



Australia: Franchising Biannual Newsletter

Kate Wilkie
03/2007
ID:#140385

Welcome To Franchising Australia!

Welcome to the U.S. Commercial Service's first issue of the biannual Franchising Newsletter for 2007, prepared for the purpose of advising U.S. franchisors on developments and opportunities in the Australian franchise industry.

With 960 franchise systems and close to 62,000 franchised outlets employing some half a million Australians, the franchise sector in Australia is considered both large and mature. Last year the sector generated revenues of \$96 billion, an impressive 14% of Australia's GDP!

Australia continues to dominate as the world's most franchised country per capita, three times more than in the United States. The industry is driven by Australia's strong economy and tight industry regulation ensuring a safe environment to set up a franchise.

For further information relating to this sector or on the different services that the Commercial Service can provide U.S. companies wanting to expand to Australia please contact:

Kate Wilkie
Commercial Specialist – Franchising
US Commercial Service – Melbourne
kate.wilkie@mail.doc.gov
Tel: +61 3 9526 5927
Fax: +61 3 9510 4660
www.buyusa.gov/australia

The data provided in this newsletter is given solely as an information resource and does not imply endorsement by the U.S. Department of Commerce.

Summer 2007

In this Edition:

- Market Size
- National Franchise Conference
- Market Demand
- Industry Turnover
- Geographical distribution of Franchise Activity in Australia, including head office locations
- Australian Franchise Trends including: average start-up costs, franchise fees, recruitment costs
- Current market challenges
- 2007 Franchise Trade Events



It is typical to find Aussie burgers with egg, pineapple and slices of beet!

Market Size:

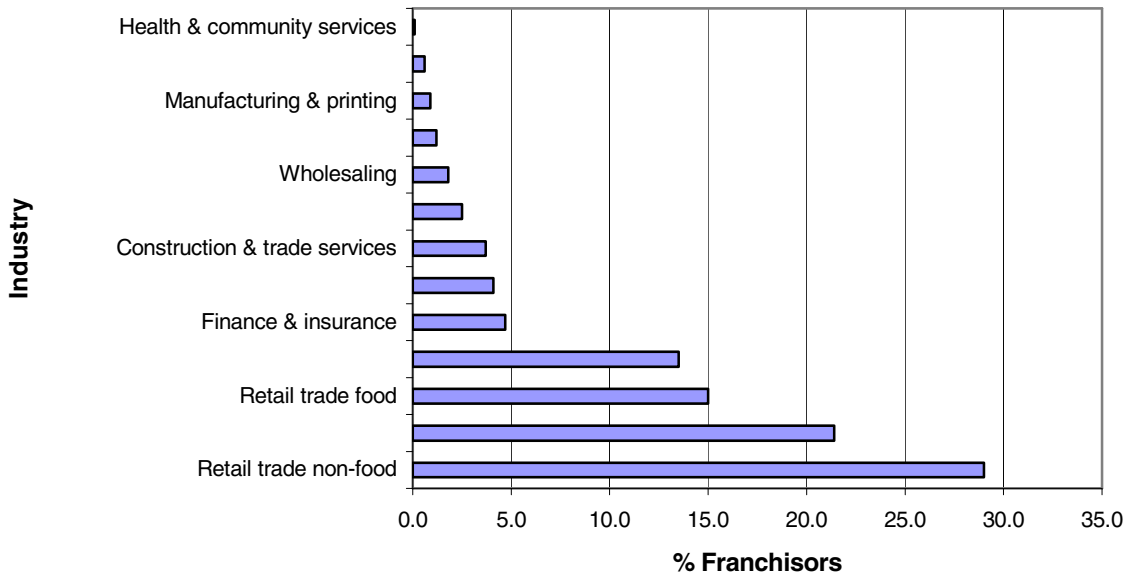
Over the last thirty years, franchising in Australia has developed into a highly significant and dynamic business activity. Since 2004, franchise systems have grown by 12.9 percent to reach 960 systems (see table below). While this growth rate is slower than that of 2002-04, it is considered by many to be a positive shift as the number of franchise systems per capita in Australia is often regarded as too high (Australia now has the most franchising outlets per capita in the world and three times more per capita than in the U.S.).

Franchising in Australia took off in a significant way in the early 1970's with the introduction of such franchised U.S. fast food systems as KFC, Pizza Hut and McDonalds. Since then, the industry's growth has been extraordinary. Over the last twenty years, it has expanded to include virtually every product and service sector. Of these industries, Australian origin concepts account for 93% of the market with U.S. concepts second at 5%.

Year	Number of Franchisors
1998	693
1999	708
2002	700
2004	850
2006	960

Note: *Retail trade non-food* includes automotive services, *Retail trade food* includes fast food, *Personal & other services* includes video hire and gardening services, and *Communications services* includes postal, courier & telecommunications. See graph below.

Franchise Activity by Industry Categories



It is estimated that there are 61,860 franchised units operating in Australia including 5,660 company owned units, which in comparison to a total of 54,000 units in 2004, illustrates the strength of the sector.

In addition, there are approximately 5,700 fuel retail franchised outlets and 2,690 motor vehicle retail franchised outlets. These numbers are all the more significant when one considers that Australia's entire population is only 20 million people.



Australia's National Franchise Conference (NFC) hosted by the Franchise Council of Australia, www.franchise.org.au, will be held in Melbourne, October 10-13 at the Melbourne Exhibition centre. Specific details for the 2007 event will be released soon at:
<http://nfc.franchise.org.au>

Market Demand:

Compared to 2002-04, the growth rate of individual franchise units (i.e. excluding company owned units) during 2004-06 decreased from 14% down to 11%. However, due to an increase in company owned units, the overall growth rate of franchise units for 2004-06 was 14.6%. This increase in company held units exemplifies the maturity of the sector.

Despite the sector showing signs of maturity, the number of units per system is relatively low. According to the Griffith University* survey, the average number of units per system was 22 plus one company-owned store. A total of 36 percent of organizations in Australia are fully franchised, i.e. holding no company-owned units.

It is also interesting to note that while many experts believe that more than 20 units are needed for a system to be viable, 48 percent of survey respondents held less than 20 franchised units. The survey also found no significant connection between the age of a system and its size, illustrating franchisor's ongoing challenge of system growth.

Industry Turnover:

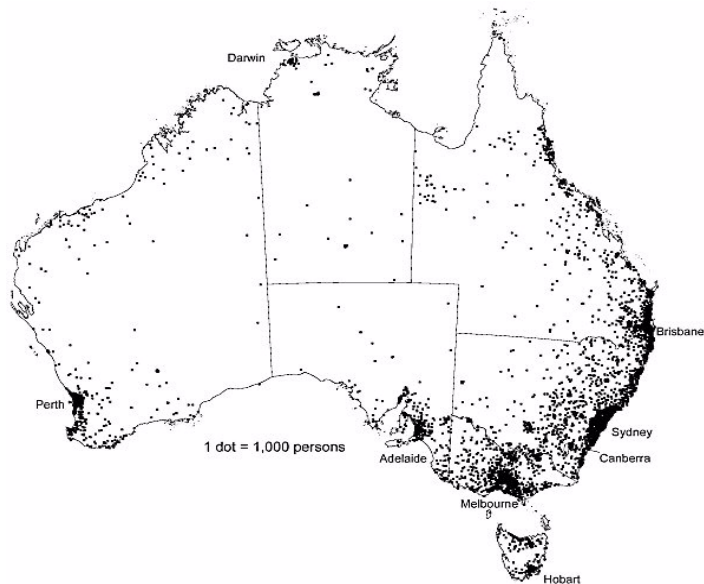
At the end of 2005, the total sales turnover of business format franchises was around \$50.25 billion. With the addition of \$22.5 billion contributed by the motor vehicle sector and \$23.25 billion contributed by the fuel retail sector, the overall sales turnover was approximately \$96 billion. This represents an impressive 14 percent to Australia's gross domestic product (GDP).

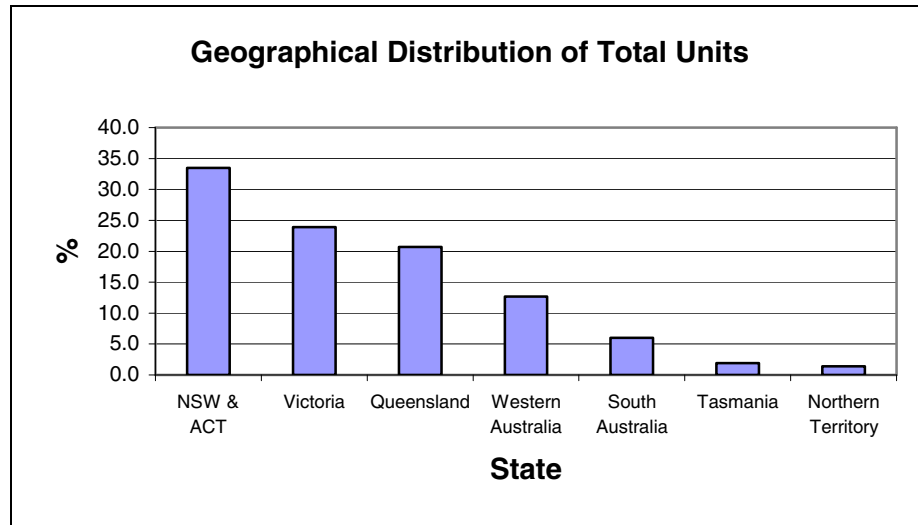
The average turnover of a franchise system in Australia varies due to differences in business activity and system size. However, the average total system turnover (i.e. total sales for both company and franchised units) was \$6.75 million. Retail systems reported an average turnover of \$15 million compared with \$2.44 million for non-retail franchises. Within the retailing segment, food retailers reported an average of \$7.5 million.

Geographical Distribution:

The degree of franchising activity in Australia is related to the population distribution. As the map to the right indicates, the east and southern states are the key areas of franchising (each dot represents 1000 people).

Therefore, the majority of franchising activity occurs in New South Wales (Sydney is the capital city) with 34 percent of total units, with Victoria (capital city is Melbourne) holding 24 percent and Queensland (capital city is Brisbane) with 21 percent of franchising. Please refer to the graph on the following page for the geographical distribution of total units.





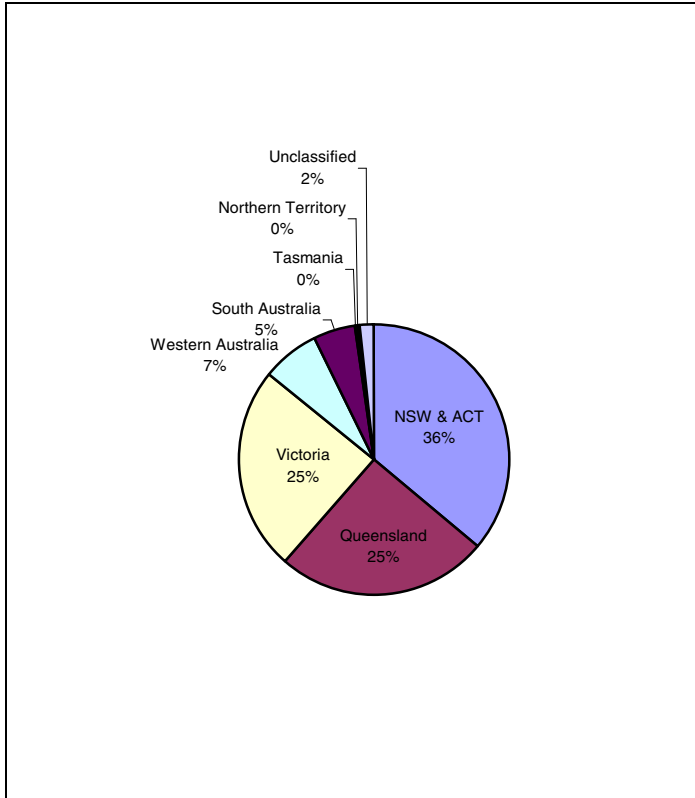
The data below is from the recent Griffith University survey showing the breakdown of franchised units versus company owned units in each State/Territory.

State	% Franchised units	% Company owned units	Total
NSW & ACT	34.0	28.9	33.5
Victoria	23.7	25.0	23.9
Queensland	20.5	22.8	20.7
Western Australia	12.8	11.4	12.7
South Australia	507.0	8.9	6.0
Tasmania	1.9	1.5	1.9
Northern Territory	1.4	1.5	1.4

The number of company-owned units in capital cities is 69 percent and are often found located near the franchisor's head office. This is because company-owned units are generally used for franchisee/staff training and market research purposes.

Head office locations followed a similar pattern to that of the individual franchised units. New South Wales was the top preference for head office locations with 36 percent, followed by Victoria and Queensland each with 25 percent. Please see the graph on the following page for a more detailed breakdown of head office locations, state by state.

Head Office Locations



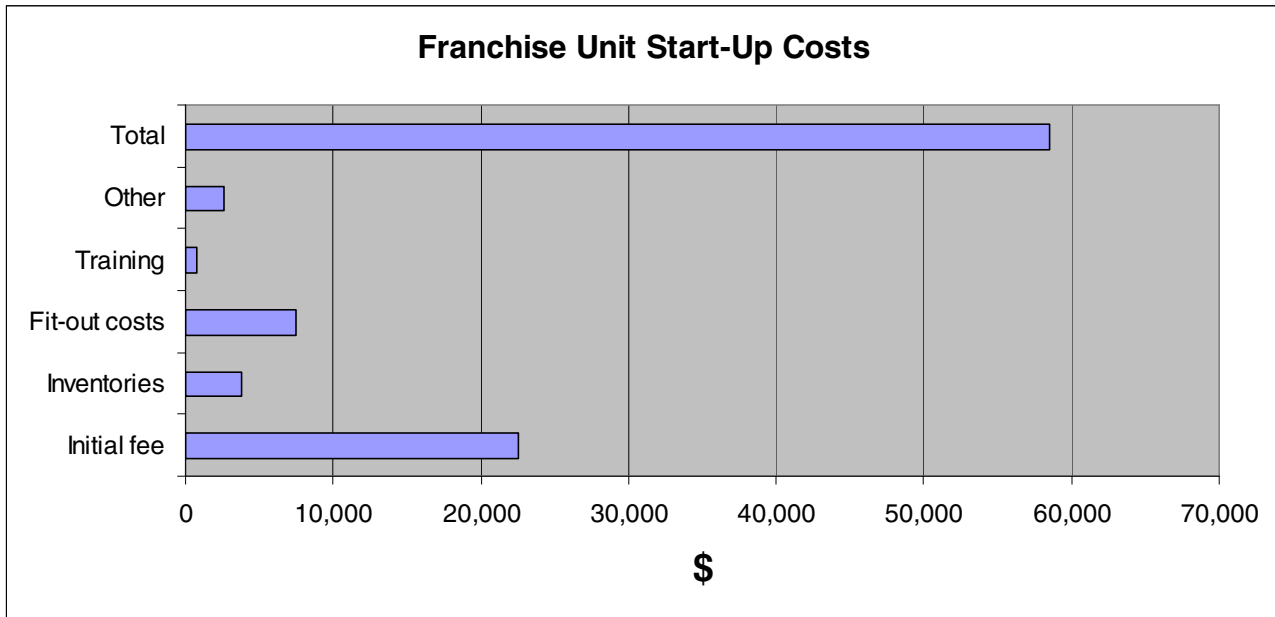
While a fixed location such as a retail or commercial site is the most common location (44 percent), it is worth highlighting that 28 percent of franchisees operate from home and 22 percent operate from mobile operations (i.e. van, trailer, etc.). Of course, the type of industry will influence the type of location used by franchisees.

Australian Franchise Trends:

There are a number of trends emerging from the franchise sector, most notably those relating to growth impediment due to sector maturity, but also others relating to start-up costs and marketing expenditure.

The average total start-up cost for an individual franchise across all industries was \$58,500. The average cost for a retail franchise unit has increased to \$197,000 to include the fit out costs. On the other hand, non-retail franchise systems start-up costs have decreased to \$38,000, which could be a result of the difficulty in finding quality candidates. See below graph

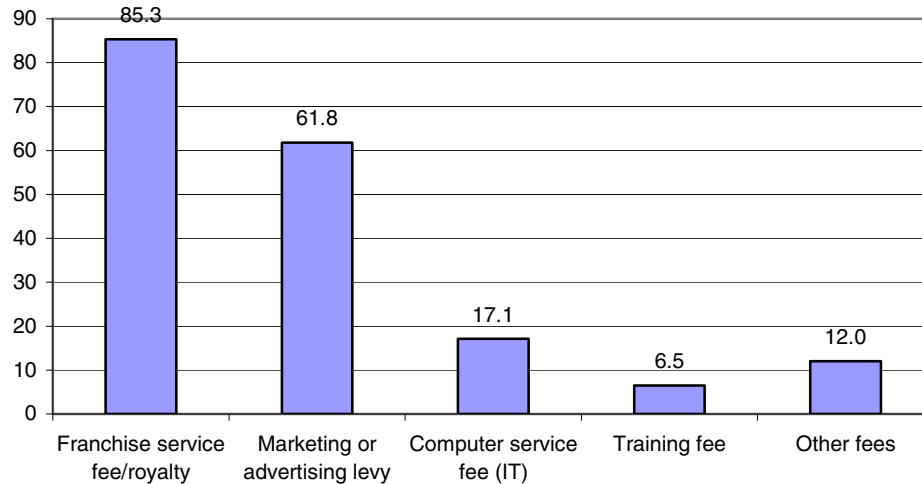
Franchise Unit Start-Up Costs



The average initial fee was \$22,500 with slightly less than 5 percent of franchisors not requiring an initial fee at all. Retail franchises charged a higher average initial fee (\$28,690) with non-retail franchises requiring an average initial fee of around (\$19,690).

According to the Griffith University survey, it is typical for franchisors to charge ongoing fees (85 percent claim to do this) while 62 percent also claimed to charge marketing or advertising levies. A total of 17 percent of franchisor survey respondents charged ongoing fees for IT services, only 7 percent charged for ongoing training. This suggests that most franchisors may absorb training expenses as a way of promoting professional development of their franchisees. An additional 12 percent of franchisors also charged fees for other services such as admin support, conference registration and communication levies. See graph below.

Ongoing franchise fees



At the end of December 31, 2005 franchisors in Australia spent an average of \$68,250 on advertising and marketing promotion. While approximately one third of franchisors spent more than \$150,000 on promotion, around 20 percent of franchisors claim to have spent less than \$7,500. It is also interesting to note that 14 percent did not allow for any expenditure to be spent on advertising or marketing promotion.

For 2005, the average cost of franchisee recruitment activities was \$7,500. Almost one third of franchisors did not spend anything on recruitment whilst 36 percent spent less than \$3,750 and 20 percent allocated over \$37,500 towards their recruitment promotion.

During 2005, a huge 82 percent of franchisors developed their marketing campaigns in-house. The remaining 18 percent employed the services of public relations agencies (2 percent) or used advertising agencies (16 percent).

Current market challenges:

The franchising industry is currently experiencing a number of hindrances to growth. As previously mentioned, the franchising industry has been flourishing in Australia for over thirty years, so the sector is now reaching maturity. This issue appears to be the biggest area of concern for franchisors with 68 percent stating that their main hindrance to growth was finding enough suitable franchisees to enable expansion of their systems.

The growth of new systems and the expansion of existing systems have not only increased competition, but have also increased the demand for *quality* franchisees. Not only is the pool for potential candidates diminishing, the quality of candidates is also presenting a challenge.

As an alternative, many Australian franchises have been prompted to use multiple unit franchising and international expansion to enable growth.

Low unemployment levels and a strong Australian economy have also contributed to the restriction of potential investors as people are feeling more secure in their current jobs and thus less inclined to invest in a franchise. However, of those people who do decide to take on a franchise, there is a marked trend for them to stick with the better-known brands.

The industry's level of maturity has also resulted in increasing competition with 34 percent of franchisors stating that this contributed to lack of growth. This has put pressure on many of the smaller franchises, and lead to increased consolidation in some sectors.

Following this, 20 percent of franchisors also stated that there is also insufficient access to suitable sites or territories is also now a major issue.

A total of 21 percent of franchisors stated that they had great difficulty in sourcing financing for franchisees. Other issues such as leasing restrictions (18 percent), a downturn in the market for particular products/services (11 percent), difficulty obtaining finance for the franchisor (7 percent) and the Franchise Code of Conduct (4 percent) all contribute to slow system growth.

Other major areas of concern for Australian franchisors are; that of high leasing costs and site-usage restrictions (particularly within shopping malls) as well as the high costs associated with complying with the Franchising Code of Conduct.



**Franchising & Business
Opportunities Expo 2007:**
www.franchisingexpo.com.au

Sydney: March 23-25

Adelaide: May 5-6

Perth: May 25 - 27

Brisbane: September 7-9

Melbourne: October 12-14



Other issues frequently highlighted by franchisors was that of high litigation costs, the lack of professional financial support services and the growing issue of franchisees 'free-riding' on their system trade name by reducing the quality of unit level products and services - this was particularly the case for the more mature systems.

Further information can be obtained from Kate Wilkie, Franchising Specialist at the U.S. Commercial Service in Melbourne, Australia
kate.wilkie@mail.doc.gov
Phone: 61-3-9526-5927
Fax: 61-3-9510-4660 or visit our website:
www.buyusa.gov/australia

*Griffith University conducted the Franchising Australia 2006 survey, releasing the findings at the 2006 National Franchise Conference in October. The survey is sponsored by the Franchise Council of Australia. Full findings of the survey can be found at www.franchise.org.au.

The U.S. Commercial Service — Your Global Business Partner

With its network of offices across the United States and in more than 80 countries, the U.S. Commercial Service of the U.S. Department of Commerce utilizes its global presence and international marketing expertise to help U.S. companies sell their products and services worldwide. Locate the U.S. Commercial Service trade specialist in the U.S. nearest you by visiting <http://www.export.gov/>.

Disclaimer: The information provided in this report is intended to be of assistance to U.S. exporters. While we make every effort to ensure its accuracy, neither the United States government nor any of its employees make any representation as to the accuracy or completeness of information in this or any other United States government document. Readers are advised to independently verify any information prior to reliance thereon. The information provided in this report does not constitute legal advice.

International copyright, U.S. Department of Commerce, 2006. All rights reserved outside of the United States.