



Combines Small Business Alliance of WA (Inc)
WA's INDEPENDENT PEAK BODY REPRESENTING SMALL BUSINESS

Date: 16 January 2018

Hon Craig Laundry MP
Minister for Small and Family Business
Parliament House
CANBERRA Act 2600

Dear Minister

Re: THE FRANCHISE TRAP

You may be aware that an item screened on Channel 9's *A Current Affair* on Monday evening 15.1.18, was the appalling story of numerous franchisees being ripped off and sent to the wall by their franchisor, a wealthy Gold Coast businessman operating as RFG, the text of the report is copied below, One of those franchisees said, *"It felt like a trap, even after we told them we can't afford it,"* *"In a statement to A Current Affair, "Sara Bradford from RFG said: "As a multi-brand company supporting numerous small businesses across Australia, the livelihood and profitability of each and every franchisee is of the utmost importance to us."*

What is so frustrating about this is that the Franchise Act and Code of Conduct was recently amended to prohibit this type of rip offs by franchisors.

So what is the Federal Government going to do about it?? And, we would hope that here in WA the Minister for Small Business, the Commissioner of Small Business and the Department of Fair Trading has this matter squarely on their radar.

Yours faithfully

**Combined Small Business Alliance
of Western Australia Inc. (CoSBA)**

OLIVER MOON
Chief Executive Officer

cc: Ms Kate Carnell, Small and Business and Family Enterprise Ombudsman; Hon Christian Porter MP, Attorney-General; Hon Paul Papalia, Minister for Small Business (WA); Mr David Eaton, Commissioner for Small Business

Franchise giant's rules 'forcing cafes out of business'

Channel 9 A Current Affair, Jan 15, 2018

Shattered dreams

Melbourne man Robert Verni says he was forced to remove money from his own childrens' bank accounts to try and pay off crippling debts, after his Michel's Patisserie went bust.

"I had to take everything out of our life savings, my in-laws, my kids accounts," he told *A Current Affair*.

"Try to tell your kids (they) don't have an education because I've got to rip money out of their accounts so we can continue to put bread and butter on our table." debts. Robert Verni operated a Michel's Patisserie before it went bust.

Mr Verni is just one of a growing number of Australians who say franchise giant Retail Food Group - owner of Michel's Pattiserie - has ruined his life.

RFG owns some of the country's biggest food brands, including Gloria Jean's, Brumby's, Donut King and Crust Pizza.

It markets the individual franchises as a kind of "business in a box", using the high-profile brands to attract buyers with little or no experience in owning a business.

Franchisees run the business, while still following instructions from RFG.

Mr Verni claims head office made him undergo two expensive store refurbishments at his Michel's in Queensland, at a cost of \$150,000 each.

"It felt like a trap, even after we told them we can't afford it," he said.

The father of two claims major rent increases of up to 85 percent and alleged poor product quality ruined his once-thriving business, leaving him with debts of around \$350,000.

A key theme in the complaints from franchisees - particularly from Michel's - has been the shift to selling frozen products, instead of fresh.

RFG made the changes to cut costs, and photos - provided to ACA - show the new products franchisees were expected to sell were far smaller, and often were delivered to the store already damaged. One cake was even delivered with a hair on it.

Despite the product shrinkage, and the change to frozen products, RFG made the franchisees increase their prices, making it extremely difficult to compete with rivals.

One Donut King franchisee told Fairfax Media they were made to sell a single cinnamon donut for around \$3, whereas a 12 pack of the same donuts were being sold at a nearby Woolworths for \$2.

Former franchisee Jenny Teng claims she's lost around half a million dollars, after being forced to shut her Michel's in Melbourne's Northcote.

She'd always dreamed of running a coffee shop in Australia, and bought the Michel's Patisserie business because she thought it was a trusted brand.

"It was a nice dream, but it turned into a bad dream. It's a terrible dream," she said.

Ms Teng, and fellow Melbourne franchisee Wayne Hong, claim they were required to pay as much as \$15,000 to attend training seminars at RFG headquarters on the Gold Coast.

They claim it was a waste of money, and Ms Teng says she wasn't even taught how to use a cash register, or make a coffee using the Michel's machines, during the so-called training.

Michael Fraser's company Franchise Redress has been investigating RFG.

"They're ultimately selling lemons to suckers", he said.

He claimed RFG only provides sales figures to prospective buyers, not the profit figures.

"Seems like Retail Food Group don't care if the franchisee is struggling or goes broke, and I think the reason why is if the franchisee walks out, Retail Food Group sell the store again," he said.

In a statement to *A Current Affair*, Sara Bradford from RFG said: "As a multi-brand company supporting numerous small businesses across Australia, the livelihood and profitability of each and every franchisee is of the utmost importance to us.

"Our success depends on the success of our franchisees - if they thrive, so do we. We are committed to finding ways to better support our partners, their staff and customers in a challenging and evolving retailing environment."
