FRANCHISING
Australia
2012

Griffith UNIVERSITY

Asia-Pacific Centre for Franchising Excellence

FCA
FRANCHISE COUNCIL OF AUSTRALIA

Prepared by
**Lorelle Frazer
Scott Weaven
Kelli Bodey**

Franchising Australia 2012

Copyright © 2012

Griffith University

Enquiries may be directed to the authors via:

Professor Lorelle Frazer	**Assoc Professor Scott Weaven**	**Dr Kelli Bodey**
Asia-Pacific Centre for Franchising Excellence	Asia-Pacific Centre for Franchising Excellence	Asia-Pacific Centre for Franchising Excellence
Griffith University	Griffith University	Griffith University
Brisbane Q 4111	Brisbane Q 4111	Brisbane Q 4111
Tel: +61 7 3382 1179	Tel: +61 7 5552 9216	Tel: +61 7 5552 9094
Fax: +61 7 3382 1190	Fax: +61 7 5552 8085	Fax: +61 7 5552 8085
Email: L.Frazer@griffith.edu.au	Email: S.Weaven@griffith.edu.au	Email: K.Bodey@griffith.edu.au

Foreword

Griffith University is proud to endorse the eighth 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 2012* report provides a profile of the sector as well as a source of longitudinal data gathered over the past 14 years.

Franchising Australia 2012 reveals:

- There are approximately 1180 business format franchisors in Australia in 2012, compared with 1025 in 2010 and 1100 in 2008.
- The decline in the franchise sector that occurred during the Global Financial Crisis (GFC) and subsequent economic downturn in Australia between 2008 and 2010 has shifted into recovery mode with a return to net growth in the sector.
- There are an estimated 73 000 units operating in business format franchises, reflecting an increase of 4 percent during the recovery phase.
- The net growth in franchising has occurred predominantly in non-retail industries.
- More than 400 000 people are employed directly in franchising.
- Sales turnover of the entire franchising sector was estimated at $131 billion.
- Fully 92 percent of franchise systems were developed in Australia.
- Almost 40 percent of franchise systems engage in online sales with customers.

Whilst the broader retail sector continues to suffer from weak consumer sentiment, heavy price discounting and the migration of customers to online channels, the net growth in the franchise sector has been driven by expansion in non-retail industry segments.

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 recovery. I am very pleased to recommend the *Franchising Australia 2012* survey results to interested participants of the franchise sector. The authors have produced the series of reports over a period of 14 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 a member of the International Society of Franchising and she co-chaired the Society's 2010 conference in Sydney.

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

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 in major Australian Research Council Linkage Project grants in collaboration with industry partners the Franchise Council of Australia (FCA), Australian Competition and Consumer Commission (ACCC) and the Department of Industry, Innovation Science, Research and Tertiary Education (DIISRTE).

Currently he is investigating conflict in franchising, 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.

Dr Kelli Bodey

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

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

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

Sponsor profile

The Franchise Council of Australia (FCA) is the industry body representing, and working for the benefit of, the Australian franchise sector. A sector worth over $131 billion is worth supporting.

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

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

Mr Steve Wright, Executive Director

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

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

Membership

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

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

Phone: 1300 669 030
Web: www.franchise.org.au
Email: info@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.

Asia-Pacific Centre for Franchising Excellence

http://www.franchise.edu.au/\

Contents

Executive Summary

The *Franchising Australia 2012* survey was conducted in the aftermath of a period of worldwide economic instability following a major global financial crisis. Although Australia narrowly escaped experiencing a recession, the small business sector was affected by several years of economic uncertainty.

The key findings of the *Franchising Australia 2012* survey are highlighted in this Executive Summary. Where possible, estimates have been included for the entire population of Australian business format franchises. Franchising activities in motor vehicle and fuel retailing were not captured in the survey due to the unique characteristics of these industries. However, data on motor vehicle and fuel retail franchises have been generated from relevant industry sources[1] and this information has been incorporated into the Executive Summary only.

Below are the highlights of the *Franchising Australia 2012* survey.

Total number of franchisors in Australia

The 2010 database of franchisors was updated and contacted personally to ascertain the status of the organisations. This extensive process has confirmed that 1137 business format franchisors are currently operating in the sector. As this figure includes systems that offer multiple concepts under a single brand, it is estimated that there are *1180 business format franchise systems* operating in Australia in 2012. Some 92 percent of these organisations originated in Australia.

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

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

---

[1] Data were obtained from the Australian Motor Industry Federation, Federal Chamber of Automotive Industries, Australian Institute of Petroleum and Service Station Association

Franchisor profile 1998-2012
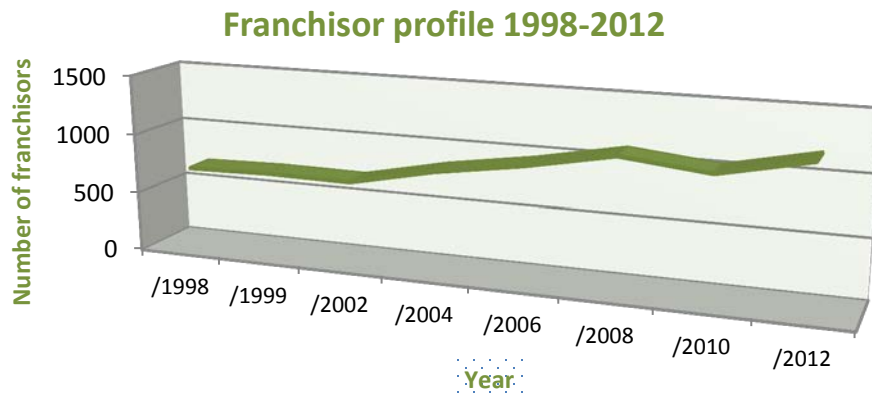
Until the advent of the global financial crisis from 2008 to 2010, the sector witnessed steady growth. During this period of economic downturn in Australia the franchise sector experienced a decline in franchise systems. However, from 2010 to 2012 the sector began to recover, reporting a net growth in franchise systems of 15 percent. (This trend is reflected across the national economy with small business growth of 3.6 percent reported in 2010 and 0.4 percent in 2011.[2]) Most of the franchise start ups have occurred in retail (food and non-food) and administration and support service industries where entrepreneurs have seized opportunities in fresh markets. The franchise sector provides an environment that facilitates entrepreneurial activity and encourages innovation.[3]

## Total number of units in franchise systems in Australia

There are an estimated 65 000 business format franchised units and 8000 company-owned units, producing *a total of 73 000 units* operating in business format franchise systems in Australia. An additional 6500 fuel retail and 4403 motor vehicle retail outlets are estimated.

A comparison of the number of business format franchise units from 1998 to 2012 is provided.

---

[2] Australian Bureau of Statistics (2012). *Counts of Australian Businesses, Including Entries and Exits*, Catalogue 8165.0
[3] The World Bank ranks Australia in the top 10 of 183 world economies for starting a new business, obtaining credit and ease of doing business (*Doing Business 2011:Measuring Business Regulations*)

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

Growth in total business format franchise units 1998-2012
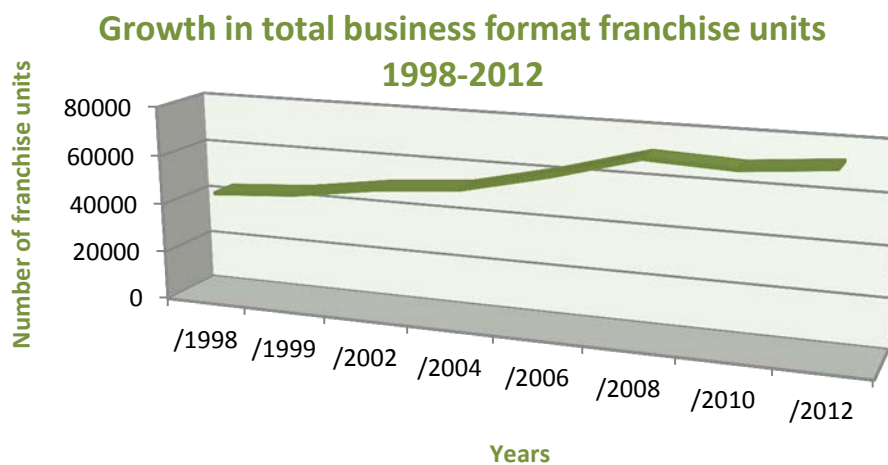
During the economic downturn from 2008 to 2010 there was an estimated 2 percent decline in franchise units. The economic recovery phase extending from 2010 to 2012 reveals a 4.4 percent increase in unit numbers. However, when levelled out from 2008 to 2012 the net increase in franchise units is 2.2 percent. The overall increase in units disguises industry specific trends. The retail sector continues to be contracting slightly whilst non-retail franchises are expanding. Overall, the franchise sector has fared well during the economic downturn and recovery in Australia, in contrast to the small business sector generally, which is recovering more slowly.[4]

Turnover of the Australian franchising sector

The total sales turnover of business format franchise units was estimated at $62 billion in 2011 (compared with $60 billion in 2009). Together with estimated motor vehicle sales of $31 billion and fuel retail of $38 billion, the total sales turnover for the entire franchising sector was estimated to be $131 billion (compared with $128 billion in the 2010 survey).

---

[4] Franchise Sector Indicator, Spring 2012, Fourth Edition, PriceWaterhouseCoopers.

Employment in the Australian franchising sector

The switch to greater reliance on casual labour during the economic downturn has reverted to a more normal employment distribution in the sector in 2012. Roughly one third of people are employed either on a permanent full time, permanent part time or casual basis. It is estimated that more than 400 000 people are employed directly in franchise organisations. Comparative estimates for 2008 to 2012 are provided below.

Employment status	2008		2010		2012	
	Number of employees	Percent	Number of employees	Percent	Number of employees	Percent
Permanent full time	154 900	37.5	142 600	20.7	145 000	35.6
Permanent part time	96 210	23.3	91 100	13.2	124 000	30.5
Casual	162 390	39.3	456 300	66.1	138 000	33.9
Total	**413 500**	**100.0**	**690 000**	**100.0**	**407 000**	**100.0**

Profile of franchise systems in Australia

Industries. Retail trade 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). Both these industry segments are characterised by large franchise systems. Whereas 16 percent of franchisors are involved in administration and support services, their systems are relatively small.

Size of systems. Sector wide, franchise systems grew internally from a median of 21 to 22 units from 2011 to 2012. However, it appears that the growth in the sector is being produced by non-retail franchise systems. These systems grew internally from a median of 15 franchised units in 2009/2010 to 17 units in the following year. Conversely, retail systems declined in size from a median of 32 units to 28 units over the same period of time. These findings are consistent with current national economic conditions which have impacted heavily on the retail sector.

Age of systems. The sector is now in a stage of relative maturity. Some 60 percent of franchise systems have been operating for more than 10 years. Whilst most franchisors operated a pilot outlet for 4 years prior to commencement of franchising, approximately one third of systems began franchising within the first 12 months of operation.

Social and economic influences

Although the majority of franchisors reported increases in product sales and profitability there was a related increase in promotional spend to stimulate business activity. This trend was also reflected in the 2012 PWC Franchise Sector Indicator. Franchisors reported more volatility in the sales and profitability of their franchisees.

One quarter of franchisors reported that they had made changes to their operational practices in response to environmental concerns. For most, the adaptations were undertaken to remain competitive and because they felt the change of practice was appropriate.

Social media

Franchisors are rapid adopters of social media with more than 90 percent indicating they use social media such as Facebook, intranets, Twitter or Linked in to communicate with franchisees and customers. This level of adoption is far above that of independent small business, reflecting a more sophisticated communication capacity amongst the franchising community.

Online sales

Online sales are facilitated by almost 40 percent of franchise systems but fewer than 5 percent of total sales occur online. It is clear that eCommerce activities are in a stage of infancy in most franchise systems.

Franchising disputes and unit closures

Substantial disputes (those referred to an external advisor for action) were reported by 18 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 and are consistent with data provided by the Australian government[5]. Reported disputes reflected the diverse industry profile of the sector but were less likely to be found in small franchise systems (1 to 20 units) or large systems (more than 50 units). The most common causes of disputes were those related to system compliance, franchise fees, territorial issues, misrepresentation and profitability. Only 3 percent of franchisors were subject to a formal audit for compliance with the Franchising Code of Conduct by the Australian Competition and Consumer Commission (ACCC).

International expansion by Australian franchise systems

The degree of penetration into overseas markets has remained relatively stable over the past few years. Some 28 percent of franchisors are currently operating internationally.

Conclusion

Australian franchising has endured the recent years of economic instability quite positively. The net growth in the sector disguises differing degrees of resilience amongst industry groups. The retail sector continues to struggle with weak consumer outlook, price discounting practices and the challenge of eCommerce. Conversely, the non-retail sector has experienced renewed growth as entrepreneurs continue to find gaps in the market that

---

[5] Department of Innovation, Industry, Science & Research (June 2010). Report by Orima Research: *Small Business Dispute Resolution.*

franchising can service. A major challenge constraining franchise system expansion continues to be a shortage of suitable franchisee applicants, prompting franchisors to find creative solutions to stimulate growth. Despite turbulent global economic conditions and a relatively subdued national outlook, in terms of its contribution to the Australian economy, and in comparison with small business in general, the franchise sector continues to impress.

Background

Franchising Australia 2012 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 14 years.

Similar to previous surveys, data for the current report were gathered from April to July 2012. As this timing occurs at the crossover of financial years we will attempt to delay the survey in future to capture current financial data.

The decline in the sector that was reported in the 2010 survey was relatively short lived. The 2012 results indicate a return to overall growth in franchise systems, franchise units and turnover. Franchising has grown steadily in Australia since the 1980s and the slight decline due to the global financial crisis and resultant economic downturn appears to have been only a temporary phenomenon with the franchise sector quickly recovering. It should be noted that retail franchises are still experiencing challenging times but non-retail franchises have continued to expand at a moderate rate.

Franchising Australia 2012 provides detailed information on the current status of the franchising sector and confirms that the sector continues to perform consistently despite national economic uncertainty in the broader business community.

Introduction

The *Franchising Australia 2012* survey was conducted from April to July 2012. The identified population of business format franchisors was included in the survey.

The primary purpose of the survey was to obtain current information about the practices and performance of the Australian franchising sector, including franchise sector responses to the economic downturn. The series of biennial surveys commenced in 1998, thus providing longitudinal data spanning 14 years from which to base analyses.

In 2012 the survey gathered data relating to:

- A profile of the franchising sector in terms of age, size, growth, and composition;

- Operational practices employed by franchisors, including HR/IR support, growth strategies, dispute resolution procedures, employment and responses to economic conditions and climate change;

- Emerging trends, including the use of social media, the impact of online sales and multiple unit franchising.

Conduct of the survey

The Franchisors

The *Franchising Australia 2012* 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 1307 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 2012 is estimated at 1137. When multiple concepts operating under a single brand name are included, the number of franchise systems approximates to 1180.

The Questionnaire

The survey was conducted electronically via the internet. The questionnaire was pilot tested in two stages. In stage one, conducted in 2011, a sample of 5 consultants and 12 academics pilot tested a hard copy of the survey instrument and provided feedback to the research team. A second round of pilot testing involved a sample of 30 franchisors and 8 academics. Based on feedback from the franchisors a number of questions were revised and/or removed as they felt the survey was too long. The 30 franchisors involved in the second test were excluded from the main survey.

An email notification was sent by the chief researcher to the remaining database of franchisors, asking for their cooperation and providing a hypertext link to the survey website at Griffith University. Full ethical clearance was granted by the University's Human Research Ethics Committee and was disclosed within the survey. Only members of the research team had access to the submitted surveys. Several follow-up emails and telephone calls were made to nonrespondents over a period of three months. To promote participation in the survey two prizes were offered.

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

Survey responses

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

Organisations listed on database		**1307**
Less exclusions:		
Mergers	2	
Organisations assumed no longer operating	34	
Organisations no longer franchising	42	
Organisations not yet franchising	76	
Organisations identifying as not involved in franchising	<u>16</u>	<u>170</u>
Confirmed population of franchisors		**1137**
Less pilot study participants	30	
Less organisations which would not provide an email address	<u>18</u>	<u>48</u>
Total number of organisations included in sample		**1089**

Of the 1089 franchisors included in the sample, some 126 usable responses were completed, resulting in a *response rate of 11.6 percent*. This is lower than the response rate received in previous Franchising Australia surveys. 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 44 nonrespondents with the 126 survey respondents on key variables such as industry, age, size, location and international activity. Information for nonrespondents was obtained from listings in the *Franchising 2012 Yearbook and*

Directory and from franchisor websites. This test also confirmed that there were no significant differences on all but one variable (size). Franchisors participating in the survey had smaller systems than the nonrespondents so this difference needs to be considered when interpreting the results and generalising to the population of business format franchisors.

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

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

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

Survey results

Franchising Australia 2012

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

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

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

A Franchise Profile

Industry

The number of business format franchise systems has grown from 977 in 2010 to 1137 in 2012 (a net growth of 160 systems). The proportion of franchisors spanning the two years has remained consistent. The majority of franchisors are involved in retailing with more than one quarter (27 percent) involved in non-food retail and 18 percent trading in food. Some 16 percent of franchise systems provide administration and support services (including travel agencies, office services, domestic and commercial cleaning, gardening services and lawn mowing) and a further 10 percent are classified as 'other services' which includes personal services, pet grooming and automotive repairs. The remaining industry sectors represent smaller proportions of franchising activity. It appears that the franchise sector has responded positively to improving economic conditions and entrepreneurs have seized opportunities in several growth markets.

New franchise systems were attracted to a range of retail offerings, personal and business support services, construction, real estate and rental of products. Corporate offices were established by new franchisors in all states, but New South Wales, Queensland and Victoria were favoured.

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 and personal and business services.

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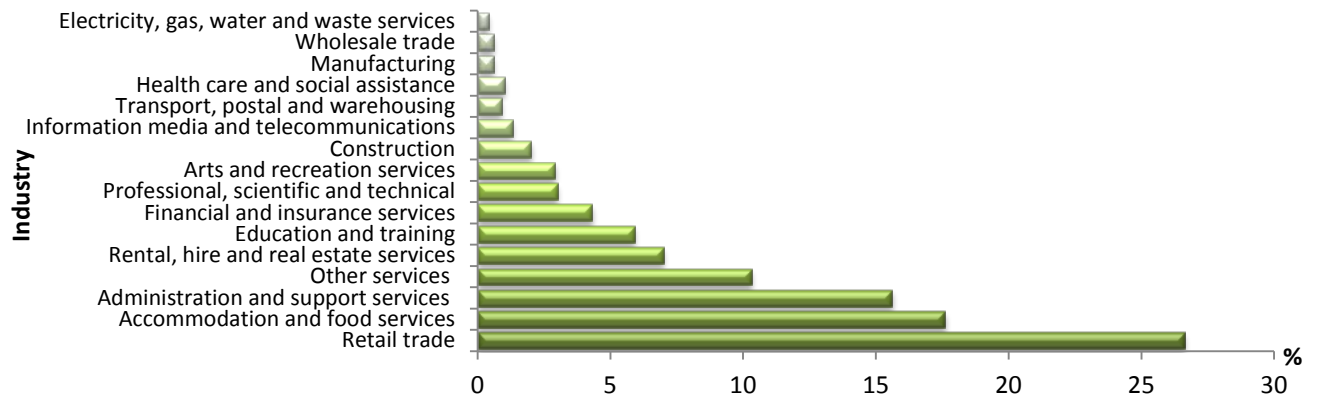
A1 In what product or service does this franchise system predominantly deal?

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	303	26.6	28	22.2	3835	38.2
Accommodation and food services (includes food retail, fast food, coffee shops etc)	200	17.6	25	19.8	1315	13.1
Administration and support services (includes travel agencies, office services, domestic and industrial cleaning, gardening services, lawn mowing etc)	177	15.6	12	9.5	655	6.5
Other services (includes personal services, pet services, auto repairs and servicing, IT services etc)	117	10.3	19	15.1	1934	19.2
Rental, hire and real estate services	80	7.0	8	6.3	150	1.5
Education and training	67	5.9	3	2.4	57	0.6
Financial and insurance services	49	4.3	4	3.2	227	2.3
Professional, scientific and technical	34	3.0	4	3.2	142	1.4
Arts and recreation services	33	2.9	5	4.0	443	4.4
Construction	23	2.0	5	4.0	68	0.7
Information media and telecommunications	15	1.3	3	2.4	44	0.4
Transport, postal and warehousing	10	0.9	3	2.4	198	2.0
Health care and social assistance	11	1.0	4	3.2	46	0.5
Manufacturing	7	0.6	2	1.6	862	8.6
Wholesale trade	7	0.6	1	0.8	76	0.8
Electricity, gas, water and waste services	4	0.4	0	0.0	0	0.0
Total	**1137**	**100.0**	**126**	**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 126 respondents were able to be classified.

Age of franchise systems

Key facts

- Franchisors have 21 years operational experience and 13 years franchising experience.
- Most businesses were piloted for 4 years prior to commencing franchising.
- One third of franchisors began franchising within 12 months of operation.

The survey confirms that the Australian franchising sector is *mature*. Although some US based fast-food franchises began operating in Australia in the 1970s, most of the growth in franchising has occurred since the 1980s. Indeed, the growth in franchise systems has increased each decade. Almost half the sample (48 percent) indicated they began franchising since 2001.

Franchisor respondents have been operating for a median of 21 years (the sample contained some well established operators which may positively skew this result). However, the median of 13 years of franchising experience is consistent with sector trends and with the 2010 survey which reflected 11 years of franchising experience. Hence, whilst the sector continues to introduce new franchise systems, the majority are well established and experienced in franchising.

Franchisors *piloted* their operations for a median of four years prior to commencing franchising. However, the strategy of some 16 percent of franchisors was to begin franchising immediately and a further 18 percent did so within the first year of operation, supporting the notion that franchising was strategically chosen as a business model from the outset. Patterns of growth were consistent across the retail and non-retail sectors.
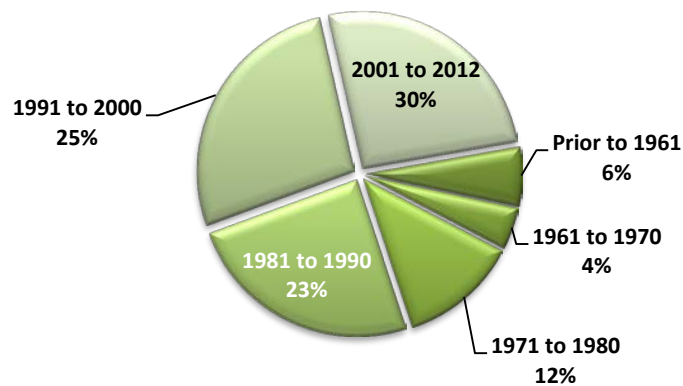
A2 In which year did this business commence operations?

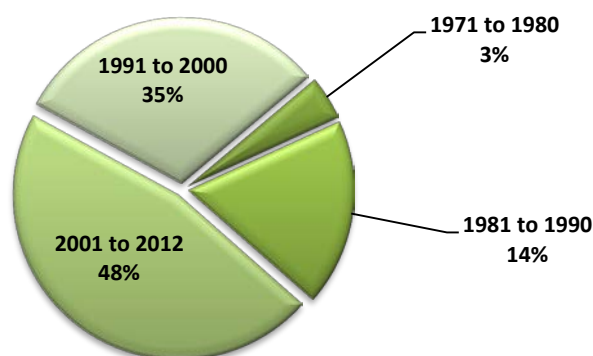**A3 In which year did this business commence franchising?**

Year	Year commenced operations		Year commenced franchising	
	Number of responses	Percent	Number of responses	Percent
Prior to 1961	7	5.7	0	0.0
1961 to 1970	5	4.1	0	0.0
1971 to 1980	14	11.5	4	3.2
1981 to 1990	28	23.0	17	13.7
1991 to 2000	31	25.4	43	34.7
2001 to 2012	37	30.3	60	48.4
Total	**122**	**100.0**	**124**	**100.0**

Notes: 1) A total of 124 respondents provided a response from an expected 126.
2) The median number of years was: operating 21 years and franchising 13 years.
3) Businesses had been operating for a range of 2 to 88 years and franchising for a range of 2 to 41 years.
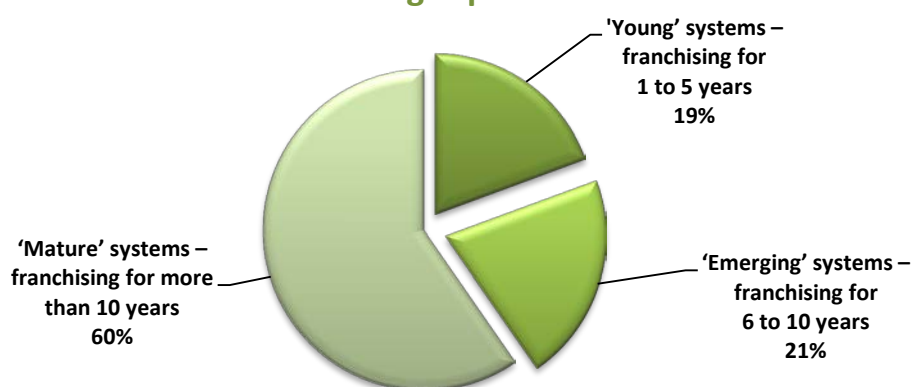
Year commenced operations

Year commenced franchising

- 1991 to 2000 — 35%
- 1971 to 1980 — 3%
- 1981 to 1990 — 14%
- 2001 to 2012 — 48%

Franchising experience

- 'Young' systems – franchising for 1 to 5 years — 19%
- 'Emerging' systems – franchising for 6 to 10 years — 21%
- 'Mature' systems – franchising for more than 10 years — 60%

To further analyse the age and experience of franchise systems the sample has been split into young franchise systems (19 percent), emerging systems (21 percent) and mature systems (60 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	24	19.4
'Emerging' systems – franchising for 6 to 10 years	26	21.0
'Mature' systems – franchising for more than 10 years	74	59.7
Total	**124**	**100.0**

Notes:
   1)   *Some 124 out of the 126 responses were able to be classified.*

Size of franchise systems

Key facts

- Retail franchises contracted but non-retail franchises grew between 2009 and 2011.
- Retail franchises are more likely to retain some company units in their mix.
- Nearly one third of franchise systems hold more than 50 total units.
- Some 46 percent of franchise systems hold fewer than 20 units.
- Almost one third of franchisors indicated that political factors may influence the location of units in future.

Most franchise systems remain challenged by size and ability to grow, hampered by economic conditions and Australia's small population. Almost one half of systems (46 percent) hold fewer than 20 franchise units. This group of small franchise systems had been franchising for a median of 9 years and they were clustered in the retail food and non-food sectors. Conversely, almost one third (30 percent) of franchise systems are large, holding in excess of 50 franchise units. This group had been franchising for a median of 17 years and were spread across the retail and non retail sectors.

Across the board, franchise systems grew internally from a median on 21 to 22 units from 2001 to 2012. However, it appears that the *growth* in the sector is being produced by non-retail franchise systems which account for 58 percent of the sample. These systems grew internally from a median of 15 franchised units in 2009/2010 to 17 units in the following year. Conversely, retail systems declined in size from a median of 32 units to 28 units over the same period of time. These findings are consistent with current economic conditions which have impacted heavily on the retail sector.

Retail franchise systems are more likely to maintain some company units in their systems. The median number reported by retailers was two units compared with just one in non-retail systems. However, only a quarter of retail systems held no company units at all compared with 40 percent involved in non-retail industries.

As the issue of state based franchising regulation is currently on the political agenda we gathered data on the size of franchising in each state and territory and we will continue to track growth trends over time. Similar to population patterns[6] and the distribution of small

---

[6] Australian Bureau of Statistics Catalogue 3101.0 – *Australian Demographic Statistics*, December 2011

business[7] in Australia, most franchise units are located in the three largest states. New South Wales hosts approximately 27 percent of total units, followed by Victoria (25 percent) and Queensland (23 percent), with the smaller states and territories holding much lower proportions.

Only 5 percent of franchisors indicated that political issues had affected their current distribution of franchise units across the country. However, almost one third (31 percent) indicated that political factors would influence future distribution of units.

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

Franchised Units	Financial Year 2009/2010		Financial Year 2010/2011	
	Number of responses	Percent	Number of responses	Percent
0 to 10 franchised units	39	32.2	40	31.7
11 to 50 franchised units	49	40.5	50	39.7
51 to 100 franchised units	11	9.1	15	11.9
101 to 500 franchised units	19	15.7	17	13.5
More than 500 units	3	2.5	4	3.2
Total	**121**	**100.0**	**126**	**100.0**

Notes: 1) *All 126 respondents provided data.*
2) *The median number of franchised units was 19 across both years across the sample.*
3) *Retail systems had a median of 32 units in 2010, shrinking to 28 units in 2011.*
4) *Non-retail systems had a median of 15 units in 2010, increasing to 17 units in 2011.*
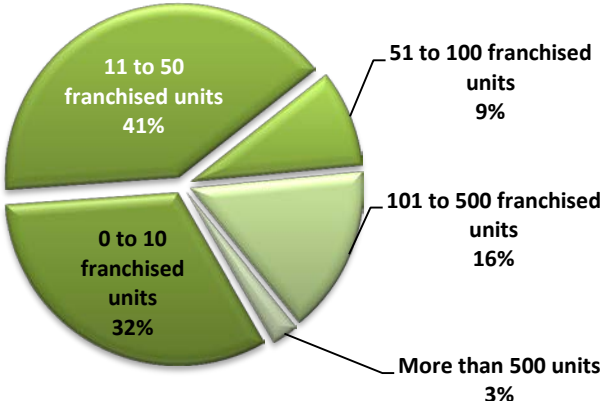3) *Responses ranged from 1 to 1150 franchised units.*

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

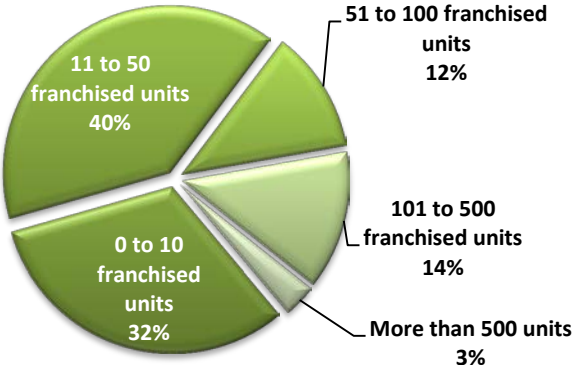| Company-owned Units	Financial Year 2009/2010		Financial Year 2010/2011	
	Number of responses	Percent	Number of responses	Percent
0 (zero) company-owned units	44	34.9	41	32.5
1 company-owned unit	26	20.6	29	23.0
2 to 5 company-owned units	33	26.2	36	28.6
More than 5 company-owned units	23	18.3	20	15.9
Total	**126**	**100.0**	**126**	**100.0**

Notes: 1) *All 126 respondents provided data.*
2) *The median number of company-owned units was 1 across both 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 456 company-owned units.*

---

[7] Australian Government (Department of Innovation Industry, Science & Research), *Key Statistics Australian Small Business*, 2011.
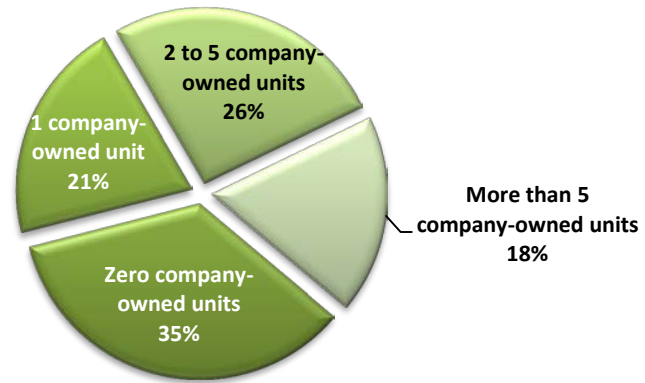
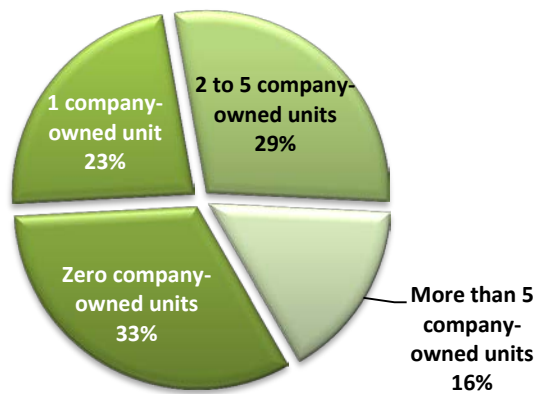## Franchised units 2009/2010 Financial year

- 11 to 50 franchised units 41%
- 51 to 100 franchised units 9%
- 101 to 500 franchised units 16%
- 0 to 10 franchised units 32%
- More than 500 units 3%

Franchised units 2010/2011 Financial year

- 11 to 50 franchised units 40%
- 51 to 100 franchised units 12%
- 101 to 500 franchised units 14%
- 0 to 10 franchised units 32%
- More than 500 units 3%

Company-owned units 2009/2010 Financial year

2 to 5 company-owned units 26%

1 company-owned unit 21%

More than 5 company-owned units 18%

Zero company-owned units 35%

Company-owned units 2010/2011 Financial year

1 company-owned unit 23%

2 to 5 company-owned units 29%

Zero company-owned units 33%

More than 5 company-owned units 16%

Total Units	Financial Year 2009/2010		Financial Year 2010/2011	
	Number of responses	Percent	Number of responses	Percent
Up to 10 total units	37	29.4	31	24.6
11 to 50 total units	50	39.7	57	45.2
51 to 100 total units	16	12.7	15	11.9
101 to 500 total units	20	15.9	19	15.1
More than 500 total units	3	2.4	4	3.2
Total	**126**	**100.0**	**126**	**100.0**

Notes: 1) *All 126 respondents provided data.*
2) *The median number of total units was 21 in 2009/2010 and 22 in 2010/2011.*
3) *Responses ranged from zero to 1130 total units.*

Total units 2009/2010 Financial year
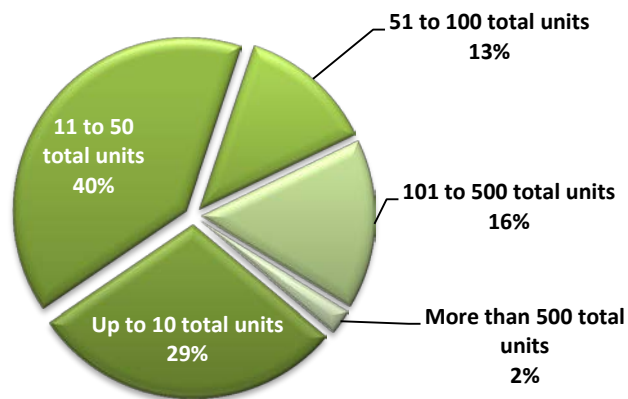
Total units 2010/2011 Financial year
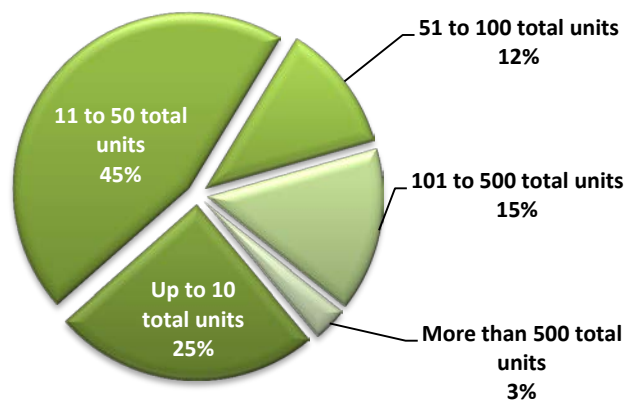
System size	Number	Percent
Small (Up to 20 total units)	58	46.0
Medium (21 to 50 total units)	30	23.8
Large (More than 50 total units)	38	30.2
Total	**126**	**100.0**

Notes: 1) All 126 respondents were able to be classified.

System size
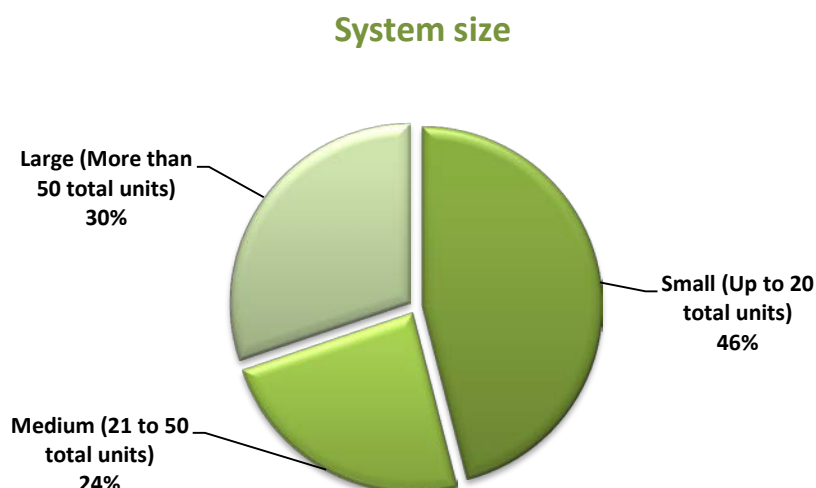
**A6 How many franchised units do you currently operate in each State?**

A7 How many company owned units do you currently operate in each State?

State	Franchised units		Company units		Total units	
	Proportion %	Total	Proportion %	Total	Proportion %	Sum
New South Wales	27	18 090	29	2 490	27	20 580
Victoria	25	16 750	26	2 240	25	18 990
Queensland	23	15 410	25	2 150	23	17 560
Western Australia	11	7 370	12	1 030	11	8 400
South Australia	9	6 030	4	340	8	6 370
Tasmania	2	1 340	1	90	2	1 430
ACT	2	1 340	2	170	2	1 510
Northern Territory	1	670	1	90	1	760
Total	**100**	**67 000**	**100**	**8 600**	**100**	**75 600**

Notes:
1)   Totals have been estimated across the population of franchisors to indicate the general pattern of distribution of units.
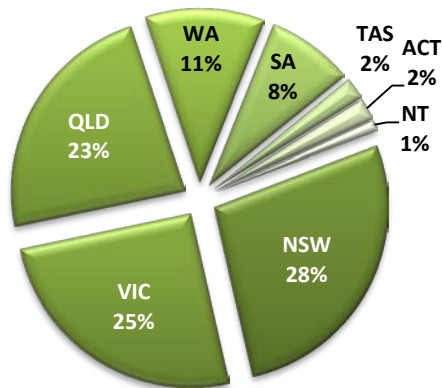*2)   A total of 105 out of 126 respondents provided data.*

Proportion of franchised units by state/territory
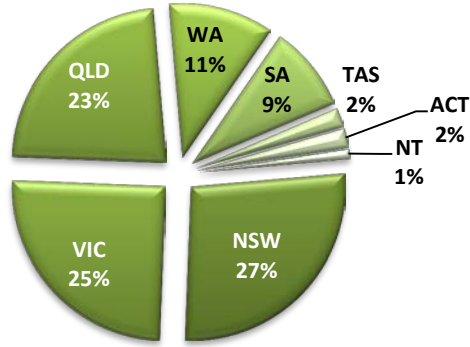
Proportion of company owned units by state/territory
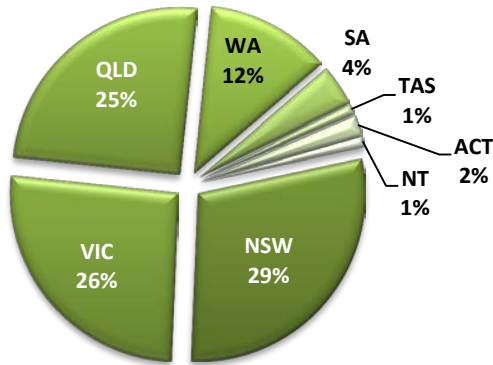

Proportion of total units by state/territory

A8 If your franchise units have expanded over the past 24 months, has your state-by-state distribution changed as a result of political factors?

Change in state-by-state distribution	Number	Percent
Yes	6	5.0
No	113	95.0
Total	**119**	**100.0**

Notes:
1) *A total of 119 franchisors provided a response.*

Influence of polictical factors on state/territory distribution

No
95%

Yes
5%
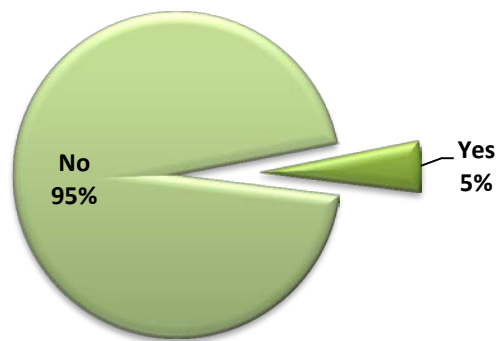
A9 If you are planning expansion over the next 24 months, will your state-by-state expansion plans be influenced by political factors?

State-by-state expansion plans	Number	Percent
Yes	39	31.0
No	87	69.0
Total	**126**	**100.0**

Notes:
   1) *All 126 franchisors provided a response.*

Influence of political factors on expansion plans
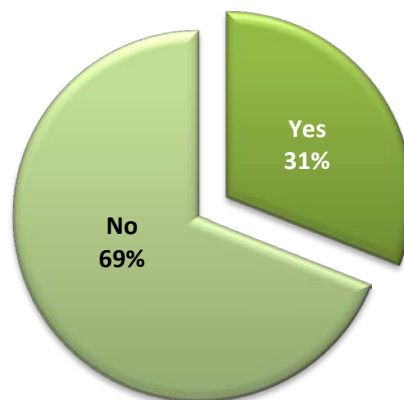
Sales turnover

The median total (franchised and company units) sales turnover across the sample was approximately $4.3 million in the 2009/2010 financial year, increasing to $4.8 million in 2010/2011. However, there are significant differences across industries. In line with nationwide economic trends, retail franchises experienced a decline in turnover from a median of $15.5 million in 2009/2010 to $14.8 million the following year. In contrast, non-retail franchises improved their average sales, reporting a median of $2 million and increasing to $2.3 million from 2009 to 2011.

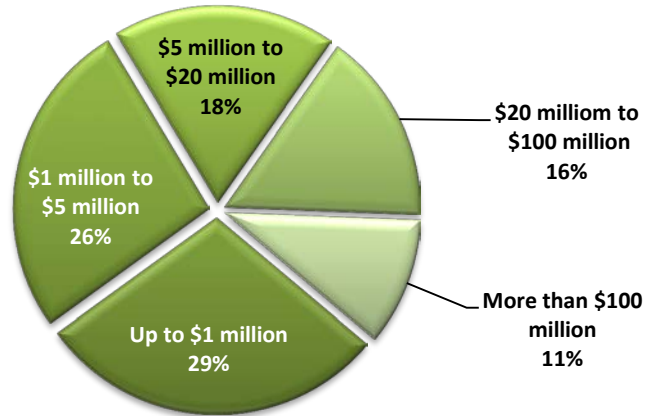**A10 What was the total system turnover ($) (ie annual sales) for all units in Australia?**

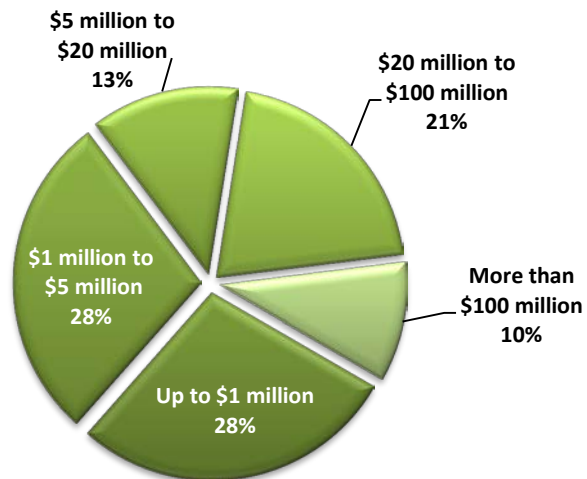| System turnover	Financial year 2009/2010		Financial year 2010/2011	
Up to $1 million	11	28.9	11	28.2
$1 million to $5 million	10	26.3	11	28.2
$5 million to $20 million	7	18.4	5	12.8
$20 million to $100 million	6	15.8	8	20.5
More than $100 million	4	10.5	4	10.3
Total	**38**	**100.0**	**39**	**100.0**

Notes:
1) *A total of 39 franchisors provided a response out of an expected 126.*
2) *Due to the low response for this question the results must be treated with caution.*

Total system turnover for 2009/2010 financial year

$5 million to $20 million
18%

$20 milliom to $100 million
16%

$1 million to $5 million
26%

More than $100 million
11%

Up to $1 million
29%

Total system turnover for 2010/2011 financial year

$5 million to $20 million
13%

$20 million to $100 million
21%

$1 million to $5 million
28%

More than $100 million
10%

Up to $1 million
28%

Employment

The Franchising Australia 2010 survey revealed a shift towards greater use of casual labour during the midst of the GFC and resultant economic downturn. However, the 2012 survey reports a return to a more normal distribution of labour across full time, part time and casual appointments. Almost 80 percent of franchisors may be classified as small businesses as they employed from zero to 20 people at head office.
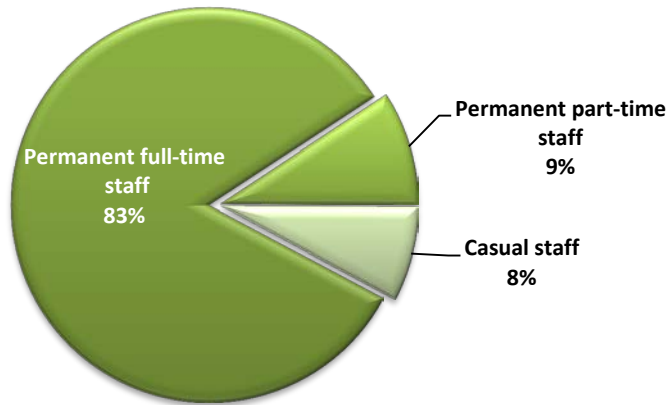
A11 How many staff are employed in your system?

Employees	Head office		Franchised units		Company units	
	Number of employees	Percent	Number of employees	Percent	Number of employees	Percent
Permanent full-time	2 413	83.0	19 674	34.5	933	33.6
Permanent part-time	269	9.3	15 532	27.2	933	33.6
Casual	224	7.7	21 862	38.3	910	32.8
Total	**2 906**	**100.0**	**57 068**	**100.0**	**2 776**	**100.0**

Notes:
  1) *Responses ranged from 88 to 123 franchisors out of an expected 126.*

Head office employees

- Permanent full-time staff 83%
- Permanent part-time staff 9%
- Casual staff 8%

Franchise unit employees

- Casual staff 38%
- Permanent full-time staff 35%
- Permanent part-time staff 27%

Company unit employees

- Casual staff 33%
- Permanent full-time staff 33%
- Permanent part-time staff 34%
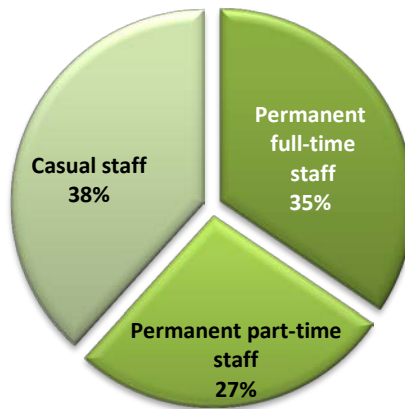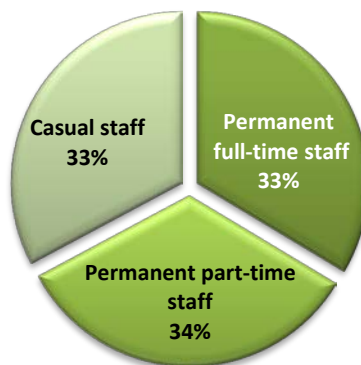
Slightly less than one third of franchisors (30 percent) employ *HR/IR staff* in the Head Office operations. These franchises tended to be large systems with more than 50 units.
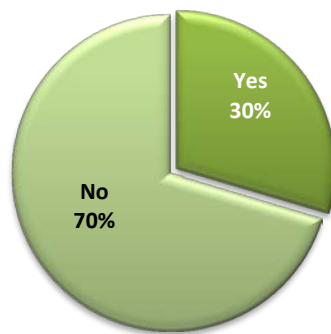
A12 Do you engage any HR/IR staff in your Head Office?

HR/IR staff in Head Office	Number	Percent
Yes	37	29.6
No	88	70.4
Total	**125**	**100.0**

Notes:
1)   A total of 125 franchisors provided a response out of an expected 126.

HR/IR staff in Head Office

Some 20 percent of franchisors have an *enterprise agreement* in place to govern wages and conditions of employees across the franchise network. Again, these tended to be large franchise systems holding more than 50 units.
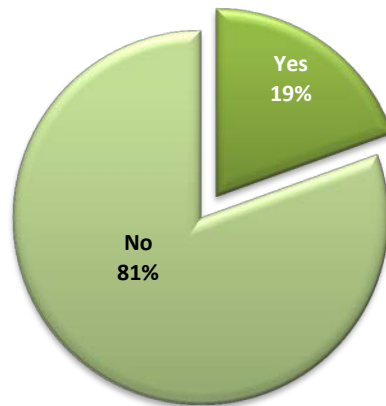
A13   Is there an enterprise agreement in place governing wages and conditions of employees across the franchise business?

Enterprise agreement	Number	Percent
Yes	24	19.5
No	99	80.5
Total	**123**	**100.0**

Notes:
1)   A total of 123 franchisors provided a response out of an expected 126.

Enterprise agreement

Franchisors indicated that they provide a range of support services to assist franchisees with HR/IR issues. The most common of these were provision of information in the operations manual (performed by 80 percent of franchisors), ongoing HR training and updates (72 percent), provision of advice about relevant pay rates (55 percent), provision of HR/IR policies, procedures and templates (53 percent), assistance with recruitment of franchisee staff (37 percent), facilitating access to external HR/IR services (34 percent), provision of internal checks or audits (29 percent), access to internal HR/IR personnel (21 percent), resolution of HR/IR disputes in franchisee units (18 percent) and provision of centralised payroll services (9 percent). Other support included less common forms of assistance such as provision of armed robbery training and HR induction services for franchisee staff. Some 10 percent of franchisors indicated that they provide no HR/IR support to their franchisees. In some cases such support was not relevant as their franchisees do not employ staff.

A14 What types of support do you provide franchisees in relation to employing staff and meeting minimum wages and conditions?

Support provided to franchisees	Number	Percent
Information in operations manual	101	80.2
Ongoing training and updates	91	72.2
Advice about relevant pay rates	69	54.8
Provision of HR/IR policies, procedures or templates	67	53.2
Recruitment of staff	46	36.5
Facilitating access to external HR/IR advice and support	43	34.1
Internal checks or audits	37	29.4
Access to internal HR/IR personnel	27	21.4
HR/IR dispute resolution	23	18.3
Centralised payroll services	11	8.7
Other support	17	13.5
Not applicable (no support provided)	13	10.3

Notes:
  1) *All 126 franchisors provided a response.*
  2) *Multiple responses were recorded for some respondents.*

Franchisee HR/IR support
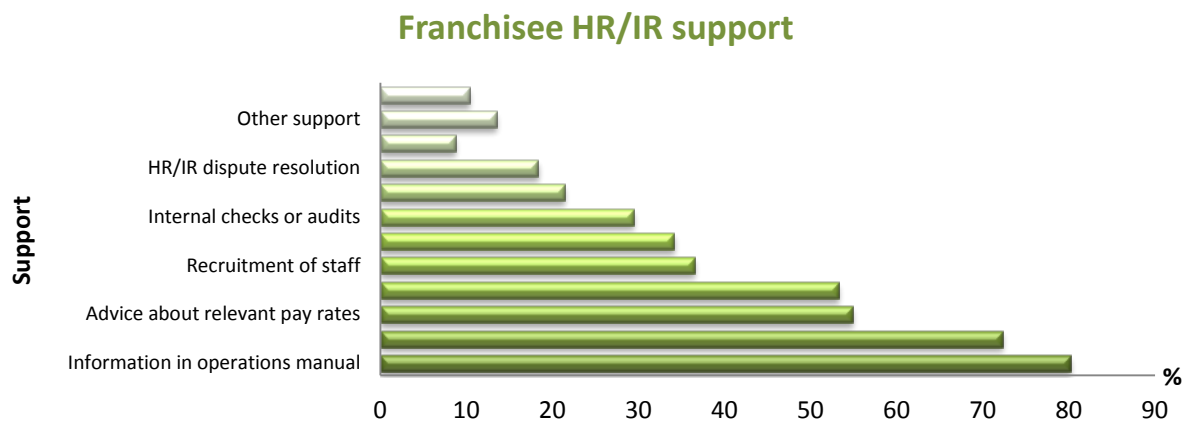
Challenges

The ability to recruit suitable franchisees remains the franchising sector's greatest challenge. Three quarters (77 percent) of franchisors nominated franchisee recruitment as hindering their expansion plans. Similarly, almost half (49 percent) indicated that access to franchisee finance was proving to be a challenge in system growth. Issues surrounding the franchising relationship are also proving to be challenging for franchisors. Some 47 percent noted that maintenance of system standards was an important issue and more than one third (35 percent) rated franchisee non compliance as a threat to their operations. Other challenges included the shortage of franchisor cash flow (30 percent), uncertainty in the regulatory environment (29 percent), industry competition (22 percent), online commerce (15 percent) and issues relating to landlords and leases (14 percent). Several franchisors also mentioned the current economic conditions as being a major threat to their systems.
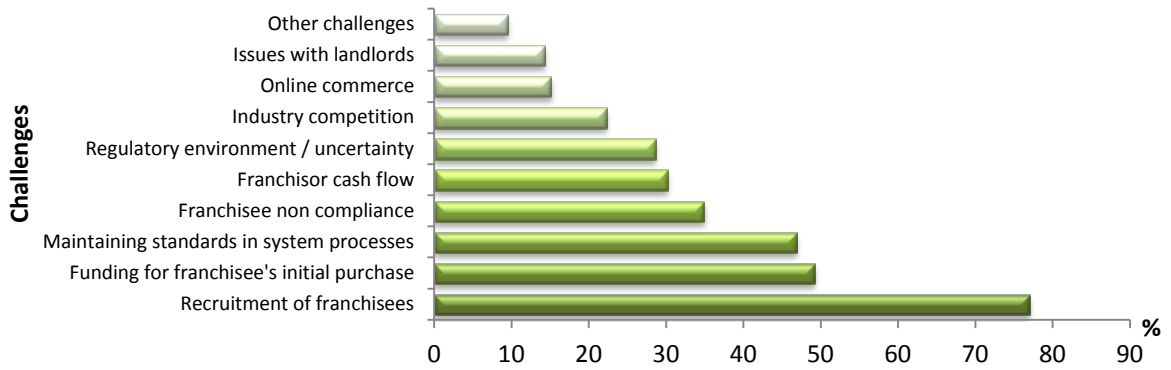
A15 What are your most significant ongoing challenges?

Significant challenges	Number	Percent
Recruitment of franchisees	97	77.0
Funding for franchisee's initial purchase	62	49.2
Maintaining standards in system processes	59	46.8
Franchisee non compliance	44	34.9
Franchisor cash flow	38	30.2
Regulatory environment / uncertainty	36	28.6
Industry competition	28	22.2
Online commerce	19	15.1
Issues with landlords	18	14.3
Other challenges	12	9.5

Notes:
1) *All 126 franchisors provided a response.*
2) *Multiple responses were recorded for some respondents.*

Franchise sector challenges

B Franchisees

Business Management

Almost all of the franchisor respondents (90 percent) favoured utilising internal training methods in building franchisee business management expertise, with 40 percent favouring the use of external training sources. However, just over a quarter of franchisors (26 percent) relied upon their assessment of a franchisee's business acumen during the franchisee selection process (for example, prospective franchisee's educational qualifications) often using selection criteria as a proxy for their likely business management ability. Less than one percent of respondents did not provide any assistance to franchisees in developing their business skills, suggesting that most franchisors understand the need to invest in developing their franchisees' business management skills to assist in unit-level performance management and in sustaining a beneficial franchising relationship. Other nominated sources of business management training included the use of internal and external reviews and audits, field visits from (predominantly financial) business administration trainers and online business coaching.

B1 In which ways do you assist building your franchisee's business management ability?

Business Management Ability	Number	Percent
Internal training	113	89.7
External training	50	39.7
Rely on initial selection criteria (such as educational qualifications)	33	26.2
Do not assist in this regard	4	0.3
Other	8	0.6

Notes:
1) *All 126 franchisors provided a response.*
2) *Multiple responses were recorded for some respondents.*

Business management assistance
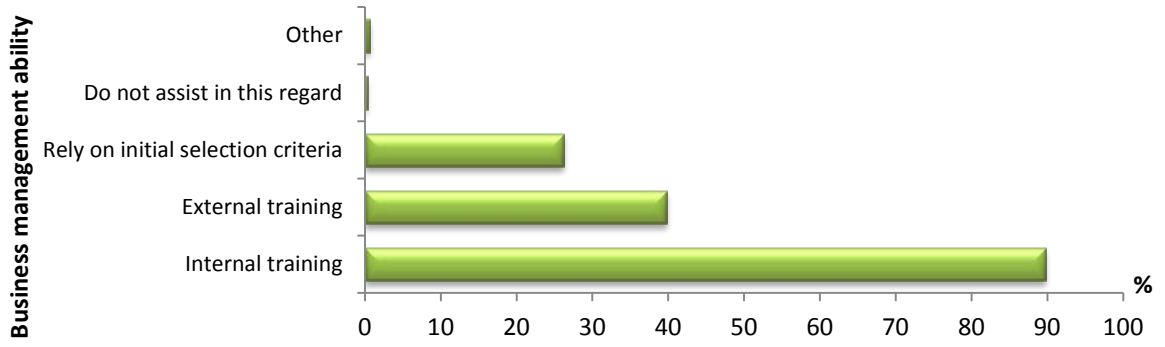
Franchisee life cycle

Consistent with 2010 survey results, the average length of time that a franchisee remains in the system is 7 years with the majority of franchisees spending between 6 and 10 years in their franchise system. No discernible differences were evident amongst industries. Given that the average term for franchise agreements is 5 years, there is clear evidence that franchisees are renewing their franchise agreement at least on one occasion.

B2 If you have been franchising for more than five years, what is the average length of time of time (years) that a franchise remains in the system?

Length of time in franchising (Years)	Number	Percent
Up to 5 years	33	34.5
6 to 10 years	52	54.0
More than 10 years	11	11.5
Total	**96**	**100.0**

Notes

1) *A total of 96 franchisors provided a response to this question from an expected 126.*
2) *The length of time ranged from less than 1 year to 20 years.*
3) *The median length of time that a franchisee remains in the system is 7 years.*

Franchisee life cycle

More than 10 years 12%

Up to 5 years 34%

6 to 10 years 54%
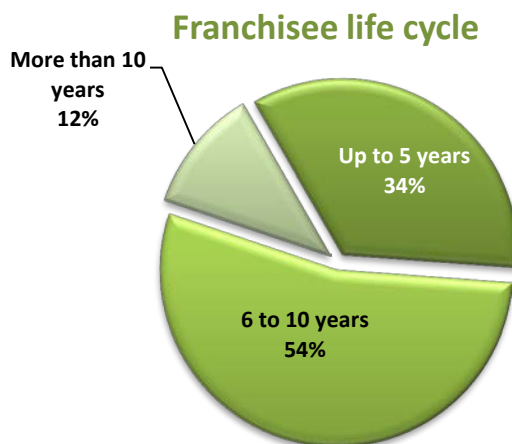
Franchisee profitability

Key facts

- 90 percent of franchisees are operating profitably.

In support of the success of the franchising business model, franchisor respondents reported that 90 percent of franchisees were operating profitably. Only marginal differences were reported between retail (87 percent) and non-retail (95 percent) franchises, and in terms of system size, with large systems reporting 95 percent of franchisees operating profitably, compared with small (90 percent) and medium-sized (80 percent). In the context of industry experience, all franchisees within emerging systems (6-10 years) were operating profitably, while 85 percent of franchisees in young systems (1-5 years) and 88 percent of franchisees within mature systems (7-10 years) were reported to be profitable operations.

B3 What proportion of your franchisees do you estimate are operating profitably (i.e. earning profits beyond employee and owner wages)?

Proportion of franchisees operating profitably	Number	Percent
0-25%	3	7.7
26-50%	6	15.4
51-75%	3	7.7
76-100%	27	69.2
Total	**39**	**100.0**

Notes:

1) *A total of 39 franchisors responded to this question from an expected 126.*
2) *The median percentage reported by franchisors was 90%.*
3) *The low response rate to this question (31%) should be noted and the results viewed with caution.*

Franchisee profitability

76-100% of franchisees 69%

0-25% of franchisees 8%

26-50% of franchisees 15%

51-75% of franchisees 8%
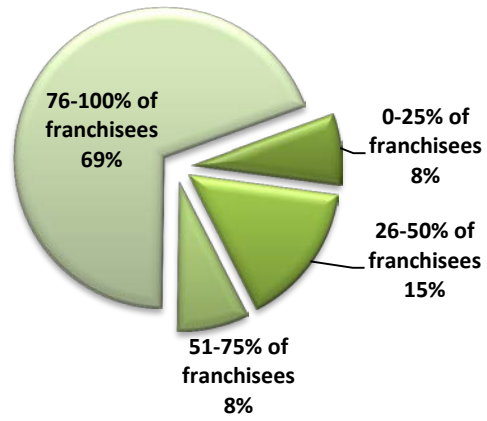
Prospective franchisees

Key facts

- Most franchisors rated the availability of prospective franchisees to be insufficient for their plans over the next 12 months.

Franchisors were asked to rate their assessment of the availability of prospective franchisee candidates over the coming year. Somewhat concerning, fully 48 percent of franchisors believed that the franchisee applicant pool would be insufficient for their growth plans over the next 12 months. This result may reflect current levels of economic uncertainty following the recent Global Financial Crisis (for example, difficulties in franchisees obtaining finance). Such negative sentiments were marginally higher in the retail industry, with 60 percent of franchisors predicting that the availability of prospective franchisees would be insufficient for plans, compared to 47 percent in non-retail systems. However, just under half of all franchisors rated the availability of prospective franchisee applicants as adequate for their plans (34 percent), more than adequate (8 percent) or excessively above requirements (1 percent). Only 4 percent of franchisors believed that no prospective applicants would be available over the next year.

B4 How do you rate the availability of prospective franchisees over the next 12 months?

Prospective franchisee availability	Number	Percent
None available	5	4.0
Insufficient for plans	60	48.0
Adequate for plans	42	33.6
More than adequate	10	8.0
Excessively above requirements	1	0.8
Not applicable – not actively recruiting franchisees	7	5.6
Total	**125**	**100.0**

Notes:
   1) *A total of 125 franchisors responded to this question from an expected 126.*

Availability of prospective franchisees over the next 12 months

Adequate for plans
34%

More than adequate
8%

Excessively above requirements
1%

Not actively recruiting franchisees
5%

Insufficient for plans
48%

None available
4%
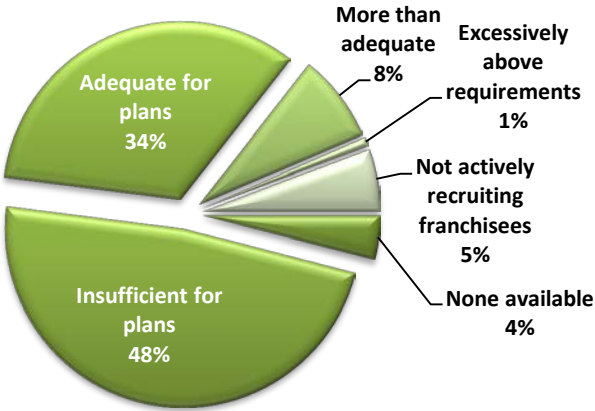
Franchisee recruitment

Key facts

- Franchisors spent a median of $20 000 on franchisee recruitment promotion.
- Many franchisors are focusing on non-traditional methods of marketing promotion.
- Median number of franchising enquiries was 40.
- New franchise sales and re-sales are improving.

In the 2010-2011 financial year, franchisors spent an average of $20 000 on advertising and marketing promotion to prospective franchisees, which represents a doubling of expenditure reported in the 2010 national survey. This result may be in response to increased difficulties in attracting suitable franchisee candidates or may reflect a concerted effort by franchisors to increase their promotional spending so as to gain competitive market share, given that many businesses are forced to reduce spending in periods of economic downturn. While no differences in retail and non-retail franchises were evident, levels of marketing expenditure varied considerably in relation to franchise system size, with smaller systems allocating an average of $12 000, medium systems spending an average of $20 000 and larger systems assigning an average of $75 000. Only 24 percent of respondents allocated less than $5 000 on these activities, which is considerably less than the 45 percent reported in the last national franchising survey. Approximately 12 percent of franchisors allocated in excess of $100 000 on promoting their business concepts, while a smaller percentage (8 percent) indicated that they did not allocate any funds in franchisee recruitment promotions.

Fully, 64 percent of franchisors reported changing their approaches to franchisee recruitment over the past two years. Overall, a majority of franchisors reported that they had re-focused their strategies regarding lead generation, applicant screening and selection processes. Many now favoured web-based promotion over traditional media (for example, television and print magazines) and were actively pursuing social media promotional activities (such as facebook and twitter). However, around one third of respondents indicated that they were currently utilising third-party specialist recruitment agencies to source prospective franchisee candidates, rather than administer franchisee recruitment issues 'in-house'. Other initiatives included the introduction of franchisee referral programs, multi-unit franchising incentives, direct sales approaches to conversion franchising, local area 'niche' marketing and greater involvement in industry trade events. However, approximately 10 percent of respondents indicated that they had ceased looking

for new franchisees over the past one to two years given current levels of economic uncertainty.

The median number of franchising enquiries received by franchisors in the 12 months ending 30th June, 2011, was 40. Whilst slight differences were evident in the retail (40 enquiries) and non-retail (44 enquiries) sectors, the number of franchising enquiries were fairly consistent across young (40 enquires), emerging (40 enquiries) and mature (43 enquiries) franchise systems. However, when considering franchise system size, noticeable differences are apparent. In particular, large systems attracted an average of 120 enquires, while medium sized franchises received an average of 66 enquiries and small systems and small systems obtained 24 enquiries. Only 3 percent of franchisors reported not receiving any enquiries during the period. However, when considering the number of franchise enquiries that progressed to the due diligence phase of the recruitment process, a majority (61 percent) of franchisors reported that they had been successful in progressing between 1 and 10 enquiries to the due diligence phase. However, 16 percent of franchisors revealed that they had not been able to progress any of their initial franchisee applications to the due diligence stages of the franchisee recruitment process.

The growth in new franchisee sales in the 2010-2011 financial year is showing signs of improvement from the 2010 national survey results. Franchisors reported an average of 7 new franchise sales and re-sales of 7 units. Some 61 percent of respondents indicated that they had granted between 1 and 5 new units, 8 percent reported sales of between 6 and 10 units, 6 percent had approved between 11 and 20 new franchise agreements, and 5 percent had granted 20 or more new franchises. A similar pattern was evident in the context of franchise re-sales, with 50 percent of franchisors reporting re-sales of between 1 and 5 units, 12 percent granting re-sales of between 6 and 10 units, 8 percent reporting re-sales of 11 to 20 units and 4 percent of franchisors indicating re-sales of 20 units or more. Significantly, around a quarter of all respondents revealed that they had no new franchise sales (20 percent) or re-sales (27 percent) in this period.

B5 What was your total marketing expenditure on franchisee recruitment in the 2010/11 financial year (excluding salaries)?

Franchisee recruitment expenditure	Number	Percent
$0 to $5 000	27	23.7
$5 001 to $20 000	32	28.1
$20 001 to $50 000	20	17.5
$50 001 to $100 000	21	18.4
More than $100 000	14	12.3
Total	**114**	**100.0**

Notes:

1) *A total of 114 respondents answered this question from an expected 126.*
2) *The median marketing expenditure was $20 000.*
3) *Marketing expenditure ranged from $0 to $1 200 000.*

## Marketing expenditure on franchisee recruitment for Financial year 2010/2011

More than $100 000
12%

$50 001 to $100 000
18%

$0 to $5 000
24%

$5 001 to $20000
28%

$20 001 to $50 000
18%
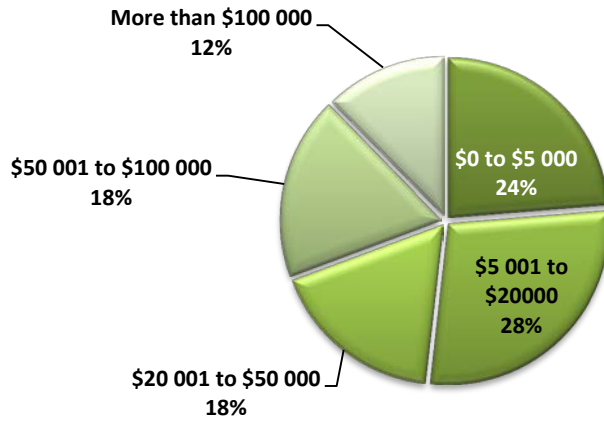
B6 Have you modified your approach to recruiting franchisees over the past two years?

Franchisee recruitment strategies	Number	Percent
Yes	81	64.3
No	45	35.7
Total	**126**	**100**

Notes:

1) *All 126 franchisor respondents answered this question.*

Modifications to franchisee recruitment over the past 2 years


No
36%

Yes
64%
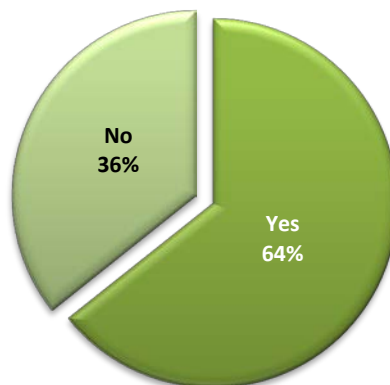
B7 How many franchise enquiries were received in the 12 months ending 30 June 2011?

Franchise enquiries received (12 months ending June 2011)	Number	Percent
No enquiries	3	2.5
1 to 10 enquiries	22	18.7
11 to 50 enquiries	41	34.7
51 to 150 enquiries	27	22.9
151 to 500 enquiries	14	11.9
More than 500 enquiries	11	9.3
Total	**118**	**100.0**

Notes:
  1) *A total of 118 franchisors responded to this question from an expected 126.*
  2) *The median response was 40 franchise enquiries.*
  3) *Responses ranged from zero to 3455.*

### Franchise enquiries for 12 months ending 30th June 2011
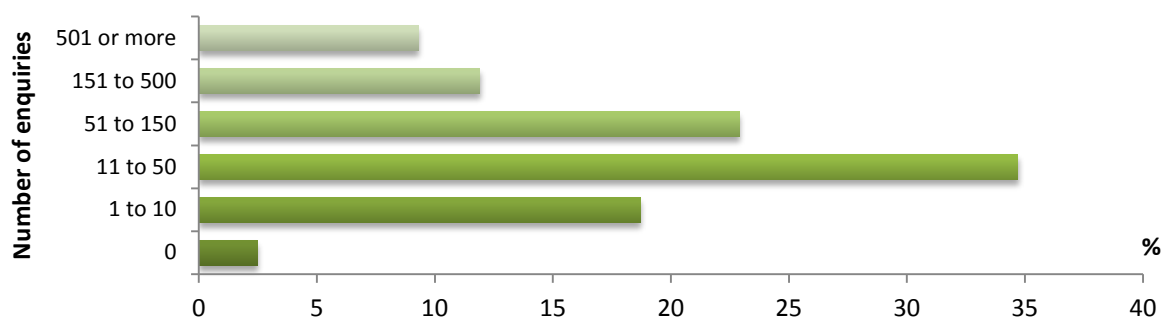
Franchise enquires received by franchise system size	Median number of enquiries
Small franchise systems	24
Medium franchise systems	66
Large franchise systems	120

Notes:
  1) *Franchise system size categorisation includes Small (up to 20 units), Medium (21-50 units) and Large (More than 50 units)*

Franchise enquires by system size

Franchise enquiries progressing to due diligence stage
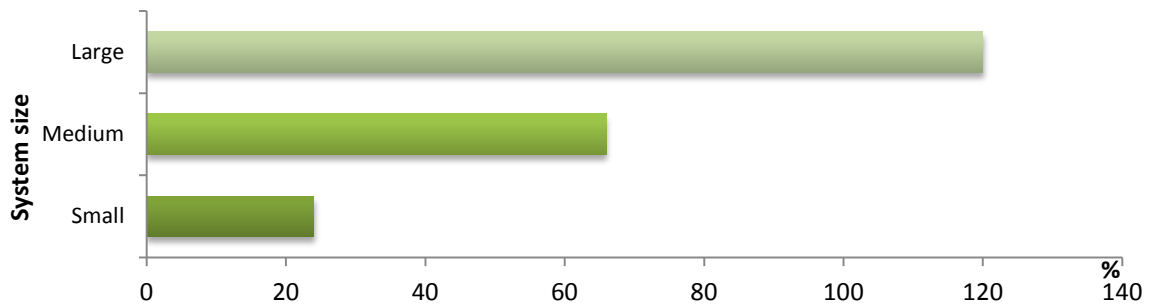
Franchising enquiries progressing to due diligence stage (12 months ending June 2011)	Number	Percent
No enquiries	18	15.8
1 to 10 enquiries	69	60.5
11 to 50 enquiries	18	15.8
51 to 150 enquiries	5	4.4
151 to 500 enquiries	3	2.6
More than 500 enquiries	1	0.9
Total	**114**	**100.0**

Notes:
1) *A total of 114 franchisors responded to this question from an expected 118.*
2) *The median response was 4.*
3) *Responses ranged from zero to 608.*

Franchise enquiries progressing to due diligence stage (12 months ending June 2011)
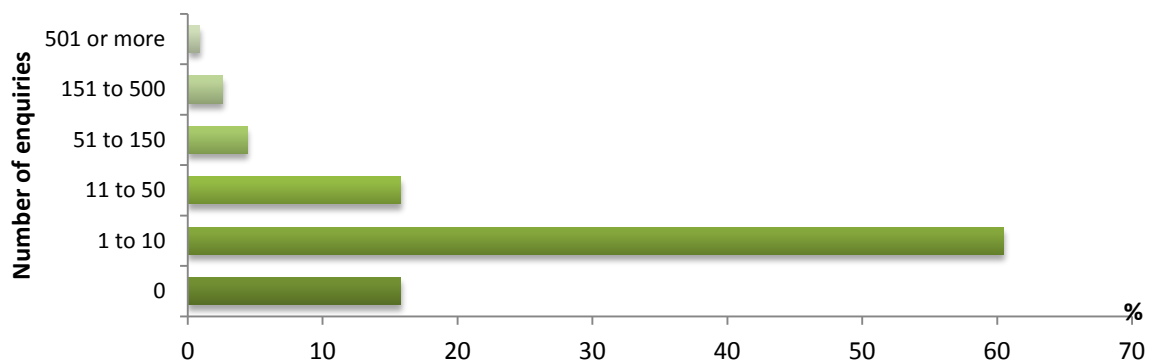
B8 How many franchises were granted in the financial year 2010/2011?

Financial year	Growth in franchise units (New Sales)		Growth in franchise units (Resales)	
	Number	Percent	Number	Percent
0 franchises	23	19.8	28	27.2
1 to 5 franchises	71	61.2	51	49.5
6 to 10 franchises	9	7.8	12	11.6
11 to 20 franchises	7	6.0	8	7.8
More than 20 franchises	6	5.2	4	3.9
Total	**116**	**100.0**	**103**	**100.0**

Notes:

  1) *A total of 116 respondents answered the question of new franchise sales from an expected 126.*
  2) *A total of 103 respondents answered the question of franchise unit re-sales from an expected 126.*
  3) *A median of 2 new franchises and 2 resales were granted.*
  4) *Responses ranged from zero to 125 new franchises and from zero to 272 resales.*
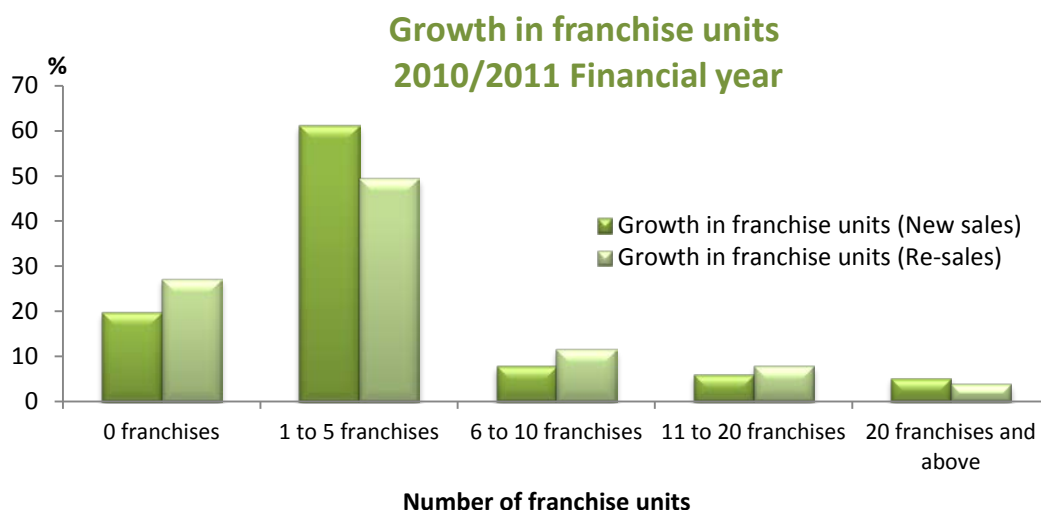
Franchising disputes

Only 3 percent of franchisors reported that they had been subject to a formal audit by the Australian Competition and Consumer Commission to ensure compliance with the Franchising Code of Conduct, suggesting that most franchisors have not engaged in any activities that have attracted the scrutiny of regulators.

Some 18 percent of franchisors were engaged in disputation with a franchisee over the past 12 months which represents a marginal reduction from the results of the 2010 franchising survey. From an industry perspective, disputes with franchisees were spread across a variety of industries including Manufacturing (50 percent), Transport, postal and warehousing (33 percent), Accommodation and food services (28 percent), Rental, hire and real estate services (25 percent), Financial and insurance services (25 percent), Arts and recreation (25 percent), Professional, Scientific and technical (20 percent), Construction (20 percent), Other services (16 percent), Retail trade (14 percent) and Administration and support services (8 percent). Inconsistent with 2010 results, larger (more than 50 units) and medium-sized (21 to 50 units) franchise systems were more likely to be involved in substantial disputation with franchisees than evident in smaller systems (1 to 20 units).

Franchisors were in dispute with between 1 and 2 franchisees, engaging in a dispute (on average) with 2 franchisees per system. A majority of the disputes were in the early stages of correspondence with a solicitor (66 percent) and mediation (10 percent), with 24 percent reaching a litigation stage. The current findings show no increase in litigation compared to the results reported in 2010. This may lend further validation to recent amendments to the Franchising Code of Conduct. Overall, and consistent with previous surveys, franchisor initiated actions remain only slightly higher than those initiated by franchisees.

Respondents reported that just under half of all disputes were attached to system compliance issues (46 percent), franchise fees (39 percent), territorial issues (31 percent), profitability (31 percent), misrepresentation issues (31 percent), communication difficulties (23 percent), marketing issues (15 percent) and issues concerning initial and/or ongoing

training (8 percent). Other causes of disputes nominated by respondents pertained to difficulties associated with shop fit-out costs, franchisee opportunistic behaviours (for example, extending product lines without consent of franchisor, purchasing inferior products that devalue the system brand) and the impact of a franchisee's personal issues on unit operations.

Although responses were low, some 71 percent of franchisors involved in mediation with a franchisee over the preceding 12 months indicated that the source of mediation was with the Office of the Franchise Mediation advisor (OFMA), with a further 7 percent reporting the Small Business Commission constituted the source of mediation.
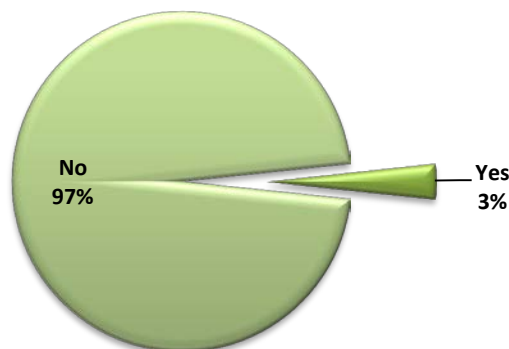
B9. In the past two years has your franchise system been subject to a formal audit for compliance with the Franchising Code of Conduct by the ACCC?

Franchising Code of Conduct audit	Number	Percent
Yes	4	3.3
No	118	96.7
Total	**122**	**100.0**

Notes:
   1) *A total of 122 respondents answered this question from an expected 126.*

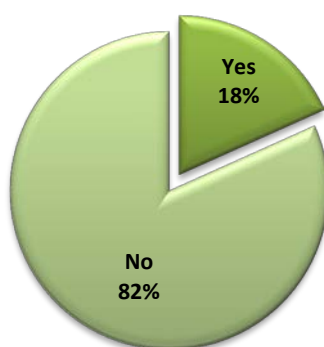### Formal audit for compliance by ACCC

B10. In the past 12 months, has your organisation been involved in any dispute with a franchisee that has been referred to an external advisor for action?

Disputes	Number	Percent
Yes	23	18.3
No	103	81.7
Total	**126**	**100.0**

Notes:
1) *All 126 respondents answered this question.*

Franchise disputes

**B11. 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	13	64	65.3	11	25	67.6
Mediation	8	10	10.2	4	4	10.8
Litigation	3	24	24.5	4	8	21.6
Total		**98**	**100.0**		**37**	**100.0**

Notes:
1) *A total of 21 franchisors provided a response from an expected 23.*
2) *Multiple responses were recorded for some respondents.*

Response (Action)	Total Disputes	
	Number of franchisees	**Percentage of franchisees**
Correspondence via solicitor	89	65.9
Mediation	14	10.4
Litigation	32	23.7
Total	**135**	**100.0**

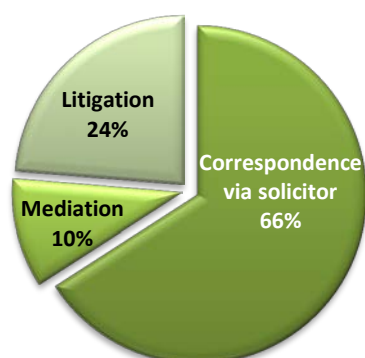## Disputes initiated by franchisor
Proportion of franchisees
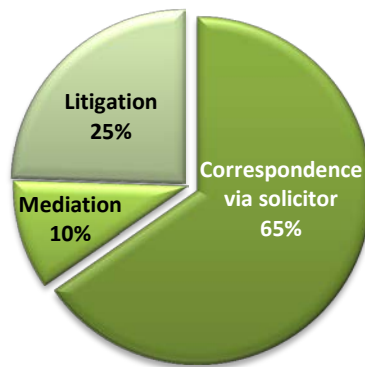
Disputes initiated by franchisees
Proportion of franchisees
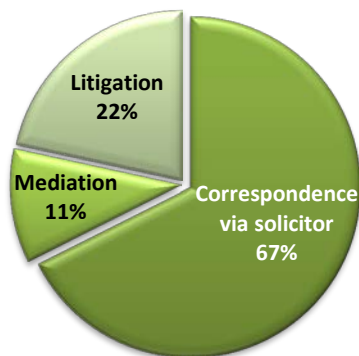
Total disputes
Proportion of franchisees

B12. What do you consider were the main causes of these disputes?

Causes of disputes	Number	Percent
Compliance with system	6	46.2
Fees	5	38.5
Territorial issues	4	30.8
Profitability	4	30.8
Misrepresentation issues	4	30.8
Communication problems	3	23.1
Marketing issues	2	15.4
Initial or ongoing training	1	7.7
Other causes of dispute	5	38.5

Notes:
  1) *A total of 13 franchisors provided a response from an expected 23.*
  2) *Multiple responses were recorded for some respondents.*

Causes of disputes
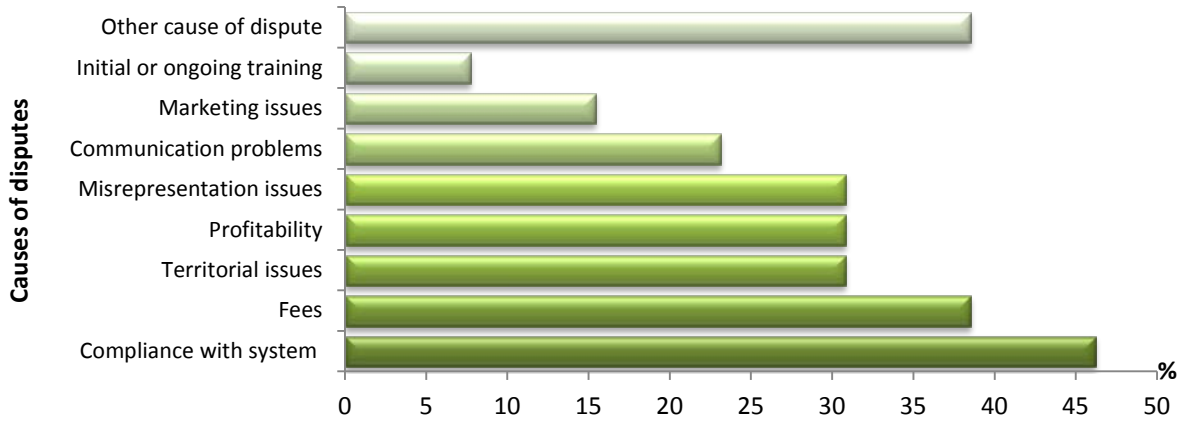
B13. If your franchise was involved in a mediation with a franchisee in the past 12 months, please indicate the source of the mediation.

Source of Mediation	Number	Percent
Office of the Franchise Mediation Advisor (OFMA)	10	71.4
Small Business Commission	1	7.1
Other source of mediation	3	21.4
Total	**14**	**100.0**

Notes:
   1)   A total of 14 respondents answered this question.

Sources of mediation
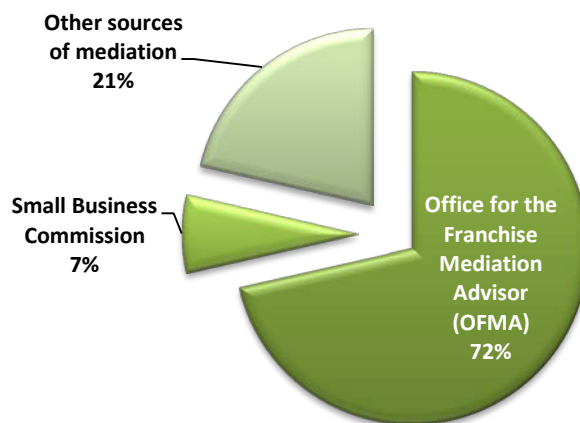
Franchising Code of Conduct Compliance

Key facts

- Over two thirds of franchisors utilise a Code of Conduct compliance program in their systems.
- Most franchisors now manage compliance programs externally.
- A majority of franchisors believed that cost of compliance will remain steady over the next financial year.

In this section, franchisors were asked a series of questions pertaining to their use of regulatory compliance programs in their franchise system. Fully 68 percent of franchisors reported that they utilised a Code of Conduct compliance program for their franchise recruitment and support personnel. As the major cause of substantial disputation in franchise systems centres upon issues of compliance, the high number of systems using such compliance programs may be indicative of the perceived value of these programs. Representing a significant departure from the last survey results, most franchisors now manage these compliance programs through enlisting the assistance of a third party law firm (58 percent), with only 37 percent managing processes internally. The remaining five percent used a combination of internal and external processes, which is endorsed in the regulation directives of the Franchising Code of Conduct compliance manual.

The results suggest that many more franchise systems have endorsed the use of a Code of Conduct compliance program over the past two years. Fully 83 percent of systems within the Administration and support services industry are practicing such a compliance program, 71 percent in Retail trade, 68 percent in Accommodation and food services, 63 percent in Other services and Retail, hire and real estate services, and 60 percent in Professional, scientific and technical services. Most systems practicing a Code of Conduct compliance program were either medium sized (20 to 50 units) or larger and more mature systems (more than 50 units).

While 10 percent of franchisors reported that there were no costs associated with complying with franchising regulatory requirements in the 2010-2011 financial year, other respondents indicated that it cost up to $5 000 (23 percent), between $5 001 and $10 000 (15 percent), from $10 001 and $25 000 (18 percent), between $25 001 and $50 000 (18 percent) or in excess of $50 000 annually. While most franchisors believed that costs of compliance would remain steady over the next financial year (56 percent), over a third of respondents expected these costs to rise (36 percent), with only 8 percent predicting that compliance expenses would reduce in the future.

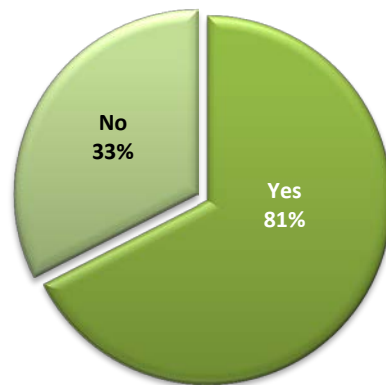**B14.** Do you have a Franchising Code of Conduct compliance program for your franchise recruitment and support personnel?

Franchising Code of Conduct compliance program	Number	Percent
Yes	85	67.5
No	41	32.5
Total	**126**	**100.0**

Notes:
   1)   *All 126 franchisor respondents answered this question.*

Franchising code of coduct compliance program

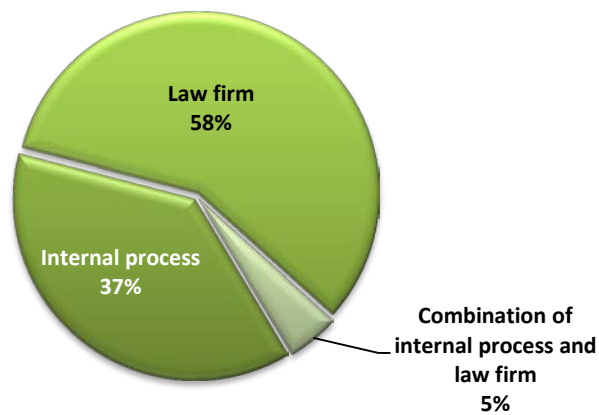**B15. Is compliance of the program managed by a law firm, internal process of some other process?**

Compliance management	Number	Percent
Internal processes	49	37.6
Law firm	32	57.6
Other	4	4.7
Total	**85**	**100.0**

Notes:
  1) *The expected total of 85 respondents provided a response to this question.*

Management of compliance program

B16. Please estimate the cost of compliance with franchising regulatory requirements for the financial year 2010/2011 (include direct and indirect costs such as legal fees and internal administrative costs).

Cost of compliance financial year 2010/2011	Number	Percent
$0	4	10.0
$1 to $5 000	9	22.5
$5 001 to $10 000	6	15.0
$10 001 to $25 000	7	17.5
$25 001 to $50 000	7	17.5
Over $50 000	7	17.5
Total	**40**	**100.0**

Notes:
1) *A total of 40 franchisors responded to this question from an expected 126.*
2) *The median response was $13 750.*
3) *Responses ranged from zero to $400 000.*

Cost of compliance for Financial year 2010/2011
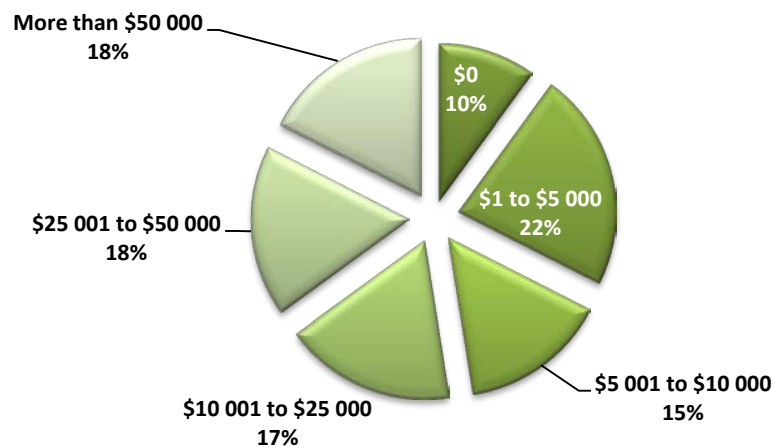
B17. Please indicate whether you expect these compliance costs to vary in the financial year 2011/2012.

Future compliance costs	Number	Percent
Expect compliance costs to remain steady	69	55.6
Expect compliance costs to rise	45	36.3
Expect compliance costs to reduce	10	8.1
Total	**124**	**100.0**

Notes:
  1) *A total of 124 franchisors answered this question from an expected 126.*

Expectations of compliance cost variations in financial year 2011/2012

Expect compliance costs to rise 36%

Expect compliance costs to reduce 8%

Expect compliance costs to remain steady 56%

Franchised Unit Changes

This section required franchisors to consult their disclosure documentation (Annexe 1 S6.4) and respond to questions associated with changes in unit ownership in their franchise systems. Based on the information obtained from the 2011 financial year, 9 percent of the total number of respondents' franchise units underwent some form of change in ownership. Accordingly, some 91 percent of franchise units did not exhibit any changes in ownership status.

Consistent with 2010 national survey results, some 4 percent of franchise units were transferred (sold) by franchisees, with approximately 2 percent of franchise units ceasing to operate and a further 3 percent of agreements being terminated, not renewed or re-purchased by franchisors. The most common reasons attributed to changes in unit ownership included unprofitable operations (24 percent), personal and family reasons (20 percent), the attainment of personal goals (19 percent), lack of suitability to the franchising business model (15 percent) and conflict with franchisors (5 percent).

B18. Please obtain data from your Disclosure Document to answer this question (Annexe 1 S6.4). For the last financial year, please state the number of franchise units involved in the following activities.

Franchise unit change	Number of franchisees affected	Percent	Percentage total of total (9 132) franchised units held
Franchise was transferred	350	41.0	3.8
Franchised business ceased to operate	209	24.5	2.3
Franchise was bought back by franchisor	81	9.6	0.9
Franchise agreement not renewed when expired	60	7.0	0.7
Franchise agreement terminated by franchisee	57	6.7	0.6
Franchise agreement terminated by franchisor	53	6.2	0.6
Franchise business acquired by franchisor	43	5.0	0.5
Total	**853**	**100.0**	**9.4**

Notes:
1) *A total of 124 franchisors answered this question from an expected 126.*
2) *Multiple responses were recorded for some respondents.*

Franchise unit changes
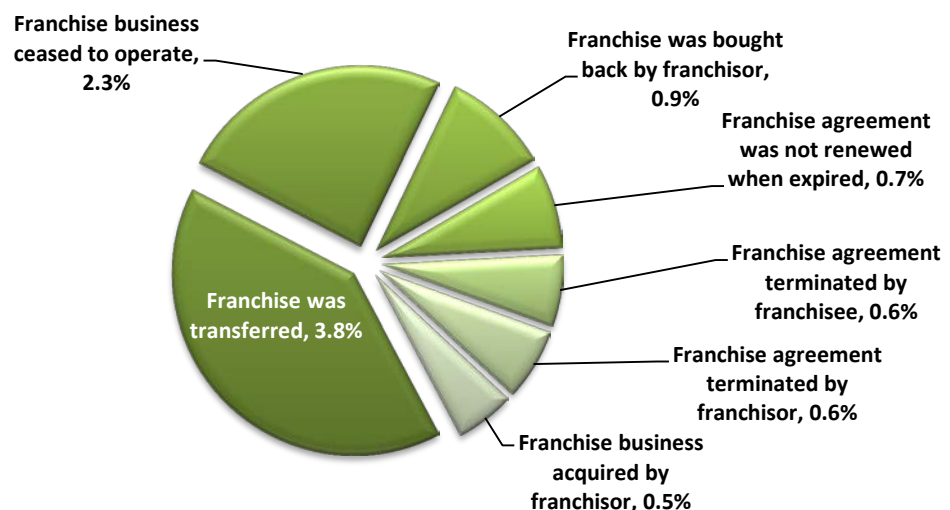
B19. What percentage (%) of units from the previous question are due to the following issues?

Future compliance costs	Percentage of franchisees
Unprofitable operations	24.1
Personal/family reasons	20.3
Franchisee attained personal goals	18.6
Lack of suitability to franchising	14.8
Conflict with franchisor	4.5
Other reason	17.7
Total	**100.0**

Notes:

1) *A total of 123 franchisors answered this question from an expected 126.*

Reasons for unit changes
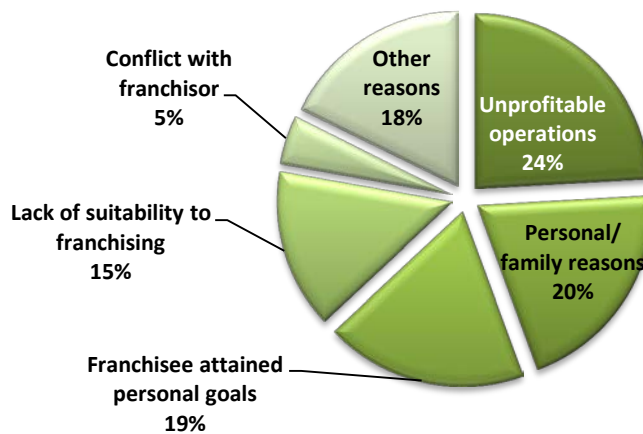
C   Franchise Operations

Franchise Advisory Councils

There is growing support of the relational advantages of Franchise Advisory Councils (FACs) with almost 48 percent of franchise systems utilising a FAC within their franchise network. Dissimilar to the 2010 national survey, franchisors utilising FACs in their systems had a range of franchising experience. Almost 30 percent of franchise systems adopting a FAC had been engaged in franchising for less than five years. However, it is evident that as franchise systems grow or become geographically dispersed, the need for franchisor-franchisee collaboration is viewed as more important. Not surprisingly, those systems which had a FAC also adopted a Franchising Code of Conduct compliance program (70 percent) emphasising the importance of integrating structure, systems and processes to strengthen both the brand and the franchisor-franchisee relationship. Industries where FACs were most dominant were retail trade (23 percent), accommodation and food services (18 percent) and administration and support services (12 percent).

C1   Do you have a Franchise Advisory Council or similar?

Franchise Advisory Council	Number of responses	Percent
Yes	60	47.6
No	66	52.4
Total	**126**	**100.0**

Notes:
   3)   All 126 franchisors provided a response.

Franchise advisory council
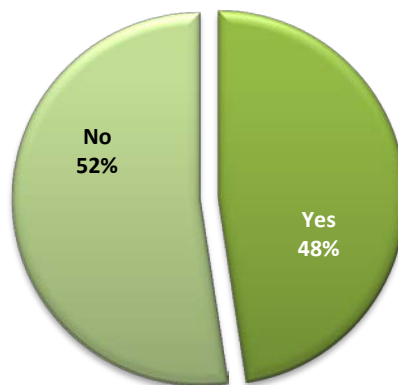
Franchisor online communication and sales strategies

<div style="background-color: #c9d79e; padding: 10px;">

Key facts

- The majority of franchisors (94 percent) use social media.
- Facebook is the preferred social media tool used to communicate with franchisees and/or customers.
- Almost 40 percent of franchisees engage in online sales to sell products/services.
- The majority of online sales contribute less than 5 percent of total sales for the system.

</div>

In this section, franchisors were asked a series of questions regarding the inclusion and use of online marketing communication and sales strategies.

Online marketing and, in particular, the integration of social media communication tools are increasingly transforming the franchise sector as they are viewed as a more financially sustainable marketing avenue to reach both consumers and prospective franchisees than traditional marketing methods[8].

Fully 94 percent of franchisors indicated they used some form of social media. This is an extraordinary level of uptake as only 10 percent of small businesses and 18 percent of medium businesses use social media for business purposes.[9] *Facebook* was by far the most popular type of social media chosen by franchisors to communicate with franchisees and customers. Some 64 percent of franchisors are using Facebook for this purpose. A further 59 percent of franchisors utilise an *intranet* to interact with their franchisees. Intranets are recognised as a growing trend integrated within franchise systems as they do promote information sharing between franchisees through bulletin boards, promotional activities, forums and are found to increase franchisee productivity, creativity and efficiency. Some 40 percent of franchisors indicated they use *Twitter* and 27 percent use *Linked in* to communicate with franchisees and customers. In contrast, posting or responding to *franchising blogs* received a mere 14 percent of use among surveyed franchisors.

---

[8] Traffika Digital Marketing (2011). *Franchising on Social Media: Snapshot Report*.

[9] Australian Government (Department of Innovation Industry, Science & Research) (2011). *Key Statistics: Australian Small Business.*

C2   Do you use any of the following social media in communicating with franchisees and/or customers?

Social media communication	Number	Percent
Facebook	80	63.5
Franchisee intranet	74	58.7
Twitter	49	38.9
Linked in	34	27.0
Posting or responding to franchising blogs	18	14.3
Other	18	14.3

Notes:
1) *All 126 franchisors provided a response.*
2) *Multiple responses were recorded for some respondents.*
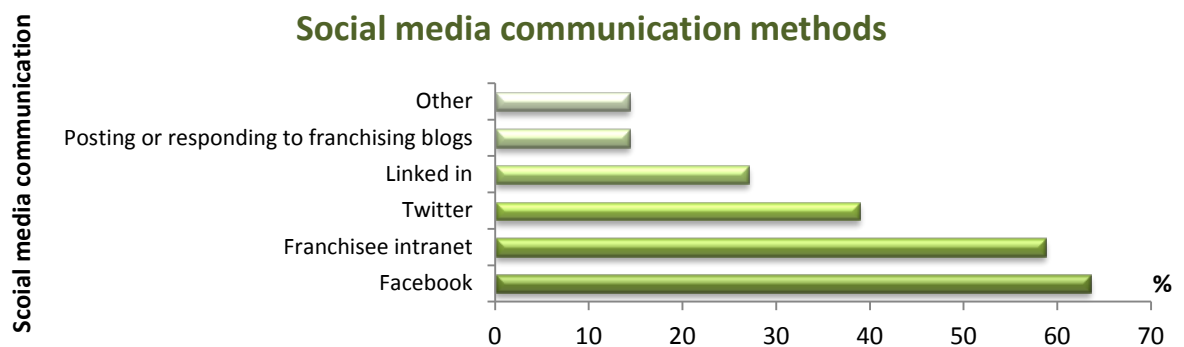
Almost 40 percent of franchisors engage in online sales with an additional 32 percent reporting that, whilst they do not currently sell online, they have future intentions to do so. (Industry statistics indicate that even if customers are not directly purchasing online, 8 out of 10 are using the internet to research purchases[10], further suggesting the importance of integrating sources for online communication exchange.) For those franchise systems that engage in online sales, almost half (49 percent) had been doing so for between 1 and 5 years, followed by a further 32 percent of systems that had been doing so for between 6 and 10 years. Most systems preferred to establish a strong and viable physical presence before opting for an online presence.

Although it is evident that online selling is gaining momentum among franchise systems, most franchisors are concerned with the *impact* of online selling to individual franchisees in this new landscape. However, the majority of the franchise systems surveyed reported that franchisees do benefit from online sales either because they are paid directly by customers

---

[10] Traffika Digital Marketing (2011). *Franchising on Social Media: Snapshot Report*.

(32 percent) or because profits are retained by franchisees (21 percent). In addition, some systems distribute the revenue according to franchisee territory (17 percent). Only nine percent of franchisors indicated that they retain all the profits themselves. A minority (4 percent) of franchise systems opt to allocate all online sales revenue to the marketing fund of the franchise network.

Interestingly, almost two thirds of franchisors (64 percent) reported that online sales contributed to less than 5 percent of their *overall* sales. This may explain why the large majority of franchisors (96 percent) are generally *satisfied* with the applied online sales model as the small overall percentage of revenue generated through online sales is unlikely to negatively impact franchisees or franchisor royalties. Only 4 percent of franchisors felt that the current model employed to generate online sales was unsatisfactory. The level of online sales activity reported by franchisors is commensurate with all sectors of the economy where domestic online retail sales account for only three percent of total sales.[11]

Franchisors were asked about the degree of involvement their franchisees had in development of the online sales model. Some 44 percent of franchisors reported that franchisees had no input into the online sales model whilst 21 percent reported that franchisees were fully involved in the development of the model. The remaining 35 percent of franchisors reported that franchisees had at minimum some level of involvement in the development of the online sales model. Irrespective, fully 41 percent of franchisors responded that the introduction of an online sales presence had a positive effect on the franchisor-franchisee relationship. However, a further 53 percent indicated that it did not affect the relationship at all. Only 6 percent of franchisors reported a negative influence on the franchisor-franchisee relationship.

C3   Does your franchise engage in online sales (either products or services)?

Online Sales	Number	Percent
Yes	50	39.7
No	76	60.3
Total	**126**	**100.0**

Notes:
1) *All 126 franchisors provided a response.*

---

[11] Australian Government (Department of Innovation Industry, Science & Research) (2011). *Key Statistics: Australian Small Business.*

Online sales
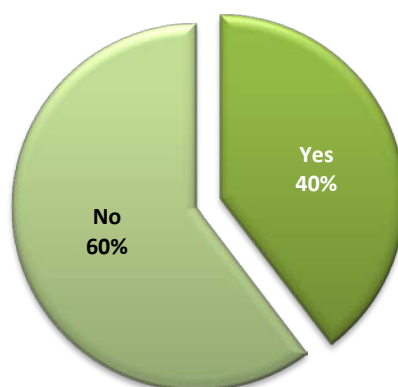
C4   Do you have plans to sell your products and/or services online in the future?

Online Sales - Future	Number	Percent
Yes	24	31.6
No	38	50.0
Not applicable	12	15.8
Unsure	2	2.6
Total	**76**	**100.0**

Notes:
    1)   *A total of 76 franchisors provided a response from an expected 126.*

C5   For how long have you been selling products or services online?

Online Sales - Time	Number	Percent
Less than 1 year	4	9.8
1 to 5 years	20	48.7
6 to 10 years	13	31.9
11 to 15 years	3	7.2
More than 15 years	1	2.4
Total	**41**	**100.0**

Notes:
    1)   *The average length of time franchise systems have been selling products or services online is 5 years.*
    2)   *A total of 41 respondents provided a response from an expected 50.*

Plans to sell online in future

- Unsure 2%
- Not applicable 16%
- Yes 32%
- No 50%
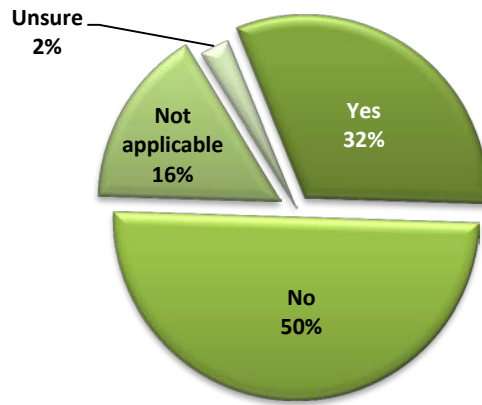
Duration of selling products/services online

- Less than 1 year 10%
- More than 15 years 2%
- 11 to 15 years 7%
- 1 to 5 years 49%
- 6 to 10 years 32%

C6   How is the revenue from online sales distributed in your franchise network?

Online revenue - distribution	Number	Percent
Customer pays franchisees direct	15	31.9
Franchisees retains all profit	10	21.3
Profits paid as commission or full margin to franchisees by territory	8	17.0
Franchisor retains all profit	4	8.5
Profits returned to marketing fund	2	4.3
Online channel sells different type of product	1	2.1
Order online- pick up in store	1	2.1
Gift voucher redemption	1	2.1
Other	5	10.6
Total	**47**	**100.0**

Notes:
1) *A total of 47 franchisors provided a response from an expected 50.*

Online revenue distribution

Order online - pick up in store
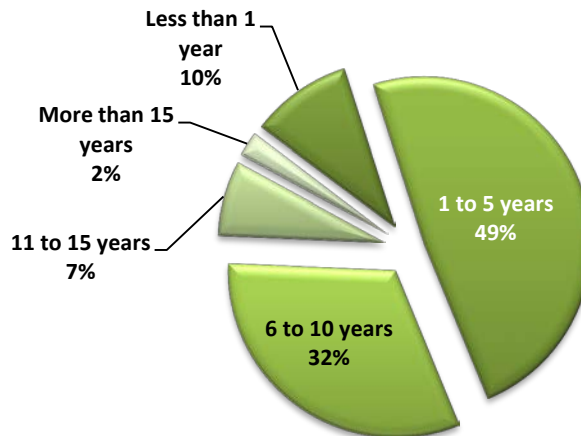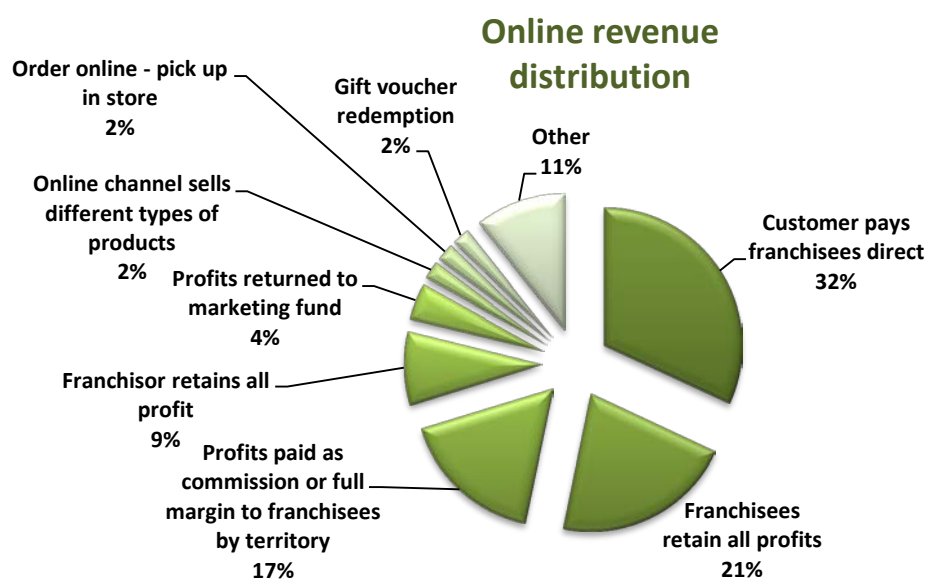2%

Gift voucher redemption
2%

Other
11%

Customer pays franchisees direct
32%

Online channel sells different types of products
2%

Profits returned to marketing fund
4%

Franchisor retains all profit
9%

Profits paid as commission or full margin to franchisees by territory
17%

Franchisees retain all profits
21%

C7   What percentage of sales in the franchise network comes from online sales?

Online Sales - Time	Number	Percent
Up to 5 percent	7	63.7
6 to 25 percent	1	9.1
26 to 50 percent	1	9.1
Above 50 percent	2	18.2
Total	11	100.0

Notes:
  1)   A total of 11 franchisors provided a response from an expected 50.
  2)   The median percentage of total sales derived from online sales was 5 percent.

Percentage of system sales from online transactions
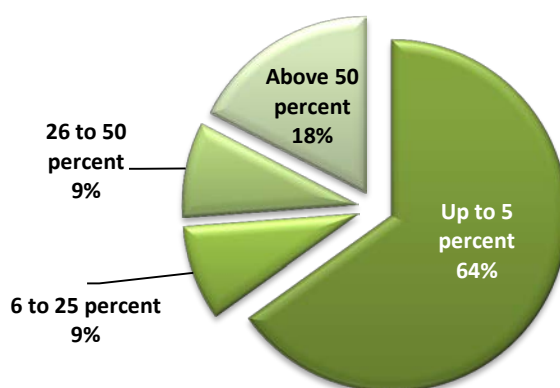
C8   How satisfactory is your model for distributing revenue generated from online sales among your franchise network?

Online Sales – Franchise Model	Number	Percent
Very Satisfactory	23	47.9
Somewhat Satisfactory	14	29.2
Satisfactory	9	18.8
Unsatisfactory	0	0.0
Very Unsatisfactory	2	4.2
Total	48	100.0

Notes:
  1)   A total of 48 franchisors provided a response from an expected 50.

Satisfaction with online sales distribution arrangements
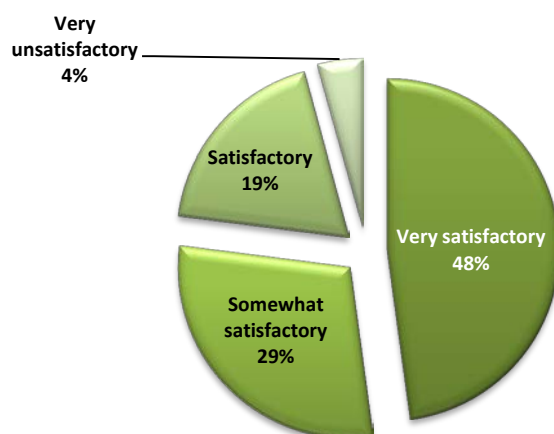
C9 To what degree were your franchisees involved in the development of this model?

Online Sales – Involved in development of Model	Number	Percent
Not at all	21	43.8
Slightly involved	7	14.6
Moderately involved	7	14.6
Very involved	3	6.3
Fully involved	10	20.8
Total	**48**	**100.0**

Notes:
1) *A total of 48 franchiors provided a response from an expected 50.*

C10 How did the launch of online sales affect the relationships with franchisees?

Online Sales – Relationships	Number	Percent
Did not affect the relationship	26	53.1
Positively affected the relationship	20	40.8
Negatively affected the relationship	3	6.1
Total	**49**	**100.0**

Notes:
1) *A total of 49 franchisors provided a response from an expected 50.*

Franchisee involvement in development of online revenue model

- Fully involved 21%
- Very involved 6%
- Moderately involved 15%
- Slightly involved 14%
- Not at all 44%
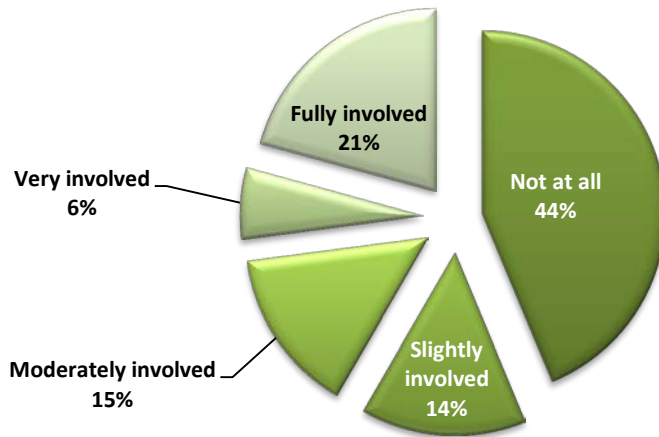
Impact of online sales on franchisor-franchisee relationship
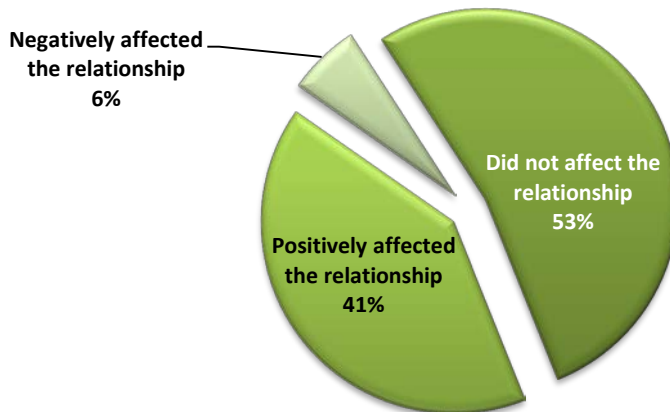
- Negatively affected the relationship 6%
- Positively affected the relationship 41%
- Did not affect the relationship 53%

Franchising strategies

Consistent with the results reported in the last four national surveys (2004 to 2010), many franchise systems continued to utilise highly sophisticated approaches to stimulate growth in their franchise networks. Exclusive territories continue to be the most preferred operational strategy adopted by 56 percent of franchise systems. Other commonly used strategies were conversion franchising (26 percent), area development agreements (15 percent) and acquisition or mergers with other franchise systems (12 percent). Multiple franchise systems (11 percent), co-branding retailing (7 percent) and multiple franchise concepts (6 percent) continue to be less common strategies employed by franchise systems for growth.

C11   Do you use any of the following methods?

Franchise strategies	Number	Percent
Exclusive territories	70	55.6
Conversion franchising	33	26.2
Area development agreements	19	15.1
Acquisition or merger with other systems	15	11.9
Multiple franchise systems	14	11.1
Co-branding retailing	9	7.1
Multiple franchise concepts	7	5.6
Other	6	4.8

Notes:
   1)   Multiple responses were recorded for some respondents.

Franchise growth strategies

Chart showing Franchise growth strategies (Franchising strategies) by percentage:

- Other: ~5%
- Muliple franchise concepts: ~5%
- Co-branded retailing: ~7%
- Mulitple franchise systems: ~11%
- Acquisition or merger with other systems: ~12%
- Area development agreements: ~15%
- Conversion franchising: ~26%
- Exclusive territories: ~55%
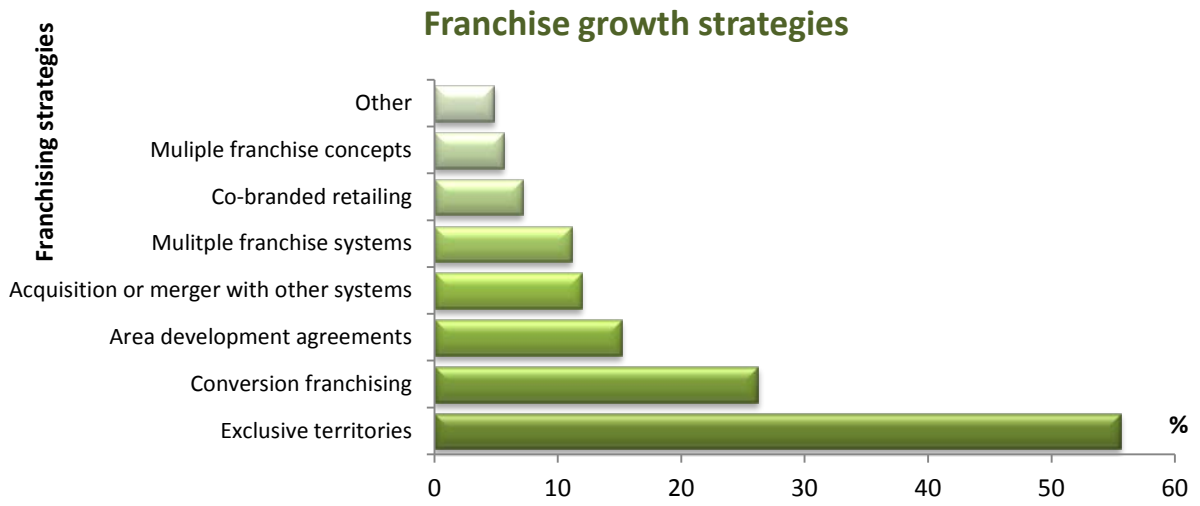
Multiple-unit franchising

Key facts

- Two thirds of franchisors have multiple-unit franchisees.
- Multiple-unit franchising is more frequently used within retail systems.
- Master franchising is used by one third of franchisors.

Multiple-unit franchising continues to be widely used and encouraged throughout many franchise systems. It was found that 64 percent of franchise systems incorporated multiple-unit franchising in their networks. The number of multiple-unit operators in franchise systems was reported as being between 1 and 108; however, on average franchisors held only two multiple-unit holders in their system. In most cases, franchise systems maintained fewer than five multiple-unit owners in their systems (44 percent). The data indicates that although there continues to be growth in multiple-unit ownership, generally only a small number are present within each system. The majority of multiple-unit ownership exists in retail trade and accommodation and food services industries.

Considered a variant of multiple-unit franchising, master franchising was evident in almost one third of franchise systems (32 percent). Half of franchise systems adopting a master franchise strategy had been operating for a decade or less. Most franchise systems utilising master franchising arrangements were large systems holding more than 50 units.

C12   Do any of your franchisees operate more than one unit in your system?

Multiple-unit franchisees	Number	Percent
Yes	79	63.7
No	45	36.3
Total	**124**	**100.0**

Notes:
  1) *A total of 124 franchisors provided a response from an expected 126.*

Muliple unit franchising
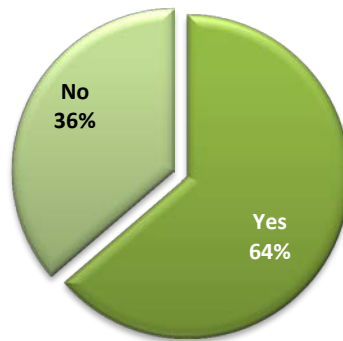
C13   How many of your current franchisees are multiple unit operators?

Multiple-unit franchisees	Number	Percent
Zero	30	27.3
1 to 5 franchisees	48	43.7
6 to 10 franchisees	12	10.8
11-20 franchisees	12	10.8
More than 20 franchisees	8	7.4
Total	**110**	**100.0**

Notes:
1) *A total of 110 franchisors provided a response from an expected 126.*
2) *On average franchise systems hold 2 multiple-unit owners.*

Number of mulitple unit franchisees
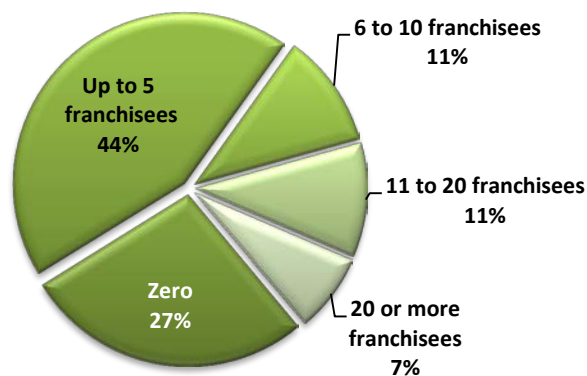
C14   Do you use master franchising arrangements in Australia?

Master franchising	Number	Percent
Yes	40	32.0
No	85	68.0
Total	**125**	**100.0**

Notes:
   1) *A total of 125 franchisors provided a response from an expected 126.*

Master franchising
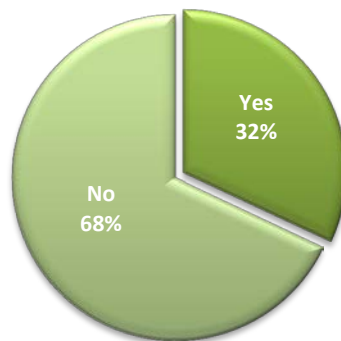
International franchising

<div style="background-color: #d9e5c3;">

Key facts

- 92 percent of franchise systems are Australian based.
- 28 percent of franchises are operating overseas.
- Most franchise systems expanding overseas are from the retail trade sector.

</div>

Comparable to previous survey results, 92 percent of the franchise systems surveyed reported that they were Australian-based operations. This finding confirms that the majority of franchises are Australian home-grown systems rather than overseas imports. Of the smaller number of non-Australian based franchises operating in the local market, 70 percent reported that they possessed expansion rights outside of Australia. Of those franchise systems which reported that they had the capability to franchise their business concepts to international markets, 28 percent confirmed that they were currently operating overseas.

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 (36 percent) and accommodation and food services (26 percent) industries. International operators were mature and experienced systems. They had been franchising for a median of 16 years and held a median of 57 units in Australia.

C15   Are you an Australian based franchisor?

Franchise origin	Number	Percent
Yes	116	92.1
No	10	7.9
Total	**126**	**100.0**

Notes:
  1) *All 126 franchisors provided a response.*

Australian based franchisors

C16   Do you have expansion rights outside Australia?

Expansion rights	Number	Percent
Yes	7	70.0
No	3	30.0
Total	**10**	**100.0**

Notes:
   1)   The expected number of 10 franchisors provided a response.

International expansion rights
Non-Australian based franchisors
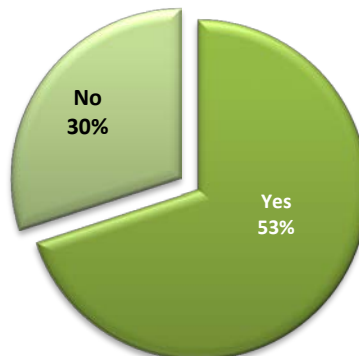
C17   Are you currently franchising overseas?

International franchising	Number	Percent
Yes	31	27.9
No	80	72.1
Total	**111**	**100.0**

Notes:
  1) *A total of 111 franchisors provided a response from an expected 123.*

Franchising overseas

D Franchise Environment

Environmentally sustainable practices

Key facts

- Approximately half of the franchisors reported increases in sales turnover, gross sales/revenue margins and profitability over the past 12 months.
- Prevailing economic conditions have impacted investment in key franchisor and franchisee business activities.

In this section franchisors were asked a series of questions to ascertain growth levels in franchisor and franchisee business activity over the past 12 months. In particular, franchisors were asked to comment on how sales turnover and profitability, staffing levels, research and development investment, promotional activity expenditure, franchisee recruitment and training, and levels of competition had changed over the last year. While the aggregated responses suggest that a majority of franchisors have experienced *increases* in sales turnover, it appears that they were forced to concomitantly increase their promotional spend in an environment characterised by increasing levels of industry competition. While the results suggest that the prevailing economic landscape has forced many franchisors to slow the rate of investment in capital works and research and development activities, many systems have increased business activities associated with staff training and education and franchisee recruitment so as to meet their growth and operational goals. However, investment levels in staff training and development is somewhat polarised with approximately 53 percent nominating that business activity levels remained unchanged over the preceding 12 month period. Somewhat of concern is the finding that around a third of all respondents reported decreases in gross sales/revenue margins and profitability levels over this period, in contrast to the results reported in the 2008 national survey in which only 10 percent reported reductions in gross sales/revenue margins and 13 percent reported similar reductions in profitability.

While current levels of economic uncertainty appear to be influencing franchisor business operations, a similar picture emerges in relation to levels of franchisee activity over the past 12 months. In particular, just under half of respondents nominated that economic conditions had resulted in decreases in product sales (40 percent) and profitability (41 percent), with only around a third of franchisors suggesting that product sales and profitability had increased over the preceding 12 month period. Moreover, respondents agreed that unit investment in many franchisee business activities had remained stable in this period including staffing (57 percent) and local marketing (41 percent) which may be
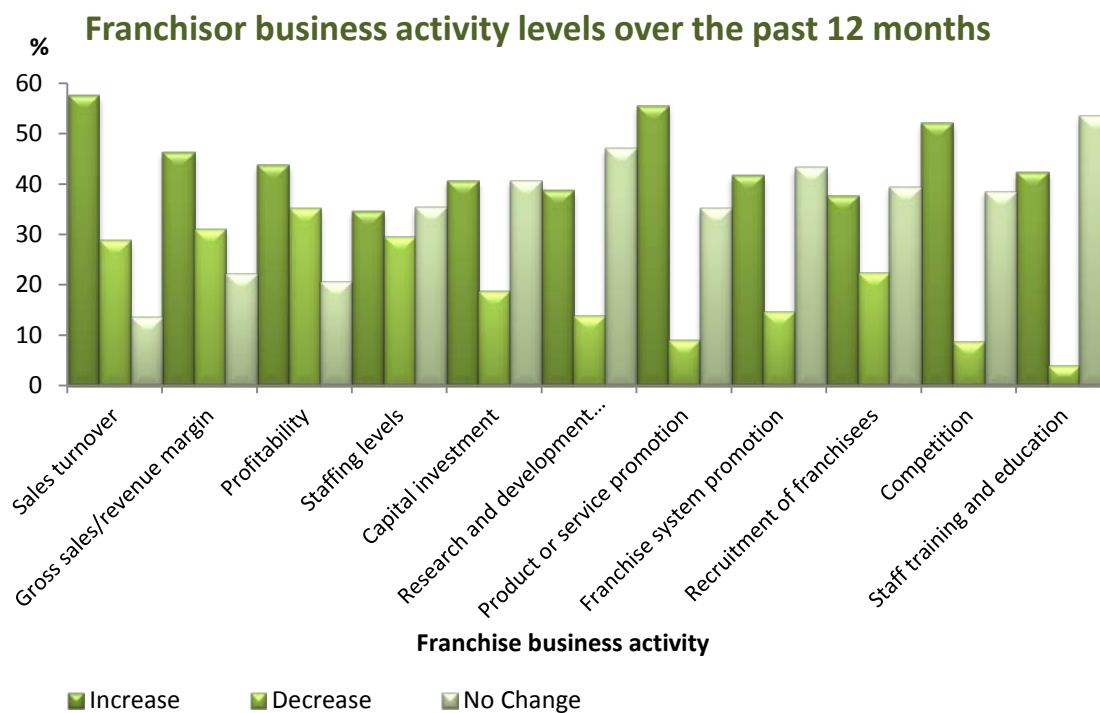
the result of little change (32 percent) or decreases (32 percent) in overall customer count. In contrast, only a third of franchisors reported increases in franchisee product sales, profitability, local marketing expenditure and customer count. While over half of the respondents suggested that competition had not significantly changed, fully 38 percent believed that competition had increased over the past year, which together with current economic conditions and associated reductions in consumer spending, may account for noted decreases in many business activities at the local market level.

D1 Did activity levels in the franchisor business in the last 12 months increase, decrease or remain stable?

Franchisor business activity	Increase	Decrease	No Change
	Percent	Percent	Percent
Sales turnover	57.6	28.8	13.6
Gross sales/revenue margin	46.4	31.2	22.4
Profitability	44.0	35.2	20.8
Staffing levels	34.7	29.8	35.5
Capital investment	40.7	18.7	40.7
Research and development investment	38.8	14.0	47.1
Product or service promotion	55.7	9.0	35.2
Franchise system promotion	41.8	14.8	43.4
Recruitment of franchisees	37.9	22.6	39.5
Competition	52.4	8.9	38.7
Staff training and education	42.3	4.1	53.7

Notes:
   4)   A total of 125 franchisors provided a response from an expected 126.

Franchisor business activity levels over the past 12 months

Franchise business activity

■ Increase   ■ Decrease   ■ No Change

D2 What effect has the economy had on individual franchisee activity over the past 12 months?

Franchisee business activity	Increase	Decrease	No Change
	Percent	Percent	Percent
Product sales	34.4	40.0	25.6
Profitability	30.4	40.8	28.8
Local marketing	39.2	20.0	40.8
Staffing	13.6	29.6	56.8
Competition	37.6	12.0	50.4
Customer count	32.0	36.0	32.0

Notes
   4)   *A total of 125 respondents provided a response from an expected 126.*

Impact of economic conditions on franchisee activity over the past 12 months

The next section asked franchisor respondents to indicate whether they have changed anything at the operational level in direct response to climate change. Similar to the findings revealed in the 2010 franchising survey, only around a quarter of franchisors reported that they had made changes in response to environmental concerns. Of the franchisors that indicated that they had made modifications, 61 percent had changed the ways in which they communicated with franchisees, 42 percent had introduced green products and services into system operations, 39 percent had introduced additional training for franchisees in sustainable operations and altered selection processes to include environmental criteria when selecting preferred suppliers (32 percent). Other business changes made in response to climate change included adopting energy audits to assist in reducing energy consumption (26 percent), enacting changes in the 'fit out' of premises (23 percent), amending stock distribution methods to franchisees (23 percent) and using environmentally-friendly packaging (19 percent). Only three percent of franchisors indicated that they were buying energy from green sources. Overall, the findings reveal a significant decrease in the up-take of environmentally conscious business operations from that reported in the national survey two years ago, which may be a reflection of franchisors' emphasis on initiatives to sustain system growth in the context of difficult economic conditions.

More than half of the franchisor respondents indicated that they adopted environmentally focused changes to remain competitive and fully 45 percent believed these new initiatives were the 'right thing' to do for their system. Only a small minority reported that the main reasons for enacting these changes arose from internal and external pressures from their franchisees or customers. Other reasons centred on meeting governmental regulatory requirements and utilising green practices in marketing and customer relations programs.
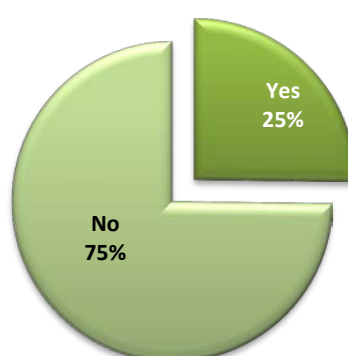
D3 Have you made any changes in the way your franchise operates in response to the threat of climate change?

Climate Change Response	Number	Percent
Yes	31	25.2
No	92	74.8
Total	**123**	**100.0**

Notes:
    4)   *A total of 123 franchisors responded to this question from an expected 126.*

## Operational changes in response to climate change

D4 Which of the following changes have you made to business operations?

Changes to business operations	Number	Percent
Methods in communicating with franchisees	19	61.3
Introducing green products or services	13	41.9
Training for franchisees and/or staff on environmentally sustainable operations	12	38.7
Criteria for appointing suppliers	10	32.3
Energy audits with a view to reducing consumption	8	25.8
Distribution methods of stock to franchisees	7	22.6
Premises fit out requirements	7	22.6
Reducing packaging or introducing environmentally friendly packaging	6	19.4
Buying energy from green sources	4	3.2
Other	4	3.2

Notes:
    1)   *A total of 19 franchisors responded to this question from an expected 31.*
    2)   *Multiple responses were recorded from some respondents.*
    3)   *Other changes included seeking accreditation with environmental agencies and increasing 'green' quality assurance processes*

Operational changes in response to climate change
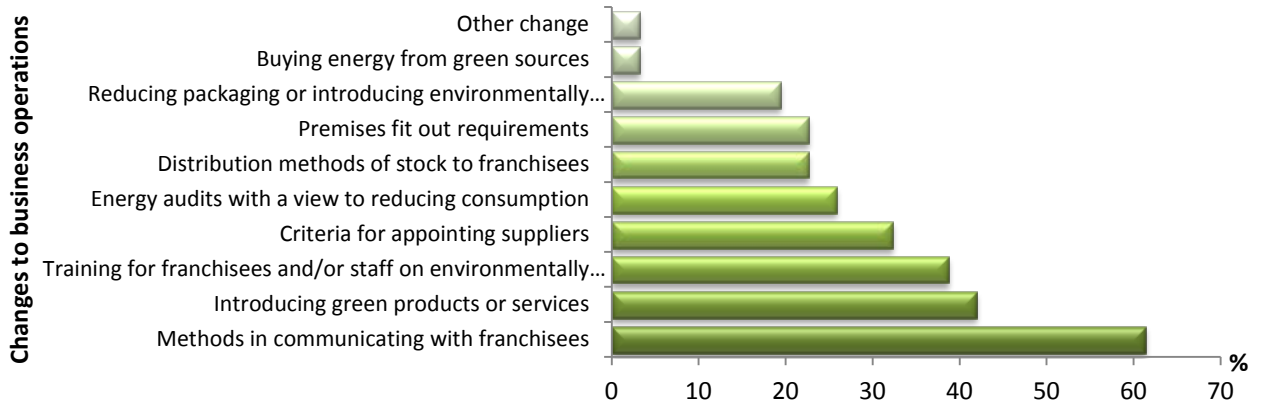
D5   Please identify what made you decide to change your practices.

Reason for change	Number	Percent
We took the initiative to remain competitive	17	54.8
We took the initiative because it is the right thing to do	14	45.1
Pressure from franchisees	4	12.9
Pressure from our customers	4	12.9
Other	4	12.9
Responded to lead from our overseas franchisor	2	6.5

Notes:
   1) *A total of 19 franchisors responded to this question from an expected 31.*
   2) *Multiple responses were recorded from some respondents*

Reasons for climate change response