

FRANCHISING

AUSTRALIA 2014



 **Griffith**
UNIVERSITY

Asia-Pacific Centre for
Franchising Excellence



Prepared by
Lorelle Frazer
Scott Weaven
Anthony Grace

Franchising Australia 2014
Copyright © 2014
Griffith University

Enquiries may be directed to the authors via:

Professor

Lorelle Frazer

Asia-Pacific Centre for
Franchising Excellence
Griffith University
Brisbane Q 4111

P +61 7 3382 1179

F +61 7 3382 1190

E L.Frazer@griffith.edu.au

Assoc Professor

Scott Weaven

Asia-Pacific Centre for
Franchising Excellence
Griffith University
Brisbane Q 4111

P +61 7 5552 9216

F +61 7 5552 8085

E S.Weaven@griffith.edu.au

Mr Anthony Grace

Asia-Pacific Centre for
Franchising Excellence
Griffith University
Brisbane Q 4111

P +61 7 3382 1179

F +61 7 3382 1190

E A.Grace@griffith.edu.au

Acknowledgements

The authors are grateful for the following support:

Research assistance provided by Coral Weaven.

Generous sponsorship by the Franchise Council of Australia.

Support of the Griffith Business School.

Report design by Andrea Grace (www.andreagrace.com.au)

Icons made by Freepik from www.flaticon.com and is licensed by Creative Commons 3.0

FOREWORD



Griffith University is proud to endorse the ninth 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 2014* report provides a profile of the sector as well as a source of longitudinal data gathered over the past 16 years.

Franchising Australia 2014 reveals:

- There are 1160 business format franchisors in Australia in 2014, compared with 1180 in 2012.
- There are an estimated 79 000 units operating in business format franchises, reflecting an increase of 8.2 percent since 2012.
- More than 460 000 people are employed directly in franchising.
- Sales turnover of the entire franchising sector was estimated at \$144 billion.
- Fully 86 percent of franchise systems originated in Australia.
- Some 30 percent of franchisors have entered international markets.
- Only 1.5 percent of franchisees were involved in a substantial dispute with a franchisor over the past twelve months.
- Fully 45 percent of franchise systems engage in online sales with customers.

Against a background of declining interest in mining investment, the weak state of the labour market and financial conservatism, Australia's general economic growth has been sluggish over the past two years. However, the franchise sector has experienced net growth in franchise units and sales turnover, particularly in retail franchises, reflecting the power of franchise brands and their acceptance by consumers.

The data provided in this report provides a reliable source of information about the Australian franchise 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 growth. I am very pleased to recommend the *Franchising Australia 2014* survey results to interested participants of the franchise sector. The authors have produced the series of reports over a period of 16 years 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)
Griffith Business School

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 Board 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 Commonwealth Treasury.

Professor Frazer's postgraduate Franchising course has been commended by Griffith University for its innovative teaching approach and strong support from industry.

In 2010 Professor Frazer was presented with the Contribution to Franchising award by the Franchise Council of Australia for her 'significant contributions to the education of the Australian franchise community'.

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



ASSOCIATE PROFESSOR SCOTT WEAVEN

Associate Professor Scott Weaven is an academic 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.

Assoc. Professor Weaven has published in excess of 100 academic articles in franchising and has published manuscripts in journals including the Journal of the Academy of Marketing Science, Journal of Retailing, European Journal of Marketing, International Small Business Journal and the Journal of Business Ethics.

Assoc. Professor Weaven has been a chief investigator on 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, Research and Tertiary Education.

Currently he is investigating international expansion strategies, the impact of personality in the franchisor-franchisee relationship, and service quality in franchising networks. Assoc. Professor Weaven is a member of the International Society of Franchising and teaches marketing in the Griffith Business School.



MR ANTHONY GRACE

Mr Anthony Grace is a Tutor in the Department of Marketing and a member of the Asia-Pacific Centre for Franchising Excellence at Griffith University. He is currently completing a PhD in franchising in the Griffith Business School, under the supervision of Professor Lorelle Frazer, Associate Professor Scott Weaven and Professor Rajiv Dant, on the topic of trust in franchising relationships.

Mr Grace is a member of the International Society of Franchising and has published his Honours research in the Asia-Pacific Journal of Marketing and Logistics.

Mr Grace teaches franchising to Griffith Business School undergraduate and postgraduate students, as well as students via Open Universities Australia.

SPONSOR PROFILE





**FRANCHISE COUNCIL
OF AUSTRALIA**

Mr Kym De Britt, *FCA General Manager*

THE FRANCHISE COUNCIL OF AUSTRALIA

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 \$144 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.

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.

P 1300 669 030 | E info@franchise.org.au | www.franchise.org.au

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 Associate Professor Scott Weaven is the Deputy Director of the Centre.

www.franchise.edu.au

EXECUTIVE SUMMARY



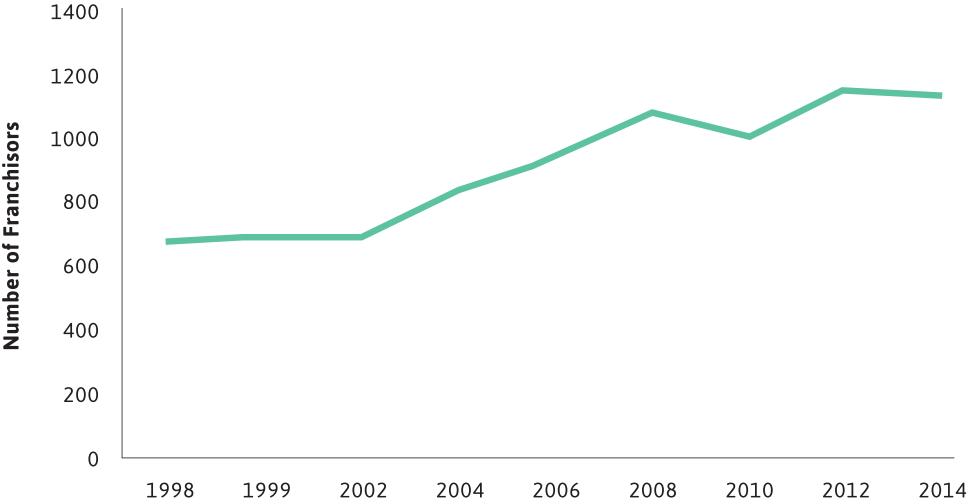
The *Franchising Australia 2014* survey gathered current data on the Australian franchise sector amidst a domestic economy continuing to operate below full capacity. Facing a significant decline in mining investment, subdued growth in consumer spending, little movement in the Australian dollar and a weak labour market, the business sector has generally struggled to perform.

The key findings of the *Franchising Australia 2014* 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 sources¹ and this information has been incorporated into the Executive Summary only.

Below are the highlights of the *Franchising Australia 2014* survey.

Year	Number of franchise systems	Year	Number of franchise systems
1998	693	2008	1100
1999	708	2010	1025
2002	700	2012	1180
2004	850	2014	1160
2006	960		

Franchisor Profile 1998 - 2014



Whilst the number of franchise systems has declined by 1.7 percent from 2012 to 2014, this is actually a good signal for the sector. Australia has held one of the highest levels of franchisors per capita in the world for several years but many franchise systems have been too small to remain viable. As the sector matures we can expect to see the number of franchisors contract whilst individual franchise systems grow internally.

¹ Data were sourced from the Australian Motor Industry Federation, Australian Bureau of Statistics, Australian Institute of Petroleum and Service Station Association and IBISWorld.

TOTAL NUMBER OF UNITS IN FRANCHISE SYSTEMS IN AUSTRALIA

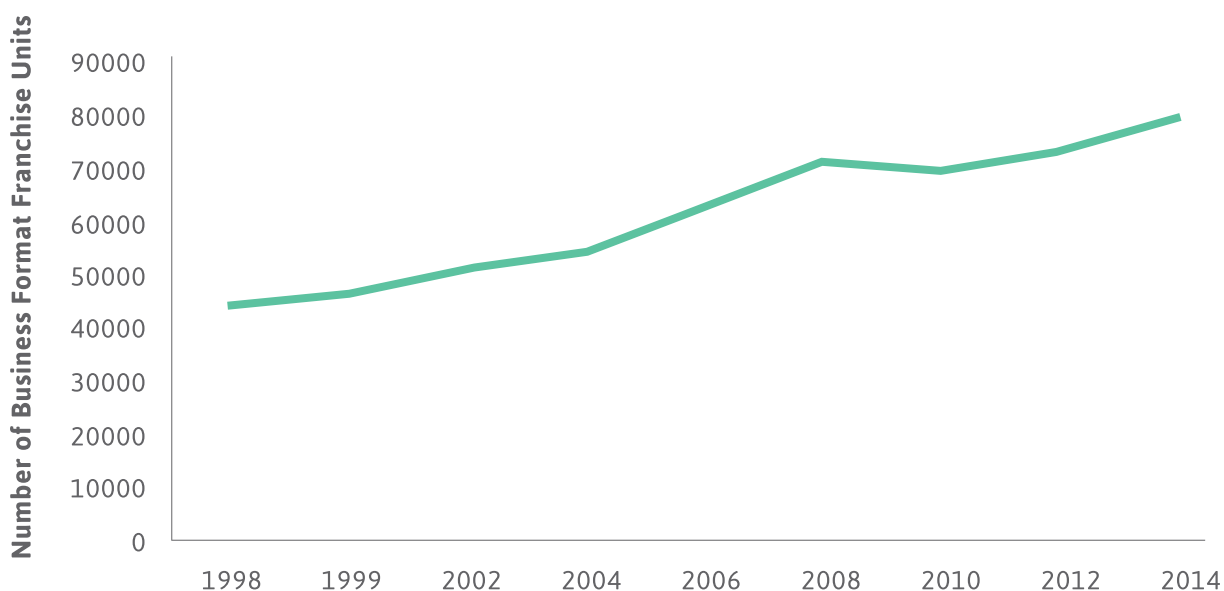
-

There are an estimated 70 000 business format franchised units and 9000 company-owned units, producing a total of 79 000 units operating in business format franchise systems in Australia. This number represents almost 4 percent of Australian businesses². An additional 6120 fuel retail and 4598 motor vehicle retail outlets are estimated.

A comparison of the number of business format franchise units from 1998 to 2014 is provided.

Year	Number of business format franchise units
1998	43 800
1999	46 100
2002	51 100
2004	54 000
2006	61 860
2008	71 400
2010	69 900
2012	73 000
2014	79 000

Growth in Total Business Format Franchise Units 1998 - 2014



During the period 2012 to 2014 the franchise sector grew by an estimated 6 000 franchise units, representing a net increase of 8.2 percent. This is in contrast to the 2.9 percent decrease in Australian businesses reported by the ABS over the 2012 to 2013 financial year. Whereas Australia's economic growth has been below trend over the past two years, the franchise sector has demonstrated strong growth. Although Australia performed well during the global financial crisis (GFC), its economic performance has since declined and the domestic economy has been characterised by moderate retail spending and uncertain consumer confidence. Conversely, the franchise sector has performed very well, given the constraints experienced in the business sector.

² Australian Bureau of Statistics (2014). Counts of Australian Businesses, Including Entries and Exits, June 2009 to June 2013, Catalogue 8165.0

TURNOVER OF THE AUSTRALIAN FRANCHISING SECTOR

-

The total sales turnover of business format franchise units was estimated at \$65 billion in 2014 (compared with \$62 billion in 2011). Together with estimated motor vehicle sales of \$38 billion and fuel retail of \$41 billion, the total sales turnover for the entire franchising sector was estimated to be \$144 billion (compared with \$131 billion in the 2012 survey).

EMPLOYMENT IN THE AUSTRALIAN FRANCHISING SECTOR

-

Consistent with the growth in franchise units, employment in the sector has increased since 2012. Whilst permanent full-time and part-time employment has remained fairly consistent, the employment of casual labour has increased significantly. This trend reflects that of the broader economy where a leaning towards greater employment in part-time jobs has been observed.

It is estimated that more than 460 000 people are employed directly in franchise organisations. Comparative estimates for 2010 to 2014 are provided below.

Employment Status

	2010		2012		2014	
	Number of employees	Percent	Number of employees	Percent	Number of employees	Percent
Permanent full time	142 600	20.7	145 000	35.6	155 000	33.6
Permanent part time	91 100	13.2	124 000	30.5	125 000	27.1
Casual	456 300	66.1	138 000	33.9	181 000	39.3
Total	690 000	100.0	407 000	100.0	461 000	100.0

PROFILE OF FRANCHISE SYSTEMS IN AUSTRALIA

Industries.

The retail (non food) industry continues to dominate franchising with 27 percent of franchisors involved in this sector. A further 18 percent of franchisors comprise the accommodation and food service industry (which includes fast food). Non-food retail franchises are generally large (with a median of 87 franchise units). Food retail franchises include a few very large fast food franchises and a mixture of emerging systems (median of 32 franchise units). Whereas 15 percent of franchisors are involved in administration and support services, their systems are smaller (median of 27 franchise units).

Size of systems.

Sector wide, franchise systems grew internally from a median of 31 to 34 total units from 2013 to 2014. In contrast to the 2012 survey, most of the growth has occurred in retail franchise systems. Retail franchise systems held a median of 45 total units in 2013, increasing to 49 units in 2014. Non-retail franchise systems are considerably smaller, holding a median of 27 total units in 2013, increasing to 30 units in 2014.

Age of systems.

The franchise sector is becomingly increasingly mature. Two thirds of franchise systems have been franchising for more than 10 years. Whilst most franchisors operated a pilot outlet for 3 years prior to commencement of franchising, approximately one third of systems began franchising within the first 12 months of operation.

FINANCIAL PERFORMANCE

- Both franchisors and franchisees were reported to be experiencing increases in revenue and profits. Franchisor revenue (from royalties, rebates and other ongoing fees) increased by 9 percent in the 2013-2014 financial year. Similarly, their profits increased by 7 percent over the same period. Franchisors reported that the majority of their franchisees also experienced a 9 percent increase in revenue and a 5 percent increase in profits.

MINORITY GROUPS

- For the first time, the *Franchising Australia 2014* survey gathered data on minority groups involved in franchising. Some 16 percent of franchisors actively recruit migrants as franchisees and a further 12 percent intend to do so in the future. Only 7 percent of franchisors indicated that they have recruited Aboriginal or Torres Strait Islander franchisees. Promisingly, just over half the franchisor respondents (51 percent) indicated that they were interested in a program that would transition Aboriginal or Torres Strait Islander employees into franchisee ownership.

ONLINE SALES

- Online sales are conducted by 45 percent of franchise systems and a further 19 percent intend to engage in online sales in the future. Online sales account for only a small proportion of total sales in the brand (5 percent) and these are, understandably, mostly in retail franchises.

FRANCHISING DISPUTES AND UNIT CLOSURES

-

Substantial disputes (those referred to an external advisor for action) were reported by 21 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 1.5 percent. These findings have remained relatively consistent over the past decade. Reported disputes were more prevalent in large retail franchises, although disputes occurred across the range of industries, ages and sizes of franchise systems. The most common causes of disputes were those related to system compliance by franchisees and communication problems in the franchising relationship.

INTERNATIONAL EXPANSION BY AUSTRALIAN FRANCHISE SYSTEMS

-

Expansion into international markets has remained relatively stable over the past few years. Some 30 percent of franchisors are currently operating internationally with New Zealand remaining the most common destination.

CONCLUSION

-

Despite ongoing fiscal restraint in the Australian economy, the franchise sector has performed strongly. Some small non-viable franchise brands have exited the sector whilst surviving brands have continued to grow and prosper. Sales turnover in business format franchises has increased moderately. Both franchisors and franchisees have experienced increased revenue streams and profits over the past twelve months. Moreover, franchisors express high levels of confidence in the future performance of their franchise brands, predicting even stronger growth in 2015. In brief, the *Franchising Australia 2014* survey provides evidence of strong performance in the franchise sector across all segments, but particularly in retailing.

BACKGROUND



Franchising Australia 2014 provides a detailed and comprehensive report on the status of the Australian franchise 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 over a period of some 16 years.

For the first time data for the survey was collected immediately following the end of the financial year over a three month period from July to September 2014. Delaying the data collection enabled the most current financial data to be reported.

The 2014 results reflect continued growth in the sector following the recent global financial crisis (GFC) when performance in the sector plateaued. Whereas the remainder of the Australian economy has experienced only moderate growth related to the decline in mining investment, franchising has prospered due to its unique combination of brand dominance, consistency and quality of service and products and a highly regulated and controlled sector.

Franchising Australia 2014 provides detailed information on the current status of franchising and confirms that the sector is performing strongly and is continuing to achieve impressive growth.

INTRODUCTION

-

The *Franchising Australia 2014* survey was conducted from July to September 2014. 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 franchise sector, including market trends. The series of biennial surveys commenced in 1998, thus providing longitudinal data spanning some 16 years from which to base analyses.

In 2014 the survey gathered data relating to:

- A profile of the franchise sector in terms of age, size, growth, and composition;
- Predictions of future franchise sector performance;
- The extent of participation of migrants and Aboriginal and Torres Strait Islanders in the franchise sector;
- Online sales and international expansion activities of franchise brands.

CONDUCT OF THE SURVEY

-

The Franchisors

The *Franchising Australia 2014* 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 1334 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 2014 is estimated at 1124. When multiple concepts operating under a single

brand name are included, the number of franchise systems approximates to 1160.

The Questionnaire

The survey was conducted electronically via the internet. The questionnaire was pilot tested in two stages. In stage one, a sample of consultants and academics pilot tested a hard copy of the survey instrument and provided feedback to the research team. A second round of pilot testing was then conducted electronically on the revised questionnaire. A shorter survey was designed in order to encourage greater participation.

An email notification was sent by the chief researcher to the 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. Several follow-up emails and telephone calls were made to nonrespondents over a period of three months. To promote participation in the survey a prize was offered.

Respondents were invited to complete and submit the survey electronically. 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.

Survey responses

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

Organisations listed on database		1334
Less exclusions:		
Mergers	0	
Organisations assumed no longer operating	89	
Organisations no longer franchising	48	
Organisations not yet franchising	39	
Organisations identifying as not involved in franchising	34	210
Confirmed population of franchisors		1124
Less organisations which could not be contacted		15
Total number of organisations included in sample		1109

Of the 1109 franchisors included in the sample, some 123 usable responses were completed, resulting in a response rate of 11.1 percent. This is similar to the 11.6 percent response rate received in the Franchising Australia 2012 survey. The increasing demands on franchisors from various external sources requesting data are possibly leading to survey fatigue.

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 common statistical test of comparing early with late respondents was conducted on 20 key variables. Late respondents are assumed to be similar to nonrespondents because they respond less readily and only after prompting. The results of this test indicated that there were no significant differences between the two groups.

A second test compared a sample of 30 nonrespondents with the 123 survey respondents on key variables such as industry, age, size, location and international activity. Information for nonrespondents was obtained from listings in the Franchising 2014 Yearbook and Directory, 2014 Franchise Directory, and from franchisor websites. This test also confirmed that there were no significant differences between the two groups.

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 2014

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%).

SECTION A FRANCHISE PROFILE



INDUSTRY



KEY FACTS

- 1124 franchisors in 2014.
 - 1137 franchisors in 2012.
 - Retail industry dominates franchising.
-

There has been no net growth in the number of franchise systems from 2012 to 2014. In 2012 the population of business format franchisors was 1137; in 2014 it had declined slightly to 1124 franchise systems. This represents a net decrease of 1.7 percent. (See 'Conduct of the Survey' for a breakdown of franchisor entries and exits from 2012 to 2014.) Historically, the majority of franchise systems in Australia have been small. As the sector matures we would expect to observe a decline in the number of franchise systems and for individual franchise networks to expand in size. Evidence reported in *Franchising Australia 2014* indicates that this trend is indeed occurring. This is a positive sign of the health and maturity of the sector.

The majority of franchise networks are involved in retail trade with 27 percent involved in non-food retailing and a further 18 percent involved in food retailing. Some 15 percent of franchisors operate in administration and support services (including travel agencies, office services, domestic and commercial cleaning, gardening services and lawn mowing). Almost 11 percent of franchisors provide 'other services' which include personal services, pet grooming and automotive repairs. Education and training accounts for 7 percent of franchisors and a further 6 percent are involved in rental, hire and real estate services. Many other industries are franchised - including financial and professional services, arts and recreation, construction, telecommunications, transport and health care – but each of these is represented by fewer than 4 percent of franchisors per industry category. The proportion of franchisors in each industry has remained stable since 2012.

The majority of new franchisors which commenced franchising since 2012 are involved in retailing. Conversely, the majority of franchisors which either ceased franchising or ceased operating since 2012 were involved in the service sector. This pattern indicates a turnaround since the effect of the economic downturn over the past few years, with the retail sector showing signs of improvement and recovery.

Table A1 compares the distribution of the franchisor population with respondents to the survey and a generally consistent pattern of responses is noted. The table also indicates the number and proportion of franchise units held by franchisors in each industry segment. The majority of these units are in retail trade, personal and business services, and finance.

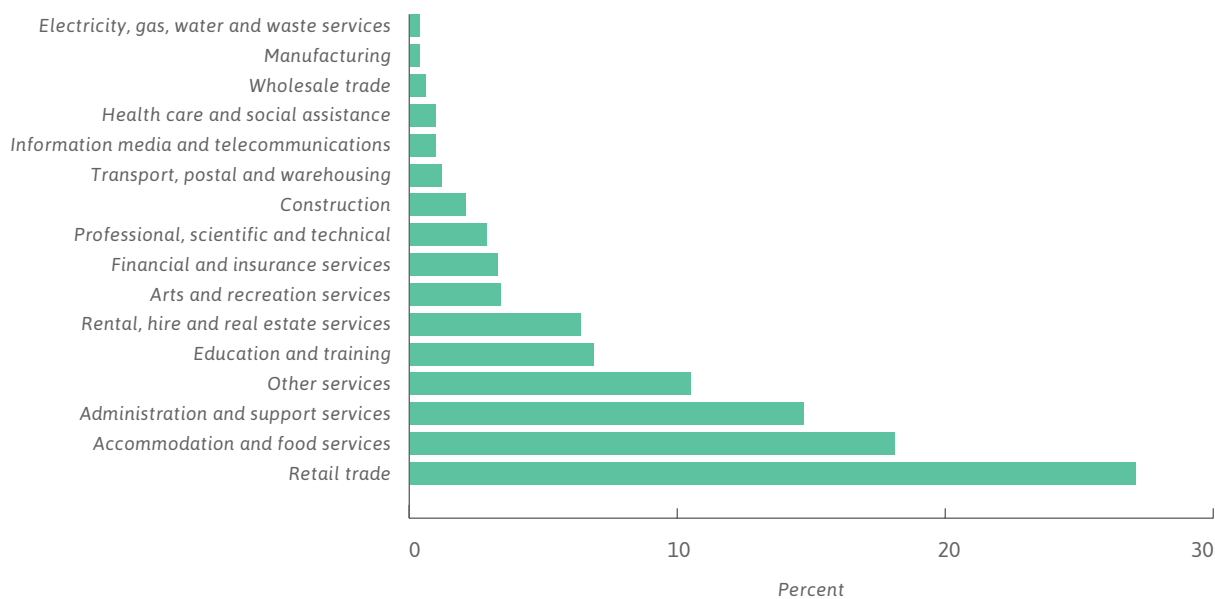
A1 In what product or service does this franchise brand predominantly deal?

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	304	27.1	17	13.8	1888	14.8
Accommodation and food services (includes food retail, fast food, coffee shops etc)	204	18.1	25	20.3	3252	25.4
Administration and support services (includes travel agencies, office services, domestic and industrial cleaning, gardening services, lawn mowing etc)	165	14.7	15	12.2	1666	13.0
Other services (includes personal services, pet services, auto repairs and servicing, IT services etc)	118	10.5	14	11.4	1024	8.0
Education and training	78	6.9	9	7.3	278	2.2
Rental, hire and real estate services	72	6.4	6	4.9	763	6.0
Arts and recreation services	38	3.4	10	8.1	779	6.1
Financial and insurance services	37	3.3	7	5.7	1118	8.7
Professional, scientific and technical	33	2.9	4	3.3	31	0.2
Construction	23	2.1	3	2.4	410	3.2
Transport, postal and warehousing	13	1.2	3	2.4	991	7.8
Information media and telecommunications	11	1.0	2	1.6	31	0.2
Health care and social assistance	11	1.0	4	3.3	124	1.0
Wholesale trade	7	0.6	1	0.8	156	1.2
Manufacturing	5	0.4	3	2.4	274	2.1
Electricity, gas, water and waste services	5	0.4	0	0.0	0	0.0
Total	1124	100.0	123	100.0	100.0	100.0

Note:

1) Franchisors were coded according to industry type using the major categories provided under the Australian and New Zealand Standard Industrial Classification (ANZSIC) coding system.

2) All 123 respondents were able to be classified



AGE OF FRANCHISE SYSTEMS

KEY FACTS

- Franchisors have 21 years operational experience and 14 years franchising experience.
- Two thirds of franchisors had been franchising for more than 10 years.
- Businesses were piloted for a median of 3 years prior to commencing franchising.
- One third of franchisors began franchising within their first year of operation.

Australian franchising is becoming increasingly mature. Respondents to the survey had been operating their businesses for a median of 21 years and had been franchising for 14 years, revealing that franchisors have considerable experience. Half the sample began franchising prior to 2000. There is a tendency for franchisors to commence franchising early in the business lifecycle in order to achieve rapid market share. Whilst founders piloted their operations for a median of three years before turning to franchising as their organisational strategy, many started earlier. One quarter of franchisors (25 percent) began franchising in the same year that they commenced operating and a further 9 percent franchised within one year of commencement. There was no difference in behaviour between retail and non-retail franchises.

A2 In which year did this brand commence operations?
A3 In which year did this brand commence franchising?

Year	Year commenced operations		Year commenced franchising	
	Number of responses	Percent	Number of responses	Percent
Prior to 1961	9	7.3	1	0.8
1961 to 1970	4	3.3	1	0.8
1971 to 1980	15	12.2	6	4.9
1981 to 1990	20	16.3	18	14.8
1991 to 2000	34	27.6	34	27.9
2001 to 2014	41	33.3	62	50.8
Total	123	100.0	122	100.0

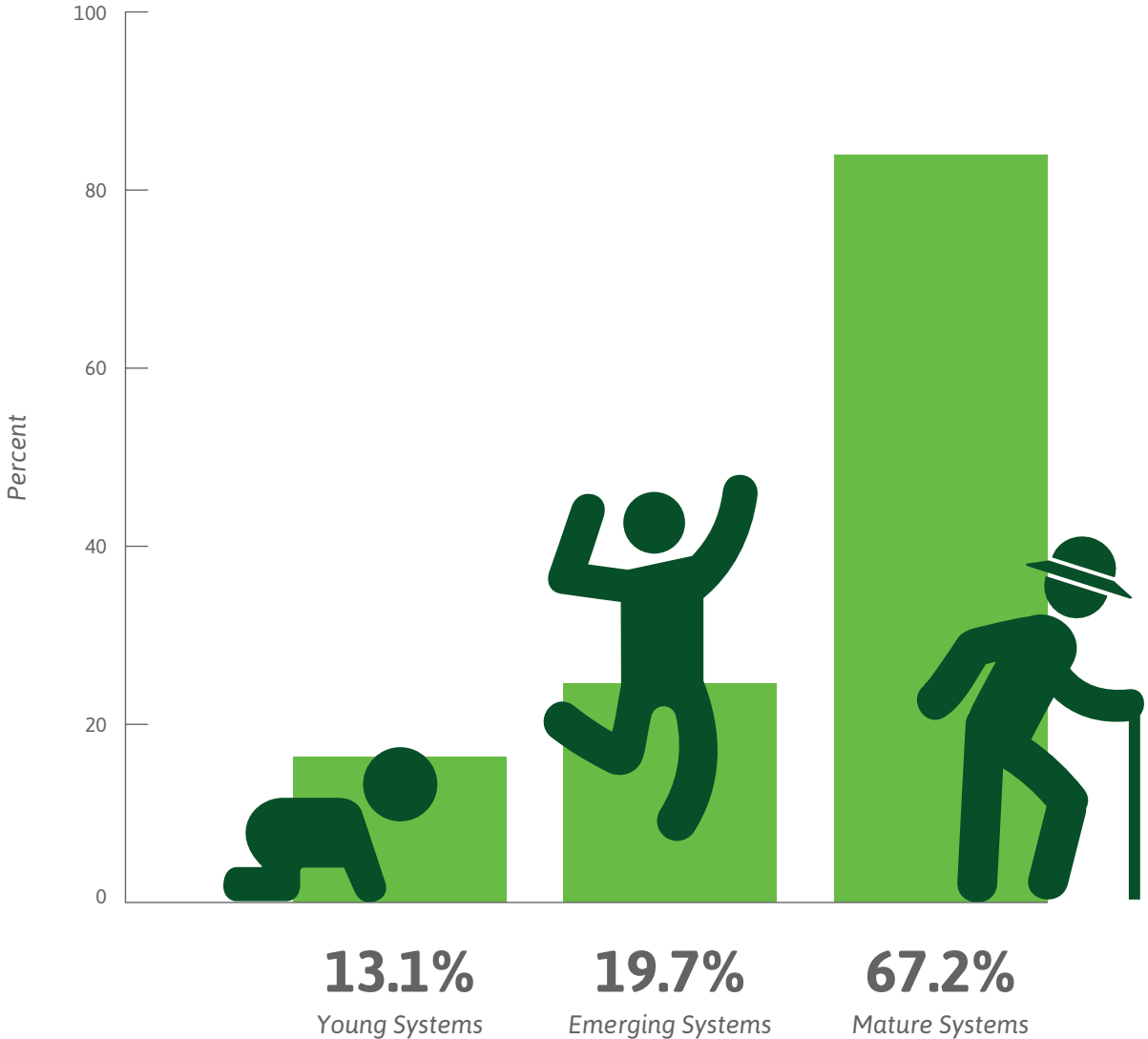
Notes:
 1) A total of 122 respondents provided a response from an expected 123.
 2) The median number of years was: operating 21 years and franchising 14 years.
 3) Businesses had been operating for a range of 4 to 114 years and franchising for a range of 2 to 64 years.



To further analyse the age and experience of franchise systems the sample has been split into young franchise systems (13 percent), emerging systems (20 percent) and mature systems (67 percent). This clearly illustrates that the majority of franchisors are experienced as they have been franchising for more than 10 years.

Level of franchising experience	Number of responses	Percent
'Young' systems – franchising for 1 to 5 years	16	13.1
'Emerging' systems – franchising for 6 to 10 years	24	19.7
'Mature' systems – franchising for more than 10 years	82	67.2
Total	122	100.0

Notes:
 1) Some 122 out of the 123 responses were able to be classified.



SIZE OF FRANCHISE SYSTEMS

KEY FACTS

- Both retail and non-retail franchise systems grew internally from 2013 to 2014.
 - Forty percent of franchise systems hold more than 50 total units.
 - One third of franchise systems hold fewer than 20 units.
 - Small franchise systems tend to be younger.
 - Large franchise systems tend to be mature.
-

Whilst the number of franchisors has declined slightly since 2012, their franchise systems have grown internally. The median number of franchise units (franchised and company owned) was 31 total units in 2013, rising to 34 in 2014 and predicted by franchisors to reach 41 total units in 2015. Given current economic conditions and based on past trends, this prediction is considered to be optimistic. Nevertheless, it indicates that franchisors are confident about business conditions over the next 12 months.

Franchises involved in retailing have turned around their flagging performance over the 2010 to 2012 period when the economy was weaker and which resulted in a decline in retail units. Retail franchise systems held a median of 45 total units in 2013, increasing to 49 units in 2014 and were predicting 52 total units in 2015. Non-retail franchise systems are considerably smaller, holding a median of 27 total units in 2013, 30 units in 2014 and predicting 35 units in 2015.

As the sector has matured, franchise systems have grown larger. In our sample of respondents some 40 percent were classified as 'large' franchise systems, holding more than 50 total units. In contrast, one third of franchisors (33 percent) were 'small' systems holding up to 20 total units. Just over one quarter (27 percent) of franchise systems were classified as 'medium', holding from 21 to 50 total units. In our sample, large franchises were clustered in retailing and business services, held a median of 148 total units and had been franchising for 18 years. The small franchises were predominantly involved in food retailing, held a median of 9 total units and had been franchising for only 8 years. Hence, small systems tend to be small because they are young. They will either transition to larger systems over time or will exit franchising if they are unable to achieve economies of scale.

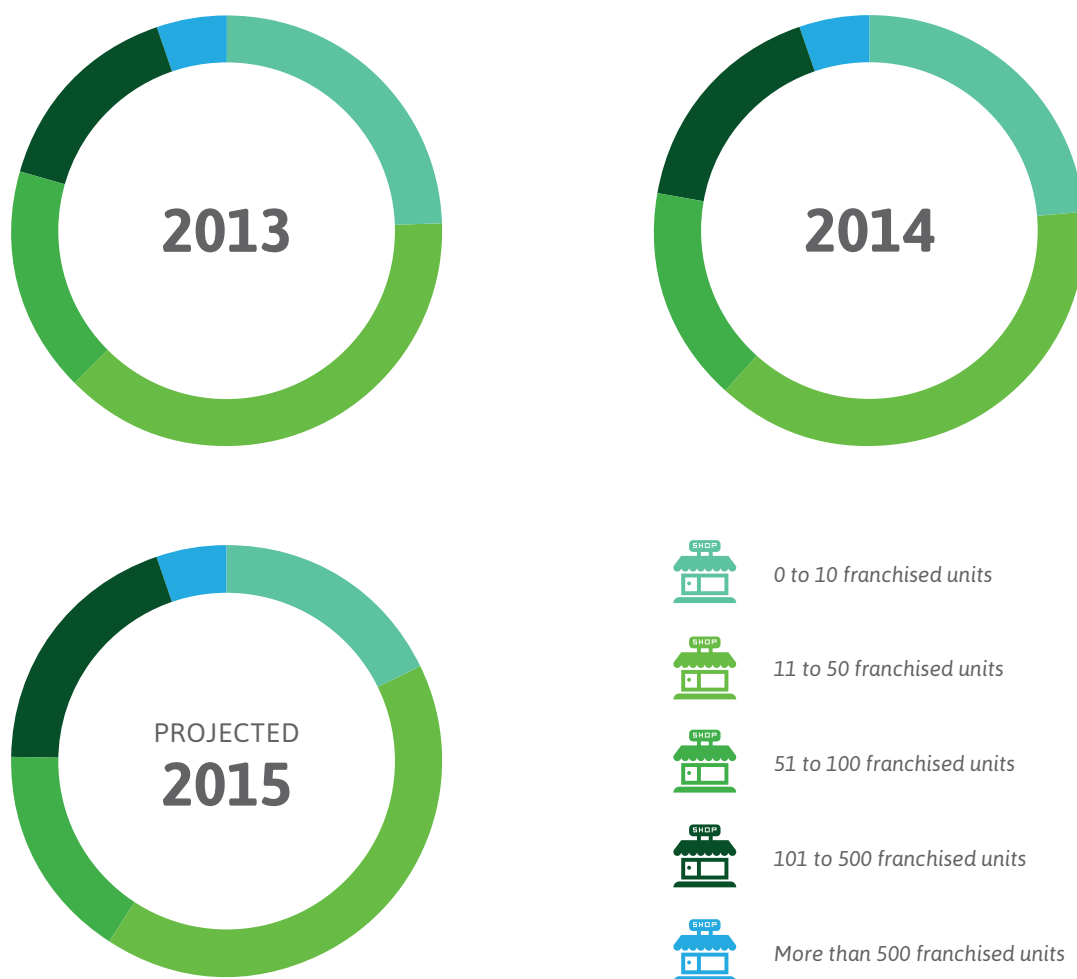
Some 38 percent of franchise systems have no company-owned units. The remainder hold only a median of one company-owned unit (non-retail franchises) or two company-owned units (retail franchises). Only six franchises in the sample held more than 100 company-owned units and these were found to be spread across five different industries, indicating no evidence of a pattern of company ownership.

A4 How many franchised units were operating within your franchise brand in Australia?

Franchised Units	Financial Year 2013		Financial Year 2014		Predicted 2015	
	Number of responses	Percent	Number of responses	Percent	Number of responses	Percent
0 to 10 franchised units	29	24.6	28	23.7	21	17.8
11 to 50 franchised units	45	38.1	45	38.1	49	41.5
51 to 100 franchised units	20	16.9	19	16.1	19	16.1
101 to 500 franchised units	18	15.3	20	16.9	23	19.5
More than 500 franchised units	6	5.1	6	5.1	6	5.1
Total	118	100.0	118	100.0	118	100.0

Notes:

- 1) A total of 118 respondents provided a response from an expected 123.
- 2) The median number of franchised units was 28 in 2013, 31 in 2014 and with 39 predicted for 2015.
- 3) Retail systems had a median of 42 units in 2013, 45 units in 2014 and predicting 50 units in 2015.
- 4) Non-retail systems had a median of 22 units in 2013, 25 units in 2014 and predicting 32 in 2015.
- 3) Responses ranged from 0 to 1500 franchised units.

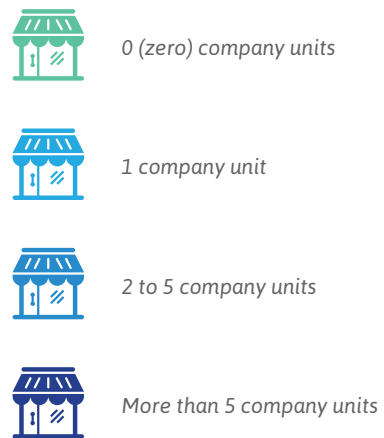
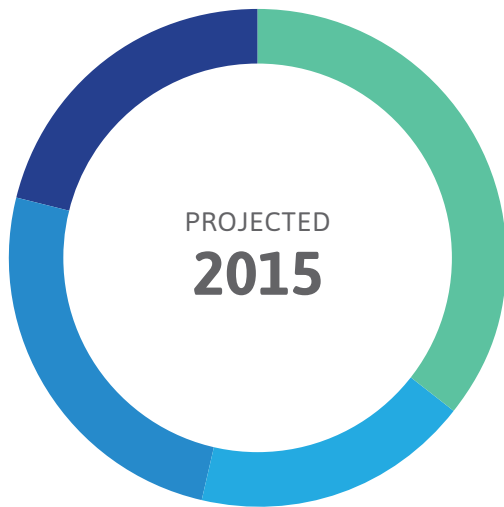
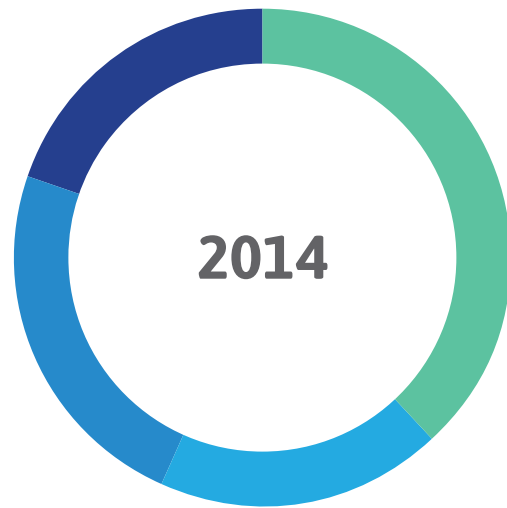
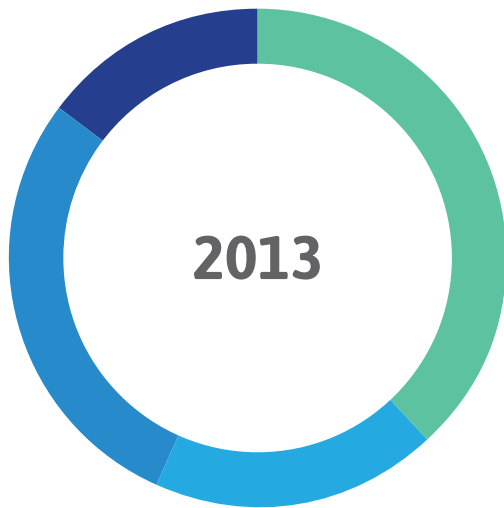


A5 How many company-owned units were operating within your franchise brand in Australia?

Company-owned Units	Financial Year 2013		Financial Year 2014		Predicted 2015	
	Number of responses	Percent	Number of responses	Percent	Number of responses	Percent
0 (zero) company units	47	38.2	47	38.2	44	35.8
1 company unit	23	18.7	23	18.7	22	17.9
2 to 5 company units	35	28.5	29	23.6	31	25.2
More than 5 company units	18	14.6	24	19.5	26	21.1
Total	123	100.0	123	100.0	123	100.0

Notes:

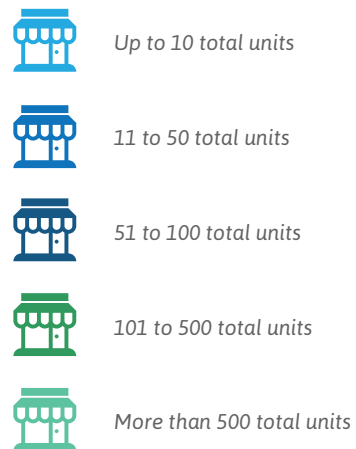
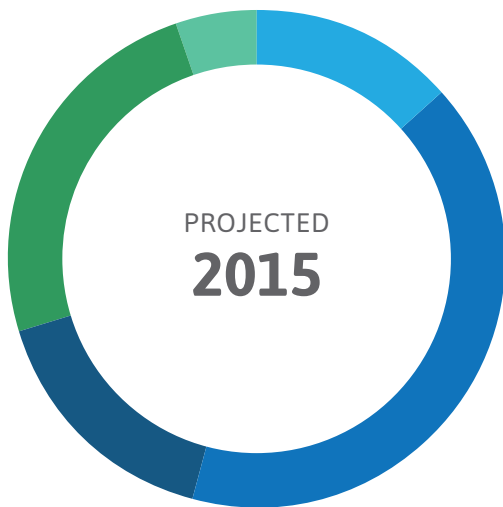
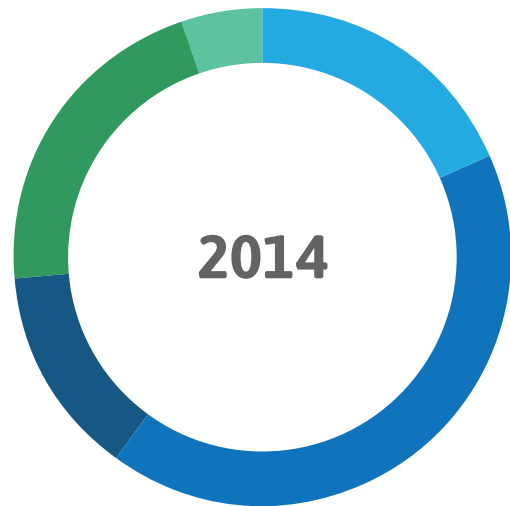
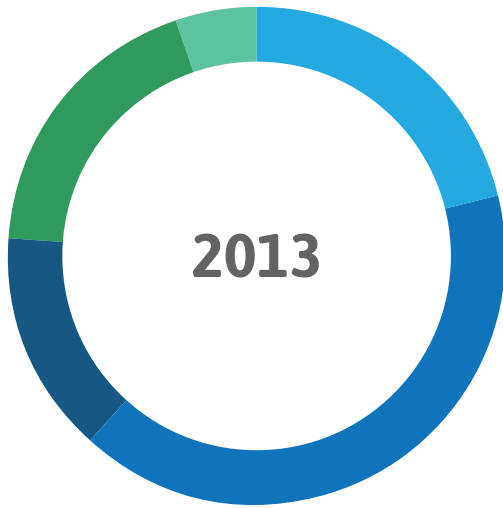
- 1) All 123 respondents provided data.
- 2) The median number of company-owned units was 1 across all years in the full sample.
- 3) The median number of company-owned units was 2 in retail and 1 in non-retail franchises.
- 4) Responses ranged from 0 to 370 company-owned units.



Total Units	Financial Year 2013		Financial Year 2014		Predicted 2015	
	Number of responses	Percent	Number of responses	Percent	Number of responses	Percent
Up to 10 total units	25	21.2	22	18.6	16	13.6
11 to 50 total units	48	40.7	49	41.5	48	40.7
51 to 100 total units	17	14.4	16	13.6	19	16.1
101 to 500 total units	22	18.6	25	21.2	29	24.6
More than 500 total units	6	5.1	6	5.1	6	5.1
Total	118	100.0	118	100.0	118	100.0

Notes:

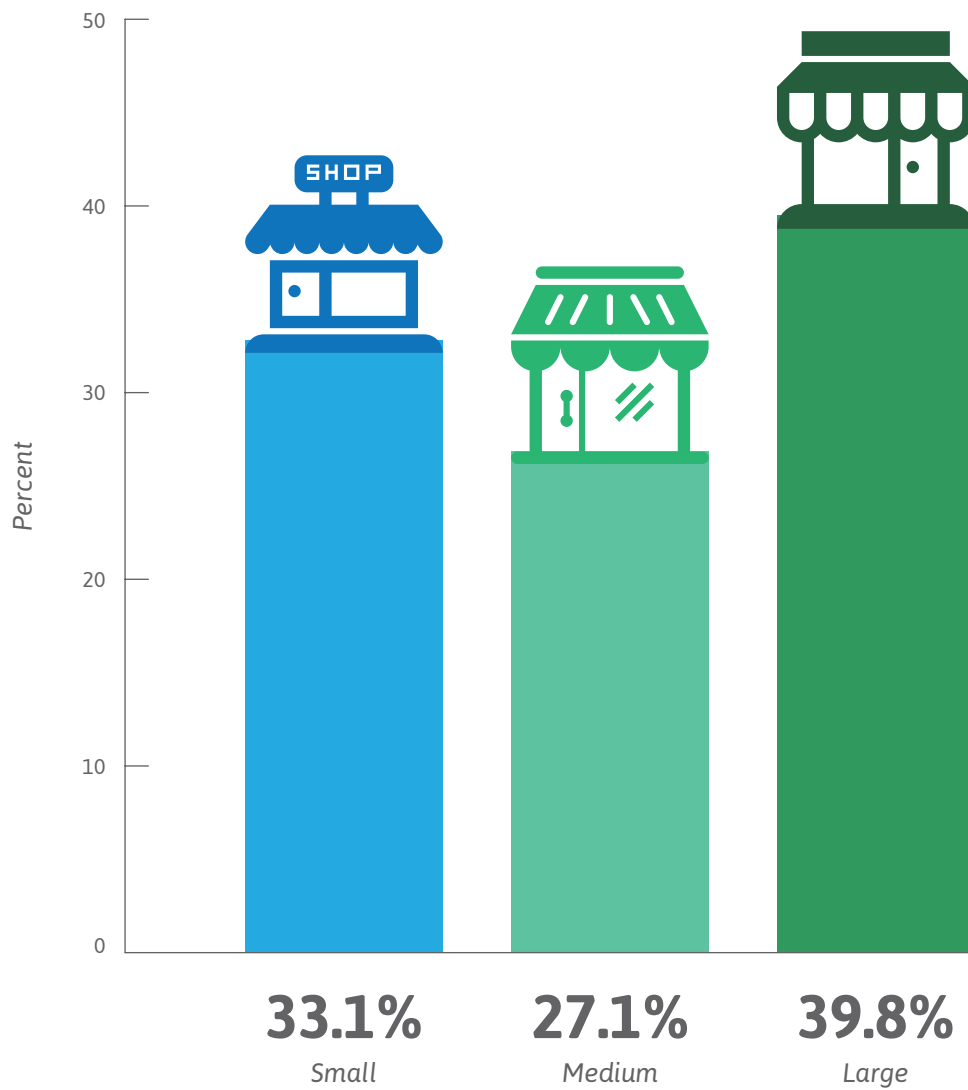
- 1) A total of 118 respondents provided a response from an expected 123.
- 2) The median number of total units was 31 in 2013, 34 in 2014 and 41 predicted in 2015.
- 3) Responses ranged from zero to 1500 total units.



Franchise system size	Number	Percent
Small (Up to 20 total units)	39	33.1
Medium (21 to 50 total units)	32	27.1
Large (More than 50 total units)	47	39.8
Total	118	100.0

Notes:

1) Some 118 out of the 123 responses were able to be classified.



SALES TURNOVER

KEY FACTS

- Retail franchises reported median sales turnover of \$25.8 million in 2013 and \$33 million in 2014.
- Non-retail franchises reported median sales turnover of \$3.2 million in 2013 and \$3.3 million in 2014.

The median total (franchised and company units) sales turnover across the sample was approximately \$5.8 million in the 2013 financial year, decreasing to \$5.4 million in 2014. However, franchisors are optimistic that sales turnover will increase to \$7.1 million in 2015. Significant differences were reported across industries. Sales for retail franchises were \$25.8 million in 2013, rising to \$33 million in 2014. In contrast, non-retail franchises, which are considerably smaller systems, reported median total sales turnover of \$3.2 million in 2013 and \$3.3 million in 2014.

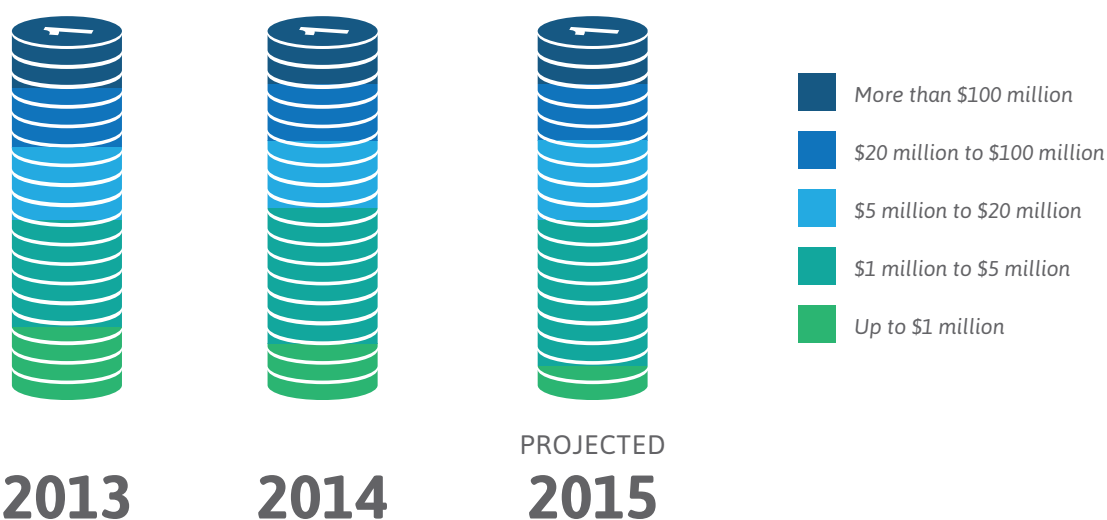
A6 What was the total brand turnover (\$) (ie annual sales) for all units in Australia?

Brand turnover	Financial Year 2013		Financial Year 2014		Predicted 2015	
	Number of responses	Percent	Number of responses	Percent	Number of responses	Percent
Up to \$1 million	6	18.8	5	14.7	3	8.8
\$1 million to \$5 million	9	28.1	12	35.3	13	38.2
\$5 million to \$20 million	6	18.8	6	17.6	7	20.6
\$20 million to \$100 million	5	15.6	5	14.7	5	14.7
More than \$100 million	6	18.8	6	17.6	6	17.6
Total	32	100.0	34	100.0	34	100.0

Notes:

1) A total of 34 franchisors provided a response out of an expected 123.

2) Due to the low response for this question the results must be treated with caution.



FINANCIAL PERFORMANCE TRENDS

KEY FACTS

- Franchisor revenue increased overall by 9 percent in the 2013-2014 financial year.
 - Franchisor profit increased overall by 7 percent in the 2013-2014 financial year.
-

Franchise systems reported mixed responses in terms of changes to franchisor revenue over the past twelve months (Table A7). Franchisor revenue includes royalties, rebates and other fees, but excludes marketing fees and initial franchise fees. Over the 2013-2014 financial year, franchisors reported an overall increase of 9 percent in revenue. However, 19 percent of franchisors experienced decreases ranging from 1 to 100 percent. These organisations were mostly medium sized retail franchises. Some 14 percent of franchisors reported no change in revenue over the past twelve months. Slightly over two thirds (68 percent) of franchisors indicated their revenue had increased. These franchisors were across all industry groups and were smaller than those that experienced decreases.

A similar pattern was reported when predicting changes to franchisor revenue over the next twelve months (Table A7). Franchisors anticipated their revenue would increase by 10 percent, only slightly higher than the previous twelve months. Hence, although franchisors have been optimistic about overall system growth and sales, they are conservative when estimating their own revenue forecasts.

Improved franchisee performance (39 percent) and clear strategic direction of the franchise (39 percent) were the primary reasons provided for improved franchisor revenue (Table A8). Market positioning and demand (30 percent) and new products or services (26 percent) were also responsible for increased revenue streams. Some 20 percent of franchisors nominated the availability of suitable franchisees as a cause of their increased revenue stream. Other reasons included more store openings by new and existing (multiple unit) franchisees.

Table A9 provides responses on changes to franchisor profits. The data follows the same general pattern as that relating to franchisor revenue. Just over one quarter of franchisors (27 percent) indicated that their profits had decreased in 2014. Only 11 percent of franchisors reported no change in profits during the same period and almost two thirds (62 percent) experienced increased profits. The median increase in franchisor profits across the whole sample was 7 percent. The outlook for 2015 is more positive with 82 percent of franchisors predicting an increase in their profits.

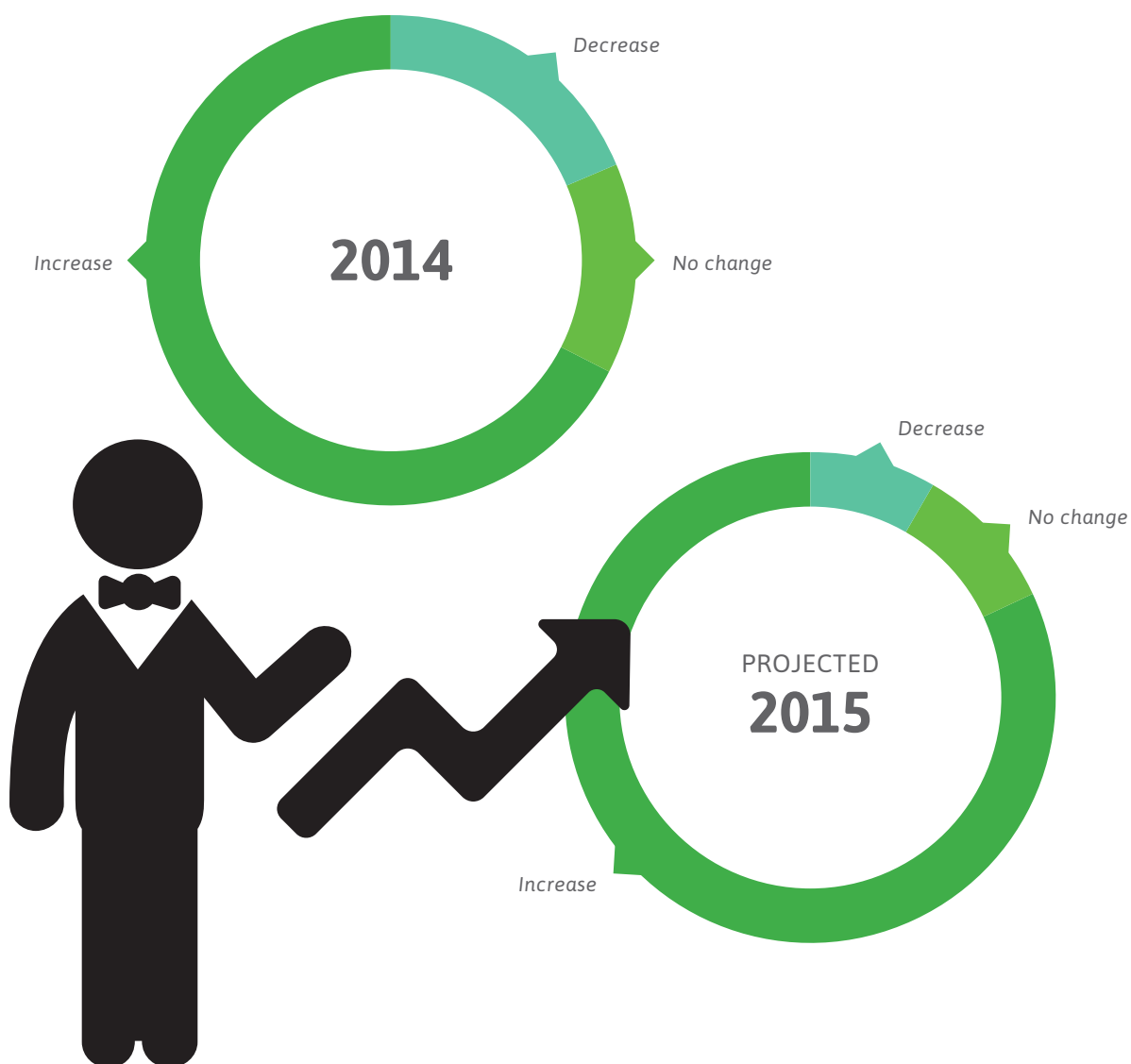
**A7 Please indicate the percentage increase or decrease in franchisor revenue for this brand.
(Franchisor revenue includes royalties, rebates and other fees, but excludes marketing fees and initial franchise fees.)**

Change in franchisor revenue	Financial Year 2014		Predicted 2015	
	Number of responses	Percent	Number of responses	Percent
Decrease	22	18.8	10	8.6
No change	16	13.7	11	9.5
Increase	79	67.5	95	81.9
Total	117	100.0	116	100.0

Notes:

1) A total of 117 franchisors provided a response out of an expected 123

2) The median increase in franchisor revenue was 9% in 2014 and 10% predicted for 2015.

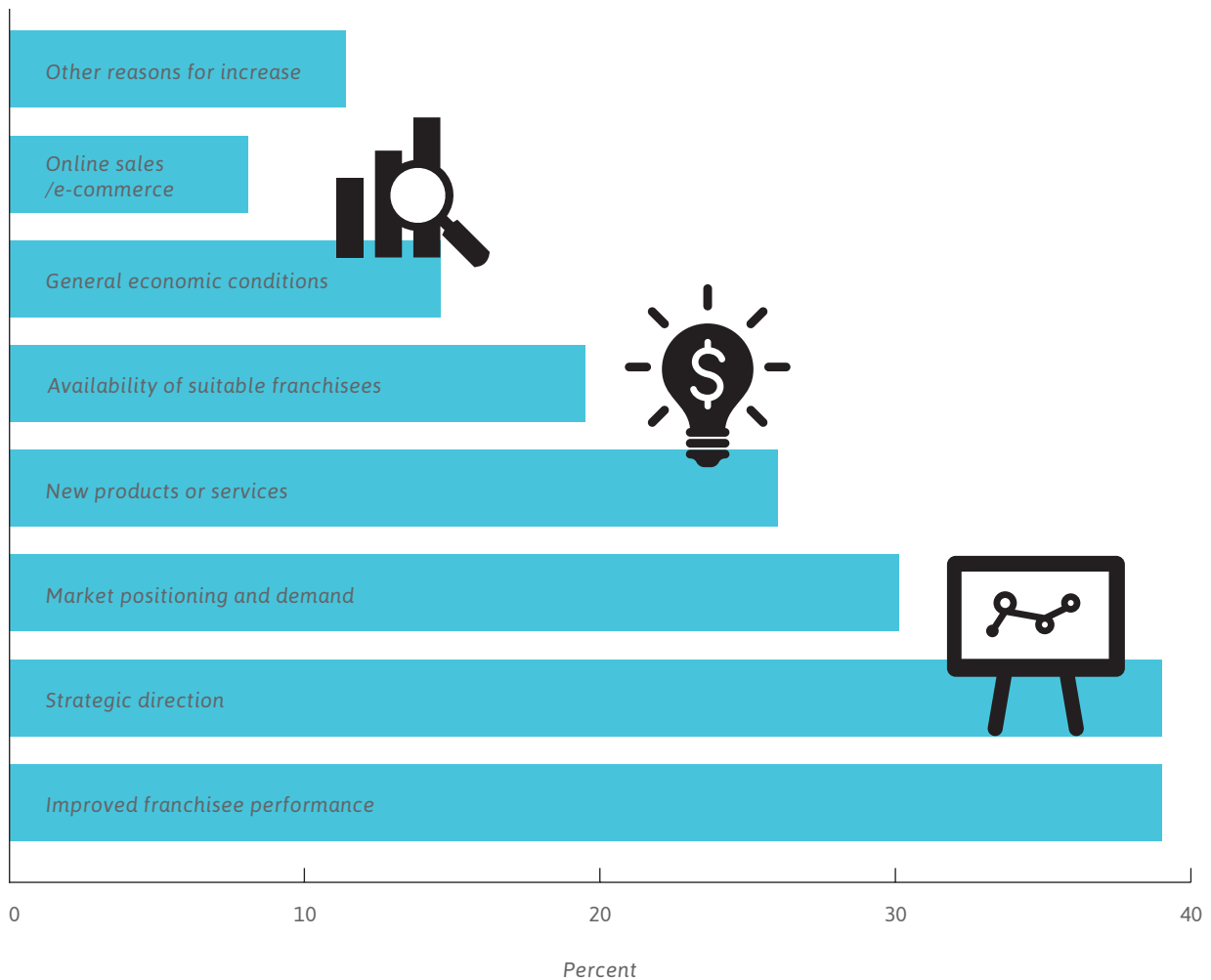


A8 If your revenue increased over the past 12 months please indicate the main reasons.

Reason for increase	Number	Percent
Improved franchisee performance	48	39.0
Strategic direction	48	39.0
Market positioning and demand	37	30.1
New products or services	32	26.0
Availability of suitable franchisees	24	19.5
General economic conditions	18	14.6
Online sales/e-commerce	10	8.1
Other reasons for increase	14	11.4

Notes:

- 1) The expected total of 79 respondents answered this question.
- 2) Multiple responses were recorded for some respondents.



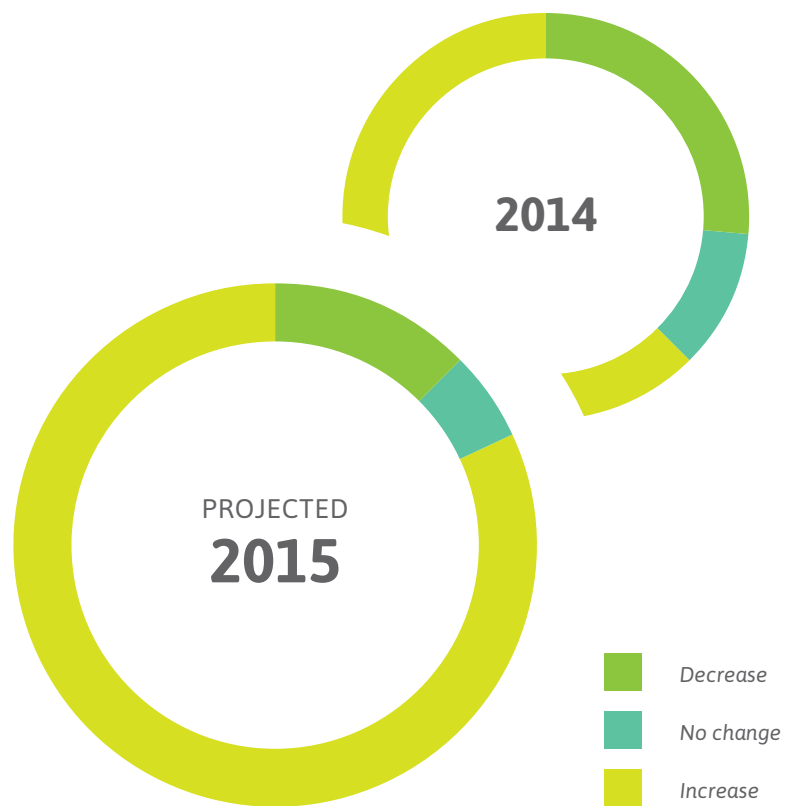
A9 Please indicate the percentage increase or decrease in franchisor profit.

Change in franchisor profit	Financial Year 2014		Predicted 2015	
	Number of responses	Percent	Number of responses	Percent
Decrease	29	26.6	14	12.7
No change	12	11.0	6	5.5
Increase	68	62.4	90	81.8
Total	109	100.0	110	100.0

Notes:

1) A total of 110 franchisors provided a response out of an expected 123

2) The median increase in franchisor profit was 7% in 2014 and 10.5% predicted for 2015.



EMPLOYMENT

KEY FACTS

- Franchisors have reported growth in employment within their franchise brands since 2012.
- Most of the increase involves casual labour in franchised and company owned units.

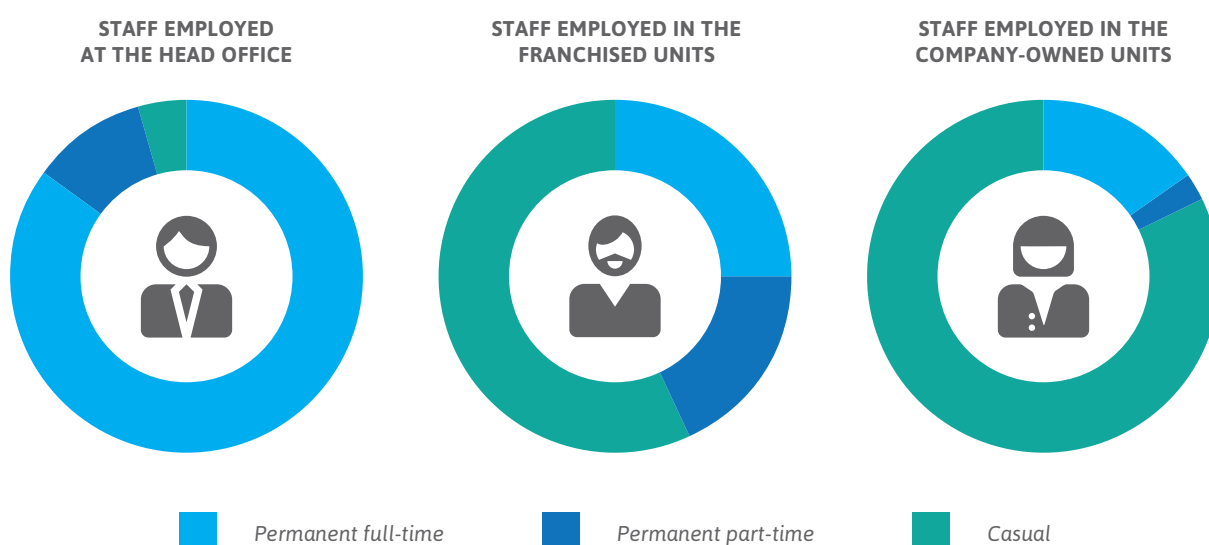
Consistent with the internal growth experienced by franchise systems, franchisors have reported increased employment within their brands since 2012. The distribution of labour across permanent full time and permanent part time employment remains consistent but the number of people employed in these categories has grown. There has been an increase in the proportion and number of people employed on a casual basis in franchised and company-owned units. Some 80 percent of respondents reported that they employed up to 20 permanent full time employees at head office.

A10 How many staff are employed in your franchise brand?

Employees	Head office		Franchised units		Company units	
	Number of employees	Percent	Number of employees	Percent	Number of employees	Percent
Permanent full-time	2212	85.0	18046	25.0	1505	15.5
Permanent part-time	277	10.7	13207	18.3	237	2.4
Casual	113	4.3	40964	56.7	7969	82.1
Total	2602	100.0	72217	100.0	9711	100.0

Notes:

1) Responses ranged from 81 to 116 franchisors out of an expected 123.



CHALLENGES



KEY FACTS

- Franchise sector growth continues to be compromised by access to suitable franchisees with available finance and affordable sites.
-

Franchise sector growth continues to be seriously challenged by access to franchisees. Fully 72 percent of franchisors indicated that the availability of suitable franchisees was an impediment to growth. Similarly, 48 percent of franchisors revealed that prospective franchisees experienced difficulty in obtaining finance for their franchise unit purchase. The affordability of suitable sites (21 percent) and availability of sites (17 percent) were also nominated by franchisors as hindering growth.

The next set of major challenges faced by franchisors concerned the ability to maintain the integrity of the franchise system and brand. Slightly more than one quarter (27 percent) of franchisors alluded to the need to maintain standards in system processes as a significant challenge. Similarly, 27 percent of franchisors cited franchisee non-compliance as an issue of concern.

General economic conditions were nominated by one quarter (26 percent) of franchisors as posing a challenge and similar responses were reported for franchisor cash flow (25 percent) and industry competition (24 percent). Several franchisors provided commentary about the current regulatory environment and uncertainty surrounding changes to the Franchising Code of Conduct as concerning. Comments included '...very few industry problems except those caused by regulations', 'Government draconian regulations' and '...deeply concerned about increase in powers provided to ACCC and ongoing changes to franchise legislation'. This selection of comments illustrates that franchisors are quite concerned about the impending changes to the Franchising Code of Conduct to be implemented in January 2015.

Issues with landlords were not of major concern, with only 10 percent of respondents focusing on this theme. Similarly, online commerce was not considered a major threat as it was selected by only 7 percent of franchisors. Other issues raised by franchisors involved the challenges posed by changing customer preferences and rising operational costs.

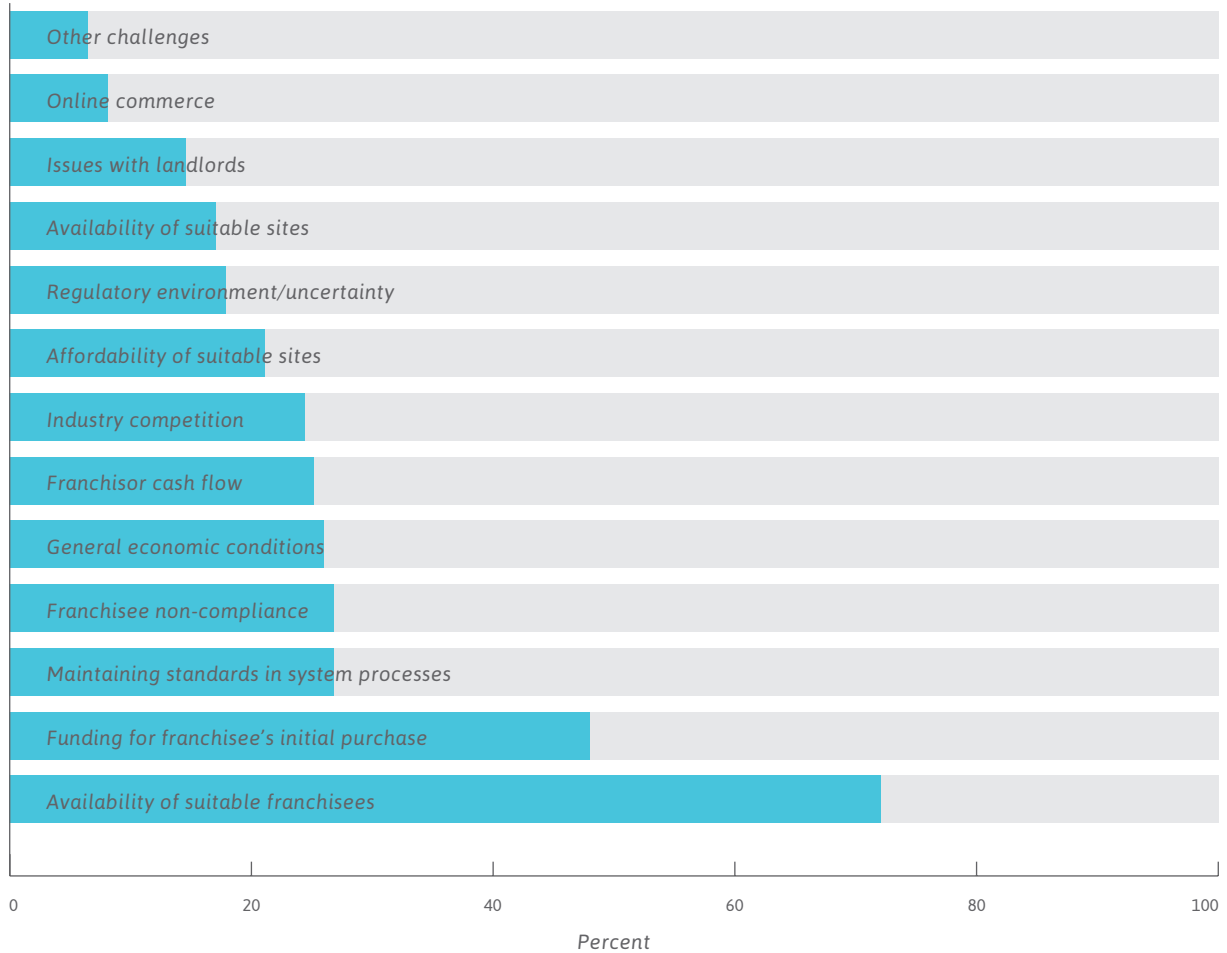
A11 What are your most significant ongoing challenges?

Significant challenges	Number	Percent
Availability of suitable franchisees	89	72.4
Funding for franchisee's initial purchase	59	48.0
Maintaining standards in system processes	33	26.8
Franchisee non-compliance	33	26.8
General economic conditions	32	26.0
Franchisor cash flow	31	25.2
Industry competition	30	24.4
Affordability of suitable sites	26	21.1
Regulatory environment/uncertainty	22	17.9
Availability of suitable sites	21	17.1
Issues with landlords	10	8.1
Online commerce	8	6.5
Other challenges	18	14.6

Notes:

1) All 123 franchisors provided a response.

2) Multiple responses were recorded for some respondents.



SECTION B FRANCHISEES



FRANCHISEE FINANCIAL PERFORMANCE

KEY FACTS

- Fully 72 percent of franchisors report that franchisees have recorded increases in revenue over the 2013/2014 financial year.
- Over two thirds of franchisors believe franchisees have recorded profit growth over the last financial year.
- Over 80 percent of franchisors expect franchisees to record revenue and profit increases in 2014/2015.

Respondents were asked to report on patterns of franchisee revenue and profit for the 2014 financial year as well as provide predictions for 2015. Results show that 72 percent of franchisors reported that franchisees had recorded growth in revenue, with only 21 percent of respondents suggesting that their franchisees had experienced a decline, and 7 percent suggesting that their franchisees showed no change in revenue patterns from the previous period. In terms of franchisee profit results, over two thirds of franchisors (64 percent) reported that profit earnings for franchisees had increased, with a further 17 percent of franchisors reporting franchisee profit levels broadly consistent with the previous financial year. In comparison, approximately 19 percent of franchisors were said to have noticed reduced levels of profitability in their franchisee units in the 2014 financial year. No discernible differences were recorded between retail and non-retail formats or on the basis of system size.

Some 83 percent of franchisor respondents predicted that their franchisees are likely to witness an increase in revenue for the 2015 financial year. Only 9 percent of respondents reported that franchisees were likely to see reduced revenue levels in this period, with the remaining 7 percent of respondents expecting that their franchisees are likely to experience no change in revenue. When considering future profit performance, fully 80 percent of franchisors suggested that they expected their franchisees to improve on their current profit position over the next year, with only 11 percent suggesting a decline over this period. Overall, these predictions suggest that franchisors are cautiously optimistic regarding continued growth in franchise sales and revenue over the next financial year.

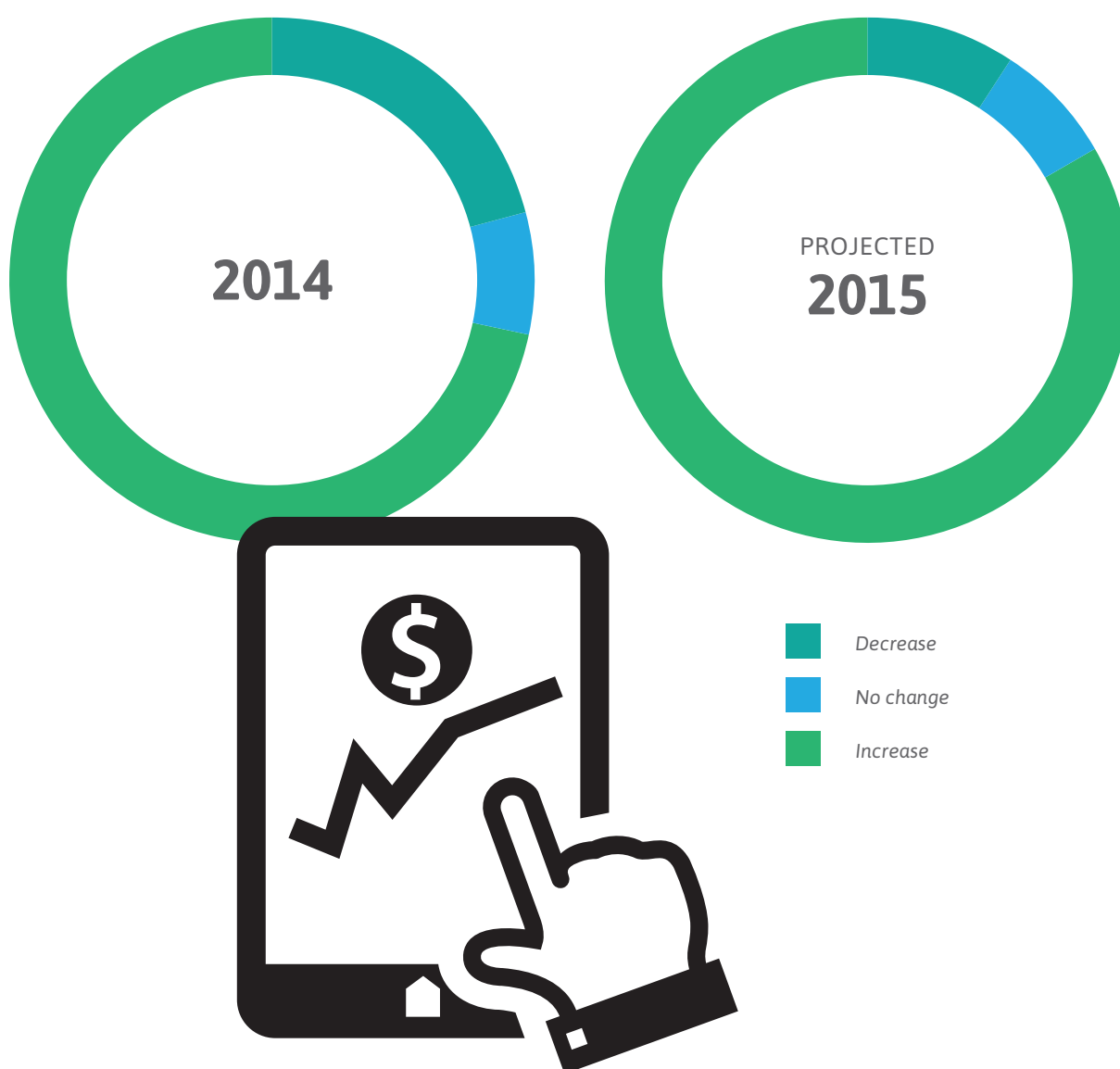
B1 Please indicate the percentage increase or decrease in total revenue earned by franchisees.

Change in franchisee revenue	Financial year 2014		Predicted 2015	
	Number	Percent	Number	Percent
Decrease	23	21.1	10	9.3
No change	8	7.3	8	7.4
Increase	78	71.6	90	83.3
Total	109	100.0	108	100.0

Notes:

1) A total of 108 franchisors provided a response from an expected 123.

2) The median increase in franchisee revenue was 9% in 2014 and 10% predicted for 2015



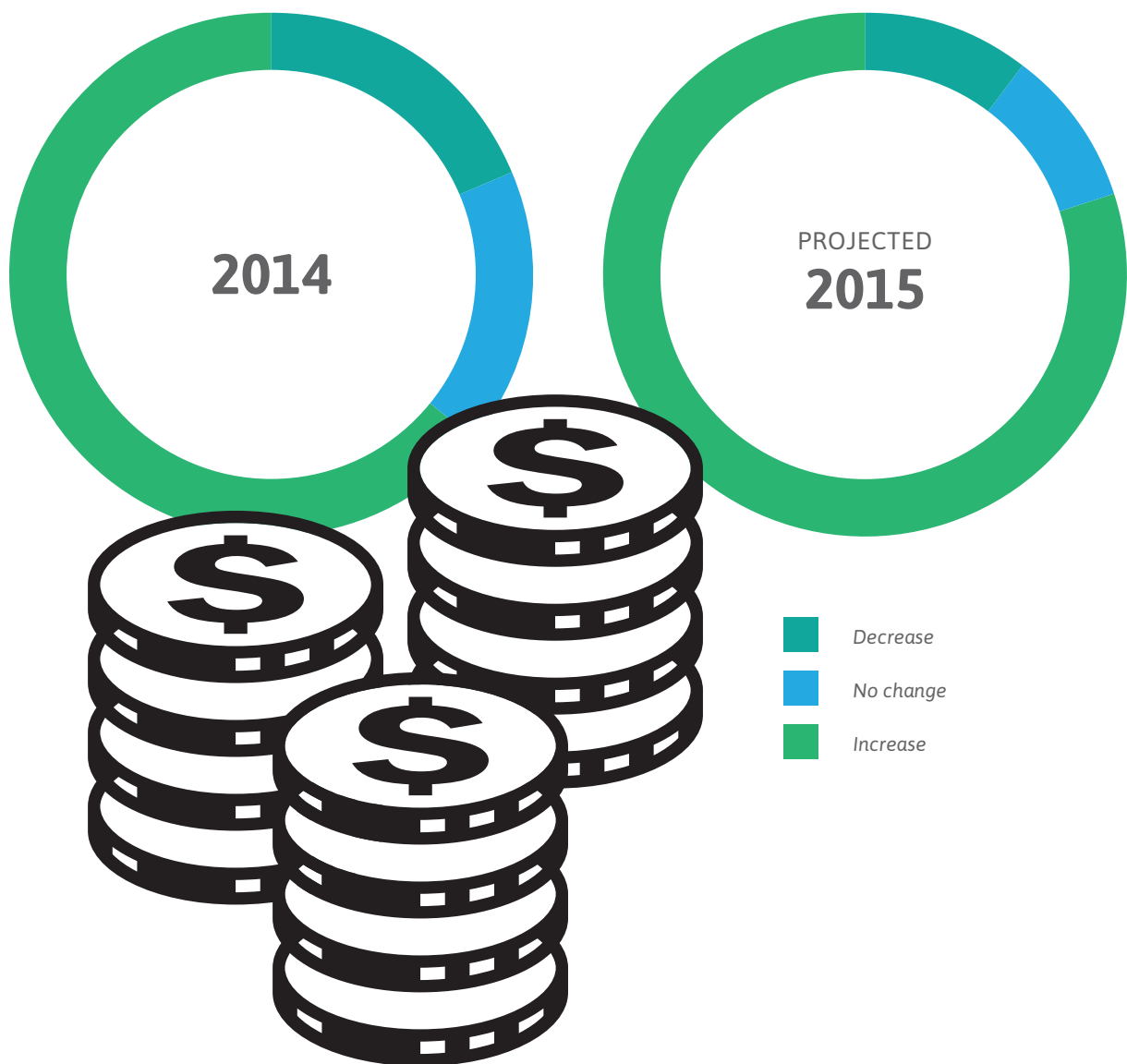
B2 Please indicate the percentage increase or decrease in average franchisee profit.

Change in franchisee profit	Financial year 2014		Predicted 2015	
	Number	Percent	Number	Percent
Decrease	20	18.9	11	10.5
No change	18	17.0	10	9.5
Increase	68	64.2	84	80.0
Total	106	100.0	105	100.0

Notes:

1) A total of 105 franchisors provided a response from an expected 123.

2) The median increase in franchisee profit was 5% in 2014 and 10% predicted for 2015.



CUSTOMER SPENDING

KEY FACTS

- Over 83 percent of franchisors report that customer spending is increasing or stable over the past 12 months.

When asked to indicate changes in the average customer spend over the past 12 month period, over 83 percent of respondents reported they had witnessed either an increase or similar level of customer spending activities over the last year. These results are fairly consistent with recent indications that consumer spending has risen by around 9.8 percent over the past financial year¹ and indicates that franchisees are able to effectively market their products and services, and utilise effective communication strategies so as to ensure high quality service outcomes for their customers.

B3 Please indicate the direction of movement in average customer spend over the past 12 months.

Customer spend investment activities	Number	Percent
Increased	54	45.0
Stayed the same	46	38.3
Decreased	20	16.7
Total	120	100.0

Notes
 1) A total of 120 franchisors provided a response from an expected 123.
 2) Multiple responses were recorded for some respondents.



¹ <https://www.commbank.com.au/blog/spending-rises-in-2013-14-financial-year.html>

FRANCHISEE FINANCIAL ASSISTANCE

KEY FACTS

- The most popular franchisee financial assistance measures include help in preparing financial applications and the provision of franchisee finance.

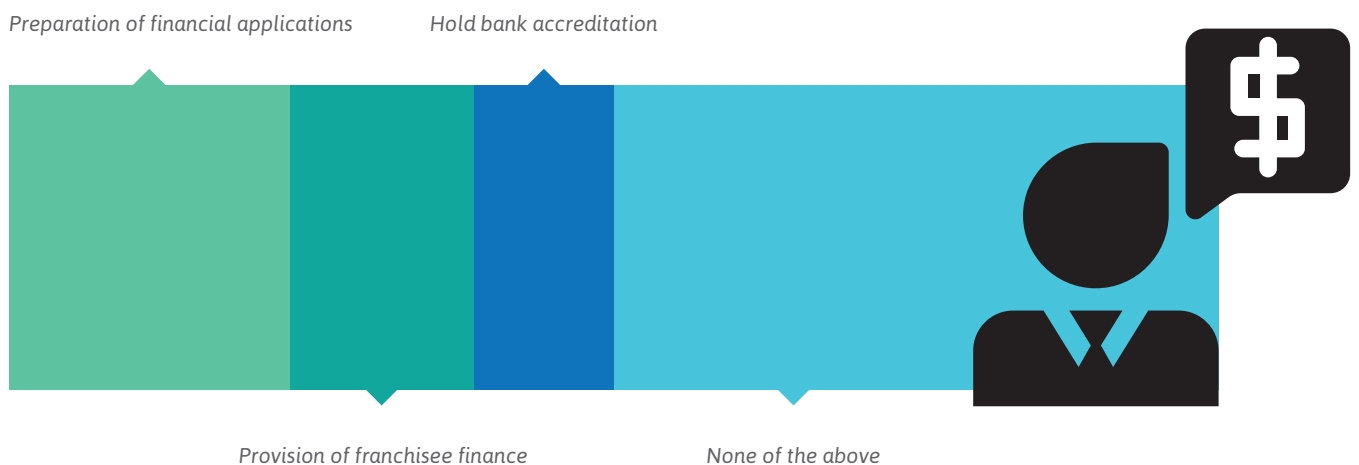
Franchisors reported providing a variety of financial assistance measures for franchisees mainly in relation to initial stages in establishing the franchise unit. The most common form of assistance was in preparing their financial applications (26 percent), followed by direct financial assistance provided by the franchisor (17 percent). Fully 13 percent of franchisors helped franchisees through holding accreditation with financial intermediaries. However, more than half of respondents indicated that they did not provide any of the listed financial assistance measures, which may reflect that this form of assistance is not needed in some industries, or may signal an opportunity for franchisors to utilise such measures in the recruitment and ongoing management of franchisees.

B4 Please indicate if the following apply:

Assistance measures	Number	Percent
Preparation of financial applications	32	26.0
Provision of franchisee finance	21	17.1
Hold bank accreditation	16	13.0
None of the above	69	56.1

Notes:

- 1) All 123 franchisors provided a response.
- 2) Multiple responses were recorded for some respondents.



MIGRANT OWNERSHIP IN FRANCHISING

KEY FACTS

- Only 16 percent of franchisors currently actively recruit migrants into their system.
- Some 12 percent of franchisors report current migrant ownership of franchises in their systems.

A majority (72 percent) of franchisor respondents reported that they did not actively engage in franchisee recruitment strategies targeted towards migrants or new Australians, although a further 12 percent plan to do so in future. Only one respondent indicated that they participated in a Commonwealth government scheme to attract overseas investors as franchisees. However, some franchisors (approximately 12 percent) indicated that migrants held franchise units in their systems. The most common regions in which migrant franchisees originated included China (12 percent), India (9 percent) and the United Kingdom (9 percent). Migrants from countries in close proximity to Australia were also most commonly represented including Indonesia, Malaysia, Hong Kong and New Zealand, each accounting for approximately 5 percent of migrant franchisees in respondent systems.

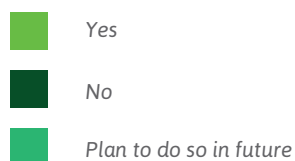
The main issues nominated by franchisors in attracting and managing migrant franchisees centred on language and communication issues (43 percent), cultural differences (30 percent), leadership expectations (23 percent) and visa requirements (20 percent). In addition to these potential barriers to encouraging migrant ownership in franchise systems, respondents also nominated additional areas of concern. These responses were broadly categorised into issues pertaining to the misalignment of educational standards between overseas countries and Australia, cultural differences impacting service delivery, and a lack of business networks in Australia impacting sales and profitability. Although migrant ownership in franchising may present an attractive opportunity for systems to sustain growth aspirations, it appears that further support and education is warranted to ensure the successful implementation of this franchising strategy.

B5 Do you actively recruit migrants or new Australians ('new' means arrived within the past five years)?

Migrant recruitment	Number	Percent
Yes	20	16.3
No	88	71.5
Plan to do so in future	15	12.2
Total	123	100.0

Notes:

1) All 123 franchisors provided a response.



B6 What percentage of your current franchisees are migrants or new Australians?

Percentage of franchisees	Number	Percent
1 to 10 percent	5	33.3
11 to 20 percent	5	33.4
21 to 30 percent	1	6.6
More than 30 percent	4	26.7
Total	15	100.0



Notes:

1) A total of 15 franchisors provided a response from an expected 20.



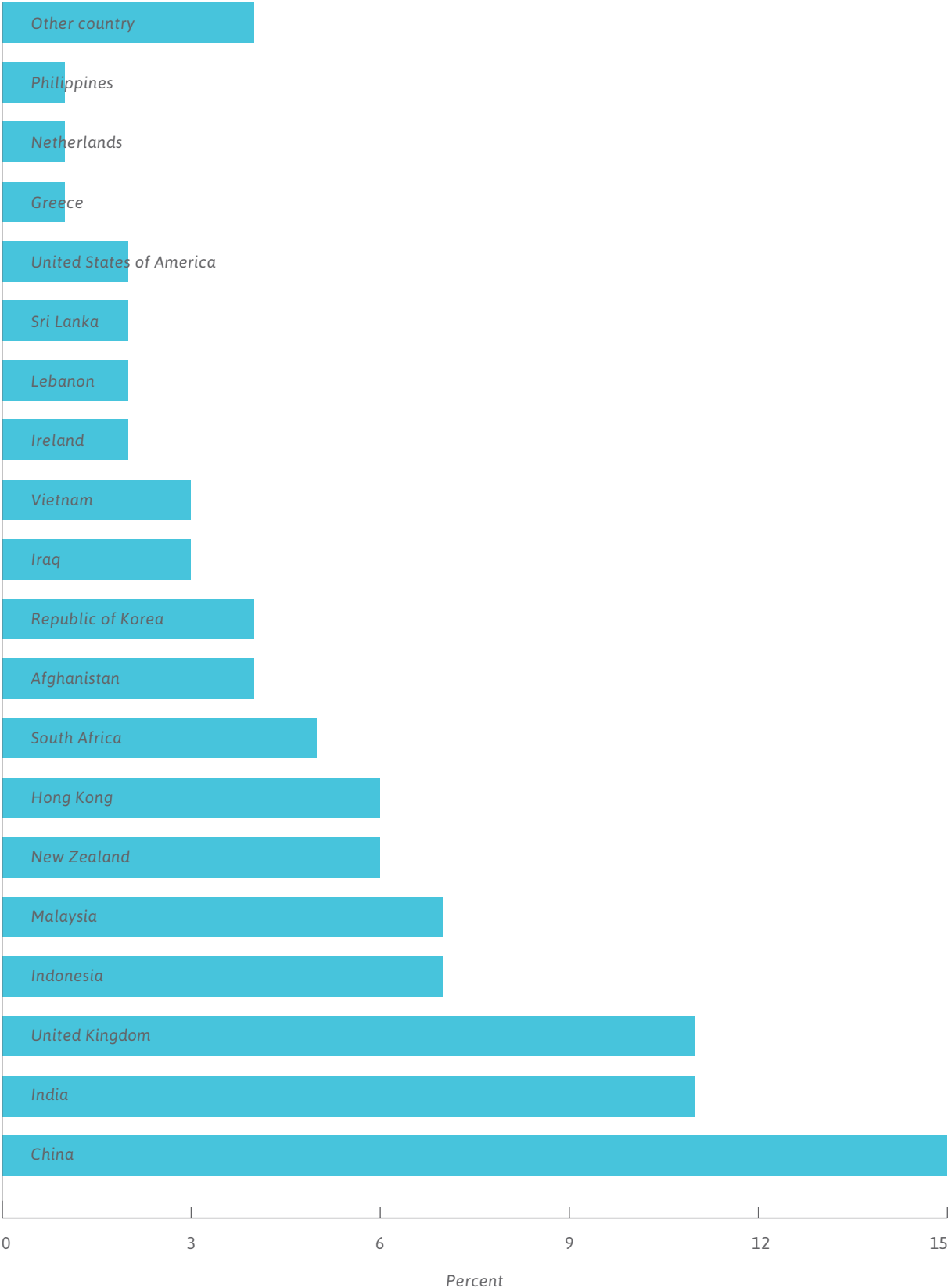
B7 From which countries did your migrant franchisees originate?

Country of origin	Number	Percent
China	15	12.2
India	11	8.9
United Kingdom	11	8.9
Indonesia	7	5.7
Malaysia	7	5.7
New Zealand	6	4.9
Hong Kong	6	4.9
South Africa	5	4.1
Afghanistan	4	3.3
Republic of Korea	4	3.3
Iraq	3	2.4
Vietnam	3	2.4
Ireland	2	1.6
Lebanon	2	1.6
Sri Lanka	2	1.6
United States of America	2	1.6
Greece	1	0.8
Netherlands	1	0.8
Philippines	1	0.8
Other country	4	3.3

Notes:

1) A total of 15 franchisors provided a response from an expected 20.

COUNTRIES OF ORIGIN OF MIGRANT FRANCHISEES



B8 Does your franchise participate in a business migration scheme operated by the Commonwealth or State Government to attract overseas investors as franchisees?

Migrant recruitment	Number	Percent
Yes	1	0.8
No	122	99.2
Total	123	100.0

Notes:

1) All 123 franchisors provided a response.

 Yes  No



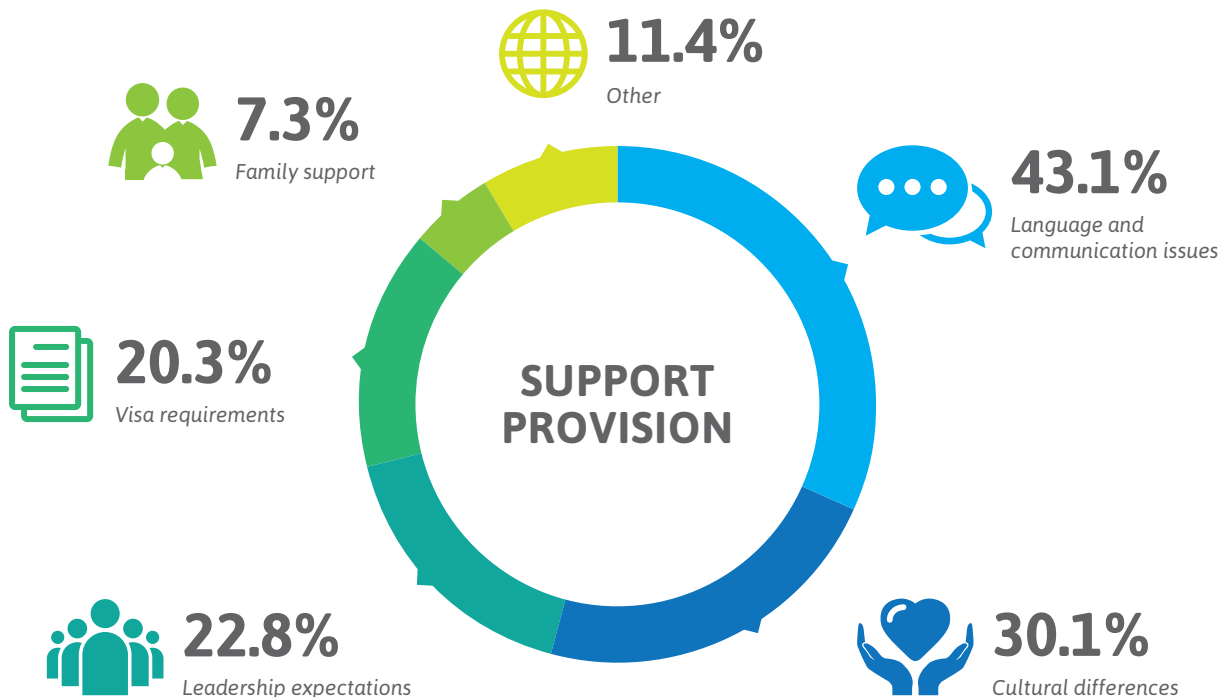
B9 What are the main issues you consider when providing support to franchisees new to Australia?

Support provision	Number	Percent
Language and communication issues	53	43.1
Cultural differences	37	30.1
Leadership expectations	28	22.8
Visa requirements	25	20.3
Family support	9	7.3
Other	14	11.4

Notes:

1) A total of 94 franchisors provided a response from an expected 123.

2) Multiple responses were recorded by some respondents.



ABORIGINAL OR TORRES STRAIT ISLANDER FRANCHISEES

KEY FACTS

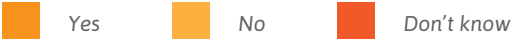
- Aboriginal and Torres Strait Islander peoples are under-represented in the franchise sector.
- A majority of franchisor respondents are willing to be involved in educational and training programs aimed at encouraging Aboriginal and Torres Strait Islander employment and franchisee ownership in their systems.

Only a small number of franchisors (7 percent) reported having Aboriginal or Torres Strait Islander franchisees in their system (generally between one or two franchisees). A similar pattern was evident when considering franchise employees with only a small number of employees within these brands (either within head office, company or franchised units), being of Aboriginal or Torres Strait Islander descent. Although it appears that Aboriginal and Torres Strait islander employees currently have limited representation in the franchise sector, over half of surveyed franchisors (approximately 51 percent) reported a willingness to be involved in a training and educational programme to assist franchisors in recruiting Aboriginal or Torres Strait Islander employees and assisting them in transitioning to self employment as franchisees in their system.

B10 Are there any Aboriginal or Torres Strait Islander franchisees in your franchise brand?

Aboriginal or Torres Strait Islander franchisees	Number	Percent
Yes	8	6.5
No	91	74.0
Don't know	24	19.5
Total	123	100

Notes:
1) All 123 franchisors provided a response.



B11 How many Aboriginal or Torres Strait Islander franchisees are in your brand?

Number of Franchisees	Number	Percent
1	4	80.0
2	1	20.0
Total	5	100.0

Notes:

- 1) A total of 5 franchisors provided a response from an expected 8.
- 2) Given the small sample, these results should be treated with some caution.

B12 How many Aboriginal or Torres Strait Islander staff members are employed in your head office or company units?

Number of Franchisees	Number	Percent
0	3	60.0
1	2	40.0
Total	5	100.0

Notes:

- 1) A total of 5 franchisors provided a response from an expected 8.
- 2) Given the small sample, these results should be treated with some caution.

B13 How many Aboriginal or Torres Strait Islander staff members are employed in your franchised units?

Number of Franchisees	Number	Percent
0	1	20.0
1	2	40.0
4	1	20.0
6	1	20.0
Total	5	100.0

Notes:

- 1) A total of 5 franchisors provided a response from an expected 8.
- 2) Given the small sample, these results should be treated with some caution.

B14 Would you be interested in a program that supports the transition of Aboriginal or Torres Strait Islander participants from that of franchise employee to franchisee ownership?

Aboriginal or Torres Strait Islander franchisees	Number	Percent
Yes	60	50.8
No	58	49.2
Total	118	100

Notes:

- 1) A total of 118 franchisors provided a response from an expected 123.

Yes
 No



FRANCHISING DISPUTES



KEY FACTS

- Some 21 percent of franchisors were involved in a dispute over the past 12 months.
 - The median number of franchisees in dispute with a franchisor was 2.
 - The main cause of disputes was lack of franchisee compliance.
-

Some 21 percent of franchisors were engaged in disputation with a franchisee over the past 12 months, which represents a marginal increase from the results of the 2012 franchising survey. From an industry perspective, disputes with franchisees were spread broadly across a number of industries including Information and telecommunication services (50 percent), Accommodation and food services (37.5 percent), Construction (33 percent), Arts and recreation (30 percent), Retail trade (18 percent), Rental, hire and real estate services (17 percent) and Financial and insurance services (16 percent). Consistent with 2012 results, larger (more than 50 units) and medium-sized (21 - 50 units) franchise systems were more likely to be involved in substantial disputation with franchisees than evident in smaller systems (1-20 units).

Similar to 2012 survey results, franchisors were in dispute with between 1 and 2 franchisees. Most disputes were in the early stages of correspondence with a solicitor (64 percent) and mediation (24 percent), with only 12 percent reaching litigation. The current findings show a virtual doubling of mediation and a concurrent reduction in litigation compared to the results reported in 2012. This appears to lend support to the success of past amendments to the Franchising Code of Conduct.

Respondents reported that over half of all disputes were attached to system compliance issues (62 percent), while less were reported to start as a result of communication problems (27 percent), misrepresentation issues (19 percent), profitability (15 percent), fees (12 percent), and initial and ongoing training (4 percent). Respondents also nominated other causes of disputes including difficulties associated with unrealistic franchisee expectations due to ineffective conduct of due diligence prior to purchase, human resource and payroll issues, franchisee opportunistic behaviours, franchisee theft, and high performing franchisees wishing to start independent business operations.

B15 In the past 12 months, has your brand been involved in any dispute with a franchisee that was referred to an external advisor for action?

Disputes	Number	Percent
Yes	26	21.3
No	96	78.7
Total	122	100.0

Notes:

1) A total of 122 franchisors provided a response from an expected 123.



B16 Please indicate the number of franchisees in these disputes.

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	83	63.8	13	28	65.1
Mediation	12	33	25.4	8	8	18.6
Litigation	7	14	10.8	6	7	16.3
Total		130	100.0		43	100.0

Notes:

1) A total of 22 franchisors provided a response from an expected 26.

2) Multiple responses were recorded for some respondents.



Total disputes

Response (Action)	Total Disputes	
	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	111	64.2
Mediation	41	23.7
Litigation	21	12.1
Total	173	100.0

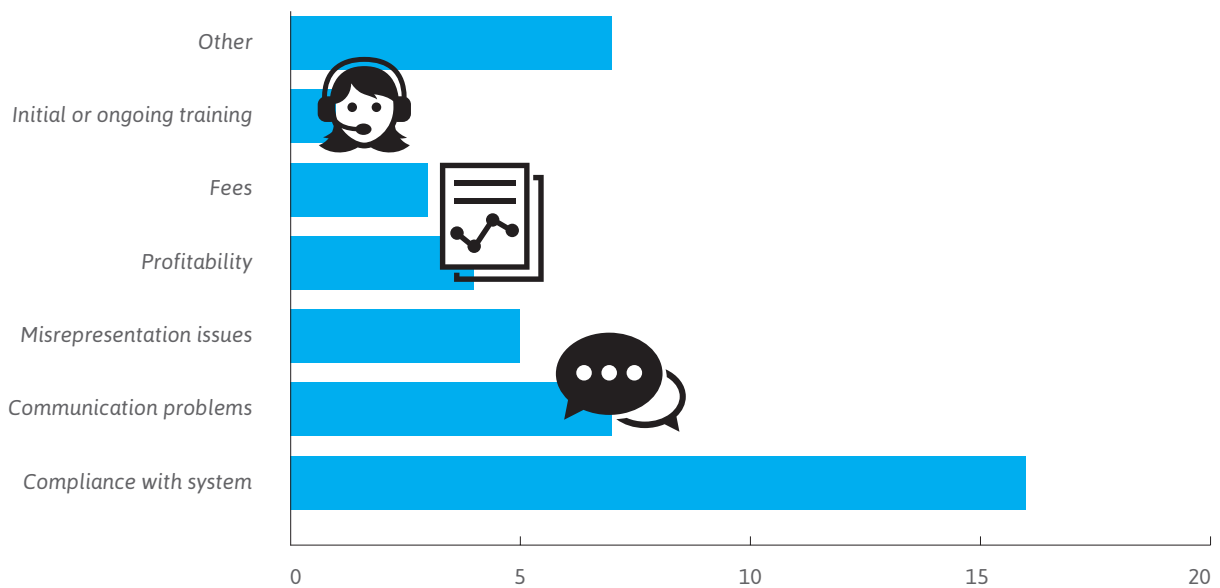


B17 What do you consider were the main causes of these disputes?

Causes of disputes	Number	Percent
Compliance with system	16	61.5
Communication problems	7	26.9
Misrepresentation issues	5	19.2
Profitability	4	15.4
Fees	3	11.5
Initial or ongoing training	1	3.8
Other	7	26.9

Notes:

- 1) The expected number of 26 franchisors provided a response.
- 2) Multiple responses were recorded for some respondents.



DUE DILIGENCE

KEY FACTS

- Franchisors nominated a number of due diligence measures including environmental scanning, customer and staff audits, financial evaluation and modelling and marketing planning.
 - The most common due diligence measure was accurate financial assessment.
 - All franchisors nominated the need for prospective franchisees to seek external legal and financial advice.
-

In this section, franchisors responded to an open-ended question about the most important forms of due diligence that prospective franchisees should undertake during the franchise evaluation process. Overwhelmingly, all respondents indicated that franchisees needed to seek legal and accounting advice from professionally qualified consultants, so as to supplement their own assessment of the business opportunity and build upon available information from public and private sector associations such as the Franchise Council of Australia (FCA), the Australian Competition and Consumer Commission (ACCC) and the Australian Securities and Investment Corporation (ASIC). Many of the responses also detailed the importance for franchisees to assess general environmental conditions and system-specific factors so as to formulate realistic expectations of the future value of the business opportunity. From an environmental aspect, many franchisees recommended considerable evaluation of the relative 'health' of the industry through conducting in-depth reviews of business start-ups and closures over a five-year period.

In terms of the specific franchise system, franchisors commented on the importance of franchisees reviewing franchise and disclosure documentation by themselves and with the help of third-party representatives, speaking with current and past (successful and unsuccessful) franchisees, and assessing the credit rating and financial liquidity of the franchise system under evaluation. Evaluation of current customer lifetime value and in-depth demographic analyses were also detailed as integral considerations in making a realistic and workable decision to enter franchising. Furthermore, it was recommended that franchisees assess current staff capabilities so as to ascertain training and support requirements in the future. From a personal franchisee perspective, franchisors suggested that franchisees self-assess their 'person-organizational' fit and self-audit their capabilities in managing finances, staff and customer acquisition and retention.

Overall, a common factor cited as contributing to franchisee underperformance and dissatisfaction in franchising related to the issue of funding. The majority of franchisors nominated that franchisees need to have sufficient capitalisation to ensure that they are able to accommodate stock purchases, allow for capital works and maintain acceptable levels of cash flow. Specifically, franchisors suggested that prior to entering a franchise system, they should arrange for such things as applying for credit with suppliers so as to inform a realistic budget estimate and calculate required financial investments. In addition, five franchisors detailed the need for franchisees to evaluate the CSR (corporate social responsibility) credentials of the franchise systems they are investigating prior to purchase as this was nominated as an important measure of future sustainability in franchise systems.

SECTION C
FRANCHISE OPERATIONS



FRANCHISOR ONLINE COMMUNICATION AND SALES STRATEGIES

KEY FACTS

- Almost half (45 percent) of franchisors use online sales methods to sell their products/services.
 - Two thirds (68 percent) of franchisors have been engaged in online sales for the past 5 years.
 - The majority of online sales contribute between 1 and 20 percent of total sales for the system.
 - Most franchise agreements do not include provision for the distribution of income derived from online sales.
-

In this section franchisors were asked a series of questions relating to their use of online sales in their system and allocation of sales and revenue derived from these sources to their franchisees.

Almost half (45 percent) of franchisor respondents indicated that they engage in online sales which represents a slight increase upon the results reported in Franchising Australia 2012. In addition, fully 34 percent of franchisors who do not currently engage in online sales indicated that they intended to use this strategy in the future which appears consistent with modern consumer trends to shop online¹. Of the franchisors who currently engage with online sales, over half have been doing so for the past 5 years (68 percent), with 16 percent engaged in these activities between 6-10 years. Most systems appear to favour establishing a physical retail presence prior to developing online sales infrastructure.

Consistent with the growth in online engagement with customers, a majority of systems (69 percent) reported that online sales contributed up to 20 percent of their total retail sales, which contrasts with previous survey results in which a similar number of respondents (64 percent) reported that online sales only contributed up to 5 percent (Franchising Australia 2012). While 6 percent indicated that they did not receive any sales contribution from online sales, 2 percent of respondents accrued all of their revenue online.

Franchisors were also asked about how they distributed online sales to franchisees. Half the sample (50 percent) reported that they allocated more than 50 percent of their online sales revenue to franchisees, but approximately 30 percent made no distribution. When asked to detail if their franchise agreements incorporated provisions for the distribution of income derived from online sales, just under two-thirds (62 percent) indicated that they did not have such stipulations. Given the increasing prevalence of online trade in franchising, it appears that such provisions should be given consideration in the future.

¹ A Capgemini press release suggests that over 50% of Australian consumers prefer to search for information and shop online where possible.

C1 Does your franchise engage in online sales?

Online sales	Number of responses	Percent
Yes	55	44.7
No	68	55.3
Total	123	100.0

Notes:

1) All 123 franchisors provided a response.

 Yes  No




C2 Do you have plans to sell your products and/or services online in the future?

Yes	23	33.8
No	45	66.2
Total	68	100.0

Notes:

1) The expected total of 68 respondents answered this question.

 Yes  No

C3 For how long have you been selling products or services online?

Online Sales - Time	Number	Percent
Less than 1 year	4	8.0
1 to 5 years	30	60.0
6 to 10 years	8	16.0
11 to 15 years	5	10.0
More than 15 years	3	6.0
Total	50	100.0

Notes:

1) The median length of time franchise systems have been selling products or services online is 3 years.

2) A total of 50 respondents provided a response from an expected 55.

 Less than 1 year  1 to 5 years  6 to 10 years  11 to 15 years  More than 15 years



C4 What percentage of sales in the franchise brand are online sales?

Online Sales - % of total sales	Number	Percent
Less than 1 percent	3	6.1
1 to 20 percent	31	63.3
21 to 40 percent	4	8.2
41 to 60 percent	3	6.1
61-80 percent	4	8.2
81-100 percent	4	8.2
Total	49	100.0

Notes:

- 1) A median percentage of online sales of 5% of total sales was recorded across the sample.
- 2) A total of 49 respondents provided a response from an expected 55.

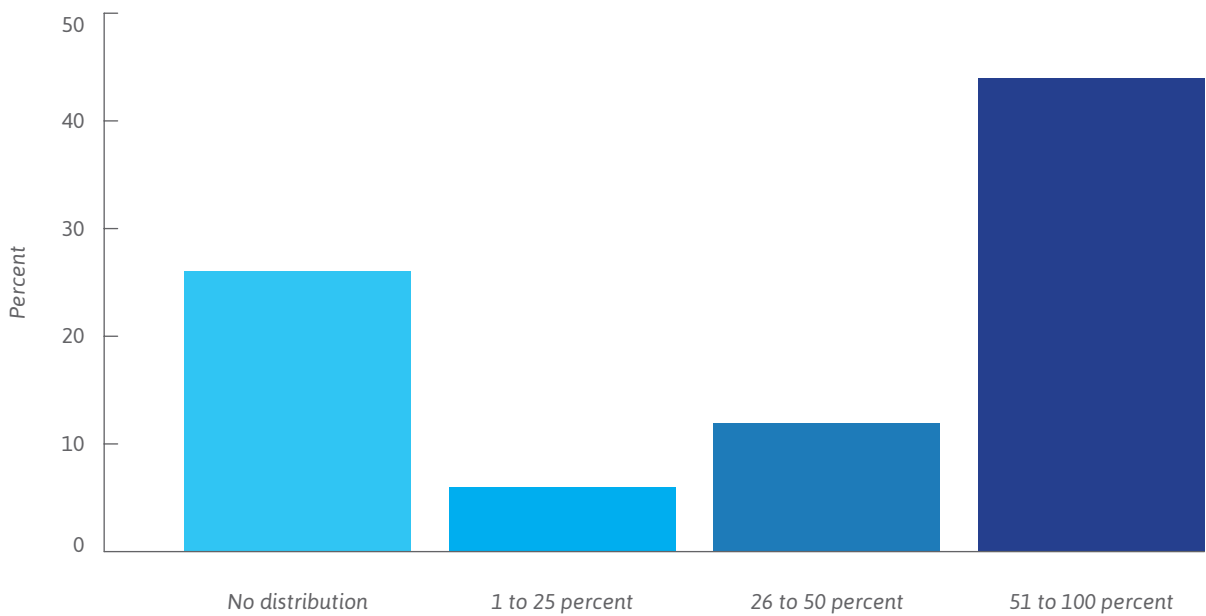


C5 What percentage of online sales is distributed to franchisees?

Online Sales – distribution to franchisees	Number	Percent
No distribution	13	29.6
1 to 25 percent	3	6.8
26 to 50 percent	6	13.6
51 to 100 percent	22	50.0
Total	44	100.0

Notes:

- 1) A median score of 65% of online sales were distributed to respondent franchisees.
- 2) A total of 44 respondents provided a response from an expected 55.



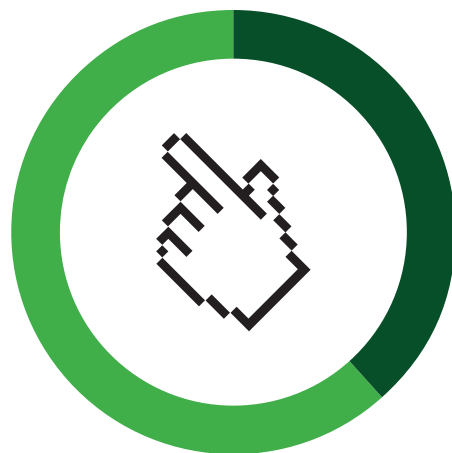
C6 Is there a provision in your franchise agreement for distribution of income derived via online sales?

Online sales - Future	Number	Percent
Yes	20	38.5
No	32	61.5
Total	52	100.0

Notes:

- 1) A total of 52 respondents provided a response from an expected 55.

Yes
 No



MULTIPLE-UNIT FRANCHISING

KEY FACTS

- Three quarters of franchisors have multiple-unit franchisees.
- Multiple-unit franchising is more frequently used within retail systems.
- Master franchising is used in the domestic market by one quarter of franchisors.

Multiple-unit franchising remains a popular and pervasive growth strategy in Australia. It was found that 74 percent of franchise systems incorporated multiple-unit franchising in their networks, which is slightly above the figure reported 2012. The number of multiple-unit operators in franchise systems was reported as being between 1 and 120; however, on average franchisors held only three multiple-unit holders in their system. Generally, franchise systems maintained fewer than five multiple-unit owners in their systems (42 percent). The data again indicates that although there continues to be growth in multiple-unit ownership, there are only a small number present in each system. Consistent with the last survey, the majority of multiple-unit ownership exists in retail trade and accommodation and food services industries.

Considered a popular variant of multiple-unit franchising, master franchising exists within one quarter of franchise systems (25 percent). More than half of franchise systems adopting a master franchise strategy had been operating for over a decade. Most franchise systems utilising master franchising arrangements were large systems holding more than 50 units.

C7 How many of your current franchisees are multiple unit operators?

Multiple-unit franchisees	Number	Percent
Zero	28	26.2
1 to 5 franchisees	45	42.1
6 to 10 franchisees	10	9.3
11 to 20 franchisees	12	11.2
More than 20 franchisees	12	11.2
Total	107	100.0

Notes:

- 1) A total of 107 franchisors provided a response from an expected 123.
- 2) On average franchise systems hold 3 multiple-unit owners.



C8 Do you use master franchising arrangements in Australia?

Master franchising	Number	Percent
Yes	30	24.8
No	91	75.2
Total	121	100.0

Notes:

1) A total of 121 franchisors provided a response from an expected 123.

 Yes  No



INTERNATIONAL FRANCHISING



KEY FACTS

- 86 percent of franchise systems are Australian based.
 - 30 percent of franchises are operating overseas.
 - Most franchise systems expanding overseas are from the retail, personal and professional services and education sectors.
 - New Zealand remains the most popular destination.
 - Franchisors held a median of 49 total units in the domestic market before expanding internationally.
 - The most common reason for international expansion was to achieve system growth.
 - Preferred method of international expansion is via Master franchising.
-

Broadly consistent with previous survey results, 86 percent of the franchise systems surveyed reported that they were Australian-based operations. This finding suggests that the majority of franchises are Australian home-grown systems rather than international entrants. Of the non-Australian based franchises operating in the local market, 59 percent reported that they possessed expansion rights outside of Australia. Of those franchise systems that reported that they had the capability to franchise their business concepts to international markets, 30 percent confirmed that they were currently operating in international markets.

Interestingly, more than 77 percent of franchise systems operating internationally also had multiple-unit owners within Australia, indicating that these firms employ multiple methods to expand their footprint. The majority of franchises operating internationally were from the retail trade (12 percent), accommodation and food services (21 percent), administration and support services (12 percent), other services (21 percent) and education and training (5 percent) industries. International operators were mature and experienced systems. They had been franchising overseas for a median of 10 years and held a median of 49 units in the domestic market prior to international expansion.

The most popular destinations chosen by franchisors when pursuing an international franchising strategy included New Zealand (74 percent of franchisors but accounting for only 4 percent of units), Singapore (24 percent of franchisors but only 1 percent of units), the United States of America (24 percent of franchisors and 34 percent of units), the United Kingdom (21 percent of franchisors and 8 percent of units), China/Hong Kong (20 percent of franchisors and 13 percent of units), the Middle East (18 percent of franchisors and 6 percent of units), Malaysia (15 percent of franchisors and 6 percent of units) and Europe (15 percent of franchisors and 5 percent of units). The strategy of expanding to New Zealand may provide a learning experience for franchisors before expanding further internationally, but destination countries with large populations, such as the United States and China, provide the most potential for growth.

More than half the number of franchise units reported by respondents were held in English speaking nations of the United States, United Kingdom, New Zealand and Canada, indicating moderate growth within these regions over the past 4 years. A sharp reduction in the number of units held in Europe (5 percent) from previous surveys (2010) may reflect economic downturn in those regions in the same period whilst there has been modest growth recorded in the number of units operating within the South East Asian region.

Over one third of franchisors (39 percent) have been operating overseas for between 11 and 20 years, with 10 percent of respondents indicating that they have been involved in these activities for over 21 years. This suggests that franchisors have been using international expansion as a growth strategy for some time and is consistent with the growing maturity of the Australian franchise sector. Respondents held a median of 49 units prior to entering new international markets, suggesting that franchisors prefer utilising international growth strategies prior to reaching saturation in their local markets. Some 54 percent of respondents held between 1 and 50 units prior to extending their concepts to markets overseas.

In-line with previous survey results, the most common drivers of international expansion were to increase the size and growth of the franchise system (46 percent), in response to requests by overseas investors (24 percent) and to capitalise on domestic market success (21 percent). Only 3 percent of respondents nominated that achieving structural gains from economies of scale was a significant reason for expanding overseas.

The most preferred method of franchising offshore was via master franchising arrangements (65 percent), confirming that Australian franchisors perceive this entry strategy as effective in recruiting master franchisees with local market knowledge so as to minimise risks associated with entering untested and geographically remote markets. Other franchisors favoured joint venture arrangements (16 percent), 100 percent company ownership (16 percent) and area development arrangements (16 percent).

C9 Are you an Australian based franchisor?

Franchise origin	Number	Percent
Yes	105	86.1
No	17	13.9
Total	122	100.0

Notes:
1) A total of 122 franchisors provided a response from an expected 123.

■ Yes
 ■ No

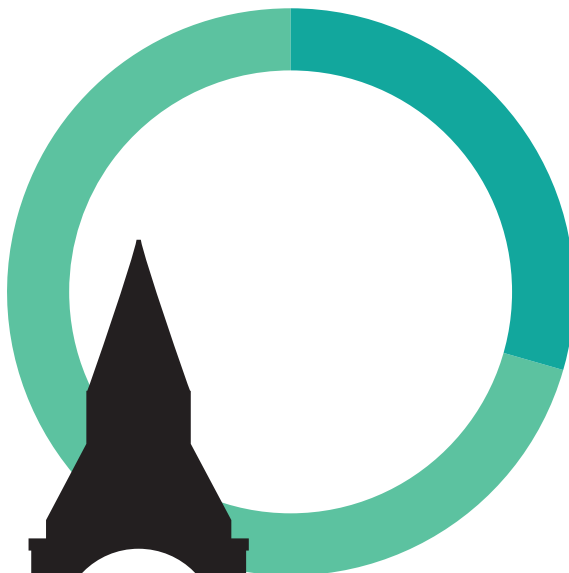
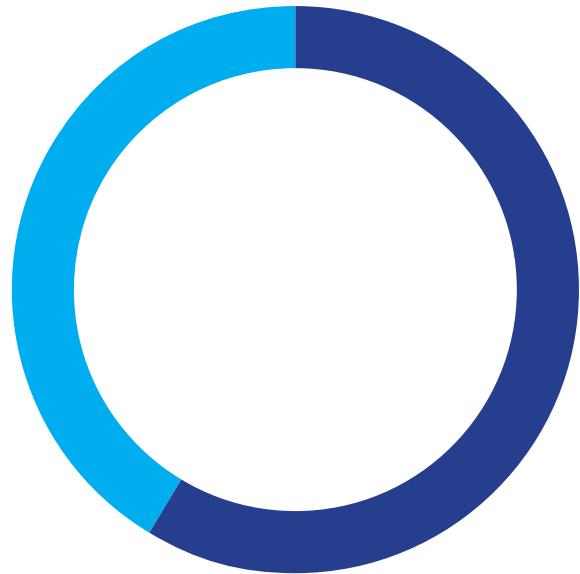


C10 Do you have expansion rights outside Australia?

Expansion rights	Number	Percent
Yes	10	58.8
No	7	41.2
Total	17	100.0

Notes:
1) The expected total of 17 respondents answered this question.

 Yes  No

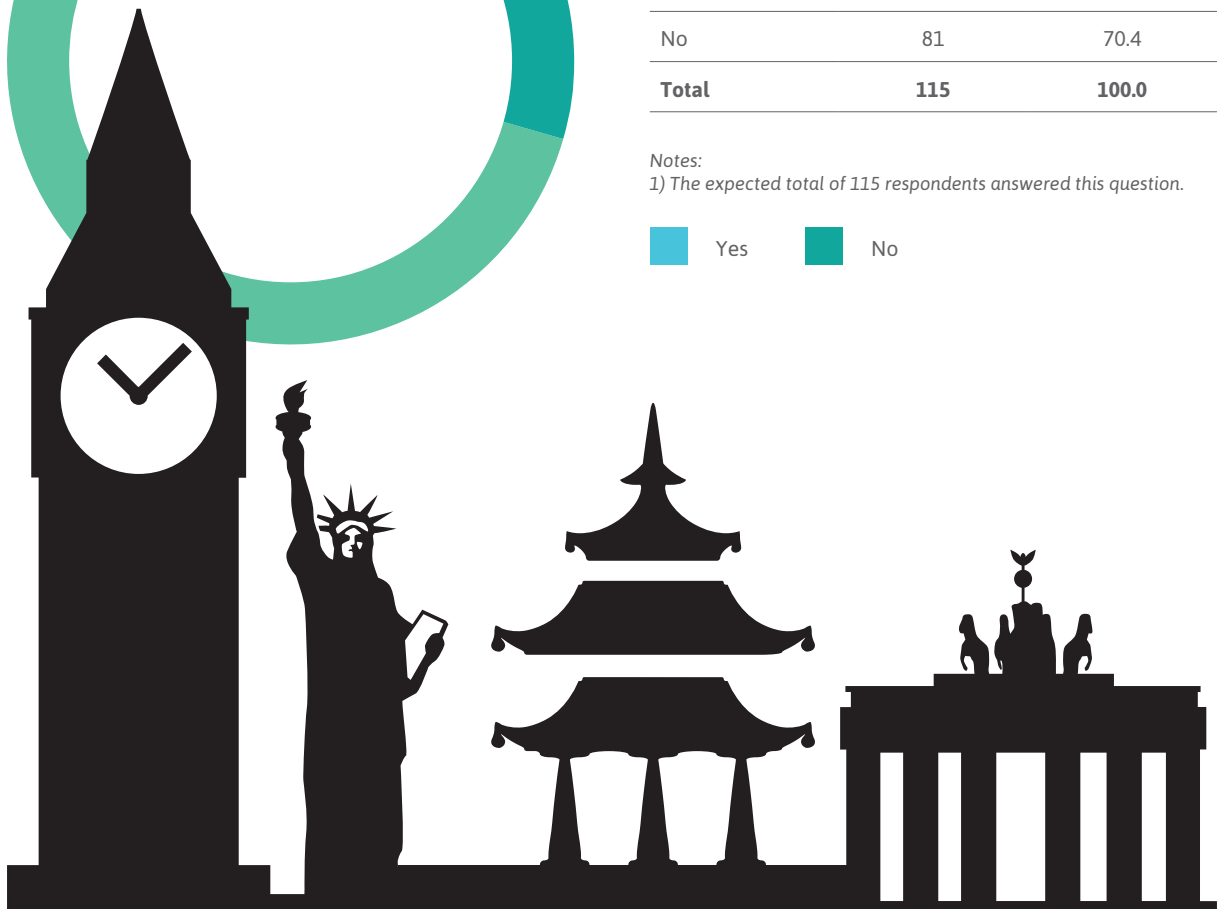


C11 Are you currently franchising overseas?

International franchising	Number	Percent
Yes	34	29.6
No	81	70.4
Total	115	100.0

Notes:
1) The expected total of 115 respondents answered this question.

 Yes  No



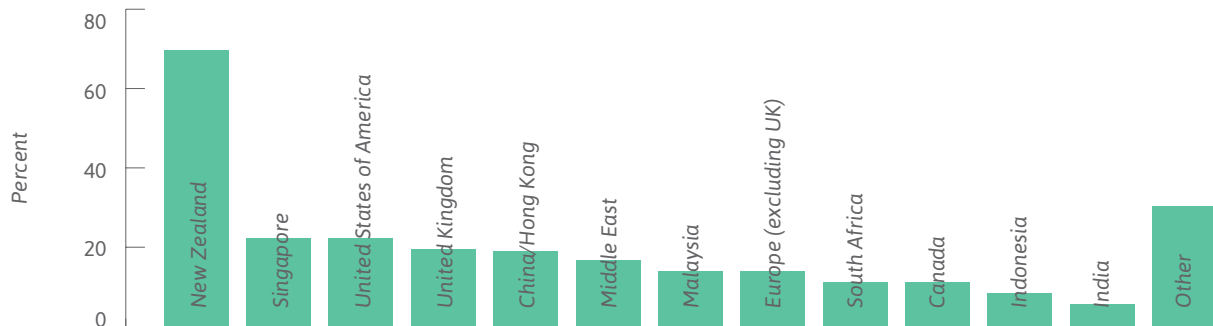
C12 How many units (franchised and company-owned combined) are held in countries or regions below?

Country	Overseas units		Franchised and company-owned units	
	Number of franchisors	Percent	Total number of units	Percent
New Zealand	25	73.5	684	4.4
Singapore	8	23.5	146	0.9
United States of America	8	23.5	5301	33.8
United Kingdom	7	20.6	1269	8.1
China/Hong Kong	7	20.1	2003	12.8
Middle East	6	17.7	1010	6.4
Malaysia	5	14.7	1001	6.4
Europe (excluding UK)	5	14.7	837	5.3
South Africa	4	11.8	665	4.2
Canada	4	11.8	709	4.5
Indonesia	3	8.8	1053	6.7
India	2	5.9	1016	6.5
Other	8	32.0	18	0.1
Total distribution of units			15706	100.0

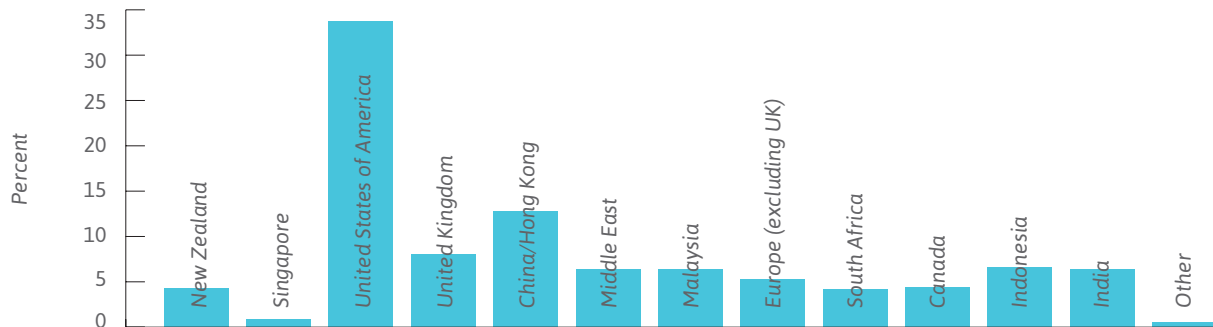
Notes:

1) The expected total of 34 respondents answered this question.

Franchising by country: Proportion of franchisors



Franchising by country: Proportion of franchise units



C13 How many years have you been franchising overseas?

Years Franchising	Number	Percent
1 to 5 years	8	25.8
6 to 10 years	8	25.8
11 to 20 years	12	38.7
21 years or more	3	9.7
Total	31	100.0

Notes:

- 1) A total of 31 franchisors provided a response from an expected 34.
- 2) The median number of years franchising overseas was 10 years.
- 3) Responses ranged from 1 to 47 years.

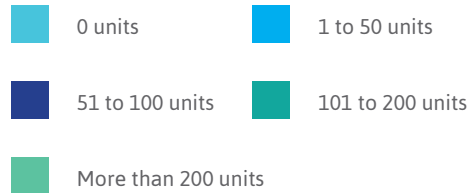


C14 How many units did you open in Australia prior to franchising overseas?

Units prior to overseas expansion	Number	Percent
0 units	4	14.3
1 to 50 units	15	53.6
51 to 100 units	4	14.3
101 to 200 units	3	10.7
More than 200 units	2	7.1
Total	28	100.0

Notes:

- 1) A total of 28 franchisors provided a response from an expected 34.
- 2) The median number of units was 49.
- 3) Responses ranged from 0 to 800 units.

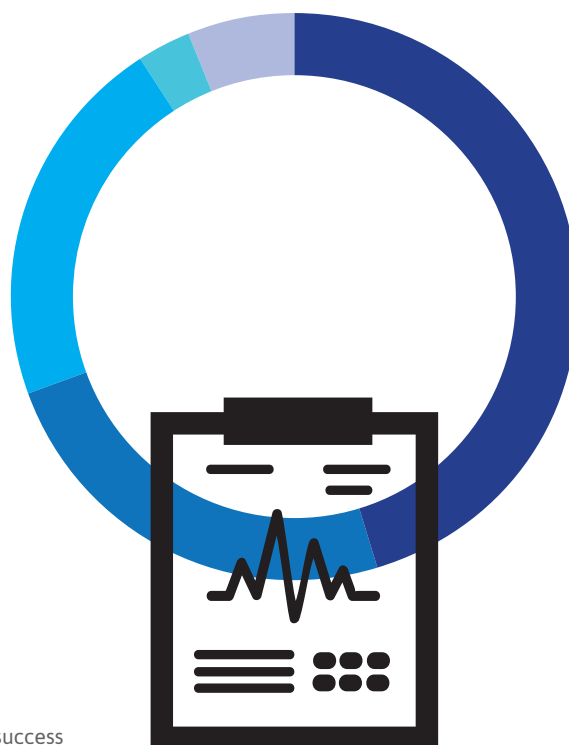
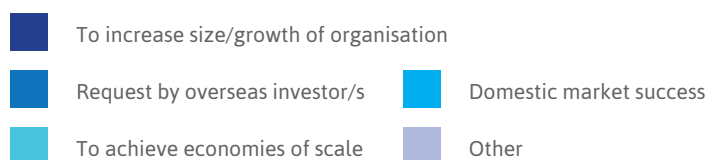


C15 What was the primary reason for expanding your operations overseas?

Reasons for overseas expansion	Number	Percent
To increase size/growth of organisation	15	45.5
Request by overseas investor/s	8	24.2
Domestic market success	7	21.2
To achieve economies of scale	1	3.0
Other	2	6.1
Total	33	100.0

Notes:

1) A total of 33 franchisors provided a response from an expected 34.



C16 Which method/s of entry did you choose for international expansion?

Methods of overseas expansion	Number	Percent
Master franchising	20	64.5
Joint venture arrangement	5	16.1
100% company-owned	5	16.1
Area development arrangement	5	16.1
Wholly owned subsidiaries	1	3.2
Other	4	12.9

Notes:

1) A total of 31 franchisors provided a response from an expected 34.

2) Multiple responses were recorded for some respondents.

