

Talking Business

with PETER SWITZER



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Bill Lockett

is a seasoned retailer with over 35 years of international experience in senior management positions with major retailers in the UK, Australia, Papua New Guinea and China. He is now a partner with the franchising consultancy company, Franchise Systems Group.

www.franchisesystems.com.au

PS Our next guest on *Talking Business* is Bill Lockett who is a partner at the Franchise Systems Group. Bill is a seasoned retail and business veteran working with clients such as BHP, Samsung and AMP. In his work with the Franchise Systems Group Bill aims to show people how to turn a successful business into a successful franchise.

Welcome to *Talking Business*, Bill.

BL Thank you. Good to be here.

PS Bill, what's your history?

BL My history is mainly mainstream retail, probably for the best part of 40 years, starting in the UK then coming to Australia and having a stint in Papua New Guinea, as well as opening department stores in China before I came back...

PS Retailers are big travelers, mate, aren't they?

BL They certainly are and they certainly get you everywhere in the world.

PS Sure. Now what's the state of franchising in Australia?

BL I would have to say it's rather buoyant at the moment. You've only got to look at the results of the franchising survey that the FCA commissions each year to see that growth has been steady over the last five years, particularly since they've been measuring it. The number of new outlets that are opening and the new franchisors that are emerging — people that have got a good business idea who want to expand and they're looking at franchising as the way to go.

PS Have you been surprised at the growth and the diversity of successful franchises over the last five years? I always had feelings we were getting close to capacity in some areas but it seems to have surprised me.

BL That's interesting because we always say that it's going to dry up one day, surely there's not going to be that many people coming along, but the enquiries still keep coming in.

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Even since Christmas we've taken half a dozen enquiries from emerging franchisors, which is quite surprising. And when you look at the diversity of businesses, there's almost nothing that can't be franchised at the moment. We've even had people coming to us who've got pole dancing academies that want to franchise that concept, and so on.

PS And you occasionally say, "look, I don't know if you're going to get a big uptake on this sort" or do you actually franchise a pole dancing academy?

BL No, we didn't actually move forward with that particular one, mainly because, as you said, we didn't see the feasibility for a franchisee in that one. The first thing we've always got to look at is it going to be worthwhile for a franchisee to be involved in the business. Are they going to make a reasonable return on the investment they put in. We do that as a preliminary exercise, and if we find that's the case, we move on to do the whole system generation process.

PS I would have said ten years ago, you could never have franchised a healthy food business or salad bars but they're working, aren't they?

BL They certainly are. You've only got to look at the growth of people like Sumo Salads, for instance, who are really growing well and expanding nationwide and looking at overseas expansion too.

PS And in a sense, as long as they pick up on the trends that consumers are interested in, that's a pretty safe bet for establishing a franchise, isn't it?

BL Yes, you're absolutely right. The concept has always got to be a good concept to start with, one that is fairly unique in itself. You always worry about the plethora of coffee shops that are coming along and what is the new coffee shop chain going to have that's different from others. There's probably still a few slants left in that area, but it's also got to be constantly changing and the role of the franchisor is one of research and development into new products, new ideas,

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new trends that are happening so the franchisee has got a business that he can look at in the next four or five years is still going to be good because the franchisor is doing his job of developing the ranges and so on.

PS Now, clearly a very important part of your business — and just for the sake of listeners on the plane, I should remind them we're talking to Bill Lockett from the Franchise Systems Group. From your point of view you've got these new people that have got businesses that have probably grown to four or five outlets, they're trying to control them all and they realise they've got something that really works and it can probably turn into 50 or 60 around the country. But what about the franchise group that maybe has 300 outlets and they might be hitting critical mass. Rivals are coming in because they're working. Do you sometimes have to advise people that it's time to stop selling their franchise, that they really have gone as far as they can go?

BL Yes, that's true, we do. We often get involved in reviewing franchise systems where they have reached a plateau and they probably don't understand quite why they're not attracting new franchisees at the moment and so on. So we do a comprehensive look at what the franchisees themselves are thinking. We do a survey as a third party, let's say, and go back to the franchisor themselves and say this is what the franchisees are saying and we believe these are the sort of things we should do. But it's interesting, too, because as you get, for instance, a retail food franchise then you start to get to 300 in size. Of course the availability of prime A-class sites is obviously much reduced, so any franchisee going into business with one of these chains later on has to look very carefully at the location itself, and whether the reduced rent, for instance, for a second relocation can be made up for by, obviously, better sales and so on, and having a good net profit at the end of the day.

PS Because often the price has been linked to the success of the operation when those prices were determined, when they were maybe only 50 or 60 outlets and there was an enormous market support for this and less rivals in the market as well.

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BL Yes, that's true. But of course, the good franchisors are continuing to provide that ongoing support, and if you look at any of the majors, they have a very big field support staff and head office staff to support these franchises, so generally speaking, they're still offering the support and the value is certainly in the brand in most cases. It just has to be that the franchisee has to be ultra careful when they're looking at a secondary site, let's say, to see that the feasibility is there.

PS What are the trends in franchising that you're watching which would be good advice to people who might be considering either setting up a franchise or buying a franchise?

BL Certainly the wellness revolution is truly with us, so you see, obviously, a growth in the number of fitness centres, the number of outlets that are retailing fitness equipment, the number of people that are moving towards the fresh and healthy food sector. There are a number of examples of those and even the established ones like McDonalds, who are obviously looking at the fresh ranges and the healthy ranges to improve their business as well. We also see a big movement towards the man-in-a-van type of franchise, which is where it will be a mobile business where you go to the customer and perform the service. This could be from automotive to alloy wheel repairs to tyre protection equipment, or to the carpet cleaning and those sort of domestic-service type franchises that are currently available.

PS What do you suggest to people when they come to you to buy a franchise? What kind of recommendations do you make to protect them from making big mistakes?

BL First of all let's look at the numbers, let's see what the profitability of the business is likely to be. It does depend upon the quality of figures and information you're given by the franchisor. Some of them tend to be a little weary about giving too much information because of the franchise code of conduct and so on, and the fact they don't want to be taken to court at a later stage for giving figures which, you know, are not reasonable for a franchisee to do. So

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given that information, work through some numbers, get some good advice from an accountant, solicitor, business consultant, franchise consultant — somebody of that nature who knows business and understands it so they can work through those numbers with you as a franchisee to see that it's viable. And then — only then — have a look at the other documentation — the legal agreements and so on — and see what it is and make sure that you know what you're letting yourself in for.

PS Do you think it's a good idea to go and survey maybe ten operators in the franchise to see what they're saying about their business?

BL Absolutely. In fact, it's part of the code of conduct that each franchisor when they prepare a disclosure document, lists in detail the names of the franchisees that are currently in the system, with their contact details. Anybody applying for a franchise are told that they are quite at liberty to go and ring any of those people and find out about the franchise.

PS Are there any big well-known franchises out there that if your daughter or your son came and said "dad, I'm going to buy into this", you'd say be careful, I think they've gone too far or the market condition has changed? I don't want you to name them but do you think that that sort of situation has happened?

BL Strangely enough we did an assessment for a would-be franchisee of a major brand name. Normally we'd say this was a very reliable brand name and that you'd be certain to make success with this particular business but we decided that the franchisee shouldn't proceed with this and our advice wasn't to proceed, but it was mainly because of their own circumstances rather than the brand or the location. The franchisee wanted to borrow one hundred percent of his investment for this particular business and there wasn't enough profit to make a reasonable income for himself and to service the debt and the principal repayments.

PS One last question. I often see great franchises that work in many situations but the people find themselves in a very

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expensive shopping centre and the cost of the rent and all that sort of stuff makes it very hard. Do you sometimes advise people not to take franchises in expensive shopping centres?

BL Yes, because it's part of the cost structure. When you look at the numbers, it's probably the biggest cost that a franchisee will face in the major shopping centres. That and, of course, the wages. And for many good reasons a lot of new franchise chains are going to more of the strip shopping type of outlets because they might have a takeaway food business which operates into the evening as well and it's obviously much more sensible that they are nearer to the homes and make it easier for people to stop and pick up things and go. We find they can become very profitable in these strip shops.

PS Is there a website if people want to look into what you guys do and offer?

BL Yes — www.franchisesystems.com.au, and we've got heaps of information about franchising in general as well as specific opportunities that are available at this moment.

PS Great. Bill, thanks for joining us on *Talking Business*.

BL Thank you very much, Peter.