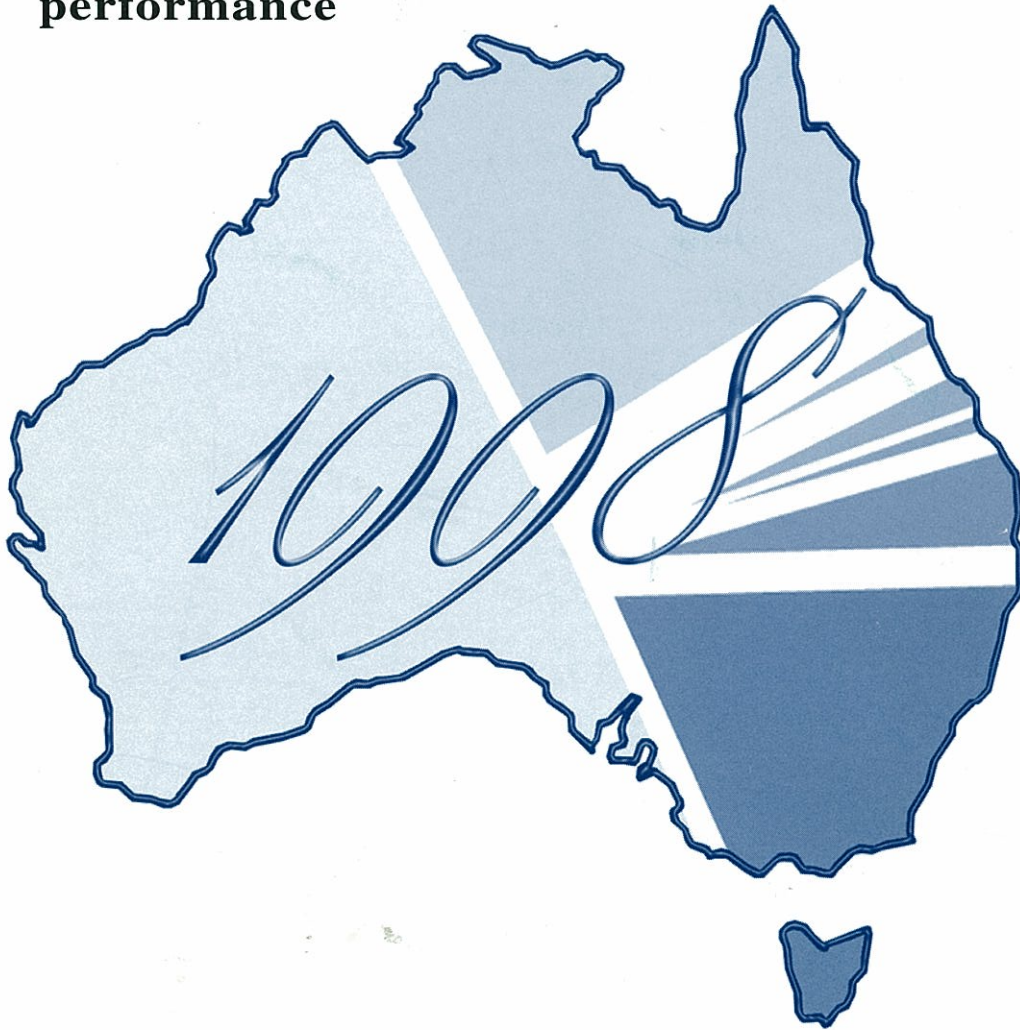


FRANCHISING AUSTRALIA 1998

A survey of franchising
practices and
performance



Prepared by:
Colin McCosker and Lorelle Frazer
University of Southern Queensland



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August 1998

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University of Southern Queensland
and Franchise Council of Australia Ltd.

ISBN 0-646-36050-7

Published by:
University of Southern Queensland
Faculty of Business
Toowoomba Qld 4350

and

Franchise Council of Australia Ltd.
GPO Box 1498N
Melbourne Vic 3001

FOREWORD

The Franchise Council of Australia, the peak franchising body, welcomes and endorses the *Franchising Australia 1998* report. We have known and admired the work of Colin McCosker and Lorelle Frazer for over a decade. They are the premier researchers in franchising in Australia and enjoy enviably high international reputations.

Colin McCosker served as a member of the Federal Government's Franchising Task Force and Lorelle Frazer is the first person in Australia to be awarded a PhD in franchising research. They have produced many landmark pieces of research on Australian franchising and continue their focussed and specialist teaching and research work on franchising at the University of Southern Queensland. Colin and Lorelle's work is internationally recognised as authoritative, valuable and independent.

The Franchise Council of Australia is delighted that the *Franchising Australia 1998* survey confirms the continuing dynamic growth of the franchising sector and the substantial and rapidly increasing role it plays in -

- job creation – 400 000 new jobs over four years making a current total of 678 000 employed in franchising
- new business formation - up 83 percent over four years to 44 800 franchised outlets
- total turnover growth - up 90 percent over four years to \$81.4 billion or 17 percent compound growth per annum
- export generation - 20 percent of franchise systems now operating overseas, set to double in the next three years, over \$55 million currently earned from overseas franchisees
- franchisee satisfaction - only 0.7 percent of franchisees in serious dispute with their franchisor.

Overall this is a very satisfactory picture of growth and stability depicting the increasing and already major importance of franchising to the Australian economy, particularly in times of high unemployment and downsizing by big business.

The Franchise Council of Australia promotes and enhances best practice in Australian franchising. The continuing high growth rate underlines how important this is for Australian employment, business and the public.

David Acheson

Deputy Chairman
Franchise Council of Australia

EXECUTIVE SUMMARY

The results of the *Franchising Australia 1998* survey reveal great diversity in the characteristics of firms which make up the franchising sector. Comparisons of characteristics of franchisors and franchisees, level of investment, number of employees, size of systems, and most other aspects reflect the fact that franchise systems operate in many industries and varied locations, and adapt to the needs of the market.

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. Where possible, additional data are included for the motor vehicle and automotive fuel retail industries for 1997 supplied by the Motor Trades Association of Australia, the Australian Institute of Petroleum and the Australian Bureau of Statistics, for comparative purposes.

Total number of franchisors in Australia

After surveying all firms believed to be franchising and confirming the status of each individually, the research identified a total of 693 business format franchisors in Australia. In addition, 33 motor vehicle retail franchisors and 4 major automotive fuel retailers were identified, making a combined total of 730 franchisors.

Total number of outlets in franchise systems in Australia

It is estimated there are 38 500 franchised outlets operating together with 5 300 company owned outlets in business format franchises. As well as these, 3 400 motor vehicle and 2 900 automotive fuel retail franchised outlets were estimated to be operating at the end of 1997.

Growth of franchise systems in Australia

This survey identified a total of 44 800 franchised outlets. By comparison, the ABS reported a total of 24 500 franchised outlets in 1994, which included motor vehicle and automotive fuel franchises. Using the ABS figures as a base, the growth rate from 1994 to 1998 averaged 16.3 percent per annum compounded, representing a total growth of 83 percent. The annual growth rate for franchised outlets continues to increase, considering the 14 percent per annum growth reported from 1991 to 1994 (ABS) and 15.5 percent from 1989 to 1991 (DITAC), indicating a decade of strong performance.

Total turnover of the Australian franchising sector 1997-1998

The total turnover of business format franchised outlets was \$22.4 billion and \$14.1 billion for company outlets bringing the combined total to \$36.5 billion. Again, motor vehicle and automotive fuel retailers were not included in these figures. Motor vehicle retail sales for 1997 were reported as \$32.8 billion and together with \$12.1 billion estimated automotive fuel retail sales for 1996/97, the total turnover of the franchising sector is approximately \$81.4 billion.

Employment in the Australian franchising sector

The total number of persons employed in business format franchise systems was 583 000 of which 369 000 were in franchised outlets. Altogether there were 167 000 permanent full-time employees, 34 000 permanent part-time and 382 000 casual employees. In addition, the total number of employees in 1997 in motor vehicle retail franchises was 45 600 and automotive fuel retail outlets employed 49 900. A straight comparison with the 1994 ABS total of 279 000 employees is not valid since the major growth in employment has been in the use of casual employees. Clearly, franchising is responsible for a strongly increasing proportion of private enterprise employment.

Age of the franchise systems in Australia

Of the firms responding, 16 percent had been operating prior to 1970 although only 2 percent were franchising at that time. By the end of the 1970s, 28 percent had commenced operating with 11 percent franchising. The proportions had risen to 62 percent and 34 percent respectively by 1989. 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 7 years, whereas the average number of years operating is 11.5 years.

Gender and age distribution in franchise ownership

Most franchised outlets are operated by couples (56 percent), with male sole ownership representing 25 percent and female sole ownership at 9 percent. When these are considered together, the gender distribution is more balanced between males and females, reflecting a high participation by both as franchisees.

A very high proportion (79 percent) of franchisees is in the 31-50 years age group.

Disputes and outlet closures in franchising

Currently 17 percent of franchisors are involved in a substantial dispute with a franchisee and a total of 30 percent reported a similar situation during the last three years. In most cases the disputes are with no more than two franchisees. The franchisees involved represent 0.7 percent of all franchisees.

Also during the previous three years, 17 percent of franchised outlets have changed their ownership status. Of these, 67 percent had been sold by franchisees and 24 percent had been terminated by either the franchisee or franchisor. Approximately 5 percent of total franchised outlets reported at the beginning of the three year period are no longer operating. 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.

Geographical distribution of franchise systems

Franchising continues to expand through all regions of Australia. New South Wales and Australian Capital Territory (36 percent) have the greatest concentration of outlets, similar to the population distribution. However, Queensland (24 percent) and Western Australia (12 percent) continue to exhibit a greater acceptance of franchise systems in that they host noticeably larger proportions than their populations.

International expansion by Australian franchisors

The trend towards international expansion was evident with 20 percent of franchisors operating overseas and a further 21 percent planning to do so within the next three years. New Zealand remains the most popular destination with 77 percent of their overseas outlets. South East Asia, South Africa and United Kingdom/Europe were next in popularity, both currently and in future plans. However, individual franchises are scattered throughout many other countries.

Conclusion

Summarised details of responses for all survey questions are included for perusal. Overall, they confirm that the franchising sector continues to actively expand throughout Australia and internationally with increasing numbers of outlets, turnover, employees and export income. Although the responses make it clear that there are franchise systems with considerable scope for improvement and problems exist in the relationship between some franchisors and some of their franchisees, the majority of the sector is contributing substantially and beneficially to the strength of the Australian economy.

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BACKGROUND

Franchising Australia 1998 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. 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. Hopefully it will enable later surveys to measure the changes resulting from the introduction of the Code.

This is the fourth comprehensive survey of franchising in Australia and has been carried out by Colin McCosker and Lorelle Frazer of the University of Southern Queensland, sponsored by the Franchise Council of Australia. The Australian Government was responsible for earlier efforts, the first being by the Bureau of Industry Economics in 1988. The next was in 1991 by the Department of Industry Technology and Commerce (DITAC) to provide information for the Franchising Task Force. The most recent, in 1994, was conducted by the Australian Bureau of Statistics (ABS) for the Department of Industry Science and Technology. These surveys trace the steadily increasing growth of franchising and the current survey confirms that franchising continues to be an important part of the national economy.

Franchising is contributing to the growth of successful small businesses, employment and export income. These factors, together with 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 through providing a better understanding of the evolving practices of franchising in Australia today.

INTRODUCTION

The Franchising Australia 1998 survey was conducted over May and June 1998. 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 gauge its size. Data sought related to:

- a composite description of the franchising sector - its age, size and geographical expansion;
- the relationship of franchisors with their franchisees - appointment, training, support, disputes and separations; and
- financial aspects of the franchise arrangement - fees, inventory, turnover and profitability.

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 programmes to encourage efficient and ethical practices.

CONDUCT OF THE SURVEY

The Franchisors

The list of the 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 periodically for other surveys, more recently as a cooperative effort with 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 membership and personal observations.

Addresses were checked where necessary by reference to the Telstra White Pages website since it is updated daily. Earlier survey experience had shown that some firms reported by the media to be franchising had not started on this route, nor had ever intended to, so at least some incorrect inclusions were expected. As this has been an ongoing collation of franchisors over many years, it would appear that few franchisors of size sufficient to materially affect results are likely to have been overlooked.

The Questionnaire

The survey was conducted by means of a mailed questionnaire. A total of 41 questions were 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 Franchise Operations, Financial Arrangements, Franchisees and Franchise Profile. Questions were chosen and designed with reference to the government surveys of 1988, 1991 and 1994 together with other research by the authors.

The first draft of the questionnaire was pilot tested with 11 franchisors (10 responded), 1 franchisee, 3 franchising consultants and 2 franchising academics. As a result of responses, some minor modifications were made to wording and one question replaced with another deemed more relevant. The franchisors were contacted to obtain answers to the new question and their responses were included for analysis.

The survey 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. After two weeks a follow-up letter was sent to non-respondents, including a request to advise if they were not franchising so that they could be removed from the mailing list. After a further two weeks, reminder telephone calls were made to all who had not yet responded, with the Telstra White Pages website being used to locate changed numbers or to ascertain that the firm was no longer operating. Where the appropriate contact person was not available, a message was left but no further calls were made.

Survey responses

In total, 946 surveys were mailed to firms believed to be involved in business format franchising. After responses and follow-ups were completed, it was inferred that 693 of the firms were currently franchising.

The 253 firms deleted were:

Not a franchise	63
Not yet franchising	12
No longer franchising	41
Merged with another franchise	2
Confirmed as no longer operating	8
Unable to locate and presumed no longer operating/franchising	<u>127</u>
	<u>253</u>

It appeared that at least some of the 63 firms claiming not to be franchisors were in fact franchising, but choose not to be designated as such.

In total, 192 responses were received but of these, two were rejected as unusable and four as too late for inclusion. As a result, 186 responses were analysed, giving a response rate of 27 percent. Government endorsement of the survey was to be sought and may have improved the response rate. However, the time from confirmation of survey sponsorship and subsequent questionnaire design to the mailing date necessary to allow follow-up, analysis, report writing and printing by the required date of 31 August 1998 did not allow this. Nevertheless, analysis of the 186 responses provides valuable indications of the size, growth and features of franchising in Australia, which should be helpful to those participating and 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. Tests were carried out for non-response bias. These confirmed that there were no significant differences between respondents and non-respondents to the survey. As a result, the response rate for each relevant question in the survey has been used to infer the overall results. Since no franchisors in the fuel and automotive manufacturing industries were included 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 1998

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

Hence, the data 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 variations in responses, the *median* figure (i.e. the middle figure in a graded list of responses to a question) has been reported as the “average” unless otherwise stated.

A Franchise Operations

Length of franchise agreement

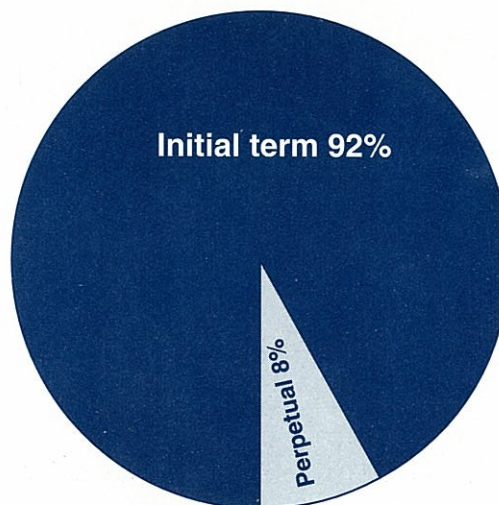
The majority of franchisors use a fixed-term franchise agreement. Fully 92 percent of respondents specify a fixed period of time for their franchise agreements, with the remaining 8 percent choosing a perpetual arrangement. The average length of time granted in initial agreements is 5 years, with 55 percent of franchisors choosing a term of this length. The other most common term is 10 years as adopted by 27 percent of respondents. Nearly all (90 percent) choose a renewal term of similar duration.

Question A1 *What is the term of your current franchise agreement?*

Response (Agreement term)	Number of responses	Percent	Average length of agreement
Initial term	171	91.9	5 years
Perpetual	15	8.1	N/A
Renewal term/s	167	89.8	5 years

Notes: 1) All 186 respondents answered the question.

Form of franchise agreement



Recruitment of franchisees

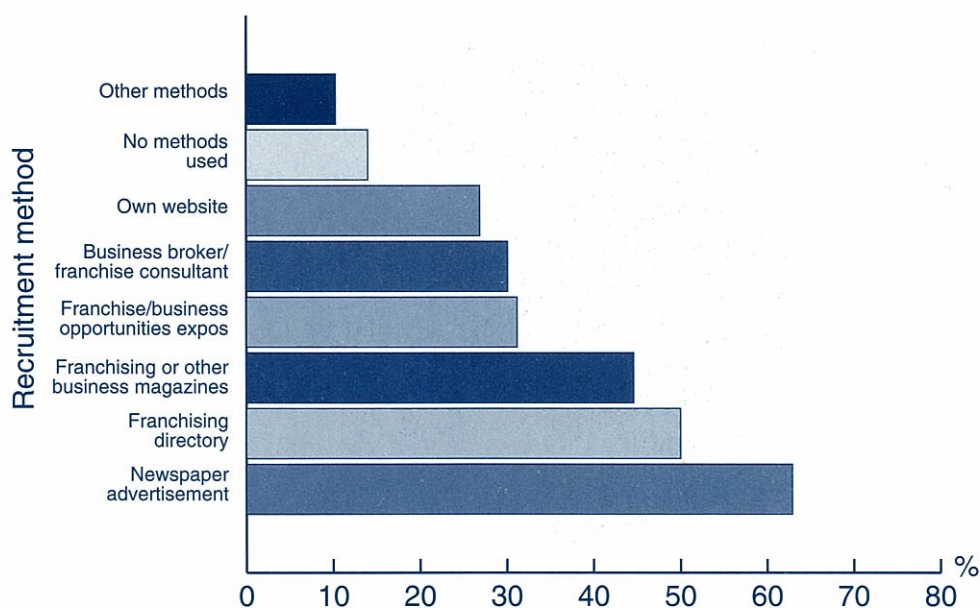
A wide variety of methods is being used to attract new franchisees but clearly the printed media, that is newspaper advertisements (63 percent), franchise directories (50 percent) and magazines (45 percent) are the most popular. Nearly one-third use assistance offered by expos and brokers or consultants but anecdotal evidence of the growing use of the Internet is evident in that over one-quarter have already set up a website. It was noted that franchisors who had commenced franchising in the last five years tended to use a greater number of recruitment methods.

Question A2 *What method/s have you used in the last 12 months to attract new franchisees?*

Response (Recruitment method)	Number of responses	Percent
No methods used	26	14.0
Franchise/business opportunities expos	58	31.2
Franchising or other business magazines	83	44.6
Franchising directory	93	50.0
Newspaper advertisement	117	62.9
Own website	50	26.9
Business broker/franchise consultant	56	30.1
Other methods	19	10.3

- Notes: 1) All 186 respondents answered the question.
2) Multiple responses were recorded from some respondents.

Franchisee recruitment methods



Franchisee screening

Nearly all franchisors require face-to-face interviews in processing potential franchisees and 63 percent include a minimum investment as one of their criteria. The difficulty in creating a profile for an "ideal" franchisee may be evident in that only 41 percent reported having such a guide. A quarter use a trial work period as a guide to suitability, but only about one in six call on outside professionals to screen applications or conduct psychological testing.

On average, franchisors use a combination of two methods together with interviews in their attempts to choose suitable franchisees. The average time spent on interviewing each applicant is 5 hours, with 46 percent reporting 5 hours or less and 89 percent up to 10 hours.

Where a minimum investment by the franchisee is stipulated, almost half (41 percent) require more than the 50 percent average contribution and a quarter require no more than 30 percent of the total investment. There was no overall correlation between the minimum investment expected and the size of the total investment.

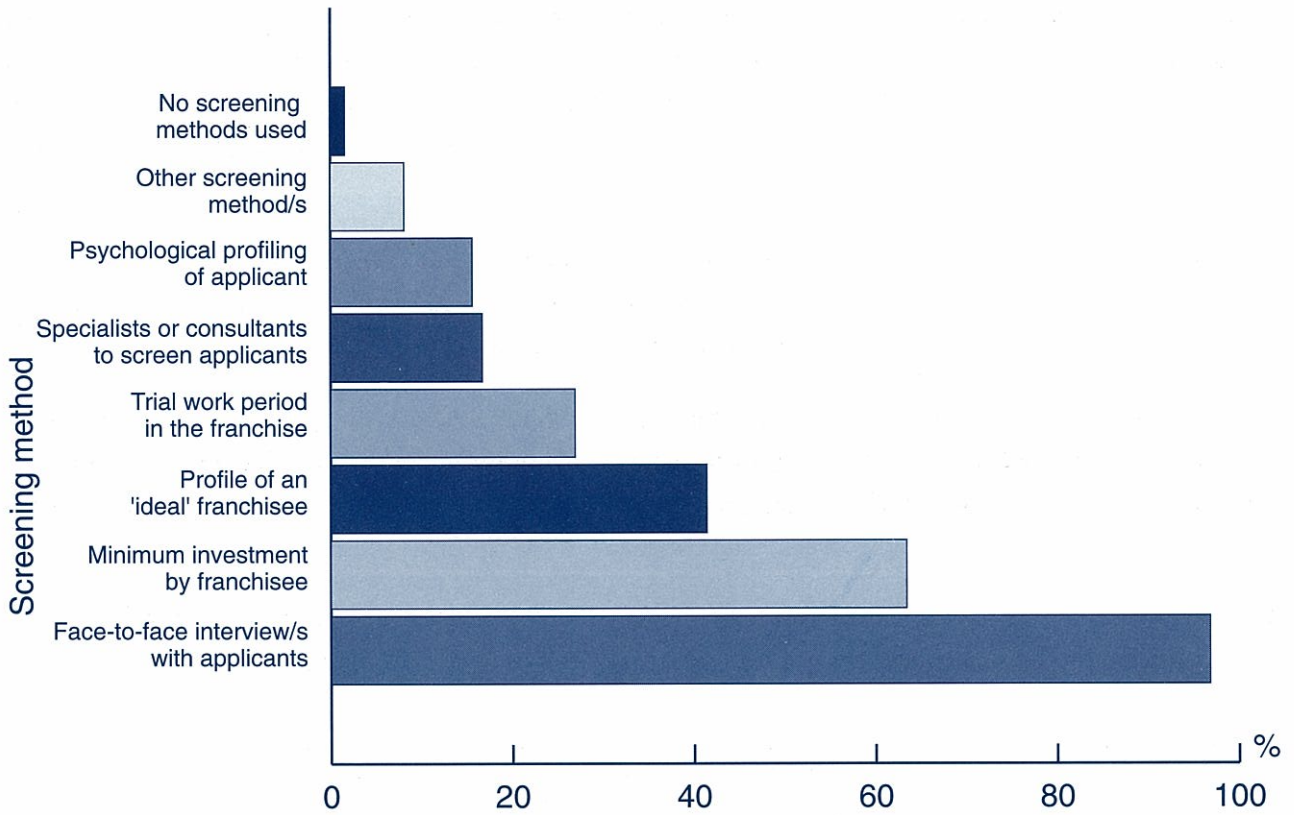
Question A3 ***What method/s do you use to screen potential franchisees before approving their applications?***

Response (Screening method)	Number of responses	Percent
No screening methods used	3	1.6
Profile of an 'ideal' franchisee	77	41.4
Psychological profiling of applicant	29	15.6
Specialists or consultants to screen applicants	31	16.7
Trial work period in the franchise	50	26.9
Face-to-face interview/s with applicants	180	96.8
Minimum investment by franchisee	118	63.4
Other screening method/s	15	8.1

Notes: 1) All 186 respondents answered the question.

2) Multiple responses were recorded from some respondents.

Franchisee screening methods



Face-to-face interviews with applicants

What is the average number of hours spent in face-to-face interviewing a potential franchisee?

Average amount of time spent interviewing franchisee applicants face-to-face: 5 hours

- Notes:
- 1) A total of 171 respondents indicated a response from an expected 180.
 - 2) The range of time spent interviewing applicants ranged from 1 hour to 60 hours.

Minimum investment by franchisee

What is the usual percentage of total investment required?

Average percentage of total investment required to be invested by franchisees: 50 percent

- Notes:
- 1) The expected total of 118 respondents answered this question.
 - 2) The percentage of total investment required ranged from 3 percent to 100 percent.

Initial support

Usual initial support included pre-opening training and operations manuals together with site selection and start-up support. A full turnkey operation is provided by 43 percent of franchisors and 34 percent offer assistance with finance through a financial institution. Of those who offer assistance with site selection, the franchisees are involved to some extent in the decision in 82 percent of franchises.

For respondents offering a financial package to franchisees, the National Australia Bank remains the leading provider although all the major banks service a proportion of the market.

While the average period of pre-opening training is 10 working days, the time allocated varies greatly. One-quarter of franchisors train franchisees for up to one week and similar proportions train for between one to two weeks (26 percent) or between two to three weeks (22 percent). One in six have training periods of at least one month, with nine months being the maximum period reported. The operations manuals crucial to training programmes also differ greatly in size, with 21 percent having up to 50 pages and 18 percent having in excess of 300 pages.

The start-up support provided totals up to two weeks by 75 percent of franchisors. The hours of assistance vary considerably between systems but total no more than one week in one-half of the respondents.

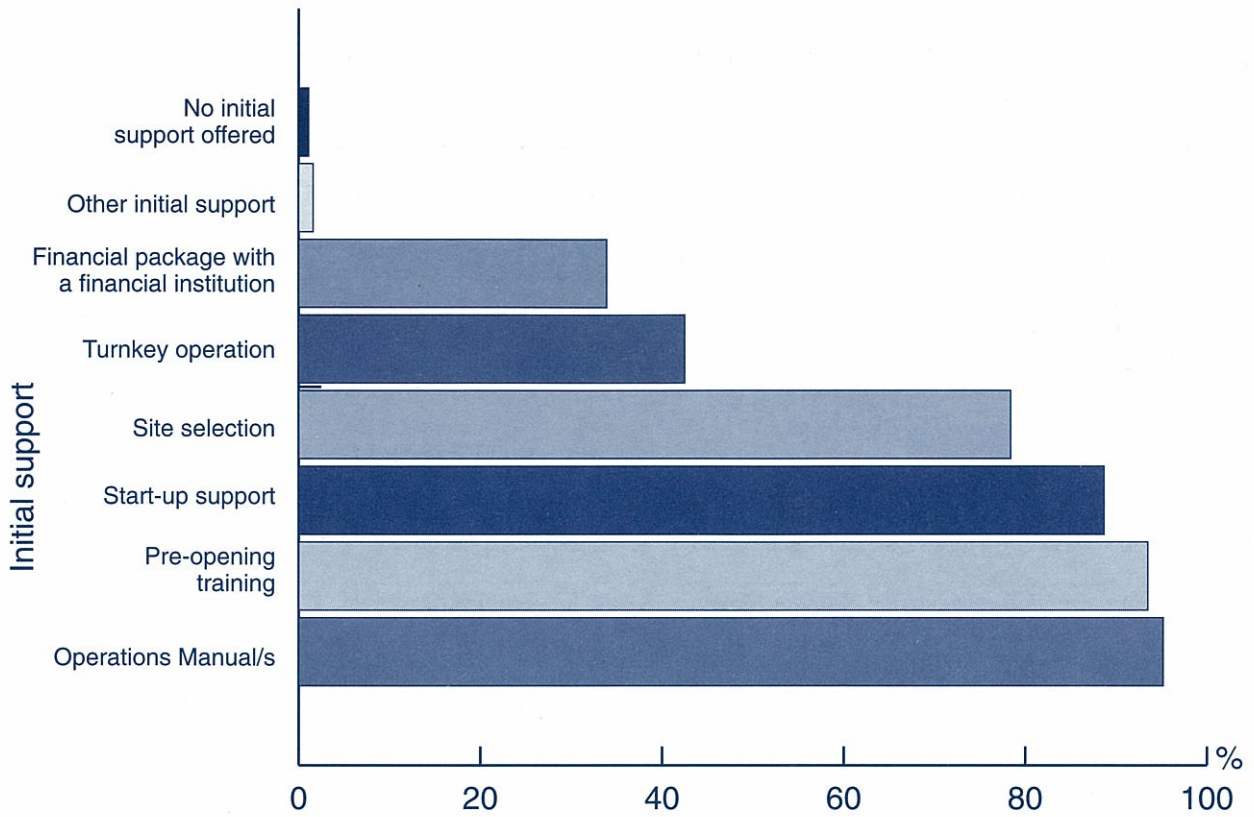
Question A4 ***What type/s of initial support do you provide new franchisees?***

Response (Initial support)	Number of responses	Percent
No initial support offered	2	1.1
Site selection	145	78.4
Financial package with a financial institution	63	33.9
Pre-opening training	174	93.5
Operations Manual/s	177	95.2
Start-up support	165	88.7
Turnkey operation	79	42.5
Other initial support	3	1.6

Notes: 1) All 186 respondents answered the question.

2) Multiple responses were recorded for some respondents.

Types of initial support



Site selection

Site selection	Number of responses	Percent
Franchisor/franchisee joint decision	104	71.7
Franchisor decision	26	17.9
Franchisor site approval only	15	10.4
Total	145	100.0

Notes: 1) The expected total of 145 respondents answered the question.

Financial package with a financial institution

With which institution/s do you have an arrangement?

Response (Financial institution)	Number of responses	Percent
National Australia Bank	26	43.3
Citibank	12	20.0
Commonwealth Bank of Australia	20	33.3
Westpac Banking Corporation	16	26.7
Other banks	11	18.3

Notes: 1) A total of 60 respondents indicated a response from an expected 63.

2) Multiple responses were recorded for some respondents.

Pre-opening training

For how long is the pre-opening training provided?

Response (Pre-opening training)	Number of responses	Percent
0.5-5 working days	42	24.9
6-10 working days	44	26.0
11-15 working days	37	21.9
16-20 working days	19	11.2
21 and over working days	27	16.0
Total	169	100.0

Notes: 1) A total of 169 respondents indicated a response from an expected 174.

2) Pre-opening training varied in length from 0.5 to 200 working days, with an average of 10 working days.

Operations Manual/s

Approximately how many pages are provided in your Operations Manual/s in total?

Response (Length of Operations Manual/s)	Number of responses	Percent
1-50 pages	35	20.7
51-100 pages	44	26.0
101-200 pages	38	22.5
201-300 pages	22	13.0
301 or more pages	30	17.8
Total	169	100.0

- Notes: 1) A total of 169 respondents indicated a response from an expected 177.
2) The length of Operations Manuals ranged from 10 pages to 5000 pages, with an average of 120 pages.

Start-up support

What is the average number of hours spent assisting each new franchisee in his/her own premises?

Response (Amount of start-up support)	Number of responses	Percent
1-20 hours	39	24.7
21-40 hours	40	25.3
41-80 hours	39	24.7
81-120 hours	17	10.8
121 or more hours	23	14.6
Total	158	100.0

- Notes: 1) A total of 158 respondents indicated a response from an expected 165.
2) The amount of start-up support provided ranged from 2 hours to 500 hours, with an average of 42.5 hours.

Ongoing support

In over three-quarters of franchises, ongoing support was provided through field visits and training together with communication through newsletters and a telephone hotline service. Assistance was also offered through provision of an insurance package, a national conference, training for franchisee staff and relevant software in more than one-half of the franchises. The growing use of the Internet for communication was evident in 34 percent of franchises, but the proportion with franchise advisory councils (44 percent) does not appear to be increasing. On average, eight types of ongoing support are supplied by franchisors. Those franchisors with more than 80 outlets tended to provide a greater number of support services.

Master franchisees are appointed in 32 percent of franchises, with 53 percent of these having one to two providing support to franchisees. In 15 percent of systems, there were more than six master franchisees.

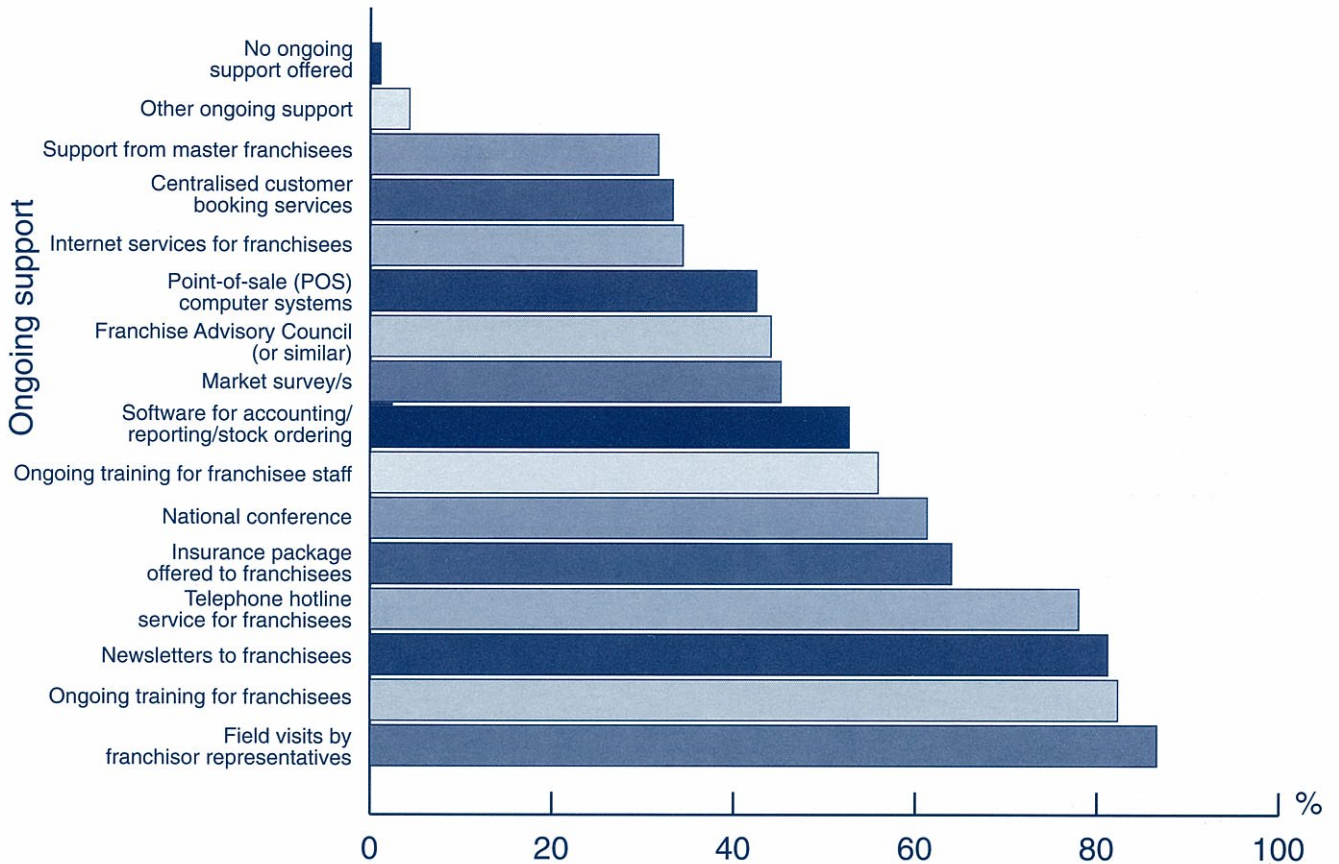
Field visits to franchisees ranged up to 4 hours per month by 46 percent of franchise systems and stretched to up to 8 hours in a further 32 percent. The amount of formal ongoing training totalled up to 5 days per annum by 58 percent of respondents, with a further 25 percent providing up to 10 days and the balance ranging up to 98 days.

Question A5 *What type/s of ongoing support do you provide your franchisees?*

Response (Ongoing support)	Number of responses	Percent
No ongoing support offered	2	1.1
Newsletters to franchisees	151	81.2
National conference	114	61.3
Franchise Advisory Council (or similar)	82	44.1
Market survey/s	84	45.2
Telephone hotline service for franchisees	145	78.0
Centralised customer booking services	62	33.3
Internet services for franchisees	64	34.4
Point-of-sale (POS) computer systems	79	42.5
Software for accounting/reporting/stock ordering	98	52.7
Insurance package offered to franchisees	119	64.0
Support from master franchisees	59	31.7
Field visits by franchisor representatives	161	86.6
Ongoing training for franchisees	153	82.3
Ongoing training for franchisee staff	104	55.9
Other ongoing support	8	4.3

- Notes: 1) All 186 respondents answered the question.
 2) Multiple responses were recorded for some respondents.

Types of ongoing support



Support from master franchisees

How many master franchisees do you have in Australia?

Average number of master franchisees in Australia: 2 master franchisees

Notes: 1) The expected total of 59 respondents answered this question.

2) The number of master franchisees appointed in Australia ranged from 1 to 87.

Field visits

What is the average number of hours spent per month visiting each franchisee?

Response (Length of field visits)	Number of responses	Percent
1-4 hours per franchisee per month	71	46.4
5-8 hours per franchisee per month	49	32.0
9-12 hours per franchisee per month	14	9.2
13-16 hours per franchisee per month	6	3.9
17 or more hours per franchisee per month	13	8.5
Total	153	100.0

- Notes:
- 1) A total of 153 respondents indicated a response from an expected 161.
 - 2) The time spent conducting field visits varied from 1 hour to 40 hours per franchisee per month, with an average of 5 hours per franchisee per month.

Ongoing training for franchisees

How much formal ongoing training would you provide for each franchisee per annum?

Response (Length of ongoing training)	Number of responses	Percent
1-5 days per annum	83	58.0
6-10 days per annum	35	24.5
11 or more days per annum	25	17.5
Total	143	100.0

- Notes:
- 1) A total of 143 respondents indicated a response from an expected 153.
 - 2) The amount of ongoing training provided varied from 1 working day to 98 working days per annum, with an average of 4 working days per annum.

B Financial Arrangements

Franchised outlet start-up costs

The range of levels of start-up costs required is indicative of the variety of firms franchising in Australia. The average total cost is \$105 000 including \$25 000 initial franchise fee and \$5 000 for pre-opening training. In the retail sector, the total cost averages \$177 000 including an initial fee of \$30 000 and \$5 000 for training, whereas in property and business services the total averages \$50 000 including \$18 000 initial fee and \$5 500 for training.

Question B1 *What is the average start-up cost of a new franchised outlet?*

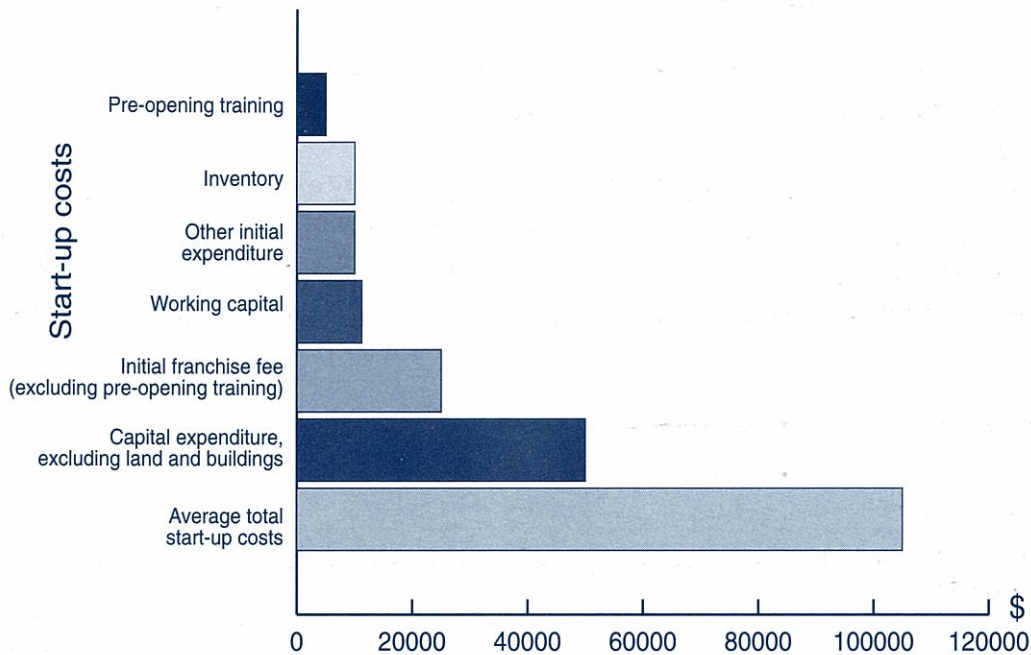
Response (Start-up costs)	Average cost \$	Minimum \$	Maximum \$	Number and percentage of respondents charging this component *
Capital expenditure, excluding land and buildings	50 000	500	1 500 000	142 (81.0%)
Inventory	10 000	500	250 000	120 (69.0%)
Working capital	11 250	150	200 000	134 (77.0%)
Pre-opening training	5 000	500	45 000	100 (57.0%)
Initial franchise fee (excluding pre-opening training)	25 000	500	200 000	154 (87.5%)
Other initial expenditure	10 000	150	70 000	73 (42.0%)
Average total start-up cost of a new franchised outlet	105 000	1 500	1 570 000	173 (99.0%)

Notes: 1) A total of 176 respondents provided a response from an expected 186.

2) The total of individual averages differs from the average total start-up cost due to differing numbers of respondents in each category.

* Numbers less than 176 are due to some respondents allocating a zero cost to the component.

Franchise start-up costs



Ongoing fees

Ongoing franchise services fees are charged by 90 percent of franchisors and 6 percent sell products to franchisees at a price which provides income. The most common method of fees calculation remains a percentage of sales (73 percent), with a flat fee per month or year favoured by 17 percent. Fees based on sales averaged 6 percent, with 77 percent set between 3 percent and 10 percent. Flat fees averaged \$500 per month but there was great variety, from a low of \$83 to a high of \$1625.

A levy allocated to a central marketing fund is used by 76 percent of franchisors, with 76 percent of these using a percentage of sales as the basis and 15 percent a flat fee. Fees based on sales average 2.5 percent and up to 3 percent of sales is required by 73 percent of franchisors with a further 24 percent charging up to 5 percent. Flat fees averaged \$155 per month, and while varying greatly, 89 percent charge up to \$500.

Question B2 *Do you charge royalties / franchise services fees throughout the term of the franchise agreement?*

Response	Number of responses	Percent
No	18	9.9
Yes	164	90.1
Total	182	100.0

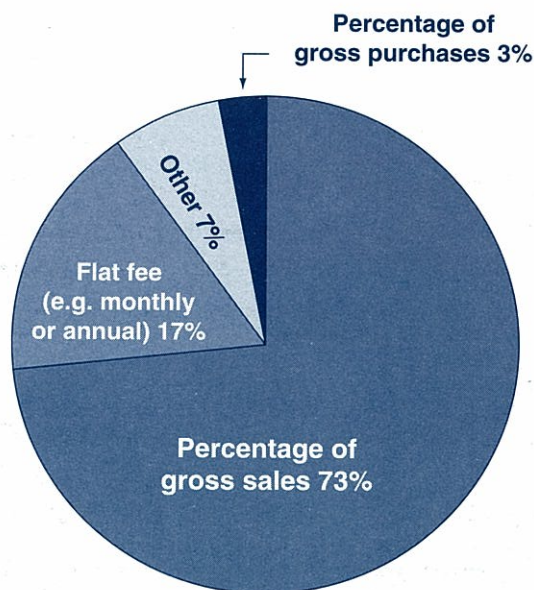
Notes: 1) A total of 182 respondents indicated a response from an expected 186.

Question B3 *On what basis is this royalty / franchise services fee charged?*

Response (Royalty or franchise services fee)	Number of responses	Percent
Percentage of gross sales	124	73.4
Percentage of gross purchases	5	2.9
Flat fee (e.g. monthly or annual)	28	16.6
Other	12	7.1
Total	169	100.0

- Notes:
- 1) The expected total of 164 respondents answered this question.
 - 2) More than one method was used by 5 respondents and these have been included in the analysis.

Basis of royalty / franchise services fee



Question B4 *What percentage (or range of percentages) do you charge for your royalty / franchise services fee?*

Average royalty as a percentage of sales: 6 percent

- Notes:
- 1) The 5 respondents who use a fee based on percentage of purchases have been excluded from the analysis.
 - 2) The expected total of 124 respondents answered the question.
 - 3) Where a range of percentages was reported, the average was calculated.
 - 4) The royalty fees ranged from 1 percent to 40 percent of sales.

Question B5 **What is the average flat fee amount that you charge for your royalty / franchise services fee?**

Average royalty as a flat fee: \$500 per month

Notes: 1) A total of 23 respondents indicated a response from an expected 28.
 2) The royalty flat fees ranged from \$83 to \$1625 per month.

Advertising / marketing levy

Question B6 **Do you charge franchisees an advertising or marketing levy for allocation to a central marketing fund?**

Response	Number of responses	Percent
No	45	24.2
Yes	141	75.8
Total	186	100.0

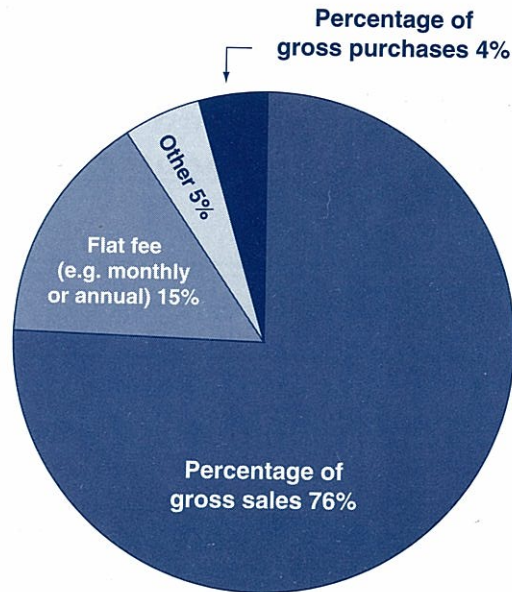
Notes: 1) All 186 respondents answered the question.

Question B7 **On what basis is this advertising or marketing levy charged?**

Response (Advertising or marketing levy)	Number of responses	Percent
Percentage of gross sales	107	75.8
Percentage of gross purchases	6	4.3
Flat fee (e.g. monthly or annual)	21	14.9
Other	7	5.0
Total	141	100.0

Notes: 1) The expected total of 141 respondents answered this question.

Basis of advertising or marketing levy



Question B8 *What percentage (or range of percentages) do you charge for the advertising / marketing levy?*

Average marketing levy as a percentage of sales: 2.5 percent

- Notes:
- 1) The 6 respondents who use a fee based on percentage of purchases have been excluded from the analysis.
 - 2) The expected total of 107 respondents answered the question.
 - 3) Where a range of percentages was reported, the average was calculated.
 - 4) The marketing levies ranged from 0.5 percent to 7 percent of sales.

Question B9 *What is the average flat fee amount that you charge for the advertising / marketing levy?*

Average marketing levy as a flat fee: \$155 per month

- Notes:
- 1) A total of 18 respondents indicated a response from an expected 21.
 - 2) The flat marketing levies ranged from \$80 to \$1300 per month.

Rebates from suppliers

Almost one-half (46 percent) of franchisors reported receiving rebates or other benefits from suppliers. Mostly these were used to benefit franchisees either by way of refund (33 percent) or by use in marketing (55 percent). Of those who retain benefits, approximately one-half share them with franchisees.

Question B10 *Do you receive rebates or other benefits from suppliers?*

Response	Number of responses	Percent
No	101	54.3
Yes	85	45.7
Total	186	100.0

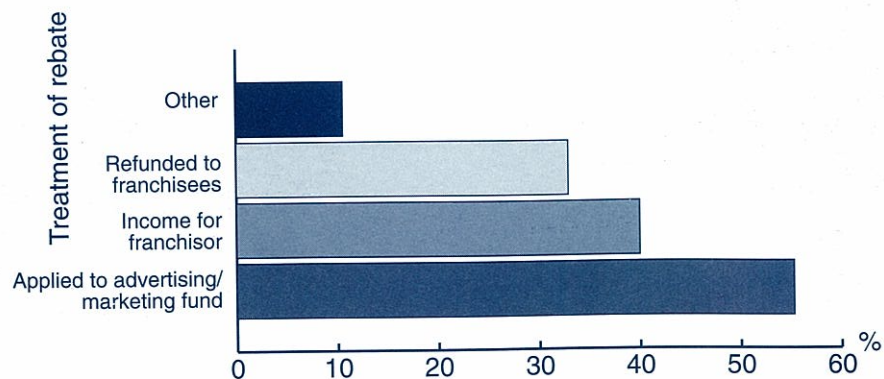
Notes: 1) All 186 respondents answered the question.

Please explain how these rebates or other benefits are treated.

Response (Treatment of rebate)	Number of responses	Percent
Applied to advertising / marketing fund	47	55.3
Refunded to franchisees	28	32.9
Income for franchisor	34	40.0
Other	9	10.6

Notes: 1) The expected total of 85 respondents answered the question.
2) Multiple responses were recorded from some respondents.

Treatment of rebates



Supply of inventory to franchisees

In 55 percent of franchises, inventory is purchased from the franchisors in part or full, and 64 percent of these mark up the prices beyond transport costs so that this becomes part of their income.

Question B11 Do your franchisees purchase inventory from you?

Response	Number of responses	Percent
No	83	44.6
Yes	103	55.4
Total	186	100.0

Notes: 1) All 186 respondents answered the question.

Do you mark-up the inventory prices (excluding transport costs)?

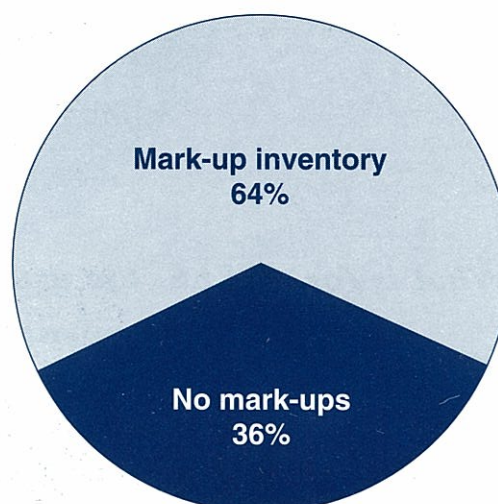
Response	Number of responses	Percent
No	37	35.9
Yes	66	64.1
Total	103	100.0

Notes: 1) The expected total of 103 respondents answered the question.

Supply of inventory to franchisees



Inventory mark-ups



Franchise agreement renewal

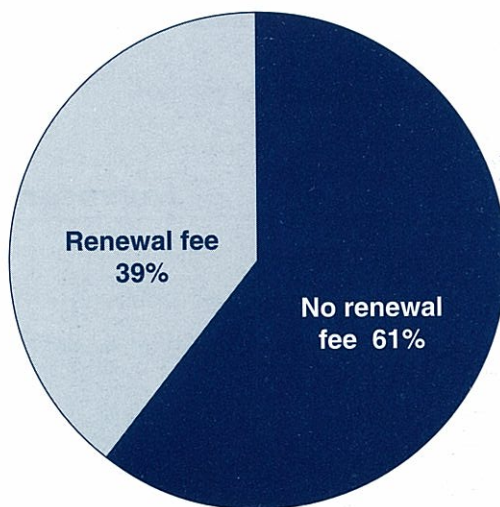
Of the franchisors granting fixed terms requiring periodic renewal, 39 percent either have charged or will charge a renewal fee. In 64 percent of these, the fee is up to \$5000 but others charge higher fees, with 24 percent charging \$10 000 or more.

Question B12 *When renewing a franchisee's agreement for an additional term, do you (or will you) charge a renewal fee?*

Response	Number of responses	Percent
No	104	60.8
Yes	67	39.2
Total	171	100.0

Notes: 1) All 186 respondents answered the question. The question was not applicable to the 15 respondents who use perpetual agreements.

Franchise agreement renewal



What is (or will be) the usual renewal fee charged?

Average renewal fee: \$5000

Notes: 1) A total of 59 respondents indicated a response to this question from an expected 67.
2) The renewal fees ranged from \$1 to \$180 000.

Sale of franchised outlets

When franchisees sell their outlets, 75 percent of franchisors charge a transfer fee, presumably to recompense for training the new franchisee and relevant legal and other expenses resulting. While the average transfer fee is \$5000, 28 percent charge up to \$2500 and 90 percent are included in those charging up to \$10 000. Initial, transfer and renewal fees showed a strong positive correlation, indicating that if one fee is in a particular range, either high or low, the other fees will tend to be in a similar range.

Question B13 *If a franchisee sells an outlet to another party, do you (or will you) charge a fee upon the transfer?*

Response	Number of responses	Percent
No	46	24.9
Yes	139	75.1
Total	185	100.0

Notes: 1) A total of 185 respondents indicated a response from an expected 186.

Use of transfer fees



What would be the approximate transfer fee for an average outlet if sold today?

Average transfer fee: \$5000

Notes: 1) A total of 131 respondents indicated a response from an expected 139.

2) The transfer fees ranged from \$500 to \$60 000.

Other fees

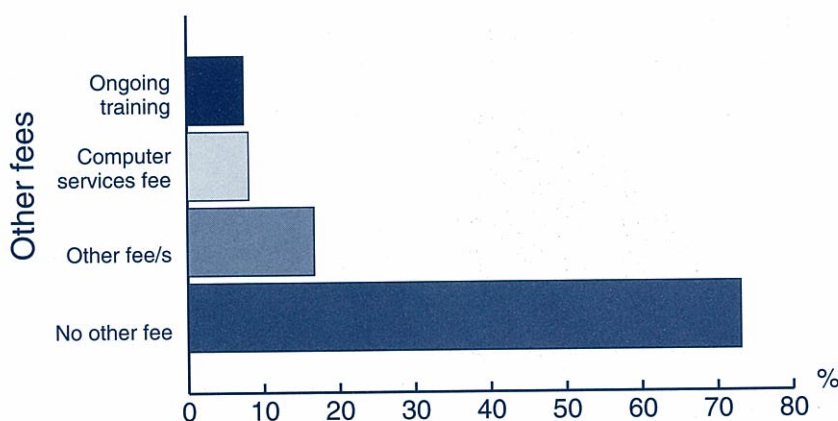
In a minority of franchises, other fees are charged for ongoing training (8 percent), computer services (8 percent) and miscellaneous other services (17 percent).

Question B14 What other type of fee do you charge franchisees?

Response (Other fees)	Number of responses	Percent
No other fee	136	73.1
Ongoing training	14	7.5
Computer services fee	15	8.1
Other fee/s	31	16.7

- Notes: 1) All 186 respondents answered the question.
2) Multiple responses were recorded for some respondents.

Other fees used



Turnover

The average turnover of franchised outlets is reported as considerably higher for franchised outlets compared with company outlets, with a wide range of turnover levels apparent among industries. The increasing level of performance by both franchised and company owned outlets was confirmed. Automotive and fuel franchisors are not included in the figures shown.

Question B15 *What is the actual or estimated total turnover for the previous three financial years for all your franchised and company-owned outlets?*

Financial year	Franchised outlets		Company owned outlets	
	Number of responses	Average turnover	Number of responses	Average turnover
1997/98 (est.)	135	\$4 039 000	80	\$1 000 000
1996/97	125	3 000 000	74	819 500
1995/96	118	2 692 343	72	832 000

Profitability

On franchisors' estimates, the average time for franchisees to achieve their break-even point where income equals expenditure is six months. However, there was a wide variety of responses and a negative correlation was noted between the size of total start-up investment and the time taken to break-even. That is, franchisees needing a smaller investment tend to become profitable more quickly than those with a larger investment.

Percentage returns on franchisee investment were reported as high as 500 percent per annum (on a low investment) but 30 percent reported that franchisees earned up to 20 percent per annum on their investment and a further 36 percent were in the 21-40 percent per annum range.

Question B16 *What is the average time for a franchised outlet to break-even (i.e. where income equals expenditure)?*

Response (Length of time for franchisee to break-even)	Number of responses	Percent
0-3 months	60	36.4
4-6 months	39	23.6
7-9 months	11	6.7
10-12 months	37	22.4
More than 12 months	18	10.9
Total	165	100.0

Notes: 1) A total of 165 respondents indicated a response from an expected 186.

2) The period of time for franchised outlets to break-even ranged from 0 to 36 months, with an average of 6 months.

Question B17 *What is the estimated return on investment (ROI) of an average franchised outlet in your system?*

Response (Percentage return on franchisee investment)	Number of responses	Percent
0-20 percent	39	30.2
21-40 percent	47	36.4
41-60 percent	15	11.6
61-100 percent	13	10.1
More than 100 percent	15	11.6
Total	129	100.0

- Notes:
- 1) A total of 129 respondents indicated a response from an expected 186.
 - 2) The responses for estimated return on investment ranged from 1 to 500 percent, with an average of 30 percent.
 - 3) Some respondents indicated they did not understand the question and so interpretation of these results should be treated with caution.

C Franchisees

Franchisee experience and involvement

When considering potential franchisees, 52 percent of franchisors prefer applicants with management experience and a further 20 percent consider such experience as essential. However, relevant industry experience is not seen as so important, with only 10 percent viewing it as essential and a further 37 percent preferring it. Overall, most prefer applicants with prior management experience and almost one-half also like to see industry experience as well.

Anecdotal evidence suggests some franchisors prefer franchisees with no industry experience as they better accept the franchisor's system. This seems supported by the 52 percent who stated that industry experience was not essential for their franchisees.

The fact that 96 percent of franchisors require that their franchisees are substantially involved in the operation of their outlets may well be a factor in the emphasis on management experience.

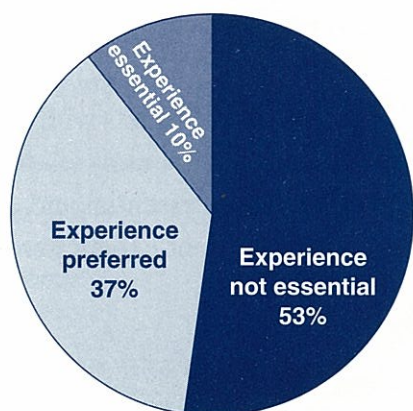
Question C1 *Are your franchisees expected to have experience in this industry or in management?*

Response (Industry or management experience)	Industry experience		Management experience	
	Number of responses	Percent	Number of responses	Percent
Experience <i>not</i> essential	97	52.4	50	27.8
Experience <i>preferred</i> , but not essential	69	37.3	94	52.2
Experience <i>essential</i>	19	10.3	36	20.0
Total	185	100.0	180	100.0

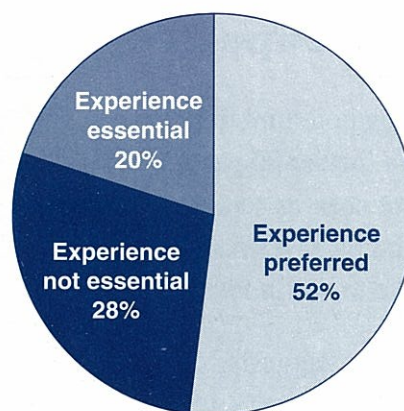
Notes: 1) A total of 185 and 180 respondents respectively indicated a response from an expected 186.

Industry and management experience

Industry experience



Management experience



Question C2 *Do you require franchisees to be substantially involved in the hands-on operation of their outlets?*

Response	Number of responses	Percent
No	8	4.3
Yes	178	95.7
Total	186	100.0

Notes: 1) All 186 respondents answered the question.

Multiple ownership by franchisees

There appears widespread willingness to grant franchisees the right to operate multiple outlets, since 81 percent of franchisors state they allow the practice, although not every franchisee may be considered suitable. Of the franchises included in the survey, only 7 percent of franchisees currently hold multiple outlets, possibly due to the youth of the systems.

A developing trend appears to be for some franchisees to operate outlets in more than one franchise system. At this stage only 29 percent of franchisors are willing to allow this practice and presumably this restriction is built into their franchise agreements. The proportion of franchisees actually operating within multiple franchises is currently small but 21 franchisors (11 percent of the total respondents) reported franchisees so involved. No common pattern was observed in the type of franchises allowing this practice.

Question C3 ***Do you (or would you) allow franchisees to own multiple outlets in your franchise?***

Response	Number of responses	Percent
No	35	18.9
Yes	150	81.1
Total	185	100.0

Notes: 1) A total of 185 respondents indicated a response from an expected 186.

How many franchisees presently own more than one outlet?

Total number of franchisees owning more than one outlet: 636

Average number of franchisees owning more than one outlet per franchise: 2

- Notes: 1) A total of 89 respondents from a possible total of 150 respondents answered the question.
 2) The number of franchisees owning more than one outlet in a single franchise ranged from 1 to 120.

Question C4 ***Do you (or would you) allow franchisees to concurrently own a franchise in another system?***

Response	Number of respondents	Percent
No	131	70.8
Yes	54	29.2
Total	185	100.0

Notes: 1) A total of 185 respondents indicated a response from an expected 186.

How many franchisees presently own an outlet of another franchise?

Total number of franchisees owning an outlet in more than one system: 45

- Notes: 1) A total of 21 respondents indicated a response from a possible total of 54.
 2) The number of franchisees owning an outlet in more than one system ranged from 1 to 8.
 3) The total of 45 franchisees reported as owning an outlet in more than one system could include double counting across franchisor respondents.

Gender and age of franchisees

There are more male sole owners (25 percent) of franchised outlets than female sole owners (9 percent). However, when joint ownership involving spouses are considered, the gender difference is less with male involvement in 81 percent of all franchises and female involvement at 65 percent, ignoring the unknown composition of "other ownership arrangement".

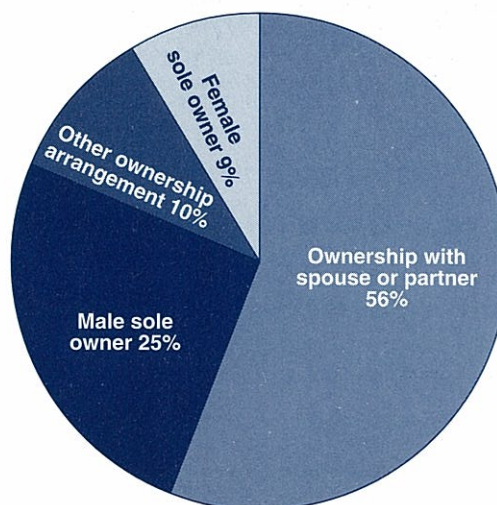
Few franchisees are under 30 years of age and none are reported as under 20. Fully 79 percent are in the 31-50 years age group. Since many franchisors are seeking industry or management experience, this may be reflected in the ages of franchisees and possibly the recruitment of retrenched middle management.

Question C5 **What percentage of your franchised outlets are owned by the following groups?**

Response (Ownership)	Average Percent
Male sole owner	25.3
Female sole owner	8.5
Ownership with spouse or partner	56.1
Other ownership arrangement	10.1
Total	100.0

- Notes: 1) A total of 179 respondents indicated a response from an expected 183.
 2) The mean has been reported as the "average percent" due to the normal distribution of the data.

Franchised outlet ownership

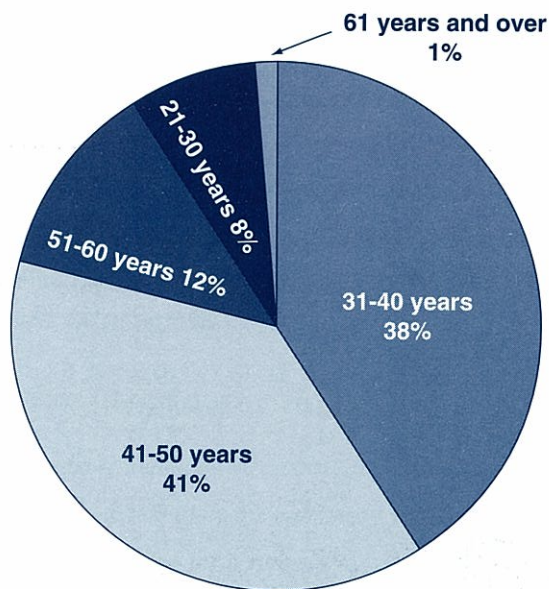


Question C6 **What percentage of your franchisees fit into the following age groups?**

Response (Age group of franchisees)	Average Percent
Less than 20 years of age	0.0
21-30 years	7.7
31-40 years	37.9
41-50 years	41.0
51-60 years	12.1
61 years and over	1.3
Total	100.0

- Notes: 1) A total of 174 respondents indicated a response from an expected 183.
 2) The mean has been reported as the "average percent" due to the normal distribution of the data.

Age of franchisees



D Franchise Profile

Industry, age and growth

Franchisors with retail systems represented 37 percent of respondents. Of the 63 percent from the non-retail industries, property and business services (35 percent) were easily the largest component, with construction and trade services (10 percent) next.

On average, franchisors had been operating their businesses for 11.5 years. They averaged three years proving their business format before turning to franchising. However, there were 23 percent that franchised in the first year of operation, while 10 percent had more than 20 years' experience before they franchised. There is no established pattern as to how soon after commencement that franchising is likely to be commenced.

Steady ongoing growth in the commencement of company and franchised outlets is evident over the past three years. Accurate measurement of growth relevant to each of the years is not possible as 21 respondents chose not to report on all years.

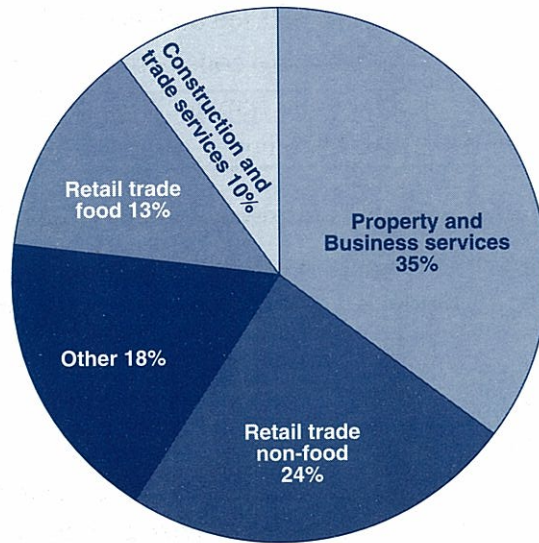
Question D2 *In what product or service does your franchise predominantly deal?*

Response (Industry category)	Industries		Total number of outlets per industry	
	Number of responses	Percent	Number of outlets	Percent
Manufacturing and printing	2	1.1	128	1.1
Construction and trade services	18	9.8	613	5.4
Retail trade – food	24	13.0	2210	19.5
Retail trade – non-food	44	23.9	1573	13.9
Accommodation, cafes and restaurants	11	6.0	828	7.3
Transport and storage	1	0.5	460	4.1
Property and business services	65	35.3	4732	41.8
Education	11	6.0	565	5.0
Cultural and recreation services	3	1.6	38	0.3
Personal and other services	5	2.7	184	1.6
Total	184	100.0	11331	100.0

Notes: 1) A total of 184 respondents indicated a response from an expected 186.

2) Responses 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



Question D3 ***In which year did you commence operating this business?***

Average number of years operating: 11.5 years

- Notes:
- 1) A total of 184 respondents indicated a response from an expected 186.
 - 2) Responses were recoded to calculate the number of years operating.
 - 3) Businesses had been operating for a range of 1 year to 160 years.

Question D4 ***In which year did you begin franchising this business?***

Average number of years franchising: 7 years

- Notes:
- 1) A total of 183 respondents indicated a response from an expected 186.
 - 2) Responses were recoded to calculate the number of years franchising.
 - 3) Businesses had been franchising for a range of 1 year to 45 years.

Question D5 **How many company-owned and franchised outlets were operating within your franchise in Australia in each of the last three years?**

Response (Financial year)	Company-owned outlets			Franchised outlets		
	Number of responses	Total number	Average number	Number of responses	Total number	Average number
30 June 1996	165	1 238	1	152	6 396	10
30 June 1997	171	1 298	1	159	7 201	12
30 June 1998 (est.)	181	1 389	1	179	9 957	17

- Notes:
- 1) The number of company-owned outlets ranged from 0 to 201 outlets per system in 1998.
 - 2) The number of franchised outlets ranged from 0 (temporarily) to 685 outlets per system in 1998.
 - 3) Twenty-one respondents provided data for some years only, so growth rates have not been calculated on the above figures.

Geographical distribution

Based on the responses from franchisors, the distribution of franchising in Australia varies somewhat from the distribution of the population. The greatest numbers of franchise outlets are in New South Wales/Australian Capital Territory, followed by Queensland and Victoria. However, Queensland with 24 percent of outlets and Western Australia with 12 percent indicate that franchising has been more actively pursued and accepted in these two states, considering they represent 19 percent and 10 percent respectively of the national population. While nationwide, franchisee operated outlets represent 87 percent of the total, in Queensland 90 percent are franchised.

Most franchises originate in Australia (86 percent) with the United States of America being the source of 9 percent, although responsible for 16 percent of outlets of respondents. The usual contractual arrangement chosen by overseas franchisors is a master franchise (75 percent).

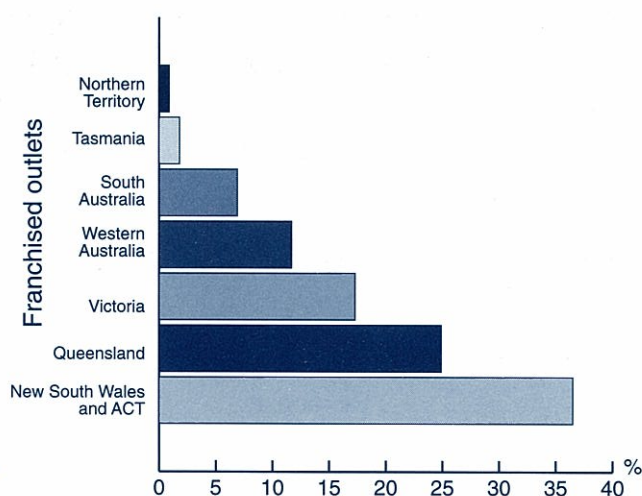
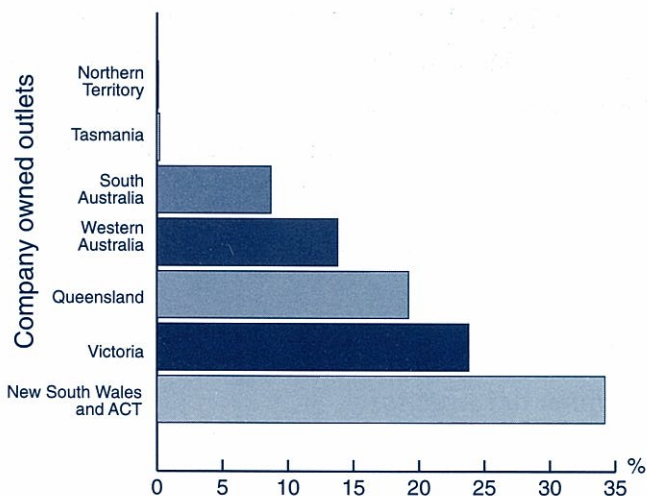
Question D6 *How many company-owned and franchised outlets do you currently operate in Australia?*

Response (State)	Company owned outlets		Franchised outlets		Total outlets	
	Total number	Percent	Total number	Percent	Total number	Percent
New South Wales and ACT	457	34.2	3377	36.5	3834	36.2
Victoria	319	23.8	1599	17.3	1918	18.1
Queensland	257	19.2	2303	24.9	2560	24.2
South Australia	116	8.7	638	6.9	754	7.1
Western Australia	184	13.8	1081	11.7	1265	12.0
Tasmania	3	0.2	165	1.8	168	1.6
Northern Territory	2	0.1	79	0.9	81	0.8
Total	1338	100.0	9242	100.0	10580	100.0

- Notes:
- 1) A total of 179 respondents indicated a response to the number of company-owned outlets from an expected 186.
 - 2) A total of 173 respondents indicated a response to the number of franchised outlets from an expected 186.

Geographical distribution of company-owned outlets

Geographical distribution of franchised outlets

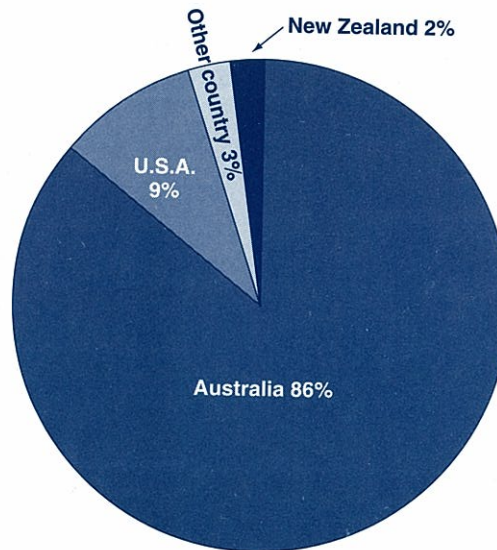


Question D7 *In which country did your franchise originate?*

Response (Country of origin)	Number of responses	Percent
Australia	160	86.0
New Zealand	4	2.2
United States of America	17	9.1
Other country	5	2.7
Total	186	100.0

Notes: 1) All 186 respondents answered the question.

Country of origin



What contractual arrangement do you have with the overseas franchisor?

Response (Contractual arrangement)	Number of responses	Percent
Master franchise	15	75.0
Joint venture	1	5.0
Other arrangement	4	20.0
Total	20	100.0

Notes: 1) A total of 20 respondents indicated a response from an expected 26.

Employment

The numbers employed vary greatly with the needs of particular franchises. Both company and franchised outlets have a majority of staff who are not permanent full-time. Casual employees account for 81 percent in company outlets and 61 percent in franchised, with 3 percent and 7 percent respectively of permanent part-time staff. The trend towards a greater use of casual employees is evident in the current figures. In the franchisor's head office administration, the situation is different with 83 percent being permanent full-time staff. It was noted that 87 percent of franchisors had no more than 20 staff in their head office.

Question D8 *What are the total numbers of employees in all outlets and head office administration?*

Response (Employee status)	Total employees					
	Company-owned outlets		Franchised outlets		Franchisor head office administration	
	Number	Percent	Number	Percent	Number	Percent
Permanent full-time	4 594	15.7	26 139	32.3	4 302	83.3
Permanent part-time	849	2.9	5 775	7.1	479	9.3
Casual	23 833	81.4	49 047	60.6	386	7.5
Total	29 276	100.0	80 961	100.0	5 167	100.0

Notes: 1) A total of 105 respondents indicated a response to the number of employees in company-owned outlets from an expected 125.

2) A total of 152 respondents indicated a response to the number of employees in franchised outlets from an expected 183.

3) A total of 171 respondents indicated a response to the number of employees in franchisor head office administration from an expected 186.

International expansion

The trend towards expansion internationally was confirmed by 41 percent of franchisors stating that they had appointed franchisees overseas or intended to do so within the next three years. A total of 1078 outlets were reported as currently franchised internationally, with 77 percent of these in New Zealand. South Africa has emerged as having the second highest number of outlets (7 percent) and United Kingdom follows with 5 percent. Australian franchises have a growing presence in south-east Asian countries also, and planned expansion indicates this will continue to grow. Franchisors with more than 80 outlets tend to be more active in operating overseas or planning to do so.

In the 1997/98 financial year an estimated total income for respondents from overseas franchisees was A\$55.6 million. Non-respondents known to be operating internationally would add to these figures indicating the growing importance of overseas expansion by Australian franchises.

Question D9 *Have you appointed, or do you plan to appoint, any franchisees overseas within the next three years?*

Response	Number of responses	Percent
No	109	58.6
Yes	77	41.4
Total	186	100.0

Notes: 1) All 186 respondents answered the question.

In which countries?

Response (Country)	Currently operating			Planned expansion next three years
	Number of franchisors	Total number of outlets	Average number of outlets	Number of franchisors
New Zealand	31	829	7	51
United States of America	4	4	1	19
Canada	4	4	1	11
United Kingdom (UK)	6	51	1	22
Europe (excluding UK)	2	14	7	11
China / Hong Kong	8	26	1	14
Indonesia	6	19	4	13
Malaysia	6	20	2	20
Singapore	10	25	1	21
South Africa	4	72	18	15
Other countries	10	14	1	13
Total		1078		

- Notes:
- 1) The expected total of 77 respondents answered this question – 37 currently operating internationally and 40 planning to do so.
 - 2) Some franchisors currently operating overseas are included in those planning future overseas expansion.
 - 3) Multiple responses were recorded from some respondents.

Question D10 *What is the total estimated income from overseas franchisees in 1997/98?*

Response (Income source)	Number of responses	Total income
Fees	24	\$10 287 100
Products supplied	9	44 937 000
Other sources	2	400 000
Total		55 624 100

- Notes:
- 1) A total of 27 respondents indicated a response from an expected 37.
 - 2) Multiple responses were recorded for some respondents.

Disputes and closures

Over the last three years 30 percent of franchisors have experienced at least one substantial dispute with a franchisee. Currently 17 percent are involved in a dispute, mostly with no more than two franchisees. It was found that the largest 20 percent of franchisors were more likely to be in a dispute situation. The 63 franchisees currently in dispute situations are equivalent to 0.7 percent of the franchised outlets of respondents.

Overall changes in franchised outlet ownership are equivalent to 17 percent of current total franchised outlets. In examining the data on franchisees who had left franchises in the last three years, 67 percent had sold their outlets, 4 percent had departed on expiration of their term, and a further 24 percent represented terminations by one or other party.

Of the changes due to sales by franchisees, 70 percent are currently operated by other franchisees. The 94 outlets sold to franchisors coincidentally is the same number as those currently held by the franchisors, but only half of the outlets purchased by franchisors have been retained and some terminations appear to have occurred.

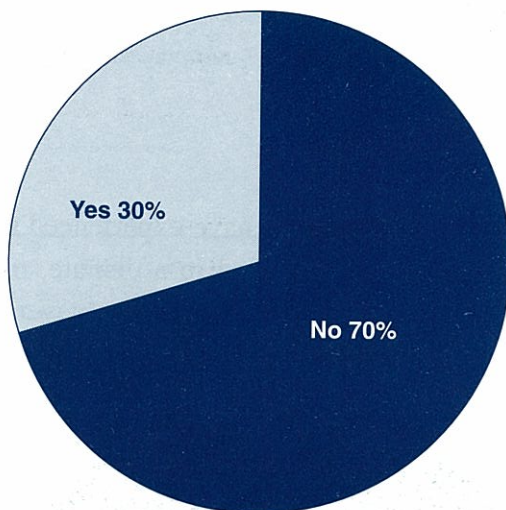
It was noted that 35 percent of franchisors had closed outlets in the past three years. In the majority of cases no more than two franchised outlets had been affected. These closures represented 5 percent of the franchised outlets reported as operating in 1996. However, franchisors that have been forced to close completely during this period are not included and their outlets would need to be added for the complete picture.

Question D11 *Have you been involved in any substantial disputes with franchisees in the last three years?*

Response	Number of responses	Percent
No	130	70.3
Yes	55	29.7
Total	185	100.0

Notes: 1) A total of 185 respondents indicated a response from an expected 186.

Disputes in last three years



Please indicate the numbers of franchisees in disputes.

Response (Disputes)	Currently		Last three years	
	Number of franchisors involved in disputes	Number of franchisees involved	Number of franchisors involved	Number of franchisees involved
Mediation	14	19	27	56
Litigation	22	41	29	70
Other	1	3	4	4
Total		63		130

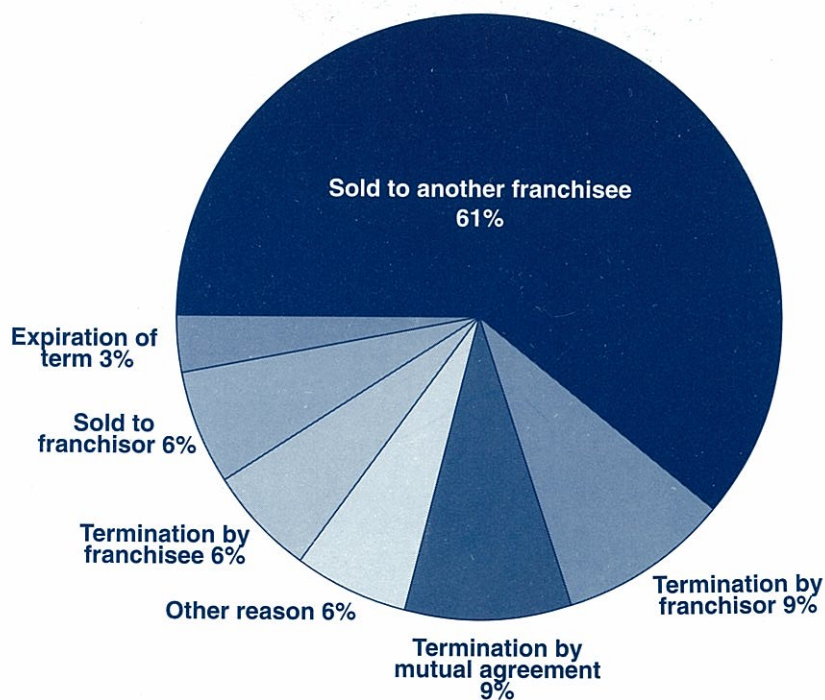
Notes: 1) The expected total of 55 respondents answered the question, with 32 respondents currently involved.
 2) Multiple responses were recorded for some respondents.

Question D12 *How many franchisees have left your franchise in the last three years?*

Response (Reason for leaving system)	Total number of franchisees	Percent	Number of franchisors	Percent
Expiration of term	55	3.5	18	9.7
Sale of outlet to another franchisee	946	60.8	105	56.5
Sale of outlet to franchisor	94	6.1	35	18.8
Termination of agreement by franchisor	140	9.0	40	21.5
Termination of agreement by franchisee	94	6.1	25	13.4
Termination by mutual agreement	139	8.9	57	30.6
Other reason	87	5.6	12	6.5
Total	1555	100.0		

- Notes:
- 1) A total of 178 respondents indicated a response from an expected 186.
 - 2) Multiple responses were recorded for some respondents.

Reasons franchisees left the franchise



Question D13 *What is the current status of the franchised outlets referred to in question D12?*

Response (Status of outlets)	Total number of outlets
Franchisee-operated	1091
Company-operated	94
Closed	335

- Notes:
- 1) A total of 170 respondents indicated a response from an expected 178.
 - 2) The 335 outlets that were "closed" include 33 outlets noted by 4 respondents that are now operating independently.

