

# FRANCHISING REMAINS A WINNING FORMULA

AUSTRALIA'S LOVE AFFAIR WITH FRANCHISING SHOWS NO SIGNS OF WANING IN 2015, FINDS CLARE LOEWENTHAL.

Against a backdrop of challenging trading conditions, the Franchising Australia 2014 survey revealed that the franchise sector experienced net growth in franchise units and sales turnover, particularly in retail franchises.

There were 1,160 business format franchisors in Australia in 2014, which gives us one of the highest levels of franchisors per capita in the world. The sector directly employs more than 460,000 people.

Stephen Giles, Deputy Chairman of the Franchise Council of Australia, doesn't see any major changes to the nature of Australian franchising, but he does expect a minor resurgence as the debate about franchise regulation abates, in the wake of the latest changes to the Franchising Code of Conduct. Stephen predicts the continuation of the trend towards more multi-unit franchise operators.

"Australia has historically been very much built on the single unit franchise model," he says. "In the US there is much more focus on multi-unit franchising, and it is not uncommon to see very large corporations that specialise in the franchisee or operations side rather than as franchisor. This is the case in some sectors in Australia, notably the motor vehicle sector, but there is considerable potential for future growth."

Greg Nathan, Founder of Franchise Relationships Institute, identifies a number of trends emerging in 2015. He believes that franchisors serving similar markets will merge or buy each other up and there will also continue to be a growth of multiple branded franchisors.

"This will raise organisational culture issues that are not easy to resolve, leading to an increase in franchisee dissatisfaction in the merged companies," Greg warns. "Franchisor leaders will need to get their act together in understanding how to effectively lead franchisees."

He sees the franchising sector becoming a multicultural hub of small business, and this will add to the complexity of leading and managing franchise networks. Greg predicts that the majority of franchise networks will have a majority of franchisees from non-English speaking backgrounds.

Generational issues will also come into play. "Gen Y managers are being promoted into senior franchise executive roles," explains Greg. "This will raise inter-generational communication challenges, as most franchisees are baby boomers."

Another issue that Greg believes will become increasingly important is that the

majority of franchisees are now mature, having been in their businesses for seven or more years. This raises issues around succession planning and "rust out". Franchisors will need to find new ways to engage them.

And finally, Greg sees rising costs - especially rents - and flattening sales, which will lead to margin compression. He predicts that the internet will also continue to erode retail sales and that mixed distribution models will be essential to keep many networks viable.

## WHAT'S HOT

So what industries will be the most popular with franchisees in 2015?

"Typically we see the "hot" industries being those that are emerging, such as home health care and education, or those that are in a major growth phase with industry participants seeking to establish market leadership," Stephen explains.

"Food remains consistent, with franchising having now spread well beyond fast food and into casual dining," he adds. "I believe there will be more international systems seeking to expand into Australia, as our economic

conditions relative to the rest of the world remain strong."

Stephen believes that we will see up market offerings and global brands consider franchising in areas such as fashion, high-end retailing and up-market brand name global restaurants. He also thinks the health care and education/home tutoring markets are ripe for expansion, and areas such as health and beauty will remain strong.

Greg's pick of industries to watch are remarkably similar. He says, "Personal care, health care, aged care and home care will continue to be hot industries. In particular, products and services that help us feel, think and look younger, and cope with old age, will be popular."

## THE CHALLENGES AHEAD

"Competition and technology are the two greatest challenges facing business today, and franchising is no different," says Stephen. "The Australian economy is highly competitive, and competition is not just coming from traditional competitors - technology is throwing up new disruptive competitors."

"Probably the greatest challenge a franchise network can face is coping with major change, particularly if the change is fundamentally disruptive and requires a restructure of the franchise network. Customers do not stand still while people adapt to change, they simply move to the most compelling customer proposition."

Stephen also thinks competition from supermarkets will continue. With over 500 new supermarkets reportedly proposed to be built in Australia over the next five years, there will be huge pressure on specialty retail and food, grocery and meat businesses.

Stephen also mentions several long-standing problems. "The rents charged by major shopping centres remains a concern, as does the apparent unwillingness for Government to address our ridiculous penalty



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rates systems," he comments. "These two costs, plus energy and utility costs, are a major problem for small business."

Greg sees three major challenges ahead for the franchise sector. "Margin compression will strain unit level profitability," he says. "More educated franchisees having higher expectations around support, and the need to continually adapt to changes in markets will strain franchise relationships and the intellectual resources of franchisors."

Despite the challenges, both Stephen and Greg remain upbeat about what lies ahead for Australian franchising, and believe that upcoming amendments to the Franchising Code of Conduct, to be introduced on January

1, 2015, will strengthen the sector.

"Hopefully the changes give renewed confidence to those thinking of investing in a franchised business, as was the case in 1998 when the Code was first introduced," says Stephen. "They should also help ensure more prospective franchisees read the disclosure material and seek advice prior to entering into a franchise agreement. Franchising is not for everyone, and most of the problems arise when people enter into franchising without properly understanding what it will mean."

Greg agrees that the changes will strengthen the sector. "They will continue the trend in making franchising more transparent and fair," he says.