

Summary

The Australian franchise sector is a large, highly- sophisticated industry, contributing approximately 14 percent to the nation's GDP. There are more franchising outlets per capita than any country and three times more per capita than in the U.S. The total turnover of the franchising sector in 2008, including the motor vehicle and automotive fuel retail industries, approached USD 109 billion.

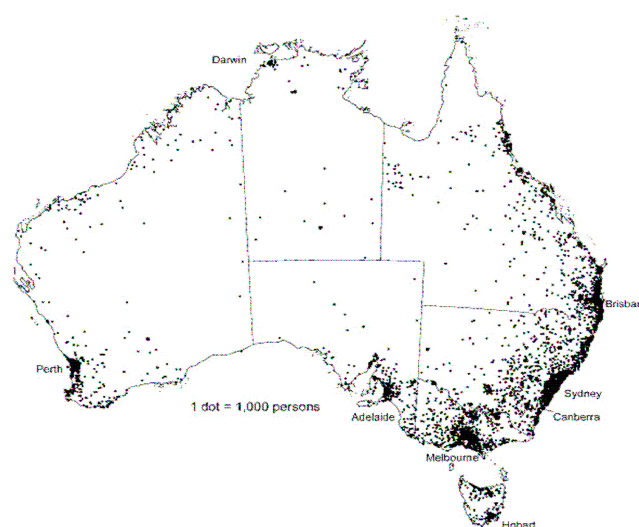
Effects of the current world economic crisis on this sector are moderate. Business confidence in the franchising sector is relatively high; attributed to the robust nature of the franchising model. However, this depends on the industry sector in which the franchise business operates.

Market Demand

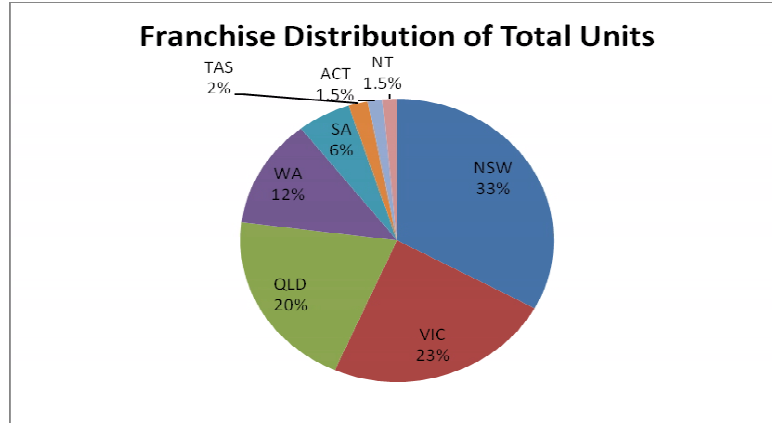
According to the Griffith University survey, the increase of franchise units from 61,860 units in 2006 to 71,400 franchise units in 2008 indicates a growth rate of 15.4 percent. This is similar to the growth rate experienced between 2004 and 2006 of 14.6 percent. While the industry is still in the growth stage of its lifecycle, such a high growth rate over the past two years exemplifies the increasing maturity of the sector.

Despite the sector showing signs of maturity, the number of units per system is relatively low. According to the Griffith University survey, the average number of units per system was 20 plus one company-owned unit with half the sector holding 20 or fewer units and 37 percent described as 'micro franchises' holding no more than 10 franchise units. Industry experts suggest this may not be economically sustainable unless considerable growth is experienced. A total of 34 percent of systems in Australia are completely franchised, i.e. holding no company-owned units.

The degree of franchising activity in Australia is related to the population distribution. As the map below indicates, the east and southern states are the key areas of franchising (each dot represents 1000 people).



Therefore, the majority of franchising activity occurs in New South Wales (Sydney is the capital city) with 33 percent of total units, with Victoria (capital city is Melbourne) holding 23.5 percent and Queensland (capital city is Brisbane) with 20.5 percent of franchising. Please refer to the graph below for the geographical distribution of total units.



Market Data

There are approximately 1,100 business-format franchise companies in Australia, up from 693 in 1998. Of these systems, 91 percent are Australian-grown which is consistent with previous years. The remaining 9 percent are predominantly a mixture of systems from New Zealand, the U.S., the United Kingdom and Europe. Australia's home-grown dominance in the market can be partly attributed to the fact that Australian franchises have only in the past 9 years adopted an international expansion strategy, deciding instead to develop their home market. However, 88 percent of franchisors in Australia are now favoring new opportunities in overseas markets as the high per-capita concentration of franchise systems in Australia encourages international expansion to assist with system development. The recent economic crisis and the expected increase in unemployment could lead to growth of the Franchise Industry in Australia.

The U.S. currently holds approximately 3 percent import market share of the Australian Franchise Industry. Some U.S. franchises already in Australia include:

7-Eleven	A&W (All American Food)	Athletes Foot
Baskin Robins	Blockbuster	Burger King
Best Western	Caltex	Cinnabon
Dominos Pizza	Dunkin Donuts	Gloria Jean's Coffees
Holiday Inn	Jani King	Kinko's
Long John Silver's	Mail Boxes Etc.	Midas
Minute Man Press	Mrs. Field's Cookies	Sbarro Inc.
Sign-A-Rama	TGI Fridays	Kentucky Fried Chicken
McDonalds	Pizza Hut	Radio Shack
Subway	Taco Bell	Quiznos Sub

Australia's urban centers are the best markets for franchise operations. In addition to the positive market dynamics, Australia and the U.S. share a common language and very similar cultures; although there are some subtle differences to consider. Corruption risk is very low to non-existent and the Franchise Industry is well-regulated, well-educated, and highly- developed, enabling U.S. firms to enter the sector with confidence.

Most growth in the franchise sector has been within the services segment, predominantly in the ‘personal and other services’ arena such as home maintenance. Time saving (such as food catering) and financial service concepts are also very popular. Australia has a growing elderly population with many baby boomers moving into retirement. This presents many opportunities for concepts in the following service sectors; home, health, care, community and mobile.

The retail trade food sector (including fast food) also presents some level of opportunity for U.S. firms, accounting for 15.5 percent of franchisors, with a particular upsurge in the number of healthy food concepts. Like the U.S., Australia faces increasing overweight/obesity rates. A recent health study showed that 68% of males and 53% of females were overweight or obese. The problem is just as prevalent for children. Therefore, franchise systems related to health foods and fitness could also find a receptive market.

Key Suppliers

Due to the broad nature of the franchising industry, suppliers vary greatly across the different industry sectors. The table below breaks down the industry sectors currently operating in Australia. It also includes each sector’s current share of all franchise systems.

Australian Franchise Industries:

Industry	Percent
Retail trade (non-food)	28.2
Accommodation and food services (includes food retail, fast food, coffee shops, etc)	15.5
Administration and support services (includes travel agencies, office services, domestic and industrial cleaning, gardening services, lawn mowing, etc)	14.8
Other services (includes personal services, pet services, auto repairs and servicing, IT services, etc)	10.0
Education and Training	6.3
Rental, hire and real estate services	5.8
Financial and insurance services	5.3
Professional, scientific and technical	3.7
Arts and recreation services	3.2
Information media and telecommunications	2.0
Construction	1.7
Transport, postal and warehousing	0.9
Manufacturing	0.9
Health care and social assistance	0.9
Electricity, gas, water and waste services	0.4
Wholesale trade	0.4
Public administration and safety	0.1
Unclassified	0.0

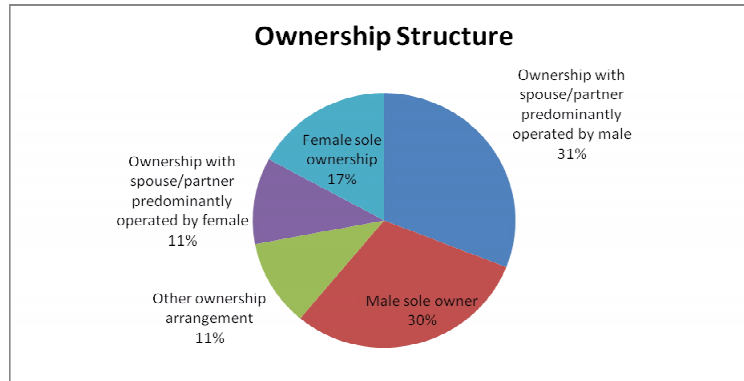
(Franchising Australia 2008 Survey – Griffith University)

It is advised that reference to be made to the ‘Industry Overview’ relevant to the above industry sectors for accurate supplier information.

Prospective Buyers

Franchised businesses in Australia are 2.5 times more likely to be successful than non-franchised businesses. The average total start-up cost for an individual franchise across all industries is USD 87,700. The average cost for a retail franchise unit is USD 216,000 to include the fit-out costs; however, non-retail franchise systems' start-up costs are approximately USD 44,000.

As seen in the graph below, franchise unit ownership in Australia is dominated by men; however, female ownership has grown from 11 percent in 2006 to 17 percent of total franchise units. In contrast, male sole ownership has dropped 7 percent to 30 percent of total franchise units.



(Franchising Australia 2008 Survey – Griffith University)

The majority of franchisees are concentrated within the 30 to 50 year age group with approximately 69 percent of franchisees falling within this profile. Franchisors in Australia appear to target this cohort in recruitment in order to minimize experiential and capital barriers to franchise ownership and operation. For instance, only 6 percent of men and 4 percent of women were under 30 years of age which may be due to difficulties that this age group encounters in raising finance.

Market Entry Strategies

Compliance to the Franchising Code of Conduct, under the Trade Practices Act 1974, is mandatory for foreign franchisors. U.S. Franchisors will need to consider their compliance obligations before entering the Australian Franchise Industry. The Australian Competition and Consumer Commission (ACCC) can assist in understanding ones rights and obligations under the Code and the Trade Practices Act (TPA); www.accc.gov.au.

It is essential that U.S. Franchise businesses undertake market research before they enter the Australian market. It is strongly advised that if international expansion into Australia is sort, that companies contact the U.S. Commercial Service in Australia to discuss which service is most suited to their concept. Professional advice related to site selection should be sought from relevant industry experts in Australia before entering the Australian market.

Market Access Issues and Obstacles

The Franchise Industry in Australia has experienced a large variety of franchise regulation, from corporate law regulation to de-regulation and voluntary codes of conduct. On July 1, 1998 the Franchising Code of Conduct was enacted, pursuant to the Trade Practices Act (TPA), which requires companies to adhere to the Code and exposes franchisors and franchisees to the remedies available under the TPA. Following a review of the franchising code's disclosure provisions, the Australian Government has made several amendments to the code. These amendments aim to increase the transparency, quality and timeliness of disclosure to existing

and prospective franchisees. They became law on 1 March 2008. Further information can be obtained from The Australian Competition and Consumer Commission (ACCC) via their website; www.accc.gov.au.

Foreign Franchisors will be subject to the local civil and criminal laws regulating business conduct. These include legislation affecting corporations, taxation at State and Federal levels, workplace and employment laws and so forth. As the laws in this area are constantly changing, professional advice should be sought to analyze the specific aspects of each investment or activity by a foreign entity.

Imported and locally manufactured products are subject to a ten percent Goods and Services Tax (GST). The GST is a broad-based tax on the supply of most goods and services consumed in Australia. It is akin to the value-added tax systems in Canada and Europe.

The franchising industry is currently experiencing a number of hindrances to growth. As previously mentioned, the franchising industry has been flourishing in Australia for over thirty years, with the sector approaching maturity. The biggest area of concern for franchisors is finding enough suitable franchisees to enable expansion of their systems. The following issues are also increasingly concerning franchisors in Australia; insufficient access to suitable sites or territories, difficulty in sourcing financing for the franchisor and franchisees, leasing restrictions such as high leasing costs and site-usage restrictions (particularly within shopping malls), a downturn in the market for particular products/services, and the high costs associated with complying with the Franchising Code of Conduct.

The growth of new systems and the expansion of existing systems have not only increased competition, but have also increased the demand for *quality* franchisees. Not only is the pool for potential candidates diminishing, the quality of candidates is also presenting a challenge. As an alternative, many Australian franchises have been prompted to use multiple unit franchising and international expansion to enable growth. There is also a marked trend for potential franchisors to stick with the better-known brands.

Trade Events

Franchising and Business Opportunities Expo

Website: www.franchisingexpo.com.au

Sydney:	March 20-22, 2009 Sydney Convention and Exhibition Centre
Perth:	May 23-24, 2009 Perth Convention and Exhibition Centre
Melbourne:	August 14-16, 2009 Melbourne Exhibition and Convention Centre
Brisbane:	September 5-6, 2009 Brisbane Convention and Exhibition Centre



National Franchise Convention

Date: October 19-21, 2009

Website: <http://nfc.franchise.org.au/>

Location: Burwood Entertainment Complex, Perth

References & Key Contacts

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