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The Briefing

Franchises brace for the downturn

Monday, 13 October 2008

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Franchisors say they are preparing for the inevitable economic downturn by cutting costs and reviewing spending, but argue they are better suited to survive than other small businesses.

Several of the members of Australia's top franchise list, released on Friday and led by Greek-themed fast-food chain Souvlakihut, said they were being extra cautious as the economy slows.

Stephen Spitz, head of coffee group Xpresso Delight, says business is strong, but he is taking nothing for granted.

"You've got to look at what your costs are and trim those to be as efficient as possible. When times do get a little bit harder it gives you a chance to concentrate on your strengths and weakness.

"You've got to be careful," he says.

ANZ's head of retailing and franchising Jason Cannock is advising his franchisor clients to be extremely diligent in their spending, and trim the fat wherever possible to ensure survival.

"Ensure you seek guidance and advice around things such as labour and cost of goods. Look at your support system and seek advice," he says

"[Franchisees] also need to be very conscious of the way in which they engage their lender. Things like maintaining capital and account requirements, to make sure they meet the challenges that are ahead."

But Cannock argues franchises have an advantage over other small businesses because of the support systems offered. "I think franchising in a general sense has a larger higher success rate. The difference between a franchise and a small business is the system of support and guidance."

The strength of an individual franchise system during the downturn will depend on the inherent strength of the industry it operates in.

"Industries that will do well are things like healthy living, or well being, such as gyms or healthy eating services. But in saying that, traditional markets, which are usually cake, coffee, and fast convenience, are strong," Cannock says. "I'm not saying they're not doing it tougher than others, but they are well set."

Cannock says franchises that offer products seen as good value will do best. "What people who go to restaurants now say is, 'I won't go to a restaurant, but I will spend \$10 on lunch'. They see that as a small reward.

"That's why Souvlakihut's position is so good, because it offers something that is rewarding and fresh for a low cost."

Souvlakihut head Bruno Ceraso agrees. While he says everyone has felt the impacts of declining consumer confidence, he argues people want to eat out and enjoy that experience.

"We're actually in a fantastic position in terms of the economic environment. We're under the \$10 spend level," he says, "I guess you could put McDonald's, Nando's and Hungry Jack's there too."

Spitz from Xpresso Delight also says his business is well placed to survive the slump thanks to its business model, which negates the need for a retail store or a lease and simplifies costs.

The group provides coffee machines to businesses, which then produce their own coffee in the workplace and are charged \$1 for every cup. "All the franchisee needs to do is hop in their car and go down to the business for half-an-hour."

Spitz is also hopeful the downturn will force companies to work harder at keeping staff on-side.

"Probably as times go a little bit harder, it becomes even more important to handle the employees you want to keep there. Offering free coffee is a very good way to keep them."

Head of Ecowash Mobile Jim Cornish says whatever economic pressures franchises face will eventually disappear.

"There's been a big downturn in the industry, and we certainly have noticed people get a bit more nervous. I think that's good for the industry as a whole because it means people make more informed decisions.

"I don't see it lasting very long," he says.

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