



Fast food with a twist

Food retail has long been one of the franchise specialities of choice. But now, the sector is undergoing a health evolution. **Domini Stuart** explores the sector's transformation and what it takes to thrive in this nutritious business environment.

It's not that surprising that food retail was the first sector to franchise. Giants like McDonald's, SUBWAY, KFC and Red Rooster have helped it retain both the highest profile and one of the heaviest franchising penetrations. There are good reasons why.

"If you're selling homewares, you're a retailer – your products have already been manufactured," he says. "If you're a food retailer, preparation is happening in the store, which means you're also a manufacturer. That makes the business very complex and very dependent on the quality of the people running it," says Adrian McFedries, Managing Director of DC Strategy.

"This can present a significant challenge at a company level," he says, adding: "For instance, if you have a chain of store-owned bread shops, it's not easy getting 200 or so people up and baking across the country by 3am every day. There's also a need to keep a close eye on stock levels. Demand for perishables, like meat, will vary from outlet to outlet and you must be able to respond quickly to changes – every time you order too much you're losing profits. Franchising makes issues like these more manageable by sharing out the responsibilities."

The trend of healthy eating

Experts agree that the big news in the sector is a move towards healthier options. "Fast foods used to be convenient, but not healthy," says Professor Andrew Terry, Head of the School of Business Law and Taxation at the University of New South Wales (UNSW). "The trend towards healthy eating has not only driven places like McDonald's to expand their menu. It has also opened up new niches in the market for more dedicated brands selling things like salads and pastas and sandwiches."

This diversification is also sparking the growth of very specialist brands. "Sandwiches constitute one of the highest consumed items of food in Australia, but apart from SUBWAY – which is a slightly different type of offering – the market has always been very fragmented," says McFedries. "Now you're getting brands like Healthy Habits providing alternatives to the independents by creating recognised and more consistent offerings."

"People feel a need for consistency and then keep going back by habit. They also worry about hygiene and quality – they like to go to a trusted brand. That's not to say we're looking at the end of the independent food provider. They make up the largest sector in the country and probably always will."

Richard Evans, CEO of the Franchise Council of Australia (FCA), says the market is simply responding to consumer demand. "We have long recognised women and, in particular, young women, as major consumers," Evans says. "Now the continuing focus on the dangers of obesity is driving the growth of fitness centres like Fernwood and Curves, as well as healthier food options."

"There are exceptions, of course, like the amazing introduction of Krispy Kreme Doughnuts," he says. "And trends do, to some extent, depend on where you are. Chicken shops like Red Rooster has traditionally found it difficult to break into NSW. Oporto opened up the market by building on the way people traditionally buy their chicken in NSW – out of the local shop. In Victoria, people don't mind paying more to get their pizza from the local Italian restaurant, which has made it difficult for Domino's to break in."

Director of Buy a Franchise, Tony Arena, points out that tastes can also vary from suburb to suburb. "A successful franchise must have universal appeal," he says. "Before moving into any area, I'd want to see an example of someone making a success of something in that product category. Competition is only a worry if you're second rate. If you're no good, it will kill you. But if you're good, it will bring you more trade."

Changes in the landscape

One recent change in the landscape has been the demise of franchised restaurants like eat-in Pizza Huts and Sizzler. "Franchising

THINKING OF STARTING A FRANCHISE?

The right retail food franchise can be hugely rewarding. Just look at Fred DeLuca. His goal was to open 32 submarine sandwich outlets in ten years. After eight, he had just 16 – then he franchised the concept. Today, there are over 26,000 SUBWAY restaurants in 85 countries. Test the strength of your own concept with these questions:

Does it have legs?

A concept may be very popular and trendy, but could it be just a fad? Is there a reason why it would work in one location, but not another? If a similar concept is already successful, is there a danger of market saturation? "Any good idea will have imitators and competitors, but there is a huge difference between being first and tenth into the market," says Professor Andrew Terry, Head of the School of Business Law and Taxation at the University of New South Wales.

Are you committed to building a strong brand?

"There's no point in thinking about franchising, unless you are aiming to build a national chain with a strong brand," says Adrian McFedries, Managing Director of DC Strategy.

"My pet hate is that too many people create systems with poor foundations. They might never get beyond five or six stores, which means there will be no benefit for the franchisees in terms of brand or economies of scale. This also impacts the liquidity and value of the asset. Think of the value of a McDonald's outlet compared with a one-off hamburger operation."

Do you have enough capital?

It is vital not to underestimate how much developing a franchise is going to cost. "You may have spent two, three or four hundred thousand dollars on setting up, and then find you need that much again for marketing," says Vaughan McVilly, Director of Franchise Works. "This is the downside of Australia's talent for franchising – whatever your concept, you can be sure that there are two or three other people out there going for the same market. In such a competitive environment, really good marketing can be the key to success."

Do you know your competitors?

"Checking out the competition sounds obvious, but people rarely dig deeply enough with this one," says McVilly. "You need to be aware of who is in the process of coming into the market, what they are doing, and their plan of attack."

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is all about consistency," says Arena. "In terms of quality, a franchisor would rather have a 7 every time than some 10s and some 5s. Restaurants just don't work like that."

Meanwhile, coffee is continuing to take the sector by storm. It's the biggest single area of expansion – and we just can't seem to get enough.

"There's been huge growth in sit-down coffee shops," says Arena. "As times get tougher, people will save money by bringing sandwiches from home, but think nothing of having two or three coffees – especially those who treat their local coffee shop like an external office. Like restaurants, coffee shops are even more saleable if they have an outdoor area. People like sitting outside, and it's somewhere you can smoke."

Our takeaway coffee consumption is also increasing, and there's no end to franchisors' inventiveness when it comes to getting that cup into our hands. You can now rent a machine for your office, or even have it free and pay a small fee for each coffee. Vans are taking coffee to industrial areas, sporting events, and anywhere else people gather in groups. And Director of Franchise Works, Vaughan McVilly, predicts that the next big thing will be drive-through coffee shops. "They're very big in the United States, and Muzz Buzz have already brought the concept to Western Australia," he says. "I also know of two groups who are selling from vans in existing drive-through bottle shops and petrol stations."

UNSW's Terry suggests that anyone with an interest in franchising should take a look at what's happening overseas. "We may not have invented every system in Australia but, hell, we do it well," he says. "Look at a company like Pizza Hut. They came into Australia with the backing of a massive US organisation, yet they were taken over by locals. Gloria Jean's Coffees was a US system, but Nabi Saleh and Peter Irvine did it better here and bought the brand worldwide, including in the United States."

Terry adds: "Some of our most successful franchisors were inspired by concepts that were already working overseas. Janine Allis saw her first juice and smoothie bar in California. And when John O'Brien was actively looking for a business to franchise, he toured the world before deciding on PoolWerx, which is now the largest pool and spa care network in the world."

"Good franchisees are good at picking trends," he says. "The move to health is not a surprise, given the media focus on

SURVEY SNAPSHOT

Readers' response to the inaugural *Franchising Insight Survey* was overwhelming. As a result, you can look forward to finding the most valuable tools, resources and information right here!

Here are some of the findings:

- ▲ You're most likely to recommend a fast food or beverage product that tastes good and arrives quickly.
- ▲ Great service is most likely to win you over to a new brand. You're also on the lookout for a healthier product, competitive pricing, and a convenient location.
- Working long hours is less of an issue for new franchisees than income and support.
- ▲ Would-be franchisees are strongly influenced by a brand's overall position in the market. However, this initial interest must be supported by research, including statistics and franchisee testimonials.
- ▲ The most powerful force driving would-be franchisees is a desire to be their own boss. Some 57 per cent of respondents believe that a franchise offers the best chance of success in running their own business.
- ▲ Over a third of our respondents were most interested in the food and beverage sector. Leisure and entertainment came in second, and health and lifestyle third. More men favoured food and beverage, while there was a significant female skew towards health and lifestyle.
- ▲ Overall, the highest rated brands were **Trios, Eagle Boys and Sumo Salad.**

obesity. In the same way, it isn't some brilliant franchisor saying it's about time people started using home services. Generally, we are getting more money-rich and time-poor, so we need them."

Easier options

This need is reflected in the rapid growth of service industries – both home and business-to-business. They are now hot on the heels of the food and beverage sector, and with good reason.

"Retail is seven days a week and, in some cases, 24 hours a day," says Evans. "That's very demanding. And, on top of that, there are the challenges of managing staff, overheads and customer service."

"Some franchisees go into business wearing rose-coloured glasses. They don't understand the impact that long-term time-consuming effort will have on their lifestyle. Sometimes, they don't ask enough questions. Sometimes, they don't ask the right questions. And, sometimes, they get answers they don't want, but they are so enthusiastic and excited that they just don't believe them."

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By contrast, many service sector franchises can be operated from home. This makes them less expensive, more flexible – and free from the tyranny of the landlord.

"Some people steer clear of any franchise involving a shopping centre because of the high rents," says Arena.

"They scare people. If rents keep going up, someone has to pay, and franchisors can't keep on squeezing margins."

"When you buy into business-to-business or home services, you know you can go on forever. Even those that need a retail space, like PACK & SEND or Cartridge World, could generally survive a move around the corner, whereas a takeaway or coffee shop might not," says Arena. "You need a lot of faith that your landlord will renew a five-year lease. If they refuse, you're gone."

And that could mean recouping your investment, but having nothing to sell – a threat that can also diminish the current value of your business.”

A service franchise is also more likely to come with a protected territory. A few years ago, anyone purchasing a retail food outlet could expect exclusivity within a specific area. Now, according to Terry, this is extremely unlikely.

“I recently spoke at a conference addressing the top five legal issues for inexperienced franchisors and franchisees, and encroachment was right up there,” he says. “A franchisor can grant the right to set up a company-owned or franchised outlet wherever they like and, while this is technically a commercial issue, commercial issues have a habit of giving rise to legal issues. This isn’t a new problem, but now that there’s a lot more competition, it’s a much more pressing problem.”

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The food and beverage sector is uniquely exposed to the legalities of occupational health and safety (OHS). “It would pay to question how a franchisor tackles their obligations in the OHS space,” says McFedries. “Do they respect the requirements in terms of hygiene in food preparation? If an outlet were implicated in an outbreak of food poisoning, how would it manage that? Does the business have good PR? Could it handle product recall? There have been a number of cases in the last couple of years that have really tested out who is responsible for OHS training – for what is happening on the site. You really need to know their attitude.”

Is it right for you?

FCA’s Evans believes the majority of would-be franchisees would benefit from paying more attention to every aspect of due diligence. “Anyone starting out or expanding a business must do their research, and this should include a range of views,” he says. “Before you make a commitment, you need to be confident that your advisors can do what you want. If they can’t, it could cost you a lot of money. People continue to go to lawyers with no experience of franchising because they appear to be cheaper. Tragically, they sometimes don’t get what they pay for.”

Before you even think of spending money, Evans recommends a really truthful self-analysis. “Ask yourself why you would want to move into retail food,” he says. “Retail food is all about consumers. You must be a people person – getting them to come back means meeting and greeting. Do you have the personality for that? It’s not a good place to be if you’re shy.

“You also have to be across the demands of staff, staffing and commercial negotiation. If you can tick all the boxes, great – you’re on your way to running a successful retail food outlet. If not, you should probably be looking elsewhere.”