



FRANCHISING Australia

2010



Asia-Pacific Centre
for Franchising Excellence



Prepared by
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Franchising Australia 2010

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Foreword

Griffith University is proud to endorse the seventh biennial *Franchising Australia* survey sponsored by the Franchise Council of Australia. Representing the only systematic data collected on the Australian franchise sector, the *Franchising Australia 2010* report provides an accurate snapshot of the status of the sector as well as a source of longitudinal data gathered over the past 12 years.

Franchising Australia 2010 reveals:

- There are approximately 1025 business format franchisors in Australia in 2010, compared with 1100 in 2008. The majority of franchise system closures were small retailers.
- There are an estimated 69 900 units operating in business format franchises, reflecting a decline of 2 percent during the economic downturn.
- Individual franchise systems have grown from a median of 18 to 23 units over the past two years.
- There has been a modest decline in permanent employment in the sector and a shift towards greater casual employment to cope with economic conditions. Sales turnover of the entire franchising sector was estimated at \$128 billion in 2009.
- Fully 91 percent of franchise systems were developed in Australia.

The tightening of the franchising sector, which is dominated by retailers, is not surprising given the extreme pressures on small business operators over the past two years. Economic circumstances have encouraged franchisors to strive for more sustainable long-term operations, with the strongest operators surviving the downturn.

The data provided in this report provides a reliable source of information about the Australian franchising sector. It will assist stakeholders to understand the contribution of the sector to the national economy, which is particularly important in this current period of economic downturn and recovery. I am very pleased to recommend the *Franchising Australia 2010* survey results to interested participants of the franchise sector. The authors have produced the series of reports for more than a decade and their experience is reflected in this comprehensive study of Australian franchising practice. Griffith University is pleased to be able to collaborate with the peak body of franchise representation, the Franchise Council of Australia, in this important research.



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

Professor Lorelle Frazer



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

Professor Frazer was the first person in Australia to complete a PhD in franchising and she has been actively researching franchising since the 1990s. She has published more than 100 academic papers in her field covering topics as diverse as international franchising, franchising conflict and franchising relationships. She is a member of the International Society of Franchising and she co-chaired the Society's 2010 conference in Sydney.

Professor Frazer has led research teams on three major Australian Research Council Linkage Project grants in collaboration with industry partners the Australian Trade Commission (Austrade), Franchise Council of Australia (FCA), Australian Competition and Consumer Commission (ACCC) and the Department of Innovation, Industry, Science and Research (DIISR).

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

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

Dr Scott Weaven



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

Dr Weaven has published in excess of 65 academic articles in franchising and has published manuscripts in journals including the *Journal of Retailing*, *European Journal of Marketing*, *Academy of Marketing Science Review*, *International Small Business Journal*, *Asia Pacific Journal of Marketing and Logistics* and the *Journal of Business Ethics*.

Dr. Weaven has been a chief investigator in major Australian Research Council Linkage Project grants in collaboration with industry partners the Franchise Council of Australia (FCA), Australian Competition and Consumer Commission (ACCC) and the Department of Innovation, Industry, Science and Research (DIISR).

Currently he is investigating multiple unit growth strategies in franchising, the role of franchisee personality in recruitment and selection, and service quality in franchising networks. Dr Weaven is a member of the International Society of Franchising and teaches marketing in the Griffith Business School.

Dr Kelli Bodey



Dr Kelli Bodey is a Lecturer in the Department of Marketing and a member of the *Asia-Pacific Centre for Franchising Excellence at Griffith University*. She holds a PhD in franchising specialising in the area of multiple-unit franchising arrangements.

Dr Bodey is a member of the International Society of Franchising and has published her research in international academic refereed journals including the *Journal of Services Marketing, Psychology and Marketing and International Management and Entrepreneurship Journal*. Currently, Dr Bodey is working within the areas of multiple-unit franchising and operational performance/success and the role of women in franchising.

Dr Bodey teaches marketing, strategic international marketing and entrepreneurial marketing in both undergraduate and postgraduate programs at the Griffith Business School.

Sponsor profile

The Franchise Council of Australia (FCA) is the industry body representing, and working for the benefit of, the Australian franchise sector. A sector worth over \$128 billion is worth supporting.

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

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



Mr Steve Wright, Executive Director

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

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

Membership

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

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

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Asia-Pacific Centre for Franchising Excellence Profile

The *Asia-Pacific Centre for Franchising Excellence* was formed at Griffith University in 2008, bringing together more than a decade of franchise research and expertise.

The Centre is the leader in franchise research, teaching and learning in the Asia-Pacific region, and works closely with the sector and government bodies to turn research findings into practical outcomes for franchisors and franchisees.

The Centre provides:

- Independent, leading-edge franchise research, which leads thinking and provides leadership and advice to government and industry
- Franchise education and training, based on franchising best practice, which combines academic theories with practical applications and real case studies
- An avenue for new and early career franchise researchers to develop their research skills and increase franchising knowledge
- Information for franchisors, franchisees and those considering becoming involved in the franchise sector to help them identify what they need to know, common mistakes and examples of best practice
- Consultancies to assist franchise sector participants to address their needs through education and research
- Tailored education, training and research solutions for the franchise sector, across a range of franchise-related issues and topics

Ms Kerry Miles is the General and Business Manager who sets and implements the Centre's strategic direction. Professor Lorelle Frazer is the Director and Dr Scott Weaven is the Deputy Director of the Centre.

Asia-Pacific Centre for Franchising Excellence
<http://www.franchise.edu.au/>

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Executive Summary

The *Franchising Australia 2010* survey was conducted during a period of worldwide economic instability following a major global financial crisis. Although Australia narrowly escaped experiencing a recession, the small business sector has been affected by several years of economic uncertainty.

The key findings of the *Franchising Australia 2010* survey are highlighted in this Executive Summary. Where possible, estimates have been included for the entire population of Australian business format franchises. Franchising activities in motor vehicle and fuel retailing were not captured in the survey due to the unique characteristics of these industries. However, data on motor vehicle and fuel retail franchises have been generated from relevant industry sources (Motor Trades Association of Australia, Federal Chamber of Automotive Industries, Australian Institute of Petroleum and Service Station Association) and this information has been incorporated into the Executive Summary only.

Below are the highlights of the *Franchising Australia 2010* survey.

Total number of franchisors in Australia

The 2008 database of franchisors was updated and contacted personally to ascertain the status of the organisations. This extensive process has confirmed that 977 business format franchisors are currently operating in the sector. As this figure includes systems that offer multiple concepts under a single brand, it is estimated that there are *1025 business format franchise systems* operating in Australia in 2010. Some 91 percent of these organisations originated in Australia.

A profile of the number of franchisors reported in the *Franchising Australia* surveys since 1998 is provided:

1998	693 franchisors
1999	708 franchisors
2002	700 franchisors
2004	850 franchisors
2006	960 franchisors
2008	1100 franchisors
2010	1025 franchisors

Until recently, the sector witnessed steady growth. The effects of the recent global economic downturn on the franchising sector are minimal, given the strength of the Australian economy which surpassed other developed nations. The sector has experienced a 7 percent net decline in franchise systems from 2008 to 2010.

The overall decline in franchise systems reveals that only the most robust systems will survive and will bring the Australian sector more in line with other developed sectors, such as the United States, whereby the density of franchise systems is lower.

Total number of units in franchise systems in Australia

There are an estimated 62 000 business format franchised units and 7900 company-owned units, producing *a total of 69 900 units* operating in business format franchise systems in Australia. An additional 6500 fuel retail outlets and 2130 motor vehicle retail outlets are estimated.

A comparison of the 69 900 units in 2010 with 71 400 estimated in 2008 reveals that the net decline in franchise units is 2 percent. Thus the effect on franchising due to the economic downturn has been reasonably mild to this point in time. A longer term analysis in the 2012 survey will be necessary to draw meaningful conclusions, but it is clear that the sector has remained relatively stable.

Turnover of the Australian franchising sector

The total sales turnover of business format franchise units was estimated at \$60 billion in 2009 (compared with \$61 billion in 2007). Together with estimated motor vehicle sales of \$29 billion and fuel retail of \$39 billion, the total sales turnover for the entire franchising sector was estimated to be \$128 billion (compared with \$130 billion in the 2008 survey).

Employment in the Australian franchising sector

A response to current economic conditions has been reflected in the employment structure in franchise organisations. There has been a decline in the number of people employed in permanent full-time and part-time positions with a resulting increase in the use of casual labour. Comparative estimates for 2008 and 2010 are provided below.

Employment status	2008		2010	
	Number of employees	Percent	Number of employees	Percent
Permanent full time	154 900	37.5	142 600	20.7
Permanent part time	96 210	23.3	91 100	13.2
Casual	162 390	39.3	456 300	66.1
Total	413 500	100.0	690 000	100.0

Profile of franchise systems in Australia

Industries. Retail trade continues to dominate franchising with 26 percent of franchisors and 24 percent of franchise units involved in retailing. A further 17 percent of franchisors and 28 percent of franchise units comprise the accommodation and food service industry (which includes fast food). Whereas 15 percent of franchisors are involved in administration and support services, their systems are relatively small and account for approximately 6 percent of franchise units. The majority of franchise systems which closed during 2008 to 2010 were involved in retail trade and retail food, reflecting the broader retail sales slump experienced in Australia.

Size of systems. Individual franchise systems are growing, indicating confidence by investors in the franchise model. The median number of units per system (franchised and company owned) increased from 18 in 2007/2008 to 23 in 2008/2009. Retail franchise systems are significantly larger than those in other industries with retail franchises holding a median of 40 units in 2008/2009 compared with 17 in non-retail franchises.

Age of systems. The sector has a balance of new entrants, emerging systems and experienced systems. Franchisors have been operating for a median of 15 years and franchising for 11 years. Whilst most operated a pilot outlet for 3 years prior to franchising, some 20 percent began franchising from the outset and a further 19 percent franchised their businesses within one year.

Social and economic influences

Franchisors demonstrated mixed approaches to dealing with the economic downturn. Some reported increased gross sales and profitability whilst others reported declines. However, the majority of franchisors have invested more in marketing activities, franchisee recruitment and staff training over the past 12 months. Franchisors also reported that the majority of their franchisees had experienced declining or static sales and profitability levels.

In relation to climate change, one quarter of franchisors reported that they had made operational changes in response to environmental concerns, including adoption of green products and services and environmentally-friendly packaging. Franchisors indicated their changes in practice were mostly influenced by competition or to demonstrate good corporate citizenship.

Franchisee recruitment

Franchisee recruitment and franchised unit resales were relatively modest during the 2008-2009 financial year with most franchisors recruiting 5 franchisees and reselling 4 units. One third of franchisors reported no new sales or resales, reflecting the tightening pool of franchisee prospects during the economic downturn.

Franchise network expansion strategies

One third of franchisors were using master franchising as a means of stimulating growth in the franchise network, particularly for more geographically dispersed locations, and as a means of providing local support services to franchisees. Younger, smaller systems were more likely to adopt this strategy, capitalising on the prior industry experience and local market knowledge of master franchisees to facilitate expansion.

Some 58 percent of franchisors encourage multiple unit ownership by franchisees, particularly those in mature franchise systems. Franchisors reported that multiple unit franchisees tend to outperform or perform on an equal basis to single unit holders.

Franchising disputes and unit closures

Substantial disputes (those referred to an external advisor for action) were reported by 22 percent of franchisors, who were in dispute with an average of two franchisees. Hence, across the sector the proportion of franchisees in dispute with their franchisor was estimated at 1 percent, a slight decline from 2008. Reported disputes reflected the diverse industry profile of the sector but were more likely to be found in small franchise systems (fewer than 20 units) or large systems (more than 50 units). The most common causes of disputes were lack of franchisee compliance with the system, misrepresentation issues and profitability. More than 80 percent of franchisors maintained a Franchising Code of Conduct compliance program.

During the 2009 financial year franchisors reported that 7 percent of franchised units underwent some change in ownership and the remaining 93 percent of units remained unchanged. Franchisees remain in the system for a median of 7 years, longer than the typical 5 year franchise agreement term; however, the reasons for continuation are not known.

International expansion by Australian franchise systems

The degree of penetration into overseas markets has remained relatively stable over the past few years. Some 28 percent of franchisors are currently operating internationally. New Zealand is the most popular initial destination of Australian franchisors, but they also operate in the USA, Europe and the United Kingdom, with fewer opting for countries in South-East Asia.

Franchisor profile

For the first time *Franchising Australia* gathered preliminary data about franchisors who were the founders of the system. Half the respondents to the survey indicated they were founders. Three quarters were male, aged between 40 and 60 years. Two thirds had previous business ownership before starting up their current system. Some 40 percent of founders had planned from the outset to franchise the business. Motivations for starting the business were based around achieving financial security and the desire to be challenged. The majority used the franchising model in order to access franchisee capital and to achieve rapid market penetration.

Conclusion

As foreshadowed in 2008, *Franchising Australia 2010* reflects the effects of the global financial crisis and subsequent downturn in the economy over the past two years. The reduction in franchise systems should be viewed positively as it takes the sector to a more sustainable level, with those systems remaining having survived severe economic pressure. The sector has remained relatively stable overall but with growth occurring within individual systems. As evidenced with changes to the employment profile, the sector has adapted to suit the current economic conditions, with the majority of franchisors proactively investing more in staff training and marketing in order to build and protect their brands.

Background

Franchising Australia 2010 provides a detailed and comprehensive report on the status of the Australian franchising sector. It continues the series of biennial *Franchising Australia* surveys that have been produced since 1998, thus providing the opportunity to gain a longitudinal perspective of the development of the sector, which is particularly important due to the recent economic downturn and recovery.

Data for the current report were gathered from June to August 2010. The survey coincided with a considerable retail sales slump, a reduction in small business confidence as well as a federal government election campaign, possibly distracting franchisors from the survey. Anecdotal evidence suggests that many franchisors were preoccupied with supporting franchisees during these demanding economic and social conditions.

For the first time since data on franchising activities have been systematically collected and analysed, the sector has experienced a slight slowdown. The number of franchisors had been steadily growing since 1998, but the last two years has witnessed a contraction from 1100 franchisors in 2008 to 1025 franchisors in 2010. Although the decline in franchise systems has occurred as a result of unfavourable economic conditions, the consolidation of the sector is a positive outcome as many systems were small and unsustainable. The 2010 survey provides evidence that the surviving franchise systems are growing, despite the slowdown in the economy. The overall size and contribution of the sector has remained reasonably stable despite the impact of the global financial crisis.

Thus, *Franchising Australia 2010* provides detailed information on the current status of the franchising sector and confirms that it has performed consistently during a period of economic instability and downturn.

Introduction

The *Franchising Australia 2010* survey was conducted from June to August 2010. The identified population of business format franchisors was included in the survey.

The primary purpose of the survey was to obtain current information about the practices and performance of the Australian franchising sector, including franchise sector responses to the economic downturn. The series of biennial surveys commenced in 1998, thus providing longitudinal data spanning 12 years from which to base analyses.

In 2010 the survey gathered data relating to:

- A profile of the franchising sector in terms of age, size, growth, composition and international expansion;
- Operational practices employed by franchisors, including growth strategies, dispute resolution procedures, employment, and responses to the economic downturn and climate change;
- Emerging trends, including part-time franchising models and multiple unit franchising;
- A profile of franchisors and franchisees.

Conduct of the survey

The Franchisors

The *Franchising Australia 2010* survey included the identified population of Australian business format franchisors. A comprehensive database maintained by Griffith University was updated and confirmed, using a number of sources. Several existing databases on the internet, including that of the Franchise Council of Australia, were scrutinised, as well as published franchising directories. In addition, trade journals and capital city newspapers were scanned for information. This extensive search resulted in the identification of 1234 organisations assumed to be involved in franchising.

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

The lack of any official registration requirements on franchisors makes it impossible to accurately identify the population. However, the search conducted by the research team was extensive, leading to confidence that the database has a high degree of accuracy. Thus, sampling error is not a concern in this survey. The number of business format franchisors in Australia in 2010 is estimated at 977. When multiple concepts operating under a single brand name are included, the number of franchise systems approximates to 1025.

The Questionnaire

Due to the unknown effect of the economic downturn on the franchising sector, additional questions requesting in-depth financial and operational information were included in the 2010 questionnaire. The survey was conducted electronically via the internet. The questionnaire was pilot tested in two stages. In stage one, conducted in 2009, a sample of 10 consultants and 15 academics pilot tested a hard copy of the survey instrument and provided feedback to the research team. Pilot test participants advised that the additional questions may be considered intrusive and that the questionnaire was too long. In response to this feedback several questions were removed but we decided to include many of the additional questions in 2010 in order to gain valuable information about the effect of the economic climate on the franchising sector. A second round of pilot testing involved a sample of 20 franchisors and 8 academics. Only minor formatting and word changes were required for the final questionnaire. The 20 franchisors involved in the second test were excluded from the main survey.

An email notification was sent by the chief researcher to the remaining database of franchisors, asking for their cooperation and providing a hypertext link to the survey website at Griffith University. Full ethical clearance was granted by the University's Human Research Ethics Committee and was disclosed within the survey. Only members of the research team had access to the submitted surveys. Participants were asked to name their systems in the survey responses, enabling identification of respondents in

most cases. Several follow-up emails and telephone calls were made to nonrespondents over a period of three months.

Due to a lower than normal response rate it was decided to close the original survey after 6 weeks and re-launch a shorter version in order to stimulate responses. The original survey attracted 76 usable responses and the second survey, which was also open for 6 weeks, attracted a further 111 usable responses. Feedback provided by franchisors confirmed that they were either not prepared to disclose financial data, or were too busy to retrieve it. The shorter survey was regarded as less intrusive and required less time investment. This unusual strategy was necessary in order to obtain sufficient responses and thus provide confidence in the survey results.

Respondents were invited to complete and submit the survey electronically or to request a hard copy of the questionnaire in the mail. Several respondents were contacted to correct inconsistent responses. At no stage did the survey sponsor, the Franchise Council of Australia, observe the responses or raw data collected.

To promote participation in the survey prize draws for three Apple iPads were offered. Upon closure of the survey, the winners were randomly selected from the list of respondents and notified by telephone and email.

Survey responses

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

Organisations listed on database		1234
Less exclusions:		
Mergers	7	
Organisations assumed no longer operating	56	
Organisations no longer franchising	88	
Organisations not yet franchising	64	
Organisations identifying as not involved in franchising	<u>42</u>	<u>257</u>
Confirmed population of franchisors		977
Less pilot study participants	20	
Less organisations which would not provide an email address	<u>54</u>	<u>74</u>
Total number of organisations included in sample		903

Of the 903 franchisors included in the sample, some 187 usable responses were completed, resulting in a *response rate of 20.7 percent*. This is lower than the response rate of 28.5 percent achieved in 2008 and 25.2 percent achieved in 2006. The lower response is speculated to be due to the more detailed information being sought in the 2010 survey and the possible reluctance of franchisors to provide this information during an economic downturn. Response rates as low as 10 percent are commonly reported in business surveys.

Estimations for the whole franchising sector

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

Firstly, the responses to the original survey were compared with those from the second survey. The results of this test indicated that there were no significant differences between the two groups.

A second test compared a random sample of 65 nonrespondents with the 187 survey respondents on key variables such as industry, age, size and start-up costs. Information for nonrespondents was obtained from two industry publications (*Franchising 2010 Yearbook and Directory* and *Australian Business Franchise Directory 2010*), or from franchisor websites. This test also confirmed that there were no significant differences between the two samples. Hence, it may be concluded that nonresponse bias was not a problem in this survey and that there are no significant differences between franchisors who responded and those who did not. Thus, the survey results may be generalised to the entire population of business format franchisors.

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

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

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

Survey results

Franchising Australia 2010

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

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

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

A Franchise Profile

Industry

Key facts

- 977 franchisors in 2010.
- 1051 franchisors in 2008.
- Closures were predominantly small retail systems.
- Retailing accounts for 43% of franchise systems and 53% of franchise outlets.

The population of business format franchisors in Australia has declined since 2008. The *Franchising Australia 2008* survey reported a total of 1051 franchisors but in 2010 this figure has declined to 977, a reduction of some 74 systems. This finding is not unexpected due to the sustained economic downturn. Most of the closures appear to be in the retail industry (296 franchisors in 2008 down to 250 in 2010) and involve relatively small and immature franchise systems.

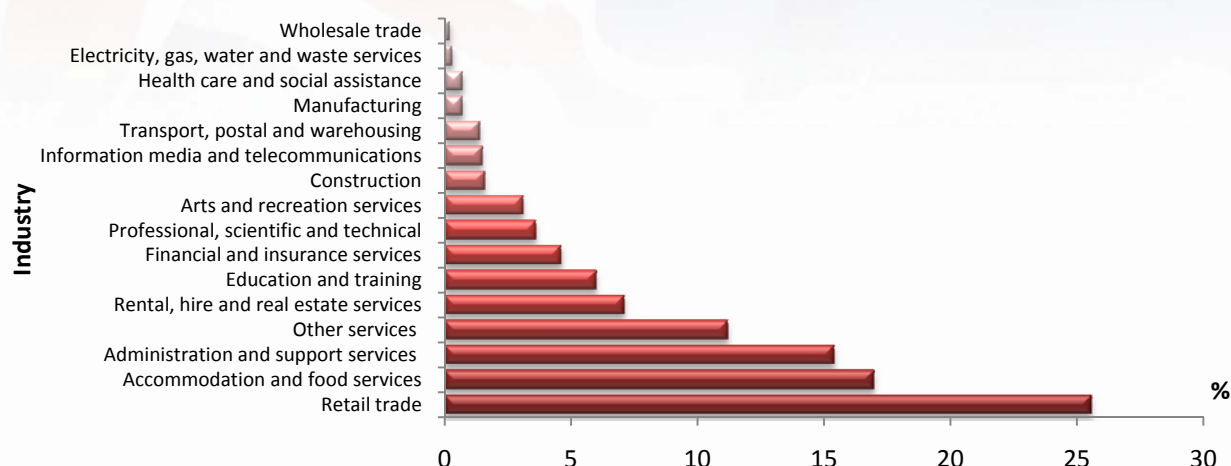
The sample of respondents in 2010 has been compared with the population of franchisors in table A1. The proportion of survey respondents in retail trade is lower than the population and the proportion involved in 'other' services (such as personal services) is higher. However, respondents were represented across all major industries.

Despite the decline in overall numbers the largest industry occupied by franchising is once again *retail trade*, accounting for one quarter (26 percent) of franchisors. Another 17 percent of franchisors are involved in accommodation and food services, including food retailing, fast food and coffee shops. A similar proportion (15 percent) of franchisors is involved in administration and support services (including travel agencies, office services, domestic and industrial cleaning, gardening services and lawn mowing).

The category 'other services' (which includes personal services, pet services, auto repairs and servicing, and IT services) accounts for a further 11 percent of franchisors. Rental, hire and real estate services have witnessed an increase in the number of franchisors (69 systems in 2010 up from 61 systems in 2008) and accounting for 7 percent of franchisors. The remaining industries represent small proportions of franchising activity across a wide spectrum.

The majority of *franchise units* held by franchisor respondents are in accommodation and food services (28 percent) followed by retail trade (24 percent).

Industry categories



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

Response (Industry)	Population of franchisors		Respondent franchisors		Total number of respondents' units per industry	
	Number	Percent	Number of responses	Percent	Number of units	Percent
Retail trade	250	25.6	30	16.0	3152	24.3
Accommodation and food services (includes food retail, fast food, coffee shops etc)	166	17.0	40	21.4	3658	28.2
Administration and support services (includes travel agencies, office services, domestic and industrial cleaning, gardening services, lawn mowing etc)	150	15.4	22	11.8	830	6.4
Other services (includes personal services, pet services, auto repairs and servicing, IT services etc)	109	11.2	41	21.9	1977	15.3
Rental, hire and real estate services	69	7.1	14	7.5	202	1.6
Education and training	59	6.0	10	5.3	1191	9.2
Financial and insurance services	45	4.6	6	3.2	393	3.0
Professional, scientific and technical	35	3.6	2	1.1	27	0.2
Arts and recreation services	30	3.1	5	2.7	61	0.5
Construction	16	1.6	7	3.7	225	1.7
Information media and telecommunications	15	1.5	2	1.1	236	1.8
Transport, postal and warehousing	14	1.4	3	1.6	7	0.1
Manufacturing	7	0.7	1	0.5	160	1.2
Health care and social assistance	7	0.7	2	1.1	14	0.1
Electricity, gas, water and waste services	3	0.3	0	0.0	0	0.0
Wholesale trade	2	0.2	0	0.0	0	0.0
Unclassified	0	0.0	2	1.1	830	6.4
Total	977	100.0	187	100.0	12963	100.0

- Notes:
- 1) Some 185 out of 187 respondents were able to be classified.
 - 2) Franchisors were coded according to industry type using the major categories provided under the Australian and New Zealand Standard Industrial Classification (ANZSIC) coding system.
 - 3) A total of 181 franchisors provided a response regarding the number of units held from an expected 187.
 - 4) Data were collected from Surveys 1 and 2 for this question.

Franchise ownership

Key facts

- 93 percent of respondents were franchisors.
- The remaining 7 percent were master franchisees or area developers.
- 93 percent of franchise systems were privately owned.
- 7 percent of franchise systems were publicly listed companies.

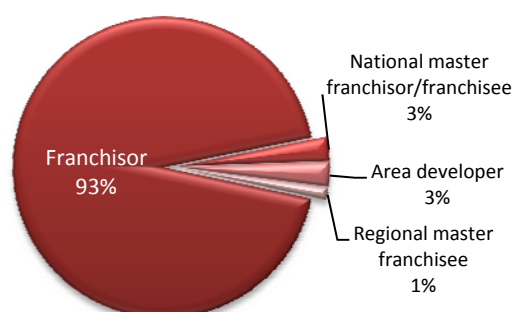
The vast majority (93 percent) of survey respondents were franchisors with the remainder being area developers and master franchisees at the national or regional level. Similarly, most franchise systems were privately owned (93 percent). The remaining 7 percent of franchises are publicly listed companies.

A2 Please indicate your franchise status.

Response (Franchise arrangement)	Number of responses	Percent
Franchisor	71	93.4
National master franchisor/franchisee	2	2.6
Area developer	2	2.6
Regional master franchisee	1	1.3
Total	76	100.0

Notes: 1) The expected total of 76 respondents provided a response.
2) Data were collected from Survey 1 for this question.

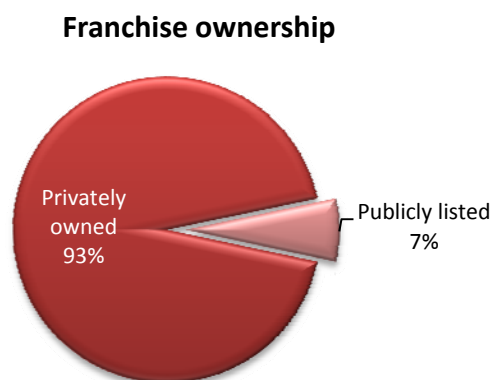
Franchise arrangement



A3 Is your franchise privately owned or publicly listed?

Response (Franchise ownership)	Number of responses	Percent
Privately owned	71	93.4
Publicly listed	5	6.6
Total	76	100.0

Notes: 1) The expected total of 76 respondents provided a response.
2) Data were collected from Survey 1 for this question.



Age of franchise systems

Key facts

- Franchisors have 15 years operational experience and 11 years franchising experience.
- Pilot operations are generally conducted for 3 years prior to franchising.
- 20 percent of franchisors choose to franchise immediately.
- Half the respondents were mature franchises, franchising for more than 10 years.

The maturity of franchising in Australia is evidenced by the growing level of experience of franchisors. On average, franchisor respondents had been operating for 15 years and franchising for 11 years. Although franchisors tested their concept in the market for an average of three years prior to franchising, some 20 percent began franchising immediately and a further 19 percent franchised their businesses within one year. There was no significant difference in the level of experience between retail and non-retail franchise systems. Although franchising began in Australia in the 1970s, most operators began franchising in the 1990s and beyond.

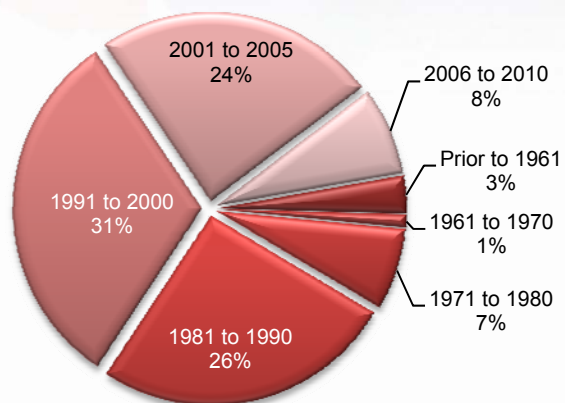
A4 In which year did this business commence operations?

A5 In which year did this business commence franchising?

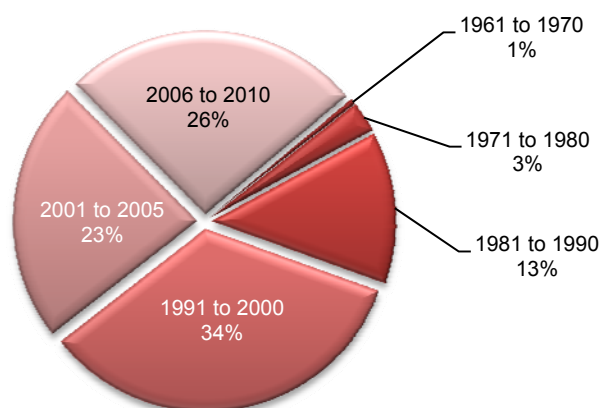
Response (Year)	Year commenced operations		Year commenced franchising	
	Number of responses	Percent	Number of responses	Percent
Prior to 1961	6	3.2	0	0.0
1961 to 1970	2	1.1	1	0.5
1971 to 1980	13	7.0	5	2.7
1981 to 1990	48	25.8	25	13.4
1991 to 2000	58	31.2	63	33.9
2001 to 2005	45	24.2	43	23.1
2006 to 2010	14	7.5	49	26.3
Total	186	100.0	186	100.0

- Notes:
- 1) A total of 186 respondents provided a response from an expected 187.
 - 2) The median number of years was: operating 15 years and franchising 11 years.
 - 3) Businesses had been operating for a range of 1 to 174 years and franchising for a range of 1 to 43 years.
 - 4) Data were collected from Surveys 1 and 2 for this question.

Year commenced operations



Year commenced franchising

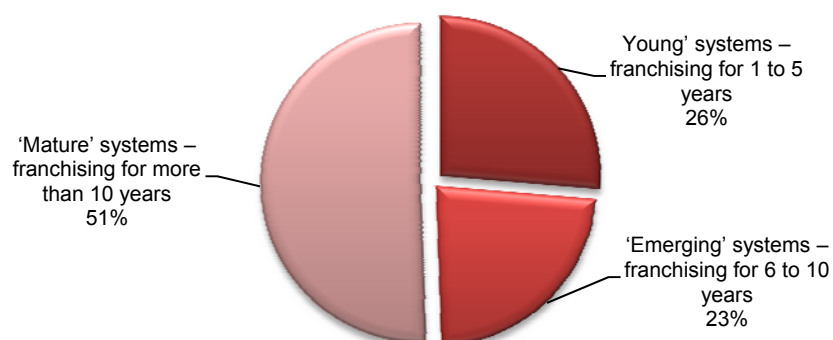


To demonstrate the level of franchising experience of the survey respondents, the table below splits the sample into young franchise systems (26 percent), emerging systems (23 percent) and mature systems (51 percent). Hence, half the sample of respondents comprises experienced franchisors that have been franchising for more than 10 years.

Category (Level of franchising experience)	Number of responses	Percent
'Young' systems – franchising for 1 to 5 years	49	26.3
'Emerging' systems – franchising for 6 to 10 years	43	23.1
'Mature' systems – franchising for more than 10 years	94	50.5
Total	186	100.0

Note: 1) Based on 2008/2009 data provided in the current survey.

Franchising experience



Size of franchise systems

Key facts

- Franchise systems are becoming larger.
- 60 percent of franchisors operate at least one company unit.
- One third of respondents were large systems with more than 50 units.

Providing data about the size of their systems for the two-year period from 2007 to 2009, franchisors reported individual system growth. The median number of units per system (franchised and company owned) increased from 18 in 2007/2008 to 23 in 2008/2009. Broken down further, the median number of franchised units was 17 in 2007/2008 and 22 in 2008/2009 with a median of 1 company unit across both time periods.

Although the systems are growing they remain quite small with slightly more than one quarter (28 percent) reporting systems that have 10 units or less. Some 40 percent of franchise systems do not operate any company-owned units.

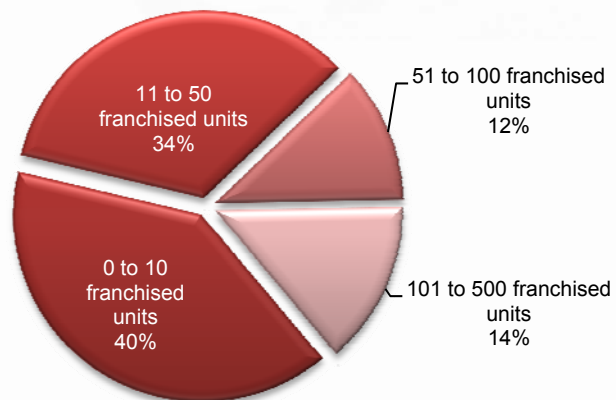
Retail franchise systems are significantly larger than those in other industries with retail franchises holding a median of 40 units in 2008/2009 compared with 17 in non-retail franchises.

A6 *How many franchised units were operating within your franchise system in Australia as at financial years 2007/08 and 2008/09?*

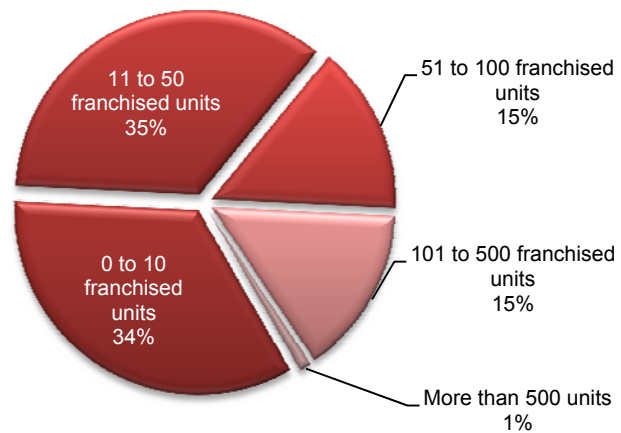
Response (Franchised units)	Financial year 2007/2008		Financial year 2008/2009	
	Number of responses	Percent	Number of responses	Percent
0 to 10 franchised units	70	39.8	62	34.1
11 to 50 franchised units	60	34.1	64	35.2
51 to 100 franchised units	21	11.9	27	14.8
101 to 500 franchised units	25	14.2	27	14.8
More than 500 units	0	0.0	2	1.1
Total	176	100.0	182	100.0

- Notes:
- 1) A total of 176 franchisors provided a response from an expected 187 for data relating to financial year 2007/2008.
 - 2) A total of 182 franchisors provided a response from an expected 187 for data relating to financial year 2008/2009.
 - 3) The median number of franchised units was 17 in 2007/2008 and 22 in 2008/2009.
 - 4) Responses ranged from zero to 460 franchised units in 2007/2008 and from zero to 680 units in 2008/2009.
 - 5) Data were collected from Surveys 1 and 2 for this question.

Franchised units 2007/2008 Financial year



Franchised units 2008/2009 Financial year

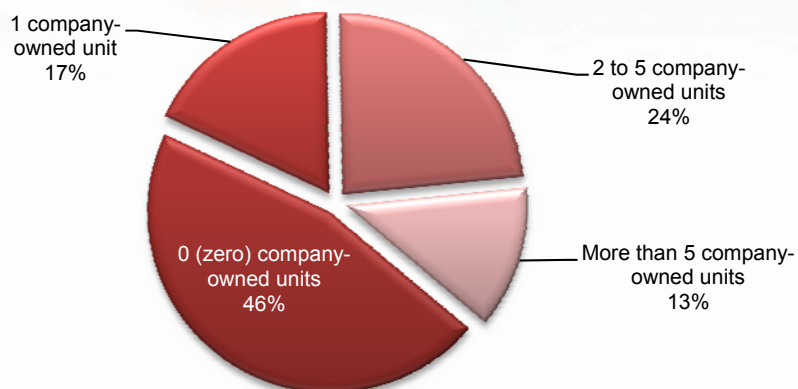


A7 How many company-owned units were operating within your franchise system in Australia as at financial years 2007/08 and 2008/09?

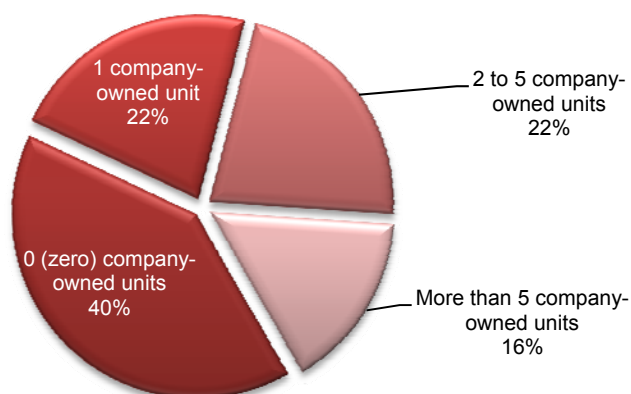
Response (Company-owned units)	Financial year 2007/2008		Financial year 2008/2009	
	Number of responses	Percent	Number of responses	Percent
0 (zero) company-owned units	83	45.9	75	40.3
1 company-owned unit	32	17.7	41	22.0
2 to 5 company-owned units	43	23.7	41	22.0
More than 5 company-owned units	23	12.7	29	15.6
Total	181	100.0	186	100.0

- Notes:
- 1) A total of 181 franchisors provided a response from an expected 187 for data relating to financial year 2007/2008.
 - 2) A total of 186 franchisors provided a response from an expected 187 for data relating to financial year 2008/2009.
 - 3) There was a median of one company-owned unit in both years.
 - 4) Responses ranged from zero to 140 company-owned units in 2007/2008 and from zero to 260 units in 2008/2009.
 - 5) Data were collected from Surveys 1 and 2 for this question.

Company-owned units 2007/2008 Financial year



Company-owned units 2008/2009 Financial year



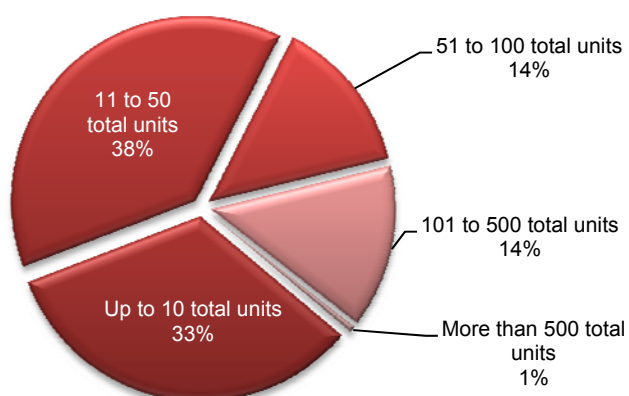
A summary of the total units (franchised and company-owned) held by respondents is shown below.

Response (Total units)	Financial year 2007/2008		Financial year 2008/2009	
	Number of responses	Percent	Number of responses	Percent
Up to 10 total units	58	33.1	53	29.3
11 to 50 total units	67	38.3	70	38.7
51 to 100 total units	24	13.7	27	14.9
101 to 500 total units	25	14.3	27	14.9
More than 500 total units	1	0.6	4	2.2
Total	175	100.0	181	100.0

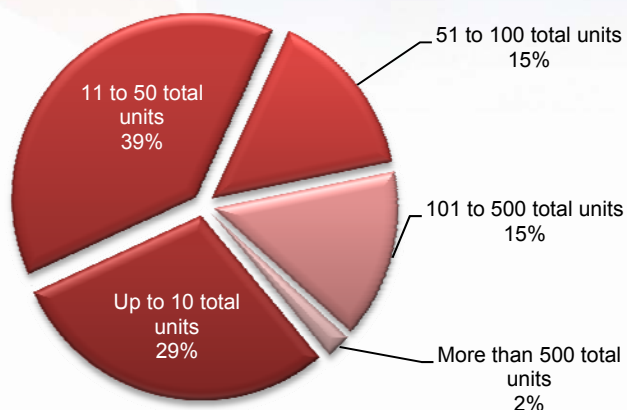
Notes:

- 1) The median number of total units was 18 in 2007/2008 and 23 in 2008/2009.
- 2) Responses ranged from zero to 509 in 2007/2008 and from zero to 780 in 2008/2009.
- 3) A total of 175 franchisors provided data for both franchised and company units for 2007/2008.
- 4) A total of 181 franchisors provided data for both franchised and company units for 2008/2009.

Total units 2007/2008 Financial year



Total units 2008/2009 Financial year

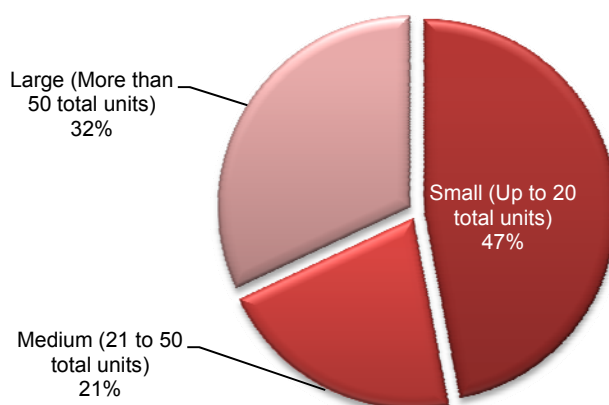


Firms have been categorised by size in the table below to demonstrate the mixture of small (47 percent), medium (21 percent) and large franchise systems (32 percent).

Category (System size)	Number of responses	Percent
Small (Up to 20 total units)	85	47.0
Medium (21 to 50 total units)	38	21.0
Large (More than 50 total units)	58	32.0
Total	181	100.0

Note: 1) Based on 2008/2009 data provided in the current survey.

System size



Turnover of franchise systems

Key facts

- Median turnover \$10 million in retail systems.
- Median turnover \$5 million in other industries.

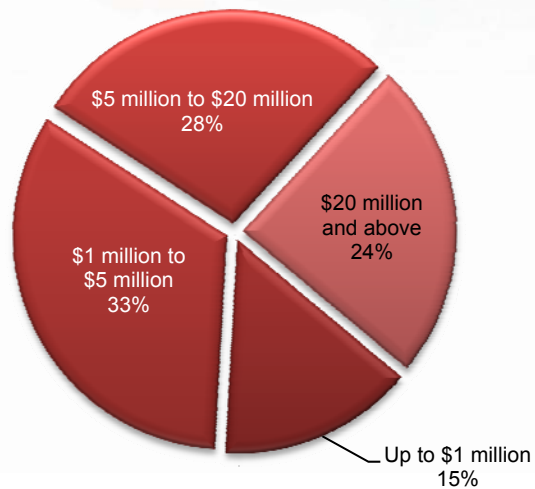
The median total turnover for franchised units across all industries was \$6 million in the 2007/2008 financial year and \$7.1 million in 2008/2009. Turnover was significantly higher in retail franchises (median of \$10 million) compared with a median of \$5 million in other industries.

A8 *What was the total turnover (annual sales) for all franchised units in Australia for financial years 2007/08 and 2008/09?*

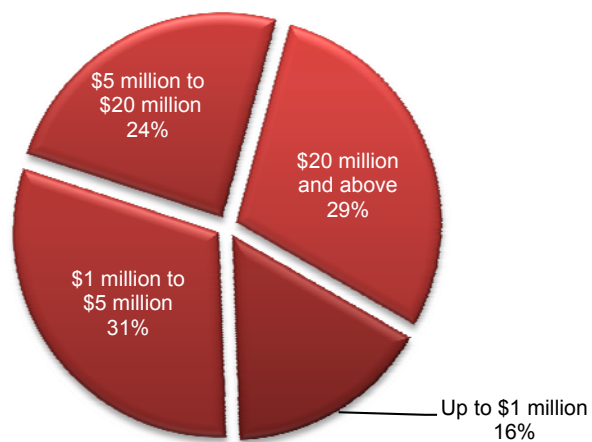
Response (Franchised unit turnover)	Financial year 2007/2008		Financial year 2008/2009	
	Number of responses	Percent	Number of responses	Percent
Up to \$1 million	8	14.8	10	16.1
\$1 million to \$5 million	18	33.3	19	30.6
\$5 million to \$20 million	15	27.8	15	24.2
\$20 million to \$50 million	3	5.6	4	6.5
\$50 million to \$100 million	5	9.3	7	11.3
\$100 million to \$500 million	5	9.3	5	8.1
More than \$500 million	0	0.0	2	3.2
Total	54	100.0	62	100.0

- Notes:
- 1) A total of 54 franchisors provided a response for financial year 2007/2008 out of an expected 187.
 - 2) A total of 62 franchisors provided a response for financial year 2008/2009 out of an expected 187.
 - 3) Responses ranged from zero to \$464 million in 2007/2008.
 - 4) Responses ranged from \$34 492 to \$1 billion in 2008/2009.
 - 5) Data were collected from Surveys 1 and 2 for this question.

Franchise unit turnover for 2007/2008 Financial year



Franchise unit turnover for 2008/2009 Financial year



A9 *What was the total turnover (annual sales) for all company-owned units in Australia for financial years 2007/08 and 2008/09?*

There were insufficient responses to this question.

Franchise agreements

Key facts

- Most franchise agreements are for 5 years.
- 95 percent of franchisors offer franchise agreement renewals.

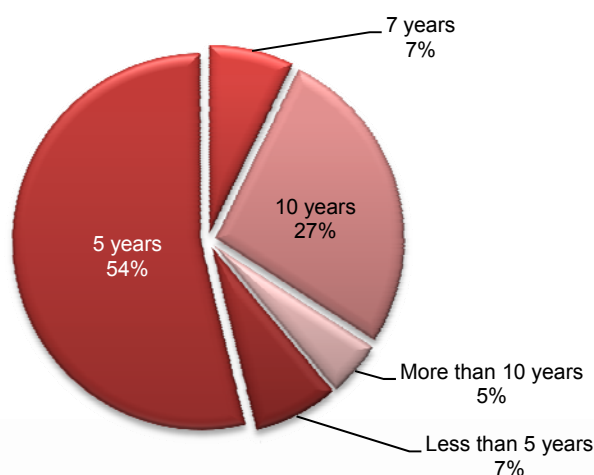
The most common length of franchise agreements was an initial term of 5 years (offered by 54 percent of franchisors), followed by a 10 year initial term (favoured by 27 percent of franchisors). The majority (95 percent) of franchisors offer franchise agreement renewals, with one renewal being the most common situation (55 percent of franchise systems). As with the initial agreement, the most common renewal term was 5 years.

A10 What is the initial term of your current franchise agreement?

Response (Initial term of franchise agreement)	Number of responses	Percent
Less than 5 years	3	7.3
5 years	22	53.7
7 years	3	7.3
10 years	11	26.8
More than 10 years	2	4.8
Total	41	100.0

- Notes:
- 1) A total of 41 franchisors provided a response from an expected 76.
 - 2) The median initial franchise agreement term was 5 years.
 - 3) The initial term of franchise agreements ranged from 3 to 20 years.
 - 4) Data were collected from Survey 1 for this set of questions.

Initial term of franchise agreement



A11 Do you offer franchise agreement renewals?

Response (Franchise agreement renewals)	Number of responses	Percent
Yes	72	94.7
No	4	5.3
Total	76	100.0

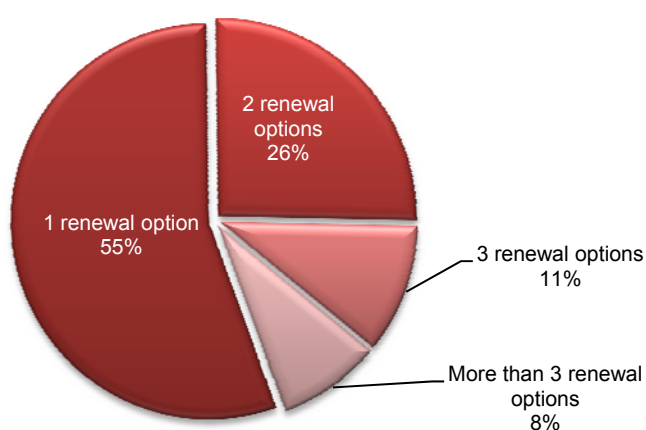
Note: 1) All 76 franchisors provided a response.

A12 How many franchise agreement renewal options are offered?

Response (Franchise agreement renewal options)	Number of responses	Percent
1 renewal option	26	55.3
2 renewal options	12	25.5
3 renewal options	5	10.6
More than 3 renewal options	4	8.5
Total	47	100.0

Notes: 1) A total of 47 franchisors provided a response from an expected 76.
 2) The median number of renewal options offered was 1.
 3) The number of renewal options ranged from 1 to 9.

Franchise agreement renewal options



A13 For what length of time are the franchise agreement renewal options?

Median length of franchise agreement renewal options 5 years

Notes: 1) A total of 70 franchisors provided a response from an expected 76.
 2) The length of renewal options ranged from 1 to 35 years.

Franchise unit location

Key facts

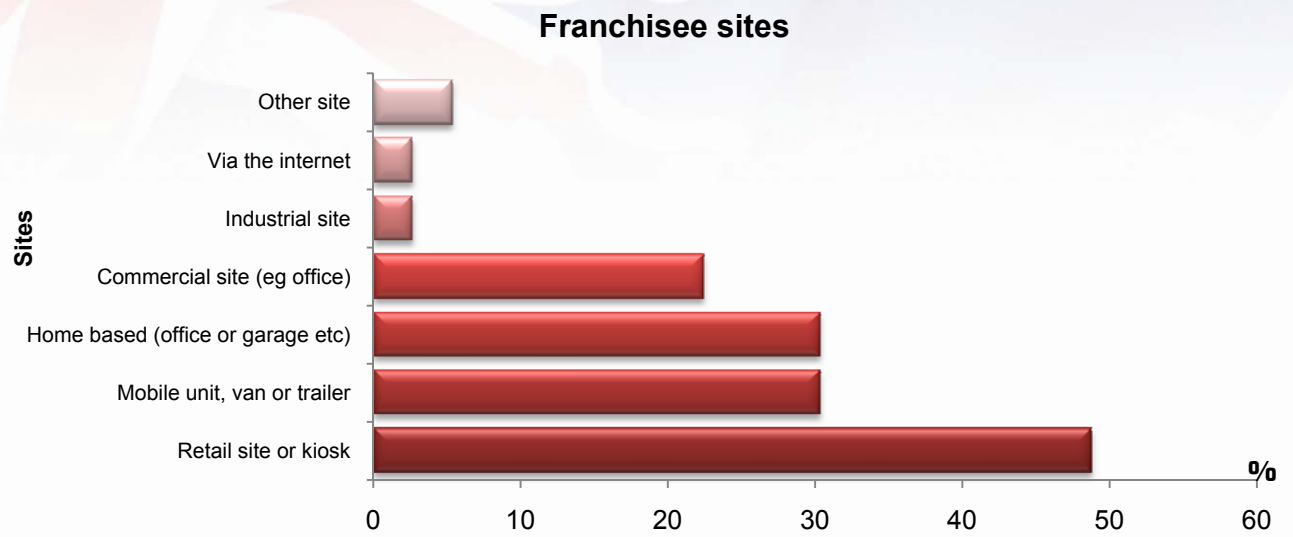
- The majority of franchisors (49 percent) responded that franchisees operate from retail sites or kiosks.
- Mobile (30 percent) and home-based franchises (30 percent) are also popular.

The majority of franchisors reported that their franchisees operate from a fixed retail site or kiosk (49 percent), from a mobile van, unit or trailer (30 percent) or from home (30 percent). Some franchise systems enable franchisees to operate from commercial sites (22 percent), although there is little evidence that franchisees conduct their businesses from industrial sites (3 percent), or via the internet (3 percent).

A14 From where do your franchisees operate their businesses?

Response (Franchisee sites)	Number of responses	Percent
Retail site or kiosk	37	48.7
Mobile unit, van or trailer	23	30.3
Home based (office or garage etc)	23	30.3
Commercial site (eg office)	17	22.4
Industrial site	2	2.6
Via the internet	2	2.6
Other site	4	5.3

Notes: 1) All 76 franchisors provided a response.
 2) Multiple responses were recorded for some respondents.
 3) Data were collected from Survey 1 for this question.



Employment

Key facts

- Small decline reported in permanent staffing.
- Major shift towards casual employment.
- 27 percent of Head Office income is spent on Head Office staff wages and salaries.

When compared with data from *Franchising Australia 2008*, the proportion of staff employed on a permanent full-time or part-time basis has declined, with a notable shift towards casual staff.

In most franchise systems one or two full-time equivalent head office staff members were employed in each of recruitment, property, marketing, training and field support, and administration. Larger systems employ more head office staff for these activities commensurate with the number of franchisees to support.

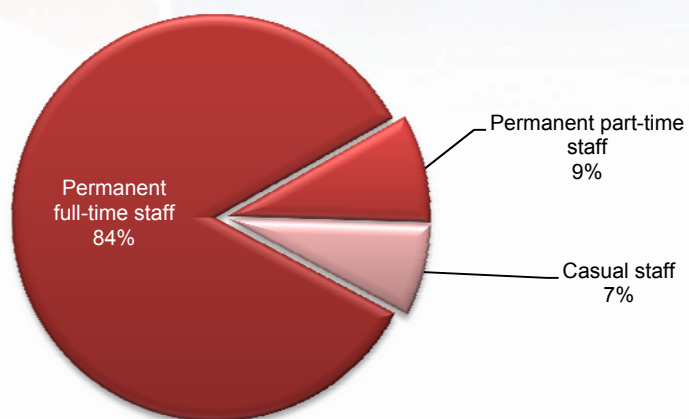
Franchisors reported that a median of 27 percent of their Head Office income was spent on Head Office staff wages and salaries, including Directors' salaries.

A15 How many staff are employed in your system?

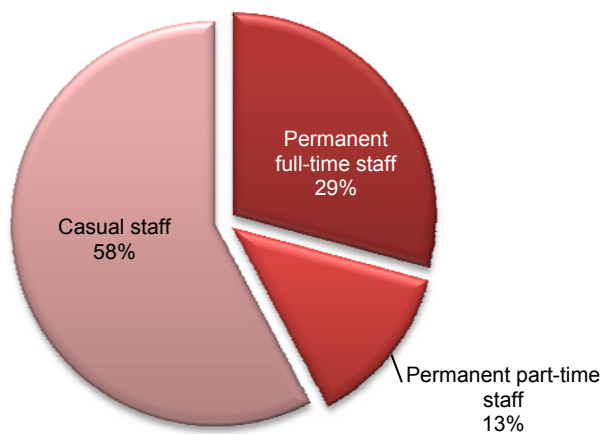
Response (Employee status)	Head Office		Franchised units		Company units	
	Number of employees	Percent	Number of employees	Percent	Number of employees	Percent
Permanent full-time staff	2228	84.1	18419	29.2	1986	24.5
Permanent part-time staff	228	8.6	8215	13.0	1167	14.4
Casual staff	193	7.3	36426	57.8	4944	61.1
Total	2649	100.0	63060	100.0	8097	100.0

Notes: 1) Responses were: 155 out of an expected 187 for full-time staff, 103 out of an expected 187 for part-time staff, and 89 out of an expected 187 for casual staff.
2) Data were collected from Surveys 1 and 2 for this question.

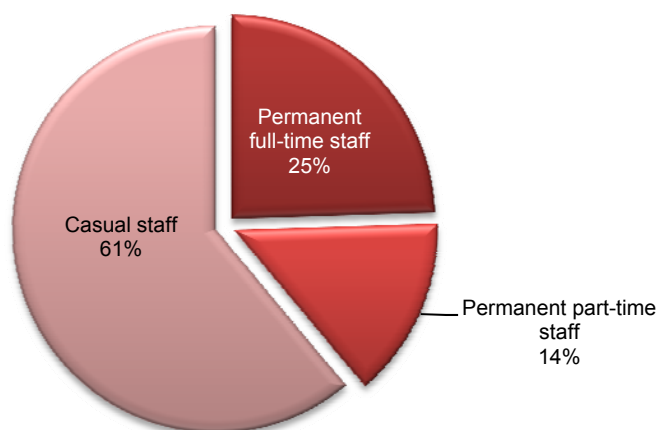
Head office employees



Franchise unit employees



Company unit employees



A16 How many Head Office (full-time equivalent) staff worked in the following activities?

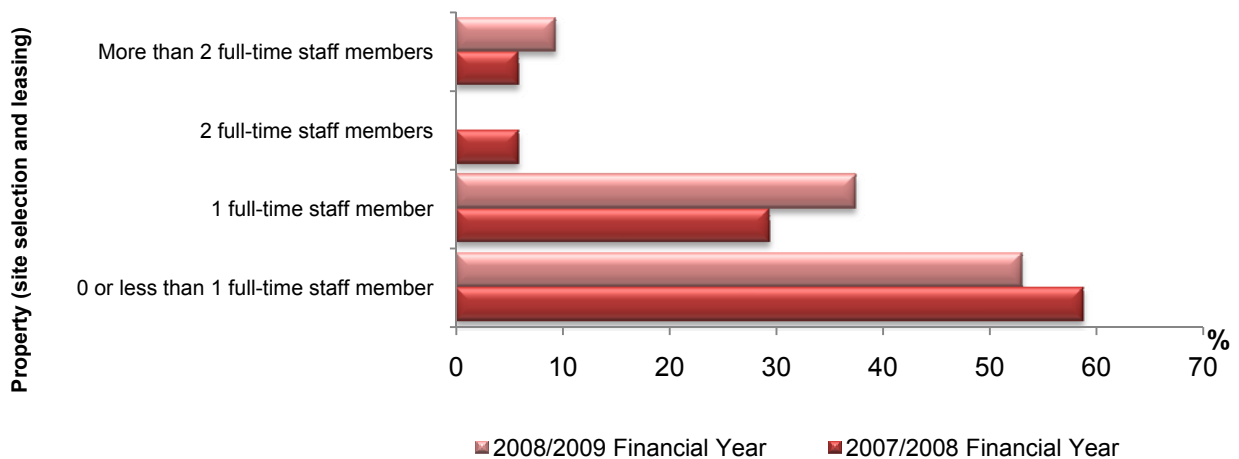
Response (Head office staff)	Financial year 2007/2008		Financial year 2008/2009	
	Number of responses	Percent	Number of responses	Percent
Recruitment				
0 or less than 1 full-time staff member	15	31.9	13	27.7
1 full-time staff member	23	48.9	27	57.4
2 full-time staff members	6	12.8	4	8.5
More than 2 full-time staff members	3	6.4	3	6.3
Total	47	100.0	47	100.0
Property (site selection and leasing)				
0 or less than 1 full-time staff member	20	58.8	17	53.1
1 full-time staff member	10	29.4	12	37.5
2 full-time staff members	2	5.9	0	0.0
More than 2 full-time staff members	2	5.9	3	9.4
Total	34	100.0	32	100.0
Marketing				
0 or less than 1 full-time staff member	9	20.0	6	13.6
1 full-time staff member	18	40.0	20	45.5
2 full-time staff members	9	20.0	8	18.2
More than 2 full-time staff members	9	20.0	10	22.7
Total	45	100.0	44	100.0
Training and field support				
0 or less than 1 full-time staff member	8	17.4	6	13.1
1 full-time staff member	8	17.4	14	30.4
2 full-time staff members	10	21.7	8	17.4
More than 2 full-time staff members	20	43.5	18	39.1
Total	46	100.0	46	100.0
Administration				
0 or less than 1 full-time staff member	8	14.5	6	10.9
1 full-time staff member	10	18.2	16	29.1
2 full-time staff members	14	25.5	13	23.6
More than 2 full-time staff members	23	41.8	20	36.4
Total	55	100.0	55	100.0

Notes: 1) A total of 55 franchisors provided a response from an expected 76.
2) Data were collected from Survey 1 for this question.

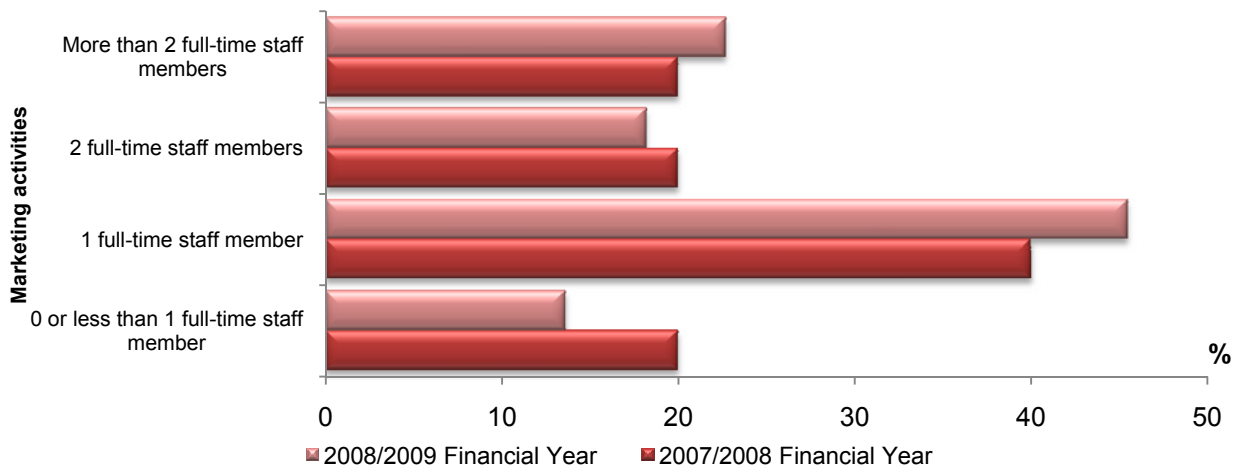
Head office staff involved in recruitment activities



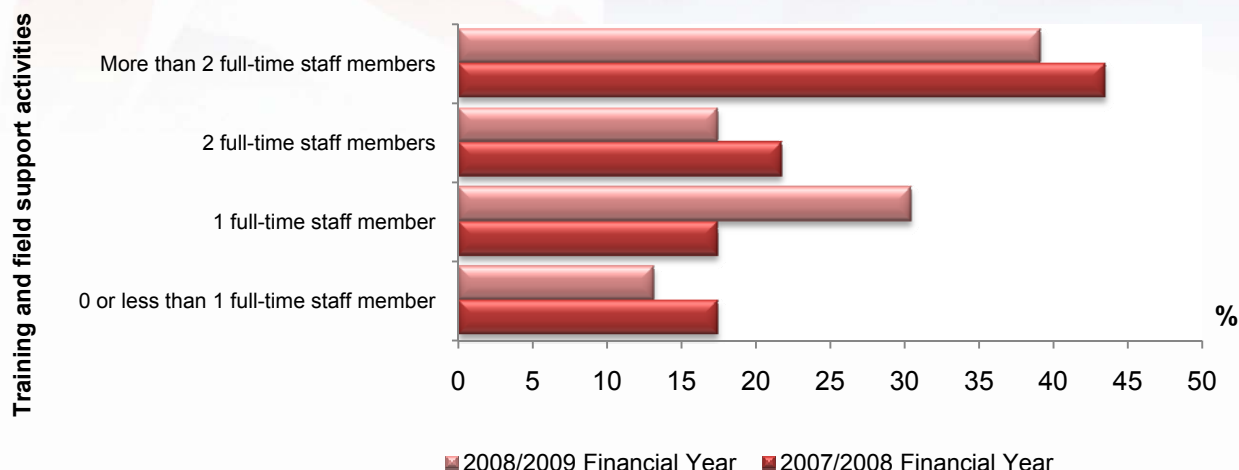
Head office staff involved in property-related activities



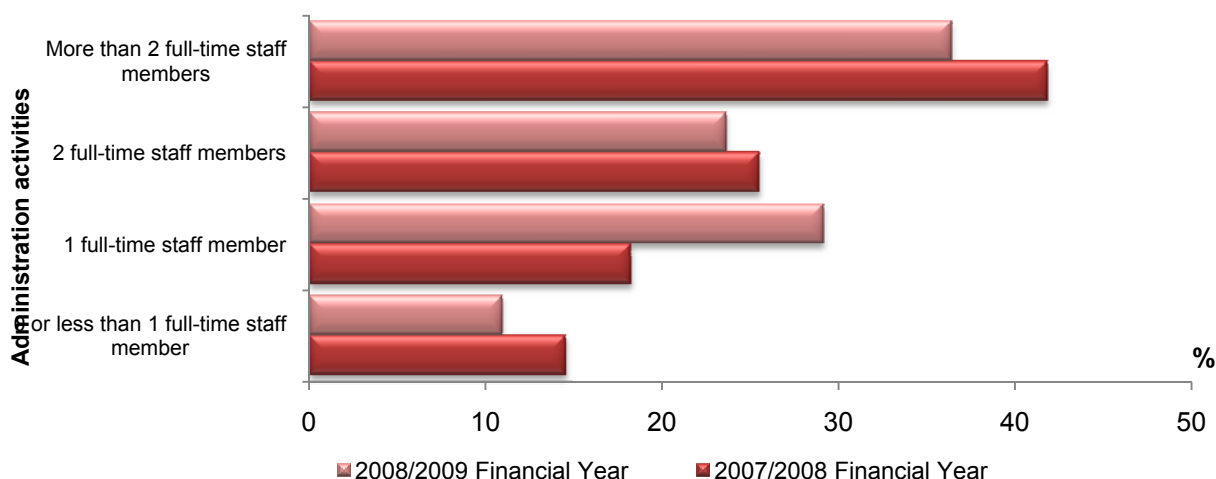
Head office staff involved in marketing activities



Head office staff involved in training and field support activities



Head office staff involved in administration



A17 What percentage of Head Office income is spent on Head Office staff wages and salaries (including Director's salaries)?

Median percentage of Head Office income spent on Head Office staff wages and salaries 27 percent

- Notes:
- 1) A total of 19 franchisors provided a response from an expected 76.
 - 2) Responses ranged from zero to 100 percent.
 - 3) Data were collected from Survey 1 for this question.

Operating expenses

Key facts

- Retail franchisors tend to invest more heavily in marketing and recruitment than non-retail franchisors.
- Both retail and non-retail sectors invest similar amounts in training.

Operating expenses of the franchising entity increased over the two previous financial years. The median operating expenses in 2007/2008 were \$200 000, increasing to \$210 000 in 2008/2009.¹

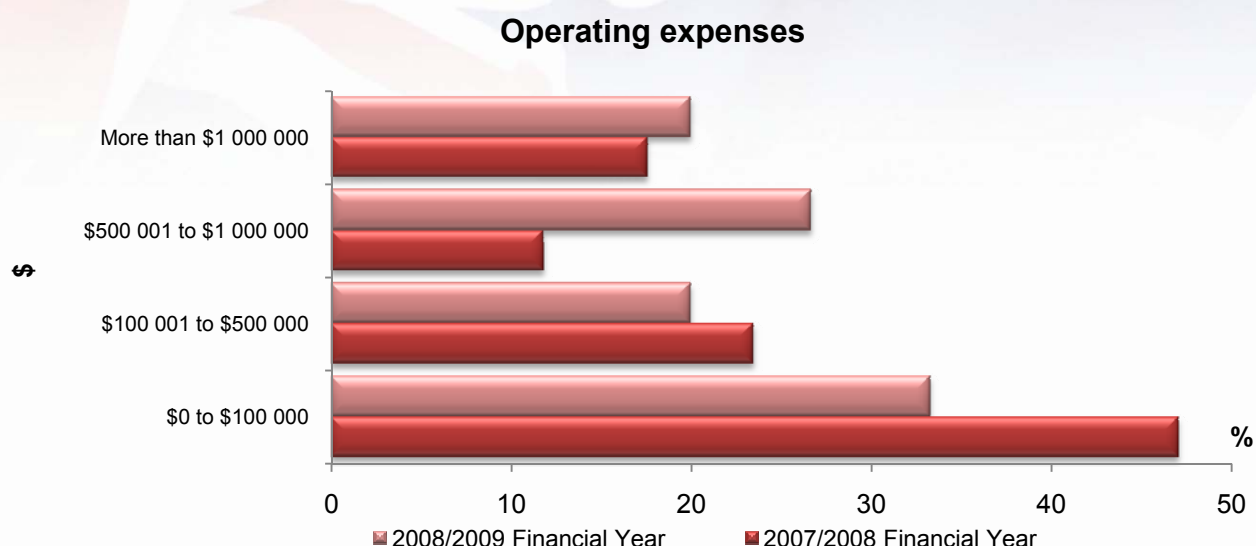
In accordance with size of the franchise system and type of industry, expenditure on activities such as site selection, property leasing, recruitment, training, marketing, field support and administration varied widely. Franchisors in both the retail and non-retail sectors spent a median of \$10 000 in 2008/2009 on training. In contrast, retail franchisors spent a median of \$90 000 on marketing, compared with just \$18 000 by non-retail franchisors. Similarly, retail franchisors spent a median of \$20 000 on recruitment compared with \$7000 by franchisors operating in industries other than retailing.

A18 What were the total operating expenses of the Franchising Entity in financial years 2007/08 and 2008/09?

Response (Operating expenses)	Financial year 2007/2008		Financial year 2008/2009	
	Number of responses	Percent	Number of responses	Percent
\$0 to \$100 000	8	47.1	5	33.3
\$100 001 to \$500 000	4	23.5	3	20.0
\$500 001 to \$1 000 000	2	11.8	4	26.7
More than \$1 000 000	3	17.6	3	20.0
Total	17	100.0	15	100.0

- Notes:
- 1) A total of 17 franchisors provided a response for financial year 2007/2008 out of an expected 76.
 - 2) A total of 15 franchisors provided a response for financial year 2008/2009 out of an expected 76.
 - 3) The median operating expenses were \$200 000 in 2007/2008 and \$210 000 in 2008/2009.
 - 4) Data were collected from Survey 1 for this question.

¹ The number of responses for this item was small and the results should be treated with caution.



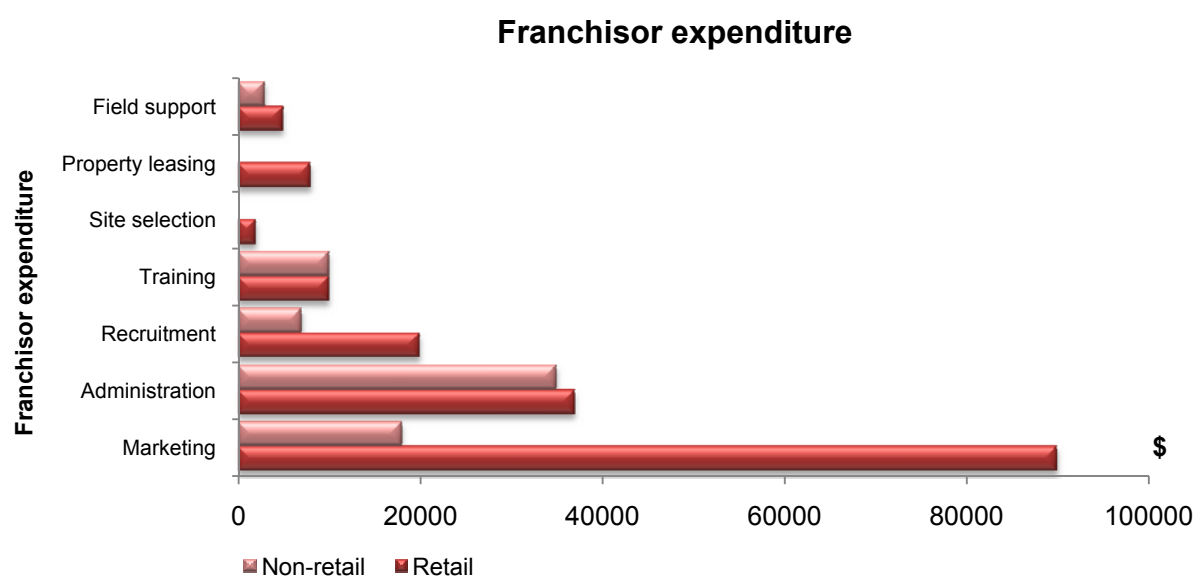
A19 In the financial year 2008/09 how much did you spend on the following activities (including on-costs such as vehicles)?

Response (Franchisor expenditure)	Range	Median
Site selection	\$0 to \$200 000	\$0
Property leasing	\$0 to \$565 000	\$0
Recruitment	\$0 to \$1 650 000	\$12 244
Training	\$0 to \$800 000	\$10 000
Marketing	\$0 to \$10 000 000	\$31 000
Field support	\$0 to \$1 710 000	\$4000
Administration	\$0 to \$38 000 000	\$36 000

Notes: 1) A total of 54 franchisors provided a response from an expected 76.
 2) Data were collected from Survey 1 for this question.

The breakdown of expenditure for retail and non-retail franchises is provided in the table below.

Industry breakdown (Franchisor expenditure)	Retail (Median Expenditure)	Non retail (Median expenditure)
Site selection	\$2 000	\$0
Property leasing	\$8 000	\$0
Recruitment	\$20 000	\$7 000
Training	\$10 000	\$10 000
Marketing	\$90 000	\$18 000
Field support	\$5 000	\$3 000
Administration	\$37 000	\$35 000



Franchised unit start-up costs

Key facts

- Retailing median start-up cost: \$275 000.
- Non-retailing median start-up cost: \$89 000.
- Initial franchise fee varies from \$40 000 in retailing to \$30 000 in non retailing.

The total *start-up cost* of a new franchise unit has risen since 2008, particularly in the non-retail sector. The median start-up cost in a retail franchise in 2010 was \$275 000, compared with \$89 000 in a non retail franchise. Within retailing, non-food franchises cost more to enter (\$304 500) compared to \$254 500 in food franchises. Across the sector total start-up costs ranged from \$1600 to more than \$1.2 million.

The majority of franchisors (98 percent) charged an *initial franchise fee*, varying from a median of \$40 000 in retailing to \$30 000 in non retail franchises. Initial fees ranged from zero to \$250 000.

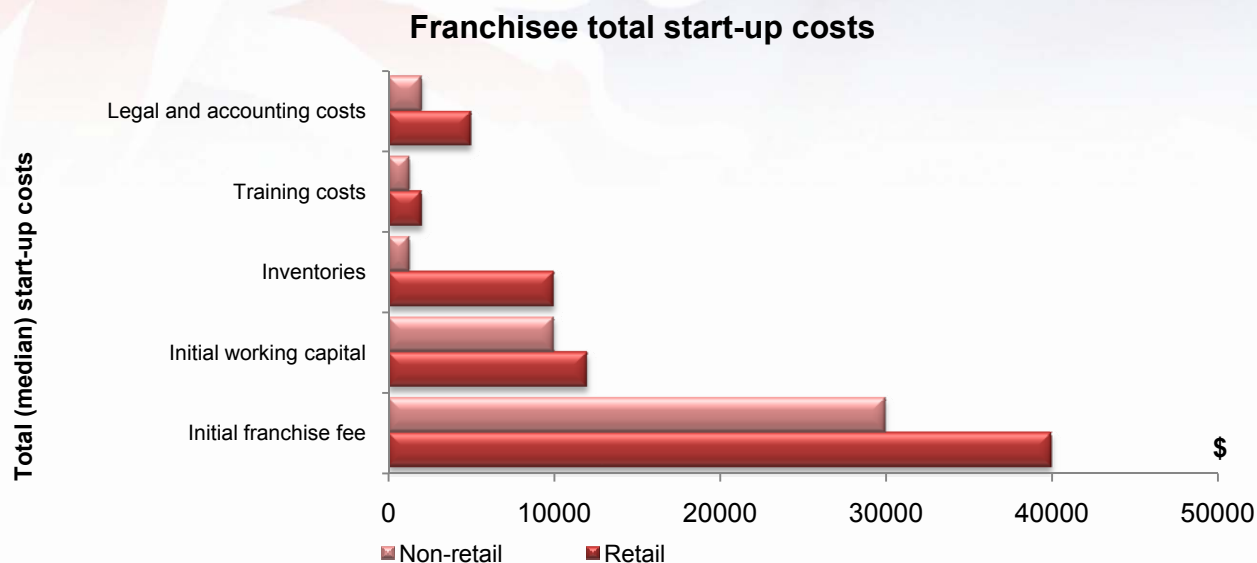
The median cost of *inventories* was \$10 000 in retail franchises and only \$1250 in other franchises where inventories are often not required. Non-food franchises included start-up inventory costs of \$77 500 compared to \$5000 in food franchises.

Fit-out costs were substantial in retail franchises (median cost of \$150 000) but absent in many non retail franchises where the median cost was only \$16 500. Due to capital costs associated with setting up kitchens and serving facilities the fit-out costs in food franchises were high (median of \$150 000) compared to \$85 000 in non-food retailing.

The median costs allocated to *training* were \$2000 in retail franchises and \$1250 in other industry groups. Some 45 percent of franchisors did not allocate a specific cost towards training. The costs of training varied greatly, ranging from zero to \$100 000 in retailing and up to \$40 000 in non-retail franchises.

Legal and accounting costs were apportioned by three quarters of the respondents. The median costs were \$5000 in retailing and \$2000 in non-retail franchises. Legal and accounting costs ranged from zero to \$15 000 in retailing and from zero to \$12 000 in the non-retail sector.

The requirements for *initial working capital* were slightly more stringent in retailing (median of \$12 000) compared to \$10 000 in non-retail franchises.



A20 For a franchisee what is the total start-up cost of a new franchise unit (excluding GST)?

Response (Total start-up costs)	Retail franchises		Non retail franchises	
	Median cost	Range	Median cost	Range
Initial franchise fee	\$40 000	\$0 to \$250 000	\$30 000	\$0 to \$100 000
Inventories	10 000	0 to 450 000	1 250	0 to 2 000 000
Fit-out costs and/or equipment	150 000	0 to 450 000	16 500	0 to 1 000 000
Training costs	2 000	0 to 100 000	1 250	0 to 40 000
Legal and accounting costs	5 000	0 to 15 000	2 000	0 to 12 000
Initial working capital	12 000	0 to 250 000	10 000	0 to 500 000
Other costs	0	0 to 50 000	0	0 to 50 000
Total start-up costs	\$275 000	\$1600 to \$1 215 000	\$89 000	\$12 000 to \$1 075 000

Notes: 1) A total of 159 franchisors provided a response from an expected 187.
2) Data were collected from Surveys 1 and 2 for this question.

Ongoing franchise fees

Key facts

- The majority (89 percent) of franchisors charge ongoing franchise service fees:
 - 41 percent administer a flat fee.
 - 59 percent administer a percentage fee.
- Median flat fee \$410 per month plus \$40 for marketing.
- Median percentage fee 6 percent plus 2 percent for marketing.

The majority of franchisors (89 percent) require their franchisees to pay ongoing fees. Of these, percentage based royalties were used by 59 percent of franchisors with the remaining 41 percent preferring flat fee arrangements. The median flat fee *royalty or franchise service fee* was \$410 per month and the median percentage based fee was 6 percent.² The fees ranged from \$145 to \$2000 per month and from 1 to 35 percent.

The average ongoing *marketing or advertising levy* was \$40 per month or 2 percent. Marketing levies ranged from \$30 to \$1200 per month and from 0.5 to 5 percent.

Slightly less than half of the franchisor respondents also charged a *computer services fee*, ranging from \$40 to \$550 per month and from 1 to 2.5 percent.

One quarter of franchisors charged a *training fee*, ranging from \$10 to \$1000 per month and from 0.5 to 1 percent.

A21 What ongoing fees do you charge your franchisees?

Response (Ongoing fees)	Range	
	Flat rate fees \$ per month	Percentage fees %
Franchise service fee/royalty	\$145 to \$2000	1 to 35%
Marketing or advertising levy	\$30 to \$1200	0.5 to 5%
Computer service fee (IT)	\$40 to \$550	1 to 2.5%
Training fee	\$10 to \$1000	0.5 to 1%
Other fees	\$15 to \$7000	0%

Notes: 1) A total of 63 franchisors provided a response from an expected 76.
2) Data were collected from Survey 1 for this question.

² Due to small sample sizes an industry breakdown was not possible for analysis of ongoing fees.

Financial factors

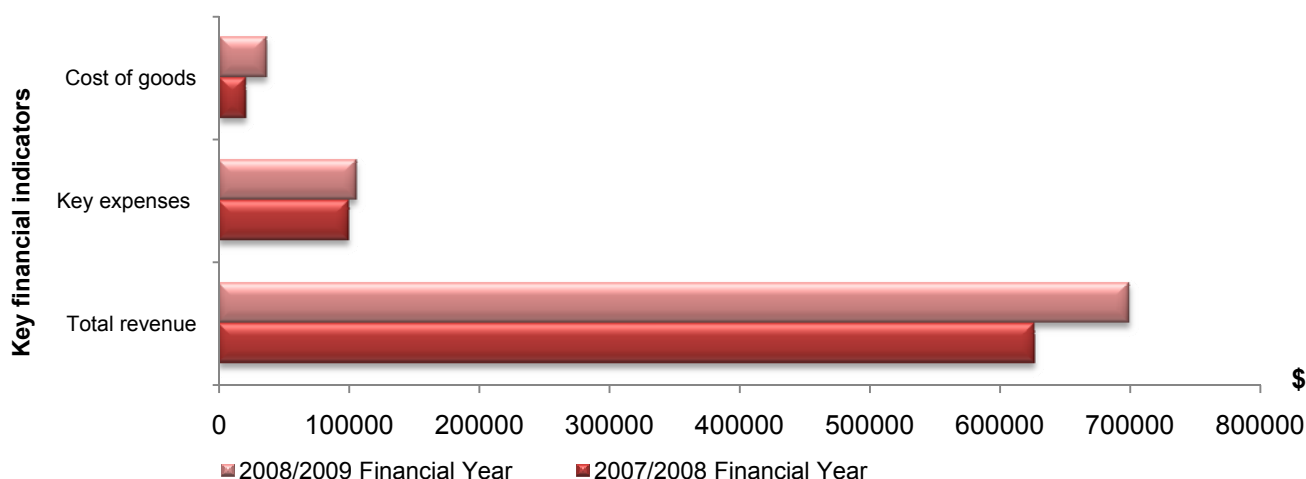
The objective of this series of financial questions was to enable an analysis of the effect of the economic downturn on franchisor operations. However, the response rate was extremely low, most likely due to the sensitivity of the information and the lack of accessibility to the data by some respondents. Hence, the responses have been reported below but we have not attempted to analyse the findings beyond mere description.

A22 For the Franchisor Entity please indicate total revenue, cost of goods sold and key expenses.

Response (Key financial indicators)	Financial year 2007/2008		Financial year 2008/2009	
	Median \$	Range \$	Median \$	Range \$
Total revenue	\$627 000	\$34 500 to \$2 600 000 000	\$700 000	\$10 000 to \$3 400 000 000
Cost of goods	\$20 000	\$4 600 to 1 900 000 000	\$35 774	\$1 466 to \$2 400 000 000
Key expenses	\$100 000	\$600 000 to \$500 000 000	\$106 000	\$650 000 to \$800 000 000

Notes: 1) A total of 23 franchisors provided a response from an expected 76.
 2) Key expenses include costs related to occupancy, labour, legal and accounting, marketing and vehicles.
 3) Data were collected from Survey 1 for this set of questions.

Franchisor key financial indicators

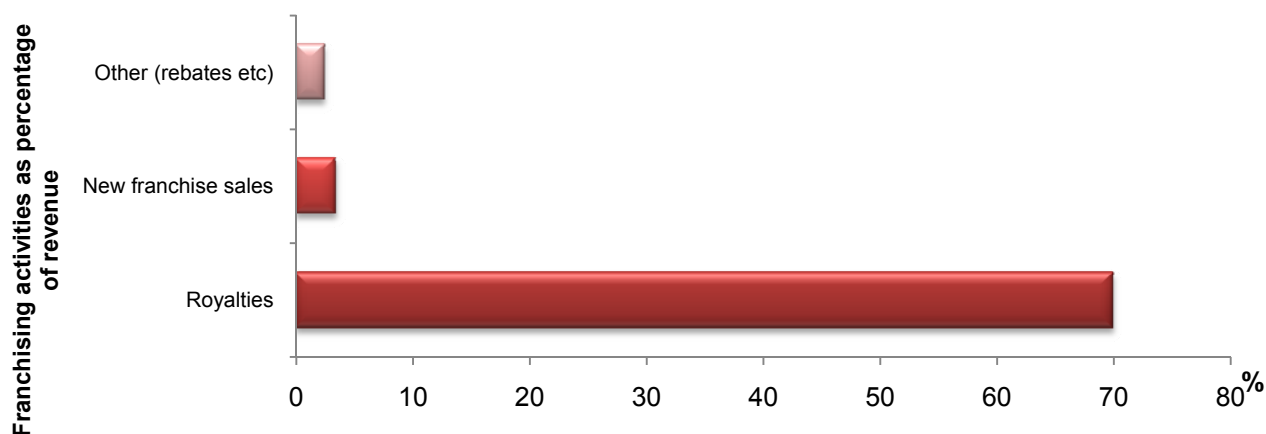


A23 For the Franchisor Entity in the financial year 2008/09, what percentage of your revenue was a result of the following items?

Response (Percentage of revenue)	Median %	Range %
New franchise sales	3.4%	0 to 90%
Royalties	70.0%	0 to 100%
Other (rebates etc)	2.5%	0 to 100%

Note: 1) A total of 42 franchisors provided a response from an expected 76.

Contribution as percentage of revenue for 2008/9 Financial year



A24 Looking at the Franchisor Entity's Balance Sheet, what level of Debtors and Creditors did it have in financial years 2007/08 and 2008/09?

Insufficient responses were received for this item.

A25 For an average single unit franchise operation in financial year 2008/09, please indicate the following allocations.

Response (Average franchise unit indicators)	Financial year 2008/2009	
	Median	Range
Sales (\$)	\$360 000	\$20 000 to \$2 180 000
Margin (%)	54%	0 to 90%
Occupancy costs (%)	11%	5 to 22%
Labour costs (%)	17%	4 to 60%
Average number of customers/jobs (per week)	40	1 to 4906

Note: 1) A total of 41 franchisors provided a response from an expected 76.

B Franchisees

Franchisee gender and age

Key facts

- 32 percent of franchisees are male sole owners.
- 14 percent of franchisees are female sole owners.
- Two thirds of franchisees are aged 30 to 50 years.

Consistent with previous surveys (2004 onwards) franchise system ownership is largely dominated by men. Although franchise opportunities are available to women, female franchise sole ownership accounts for just 14 percent of total franchise units compared with male sole ownership of 32 percent. Furthermore, similar findings are reported when examining franchise ownership within the context of spouses. Joint ownership involving spouses predominately managed by males was 37 percent. However, when undertaking a comparison based on gender, the difference is more pronounced, with male ownership accounting for over two-thirds (68 percent) of all franchise units and female ownership slightly under a quarter (24 percent). In accordance with previous results, the proportion of women in franchising remains lower than women in small business in general³. When considering the age of franchisees, the majority (67 percent) are within the 30 to 50 year age group. Only a small proportion of franchisees (9 percent) are aged less than 30 years with about one quarter (24 percent) aged over 50 years.

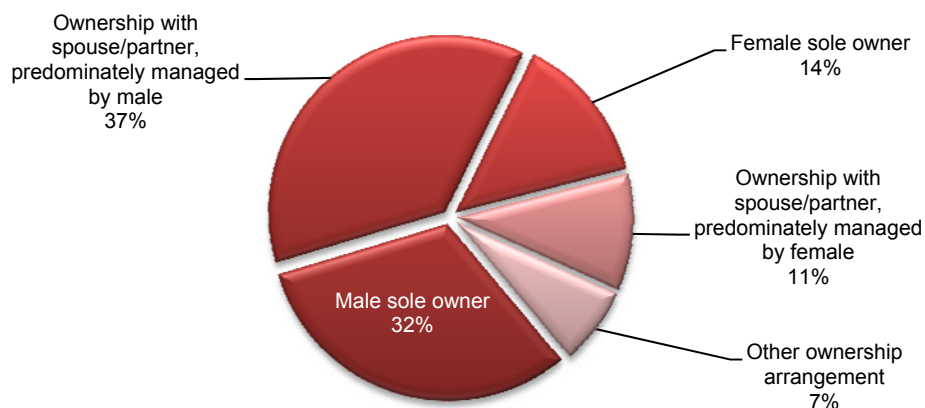
³ Australian Bureau of Statistics 8175.0 – Counts of Australian Business Operators, 2006 to 2007.

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

Response (Franchisees)	Percentage of franchisees	Percentage by gender
Male sole owner	31.5	68.4
Ownership with spouse/partner, predominately managed by male	36.9	
Female sole owner	13.7	24.4
Ownership with spouse/partner, predominately managed by female	10.7	
Other ownership arrangement	7.2	7.2
Total	100.0	100.0

Notes: 1) A total of 68 franchisors provided a response from an expected 76.
2) Data were collected from Survey 1 for this question.
3) As the data are normally distributed, the mean has been reported as the average.

Ownership structure

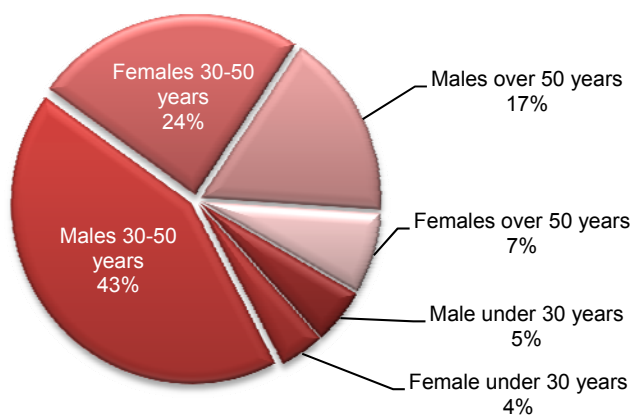


B2 *Approximately what percentages of your franchisees fit into the following age groups?*

Response (Age of Franchisees)	Percentage of franchisees	Percentage by age
Male under 30 years	5.0	9.0
Female under 30 years	4.0	
Males 30-50 years	42.7	67.1
Females 30-50 years	24.4	
Males over 50 years	16.7	23.9
Females over 50 years	7.3	
Total	100.0	100.0

Notes: 1) A total of 63 franchisors provided a response from an expected 76.
2) Data were collected from Survey 1 for this question.
3) As the data are normally distributed, the mean has been reported as the average.

Age of franchisees



Part-time franchising

Key facts

- More than 40 percent of franchise systems engage part-time franchisees.
- More than 80 percent of franchisors believe the part-time model is profitable for both franchisors and franchisees.
- Three quarters of franchisors provide the same level of support to full-time and part-time franchisees.

Consistent with the findings from 2008, some 43 percent of franchise systems were engaged in part-time franchising (less than 40 hours per week). This suggests that franchisees are seeking to gain entry into franchising on a part-time basis as it provides greater flexibility and assists in accommodating competing work and family obligations. Other factors found to drive part-time franchising include systems located in remote areas or those systems which are in their start-up phases. Franchisors appear to be offering part-time franchising only when this model suits their franchise concepts, with a lack of suitable applicants and demand from franchisees for part-time franchising opportunities considered as less important drivers of the decision to adopt this business model.

Although part-time franchising is encouraged in some systems or the system lends itself towards this model, the findings also suggest that the trend in part-time franchising has not shown any significant growth since 2008. This is curious given that the majority of franchisors reported that part-time franchising was profitable for both franchisors (83 percent) and franchisees (87 percent). However, although commercially viable, the *level of support* required from the franchisor for part-time franchisees remains comparable to that required when operating franchisees on a full-time basis (76 percent). Only 12 percent of franchisors reported that part-time franchisees required greater support than full-time franchisees and, similarly, 13 percent reported that they required less support than full-time franchisees.

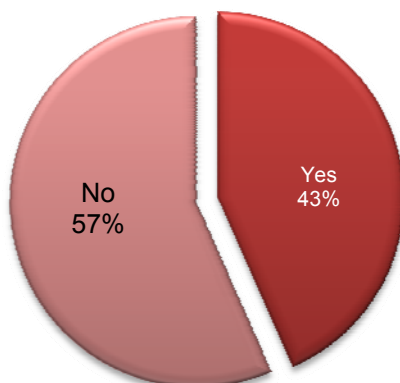
Part-time franchising was evident in a range of industries, but was most prominent in retailing, food services and the service sector industries.

B3 Do you have any franchisees that work on a part-time basis in your franchise (ie fewer than 40 hours per week)?

Response (Part time franchisees)	Number of responses	Percent
Yes	79	43.4
No	103	56.6
Total	182	100.0

Notes: 1) A total of 182 franchisors provided a response from an expected 187.
2) Data were collected from Surveys 1 and 2 for this set of questions.

Part-time franchising

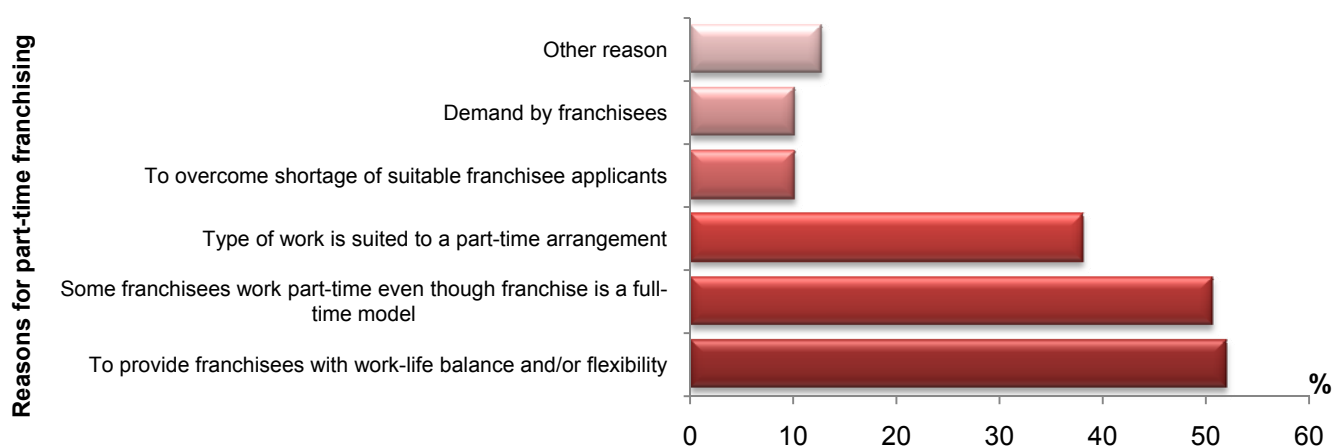


B4 Why did you decide to allow franchisees to work part time?

Response (Reasons for part-time franchising)	Number of responses	Percent
To provide franchisees with work-life balance and/or flexibility	41	51.9
Some franchisees work part-time even though the franchise is a full-time model	40	50.6
Type of work is suited to a part-time arrangement	30	38.0
To overcome shortage of suitable franchisee applicants	8	10.1
Demand by franchisees	8	10.1
Other reason	10	12.7

Notes: 1) The expected total of 79 franchisors provided a response.
2) Multiple responses were recorded for some respondents.

Reasons for part-time franchising

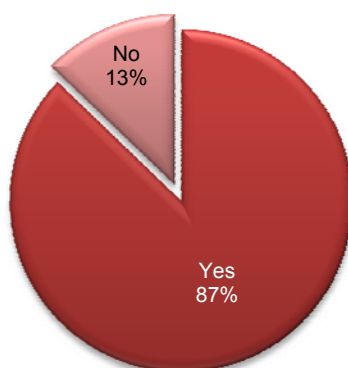


B5 Is the part-time model profitable?

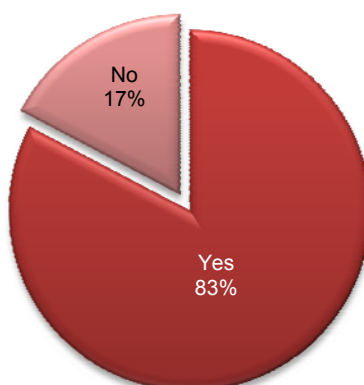
Response	Number of responses	Percent
Profitable for franchisees		
Yes	68	87.2
No	10	12.8
Total	78	100.0
Profitable for franchisors		
Yes	62	82.7
No	13	17.3
Total	75	100.0

Notes: 1) A total of 78 franchisors out of an expected 79 provided a response regarding franchisees.
2) A total of 75 franchisors out of an expected 79 provided a response regarding franchisors.

Franchisees: Profitability of part-time franchising



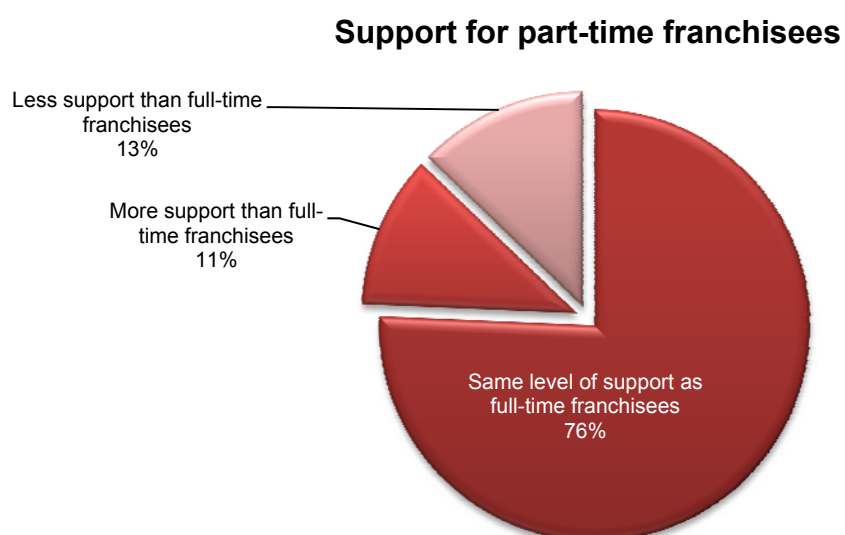
Franchisors: Profitability of part-time model



B6 What level of support do part-time franchisees require?

Response (Part time franchisees)	Number of systems	Percentage of franchisees
Same level of support as full-time franchisees	59	75.6
More support than full-time franchisees	9	11.5
Less support than full-time franchisees	10	12.8
Total	78	100.0

Notes: 1) A total of 78 franchisors provided a response from an expected 79.



Franchisee life cycle

Key facts

- Franchisees remain in a system for an average of 7 years.

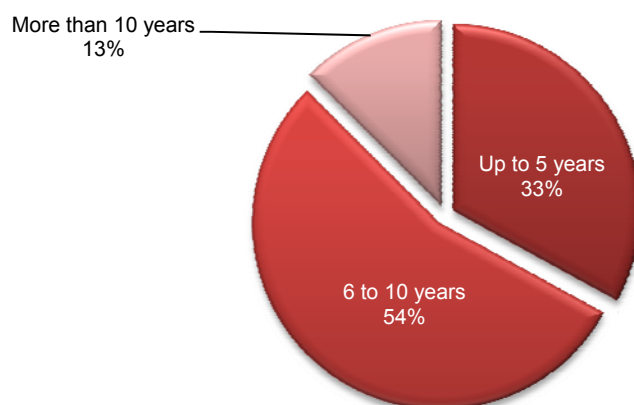
The average time that franchisees remain in a franchise system is 7 years. The majority of franchisees (55 percent) spend from 6 to 10 years within the franchise. There were no significant differences between the retail and non-retail sectors; showing on average 6 and 7 years respectively. As the average franchise agreement is for 5 years, there is evidence that most franchisees tend to renew their agreement at least once.

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

Response (Franchisee life cycle)	Number of responses	Percent
Up to 5 years	37	33.0
6 to 10 years	61	54.5
More than 10 years	14	12.5
Total	112	100.0

Notes: 1) Data were collected from Surveys 1 and 2 for this question.
 2) The length of time ranged from 2 to 20 years.
 3) The median length of time that a franchisee remains in the system is 7 years.

Franchisee life-cycle



Franchising disputes

Key facts

- 22 percent of franchisors reported a substantial dispute with a franchisee in the previous 12 months.
- The median number of franchisees in dispute with a franchisor was 2.
- The main cause of disputes was lack of franchisee compliance.

Fully 22 percent of franchisors were engaged in a substantial dispute with a franchisee over the past 12 months (that is, a dispute with a franchisee referred to an external adviser for action). From an industry perspective, just under a quarter of disputes occurred within the retail trade (23 percent), accommodation and food services (18 percent), other services (18 percent) and rental, hire and real estate services sectors (15 percent). Inconsistent with previous findings (2008), franchisors with both small (fewer than 20 units) and large (more than 50 units) mature franchise systems were more likely to be involved in disputes. Since one third of franchisors reported that they maintained fewer than 10 units, this pattern of disputation may reflect the size and tenure of franchise systems in Australia which may change as systems (and the franchising sector) continue to mature.

Most franchisors were in dispute with between 1 to 3 franchisees (72 percent); engaging in a dispute on average with 2 franchisees per system. A majority of the disputes were in the early stage of correspondence with a solicitor (54 percent), mediation (21 percent) and litigation with a franchisee (25 percent). The current findings suggest an increase in litigation compared with the 6 percent reported in 2008. This result may provide further validation for recent changes implemented to the Franchising Code of Conduct. Specifically, the amendments to the Code address areas concerning greater transparency of the disclosure document in terms of failure of the franchise system, rises in capital expenditure on part of the franchisee and legal costs in relation to disputes.⁴ Overall, franchisor initiated actions were only slightly higher than those initiated by franchisees.

Respondents reported that 61 percent of disputes were due to lack of compliance with the system, misrepresentation issues (27 percent) and profitability (24 percent). Other causes of disputes were site suitability (18 percent), fees (12 percent), communication problems (12 percent) and territorial issues (12 percent). However, factors found to be less significant were marketing issues (9 percent) and franchisor support (3 percent).

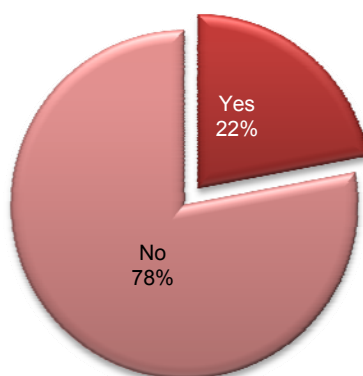
⁴ Norton Rose Australia: Franchising Code changes should have minimal practical impact- Stephen Giles, 2010.

B8 *In the past 12 months, has your organisation been involved in any dispute with a franchisee that has been referred to an external advisor for action?*

Response (Disputes)	Number of responses	Percent
Yes	39	22.0
No	138	78.0
Total	177	100.0

Notes: 1) A total of 177 franchisors provided a response from an expected 187.
2) Data were collected from Surveys 1 and 2 for this section.

Franchise disputes

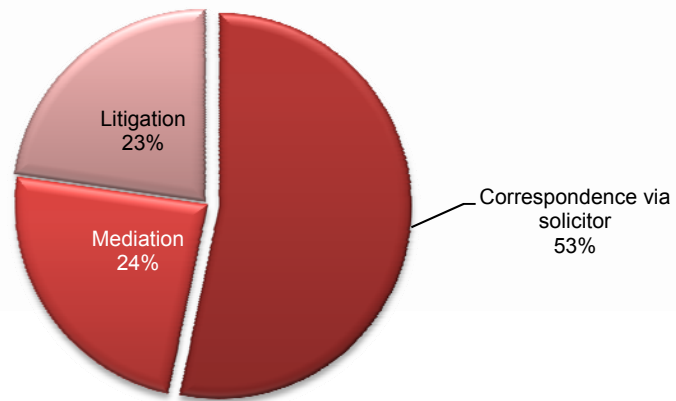


B9 *Please indicate the number of franchisees in these disputes.*

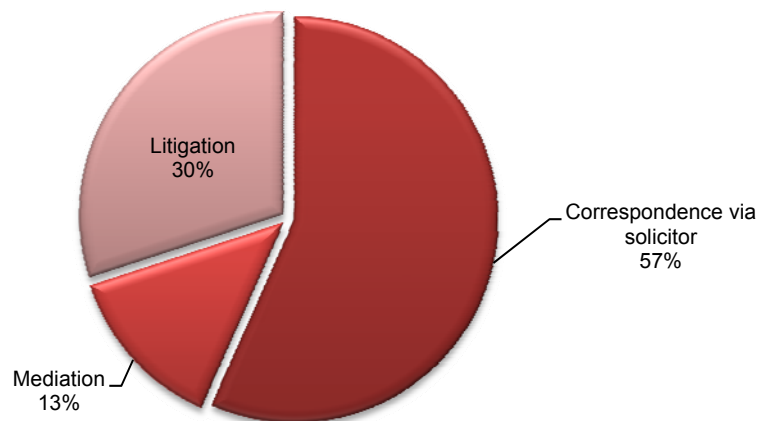
Response (Action)	Initiated by franchisor			Initiated by franchisee		
	Number of franchisors	Number of franchisees	Percentage of franchisees	Number of franchisors	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	19	40	53.3	10	17	56.6
Mediation	15	18	24.0	4	4	13.3
Litigation	10	17	22.7	8	9	30.0
Total		75	100.0		30	100.0

Notes: 1) A total of 33 franchisors provided a response from an expected 39.
2) Multiple responses were recorded for some respondents.

Disputes initiated by franchisor
Proportion of franchisors

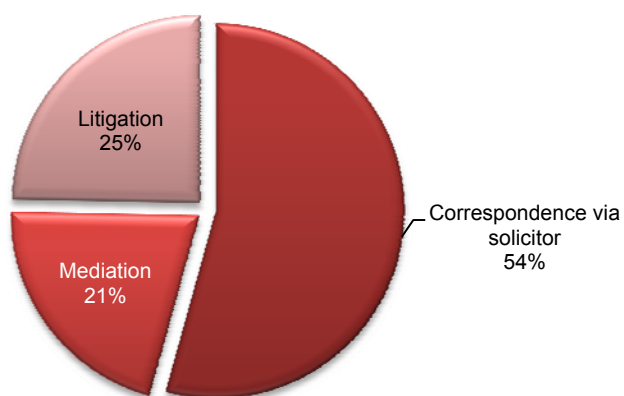


Disputes initiated by franchisees
Proportion of franchisees



Response (Action)	Total Disputes	
	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	57	54.3
Mediation	22	21.0
Litigation	26	24.7
Total	105	100.0

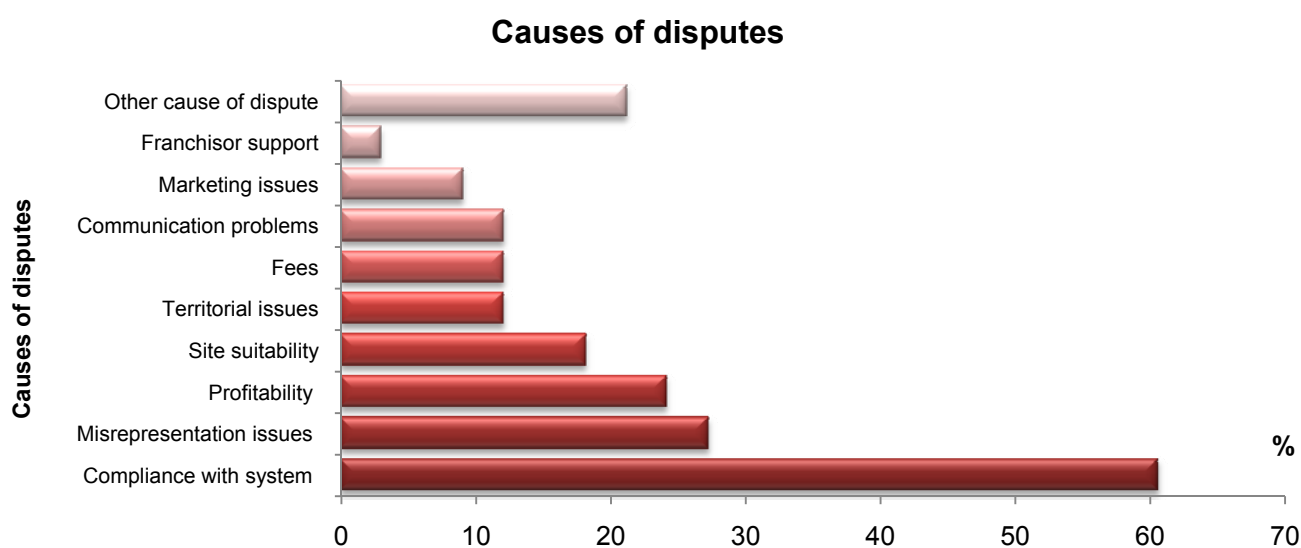
**Total disputes
Proportion of franchisees**



B10 What do you consider were the main causes of these disputes?

Response (Causes of disputes)	Number of responses	Percent
Compliance with system	20	60.6
Misrepresentation issues	9	27.3
Profitability	8	24.2
Site suitability	6	18.2
Territorial issues	4	12.1
Fees	4	12.1
Communication problems	4	12.1
Marketing issues	3	9.1
Franchisor support	1	3.0
Other cause of dispute	7	21.2

Notes: 1) The expected total of 33 franchisors provided a response.
2) Multiple responses were recorded for some respondents.



Franchising Code of Conduct compliance

Key facts

- 81 percent of franchisors have implemented a Franchising Code of Conduct compliance program.
- Two thirds of franchisors manage compliance internally and one third use a law firm.

Fully 81 percent of franchise systems reported that they utilise a Code of Conduct compliance program. Since compliance has been consistently found (since 2004) to be the leading cause of disputes, this may offer some explanation for the high number of systems using a Code of Conduct compliance program. In recognition of the value of these programs, industry associations such as the Franchise Council of Australia promote the inclusion of a compliance program to avoid the adversarial effects which can occur between franchisors, master franchisees and franchisees.

Of those franchise systems endorsing a compliance program, 67 percent were managed through internal processes, 31 percent by an external third party (law firm) and the remaining 2 percent used a combination of both internal and external processes. This practice is consistent with regulation directives, with the Franchise Code of Conduct Compliance Manual supporting the use of an internal and external contact point to address issues relevant to interpreting Code obligations⁵.

The majority of the franchise systems practising a Code of Conduct compliance program occurred within accommodation and food services (25 percent), other services (20 percent), retail trade operations (13 percent), and administration and support services (12 percent). A majority of systems practising a Code of Conduct compliance program were with either small (fewer than 20 units) or large mature systems (more than 50 units) that had been operating for in excess of 10 years.

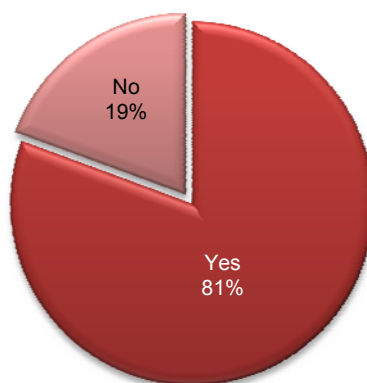
⁵ Australian Competition and Consumer Commission – Franchise Code of Conduct Compliance Manual, 2008.

B11 Do you have a Franchising Code of Conduct compliance program?

Response (Code of Conduct)	Number of responses	Percent
Yes	141	80.6
No	34	19.4
Total	175	100.0

Notes: 1) A total of 175 franchisors provided a response from an expected 187.
2) Data were collected from Surveys 1 and 2 for this section.

Franchising code of conduct compliance program

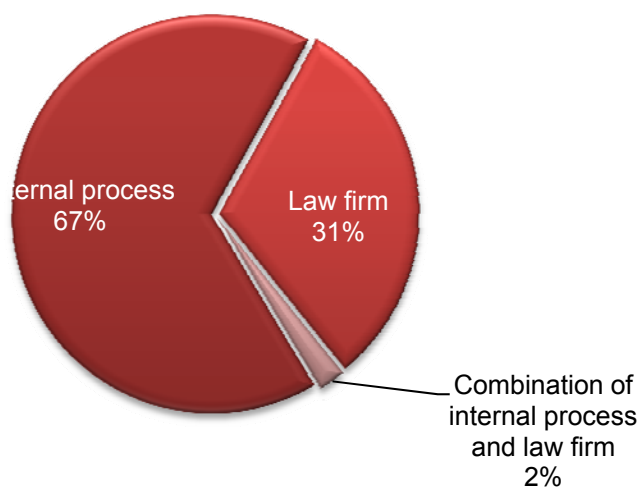


B12 How is compliance of the program managed?

Response (Compliance)	Number of responses	Percent
Internal process	92	66.7
Law firm	43	31.1
Combination of internal process and law firm	3	2.2
Total	138	100.0

Notes: 1) A total of 138 franchisors provided a response from an expected 175.

Management of compliance program



Franchised unit changes

Key facts

- 93 percent of franchised units did not change during 2009.
- 4 percent of franchised units were sold by franchisees.
- 2 percent of franchised units were terminated, not renewed or taken over by franchisors.
- Nearly 2 percent of franchised units ceased to operate.

In this section, franchisors were asked to consult their disclosure document (Annexe 1 S6.4) and respond to questions relevant to changes in unit ownership in their franchise systems. Based on information obtained from the 2009 financial year, 7 percent of the total number of respondents' franchised units underwent some form of change in ownership. The majority of franchise units (93 percent) did not exhibit any changes in ownership.

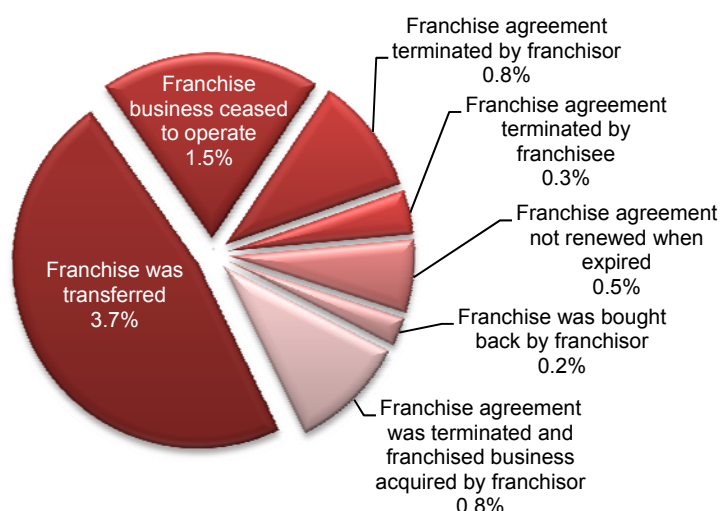
Approximately 4 percent of franchise agreements were transferred (sold) by franchisees, with some 2 percent of franchised units ceasing to operate and a further 2 percent of agreements being terminated, not renewed or taken over by the franchisor. Respondents were also asked to identify the primary reason for these changes. The most common causes were attributed to personal or family reasons (28 percent), attaining personal goals (19 percent), lack of suitability to franchising (18 percent) and unprofitable unit operations (18 percent).

B13 Please obtain data from your *Disclosure Document* to answer this question (*Annexe 1 S6.4*). For the last financial year, please state the number of franchise units involved in the following activities.

Response (Franchise unit change)	Number of franchisees affected	Percent	Percentage of total (11470) franchised units held
Franchise was transferred	429	53.5	3.7
Franchise business ceased to operate	173	21.5	1.5
Franchise agreement terminated by franchisor	88	11.0	0.8
Franchise agreement terminated by franchisee	32	4.0	0.3
Franchise agreement not renewed when expired	52	6.5	0.5
Franchise was bought back by franchisor	19	2.4	0.2
Franchise agreement was terminated and franchised business acquired by franchisor	9	1.1	0.8
Total	802	100.0	7.1

Notes: 1) A total of 167 franchisors provided a response from an expected 187.
2) Multiple responses were recorded for some respondents.
3) Data were collected from Surveys 1 and 2 for this section.

Franchise unit changes

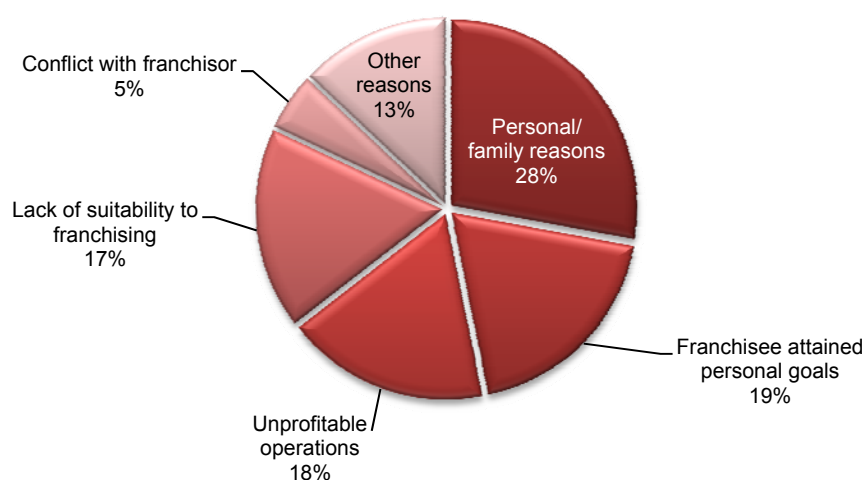


B14 What percentage of units from the previous question are due to the following factors?

Response (Reasons for unit exits and transfers)	Percentage of franchisees
Personal/family reasons	27.9
Franchisee attained personal goals	18.9
Unprofitable operations	17.7
Lack of suitability to franchising	17.5
Conflict with franchisor	5.0
Other reasons	13.0
Total	100.0

Notes: 1) A total of 90 franchisors provided a response from an expected 167.
2) As the data are normally distributed, the mean has been reported as the average.

Reasons for unit changes



Franchise innovation

Key facts

- Franchisee innovation encompassed three key areas:
 - Operational improvements
 - Promotional campaigns
 - New products and product modifications

B15 If applicable, please briefly describe an innovative idea suggested by one of your franchisees and explain its impact on your franchise system.

Some 35 franchisors described an innovative idea derived from their franchisees to complement the current profile of their franchise system. Most franchisors stated that they encouraged and rewarded innovative behaviour by franchisees, indicating that franchisors adopt bilateral communication processes in their networks so as to take advantage of new ideas generated at the local market level. These innovations generally focused on three areas. By far the most innovative ideas concerned *operational improvements* to the current system. Examples relevant to operational improvements included implementing a POS, setting up mentoring programs and conducting monthly meetings with both franchisors and franchisees.

The second area identified by franchisors related to *promotional campaigns*. Common examples included implementing marketing competitions, buyers' nights, upgrading/up-selling products to franchisees, SMS reminders to clients, on-line shopping, social networking sites for franchisees and clients, and to integrate current/up-dated marketing packs for franchisees to utilise within their regions.

Thirdly, franchisors reported that franchisees constantly requested the inclusion of *new or modified products* so as to diversify their current product offerings and remain competitive within their industry. However, several franchisors suggested that they had not seen any notable innovations as their systems were in the initial stages of development.

Overall, there was strong evidence that franchisees do play an important role in the continued evolution of franchise systems and franchisors appear to value and sometimes reward these franchisee contributions.

C Franchise Operations

Franchise Advisory Councils

Key facts

- Franchise Advisory Councils operate in 38 percent of franchises.
- Used by larger and more experienced franchises.
- Most FAC's meet quarterly.

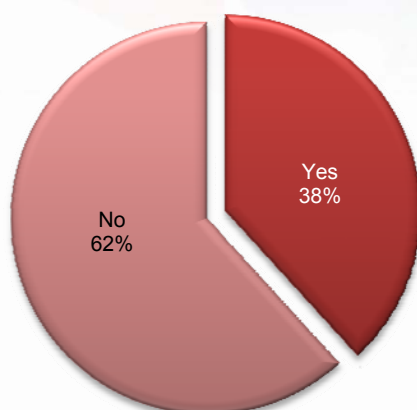
Although the relational advantages of Franchise Advisory Councils (FACs) are widely reported, only 38 percent of respondents utilised an FAC in their systems. FAC's were most commonly used by experienced franchisors and were generally present in larger franchise systems. The need for this form of franchisor/franchisee collaboration arises as the system grows or becomes geographically dispersed. Some 72 percent of franchisors utilising FAC's in their system had in excess of 10 years franchising experience and over half of the systems with more than 50 units (55 percent) utilised FAC's in franchise management. The most popular meeting intervals were quarterly (33 percent), monthly (22 percent) and half-yearly (15 percent) with some franchisors adopting more or less frequent meetings as significant system-specific issues arose. Franchise Advisory Councils were most common within accommodation and food services (35 percent), retail trade (17 percent) and rental, hire and real estate services (17 percent) industries.

C1 Do you have a Franchise Advisory Council?

Response (Franchise Advisory Council)	Number of responses	Percent
Yes	29	38.2
No	47	61.8
Total	76	100.0

Notes: 1) All 76 franchisors provided a response.
2) Data were collected from Survey 1 for this set of questions.

Franchise advisory council

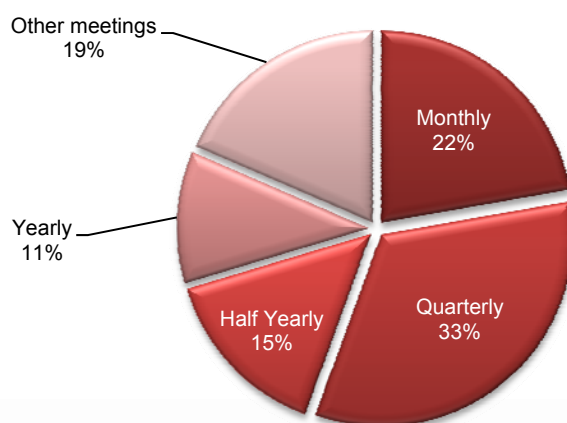


C2 How often does your Franchise Advisory Council meet?

Response (Franchise Advisory Council Meetings)	Number of responses	Percent
Monthly	6	22.2
Quarterly	9	33.3
Half Yearly	4	14.8
Yearly	3	11.1
Other meetings	5	18.5
Total	27	100.0

Note: 1) A total of 27 respondents answered this question from an expected 29.

Franchise advisory council meetings



Franchisee recruitment

Key facts

- Franchisors spent a median of \$10 000 on franchisee recruitment marketing.
- New franchise sales and re-sales were modest.

For the 2008-2009 financial year, franchisors spent (on average), \$10 000 on advertising and marketing promotion to prospective franchisees which is fairly consistent with results reported over the last four years. However, just under half of respondents spent less than \$5000 on promoting their business concepts which represents a virtual halving of expenditure reported in the 2006 survey. Approximately 13 percent of franchisors spent in excess of \$100 000 on this activity, while a larger percentage of respondents (20 percent) acknowledged that they did not allocate any expenditure on marketing promotion in their current franchisee recruitment efforts.

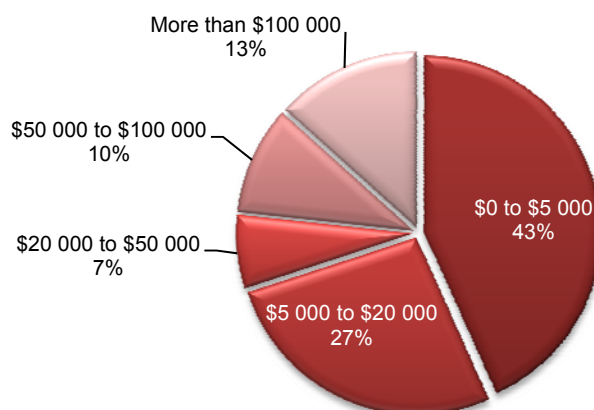
The growth in new franchisee sales for the 2008-2009 financial year remains modest. Franchisors reported on average, new franchise sales of 5 units and re-sales of 4 units which may reflect a tightening in the pool of prospective franchisees due to the recent financial crisis. Some 39 percent of respondents indicated that they had granted between 1 and 5 new franchise units, 19 percent reported sales between 6 and 10 units, and 11 percent had approved between 11 and 20 new franchise agreements. Similar growth patterns in franchise unit re-sales were evident with just under half of the respondents (47 percent) reporting re-sales of between 1 and 5 units, 10 percent granting re-sales for between 6 and 10 units, and 8 percent of franchisors reporting re-sales for between 11 and 20 franchise units. Significantly, approximately a third of all respondents reported no new sales (29 percent) or re-sales (32 percent) of franchises in this period.

C3 What was your total marketing expenditure on franchisee recruitment in the financial year 2008/09?

Response (Franchisee recruitment expenditure)	Number of responses	Percent
\$0 to \$5 000	13	43.3
\$5 000 to \$20 000	8	26.7
\$20 000 to \$50 000	2	6.7
\$50 000 to \$100 000	3	10.0
More than \$100 000	4	13.3
Total	30	100.0

Notes: 1) A total of 30 respondents answered this question from an expected 76.
2) The median marketing expenditure was \$10 000.
3) Marketing expenditure ranged from zero to \$800 000.
4) Data were collected from Survey 1 for this set of questions.

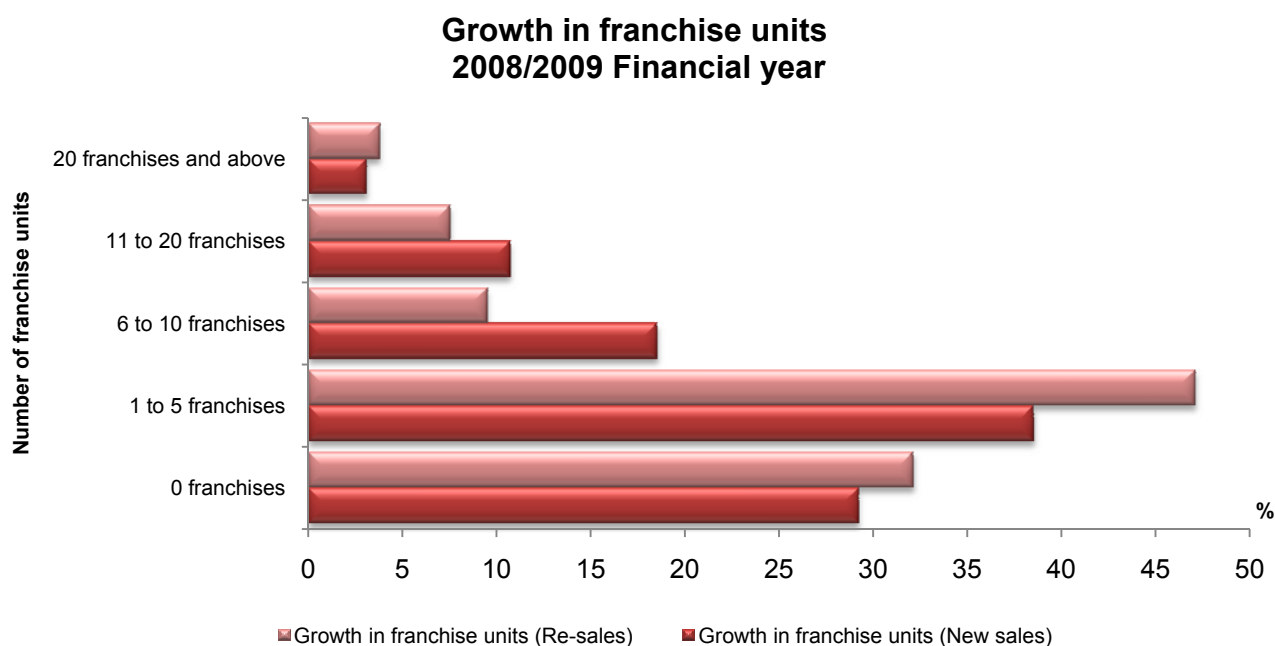
**Marketing expenditure on franchisee recruitment
Financial year 2008/2009**



C4 How many franchises were granted during the 2008/09 financial year?

Response (Financial year)	Growth in franchise units (New Sales)		Growth in franchise units (Re-sales)	
	Number of responses	Percent	Number of responses	Percent
0 franchises	19	29.2	17	32.1
1 to 5 franchises	25	38.5	25	47.1
6 to 10 franchises	12	18.5	5	9.5
11 to 20 franchises	7	10.7	4	7.5
20 franchises and above	2	3.1	2	3.8
Total	65	100.0	53	100.0

- Notes:
- 1) A total of 65 respondents answered the question of new franchise sales from an expected 76.
 - 2) A total of 53 respondents provided a response to the question of franchise unit re-sales from an expected 76.
 - 3) A median of 2 new franchises and 1 resale were granted.
 - 4) Responses ranged from zero to 21 new franchises and from zero to 55 re-sales.



Franchising strategies

Key facts

- Most common strategy was to offer exclusive territories.
- Conversion franchising also used to achieve system growth.

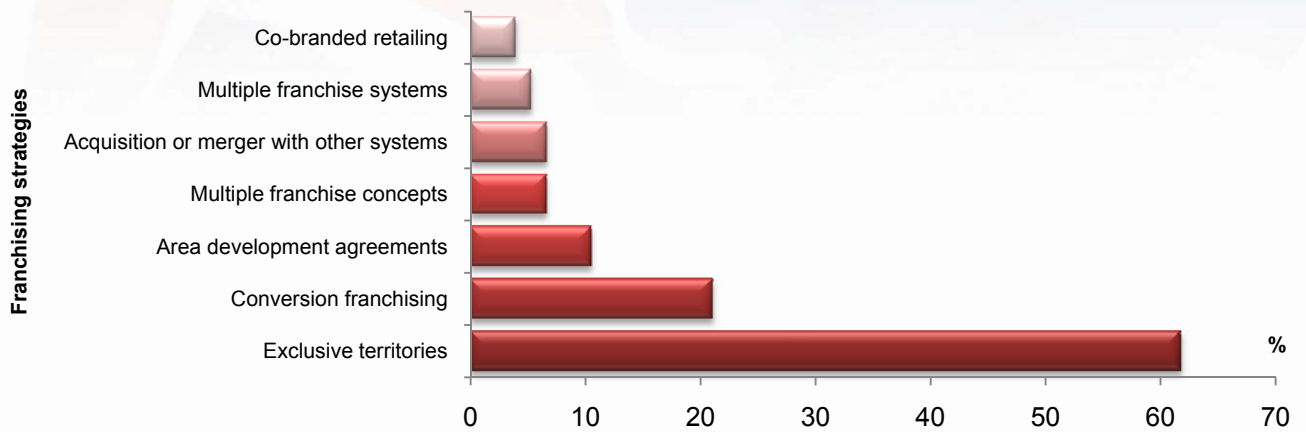
Consistent with the results reported in the last three national surveys (2004 to 2008), many systems continued to adopt sophisticated approaches to stimulate growth in their franchise systems. The granting of exclusive territories represented the most popular growth strategy (62 percent), which occurs predominantly within the retail sector. Other commonly used methods included conversion franchising (21 percent), area development arrangements (11 percent) and acquisitions or mergers with other systems (7 percent). Although a slightly less popular strategy than reported in 2008, franchisors continued to adopt multiple franchise concepts (7 percent) which may offer franchisors the opportunity to diversify their portfolios and appeal to different customer groups in maturing markets.

C5 Do you use any of the following strategies?

Response (Franchising strategies)	Number of responses	Percent
Exclusive territories	47	61.8
Conversion franchising	16	21.1
Area development agreements	8	10.5
Multiple franchise concepts	5	6.6
Acquisition or merger with other systems	5	6.6
Multiple franchise systems	4	5.3
Co-branded retailing	3	3.9

Notes: 1) All 76 franchisors provided a response.
 2) Multiple responses were recorded for some respondents.
 3) Data were collected from Survey 1 for this question.

Franchise growth strategies



Master franchising

Key facts

- Master franchising is used by one third of franchisors.
- Younger and smaller franchises adopt master franchising strategies.

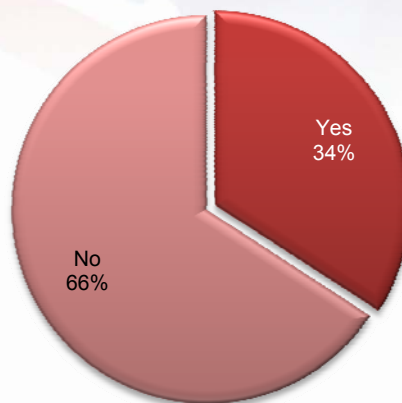
Just over a third of franchisors operating within the retail and non-retail sectors utilised a master franchising growth strategy. Consistent with results reported in 2008, only one master franchisee was usually appointed. Master franchising was most commonly used in food retailing (35 percent). Interestingly, the results revealed that younger and smaller franchise systems were adopting master franchising more so than larger and more experienced franchises. Some 42 percent of smaller systems with between 1 and 5 years franchising experience utilised this strategy and over half of these systems (58 percent) had between 1 and 20 units in total. As master franchisees often have prior industry experience, this approach appears to provide inexperienced franchisors with local market knowledge that is necessary to encourage unit growth, provide ongoing support and build market share. In particular, respondents viewed the provision of local support to franchisees as the most salient advantage of master franchising (95 percent), followed by general support issues associated with geographic dispersion (86 percent) and benefits associated with system growth (86 percent).

C6 Do you offer master franchising arrangements within Australia?

Response (Master franchising)	Number of responses	Percent
Yes	26	34.2
No	50	65.8
Total	76	100.0

Notes: 1) All 76 franchisors provided a response.
2) Data were collected from Survey 1 for this set of questions.

Master franchising

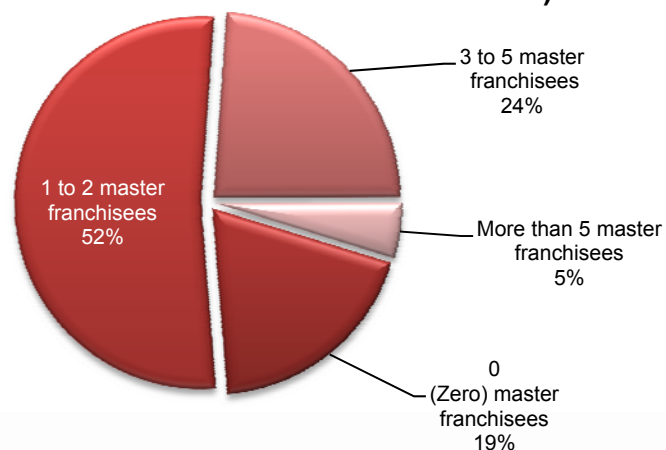


C7 *If you offer master franchises, how many master franchisees are currently operating in Australia?*

Response (Number of master franchisees)	Number of responses	Percent
0 master franchisees	4	19.0
1 to 2 master franchisees	11	52.4
3 to 5 master franchisees	5	23.8
More than 5 master franchisees	1	4.8
Total	21	100.0

Note: 1) A total of 21 franchisors provided a response from an expected 26.
 2) The median number of master franchisees was 1.
 3) Responses ranged from 1 to 7 master franchisees.

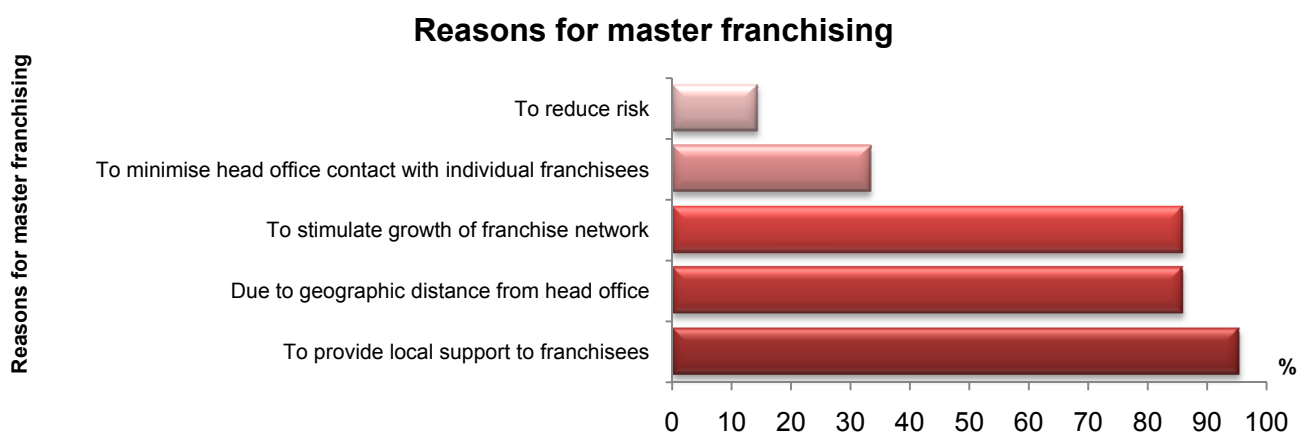
Number of master franchisees (For franchisors who offer master franchises)



C8 Why do you use a master franchising arrangement in Australia?

Response (Reason for Master franchising)	Number of responses	Percent
To provide local support to franchisees	20	95.2
Due to geographic distance from head office	18	85.7
To stimulate growth of franchise network	18	85.7
To minimise head office contact with individual franchisees	7	33.3
To reduce risk	3	14.3

Notes: 1) A total of 21 franchisors provided a response from an expected 26.
2) Multiple responses were recorded for some respondents.



Multiple-unit franchising

Key facts

- 58 percent of franchisors have multiple unit franchisees.
- Franchise systems have a median of three multiple unit franchisees.
- Multiple unit franchisees hold a median of two units.
- Most multiple unit franchising occurs in larger and more experienced systems.

It was found that 58 percent of franchisors encouraged multiple unit ownership in their systems, which is fairly consistent with results reported since 2002. Presumably, franchisors favour this strategy as markets mature and economic conditions continue to tighten, further restricting the pool of available franchisee candidates. This trend towards multiple unit ownership has been evident in a number of mature markets such as the United States for many years. The number of multiple unit owners in franchise systems was reported as being between 1 and 40 and the average unit holdings ranged between 2 and 11 units. However, on average franchisors had three multiple unit holders in their systems and these franchisees generally held a total of two units.

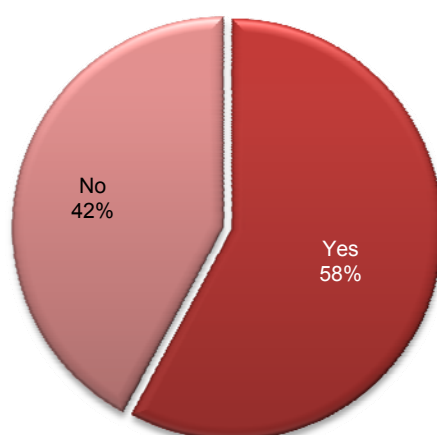
The majority of multiple unit ownership exists in food retail (32 percent), retail trade (16 percent) and administration and support services (11 percent) industries and was generally encouraged within larger and more experienced systems. Only 21 percent of franchises with fewer than 10 years experience encouraged the growth of franchisee-owned subsystems. Moreover, 55 percent of franchisors encouraging multiple unit ownership had in excess of 50 units, suggesting that franchisors may need to build their experiences and administrative processes to ensure the appropriate management of multiple unit franchisees in their systems. Franchisors reported that multiple unit franchisees performed at the same level (43 percent) or higher (48 percent) than single unit holders in their systems, with only a minority agreeing (10 percent) that unit performance was lower in multiple unit rather than single unit operations.

C9 *Do any of your franchisees operate more than one unit in your system?*

Response (Multiple unit ownership)	Number of responses	Percent
Yes	44	57.9
No	32	42.1
Total	76	100.0

Notes: 1) All 76 franchisors provided a response.
2) Data were collected from Survey 1 for this set of questions.

Multitple unit franchising

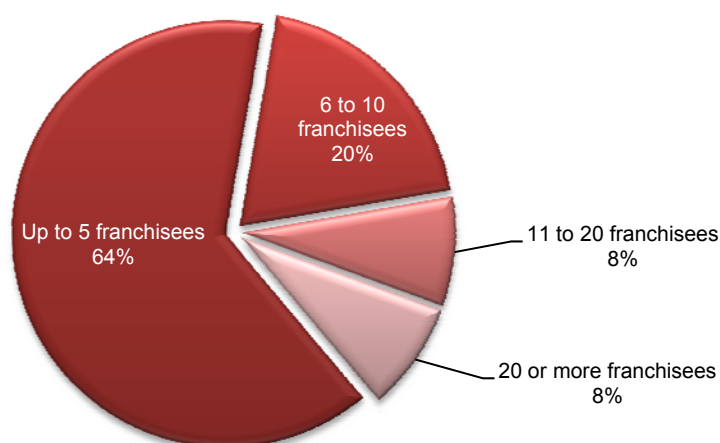


C10 How many of your current franchisees are multi-unit operators?

Response (Number of multi-unit holders)	Number of responses	Percent
Up to 5 franchisees	23	63.9
6 to 10 franchisees	7	19.5
11 to 20 franchisees	3	8.3
20 or more franchisees	3	8.3
Total	36	100.0

Notes: 1) A total of 36 franchisors provided a response from an expected 44.
2) The median number of franchisees holding multiple units was 3.
3) Responses ranged from 1 to 40 franchisees.

Number of multiple unit franchisees



C11 What is the average number of units held by your multiple-unit franchisees?

Median number of units held by franchisees: 2 units

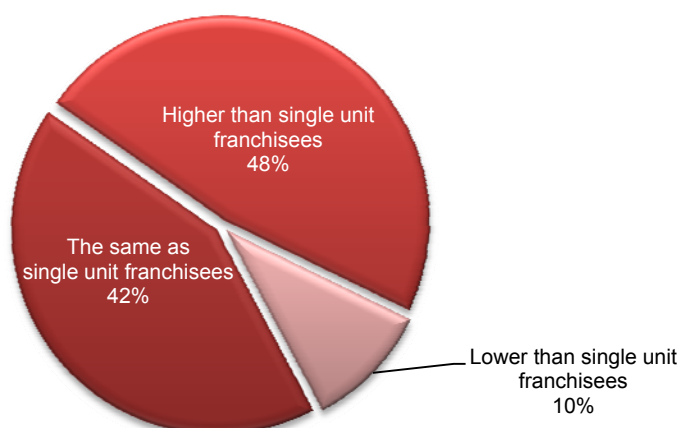
Notes: 1) A total of 40 franchisors provided a response from an expected 44.
2) Responses ranged from 2 to 11 units.

C12 *Is the unit performance of multiple unit franchisees generally the same, higher, or lower than single unit franchisees?*

Response (Multi-unit franchisee performance)	Number of responses	Percent
The same as single unit franchisees	17	42.5
Higher than single unit franchisees	19	47.5
Lower than single unit franchisees	4	10.0
Total	40	100.0

Notes: 1) A total of 40 franchisors provided a response from an expected 44.

Multiple unit franchisee performance



International franchising

Key facts

- 91 percent of franchise systems are Australian based.
- 28 percent of franchisors are currently operating overseas.
- New Zealand is the most popular destination.

Consistent with previous survey results, a majority of franchise systems (91 percent) were Australian-based operations. This confirms that the majority of franchises are home-grown systems rather than overseas imports. Of the smaller number of non-Australian based franchises operating in the local market, 53 percent reported that they possessed expansion rights outside of Australia. Of those franchisors that were able to franchise their concepts to international markets, just over one quarter (28 percent) reported that they were currently franchising overseas.

New Zealand was ranked as the most popular *initial* destination by a majority of franchisors (71 percent), probably due to its cultural similarity to the Australian market. Other destinations included the United Kingdom (10 percent), the United States of America (5 percent) and India (5 percent). In comparison, franchisors do not appear to concentrate their international expansion efforts in the South-East Asian region suggesting that geographical proximity is not rated as a significant issue in their internationalisation strategies.

The most popular destinations selected by franchisors include the United States of America (favoured by 40 percent of franchisors and accounting for 19 percent of units), New Zealand (100 percent of franchisors and 16 percent of units), Europe (33 percent of franchisors and 14 percent of units) and the United Kingdom (40 percent of franchisors and 7 percent of units). Fewer franchisors have established franchise operations within South-East Asia or the Middle East which is consistent with results reported in 2008.

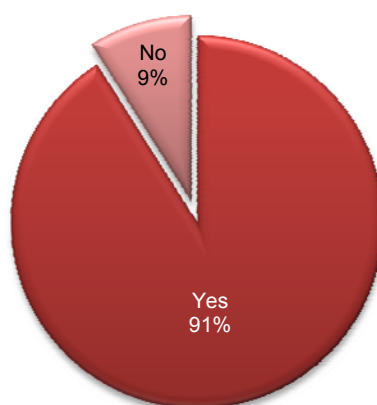
Just under half (49 percent) of the international franchised and company-owned units were located within English speaking nations of the United States of America, New Zealand, United Kingdom and Canada. Some 14 percent of units were held in Europe, 6 percent in central Asia and 5 percent in South-East Asia.

C13 Are you an Australian-based franchisor?

Response (Australian-based franchisor)	Number of responses	Percent
Yes	152	91.0
No	15	9.0
Total	167	100.0

Notes: 1) A total of 167 franchisors provided a response from an expected 187.
2) Data were collected from Surveys 1 and 2 for this set of questions.

Australian based franchisors

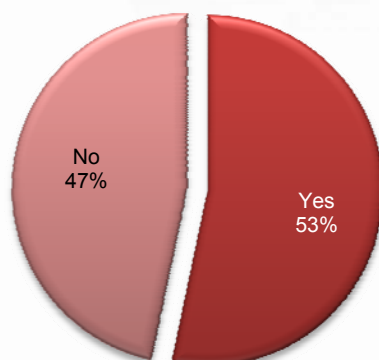


C14 If you are a non-Australian based franchisor, do you have expansion rights outside Australia?

Response (Expansion rights of non-Australian based franchisors)	Number of responses	Percent
Yes	8	53.3
No	7	46.7
Total	15	100.0

Notes: 1) The expected number of 15 franchisors provided a response.

International expansion rights Non-Australian based franchisors

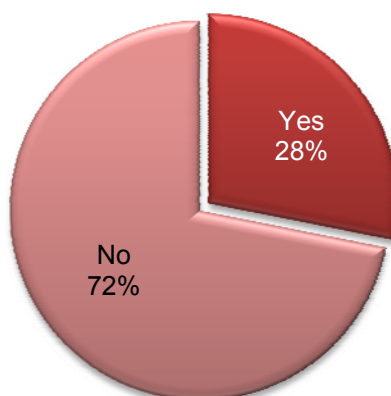


C15 Are you currently franchising overseas?

Response (Currently franchising overseas)	Number of responses	Percent
Yes	45	28.1
No	115	71.9
Total	160	100.0

Notes: 1) The expected number of 160 franchisors provided a response.

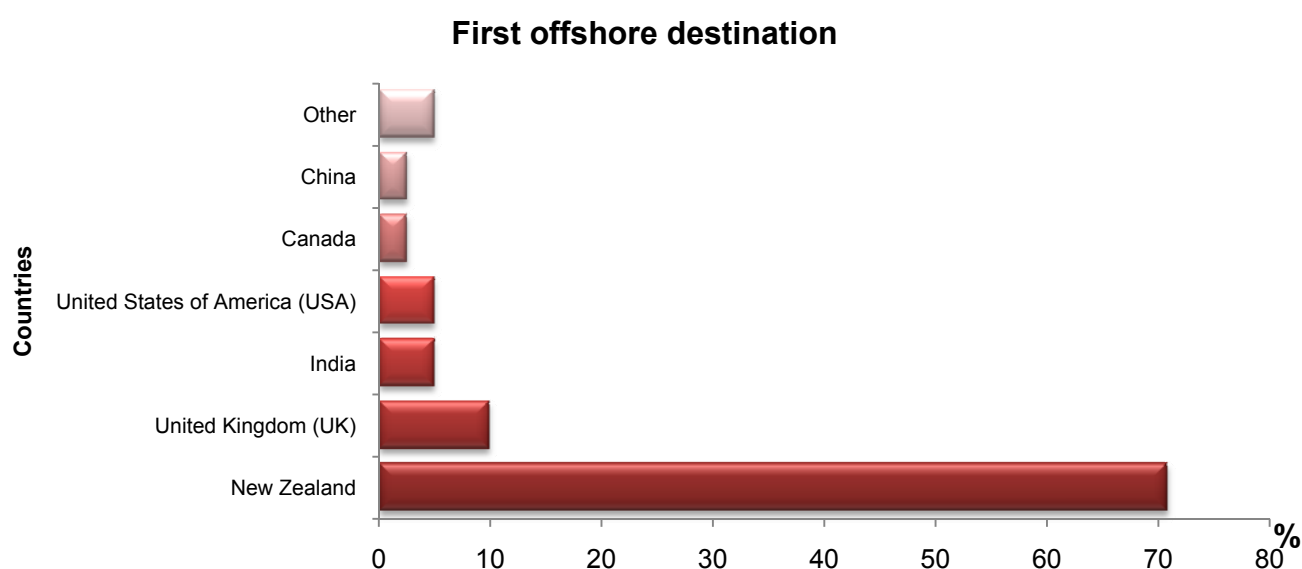
Franchising overseas



C16 What was the first country outside Australia in which you established operations?

Response (First offshore destination)	Number of responses	Percent
New Zealand	29	70.7
United Kingdom (UK)	4	9.8
India	2	4.9
United States of America (USA)	2	4.9
Canada	1	2.4
China	1	2.4
Other	2	4.9
Total	41	100.0

Notes: 1) A total of 41 franchisors provided a response from an expected 45.

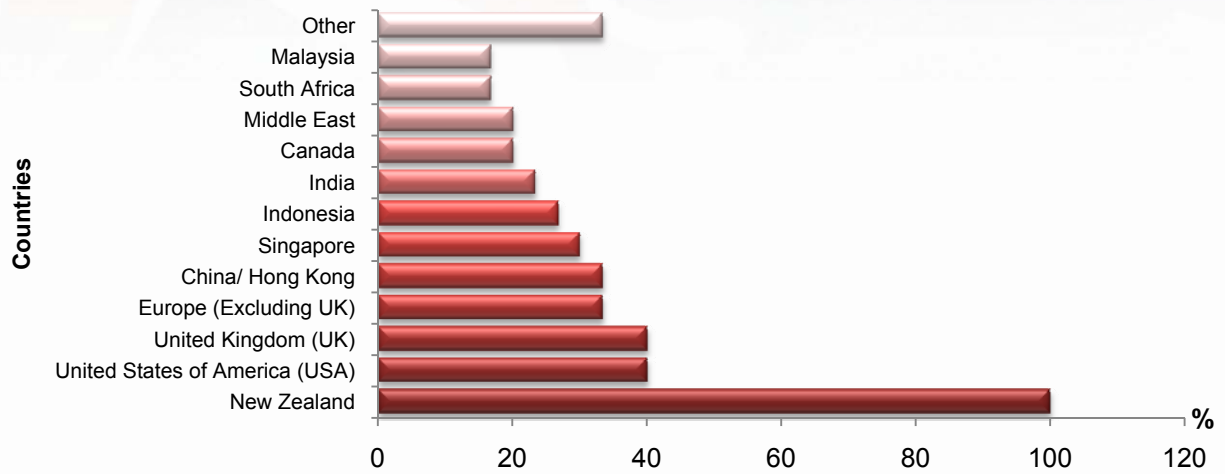


C17 How many units (franchised and company owned combined) are held in the countries or regions below?

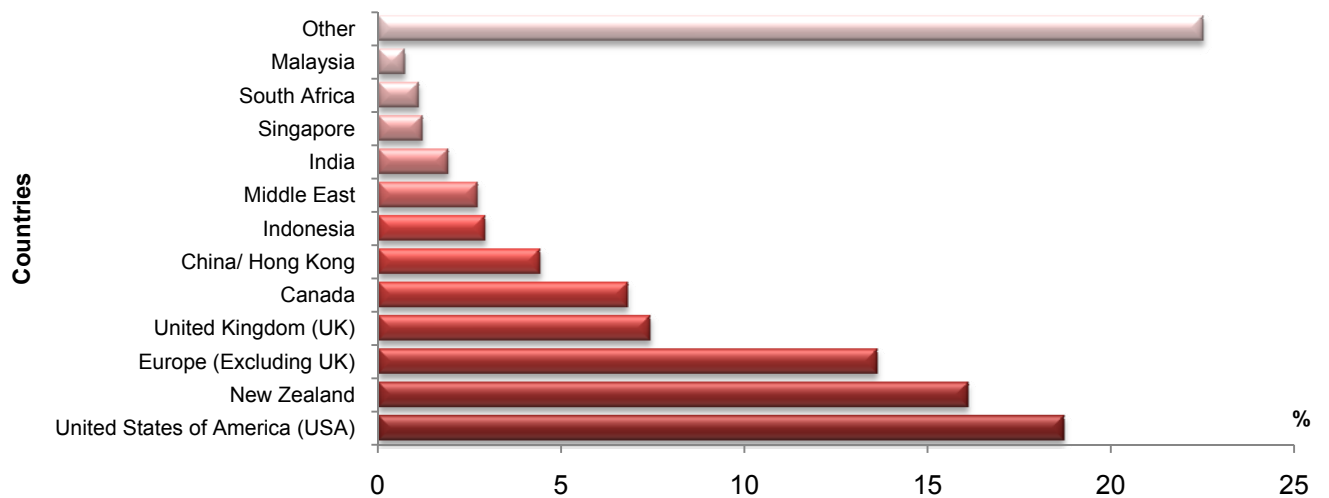
Response (Overseas units)	Franchised and company owned units			
	Number of franchisors	Percent	Total number of units	Percent
United States of America (USA)	12	40.0	701	18.7
New Zealand	30	100.0	603	16.1
Europe (Excluding UK)	10	33.3	508	13.6
United Kingdom (UK)	12	40.0	278	7.4
Canada	6	20.0	256	6.8
China/ Hong Kong	10	33.3	163	4.4
Indonesia	8	26.7	107	2.9
Middle East	6	20.0	101	2.7
India	7	23.3	70	1.9
Singapore	9	30.0	45	1.2
South Africa	5	16.7	43	1.1
Malaysia	5	16.7	27	0.7
Other	10	33.3	845	22.5
Total			3747	100.0

Notes: 1) A total of 30 franchisors provided a response from an expected 45.
2) Multiple responses were recorded for some respondents.

Franchising by country Proportion of franchisors



Franchising by country Proportion of franchise units



Reasons for international expansion

Key facts

- Franchisors held a median of 36 total units in the domestic market prior to expanding offshore.
- Most common reason for international expansion was to achieve system growth.
- Franchisors spent a median of \$20 000 to top up the marketing fund for international operations.

A majority of franchisors (63 percent) have been operating overseas since 2001, indicating that international expansion is a fairly recent activity for most franchise systems operating in Australia. Franchisors held a median of 36 units (combined franchised and company-owned) prior to operating overseas, which suggests that franchisors favour international expansion prior to reaching saturation in the domestic market. Some 64 percent of respondents held between 1 and 50 units prior to franchising their operations in other international locations. Only 3 percent of franchisors held no units in Australia prior to franchising overseas.

The most common reasons for international expansion included to stimulate organisational growth (50 percent), requests by resellers (19 percent) and previous success in the domestic market (19 percent). Achieving economies of scale savings (7 percent) and downturns in the domestic market (3 percent) were other nominated considerations in the decision to franchise offshore. Competition levels and market saturation were rated as unimportant by franchisors.

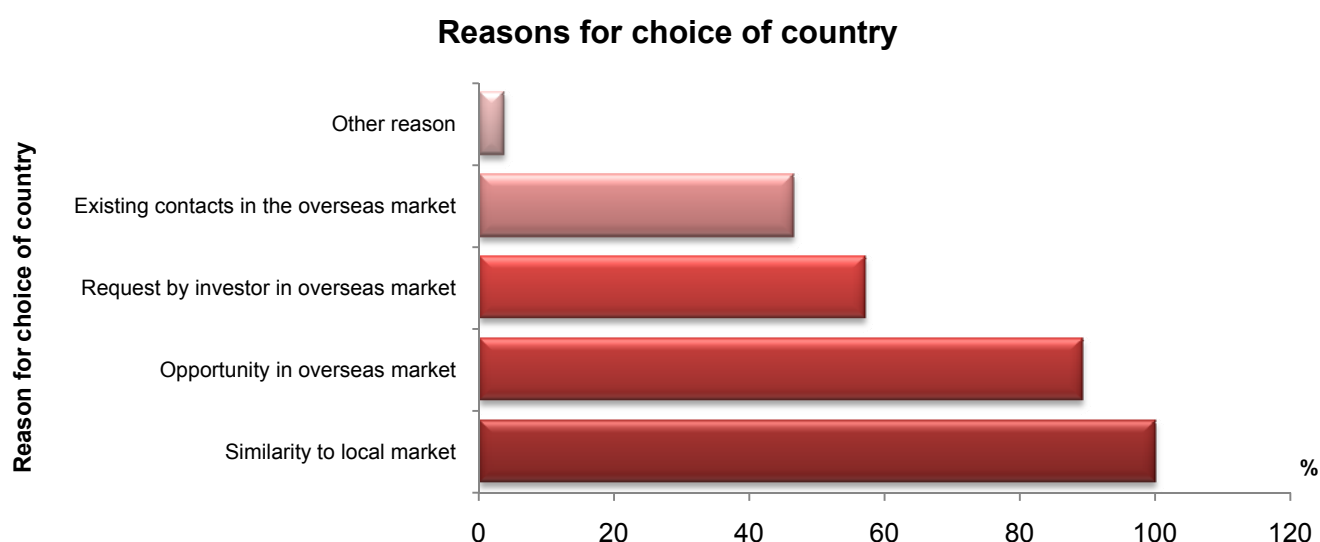
The most common method of overseas expansion was via master franchising (100 percent), which is significantly higher than reported in 2008. This may suggest that this entry mode is viewed as an effective means of reducing risk through delegating recruitment and operational decisions to sub-franchisees in geographically remote markets. Other franchisors favoured joint venture arrangements (36 percent), 100 percent company-ownership (24 percent), area development arrangements (24 percent) and wholly-owned subsidiaries (12 percent).

The majority of respondents (64 percent) reported that they required between 1 and 10 full-time head office staff to support single and multiple unit franchisees in overseas markets. Although, 18 percent of franchisors did not need any additional investment in head office staff, the remaining 82 percent of franchisors favoured increasing numbers of head-office staff to support international operations. Just over half of franchisors (57 percent) agreed that their current marketing fund income was sufficient to cover marketing expenditure for overseas operations. The remaining franchisors contributed up to \$250 000 in order to top up their marketing funds. These results suggest that internationalising franchising operations is viewed as requiring significant investments in terms of staffing and marketing expenditure, which may preclude some smaller systems from embarking upon this growth strategy.

C18 Why did you choose the above country/countries for your international expansion?

Response (Reason for choice of country)	Number of responses	Percent
Similarity to local market	28	100.0
Opportunity in overseas market	25	89.3
Request by investor in overseas market	16	57.1
Existing contacts in the overseas market	13	46.4
Other reason	1	3.6

Notes: 1) A total of 28 franchisors provided a response from an expected 45.
2) Multiple responses were recorded for some respondents.+

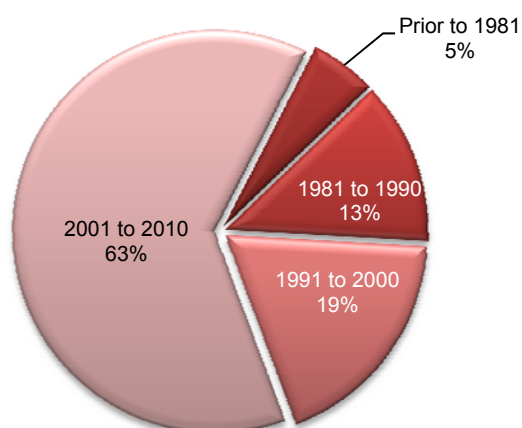


C19 In what year did you commence international operations?

Response (Year)	Number of responses	Percent
Prior to 1981	3	5.3
1981 to 1990	4	13.1
1991 to 2000	7	18.4
2001 to 2010	24	63.2
Total	38	100.0

Notes: 1) A total of 38 franchisors provided a response from an expected 45.
2) Responses ranged from 1944 to 2010.

Year commenced international operations

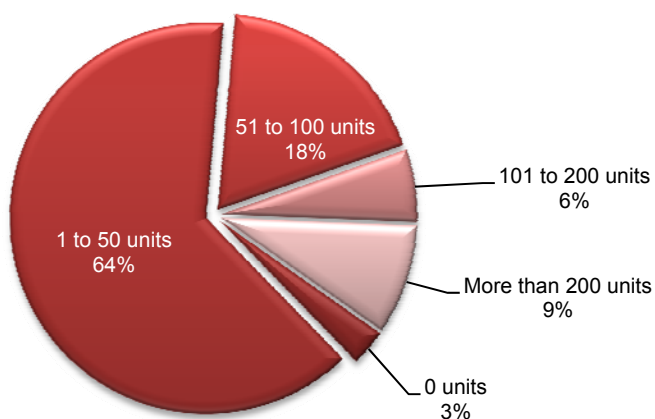


C20 How many units had you opened in Australia prior to franchising overseas?

Response (Units prior to overseas expansion)	Number of responses	Percent
0 units	1	3.0
1 to 50 units	21	63.7
51 to 100 units	6	18.2
101 to 200 units	2	6.0
More than 200 units	3	9.1
Total	33	100.0

Notes: 1) A total of 33 franchisors provided a response from an expected 45.
2) The median number of units was 36.
3) Responses ranged from zero to 350 units.

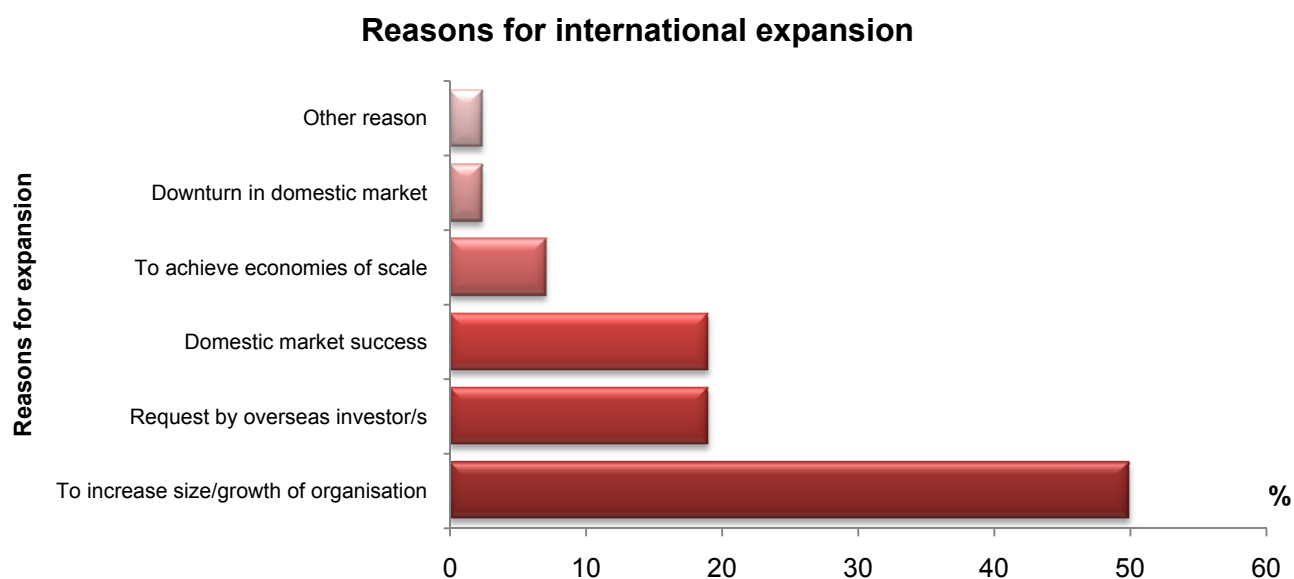
Domestic unit holdings prior to international expansion



C21 What was the primary reason for expanding your operations overseas?

Response (Reason for expansion overseas)	Number of responses	Percent
To increase size/growth of organisation	21	50.0
Request by overseas investor/s	8	19.0
Domestic market success	8	19.0
To achieve economies of scale	3	7.1
Downturn in domestic market	1	2.4
Other reason	1	2.4
Total	42	100.0

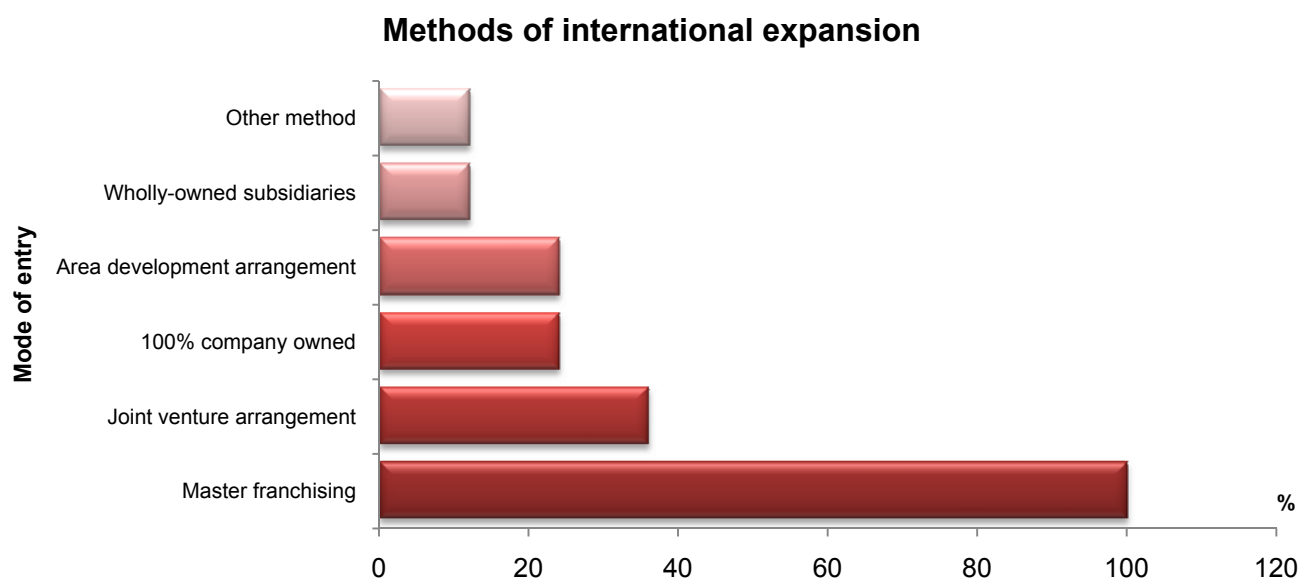
Notes: 1) A total of 42 franchisors provided a response from an expected 45.



C22 What method/s of entry did you choose for international expansion?

Response (Methods of overseas expansion)	Number of responses	Percent
Master franchising	25	100.0
Joint venture arrangement	9	36.0
100% company owned	6	24.0
Area development arrangement	6	24.0
Wholly-owned subsidiaries	3	12.0
Other method	3	12.0

Notes: 1) A total of 25 franchisors provided a response from an expected 45.
2) Multiple responses were recorded for some respondents.

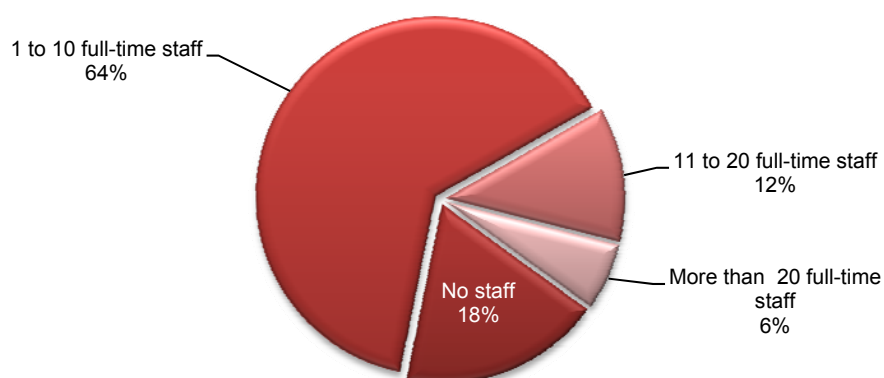


C23 How many full-time equivalent Head Office staff members are employed to support your overseas franchisees/master franchisees?

Response (Full-time staff for overseas operations)	Number of responses	Percent
No staff	6	18.2
1 to 10 full-time staff	21	63.6
11 to 20 full-time staff	4	12.1
More than 20 full-time staff	2	6.1
Total	33	100.0

Notes: 1) A total of 33 franchisors provided a response from an expected 45.
2) Franchisors employed a median of one full-time staff member.
3) Responses ranged from zero to 80.

Full-time staff for overseas operations

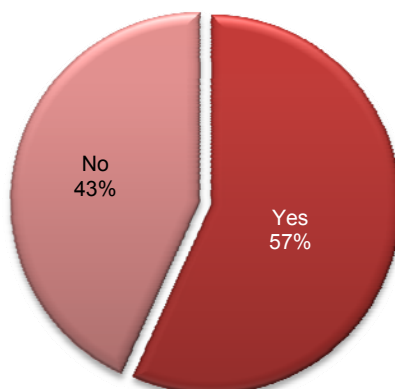


C24 *Is your marketing fund income sufficient to cover the full costs of your marketing expenditure for international operations?*

Response (Marketing fund)	Number of responses	Percent
Yes	25	56.8
No	19	43.2
Total	44	100.0

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

Marketing fund covers costs

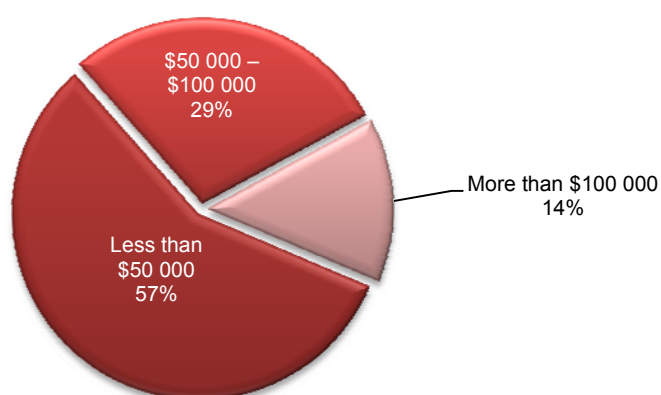


C25 How much did you contribute to top up the marketing fund in financial year 2008/09?

Response (Marketing fund 'top up' contribution)	Number of responses	Percent
Less than \$50 000	4	57.1
\$50 000 – \$100 000	2	28.6
More than \$100 000	1	14.3
Total	7	100.0

Notes: 1) A total of 7 franchisors provided a response from an expected 19.
2) The median contribution was \$20 000.
3) Responses ranged from zero to \$250 000.

Marketing fund 'top up' contribution for overseas operations



Franchise activity levels

Key facts

- The majority of franchisors are investing more in marketing activities, franchisee recruitment and staff training.
- The majority of franchisees are experiencing declines or no change in sales and profitability.

In this section franchisors were asked a series of questions regarding activity levels in *franchise systems* over the last 12 months to gauge the impact of the recent global financial crisis on the franchise sector. Although just under half of the respondents indicated no changes in relation to staffing, capital investment obligations, investment in research and development, franchise system promotion, competition levels and staff training and education, there were noticeable differences in remaining franchisor assessments of activity within their systems. In particular, while approximately one half of franchisors noted increases in their gross sales/revenue margins (56 percent) and profitability (54 percent), around one quarter of franchisors had witnessed declines during the same period. While 36 percent of respondents indicated increases in staffing levels, 24 percent had reduced their staffing numbers. A similar pattern emerged in relation to capital investment with 35 percent reporting an increasing commitment and approximately 18 percent decreasing their capital investment contributions.

Most franchisors (61 percent) increased their promotion of products or services with only 9 percent of respondents reporting a decline. Franchisors appear to understand the need to continually innovate in order to maintain and improve their market position in an increasingly competitive environment. Indeed, over 40 percent of franchisors reported increases in the level of competition with only 15 percent observing a reduction in competitive activity for the same period. While 45 percent of franchisors increased their expenditure on franchise system promotion, around 15 percent reduced their investment in this area. Similarly, just under half of franchisors (47 percent) had increased their financial commitment in recruiting franchisees with only 16 percent reducing their contributions in 2009/10. This action indicates that franchisors appreciate the need for continued investment in recruitment activities to ensure they maintain system growth in increasingly competitive and uncertain economic environments. Moreover, franchisors appear to be cognisant of the need for developing their current staff so as to ensure effective service outcomes, with almost half (48 percent) of franchisors reporting increases in their investments into staff training and development pursuits.

Franchisors were also asked to comment on how recent economic conditions impacted *franchisee activity* over the preceding 12 months. The most notable economic impact occurred in relation to franchisee sales and profitability with approximately 40 percent of franchisors reporting a decline in product sales and profitability levels in their franchise units. In comparison, a smaller percentage of franchisors had seen increases in product sales (34 percent) and unit profitability (29 percent) in this period. In accordance with reports of competitive activity at the franchise system level, around 41 percent of

franchisors believed that franchisees had experienced increased competition over the past 12 months, with only 16 percent indicating a reduction in the degree of competition in their industry. Staffing in franchise units appears fairly stable with just under 60 percent reporting no change, while approximately one quarter of franchisors agreed that staffing levels had fallen across units in their network. Investment in local marketing initiatives by franchisees remains an important area, with 35 percent of franchisors reporting increasing activity in this area, compared with 20 percent recording a fall in their franchisees' local marketing efforts. However, customer counts at the unit level appears inconclusive, with around 35 percent of franchisors reporting an increase in numbers, 36 percent recording a decrease and the remaining 29 percent believing there has been no change.

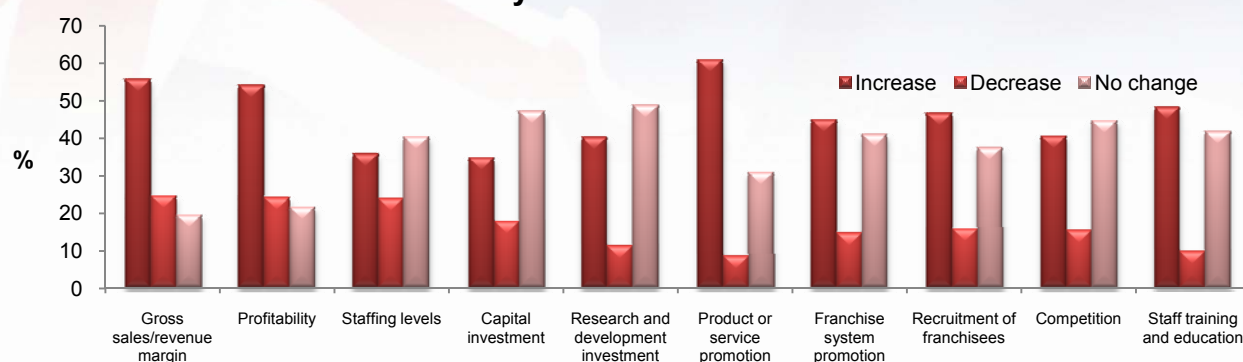
Overall, the results suggest that the Australian franchising sector has been somewhat affected by the financial crisis, but it does not appear to be to the same extent as observable in other similarly mature markets overseas. While decreased activity at the franchisee level is reported by franchisors in a number of areas, it appears that franchisors remain fairly positive about the effects of the downturn.

C26 Did activity levels in the franchisor business in the last 12 months increase, decrease or remain stable?

Response (Franchisor activity levels in last 12 months)	Increase	Decrease	No change
	Percent	Percent	Percent
Gross sales/revenue margin	55.8	24.7	19.5
Profitability	54.2	24.2	21.6
Staffing levels	35.8	23.8	40.4
Capital investment	34.9	17.8	47.4
Research and development investment	40.1	11.2	48.7
Product or service promotion	60.8	8.5	30.7
Franchise system promotion	44.7	14.5	40.8
Recruitment of franchisees	46.7	15.8	37.5
Competition	40.4	15.2	44.4
Staff training and education	48.4	9.8	41.8

Notes: 1) A total of 154 franchisors provided a response from an expected 187.
2) Data were collected from Surveys 1 and 2 for this set of questions.

Franchise activity levels over the last 12 months



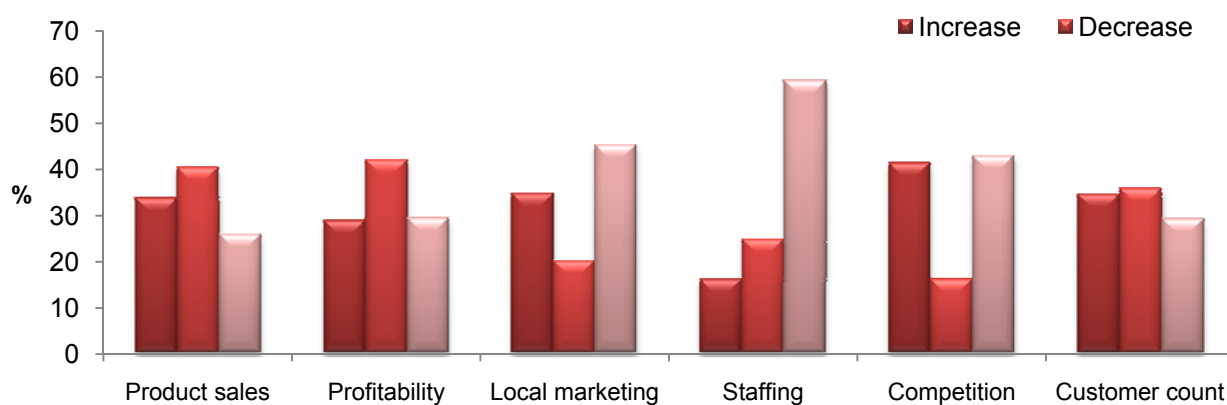
Franchise activities

C27 What effect has the economy had on individual franchisee activity over the past 12 months?

Response (Economic impact on franchisee activity over last 12 months)	Increase	Decrease	No change
	Percent	Percent	Percent
Product sales	33.8	40.4	25.8
Profitability	28.7	42.0	29.3
Local marketing	34.7	20.0	45.3
Staffing	16.0	24.7	59.3
Competition	41.3	16.0	42.7
Customer count	34.7	36.0	29.3

Note: 1) A total of 151 franchisors provided a response from an expected 187.

Economic impact on franchisee activity over the last 12 months



Franchisee activities

C28 *If applicable, please explain any strategic programs that you have initiated over the past 12 months to promote franchisee sustainability or profitability.*

Franchisors were asked to nominate any *strategic programs* that they had instigated to promote franchisee sustainability and profitability, particularly within the context of the recent global financial crisis and resultant period of economic uncertainty. Most respondents detailed activities concerning cost reduction in relation to product sales with high gross margins, adopting benchmarking/financial modelling approaches to cost analysis throughout the network, rebate exchanges with suppliers and sourcing more competitive supplies. Other common initiatives included extending product lines to counteract a 'slow down' in sales in core product categories, introducing rebates on selected products and customer loyalty cards, and focusing on developing effective visual merchandising to ensure some distinctiveness in the marketplace.

Overall, a majority of franchisors continued to maintain or increase their level of research and development investment to ensure the development of competitive goods and service offerings. In addition, just under half of the franchisors emphasised new marketing initiatives (often using low-cost differentiated marketing initiatives) to build brand awareness and generate sales. Ten franchisors similarly emphasised the need for franchisee training which involved identifying a set of unit-specific key performance indicators that enabled better business planning, performance measurement and intra-system benchmarking. Two respondents had facilitated the formation of autonomous 'franchisee groups' consisting of similar sized franchisees in their networks, which were used to foster collaborative learning approaches to franchise operation with their franchisees.

Climate change response

Key facts

- One quarter of franchisors have made operational changes in response to environmental concerns.
- Just over one third of franchisors intend to make operational changes in future.

Although climate change remains a prominent social and business issue, only 24 percent of franchisors reported that they have made operational changes in response to environmental concerns. Of the franchisors who indicated that they have made changes, 91 percent had adapted approaches to communicating with franchisees, 70 percent had adopted environmentally-friendly packaging, 57 percent had introduced green products and services and approximately 52 percent had altered their criteria for selecting suppliers to include environmental criteria. Other business changes in response to climate change included amended stock distribution methods to franchisees (35 percent), instigating energy audits (35 percent), training franchisees on environmentally sustainable operations (35 percent) and purchasing energy from green sources (22 percent). Apart from these company initiatives, 39 percent of franchisors indicated that they made operational changes in response to legal obligations governing the 'fit out' of new premises.

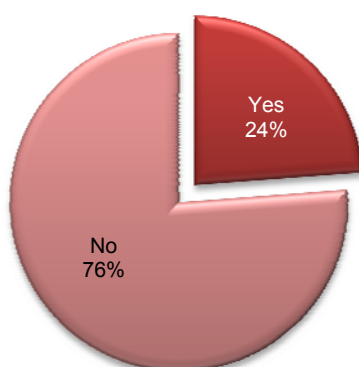
All respondents indicated that they adopted environmentally focused changes to remain competitive and most used these practices because they believed it was 'the right thing to do'. Very few franchisors adopted these initiatives in response to overseas franchisor directives or franchisee and customer requests. Somewhat of concern is the fact that only 37 percent of franchisors intend to make changes to their business operations to minimise their environmental impact in the future. This may reflect an increasing emphasis on cost reduction necessitated by recent conditions of economic uncertainty, or may be a result of apathy in the franchise or wider business community. Whatever the case, future government legislation in this area may enact operational changes in response to climate change, regardless of the willingness of businesses to initiate these changes independently.

C29 Have you made any changes in the way your franchise operates in response to the threat of climate change?

Response (Operational changes in response to climate change)	Number of responses	Percent
Yes	39	23.8
No	125	76.2
Total	164	100.0

Notes: 1) A total of 164 franchisors provided a response from an expected 187.
2) Data were collected from Surveys 1 and 2 for this set of questions.

Operational changes in response to climate change



C30 Which of the following changes have you made to business operations?

Response (Changes to business operations in response to climate change)	Number of responses	Percent
Methods of communicating with franchisees	21	91.3
Reducing packaging or introducing environmentally friendly packaging	16	69.6
Introducing green products or services	13	56.5
Criteria for appointing suppliers	12	52.2
Premises fit-out requirements	9	39.1
Energy audits with a view to reducing consumption	8	34.8
Training for franchisees and/or staff on environmentally sustainable operations	8	34.8
Distribution methods of stock to franchisees	8	34.8
Buying energy from green sources	5	21.7
Other change	7	30.4

Notes: 1) A total of 23 franchisors provided a response from an expected 39.
2) Multiple responses were recorded for some respondents.
3) Other changes included printing reductions, enhancing fuel and water efficiency and improving waste removal.

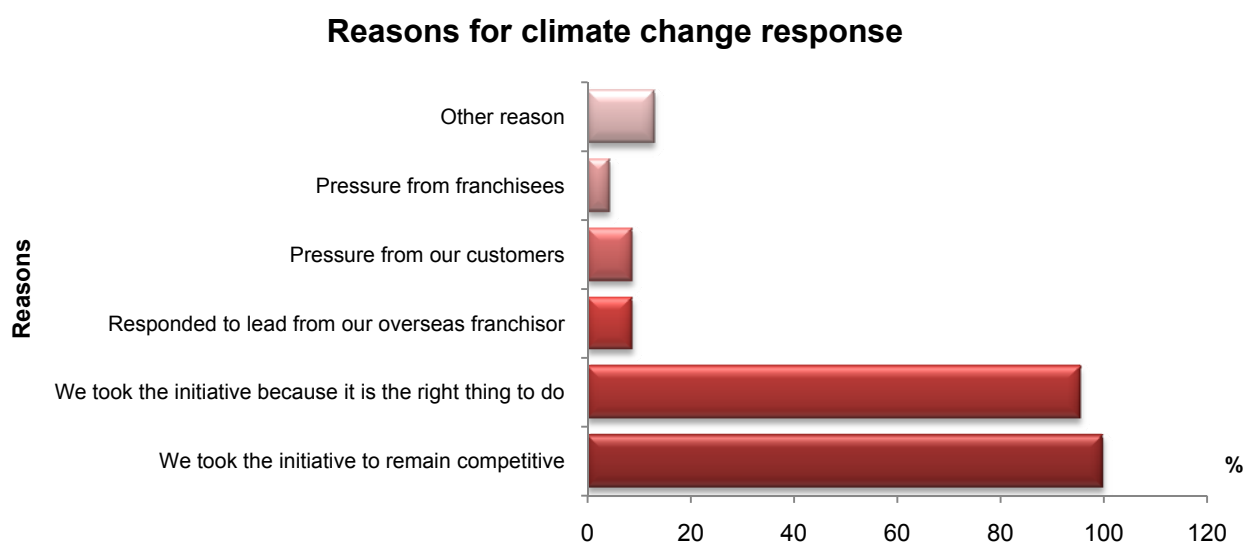
Operational changes in response to climate change



C31 Please identify what made you decide to change your practices.

Response (Reason for climate change response)	Number of responses	Percent
We took the initiative to remain competitive	23	100.0
We took the initiative because it is the right thing to do	22	95.7
Responded to lead from our overseas franchisor	2	8.7
Pressure from our customers	2	8.7
Pressure from franchisees	1	4.3
Other reason	3	13.0

Notes: 1) A total of 23 franchisors provided a response from an expected 39.
 2) Multiple responses were recorded for some respondents.
 3) Other reasons included government regulations and shopping centre influence.

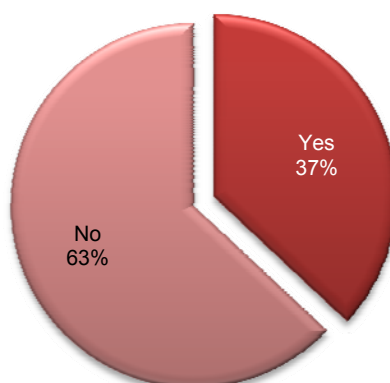


C32 Do you intend to make changes to business operations because of climate change in the future?

Response (Intention to make future business changes in response to climate change)	Number of responses	Percent
Yes	60	37.0
No	102	63.0
Total	162	100.0

Notes: 1) A total of 162 franchisors provided a response from an expected 187.

Intention to make future changes in response to climate change



D Franchisor Profile

In this final section of the survey a profile of franchisors is provided. For the purpose of this analysis we identified franchisors who were *founders* or who started out as *franchisees* of the system and we examined their characteristics and motivations. Other franchisors were excluded from the analysis as some respondents were executives of the organisation, rather than franchisors.

Franchise system founders

Key facts

- More than half the franchisor respondents were either the founders (50 percent) or former franchisees (8 percent) of the system.

Franchisors were asked to comment on whether they were the original founder of the business or if they had been involved as a franchisee of the business prior to becoming a franchisor. The results show an even-split between numbers of founders and franchisors who had acquired the system once it was established and in operation. This suggests that there is evidence of changes in the ownership patterns of franchise systems. These changes may be required as systems grow, corporatise and seek external investment partners. Although some research attests to the occasional need for founder-CEO's to remove themselves from business systems in order to foster and enact cultural change, innovate, grow and survive, this is not entirely conclusive with many founder-CEO led firms retaining higher market value.⁶

D1 Are you the founder of the original business?

Response (Franchise Founder)	Number of responses	Percent
Yes	38	50.0
No	38	50.0
Total	76	100.0

Notes: 1) All 76 franchisors provided a response.
2) Data were collected from Survey 1 for this set of questions.

⁶ Fahlenbrach, 2009, 'Founder CEOs and Stock Market Performance', Journal of Financial and Quantitative Analysis, 44(2), 439-466.

D2 Were you a franchisee before acquiring the business?

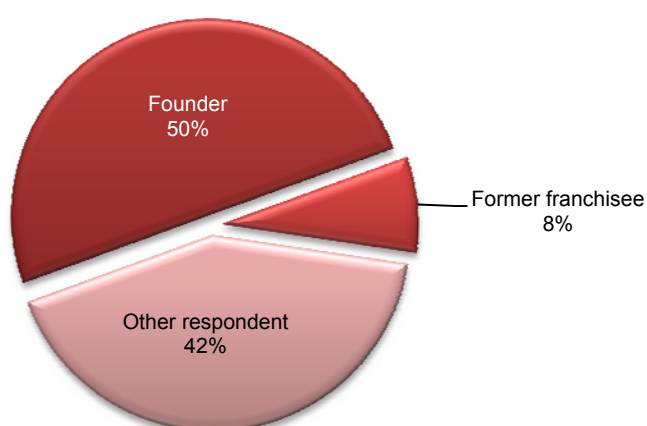
Response (Franchisee prior to acquiring business)	Number of responses	Percent
Yes	6	16.2
No	31	83.8
Total	37	100.0

Notes: 1) A total of 37 respondents answered this question from an expected 38.

The table below further summarises franchisor origin.

Franchisor origin	Number	Percent
Founder	38	50.0
Former franchisee	6	7.9
Other respondent	32	42.1
Total	76	100.0

Franchisor origin



Franchisor gender and age

Key facts

- Three quarters of franchisor respondents were male, aged 41 to 60 years.

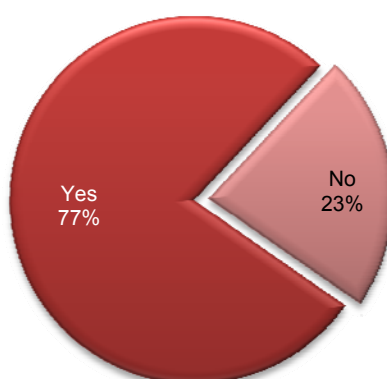
The majority (77 percent) of franchisor respondents were male which appears to accord with previous research suggesting that women franchisors are under-represented in mature franchising markets throughout the world. Moreover, the results are broadly consistent with Australian Bureau of Statistics (ABS) census data suggesting that 69 percent of all business owners were male.⁷ Most franchisors were aged between 41 and 60 years (76 percent), with 20 percent falling within the 31 to 40 year age bracket, and only 5 percent aged over 60 years.

D3 What is your gender?

Response (Franchisor gender)	Number of responses	Percent
Male	34	77.3
Female	10	22.7
Total	44	100.0

Notes: 1) The expected number of 44 franchisors provided a response.

Franchisor gender

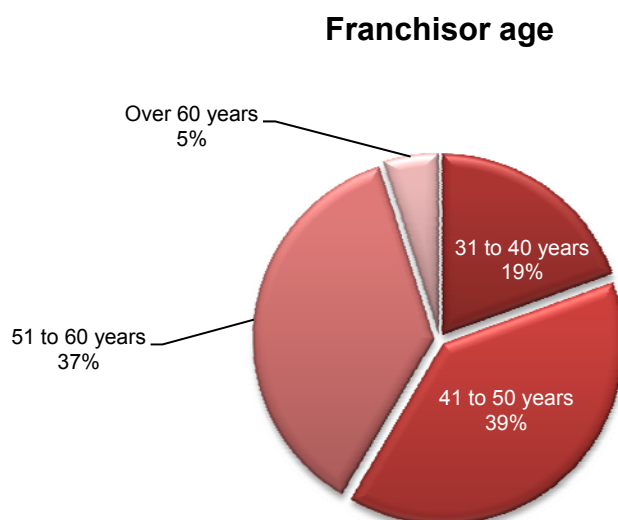


⁷ Australian Bureau of Statistics, 'Counts of Australian Business Operators 2006-7', Catalogue number 8175.0.

D4 What is your age?

Response (Franchisor age)	Number of responses	Percent
31 to 40 years	8	19.5
41 to 50 years	16	39.0
51 to 60 years	15	36.6
Over 60 years	2	4.9
Total	41	100.0

Notes: 1) A total of 41 respondents answered this question from an expected 44.
 2) Ages ranged between 33 and 70 years.
 3) The median age of franchisors was 49 years.



Franchisor education and experience

Key facts

- One quarter of franchisors had a university degree.
- Two thirds of franchisors had previously started up another business.
- The median age for starting their current business was 38 years.

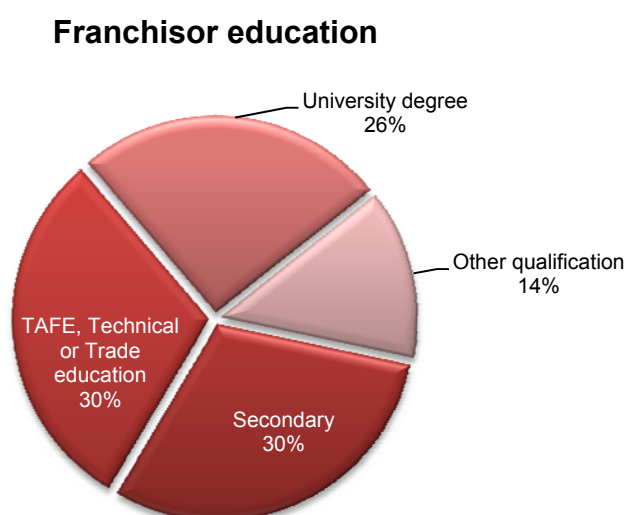
Overall, 30 percent of franchisors had completed their secondary education, 30 percent had attained a TAFE, Technical or trade qualification, and approximately 26 percent had been awarded a university degree. In comparison, ABS data detailing that of the business owners operating within Australia, 49 percent had completed secondary education as their highest qualification, and of the remaining owners, 46 percent had received a trade qualification and 23 percent possessed a bachelor's degree⁸. In addition, over two thirds (69 percent) of franchisors had prior business start-up experience before entering their current business. In this way, franchisors appear to be leveraging their industry-specific knowledge, and prior business design and management experience in the context of a new business model. Although 42 percent of franchisor respondents had initiated their concepts when they were over 40 years, there is also evidence that 59 percent of franchisors had begun franchising their operations when they were aged between 21 and 40 years.

⁸ Australian Bureau of Statistics, 'Counts of Australian Business Operators 2006-7', Catalogue number 8175.0.

D5 What is your highest level of education?

Response (Franchisor education)	Number of responses	Percent
Secondary	13	30.2
TAFE, Technical or Trade education	13	30.2
University degree	11	25.6
Other qualification	6	14.0
Total	43	100.0

Notes: 1) A total of 43 respondents answered this question from an expected 44.

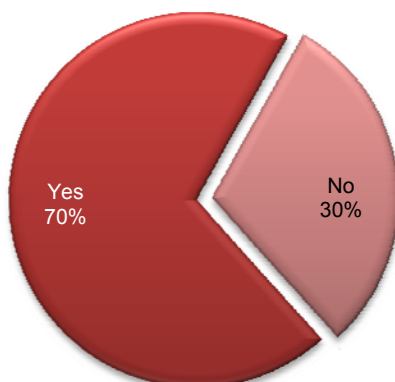


D6 Did you have any experience of business start-up prior to your current business?

Response (Franchisor business experience prior to franchising)	Number of responses	Percent
Yes	30	69.8
No	13	30.2
Total	43	100.0

Notes: 1) A total of 43 respondents answered this question from an expected 44.

Previous business start-up experience

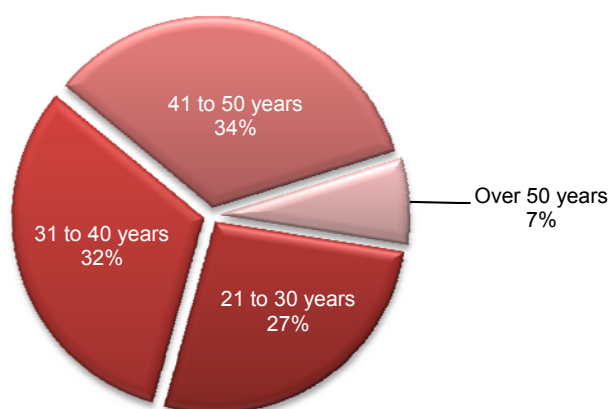


D7 What was your age when you first started your current business?

Response (Franchisor age when starting current business)	Number of responses	Percent
21 to 30 years	11	26.8
31 to 40 years	13	31.7
41 to 50 years	14	34.2
Over 50 years	3	7.3
Total	41	100.0

Notes: 1) A total of 41 respondents answered this question from an expected 44.
 2) Ages ranged between 33 and 70 years.
 3) The median age was 38 years.

Franchisor age when starting current business



Motivation and planning

Key facts

- 40 percent of franchisors planned from the outset to franchise the business.
- Most important reasons for starting the business were to seek financial security and new challenges.
- The franchising model was chosen to take advantage of franchisee capital and to achieve rapid growth.

The most prominent reasons for franchisors in starting their business were in seeking financial security (22 percent), exploiting new challenges (22 percent), gaining more independence and autonomy (12 percent) and realising lifestyle benefits (12 percent). Other factors included building a national brand (10 percent) and pursuing a creative outlet in their working lives (5 percent). Therefore, franchise business models appear to appeal to entrepreneurs seeking to satisfy a bundle of personal/ intrinsic needs and desired extrinsic rewards, both of a financial and personal nature. Less important factors nominated by franchisors included benefits associated with business cooperation, leveraging existing business knowledge throughout the business network, and building business brands at a national level. Third party-recommendations from accountants and franchise advisors was also nominated by franchisors as the primary reason for them entering franchising.

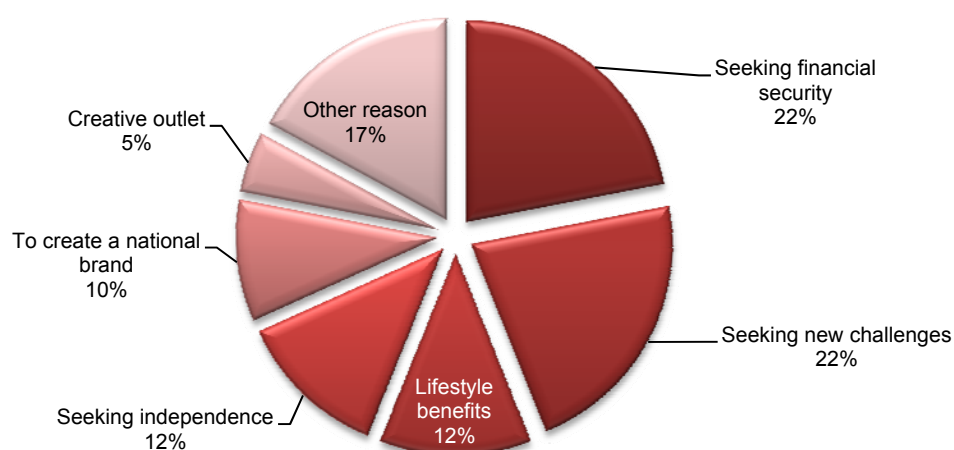
Some 40 percent of franchisors planned from the outset to franchise the business, whereas the franchising concept evolved for the remainder. The franchise model was adopted by some franchisors because franchisees were perceived as a ready source of capital (48 percent) and because they make motivated owner managers (38 percent). Other reasons nominated for franchising were to achieve rapid growth (45 percent) or because it appeared to be a successful business strategy for other franchisors (30 percent).

D8 What was the most important reason for starting your business?

Response (Reason for starting business)	Number of responses	Percent
Seeking financial security	9	22.0
Seeking new challenges	9	22.0
Lifestyle benefits	5	12.2
Seeking independence	5	12.2
To create a national brand	4	9.8
Creative outlet	2	4.9
Other reason	7	17.1
Total	41	100.0

Notes: 1) A total of 41 respondents answered this question from an expected 44.
2) Other motivations included protecting existing asset base, benefits to society, to pursue a business 'passion' and to build an international brand.

Franchisor motivations to start business

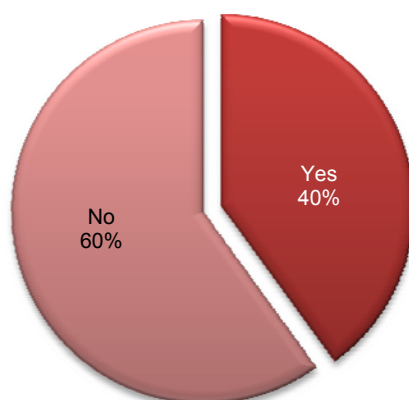


D9 Did you plan from the outset to franchise the business?

Response (Plan to franchise business from the outset)	Number of responses	Percent
Yes	16	40.0
No	24	60.0
Total	40	100.0

Notes: 1) A total of 40 respondents answered this question from an expected 44.

Plan to franchise business from the outset

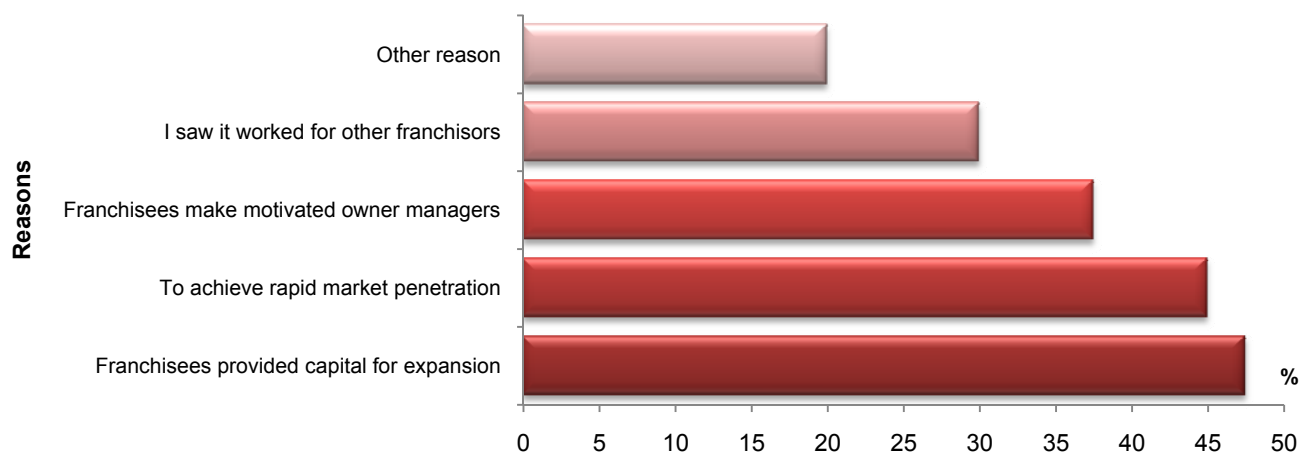


D10 Why did you choose a franchise model?

Response (Reason for choosing franchise business model)	Number of responses	Percent
Franchisees provided capital for expansion	19	47.5
To achieve rapid market penetration	18	45.0
Franchisees make motivated owner managers	15	37.5
I saw it worked for other franchisors	12	30.0
Other reason	8	20.0

- Notes:
- 1) A total of 40 respondents answered this question from an expected 44.
 - 2) Multiple responses were recorded for some items.
 - 3) Other reasons included benefits associated with business cooperation, benefits associated with leveraging existing business knowledge throughout network, third party recommendations and benefits associated with building a national brand.

Reasons for choosing franchise business model





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