



A select group of franchises has survived tough economic conditions to produce outstanding business and lifestyle opportunities. **Jackie Pearson** picks the best value from a crop of more than 1000 franchised Australian business systems.

Ten years ago, Debra Harris took the biggest punt of her life: she extended her mortgage to buy an Aussie Pooch Mobile dog grooming franchise in Sydney's western suburbs.

So how did she fare? "I've been able to repay that loan many times over," she says. "There's no way I'd ever go back to working as an employee."

What's more, the lifestyle change has had a positive impact on her family. "When I started with Aussie Pooch my daughter was 11 and my son 4," she says. "They've grown up with the business and it's enabled me to work around the demands of the kids' school and sport."

Today, Debra has acquired an additional Aussie Pooch territory. "I've split and sold my area twice," she says. "My goal is to eventually have the master franchise for the NSW Central Coast and build up a team of Aussie Pooch franchisees to service that area."

"In October 2008, I purchased another van and my husband left full-time employment to join the business. We're now washing and grooming between 70 and 80 dogs a week. My husband takes on the new bathing clients and my run is 95 per cent repeat customers. Some of them have been with me for 10 years."

The test of time

Aussie Pooch is one of the nine franchises to rise to the top of *AFR Smart Investor's* annual franchise survey. For any business this year – franchised or otherwise – the conditions have been tough. So these systems have really demonstrated they are the cream of the crop.

Being in the business since 1991 has really helped, Aussie Pooch Mobile managing director Christine Taylor says.

"We looked back to what we did in the

recession of 1991 and then we did customer surveys to find out what our customers were thinking," she says. "They showed that savings, value and convenience were what they wanted. But, more importantly, the customer wants to know that the operator cares."

"We've been able to aim the delivery of our service at what the customers' needs are. They treat their dogs like members of the family and, although times have been tough, they don't want their kids to miss out and they don't want their dogs to miss out."

This raises a key consideration for those looking for a franchise to buy: a system that has been around for a reasonable number of years could give you the advantage of strong brand recognition and you can reap the benefits of being able to tap in to the franchisor's past experiences.

But unlike Aussie Pooch, where familiarity with dogs helps, most of our recommended franchise systems don't require franchisees to have a particular expertise, trade or professional background.

No experience necessary

James Jacka, divisional franchisor for Jim's Test & Tag, says there's no requirement for his franchisees to be electricians. "They need motivation, organisation and competence," he says, "and we give them the competence, which is purely based on what the Australian standard is written around."

Jim's Test & Tag is the fastest growing of all the Jim's business units. It provides a service to trades people, businesses, retailers, nursing homes and schools that tests their electrical appliances and power sources to ensure that they comply with the relevant safety standards.

"We're only three years in and the franchisee's costs are low because there are no premises, low inventory and you don't have to buy expensive equipment," Jacka says.

"Your vehicle is your business but your return on investment is phenomenal."

"Our goal was to maintain the lowest possible entry point while keeping our systems and processes as high as possible."

National marketing manager for VIP Home Services Craig Hains says VIP's low start-up cost (the basic licensing fee is \$16,500) means the system's home and commercial cleaning divisions attract "people who want a lifestyle and young families who don't want to work too many hours or spend too much time away from their kids."

Gearing up

VIP also informs us that only 50 per cent of its new franchisees borrow money to join the system, which is unusual as many of this year's short-listed franchisors report that at least 70 per cent of new franchisees borrow money to set up their businesses.

"The low level of borrowing has a lot to do with our low start-up costs," Hains says. "The cost is a bit higher for a gardener because you need more equipment, but most people have a mower and other equipment at home that they can use to get started."

He says VIP's policy of charging franchisees flat ongoing fees provides a financial certainty that is not available with franchisors that

charge ongoing royalties based on a percentage of turnover. "The reasons why our founder, Bill Vis, decided to go with a flat fee were two-fold," he says. "He wanted to encourage his franchisees to build their businesses without being penalised for that, and in 1979, the technology was not available to calculate the requirements, so administering a percentage of turnover without computers and automatic updates would have been a nightmare."

Territorial trade-off

Some of the systems recommended in our survey this year do calculate their ongoing fees and royalties as a percentage of your gross or net turnover. Check how all fees are calculated before entering a franchise agreement and ask for calculated examples based on different levels of turnover.

Ben Forrest, chief executive officer of Superfinish Express, argues that a percentage-based royalty system has more benefits to the franchisee than a flat fee system.

"With a flat fee the franchisor makes the same amount of money from each franchisee and it doesn't matter how much you'll earn," he says. "But with a royalty system the only way for the franchisor to grow is to help the franchisee to build their business. With a flat fee there's not a lot of incentive for the franchisor to focus on helping the franchisee."

Forrest says that flat fees are more common in systems with lower entry costs and those charging a percentage royalty have "a much

higher likelihood of providing the franchisee with an exclusive territory".

"The only way for flat-fee franchisors to develop is by selling more franchises," he says. "That means franchisees can end up competing with each other instead of helping and supporting each other."

However, all the franchisors recommended in our table offer exclusive territories to their franchisees, including those with low initial entry costs and flat ongoing fee structures.

High-end hurdles





Purchasing a high-end retail franchise, such as a Domino's Pizza or Coffee Club outlet, is a much more serious financial proposition. You'll need to bring substantial equity to the table in order even to be considered as a serious candidate for a franchisee and you may have to take on hefty financing.

Domino's Australia New Zealand franchise development manager Pat McMichael says its inquiry rate from potential franchisees has doubled in the past 12 months.

"We have a lot of new territory we want to fill," he says. "We've isolated 55 territories across the country where we want to build pizza outlets." But not every candidate is going to make it through the lengthy Domino's selection process.

"We like to have a candidate who brings equity into the business, so the business has a bit of breathing space as it starts to grow," he says. "They're going to need 40 per

AFR Smart Investor's best value franchise systems 2009

INITIAL INVESTMENT	LESS THAN \$50,000			
Name of franchise system	 VIP Australia	 Superfinish Express	 The Shed Company	 Aussie Pooch Mobile
AFR Smart Investor score (%)	84	77	77	73
Business type	Home and commercial services	Mobile automotive paint and plastic repairs	Building – sheds, garages and steel frame structures	Mobile dog wash and care service offering some retail products
New franchise units available	Unknown limit	40	30	300
Year franchising began	1979	1995	1995	1992
Minimum initial capital investment	\$16,500	\$49,950	\$25,000	\$25,000-\$50,000
Total capital investment	\$35,000	\$54,945 + van	\$50,000	As above
Estimated weekly franchisee turnover	\$1538-\$1923	\$2470	\$28,846	\$1154
Estimated weekly franchising fee or royalty	\$130	\$495	Nil	\$115
Estimated weekly marketing costs	Nil	Nil	Nil	\$40
Franchise agreement term (years)	5 or 20	5	5	5
Renewal options (years)	5 or 20	Two further 5-year renewals, no renewal fee	Two further 5-year renewals	5
Website	www.vipfranchisesales.com.au	www.superfinishexpress.com.au	www.theshedcompany.com.au	www.aussiepm.com.au
Phone	132 613	07 3284 8055	07 5665 9666	07 3888 7111

cent equity. I think a 60:40 split is healthy." As entry prices are between \$250,000 and \$500,000, that's a starting figure of between \$100,000 and \$200,000 to give you a look in.

What you walk away with

McMichael says the main benefit of the high entry price is that "as a Domino's franchisee you own all the equipment and the goodwill. It's really your business with our brand attached to it. We're looking for people to be entrepreneurs."

One of *AFR Smart Investor's* criteria for entry onto the recommended list is comparatively long initial franchise agreement periods and excellent renewal options. You don't want to spend five years building up a business only to find that you have to pay another hefty franchise fee to renew.

Domino's offers a generous 10-year initial period with an option to renew for 20 (while maintaining the same ongoing fee) and then there is a discounted fee if you wish to continue beyond 20 years.

As with our other recommended systems, The Coffee Club and Domino's both offer excellent training and continuing support for their franchisees.

"The more successful our stores are, the more profitable we are as a company," McMichael says. "If you don't train your people you can't grow your business."

So how about it? Could a franchise be right for you?



CASE STUDY

Edward Dakhoul definitely did his due diligence before becoming a Snap-on Tools franchisee. "I was a manager within the company for 13 years," he says. "I started as an area manager and progressed to business manager of NSW, the ACT, South Australia and Western Australia. Then we realised that was too much for one person so I cut back to taking care of NSW and the ACT."






"When it came time to think about what to do next I couldn't get past wanting to own a business and because I'd worked for the company and knew the product, the program and the system, I couldn't get past becoming a Snap-on franchisee."

He started with a territory in Sydney's Alexandria that had not been serviced by Snap-on for several years. "Even though I worked for

the company I still receive a lot of support, which you need when you start any new business," he says. "A sales development manager spends time showing you the ropes and new franchisees are usually sent to the US for training. I didn't because I'd done the training previously."

Snap-on tools are recognised as the benchmark by tool users, he says, with customers typically being mechanics and tradespeople. Even so, he says the most important characteristic you need to be a successful Snap-on franchisee is the ability to communicate well. "When I joined Snap-on I knew nothing about tools," he says. "You don't need to be a mechanic. They take pride in telling you what their tools can do and you can then pass that knowledge on to your customers."

At print time, founder of Jim's Group Jim Penman had responded to media reports that a group of his franchisors were trying to remove him from the company. A franchisee-elected advisory committee meeting set for November 13 was to consider changes he wanted to make to the franchising manual. Co-owners of Jim's Test and Tag, James Jacka and Neil Welsh, say "any change of leadership at Jim's Group will not affect our ability to provide the opportunities to franchisees and franchisors currently available".

INITIAL INVESTMENT	\$50,000-\$150,000		\$150,000-\$300,000	MORE THAN \$300,000	
Name of franchise system	 Jim's Test & Tag	 Cafe2U	 Snap-on Tools (Australia)	 Domino's Pizza Enterprises	 The Coffee Club Franchising
AFR Smart Investor score (%)	76	75	89	88	80
Business type	Testing electrical appliances in the workplace	Mobile café/food service	Mobile sale of tools to automotive industry	Quick-service pizza restaurants	Retail hospitality outlets
New franchise units available	1500	89	19	55	25 (Aust), 5 (NZ), 2 (Thailand)**
Year franchising began	2003	2004	1996	1988	1994
Minimum initial capital investment	\$74,300 + an approved vehicle	\$125,000	\$160,000	\$250,000-\$500,000	\$450,000-\$500,000
Total capital investment	As above	\$137,500	As above	As above	As above
Estimated weekly franchisee turnover	\$1923	\$3173	\$10,577	\$5000-\$50,000*	\$23,077
Estimated weekly franchising fee or royalty	\$214	\$130	\$92	\$1750	\$519
Estimated weekly marketing costs	\$30	\$21	Nil	\$1500	\$800
Franchise agreement term (years)	10	5	6	10	5
Renewal options (years)	10	Three further five-year renewals	6	10 or 20	5
Website	www.jimstestandtag.com.au	www.cafe2u.com.au	www.snaponfranchise.com.au	www.dominos.com.au	www.wherewillimeetyou.com
Phone	131 546	1300 223 328	1800 762 766	07 3633 3333	07 3010 3000

* Depending on location. ** Plus expansion into China and India. Source: AFR Smart Investor