

22 September 2023

Franchising Review Secretariat Unit  
Small and Family Business Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

*K.V. Rosebery*

[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]  
[REDACTED]

Dear Sir / Madam,

SUBMISSION TO THE FRANCHISING REVIEW  
**THE ONE-PAGE DISCLOSURE DOCUMENT**

**Disclosure to Franchisees has Deteriorated**

*What is important is buried in a mountain of irrelevant information.*

Central to many of the recent changes to the Franchising Code and implementation of the Franchise Registry has been to improve disclosure. However, what many of the well-meaning changes have done is to make a franchisor disclosure document run to more than 200-pages, once the mandatory inclusion and supplementary information is provided. The net effect of this is to make these disclosure documents even more difficult for prospective franchisees to read and understand. My experience is that in fact disclosure has deteriorated as a result.

**Transparency of Franchisee Profitability is the Key Issue**

*If a franchisor was transparent about the profit performance of its franchisees, much of the 200 page or so disclosure document becomes irrelevant, and I believe we would see vastly improved outcomes for franchisees.*

At the heart of the recent issues with franchising has been the lack of transparency around the actual performance and profitability of franchisees within any particular system. At the same time, how much profit a franchisee might reasonably expect to make is usually the one question all prospective franchisees ask, yet few franchisors answer this. The current disclosure document attempts to answer this in a round-about fashion but focuses only on the inputs, i.e. the cost of disparate items and doesn't address the outcome, being what was the achieved net profit of franchisees. As a result, the document is unwieldy, difficult to follow and tells a reader very little about the outcome being sought (profitability).

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## **Disclosure Should Focus on Actual Franchisee Performance**

*A franchisor makes an implied promise to prospective franchisees that they will make money, surely this should be backed up with actual historical data.*

To improve transparency on the profitability of franchisees and franchise systems, I believe that franchisors should monitor and report on the prior financial year's profitability of their franchisees, in an aggregated way to protect the privacy of individual franchisees.

## **Proposal – Large Franchisors Should Report on Franchisee Performance**

*If a franchisor claims to operate a profitable system, then the discipline should be applied to accurately measure and report on this to prospective franchisees.*


Franchisors with more than 20 franchisee units, should be required to include aggregated data on the average and variability around the average, of: -

- Profitability (usually expressed as Earnings Before Interest Tax Depreciation and Franchisee Remuneration – in other words, the cash surplus to franchisees;
- Expense ratios as a percentage of sales;
- Capital expenditure; and
- Stock holding

An example of a one-page disclosure document is attached. The transparency involved in presenting such data will vastly improve the quality of disclosure. It will likely have other benefits in terms of tax and Fairwork Act compliance.

I have nearly twenty years' experience in franchising, as Managing Director of Aramax (formerly Fastway Couriers), Managing Director of The Cheesecake Shop and about 5-years as a director of the Franchise Council of Australia.

Yours sincerely

A handwritten signature in black ink, reading "Ken Rosebery". The signature is written in a cursive, flowing style with a long, sweeping underline.

Ken Rosebery

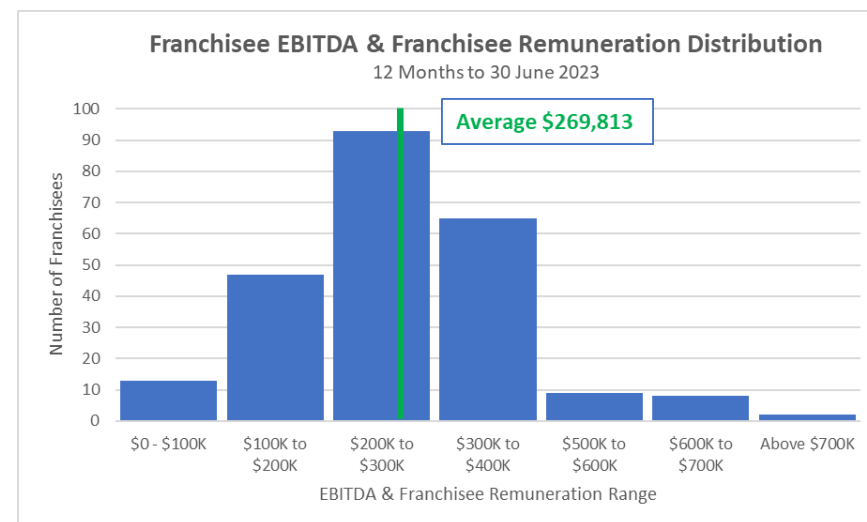
# THE BRAND X ONE-PAGE DISCLOSURE DOCUMENT

*This is a summary of the key financial aspects of a Brand X franchise to be read in conjunction with the full disclosure document*

## Franchisee Profitability - \$269,813

Cash profits (EBITDAFR) that are available to franchisees are defined as **Earnings Before Interest Tax Depreciation Amortisation and Franchisee's Remuneration (EBITDAFR)**. This is considered the best method to measure the cash profit or surplus available to franchisees. The average franchisee cash profit (EBITDAFR) in the 12 months to 30 June 2023 was **\$269,813**. The variation around this average is shown in the adjacent chart. 86% of franchisees achieved cash profit between \$100,000 and \$400,000, with 39% in the range of \$200,000 to \$300,000.

**Data Quality:** This is simulated data for the 12-month to the 30<sup>th</sup> of June 2023. It is not a forecast of future performance which could vary significantly. The financial information is sourced from franchisees who are required to use a standardised and centralised bookkeeping process. The data is not audited. Data from 237 franchisees is used in this analysis. 17 franchisees that did not trade for the entire financial year, usually because of a sale and purchase, were excluded from this data set.



## Franchisee Ratios

The table opposite shows key items expressed as an average and most as a percentage of sales. As well as the average of all 237 franchisees, the lowest 3 and highest 3 individual franchisees in each category are averaged to show that significant variation does occur between individual franchisees. Variations in labour costs are mostly due to the variability in the wages that franchisees pay themselves. Variations in General Expenses are mostly because of interest costs.

## Capital Expenditure

47 franchisees undertook capital expenditure in the last financial year, usually to update to their premises to current standards when renewing their franchise agreement. The average of these 47 franchisees was \$51,210, with the lowest being \$15,212 and the highest at \$165,487. This is not a forecast and future capital expenditure may be significantly higher. The older the premises the higher the capital costs on renewal are likely to be.

## Suppliers, Stock and Setup Costs

Franchisees are required under the terms of the franchise agreement to only purchase certain items from suppliers nominated by the franchisor, this principally applies to cost of goods sold. Stock holding will range from \$10,000 to \$40,000 and is typically the equivalent of about one week's sales (\$26,000). One-off setup costs include training fees, professional advice and other costs that will range from \$13,000 to \$30,000. Franchisees should allow for working capital from \$25,000 to \$85,000. Consult the long form full disclosure document for further details.

	Average	Lowest 3	Highest 3
Sales (excl. GST)	\$1.35M	\$0.42M	\$2.84M
Cost of Goods	31%	23%	38%
Labour	29%	20%	45%
Franchising Fees	9%	N/A	N/A
Property	11%	7%	17%
General Expenses	4%	2%	11%
EBITDA (after Franchisee Remuneration)	16%	0%	22%
EBITDAFR (before Franchisee Remuneration)	20%	0%	26%

*This is historical data from the prior financial year and it not a forecast of future performance that can vary year to year and between franchisees.*