

FRANCHISING ROUND TABLE 2010

Leading figures from across the franchise industry joined *Wealth Creator* to discuss business issues and the path ahead

PARTICIPANTS:



Name: Terry Aravanis
Position: Commercial manager, Autobarn
Founded: 1985
Outlets: 98 franchise, 1 corporate
Headquarters: Nunawading, VIC
Growth Targets: 5+ new stores per annum



Name: Richard Reid
Position: Chief Operating Officer, Jim's Group
Founded: 1989
Franchisees: 3185 outlets
Headquarters: Melbourne, VIC
Growth Targets: Mowing division 10%, other divisions 10-50%



Name: Justin Wilshaw
Position: Chief executive, Contours Australia
Founded: 2005
Outlets: 160 franchise, 1 corporate
Annual Turnover: \$40 million
Headquarters: Rushcutter's Bay, NSW
Growth Targets: 7% membership



Name: Stephen Giles
Position: Director, Franchise Council of Australia, partner of Norton Rose and an owner of Mrs Fields Cookies in Australia



Name: Max Billi
Position: State manager Victoria and Tasmania, Mortgage Choice
Founded: 1992
Outlets: Over 350 franchise, 0 corporate
Annual Turnover: FY10 NPAT \$14.8m (cash). Loan book of \$40bn
Headquarters: North Sydney, NSW



Name: Andrew Dyduk
Position: Director, Schnitz Franchising
Founded: 2007
Outlets: 2 franchise, 2 corporate
Annual Turnover: \$3.5 million
Headquarters: Melbourne, VIC
Growth Targets: 10 stores by 2011, 20 stores by 2012, with interstate franchising to begin in 2012



Name: Darren Gunton
Position: Marketing manager, Price Attack
Founded: 1986
Outlets: 125 franchise, 5 corporate
Annual Turnover: \$120 million
Headquarters: Brisbane, QLD
Growth Targets: Six new stores in the next 12 months



Name: Andrew Barker
Position: National marketing manager, Bartercard
Founded: 1991
Outlets: 50 franchise
Annual Turnover: \$120 million
Headquarters: Gold Coast, QLD
Growth Targets: 10% increase in franchises

WC How is business at the moment?

Aravanis: Our market conditions are up at the moment. We have been on a very strong growth path for three or four years with double-digit growth. Growth has slightly tapered in the last year, but is still on an upward path, and we are still seeing growth on a like-for-like basis at the national level, which is fantastic. We have seen some improvement in the margins as well. We are also seeing strong franchise sales, both for buy-sell and greenfield sites.

WC With the new franchisees coming into the system, are these people who have been delaying their interest while they are waiting to see what the market is doing, or are they people who are new to the industry?

Aravanis: To be honest we don't actually track the length of time our franchisees have waited to enter the industry, but overall we could say our franchisees are a mixed bag; people of various levels of age and experience. There are people who are young and looking to get into franchising to get into their own business and there are others who are bringing with them a lifetime of experience and doing something they have probably waited a long time to put together, and everything in-between.

WC How is Mortgage Choice performing?

Billi: Mortgage Choice is obviously heavily linked to the financial markets. Coming off the back of the global financial crisis we have actually come through quite comfortably, with a cash profit for FY10 of \$14.8 million. The challenge for us now is working with the slowing of what was a strong property market, and the swing from the first-home buyer to the investor, but we are still seeing healthy levels of activity.

Also, there is talk of interest rate rises in the next 12 months, which may have an impact on home loan flows – both positively and negatively. We may see fewer new borrowers and more people looking to refinance. What we have done over the past 18 months to combat slowed demand is embark on a diversification strategy. Mortgage Choice previously specialised only in home loans; now we also help customers source risk and other insurances, commercial and personal loans, - and asset finance.

In terms of franchisees coming on board we have had our ups and downs just like everyone else. However, last financial year we sold 18 greenfield franchises and 23 franchisees were successful in selling their existing business, which was a good result. Interestingly enough, in Victoria there has been a increase in interest from females coming through in the 30-35 age group, which is really exciting.

Giles: Women tend to be really successful in the financial services industry, don't they?

Billi: Absolutely. The most successful Mortgage Choice loan writer in Australia is Wendy Higgins from South Australia. Our research has shown that the first-home decision maker for a family or a young couple is normally the female, so our marketing is usually skewed towards the female demographic.

But there is a swing from first-home buyers to investors. My Victorian state office team has had to look at our marketing, where the research shows it is generally the male making decisions in relation to investment properties. We have had to change tack to tackle that market. Our core business remains the first-home buyer, but there is still a need to tap into that smaller market. Of course, refinancees and upgraders are also a good portion of our business. It's very exciting times.

WC Tell us how Contours is going?

Wilshaw: From a membership perspective we are flat on prior years, but some markets have performed exceptionally well. There have been some areas where disposable incomes have dropped off and there have been some declines, but overall we are flat on the prior year, which we think is good for where we are currently at. Our focus over the past year has been on improving systems around our network, particularly in areas such as staff training. We are now the only express training network in Australia, which is endorsed by Fitness Australia – which requires staff to be trained to a national certification – which we think will prove quite powerful going forward because we will be able to retain members a lot easier and increase traffic. In terms of franchising, we opened eight territories last year and transacted around 20. We are now in our fifth year of operations so we saw a lot of franchisees who came aboard five years ago – keeping in mind we operate under 10-year agreements – move on. We were able to sell 20, which was great, particularly in Victoria and New South Wales. After a good year we will be looking over the next 12 months of consolidate our position as a leader in express fitness and to grow, particularly in Queensland and Western Australia.

WC Who is your main market?

Wilshaw: The main market is mums. The average age of our member is 42, the majority of them are married with kids. There are just under 60,000 members across the country.

In Melbourne we have a much younger demographic, with females in the 18-25 age group, which is quite interesting given that normally the 18-25 group has been captured by groups such as Fitness First in the past. »

WC And what about Jim's Group?

Reid: From our point of view in 2009, we experienced an increase of 10.61% on work leads – there was plenty of work being generated. We had nearly 53000 unserviced jobs and this year to date we are tracking at around 18% increase in work leads and project that there will be around 50,000 unserviced jobs.

In terms of growth of franchises, all divisions other than mowing have grown at 14.65%, while mowing has grown at 5.14% but is obviously coming off a much higher base of 1890 franchisees.

Our growth has mainly come from some of the mid-sized divisions within Jim's, although they are very large in their own right. Divisions like cleaning, test and tag, antennas, skip bins, bookkeeping and computer services have all grown significantly in the past 18 months and we will see further growth as we open new divisions, with three – pest control, glass, dingos starting up in the past six months. We are always fielding ideas from business owners who want to franchise their businesses using our

brand and systems and there are quite a few being looked at.

We are looking to expand into trade-based type industries. Plumbing and electrical are two of our trade-based divisions and we will probably follow that model a lot more in the future. There is an opportunity for businesses to re-brand as a Jim's and apart from the obvious marketing benefits to them, they also have a system of retaining their best employees by offering them the opportunity to become a franchisee rather than leave the organisation and set up as an independent, with all of those inherent risks and extra costs.

Having said that there are some technical divisions that are also doing well – test and tag has seen strong growth, as have antennas. Fencing has a large amount of unserviced work and they are working hard to attract more franchisees to address this.

Aravanis: Why are you short of so many franchisees, with so much work going 'missing'?

Reid: Our brand is so strong that the work keeps coming in. The more vehicles and trailers there are on the road, the more work we generate. In terms of granting more franchises, we are pretty selective, but we do have issues with finance, which can be a problem. A lot of banks tell us that \$50,000 for a franchise is too cheap.

Wilshaw: Yes, we have the same problem.

Billi: It costs the banks just the same to chase a \$50,000 loan as it does for one worth \$250,000, but \$50,000 is a small loan for them. The larger the loan, the more likely they are to chase the business.

Reid: We have come up with some plans to counter that. One of those is around our new investment company we are setting up. We are looking for sophisticated investors to kick in half a million dollars each and from that money that company will then finance potential franchisees into their businesses. That is one way we propose to fund our growth.

Giles: Are any of your franchise services accredited with the banks?

“A lot of banks tell us \$50,000 is too cheap”

Reid: No. We went down that path a few years ago and it was just as hard. Taking it under our own control makes more sense. It's similar to insurance. We are in the process of setting up our own insurance company, Jim's Insurance, which will be able to provide better rates to franchisees. [The insurance] would be run through a broker, we are a sub agent.

WC Schnitz is a relatively new player on the franchise system. How is business going so far?

Dyduk: I'm not sure if you've heard of the concept, but it is quite new and unique. As a family business we have been involved with food for over 35 years now, generally in big smorgasbord-style restaurants.

The Schnitz concept was born after my brother (who worked with my dad) ended up leaving the family business and pursuing a career in logistics. Since then it turned out dad couldn't run big restaurants anymore so he started up a small sandwich bar serving schnitzels. Now it has grown to four stores with two company-owned stores and two franchise stores. We are looking to expand nationally, but we are looking to focus on Melbourne first while we still finetune our systems and processes.

We are nowhere near the level of most of the other companies around this table in terms of franchise numbers, but I think what we offer is something really unique and the Australian public are right behind us. We have found since exhibiting at the Franchise Expo that we received around 100 leads from there and another 50 since then. We're finding that around one in every 25 people that we speak to actually goes through and signs up as a franchisee, so we are just about to sign up three new franchisees and there are another three that will be signed early next year.

Timing is a big issue. People often need to sell up property or wait for funds to settle before investing in a franchise – there are a range of reasons for the delays. Our setup costs range from \$250,000 to \$400,000, where the commitment varies dramatically depending on the requirements.

Sometimes there are great opportunities where a site already exists and we can just walk in, pay some key money and retrofit the premises – this reduces the setup costs significantly.

What we have found is that it is sometimes easier to go with a greenfield site to save a lot of hassles. Each situation is unique and we treat each location as such.

Our motivation with franchising is to grow not only throughout Melbourne but also throughout other states. There is talk of master-franchising arrangements with other states but we're not 100% confident on that strategy yet.

We're probably going to get to around 35 stores around Melbourne and the same number in each state on the eastern seaboard – we have had a lot of interest from Sydney, the Gold Coast and Brisbane at the moment. »



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Reid: What sort of criteria are you using to find new franchisees?

Dyduk: It might seem strange but we don't want them to be experienced chefs. Hospitality experience is advantageous and they have to be trainable but we are not looking for chefs or anyone who is qualified because when you speak to them they think they can do something better than what you can.

"The best franchisees are husband and wife teams"

Another thing is that they have to be financially sound, so we spend a lot of time looking at their finances. We don't want our franchisees risking everything to own their business even though it is a successful concept – it's prudent to have some savings put aside for a rainy day.

Ideally we are looking for couples because we have found that the best franchisees are husband and wife teams, which can spread the load. We do have a five-day a week opening operation for those who want more of a lifestyle, which is our CBD model, while the outer suburban strip shop and food court models are more seven-day operations.

Personality-wise we are looking for fun and energetic people with a lot of passion for what we do and a love of schnitzels.

WC How is Bartercard performing?

Barker: We have seen a positive increase in lead generation of around 300% over the last 12 months, with the predominant source of those leads coming out of our membership base. We have had a focused marketing effort

through our existing membership base to achieve this increase. This will continue to be a strategic focus moving forward, as we have already proven that ex-staff and members are a very good source of potential new franchisees, as they know and understand the benefits of Bartercard. This is represented by our current franchisees of which 45% are formerly staff or members.

WC How is business going for Price Attack?

Gunton: Price Attack has been in franchising for 25 years, so we have been around for a long time. The company was sold around three years ago to the Jarred family, who were the first franchisees for the Price Attack brand in Bendigo.

In the last 12 months we have refocused on improving the efficiencies of the existing stores, rather than continuing to grow store numbers for growth's sake. Building a stronger brand was identified as a key priority to take the brand into the next 25 years plus. A re-branding campaign emerged because the image had become quite tired, and as the process of cleaning up both our national repertoire as well as taking a closer look at individual stores we realised how beneficial the initiative was going to be.

Now there is a new logo, new marketing materials and new store designs, which is very exciting and has definitely reaffirmed our position as the authority in hair. Over the past 12 months we have rolled out 20 stores, some new and others refitted and we are going to have a program with our franchisees to re-fit another 75 existing stores over the next six months.

That does create some issues with the new code of conduct because while we will be funding most of it, it is still a significant investment so do we need to have disclosure document for it? That's one of the issues we have been facing

in that respect. The stores where the new branding has been rolled out have typically received double-digit growth. We have been working on getting as many stores as possible transformed with the new imagery of the new logo and new feel so that more can see these fantastic results.

Another focus for the Price Attack support office at the moment is reviewing the roll-out procedure. Currently if a new person is coming in – or even an existing outlet is undergoing a refit – it can cost up to \$250,000 in fit-out expenses, which can be challenging to meet given different circumstances so we're looking at ways to reduce the cost so it is much cheaper and quicker to increase our nationwide rebranding campaign. Speed to market is important so that we have store image consistency and collateral templates that can be streamlined to each.

In terms of consumers it has been a challenging 12 months for retail at large and as much as we are fairly lucky to be a value-driven brand, we still felt the downturn. Victoria and New South Wales have been tougher markets, whilst Western Australia, South Australia and Queensland have been the better performing states. >>



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Benjamin Franklin



Franchisees who have taken the new initiatives on board have had great success, but some of the franchisees who have been in the system a bit longer and don't like to change or focus on new things seem to be flatlining. The challenge is to revitalise the business so these new ideas get traction.

Billi: We have had the same problem with some franchisees who have been in the system for a number of years and operated their businesses predominantly through the good times. So much of the mortgage and general consumer worlds have changed now, though, and some of those [older franchises] are struggling to embrace that change. New guys are coming in with an open mind and positive outlook, which is great. Some of them are helping us educate the more established brokers. As I often say, 'You can be on the right track but if you're not moving fast enough you'll get run over'. We're communicating this message in a positive way through an array of communications and education forum.

Dyduk: How do you communicate with your franchisees? Do you have regular newsletters or meetings or an intranet?

Billi: From our perspective we have a regular development programs and workshops, marketing cell meetings, bi-annual state conferences and company newsletter and a yearly national conference. We also have comprehensive intranet sites and email is a strong communication medium for group and state offices to the network, and vice versa. We make a point of having our support teams visit franchisees on a regular basis. If you can do that and touch base with them personally, it shows that we care. Even if you take the time to simply make a phone call. It's hard though, because you get stuck in the day to day.

Reid: Our franchisors have to speak to their franchisees at least once a month and log it into the system. Many appreciate the regular contact and benefit greatly from the business acumen of their franchisors, others just want to be left alone after a while – they tell you to stop calling them!

Wilshaw: One of the concerns I have when you are talking about support is when you host functions, for example, and see the same franchisees at every

single function. It is incredibly important that you speak to the guys you don't get a chance to talk to all the time. It's a really powerful thing.

Reid: We find it's really important to talk to franchisees whose business is just starting to tail off or are experiencing a downturn, in terms of the curve. You have to communicate and show them a lot of love at a time when they are probably starting to question whether anyone cares – you have to show them they are valued. When you have someone who is at that point of the curve, it is not easy to call them up and find out what problems they are having, but is the most important time to work with them. Our franchise management system is pretty good at identifying those that are in a time of need.

Giles: Do you have regular field visits to the franchisees?

Reid: It's not as important as we don't have retail outlets. Franchisees speak to their franchisor at their regular six-week meetings, their business is reviewed on a regular basis, they speak at least monthly, although franchisors are on call and required to respond within 24 hours of a franchisees call. Franchisors will regularly go out and check jobs the franchisee is doing – it might be something they are stuck on or just a friendly visit.

Wilshaw: Eighteen months ago we put in a system that sounds very similar, which was probably one of the best things we have done. Every email that goes from a corporate to the franchise and back is logged on this CRM, along with all the sales, so that every time we talk to a franchisee we can see everything that has happened between the franchisee and any member of the corporate team.

WC There seems to be a lot of positive feedback around the table – is that indicative of the franchise industry as a whole?

Giles: The results from the *Franchising in Australia 2010 Survey* and also the *PriceWaterhouse Franchise Sector Indicator* show that the number of franchise systems has stayed about the same – roughly 1025 franchise systems – so there is not a big growth in the number of systems. The franchisee levels are also the same in terms of outlets, with around 70,000 outlets.

"It's really important to talk to franchisees whose business is just starting to tail off"

The franchisee levels are also the same in terms of outlets, with around 70,000 outlets. But what we are seeing underneath that is that the median number of franchises per outlet has actually increased from 18 – 23, so the franchise systems are getting bigger. In retail the median is now 40, so the retail franchise systems are really starting to expand.

Franchisors have been around for 15 years on average now so we are starting to get a real maturity with our industry and 58% of our systems have a significant number of multi-unit ownership structures, so there is a real trend towards multi-unit ownership.

Disputation is still incredibly low at around 1%, which is quite amazing given the global economic conditions.

The *PWC Franchise Sector Indicator* showed that overall, franchisor revenue was up 19% and franchisee revenue was up 7%, which again is quite amazing given these times.

Franchisor profitability was up 12%



and franchisee profitability was up around 6-7%. In these circumstances the franchise sector has substantially outperformed the economy.

Aravanis: Why has franchisor revenue grown 19% but the franchisee revenue is only up 7%?

Giles: It takes in elements such as company stores and there are other revenue sources from franchisors being smart with leveraging elements such as product rebates, better supply terms and being more proactive with other opportunities.

At a store level there has also been some consolidation and as most franchise systems would know the last 18 months has really sorted out those franchisees that were not up to the mark, because it has been tough. Rents in shopping centres are also very high. But the PWC survey has shown that the successful franchisees who have got good business and management skills have been very successful despite the tough times.

At another macro level from my Norton Rose perspective – because we represent more than 200 franchise

systems – the three megatrends we are seeing are increased merger and acquisition activity, more private equity going into franchise companies now (for example Boost Juice and Pandora), and the strong Australian dollar providing a good opportunity for Australian franchise systems to be looking overseas.

The other business I am close to is Lenards. Their major focus has been franchisee profitability and having SWAT teams go in. They will have a two or three person team go in for a few days and the impact on factors such as items per transaction and average dollar sales has been very significant, so much so that we have actually increased that program this year.

The two challenges that both surveys refer to are finding franchisees – with higher levels of employment there are just not the same numbers of franchisees that have the necessary business experience. They often come from non-English-speaking backgrounds so the training requirements are higher and they need more intensive support.

The other challenge is finance – finding finance and getting it approved. But the good franchise systems are working around that and some are able to >>



provide additional top-up finance to get the franchisees over the line.

WC Last year when we held this roundtable the franchise code had just come in and there were some teething issues. Has that settled down now?

Giles: The general perception is that the changes were sensible changes and they were not excessive. The regulatory framework is essentially working well and while there have been a few challenges at the margins at the end of the day people have just been getting on with it. It has to balance between protecting franchisees and not being too burdensome and although some areas may be burdensome most people are just getting on with it.

WC The issue of obtaining finance appears to perennially affect the franchise industry. What are you able to do to ameliorate the pain for franchisees?

Aravanis: We actually have accreditation with a number of the banks and we manage our relationship with the banks very closely. We provide a lot of information to the banks as is required

at times – both at times of buy/sell but also when there are issues with individual franchisees.

We like to have a collaborative approach to work out how to go forward. We have had examples of franchisees who have had certain issues that made them unable to continue to run the business, where we were able to come up with a solution with the support of the bank, which we wouldn't have been able to implement without their support.

Managing the banking relationship is critical. The challenge of getting funding for our franchises, because of the size of the inventory and level of investment, is beyond the limits of most people, and without the support of the banks it is impossible. Having a strong relationship with the banks is critical, but one of the challenges is that banks have staff too and with decentralisation you find that some credit managers and bankers have a different understanding of franchising across the country.

WC What are the plans for the next 12-18 months?

Gunton: Price Attack has three key focuses over the next year or so. These are the new store re-fits, salon development and the loyalty program. Predominately to get our new imagery into the stores and connect better with our female target audience is where we can really pick up the pace, so this is at the top of our list.

“Profitability was up 6-7%”

Another big thing which has been amazingly successful over the past 12 months has been our loyalty program, where the basket size has gone up from \$28 to \$54 for our loyalty members. CLUB PA, the name of our loyalty

program, has gone from nothing to 300,000 members in 12 months and we hope to get it to one million members in the next 12 months. Members get discounts, a price preferential and we communicate to them via emails and SMS. It also allows us to easily increase store sales. One recent example is when we issued a store promotion that cost \$150 to send the SMS out and the sales went up by \$11,800. That's just one store.

We're also looking to grow our network. We have cleaned it up over the past three years and now we are looking to really focus on getting new franchisees in the system – not just changeovers but new stores at the same time.

Dyduk: Our plans are to make sure that we finetune our systems and our offerings. Obviously we are investing heavily in our infrastructure so from that perspective we need to make sure that we have our training systems and procedures in place.

Growth-wise we are looking to grow to 10 stores by the end of 2011, which we think is very realistic, and probably 20 stores by the end of 2012. We will look at interstate franchising after 10 stores unless someone great comes along.

Our focus is also on building up our brand and investing in brand equity as well. We want to carve our niche, we're the first schnitzel franchise of our kind in Australia and we think we have a competitive edge in a crowded retail food market. From that perspective it's really about dominating that brand presence, when it comes to schnitzels we want Schnitz to be top of mind and I think our franchisees will come as a by-product of this activity.

Reid: We always focus on franchisee support, to make sure that our franchisors are looking after their franchisees. And from a national office perspective, we are increasing our support of our franchisors. They are critical to our growth and the best

franchisors are the reason why we are going to keep growing.

We are establishing a franchisor professional development program to help our franchisors become better business coaches and mentors to the franchisees and also helping them to develop growth strategies as well.

If we can do all those things right then the growth in business will come from that. It has been a good policy to date, so we will just do it a little bit better, addressing those little one-percenters.

Barker: We have made some strategic alliances with key franchising publications to test the water, so to speak, in the outside market place, which is something we have not explored in the past.

Our recent initiative of our franchise incentive program is still in its infancy stage and we will be looking to continue to simplify and enhance the ability for our existing franchisees to earn increased revenue. Hand in hand with this initiative we are driving our compliance model to allow the opportunity for our focused franchisees to evolve and become more successful and those franchisees who are at the end of their term or wanting a change of career, a smoother transition out of the franchise network.

Over the past three years we have been somewhat quiet in the market place in relation to franchising as our key resources have been working on streamlining our systems and overall model. We will be looking to re-engage with key associations and reward organisations to again showcase Bartercard as a successful and profitable franchise alternative.

Wilshaw: Our goal over the next 12 months is continuing to refine our operations structure. We have just put on a national operations manager and we will continue to make sure that programme of frontline support for our franchisees is a large focus.

In the past few years we implemented

a five-year strategic plan and we are now in our second year of that so it is important to make sure we are meeting the objectives of that – particularly around the areas of corporate social responsibility and also the financial management of our franchisees.

Lastly, we want to make sure we continue to evolve our fitness offering. We need to continue to evolve and listen to what our members want us to provide them with. The results of our annual member survey, which we have just conducted, will be the basis for this.

Billi: The home loan market has traditionally been our core income source but lender commission reductions and a softer market post-first home owner grant boost have challenged us to run harder to generate the same levels of income. Eighteen months ago we embarked on diversifying our consumer offering to include complementary finance products and now we are focusing on ensuring franchisees incorporate these into their sales, where possible, to create alternative income flows. This, while keeping home loan service at their heart.

In residential settlements, we have a market share of more than 4% and we want to grow that, but the only way we can grow that is through expanding our network and through acquisitions such as our most recent one – LoanKit, a well-known mortgage aggregator.

This allowed us to open up an aggregation arm to operate independently of our franchise business. We are doing our best to grow this part of the business too, while we seek other acquisitive opportunities.

Aravanis: We're still looking to grow the number of outlets across the country but we will be very selective in the way we do that. Our target is aggressive but we certainly won't be pushing that excessively – it will be a targeted and focused growth.



Our core business has always been based around individual franchises being successful as independent business enterprises, and that certainly won't change. If anything we are focusing on being business coaches to our franchisees. Profitability has improved over the last couple of years and will probably be our biggest focus over the next 12 months. Over and above that we are looking at refining our processes to improve cost control in our stores and improve our retail offer. We're looking at an evolving market where we may need to modify our product, and marketing to our consumers.

The last key focus is refurbishment of our existing outlets. Many of our stores have undergone a refurbishment program in the past couple of years and seen significant growth. With some of our older franchisees, because we have been around for 25 years, there are some that haven't refurbished a lot in that time. We actually see things being very positive in the next 12-18 months – we are very bullish about the prospects of the Autobarn brand in the market place. Things have been going well and we expect growth to continue. **W**

For a full transcript of the Franchising Roundtable visit wealthcreator.com.au