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Franchising showing strong growth in first months of 2009

Delegates at the FCA's QLD State Conference, held on Friday, were told about strong growth in QLD based national franchises.

Delivering a keynote address, PoolWerx CEO John O'Brien reported that sales and profitability for his business were up in the first 4 months of 2009, with sales growth of 19% compared to the last 4 months of 08. O'Brien also delivered a challenging presentation exhorting all franchise systems to look deliberately and creatively at how to entrench and facilitate growth capability in their systems so as to capitalise on the opportunity being presented by the current economic circumstances and those when the economy returns to stronger growth.

Prominent pizza brand Eagle Boys has had double digit growth year on year. Murray Stewart, General Manager – Corporate at Eagle Boys indicated at the QLD Conference that they plan to open 16 new stores nationally in the next 6 weeks and 50 in the course of the rest of the year. "This will take us to about 280 stores by year's end," Mr Stewart said.

At the FCA's South Australian State Conference on May 1st, Chris Malcolm CEO of Clark Rubber told delegates that having anticipated the downturn, they took the steps necessary to tighten operations, took risks at the management level and was pleased to report that they had a record December and that their first quarter 09 had well out stripped sales and profitability from the previous period (08).

"These strong results, and history during prior downturns, show us that franchise systems typically respond more quickly and effectively to changed market conditions, as the dual dynamic of having franchisor and franchisees close to the market and focused on meeting changed consumer expectations produces a synergistic response," Executive Director of the FCA Steve Wright said.

"They are also in stark contrast to some recent public claims linking economic and industry issues to the franchising model. The financial troubles of the Kleenmaid organisation, caused essentially by manufacturing costs and reduced demand in the wake of the global economic crisis, had been seized upon by some to try to claim weakness in the franchising model in times of economic downturn. The results that many systems are currently reporting show this to be a weak and superficial analysis".

"No one takes any joy from a corporate collapse such as has occurred in relation to Kleenmaid. However it should be noted that in the case of Kleenmaid the big losers seem likely to be consumers, unsecured creditors and possibly employees.

Some franchisees are out of pocket for commissions owed to them by Kleenmaid, for sale of Kleenmaid products and for servicing work done under warranty contract. There has been no suggestion of any fundamental disagreement, conflict or dispute between Kleenmaid and its franchisees other than its unpaid commission and servicing payments issues, which has the effect of including some franchisees in the list of Kleenmaid unsecured creditors."

While this is a bitter pill for the franchisees in question, the quantum of these exposures is a fraction of the

total owing to their unsecured creditors. The administration is doing its best to recover these funds, and we hope they are successful in this but we can only wait and see on that issue. The administrator has indicated that the 35 franchisees who have service contracts are still able to run those businesses, independently billing customers.

For more information please contact:

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The Franchise Council of Australia is the peak industry body for the \$130 Billion Australian franchise sector representing franchisors, franchisees and suppliers/advisors. www.franchise.org.au