FRANCHISING

Behind the headlines: Why retail, hospitality and franchising businesses are really shutting shop

DOUG DOWNER FEBRUARY 24, 2020

It seems like every day, we are seeing more and more reports about business challenges and failures — particularly in the retail, hospitality and franchising sectors.

Let's consider the science of cause and effect.

What's being reported is the effect, often resulting in the closure of iconic brands and businesses. And while this brings light to the plight of these sectors, it is far more widespread than it seems. The reality is, Australia sees more than 300,000 business closures each year.

But this problem is not new. Rather, it's a new millennium problem.

In the past 12 months, we have seen EB Games (19), Curious Planet (63), Jeanswest (146), Bose (19) and Colette (140) all close stores, and large brands such as Myer, Kmart and Big W announce significant store closures.

This month, Walmart in the US announced it will be closing about 200 stores this year, and Macy's announced the closure of 100 of its department stores.

This month's announcement regarding the demise of George Calombaris' MAdE Establishment, and the closure of the 12 restaurants in his group, has brought to prominence the challenges that the hospitality sector is experiencing. Then, news came through that Heston Blumenthal's Australian operation will be wound up with current debts of at least $10 million, including $4.4 million owed to employees.

Other iconic businesses such as Longrain, Billy Kwong, The Bridge Room, Acme and Est. at the top end of town, and Criniti's, Subway and Little Caesars in the mid-market, are all closing stores too.

Recently, there has been significant criticism of the franchise sector, because of the actions of a few that have tarnished the sector through their poor conduct and exploitive behaviours. The reality, however, is that a significant proportion of franchisors do the right thing and act in a conscionable manner.

But these miscreant franchisors have created focus on an industry that contributes significantly to the Australian economy, by employing over 600,000 people and contributing more than $185 billion in sales, representing more than 10% of Australia's GDP.

Retail Food Group, for example, hit the headlines and received negative publicity and has subsequently announced the closure of 200 stores.

The problem with franchising is not franchising per se. The problem goes much deeper.

The reality is it has nothing to do with franchising, and has everything to do with the market and the emerging trends around online, convenience and consumer's changing spending habits. People are still buying, they're just buying differently.

The world is changing at warp speed, customer preferences are changing just as quickly, and there are new platforms that have revolutionised the way consumers make decisions and how they buy.

It used to take decades for significant change in how people made decisions relating to purchasing. But the internet and online has provided enormous choice, convenience and competitiveness for consumers through online businesses.

Let's take a look at hospitality. Delivery platforms such as Uber Eats and Deliveroo take upwards of 25% of the product selling price, dramatically eroding the profitability of food businesses. Labour costs are rising, with average costs between 30-40%, and rental costs are upwards of 20%. Add in the cost of goods, at an average of 30%, and heaven forbid the money the business borrowed in order to get started, and, on average, a hospitality business' costs can range from $200,000 to $2 million.

It's no wonder so many hospitality businesses are going to the wall. There's just no money left over after everyone has been paid.

Some of the same challenges exist in retail. Rapidly rising rents are compounding year-on-year despite shopping precinct redevelopments, increased competition, escalating labour costs and penalty rates. Plus, retailers often need to discount to compete with the dropshipping market. The reaction of many retailers is to go 'on sale' to the point now where we have conditioned consumers to expect to get their retail purchases for up to 60% off.

Given 45% of franchise businesses operate in the retail and hospitality sector, it's no wonder we have seen operators react the way they have.

I am not condoning the behaviour of some operators, but the reality is, many business owners are earning less money than their employees. Business is tough!

So yes, there are contributing factors to the demise of the retail and hospitality markets. The effect is more businesses shutting their doors, the cause is numerous factors.

It's not all doom and gloom, though.

The best operators will continue to be successful. But the key to success will be the ability to pivot and innovate. What was good enough 10 to 20 years ago is not good enough in today's market.

The market is changing way too quickly and businesses need to be able to adapt. A big problem for many operators is laziness. But today's consumer will continue to change with the rise of the millennial generation who make decisions so different from the previous generations.