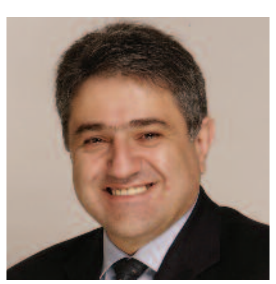
Franchising CUTS THROUGH THE GFC MAZE

The Global Financial Crisis has been so widespread and so damaging that it might seem strange to predict any winners from it. But, logically, there are businesses and systems that adapt to the situation and prosper while others flounder. MARK HARDING reports on the optimism in the franchising industry and says the serviced apartment sector is on a proven path to success.



Top: George Yammouni Chairman of the Franchise Council of Australia and Nick Suriano, General Manager, Franchising, for Quest Serviced Apartments

As Chairman of the Franchise Council of Australia (FCA), George Yammouni is qualified to make a confident prediction that the franchising industry will emerge stronger from the world economic downturn. No surprises there.

But it is his individual role as the chief executive officer of the Bathroom Werx Group which really has him passionately preaching positives from the crisis, as he predicts long term benefits for consumers, franchisors and franchisees.

Greg Hodson is a partner at PricewaterhouseCoopers and the national leader of its franchise practice, advising companies on whether to franchise or not and advising franchisors on compliance and growth issues.

He is in no doubt that despite the challenging times, there are growth opportunities for established franchises which have shown themselves to be reliable over a number of years.

Nick Suriano is the General Manager, Franchising, for Quest Serviced Apartments and not only agrees with Yammouni and Hodson but singles out the serviced apartments sector as being ideally placed to withstand the pressures of the Global Financial Crisis (GFC), especially in relation to the hotel sector.

He believes the “value for money” tenet that has swept the world in response to the crisis is benefitting serviced apartment properties such as Quest as the corporate world spurns five and six star hotels in favour of more economical alternatives.

These three businessmen are defying the general mood of doom and gloom to produce strong evidence that franchising is the ideal business system to fight recession and produce growth against the trend. All three say that while the crisis has been disastrous for many people, it can benefit others.

Yammouni started as a franchisee in 1986 and has been through the stockmarket crash of ’87, the recession Paul Keating had to have in the early ’90s and one or two other

troughs along the way. He is adamant that franchising is better placed to withstand the pressure of the GFC than any other form of business.

"You could say I am biased because of my role at the FCA but there are some positives that will come from this for everyone," he said.

"The most important lesson is the reminder that customer service is king."

Yammouni says the good times that had preceded the GFC for the best part of ten years had made many businesses complacent and lazy.

"It reminds all franchises that to differentiate yourself from the market place, customer service has got to be number one on your list. You have got to go back to basics and make sure you have all the systems in place to achieve what is important.

"Keeping good staff is number two because you need good staff to be able to assure you can deliver high customer service. So cutting staff isn't an option."

Number three for Mr Yammouni is one of the key points in differentiating franchises from other small businesses – teamwork.

"Everyone has to be singing from the same hymn sheet, sending exactly the same message to customers and working to achieve their expectations.

"The thing that differentiates franchising from other small businesses is that we are a team," he says. "Franchise operations are partnerships between franchisors and franchisees and they are in it together.

"In small business, you are on your own. No-one to talk to, no-one to bounce ideas off, no-one to give you new ideas. But in the franchise environment, there are lots of people doing the same thing. It's the job of the franchisor to harness that energy and share that information among franchisees so that they can react to the market quickly. They are close to the customers and the reaction is very fast."

> "The most important lesson is the reminder that customer service is king."

Hodson agrees that the fundamentals of franchising are the things that provide comfort to franchisees and franchisors alike in times of economic crisis. "Although any business is subject to the vagaries of the economy, there is obviously a proven system in place and therefore a franchise may have more robustness around it than general business," he says.

With so many general businesses struggling and so many retrenchments, the franchise industry can expect an increase in the number of potential franchisees looking for a new career, especially from people in middle management who find themselves victims of the GFC but are cashed up with redundancy packages.

In the last few years of full employment, it has been difficult for some to attract new franchisees, although he concedes the major franchises such as Quest Serviced Apartments have long had waiting lists of people wanting to invest in proven systems. Indeed, Quest receives about 20 applicants for every franchise opportunity.

Hodson predicts that potential franchisees will more than ever be attracted towards the established large franchises. With the large majority of the 1000-odd franchises in Australia and New Zealand having less than 30 units, it means competition amongst the few big players will be strong.

"I think the franchisors are optimistic because they think there will be more franchisees around. But what we are saying to them is that while there may well be more franchisees in the market, make sure your house is in order and your offering is as strong as it can be because you are going to be competing against all the systems out there that are trying to attract those same franchisees."

Nick Suriano predicts the serviced apartments sector of the franchising industry will not only survive the GFC better than most but, once the crisis has eased, it will move immediately into a fresh period of exciting growth. Over the last decade, there has been an undersupply of properties – it's the main reason why Quest has grown so rapidly with its continual addition of new properties, particularly in regional areas, to dominate the sector with more than 120 properties.

> "Companies are not necessarily travelling less but they are looking to pay less for their travel. That is where serviced apartments provide a real niche."

The credit crunch and a lack of confidence has inevitably meant the slowing of the number of new developments through 2009 as supply briefly catches up with demand. But, says Suriano: "Once the economy gets into recovery mode, what we had previously is going to be exacerbated so that in a couple of years we will have an industry that is even more under supplied."

In the meantime, Quest will still be opening at least four new properties this year so its 21-year history of growth will continue. "The way we select and build properties is very much in response to corporate demand so our pipeline is pretty much assured. It's just one reason why the serviced apartment industry is better geared to withstand the economic downturn than the five-star hotel industry," Suriano says.

Quest has been particularly active in regional areas of Australia and several of the properties they have opened in the last 12 months have been the only new developments in those cities for five, 10 or even 20 years. "Regional cities are not really a focus for the big hotel chains because their model doesn't justify building a 300-room hotel in a regional town. But our model stacks up – for us, a 100-room property can work and so we become a sole provider of high quality, good value accommodation in regional centres."

The Quest model not only differs from the big hotels financially but it also differs from the other accommodation franchises philosophically. "We are as pure in franchising as you can get – our properties are 100 per cent franchised in that we pretty much build it to spec, recruit the franchisees to a strict selection criteria and put the processes in place to ensure our customers know what they are getting," says Suriano.

"We are a true business format franchise in that all of our franchisees follow the model. Other accommodation chains might have a centralised booking system or a lisensed branding arrangement but that doesn't mean that each property is run the same way under the same system."

Suriano believes Quest's other advantage is that its properties are run by franchisees rather than employees. "That really is the key difference – passionate motivated people implementing the best system."

Such advantages are, however, long term. Suriano is also buoyant about the short term opportunities for Quest to prosper through the GFC because of the value for money it offers a corporate world desperate to show restraint.

"Companies are not necessarily travelling less but they are looking to pay less for their travel. That is where Quest provides a real niche," he says.

"What is happening across the board is that people are being forced to stop wasting money – they are not being forced to stop doing things but excess in business has taken a hit. In the current climate, executives have to be seen to be showing restraint."

It's a trend that has been noticed all around the world. As the Australian Financial Review reported on February 26: "The obvious measures, using economy instead of business class for short to medium length trips and substituting medium-range hotels or serviced apartments for higher priced rooms and executive suites, have already been taken."

It's a viewpoint shared by George Yammouni. "People don't just want value for money – they are hunting and scouring for it," he says.

When it comes to accommodation, at least you don't have to hunt far. Consider this, as CEOs and CFOs throughout the land are discovering every day: you can pay $300 to $400 a night for a single room at a five star hotel, or you can get two colleagues into a modern apartment for the same price or less. ■