

Why franchising small businesses in Queensland is booming.

By James Corne CEO and Founder of The Franchise Institute.



Like in the rest of Australia Franchising in Queensland is booming! Never before in our history has there been such interest in buying a franchise or in starting a franchise.

Onwards and upwards

In October 2006 the Franchise Council of Australia released the finding from the Griffith University's 2006 Survey on Franchising. It showed that franchising in Australia was stabilising and maturing with some impressive statistics:

- There are an estimated 960 business format franchises operating in Australia in 2006, 93% of which are Australian based
- The growth rate of franchises in 2006 was 12.9%
- As a sector franchising is turning over \$128 billion dollars p.a or 14% of Australia's GDP
- Dispute rates are low, with the majority being settled via mediation
- Just over 25% of Australian franchises are expanding internationally

Success leaves clues

So why the rapid growth? Well firstly the evidence shows that franchised businesses are more likely to succeed than non franchised or independently owned businesses. As Michael Gerber author of the best selling book *The E myth* says "*Over the course of one year, Franchise Businesses have reported a success rate of 95% in contrast to the 50%-plus-percent failure rate of new independently owned businesses.*"

The second reason is that with the introduction of the Franchise Code of Conduct in 1998 the franchising industry has become very transparent and well regulated, resulting in a fairer deal for both franchisors (the owner of the franchised business) and franchisees (the people who buy a franchised unit)

It's a win: win

The third reason in my opinion as to why Australia is experiencing somewhat of a franchising boom is because the model creates a win: win situation. It helps the franchisor to "win" because it provides a mechanism for him or her to expand his business which is not just cost effective but actually profitable. This in turn gives him/her leverage which means they can expand their business more rapidly than they would have been able to if they had opted to do it all themselves. Let me give you an example:

If you were a cafe owner and you wanted to expand, opening a new cafe would incur the following set-up costs.

Start-up items	Funded by the business owner
Commercial lease	\$50 000
Shop fit out	\$80 000
Stock	\$50 000
Staffing	\$70 000
Start-up advertising and marketing	\$15 000
Launch campaign	\$5 000
Total start-up costs	\$270 000

Even if all goes well there would usually be a significant lag time before the cafe returns any profit. So not only has the business owner spent money expanding into new premises they have also spent money on the operations before they see any return. And of course while focussing on opening the new cafe often the first one suffers because of lack of attention and sheer exhaustion from opening the new premises.

If we were to repeat the previous example using a franchise model for growth the same steps would need to be undertaken but with a very different cost structure.

As shown in the table below the franchisee would bear the majority of the start-up costs with the franchisor receiving income in the form of a license fee.

Start-up items	Funded by the franchisee	Received by the franchisor
Commercial lease	\$50 000	
Shop fit out	\$80 000	
Stock	\$50 000	
Staffing	\$70 000	
Start-up advertising and marketing	\$15 000	
Launch campaign	\$5 000	
License Fee	\$50 000	\$50 000
Total start-up costs	\$320 000	

So rather than spending lots of money expanding the business, people would pay the business owner for the privilege of using their business system and know how and trading under their business name. So franchising clearly provides superior leveraging power. But it is also a win win for the franchisee.

In business for your self but not by yourself

Many Queenslanders want to own their own business so that they can be their own boss and work their own hours and perhaps most importantly own an asset that they can build and at later date sell. Franchising a business unlike licensing it allows you to do this. But people who are new to business are uncertain and so seek certainty which is precisely what the franchise model

provides. It allows them to be in business for themselves but not buy themselves.

I am often asked what type of businesses can be franchised and my answer is this. Franchising is a relatively flexible format, and most business or indeed business concepts can be franchised, provided they meet a set of basic criteria.

Queensland Small Business Mecca

With a booming state economy, QLD is taking its lion share of the franchising dollar. Compared to its more populist states down south Its is leading the way in new business opportunities as southerners flock to the warmer weather and better prospects. In the last few months in Queensland alone we at The Franchise Institute have worked with businesses in the following industries; property management, bin cleaning, conveyancing, health and beauty, retail food outlets and network businesses just to mention a few. There's no doubt that Queensland is leading the way in small business growth.

So if growing your business using the power of leverage appeals then the first step a business owner should take is to clarify their outcomes. That is what do they want to achieve from the business. The next step is to speak with a franchise expert to enable them to analyse the current business or business concept to find out which criteria it already demonstrates and which it needs to develop or improve in order to be able to franchise.

James Corne is author of the best selling book "Franchising Made Easy. The Secrets That Franchise Experts Won't Tell You But You Need To Know: available at www.thefranchsieinstitute.com.au. or by calling 1300 855 435