

WHY ONLINE RETAIL THREATENS THE END OF FRANCHISING

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# Emerging companies



**Franchisees are struggling. They've been thinking hard about how to deal with this**

Tim Richardson,  
GrowthPath

## RETAIL

### SHARING IS NOT EASY

The thorny issue of dividing up online sales revenue between franchisees is a challenge in moving distribution to the internet. **Report: Judith Tydd**

● Experts claim that some franchising models will not be able to survive in the new world of increased online buying.

Franchises that sell products have found it difficult so far to come up with a model for online retailing – difficulties arise over sharing revenue among the franchisees when customers buy from a central website.

For this reason, many franchisees have been resistant to their franchisor developing a sophisticated online strategy and many of them now lag in the race for online dollars.

At the small and medium-sized

enterprise consultancy GrowthPath, principal Tim Richardson says it's potentially the "end of the line" for the franchise model in a number of product sectors, because the savings in working capital distribution and labour costs from online retailing are so great.

"The franchise model is basically a way (of) financing the property and working capital needed for a distribution network and when that's made redundant by the more efficient supply chain of online selling, there isn't much that can be done about it," he says.

He says the challenge for franchise networks is to find a way to leverage the key asset – the fixed site – to successfully integrate online into the distribution strategy.

"Franchisees are struggling – they've been thinking hard about how to deal with this for a while but there aren't any answers as yet," he says.

"Online selling cannibalises the franchise model, as an online channel will put too much price pressure on the

**Wary: Service-based franchises have adapted well to the internet but not so their product peers**

value of the property. This is the fundamental contradiction that the franchise model faces. The owners have a duty of care [to franchisees] and they're bound by a business model which is made vulnerable by a shift to online."

Online trading makes up just 5 per cent of the \$292 billion retail industry but this is expected to double by 2015. Traditional retailers have been up in arms about this. But most know that they won't be able to beat online selling. They will have to join in instead.

Online sales make up a similar percentage – about 3 to 4 per cent – of sales in the franchising sector but franchise operations have been remarkably quiet in the online debate. That's because of the structural difficulties franchise operations can face online.

Service-based franchise businesses have been successful in integrating the online channel into their distribution and marketing strategy but product-based franchise networks find it more difficult.

PwC partner and head of franchising