



Historical Background To Franchising in New Zealand

There is debate as to when franchising actually started in the world. Certainly, in Britain it appears to have started in the Middle Ages when church officials would make a payment and pledge support to the Crown in return for the right (the franchise) to collect local taxes.

The term “franchise” originates from the French word for “free” and means “free from servitude”. If you look at the development of franchising over recent years, it is evident that franchising has given many people the freedom to own and operate successful businesses which would otherwise not have happened. It is accepted worldwide that approximately 80% of franchised businesses operated by franchisees succeed and are still around five years later. A meaningful and very relevant statistic in assessing the advantages of franchising.

In the mid-1970s a number of American fast food chains came into New Zealand, the most well known is McDonald’s. During this time, some New Zealand entrepreneurs saw franchising as a way to “get rich quick”.

While some enjoyed early success such as Stirling Sports and Rodney Wayne, a large number failed because of total ignorance displayed by the franchisor, franchise systems with inherent faults and little or no planning. Probably until about 1990 franchising was actually a bad word in New Zealand and it had a negative connotation. Such has not been the case during the past five years or so and we owe this to a number of very professional accountants experienced in franchising and consultants.

Franchising is now generating an annual turnover in New Zealand estimated at \$6.5 billion. The 1999 National Band survey of Franchising revealed that there are approximately 35,000 New Zealanders working in an estimated 5,000 operations. Nearly 85% of the businesses surveyed have started within the last five years and franchising is enjoying a period of rapid growth in New Zealand.

The success of franchising is reflected by the considerable support from the banking sector, in particular, the National Bank of New Zealand Limited, the ANZ Bank and the Westpac Trust. The fact that about 80% of new franchises are still in operation after five years clearly demonstrates the success of franchising.

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