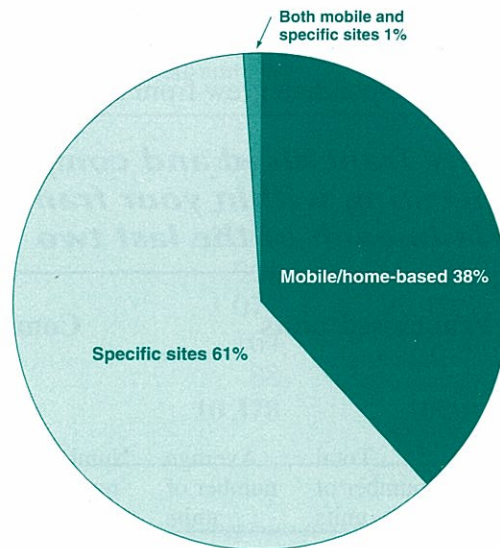
Fully 61 percent of franchisees operate from specific sites with the remainder as mobile or home-based operations. The majority of mobile and home-based franchises were involved in the construction and trade services and property and business services industries. The start-up capital requirements for mobile and home-based businesses were an average of \$35 000, significantly lower than those requiring specific sites at an average of \$150 000.

### **Question E3**      *Do you require franchisees to operate from specific sites?*

Response (Sites)	Number of responses	Percent
Mobile/home-based	63	38.2
Specific sites	100	60.6
Both mobile and specific sites	2	1.2
<b>Total</b>	<b>165</b>	<b>100.0</b>

*Note:* All 165 respondents answered the question.

## Mobile / specific site operations



## Age of systems

Franchisors had been operating their businesses for an average of 11 years and franchising for 8 years. They averaged two years operating their businesses before beginning franchising. However, 27 percent began franchising within the first year of operation. Around one-third each of these firms starting early were from the retail (non-food) and property and business services sectors. In contrast, 11 percent of firms had more than 20 years' experience before commencing franchising.

**Question E4** *In which year did this business commence operations?*

**Question E5** *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	15	9.4	0	0.0
1960 – 1969	7	4.4	2	1.3
1970 – 1979	19	11.9	14	8.8
1980 – 1989	50	31.4	39	24.5
1990 – 1999	68	42.8	104	65.4
<b>Total</b>	<b>159</b>	<b>100.0</b>	<b>159</b>	<b>100.0</b>

Notes: 1) A total of 159 franchisors provided a response from an expected 165.

2) The average number of years was: operating 11 years and franchising 8 years.

3) Businesses had been operating for a range of 1 to 139 years and franchising for a range of 1 to 36 years.

## Growth of franchise systems

The growth of company and franchised units for respondents over the past two years was steady. The average number of franchised units per respondent grew from 20 in 1998 to 22 this year.

**Question E6** *How many franchised and company-owned units were operating within your franchise system in Australia in each of the last two years?*

Response (Financial 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
30 June 1999 (est.)	163	11 060	22	163	1 180	1
30 June 1998	155	9 604	20	157	1 078	1

Notes: 1) The number of franchised units ranged from 0 (temporarily) to 1500 in 1999.

2) The number of company-owned units ranged from 0 to 280 in 1999.

## Geographical distribution

Based on the responses to this survey almost one-third of franchised and company units are based in New South Wales and ACT. One-quarter of units are situated each in Victoria and Queensland with much smaller proportions in other states. When compared with population figures in each state, Queensland and New South Wales/ACT demonstrate a greater proportion of franchising activity. Similarly, more than 80 percent of franchisors are based in Queensland, Victoria or New South Wales/ACT.

**Question E7** *How many franchised and company-owned units do you currently operate in Australia?*

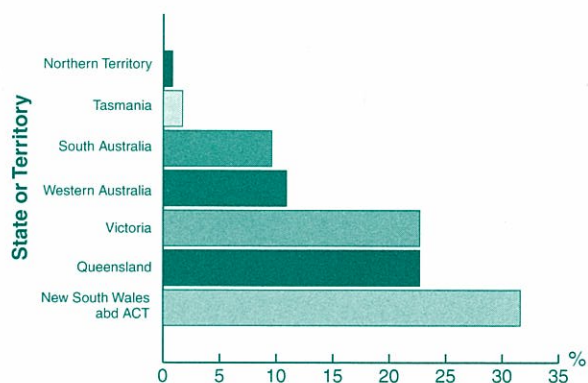
Response (State)	Franchised units		Company-owned units	
	Total number	Percent	Total number	Percent
New South Wales and ACT	2 904	31.6	433	36.4
Victoria	2 088	22.7	303	25.4
Queensland	2 088	22.7	278	23.4
South Australia	879	9.6	82	6.9
Western Australia	999	10.9	72	6.1
Tasmania	152	1.7	12	1.0
Northern Territory	78	0.8	10	0.8
<b>Total</b>	<b>9 188</b>	<b>100.0</b>	<b>1 190</b>	<b>100.0</b>

State	Total units		Franchisors	
	Total number	Percent	Total number	Percent
New South Wales and ACT	3 337	32.2	41	26.5
Victoria	2 391	23.0	42	27.1
Queensland	2 366	22.8	43	27.7
South Australia	961	9.3	12	7.7
Western Australia	1 071	10.3	17	11.0
Tasmania	164	1.6	0	0.0
Northern Territory	88	0.8	0	0.0
<b>Total</b>	<b>10 378</b>	<b>100.0</b>	<b>155</b>	<b>100.0</b>

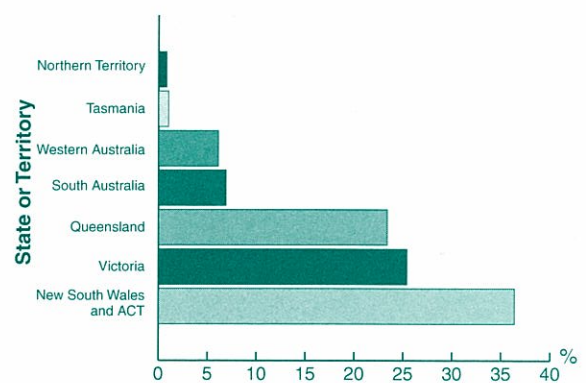
- Notes:
- 1) A total of 159 franchisors provided a response to the number of franchised units from an expected 165.
  - 2) A total of 163 franchisors provided a response to the number of company-owned units from an expected 165.
  - 3) Data specifying state of franchisor was provided by 155 out of a possible 165 respondents.

### Geographical distribution

#### Franchised units



#### Company-owned units



## Employment

The trend in Australian business to rely on casual and part-time staff was evident in the franchising sector. Both franchised and company units employed a greater proportion of casual or part-time staff than full-time staff. In franchisor head office administration however, 91 percent of staff were employed full-time. Eighty percent of franchisors employed fewer than 20 staff in their head offices.

**Question E8**      ***What are the total numbers of employees of all units and head office administration in Australia?***

Response (Employee status)	Franchised units		Company-owned units		Franchisor head office administration	
	Number of employees	Percent	Number of employees	Percent	Number of employees	Percent
Permanent full-time	28 558	37.4	4 648	17.5	2 490	91.1
Permanent part-time	4 928	6.5	2 913	10.9	142	5.2
Casual	42 838	56.1	19 052	71.6	102	3.7
<b>Total</b>	<b>76 324</b>	<b>100.0</b>	<b>26 613</b>	<b>100.0</b>	<b>2 734</b>	<b>100.0</b>

- Notes:
- 1) A total of 134 franchisors provided a response to the number of employees in franchised units from an expected 163.
  - 2) A total of 96 franchisors provided a response to the number of employees in company-owned units from an expected 118.
  - 3) A total of 138 franchisors provided a response to the number of employees in franchisor head office administration from an expected 165.

# Franchising Australia 1999

Designed by DEC, ILS, USQ 99-472