Franchising *forges ahead*

BY ALEXANDRA CAIN

The franchise sector is one of healthiest parts of the Australian economy, with more than 6000 individual franchise units opening between 2012 and 2014. This compares to a decline of 2.9 per cent between 2012 and 2013 in the overall number of Australian businesses, according to the Australian Bureau of Statistics.

But, like every part of the economy, the franchise sector is experiencing fundamental change as it adapts to the rise of the digital economy, and other macro-trends, such as the exit of the baby boomers from the workforce, and their entrance into retirement.

So, what are the key factors driving trends in franchising? Which parts of the sector will continue to experience significant growth, and which are on the decline?

According to the Franchising Australia 2014 report, a study conducted by Griffith University for the Franchise Council of Australia, the franchising sector produced total sales of $144 billion in 2014, up from a figure of $131 billion in 2012. This figure includes large car sales and fuel sales franchises. Strip these parts of the market out, and the annual sales figure for the sector in 2012 was still a respectable $65 billion for 2014, up from $62 billion in 2011.

Surprisingly, given the household-name status of large franchises like McDonald's and Pizza Hut, the report shows that the sector is dominated by non-food retail franchises, which comprise 27 per cent of all franchises in the market. Accommodation and food make up 18 per cent of all franchises, and the big-name fast-food franchises dominate, as could be expected. The research also shows that franchise systems in this part of the market have a median number of 87 units in their chains, compared to the industry average of 34 units – up from 31 units in 2013.

Kym de Britt, general manager of the Franchise Council of Australia, says that demographic trends are helping to drive the booming franchising sector.

'The ageing population is seeing franchises in the aged care space take off. The desire for a better work/life balance is also prompting growth for franchises in the fitness, personal training and home services markets, such as pool, car care and house cleaning businesses,' says de Britt.

He acknowledges, however, that tough times in retailing are producing flat conditions for franchises. 'There's a lot of talk about online sales affecting retail businesses, but, for franchises, what this means is that they need to go online to compete.'

As a result of the strength of online, de Britt says that franchises that are tied to this trend are doing particularly well. 'Australia Post can't keep up with online purchases, so delivery services franchises are doing well. Many businesses are also having to look at new technologies, so franchises that meet this need are also doing well.'

De Britt expects the growth in online sales to continue to drive franchise growth and impact dynamics in the sector, making conditions for more traditional franchises tougher, but opening up opportunities for systems that are exposed to the growth in online.


Richard Brodie

Phil Blain, franchise expert with Franchise Right, says that in terms of areas within the franchise sector that are growing, 'there are some new food and beverage concepts coming through, as always, but the pleasing thing for us is the diverse spread of franchising.'

Blain says that, with franchises now operating in areas such as physiotherapy, podiatry, dentistry and skin cancer clinics, the scope of sectors that the industry covers has widened considerably.

'New franchises in these sectors all experienced resistance to change within their own industries, initially. But look at Back in Motion, a physio franchise. The founder, Jason Smith, was first ostracised by his industry. But [with Back in Motion] having reached around 80 outlets with 70 franchisees, [Smith] is now invited to speak at their conventions on how to run a great practice.

'With the ageing population, it is inevitable that home-help style businesses will flourish, and we will see continued growth in the beauty industry,' he says.

Deloitte Private partner Richard Brodie, who specialises in assisting franchisors, notes that, traditionally, growth in the franchising sector has been counter-cyclical to the wider economy, as many people invest in a franchise after receiving a redundancy.

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Brodie says the sector is becoming much more sophisticated. Importantly, he argues that there's now recognition among franchisors that growth for growth's sake isn't the best way to go, because putting on the wrong franchisee can do substantial damage to the system.

'If you have a couple of bad experiences as a franchise, you're in a world of pain as a business,' he says.

Brodie agrees that future growth in the sector is likely to come from wealth and wellbeing franchises; pretty much every main street in Australia now has a 24-hour gym. He expects that this trend will only continue.

Brodie says there are still opportunities for growth in the food franchise sector, despite the very public failure of the Pie Face chain. 'Pockets [of the food franchise sector] are doing well, which comes down to having the right product and service,' he says, adding that areas within the franchise sector that are struggling tend to be those where overcrowding is an issue.

In terms of trends, Brodie advises those in the sector to expect an increased competitive push from United States-based franchises. Despite the relatively small size of our market, he says the stability of our economy makes doing business in Australia an attractive proposition for large global chains.

'This is having an impact on businesses like Pizza Hut, which has changed its business model and product range,' he says.

Last year, Domino's and Pizza Hut embarked on an aggressive pricing strategy, both offering pizzas priced under $4.95 during off-peak times such as mid-week. McDonald's is also ramping up its service offering, offering delivery from some of its stores.

Another trend to watch is digital disruption of the sector, says Brodie.

Fast facts*

- There are 79,000 individual franchises in Australia.
- Individual franchise units have increased by 8.2 per cent, or 6000 units, since 2012.
- There are 1160 franchise systems.
- The sales turnover of the franchise sector is $144 billion.
- The sector employs 460,000 people.
- 86 per cent of franchise systems originated in Australia.
- 30 per cent of franchisors have entered international markets.
- 45 per cent of franchises have online sales.

**Source: Franchising Australia 2014, Griffith University*

'Franchises are increasingly using technology to enable their businesses. This is a trend we've seen accelerate over the past 12 months. They are using technology at the front and back end to deliver products and services.'

He says many are also increasingly using technology to produce data analytics. 'Franchising really lends itself to this, as systems are made up of multiple units that allow you to compare like for like, and benchmark individual units against the system average.

'But a lot of franchises haven't had the right systems to do this in a timely fashion, based on accurate data. This is changing, and technology is the enabler, which is a trend we're likely to see increase this year.'

Brodie also acknowledges that the downturn in the retail sector is making it tough for some franchises, but that some retail franchises are still doing well.

'It all comes down to the quality of your product or service, and how the franchise differentiates itself from others in the same part of the market.'

Another influencing factor in the franchising sector is last year's release of a new code of conduct.

'We were heavily involved in this, and we think the government has done a great job,' says de Britt.

'We expect it to create a more even playing field in the sector. Essentially, it will reduce a substantial amount of red tape within franchising documents. There won't be a lot of change for systems that are already well organised. But it's also important to understand that there will be heavy fines for franchises that don't comply with the new code,' de Britt explains.

De Britt points out that the Australian Competition and Consumer Commission (ACCC), the department that is responsible for enforcing the code, has traditionally come down hard on franchises that have not met its requirements, and he expects this approach to continue under the new code. 'Those that make mistakes will be treated accordingly,' he says.

Another change is the availability of debt funding to finance the set-up of a franchise. 'Fifteen years ago, if you had wanted funds to invest in a franchise, bank people would have laughed at you,' says Blain.

However, he says finance is generally only available if the franchisee is prepared to back up the loan with hard assets, such as the family home. 'Until a franchise is proven – some banks say this equates to 50 units – it is exceedingly difficult to gain any unsecured finance.'

But Blain says this is not necessarily a bad thing. 'The heady days of the '80s saw banks giving out money like water, and many folk borrowed far more than they really should have; eventually resulting in financial heartbreak.'

A common concern among franchisees is rental prices, although subdued conditions in retailing are putting a lid on steep increases. 'With more vacancies than we are used to seeing, our anecdotal experience is that rents have stabilised somewhat; however, the rent to takings ratio should always be examined and understood before signing any lease,' says Blain.

As for what franchisors are looking for when signing on new franchisees, Blain says the right attitude is paramount.

'A good franchisor wants their franchisees to be energetic and enthusiastic. Everything else comes second to those requirements. If the applicant doesn't have sufficient funds, there may be some vendor finance available for the select few. Many franchisors prefer to appoint franchisees who have no industry experience so they can teach them their way of business, but in other systems, industry experience may be a prerequisite.'

Blain expects positive conditions to continue in the franchising sector in 2015. 'Business in general is flat, and franchising continues to lead the way. This year will be no different. I expect the emergence of a tattoo removal franchise before too long.' Forge.

CASE STUDY: PACK & SEND

PACK & SEND is a diversified logistics solution business through which, says operations manager Nick Woodward, 'customers can send anything anywhere. We offer a no-limits logistics service'. The company can organise to courier a parcel anywhere in the world, and, on a larger scale, it offers specialist logistics services.

The business was founded in 1993 with one store in Parramatta, in Sydney's western suburbs. It began franchising in 1994. Today, there are 100 retail service outlets in Australia, and 15 in both New Zealand and the United Kingdom.

'We started from humble beginnings and have built the network gradually,' says Woodward.

The business was able to attract the interest of potential franchisees through people who PACK & SEND worked with in the logistics space, which helped it to achieve scale and awareness. Having retail outlets also helped to magnify the brand in the market.

'As we became established, we started to market the business as a franchise, and we've enabled entrepreneurs to live the franchising dream,' Woodward adds.

He says PACK & SEND's unique business model sets it apart. Customers have multiple online and offline ways of placing an order. 'It's also been about how we position the business; we're the Flight Centre of the industry, and collaboration with partners has been important.'

Another reason that PACK & SEND has been successful is that it has invested heavily in its online booking platform, which has been one of the main drivers of its growth. The e-commerce boom has also underscored the company's success.

'We've been transacting with web-based sellers for a decade, and eBay has been a core part of it, as have the number of people who have set up their own online businesses, [and] bigger businesses,' says Woodward.

Nick Woodward

For instance, PACK & SEND's international shipping business has grown by 30 per cent since 1 July 2014. Its online business is up a whopping 113 per cent over the same period.

Woodward expects that the business will continue to experience phenomenal growth rates in the near term. 'It's been very exciting, and we're working on a number of projects to help our franchisees capitalise on this growth,' he says.

CASE STUDY: *Just Better Care Australia*

The Australian Bureau of Statistics' figures show that between 1994 and 2014, the proportion of people aged above 65 increased from 11.8 per cent to 14.7 per cent of the population. Over the same period, the proportion of the population aged above 85 almost doubled from 1.0 per cent to 1.9 per cent. Looking at Treasury's figures, the number of Australians aged over 65 is expected to be 6.2 million in 2042 – up from just 2.5 million in 2002.

This bodes well for franchises in the aged care space, as Just Better Care Australia can attest.

The business was founded 10 years ago, and franchised eight years ago. It presently has 35 franchises, with 12 expected to open this year. Much of the business's expansion is expected to happen through regional parts of Australia, which are often areas where elderly people and the disabled can afford to live.

'Aged care and disability services are real growth sectors, especially as an increasing [proportion] of the ageing population would prefer to be cared for in their own homes,' explains Trish Noakes, chief operating officer of Just Better Care.

The National Disability Insurance Scheme is a $22 billion program each year, which affects 460,000 people. 'Our business is aligned to both of these sectors,' Noakes adds.

The enterprise provides a vast array of amenities for people requiring aged care and disability services. These include services to manage chronic disease and to help people who are discharged early from hospitals, as well as assistance for mothers and babies.

'But the majority of our work involves elderly people, and people with disabilities. The services they need might be simple or complex, and many elderly people can't drive, or have no family living close by, so we also perform social support,' says Noakes. The business also helps disabled people gain skills so that they can become more independent and enter employment.

It's fair to say that owning a Just Better Care franchise requires a special combination of skills. 'We look for someone who wants to be in the business long-term, and someone who cares about customers, because the business is about making a difference. You also have to have good business acumen and leadership skills to be able to inspire people, because franchisees manage a large workforce,' says Noakes.

'You have to put the customer at the centre of the business, because no 85-year-old is the same, and it's the same with people who have cerebral palsy. Everyone deserves to be treated as an individual,' she adds.

Just Better Care Australia was acquired last year by large United States healthcare business Caring Brands International, which also owns Interim Health Care in the United States and Bluebird Care in the United Kingdom. Noakes says the merger will mean access to more resources, and that its franchising model won't change.

'Franchising works in this sector because what we do is all about the individual – and you really need to be connected to the communities you work in. Operating a franchise in Bankstown is very different to owning one in Hawkesbury. You need to understand where the health care gaps are in the community, and be able to work with other businesses. Large, centralised organisations find it difficult to do this, and it's only going to get worse,' Noakes says.

According to Noakes, the individual will increasingly have control of their health care requirements, and will use their power to shop around for services.

'So, businesses in our industry need to be known in their communities, which is why franchising is the model of the present and the future in this space,' Noakes argues.

CASE STUDY: *Jamaica Blue*

Café franchise Jamaica Blue has just opened its 100th franchise – in Westfield Miranda, New South Wales, where it opened its very first franchise in 1992.

The business was established with the aim of creating a chain of sophisticated cafés that would sit well alongside the large fashion retailers, and compete with the best independent cafés. 'It was built on a foundation of fine coffee and fabulous food and, over time, it has morphed to remain relevant,' says Drew Eide, national brand manager at Jamaica Blue.

'Our focus is the buzz factor, and our aim is to deliver the best customer experience,

because, although we sell coffee and food, what we're really selling is time out. If we don't deliver in the best possible way, people will go somewhere else,' he adds.

There are currently 135 cafes in the Jamaica Blue system, operating across seven countries including Australia, China, the United Arab Emirates, Singapore, Malaysia and the United Kingdom, where it opened its first café in December.

'It's been really well received, with great sales results, because [shoppers in the United Kingdom] are desperate for great espresso-based coffee,' Eide says.

International expansion is important to the network, and Eide says the business is pursuing opportunities in the Middle East, Asia and the United Kingdom based on the growing demand for espresso coffee in these countries.

Eide recognises that the system goes head-to-head with the best independent cafés, and competes by ensuring that all food is made on-premises, and by allowing each café a degree of flexibility with its menu. For instance, in the café at Karratha, in Western Australia, head office created recipes for a steak sandwich with a poached egg, and chips and gravy – menu items that are not offered elsewhere. Offshore, the business tweaked the menu in the United Kingdom to include iced teas, which are popular in that market.

Franchises can also source produce locally as a way of becoming entrenched in the community. 'There's an opportunity to work through national suppliers or from local suppliers. Sometimes sourcing product locally works out to be cheaper than through the national network,' Eide says.

Jamaica Blue is also pursuing e-commerce opportunities, and customers can now purchase its coffee online, so they can drink it at home. It has also launched coffee capsules that people can buy instore or online.

This year, the business will be focused on expanding its social media presence, especially through Instagram. 'Looking at ways to use our hashtag is an important part of our strategy this year,' Eide says. Forge.