



13th February 2011

Mr Timothy Hughes (Principal Research Officer)
Economics and Industry Standing Committee
Level 1
11 Harvest Terrace
West Perth WA 6005

Submission to the Economics and Industry Committee in relation to the Inquiry into the Franchising Bill 2010

Please find following my submission to the above mentioned Inquiry.

I may be contacted on the details above should you have any questions regarding the content of my submission.

Yours faithfully

Michael Stringer
Car Care Australia Pty Ltd
Director

**WA Parliament Economics
and
Industry Standing Committee**

RE: WA Franchising Bill 2010

Via email: laeisc@parliament.wa.gov.au

Submission by
Mpower Franchising Pty Ltd

Dear Committee members,

In order to provide you with some context to my submission, I provide here a brief outline of our businesses.

- We operate three franchise systems, Car Care, Housework Heroes and United Home Services. These businesses commenced operations in 1987 (WA), 2001(WA) and 1995(VIC) respectively.
- They have a combined franchisee base of around 250 franchisees operating in most states across Australia, supported through a Master Franchisee arrangement in order to provide local support.
- We purchased all these operations as going concerns in various stages of development. We therefore have significant capital invested.
- We are party to all Franchise Agreements in order to provide Franchise Owners with an additional level of security.
- We offer a range of services from car detailing to home cleaning and do so on a mobile basis.
- The initial investment levels required are from \$15K - \$40K, this includes all training, equipment etc.
- Franchisees pay a fixed fee per week. This equates to around 10% of their turnover. As we are predominantly a service provider the gross margin of our franchisees is around 98% of their turnover.
- I am the current WA State President of the Franchise Council of Australia. This is a voluntary position.

In the following pages I have attempted to provide an objective response to the varying issues that the proposed Bill purports to address whilst appreciating that such issues, in most cases, come down to ones perspective.

As a Franchisor my objectives are relatively straightforward - to provide a framework in which all those that have invested in our brands can achieve a reasonable return for their investment and efforts.

Yours faithfully

Mike Stringer

January 12th 2011

WA FRANCHISE BILL – SUBMISSION

A lot has been written and spoken about the Franchisor/Franchisee relationship over the past few months, much of which has been put forward by so-called experts that are not even involved in franchising on a daily basis. I have therefore tried to provide you with some facts that are indisputable and leave you to draw your own conclusions as to the effects that additional state based legislation will have on franchising in WA and specifically our type of franchise system.

1. Franchising is a great way for people who are new to business to reduce the risks inherent in their quest to move from paid employment to a business of their own.
2. Franchising is not a guarantee of success.
3. Many people who start a business/franchise have unrealistic expectations. Everyone expects to succeed. Nobody expects to fail.
4. We live in a society that increasingly looks for someone to blame when things don't work out as they expect – it's the governments, Franchisors fault etc etc.
5. No legislation will provide a guarantee of success. If it did everyone would leave employment and start their own business.
6. Most potential franchisees in our sector do not even read the Disclosure Document. The greater the level of disclosure the less likely it is to be read.
7. The level of Disclosure is the same regardless of the level of investment. This puts the franchisee looking to purchase a service franchise - at a cost of around \$15k – with the choice of paying for legal advice that might equate to 50% of the purchase price.
8. The cost of the disclosure and the penalties proposed within this Bill are the same regardless of the size of the system.
9. Franchisors are purported to make significant sums from upfront fees. No mention is made of the Franchisee Acquisition Cost (advertising and other costs associated with recruiting a new franchisee). Research puts this figure at around \$4000 for a service based business and \$17,000 for a retail franchise.
10. The single biggest issue for franchising at this time is recruitment.
11. 'Churning' just doesn't happen. If you have a franchisee operating the business in an ethical way and paying their fees on time why would you look to remove them? This is even more relevant when there is no likely replacement. Mr Abetz, himself, states *"one of the greatest challenges franchisors face is getting people to sign up as franchisees"*.

12. Mr Abetz's states "this bill will not impose ANY additional costs on good franchisors". Lawyers cost money!
13. Some franchisees do not pay their fees – in our experience the number is around 10% that would be seriously in arrears at any one time.
14. Many franchisees – in the services sector – simply strip their vehicle of any markings and continue to operate their business and retain customers that the franchisor has provided. The cost of taking action to protect the brand is totally prohibitive, even if they were guaranteed a positive outcome in the courts. This is harmful to all those that have a stake in the brand – franchisees and franchisors.
15. There are around 40 WA based franchise systems. If we assume that 10% of these could be classed as 'rogue' then we are talking about 4 systems.
16. If we consider that there are 'rogue' franchisees (see points 13 & 14) in the same proportion then there are approximately 700 'rogue' franchisees in WA.
17. The majority of service based systems charge a fixed fee. The simple reason is that franchisees are reluctant to fully disclose their turnover.
18. Most franchisee failures are down to a failure to follow the system. This is not always done in a deliberately destructive way.
19. Most franchisors are small businesses in the 0-25 franchisee category.
20. The relative income of the Franchisor can be very small in comparison to a non-franchised model.
21. In most cases the inequities between Franchisor/Franchisee favour the Franchisee.
22. A majority of franchisees see the franchisors as the boss whilst franchisors see franchisees as business owners.
23. Franchisors generally have more business experience than Franchisees.
24. A percentage of franchisees will be disenchanted on any given day. Out of our 250 franchisees there will be a number that consider that I am only interested in the money.
25. There will be a number of franchisees that we will be disenchanted with at any one time.

Appendix

Service Franchises – How the money flows through the system.

Whilst the basic principles of franchising would appear to be common knowledge it is evident, from the various comments made by journalists and others, that there are many misconceptions as to how they work in detail.

The following sets out how our Car Care system operates, which is indicative of the majority of service based franchise systems. Whilst these systems, with the odd exception, are not household names, they do make up the majority of franchisee numbers.

Car Care

Car Care is a mobile detailing business that started in 1987 in WA and commenced franchising in 1990. With just short of 100 franchisees operating across Australia, it is the leading business of its type.

Turnover of the business based is approximately \$7million per annum. This is the sum of franchise owner turnover. The Gross Profit on this is around 98% so let's assume it is 100%.

Car Care franchise owners pay a fixed fee that equates to approximately 10% of turnover. In our case, as in most, service based systems, this fee is paid to a Master Franchisee, in return for the provision of a call centre, ongoing training and support. The Master Franchisee passes on 15% of this fee to the Franchisor, for which we provide intellectual property such as Operations Manuals, marketing collaterals, 1300#, web site etc.

If you therefore extrapolate the numbers you will see that the Franchisor ends up with around \$100k (1.4% of group turnover) before expenses and the Master Franchisees with \$600k between them, before expenses. Hardly a huge sum and Car Care is, as previously mentioned, the largest in Australia!

This illustrates why we need to operate multiple brands and why any additional compliance costs (it cost us \$8000 in legal compliance costs for the July 2010 code changes) have a significant effect on our viability.