

Losses biting RFG hard

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THE co-founder of Brumby's bakeries says a Senate inquiry is needed into the franchise system in the wake of allegations of systemic unfairness by Gold Coast-based Retail Food Group.

Weekend media reports claiming franchisees were suffering through inflated fees and costs have seen the Southport company's value plum-

met. The total value of its shares was worth \$1.31 billion in January, but yesterday the company's value slid as low as \$557 million.

RFG has rejected claims they are gouging franchisees, saying the company "remains confident in the strength of its franchise model". In a statement to the ASX it noted "the challenging and evolving retail market in which its franchisees operate, particularly within shopping centres".

Michael Sherlock sold Brumby's to RFG a decade ago, but said franchisees had kept contacting him for advice on how to deal with marketing and other fees they claim are not being used effectively to help them sell products and run profitable businesses.

He said franchisors should be compelled to disclose what percentage of the marketing fees went into driving network sales and there should be more clarity on the rebates franchis-

ors receive from suppliers who franchisees are forced to buy from.

Mr Sherlock said the relationship between a franchisee and franchisor was "like a marriage" and that RFG's relationship with its owners needed "tweaking" to make it fairer.

"Franchisees, if they work hard and follow the system, should be able to make a good return on their investment - not just a wage," he said.

"Then at the end of their

time, it should be a nest egg for themselves or to pass to someone else."

RFG said it had support services for franchisees and had invested in business intelligence, digital capability, product innovation and supply chain improvements.

The company repeated the intentions of its strategic review of its domestic franchise operations, aimed at "driving improved franchisee profitability", which is part of a

company-wide check supported by Deloitte.

"Earlier in the year, RFG also engaged extensively with its franchisee community regarding how the company can better improve the support it affords franchisees and the outcomes available to them from participation in RFG's brand systems," it said.

"RFG's franchise operations are and remain an important aspect of the company's... business model."

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The Courier Mail

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END OF ROAD FOR COFFEE OUTLET

CITY BEAT, P32

Shares head south for food franchise operator

MARKET SOURS FOR RFG



NOT SO TASTY

26%

Plunge in RFG share price yesterday

\$210m

Amount wiped off RFG's market value

\$3.25

Closing RFG share price, a 5-year low

PETRINA BERRY

INVESTORS savaged shares in Donut King owner Retail Food Group yesterday, driving the stock down more than 26 per cent to a five-year low following claims that it is charging exorbitant fees that are running franchisees into the ground.

Gold Coast-based RFG is the country's biggest food franchise operator, boasting brands such as Gloria Jean's, Brumby's Bakery, Crust Pizza, Pizza Capers, Michel's Patisserie, Cafe2U, The Coffee Guy and Esquires Coffee.

Its shares plunged \$1.15 to \$3.25 yesterday, wiping \$210 million from its market capitalisation.

The share rout followed media reports at the weekend

about mistreatment of franchisees. The Fairfax investigation claims that hundreds of franchisees are suffering under a brutal business model that includes crippling costs and a lack of support that has driven some to bankruptcy, destroyed marriages and led to systemic underpaying of staff wages.

One of the founders of Brumby's, Michael Sherlock (inset right), was the bakery group's managing director when RFG bought the franchise in 2007, but he said that he sold the last of his stake in



several Brumby's stores 18 months ago. "The culture of the company has been destroyed and they have made it harder for franchisees to operate profitably," he said. "Many people are miserable."

Mr Sherlock said he questions how many of RFG's current 240 Brumby's stores in Australia are "ghost stores", where broke franchisees have walked away, but RFG is still locked into paying rent.

He said he knew of one store in Warwick, Queensland, that has been vacant for the past two years, but RFG is still paying the rent.

RFG has denied all accusations.

"We reject this assertion and reiterate the fact that our success depends on the success of our franchise partners," the company said in a statement.

RFG said that it had rolled

out a number of measures to improve store performance while bolstering resources to support the brands.

The company is also reviewing its business to see if "our franchise model remains appropriate for a retail market

which remains challenging".

Managing director Andre Nell launched the review earlier this year. The company said it takes its responsibility around wage compliance seriously and had been "educating" franchise partners

for some time about their employer obligations.

Vertium Asset Management equity analyst Daniel Mueller said a number of RFG brands were located in shopping centres that were rolling out eateries, restaurants and

cafes to lure more customers. Not only were RFG's brands facing that pressure, he said, but he believed that they have too many brands that overlapped. "They have so many cafe brands and two pizza brands, there would be cannibalisation," he said. "Consolidating would be one way of reducing costs and simplifying the business." The broader sharemarket closed slightly higher yesterday. The benchmark ASX 200 index rose 3.9 points to 5998.3 points.