



Bright sparks

meet the money making

**franchises
to watch in**

2007!

Figures recently released reveal that only 5 per cent of Australian small businesses are currently franchised – meaning the room to grow remains substantial. **Domini Stuart** pinpoints the hot growth areas for the year ahead, and showcases some of the rising stars of franchising set to soar even further in 2007.

As a sector, franchising is still hot across the board. Griffith University's recently released report, *Franchising Australia 2006*, provides ample evidence of the continuing growth and maturity of franchising in this country.

The survey found that there are approximately 960 business format franchise systems in Australia, compared with 850 in 2004. Some 426,500 people are employed in 62,000 franchised units. And, with sales turnover of an estimated \$128 billion, in 2005, franchising constituted 14 per cent of Australia's Gross Domestic Product.

Perhaps even better news is that, while franchising accounts for 50 per cent of small business turnover in Australia, only 5 per cent of small business outlets are franchised. That means we still have a long way to go before the sector even approaches saturation.

There are still big opportunities out there. But where should we be looking?

Staying home

"We have a very healthy economy with full employment and low interest rates," says Richard Evans, CEO of the Franchise Council of Australia (FCA). "People are cashed up and time poor, and that's what's driving growth. They would rather pay someone to do things people used to have to do for themselves. That's why we're seeing so much diversification in home services. You'd think we had plenty of cleaners, but new systems are still being developed.

"One gap I can see in the market," says Evans, "is for home laundry services – getting everything collected, washed and ironed. These kinds of services are very popular in other countries. There are some very strong brands in China, for instance.

"Here, you get these services in hotels, but not the home. But I think we might see it coming into the community shortly," Evans predicts.

Mobile pet services, such as Bark Busters Home Dog Training and Pet Mobile, are thriving – as are franchises that involve teaching or entertaining children.

"Again, parents are time poor," says Evans. "They don't have as much time to spend with their kids as they used to, and the days when kids just played around with tadpoles are long gone. Parents are looking for organised play and learning."

At the other end of the time scale, baby boomers are driving the growing trend in care for older people.

"They're being required to look after ageing parents," says Evans.

"They don't want to put them into nursing homes with all of the connotations that carries, but they either don't want to provide home care themselves or can't, so they're looking to pay someone else to do it. Again, it's all about disposable income."

John DiNatale, Senior Consultant with DC Strategy, shares some similar views. "We're definitely seeing an increased demand for home services," says DiNatale. "Australia's ageing population has very different expectations in terms of maintaining their independence, and rapid growth in services to this sector will be required to meet demand. No doubt, we'll see a significant number of home, health/aged care and lifestyle-focused businesses emerge – many of which will be franchised.

"With the Government pledging \$500 million over the next four years to promote healthy lifestyles, the outlook for the sector is very positive," says DiNatale. "In the past couple of years, we've seen fast-emerging businesses in areas as diverse as psychology, health and fitness, physiotherapy and ancillary medical services. Clearly, increased demand is creating significant opportunities."

Finding a niche

Experts are reporting continuing growth in traditional sectors, such as food and clothing retail, though the most dynamic franchises tend to be creating a new space for themselves.

"You'd never have thought that people would pay \$11 for a hamburger, but that's exactly what they're now doing," says Evans. "Gourmet hamburger franchises, like Grill'd, have tapped into a niche market where a hamburger is seen more as a meal option than a quick snack."

But growth isn't just restricted to emerging franchises. Cartridge World, for instance, now has 1,600 outlets worldwide and is still expanding rapidly.

"In the United States, a major growth area is home PC repairs and maintenance," says Phil Blain, Group Chairman of business format franchise systems consultants, Franchise Alliance. "A few people are doing it here, but no-one seems to have grabbed and owned the sector yet.

"There are also a number of franchises doing very well that you never hear of in everyday life. Cyl-Safe, for instance, has developed a safe way to empty and destroy gas cylinders."

Says Blain: "Most people aren't even aware that six million of them are imported every year, or that there's been a problem with what to do with them."

Other beneath-the-radar success stories include Ultra Shine Aviation, whose aircraft cleaning business has worldwide potential.

pHence It is a soil erosion control company, specialising in the erection of soil erosion barriers (known as 'silt fences') for civil contractors, developers and builders. Meanwhile, Appliance Tagging Services (ATS) are blazing a trail with a range of electrical testing and tagging services that tie in closely with the demands of the Occupational Health and Safety Act.

"The technical area is growing so much and so quickly that it's very difficult to predict what's going to happen next," says Evans. "Take TVs for instance. Twenty years ago, it was all about repair, now it's about replacement and rental.

"Success in business used to be all about big versus small, but now it's definitely fast versus slow. Franchising is driven by intellectual property so, as the market throws up a vacancy for a particular product and/or service, franchising can get in there and replicate quickly in order to satisfy the need."

Says Evans: "Franchises can also respond quickly to change. Video chains are a good example. These days it's hard to get a video – it's all DVDs. They've changed their entire offering to the market."

Meanwhile, John Brown, WA and SA/NT Principal of Franchise Alliance, sees opportunities within the funeral industry. "This is an interesting area," he says. "We're seeing a move towards specialisation – satisfying particular religious or cultural requirements. There's also a move towards brand recognition.

"What most people don't realise is that most of the funeral homes in Australia are owned either largely or significantly by United States companies. I believe there's an opportunity there to create an Australian-owned brand with Australian values and personality. A Western Australian group, Seasons Funerals, are pioneers in this area and have already launched their franchise network."

Brown, however, is also predicting changes in real estate. "We've had dialogue with both major and minor players, and we've found that real estate is a real challenge," he says.

"They call themselves franchises but, in truth, they haven't grasped the fundamentals of modern day franchising. Their model tends to be pooling dollars to do more marketing, while individual offices work in totally different ways. A genuine franchise would have an identical system in every office."

Explains Brown: "Franchising imposes more discipline and control, and I believe there's a particular need for this in real estate as the industry, in general, isn't trusted. I think we'll see a move towards a genuine franchise model soon."

The security of a brand

While consumers may lament an apparent lack of choice as each shopping centre grows more like every other, they're actually very likely to seek out the security of a brand. "If they're a bit unsure, they'll turn to a brand," says Evans. "And I think this is what's happening in the business-to-business sector.

Points to remember

1. People are cash rich and time poor:
 - They'd rather pay someone to clean, repair and maintain their home than spend their free time doing it themselves.
 - They want to give their children the best start in life and are prepared to pay for it.
 - They don't want to put their ageing parents into a nursing home, but are probably too busy to look after them themselves.
2. Look for the niche. Targeting a specific group within a sector can be the key to success – even if the sector appears crowded. Think gourmet hamburgers and healthier fast foods.
3. Look beyond shopping centres. As rents continue to rise, more franchisees are moving to less expensive locations or considering innovative alternatives like mobile businesses, destination stores, and retail vending machines.
4. Be flexible. Consumers change, technology changes, products change. The most resilient franchises are ready to adapt.
5. Identify your target market and give them what they want. "What makes any franchise successful is tapping into what consumers are looking for," says John Brown, Western Australian Principal of Franchise Alliance.

Look beyond shopping centres. As rents continue to rise, more franchisees are moving to less expensive locations or considering innovative alternatives like mobile businesses, destination stores, and retail vending machines.

"People are starting to look for brands in areas like bookkeeping and accounting, and we're also seeing franchises in areas such as coaching and speakers bureau – even psychologists. As long as your intellectual property is replicable, it can be franchised."

The security associated with brands could work well in areas like divorce law. "It can be hard to make a decision when a situation is so emotionally charged," says Brown. "Where do you go to find help? The Yellow Pages? Consumers are more confident when someone is presented as a specialist under a brand name, where they would typically recognise that their needs are going to be met."

Brown believes that firms will inevitably start to franchise desks to professionals such as accountants, lawyers, and finance brokers. "There's too much discussion for it not to happen," he explains. "The firm would provide marketing, infrastructure and leadership to the practitioners who would each take a franchise in-house, while maintaining a direct relationship with their clients."

Many mortgage brokers have already franchised their broking team, but then each franchisee has to supply his or her own

infrastructure, and work from a home office or commercial premises. "The potential loss with this model is the team culture," says Brown. "That goes out the window with a decentralised model, and then the franchisor has to spend significant time and resources trying to rebuild and retain it."

Meanwhile, Brown is also predicting an explosion in manufacturers franchising their own retail outfits. "A lot of manufacturers are dissatisfied with their relationship with the retail network," he says.

"Department stores sell products from a lot of different manufacturers, and many are feeling that they're either not getting the loyalty they need or that they're getting screwed by having their margins cut to nothing. They're also seeing that there's potential for capturing the retail margin by taking control and developing their own dedicated retail outlets," says Brown. He cites Wesfarmers' energy division as an example.

"They were looking for a way to increase sales of gas – what they call 'gas load'. More people were tapping into the organisation at the domestic end through an initiative called Kleenheat. To capitalise on this, Wesfarmers set up a dedicated retail chain called Kleenheat Gas House to sell gas appliances and promote the Kleenheat gas product."

"Fundamentally," says Brown, "manufacturers need to have more control over the direct retail client, and a franchise model can be a very effective way of achieving this. They can create a separate division, buy in the expertise and, with sound strategies in place, make it happen."

Blain, on the other hand, has noticed a trend towards acquisitions by super-franchisors who acquire independent businesses or smaller franchises and incorporate them into their own infrastructure.

"We're seeing a lot of major companies with licence or agency systems converting to a franchise system," he says. "For instance, one of our clients has 900 dealers across the country. When they took a look at the Franchising Code of Conduct, they realised they were technically operating a franchise and that, under the Code, their dealers should be called franchisees."

"In the short-term, they're facing the challenge of getting 900 people to sign a new agreement. But this has also created an opportunity for a bit of a clean out, and to revisit what they're offering in terms of support. And, in the end, they'll have a much stronger system."

"A franchise is much more controlled – it's all about consistent delivery of product and service. Whether you're at a McDonald's in Montrose or Moscow, you're going to have to take that green pickle out of your hamburger."

According to Blain, there's also a trend emerging away from major shopping centres. "Franchisors are not prepared to give all

What's hot in the United States?

According to Tony Arena, Director of Buy a Franchise, what's happening in the United States now will be happening here in five years time – and the message is that service is a good way to go. In the annual 'Fast 55' of American magazine, Franchise Times, service industries were the most heavily represented in 2006. As a trend within a trend, these are leaning towards sub-sector specialisation by targeting a narrower customer base.

Here is the top five from the 'Fast 55':

Rank	Name of franchise	Started	Number of units	Five-year average franchised unit growth
1	The Child I.D. Program of America	14 March 2002	115	5750%
2	One Hour Air Conditioning & Heating	1 April 2003	111	4019%
3	Cloud 9 Shuttle Bus and Car Shuttle Service	1 February 2003	83	3953%
4	Border Magic Quick concrete borders for gardens	1 September 2002	75	3701%
5	Slim and Tone 30 Minute Workout for Women	20 August 2002	115	3046%

Source: 'The 2006 Fast 55', Franchise Times, <http://www.franchisetimes.com/2005List.html>

of their profits to Westfield, Lend Lease and the other major players," he says. "Yes, the landlords have costs to cover and shareholders to satisfy, but many franchisors feel they've been tipped over the edge. The majority of new and embryonic systems simply can't afford the rents. They're moving back to high street locations or local shopping centres, or creating superstores that they can advertise as a destination outlet."

Tony Arena, Director of Buy a Franchise, believes that this is driving the continuing expansion in the mobile and home-based sectors. "People are often wary of retail establishments where the landlord plays such a big part by charging high rents and having the right to relocate or not renew leases," he says. "Mobile offers low-entry cost and decent work hours. There's also the option of working part-time."

According to Arena, there is also strong growth in vending machines – another way of retailing outside of a shopping centre. "24seven is already part of a huge international public company, with product in the United States and New Zealand," he explains.

Room to grow

With so many places to look, are there any sectors to avoid? "I don't think any sectors are overdone," says Brown. "Remember, franchising only represents 5 per cent of business in Australia – that says a lot about how much more room there is to grow."

"You'd think that the coffee and cake sector might be overcooked, but it's not. It's growing rapidly, but is still behind the global trend."

FCA's Evans agrees that the food sector appears quite full, but warns that appearances can be deceiving. "You could've thought McDonald's had reached a plateau, but it changed its image and reinvigorated the brand and now it's selling more hamburgers than ever before," says Evans. "It's that fast versus slow thing again. Any franchise that can be quick to adapt to what the market wants is bound to do well."