Enterprise

Franchising faces limits

Mark Fenton-Jones

Despite outperforming other sectors of the economy during the downturn, franchisors could face limits to future growth if they do not attract more potential franchisees.

This recession has not supported the view that retrenched workers would use their payouts to buy their own businesses in the form of franchises.

"In fact the inability to obtain suitable franchisees continues to be one of the top two growth inhibitors for franchisors," said the PricewaterhouseCoopers partner who heads the firm's franchising division, Greg Hodson. The other inhibitor is a lack of funding available for investors wanting to buy into the $60 billion franchise industry.

PwC last week released its first Franchise Sector Indicator, a survey of 67 Australian-based franchise systems with 20 units or more. The rationale for questioning franchises of this size is PwC's belief that at this level, potential franchisees are dealing with established systems.

The number surveyed represented about 25 per cent of systems of this size. In the last 12 months, revenue growth for both franchisors and franchisees rose 4 per cent. Average profits for both grew 1 per cent.

As a result, franchisors feel confident their businesses and those of their franchisees will grow even more as the economy comes out of the doldrums. Franchisors predict average growth of 13 per cent in revenue and an 18 per cent rise in profit over the next year.

But that bullish outlook for growth has to factor in a lack of franchisees. Although it is unclear if the scarcity of funding franchisees require to buy their units will be a temporary or longer-term problem, franchisors are being warned to make their offerings attractive for would-be investors.

Franchisors with more than 20 units in their systems are competing with about 300 other systems for the attention of potential franchisees.

Mr Hodson said franchisees would be looking for proven business models. They would want franchisors to demonstrate that their marketing, paid for by franchisees, was achieving successful brand awareness, he said.

They would also want to be convinced the franchise system could obtain better deals from suppliers than an individual self-employed person. Finally, they would want to see a franchise system with the organisation to support franchisees day-to-day.

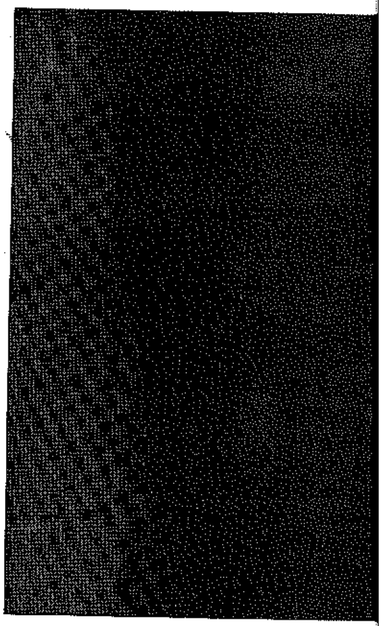
The PwC report also threw out another widely held belief that businesses would be cheaper to buy in a downturn. The research found franchisors would not sell units on the cheap. Mr Hodson advised buyers to focus on smaller franchise systems or revise their price expectations upward.

Potential buyers want to see how well franchisors grow brand awareness.

PwC's Greg Hodson

Faced with a climate in which the number of inquiries from perspective new franchisees is not rising and debt funding is an issue for suitable applicants, franchisors hope to achieve short-term growth by encouraging existing franchisees to take on multiple units. Ninety-two per cent of franchisors offer multiple units to franchisees.

Overseas expansion is considered another short-term growth option. Franchised box hire company Hire a Box plans to establish master franchises in Boston and Long Island as the initial stage of its United States rollout.



Meiron Lee is helping SMEs meet revenue

Motivatec

Mark Fenton-Jones

Owners and managers of small to medium-sized businesses who want to improve cash flow are being advised not to forget that profits depend on the people creating them.

Meiron Lee, a Sydney-based entrepreneur who established InnerCents in 2003 to develop people through coaching and training programs in the areas of leadership, sales and stress management, said cash flow was a massive issue for SMEs.

Yet many did not fully comprehend all the elements that surrounded this aspect, he said.

Besides understanding financials and forecasts, they also need to understand that "profits can't be separated from the people that create them".

Mr Lee, whose clients include IBM, PricewaterhouseCoopers, Westpac and MLC and is the self-published author of *D-Stress: Building Resilience in Challenging Times*, also provides tailored programs for SMEs.

While his business slowed during the early days of the economic