

● With more than 1200 franchise systems – one for every 20,000 citizens – Australia is the most franchised nation on earth.

Yet unlike other heavily franchised nations, in particular the United States, Australia boasts few multi-system franchisors.

The biggest, Franchise Entertainment Group, owner of the Video Ezy, Blockbuster and ezyDVD systems, represents only a small fraction of the \$130 billion local franchising market (see table).

But if the predictions of analysts are right and the ambitions of acquisitive Australian Securities Exchange-listed and foreign-owned franchisors are realised, a lick of consolidating paint is about to be applied to this fragmented picture.

“It needs to happen,” says Professor Lorelle Frazer, director of Griffith University’s Asia-Pacific Centre for Franchising Excellence.

“We’ve known for a long time we have far too many franchise systems in Australia. Many of those systems are too small – they won’t survive.

“But some of them will join together. It enables them to achieve a reasonable-sized network, which is very difficult otherwise with our small population.”

Would-be “joiners” such as Allied Brands, RCG Corporation, Franchised Food Company and Retail Food Group agree that Australian franchising is on a path the US started down five years ago.

“There will be a rationalisation in the sector,” Allied Brands chief executive Shane Radbone says. “There will be fewer independent operators ... and the consolidation and merger of more brands.”

Last year, Allied Brands bought the Villa & Hut homewares and coffee chain, adding to an existing portfolio that includes Baskin-Robbins, Cookie Man and Kenny’s Cardiology.

It has subsequently incorporated the Coffee Bean & Tea Leaf chain into Villa & Hut, as well as the Freedom Home & Cafe and Bayswiss stores of Steinhoff Asia Pacific, owner of the Freedom, Bay Leather Republic and Snooze chains (only Snooze is franchised).

Radbone says Allied Brands is in the business of franchising rather than retailing. “That is the core competency we are in,” he says.

The ASX-listed company has one team of financial, legal, technology and property experts supporting several franchise systems. Centralising the finance function alone trimmed nine number crunchers from the Allied payroll.

As well as running more efficiently, multi-system franchisors also bring more clout to rent negotiations with landlords.

“It doesn’t guarantee you will get a great deal, but it gives you a lot more leverage with landlords,” Radbone says. “If someone wants to add \$20,000 to a rent you then pull out, ‘Well, what about the national relationship?’”

Multi-system franchisors can ask the same question of suppliers during price negotiations.

The franchise market is healthy but fragmented, and analysts say it will benefit from a bout of consolidation similar to what happened in the US. **Report: Anthony Sibillin**

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If that doesn’t work, they can follow the lead of Allied Brands and Retail Food Group and become suppliers themselves.

Retail Food Group operates central manufacturing and coffee roasting facilities that supply certain products to its Donut King, bb’s café, Brumby’s Bakeries and Michel’s Patisserie franchise systems.

As with sharing common business functions, franchisees as well as franchisors stand to benefit from bringing more of the supply chain inside the group, the head of intelligence at research consultancy 10 Thousand Feet, Ian Krawitz, says.

“If you are reducing expenses in these areas you get better value for your royalty fees because franchisors are then able to channel their funds into key areas, rather than just having to comply and get by in certain areas,” Krawitz says.

If combining multiple systems is good for both franchisor and franchisee, why is the Australian sector only beginning to consolidate now, and only then at a slow pace?





**Rationalisation: Allied Brands chief executive Shane Radbone**

One reason is the current owners of successful independent franchises.

Their entrepreneurial founders “like being in control”, Krawitz notes, and balk at the idea of handing over their creation to a big company.

And not without cause – when it comes to making a hash of acquisitions, multi-system franchisors have form.

Consider ASX-listed RCG Corporation. In 2006 RCG, then known as Retail Cube, had one thriving franchise system – footwear retailer The Athlete’s Foot – imperilled by two ailing ones – Amazing Paints and King of Knives.

A new board, led by a former Freedom Furniture chief executive Ivan Hammerschlag, put Amazing Paints into administration and sold King of Knives for \$4.5 million – at a 75 per cent discount to what RCG had paid for it.

Having narrowly averted insolvency, RCG is now rebuilding its portfolio with caution. In August last year it won the Australian licence for Merrell footwear and bought the Shoe Superstore, a chain of three corporate-owned shoe stores.

While investors are urging Hammerschlag and his colleagues to step up the pace of acquisitions, management is determined not to spread its attention across too many industries.

“With the disparate businesses that we had previously,” RCG executive director and The Athlete’s Foot managing director, Michael Cooper, says, “it was more difficult to get a common understanding and a common way of doing business across the sectors we were operating in.”

“Paints and homewares tend to be categories that are a little more promotion-driven and price-oriented [than The Athlete’s Foot], and you have some pretty dominant category-killers in that space, whether it is department stores or the likes of Bunnings,” he says.

“We are certainly of the view that going down the path of creating a conglomerate of very different retail franchises is generally not the way to get the best result.”

FEG is also focusing on a single industry. Its Video Ezy and Blockbuster systems dominate the DVD rentals market. Last January it staked a claim to the fast-growing DVD sales market with the \$10 million purchase of the ezyDVD website and 40 franchised stores.

“We recognised the strength of the ezyDVD brand and saw it as a natural fit with our existing businesses,” FEG owner and managing director Paul Uniacke said at the time.

“The ezyDVD stores are in all the major mall chains and this cements us well and truly in this market.”

For its part, the Franchised Food Company is sticking to what executive chairman Michael Sherlock, who headed Brumby’s Bakeries from 1999 until its hostile takeover by RFG in 2007, calls the “quick treat” market. Last September, FFC added the Cold Rock ice cream franchise system to its existing Mr Whippy and Pretzel World systems and, according to Sherlock, is on the “lookout for more franchising opportunities into the future”.

Radbone has a more expansive, although still restricted, view of the field of potential Allied Brands acquisitions. He says the company is focused on retail franchising “with an emphasis on food and vertical integration”, as well as direct sales through its water cooler Awesome Water and Awesome Entertainment franchise systems. “It has to fit into that box at the moment,” he says.

RCG’s Cooper says the reluctance of many system founders to jump in a “box” containing other systems will not stand in the way of consolidation.

“I think there will be a natural evolution where those people will more or less move on and the industry will be attractive to listed entities,” he says. “There comes a time, depending on the age of the person and the time in the business, that they are prepared to give over control if the reward is there.”

In any case, the founders of less-established franchise systems might be only too happy for a corporate big brother to ply them with capital and accelerate their growth.

As Radbone says: “If there is a young emerging brand of, say, 10 stores, and they want to grow it and they haven’t got the experience, we can bolt it in to our business and maybe take an option of buying it down the track.” **BRW**

### AUSTRALIA'S BIGGEST MULTI-SYSTEM FRANCHISORS

| Company                              | Franchise systems   | Revenue \$m   |
|--------------------------------------|---|---------------|
| <b>Yum! Restaurants Australia</b>    | KFC, Pizza Hut  | 530 (2008)    |
| <b>Retail Food Group</b>             | Donut King, bb's Cafe, Brumby's Bakeries, Michel's Patisserie                                     | 86 (2008-09)  |
| <b>Allied Brands</b>                 | Baskin-Robbins, Cookie Man, Kenny's Cardiology, Villa & Hut, Awesome Water, Awesome Entertainment | 54 (2008-09)  |
| <b>Franchised Food Company</b>       | Mr Whippy, Pretzel World, Cold Rock Ice Creamery  | N/A           |
| <b>Franchise Entertainment Group</b> | Video Ezy, Blockbuster, ezyDVD  | 600 (2008-09) |
| <b>RCG Corporation</b>               | The Athlete's Foot, Shoe Superstore   | 167 (2008-09) |

Source: IBISWorld, DatAnalysis, BRW