7-Eleven Franchisees Grievance Submission

Prepared for Parliamentary Joint Committee on Corporations and Financial Services - Inquiry into the operation and effectiveness of the Franchising Code of Conduct

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CONTENTS

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Tables

1 Introduction

1.1 About 7-Eleven

7-Eleven Stores Pty Ltd (SEA) [ABN 48 005 299 427] is a private company owned by Withers and Barlow family. SEA started their first store in August 1977 and today operates more than 670 stores Australia wide.

SEA does more than 190 million transactions a year, serving average 6 customers every second, generating sales of approximately $3.6 billion. SEA is 2nd largest private company in Australia.

SEA business model is unique and untraditional compared to other Franchise businesses in Australia. In traditional Franchise business, Franchisor takes certain percentage of the sales as a Royalty and Marketing and rest of the balance of sales will be managed by the Franchisees (FSE) to pay other operational expenses like, Rent, Wages, Supplies, Cost of Goods etc. Below Table provides a snapshot of SEA model compared to traditional systems.

Table 1: Traditional Vs 7-Eleven Franchise System

Traditional	7-Eleven
Franchisor charges certain % as a Royalty and Marketing fee.	In SEA FSE model, there is no royalty and marketing fee, SEA work as a business partnership model and takes 50%-57% of Gross Profit (before Wages and other Operational Expenses).
Franchisor does not pay any invoices to suppliers or contractor	SEA pays rent, invoices to suppliers, and payment to contractors for maintenances.
Franchisor does not control FSE Staff and provide payroll services.	SEA controls FSE staff as their own including payroll service but on FSE books to avoid any liability obligations.
Franchisor does not hold FSEs money in their open account system.	SEA holds FSEs money in their open account and pay to FSEs if there is any money left after paying to suppliers on monthly basis.
Franchisor does not hold BAS and PAYG in their bank account.	SEA holds FSEs BAS and PAYG money in their bank account and release money to FSEs on last day of the due date and does not pay interest on the money kept by SEA.

In day to day operations both parties need to work closely to operate and perform. If you see from outside this business model may look very lucrative and feasible. In reality, it is almost impossible to understand this business model because none of the SEA financial calculations are transparent.

FSEs consider themselves as slaves due to the SEA attitude and treatment to FSEs once they are on-board. FSEs have to spend long working hours (average FSE works around 50 – 60 hours weekly) and many FSEs struggle to pay business loan because there is hardly any money to make.

There are many segments of this business model which are not transparent and hard to understand by any normal person.

SEA business is based on FSEs slavery and restless nights and it starts from selection process of being a FSE and it ends predominantly only through loss write-off, bankruptcy or being pushed out of the network.

The issues between SEA and its FSEs have come out of isolation since the four corners investigation in August 2015 into the alleged underpayment of the wages.

SEA has been selling the stores either from the outgoing FSEs or directly by the SEA as brand new store or terminated FSEs or some unforeseen circumstances.

ANZ bank was the predominant lender for the incoming FSEs.

1.2 About ASFA

7-Eleven Franchisees Association (ASFA) has been formed in 2015 as an after effect of being victimised for Wage Fraud scandal orchestrated by SEA.

After being labelled as 'Greedy Franchisees' for the sins of SEA, FSEs determined to work together to resolve common issues affecting the FSEs.

We represent majority of the 400+ FSEs and abide by a set of Rules and Constitution drafted by the members.

1.3 Purpose of this report

To identify and address the concerns of the FSEs this report will summarize the entry of the FSE all the way to the exit from the SEA system. The vast majority of the FSEs in the SEA network were once migrants with English as a second language.

The attempt of this report is to address the terms of reference provided by the Parliamentary Joint Committee in a simple language to the best knowledge of the writers.

We have tried our best to present the true reflection of SEA Business Model. We hope our efforts will help other Australians to understand and see the other side of the business which have never been told before.

A survey has been conducted to gather the required information for this report and data compiled in this report is predominantly from the inputs from all the FSEs

The issues listed may or may not fall under the relevant terms of reference or legislation or a governing body, it is a perception of unfairness by FSEs and unethical practices by SEA under business operational guidelines or general attitude of SEA not being transparent to FSEs or any one.

All data and facts provided in this report are not relevant to any particular store data as it against the SEA policy to provide the confidential store data. ASFA can provide any relevant Store information with the intervention of Senate Committee and with permission from SEA.

It should be noted that the writers of this report are not paid Consultants and hence please excuse the language or the presentation. But the content is very much true and compiled from the data of several stores across the SEA network.

Should Senate need clarifications on the content of this report, ASFA is happy to provide further clarifications and evidences to support the content.

1.4 Amnesty for ASFA Members

ASFA requests Senate to enforce amnesty to its members from SEA in terms of Store Agreement Renewals, Terminations and or any Unfair Treatment due to the fact that we are bringing this report with several untold truths risking our careers and livelihoods, to the attention of Senate and public domain.

2 7-Eleven Franchisee Induction

SEA FSEs Selection Process is complex and unwritten and it can be twisted according to SEA needs. More than 90% FSEs are migrants from Non-English speaking country, especially from India, Pakistan, China, Bangladesh and middle-east.

Reason being they are selected to be part of this business so they can be handled and managed easily because they cannot speak English well and they are not familiar with the law and culture of Australia.

These migrants have hard earned money from overseas and work hard in this business to protect their investment after joining the business.

SEA website has EOI for the prospective FSEs. On preliminary screening that involves back ground information on finances and Basic English understanding, SEA approves a FSE to purchase a store from the available list of stores.

An approved prospective FSE is free to negotiate Goodwill with an outgoing FSE, a benchmark factor of 2.1 to 2.7 times the Previous Year's GP is provided by SEA (Please refer to the Exhibit 2 - SEA Franchise Listing – Goodwill Guidelines).

On successful negotiation new FSE gets Heads of Agreement signed with 10% deposit and locked in. This is refundable only if SEA rejects final approval of FSE and or bank rejects the funding.

As part of approval process SEA gets the new approved FSE to prepare a Business Plan. Simultaneously the bank loan process begins. This Business Plan is based on outgoing FSE financials. SEA directs new FSE to manage labour costs where almost all FSEs allocate themselves extraordinary hours to meet Business Plan guidelines and to match bank re-payments.

The FSE Development Managers assist in guiding the Business Plan for changes. This is the same report provided to banks for the funding approval. In the middle of this the new FSE has a busy schedule of Seven Eleven FSE training (SEFT). This training is for 12 weeks un-paid to the FSE but paid to the SEA ($5,500.00). During this process the Bank loan gets approved and documentation completed.

2.1 Cost of Entry

Total Cost of Entry to SEA network involves:

Goodwill (goes to outgoing FSE), plus

Franchise Fee (goes to SEA), plus

Merchandise (goes to SEA), plus

Application Fee (goes to SEA)

SEA charges a Franchise Fee often as high as 20% of the Goodwill price. Then there is minimum stock value of $45,000 and up to $100,000 and an application fee of $5,500.

Franchise Fee, Merchandise and Application Fee together equates to 35% on top of the Goodwill.

The SEA gets to keep the FSE fee upfront while the FSE is charged off.

SEA argues that the 45k stock is returned when sold or at the end of the term is fair but this money (12.5% of capital) is not working for the FSE but for the SEA. To top it the FSE is servicing the bank loan.

Following is an illustrative example for a typical Store change over:

Goodwill is $600,000

FSE fee is $125,000 (21%)

Application fee $5,500 (1%)

Stock $45000 (7.5%)

Plus add on stock (refer below) $30,000.00 (5%)

Total $205,500 (34.5%)

2.2 Whirlpool Game

Once the investment is locked in and transaction completed, the reality hits the FSE with sleepless nights.

Every month the stock that needs to be maintained to SEA standards is calculated in conjunction with minimum Stock value of $45,000 and FSE balance sheet as net worth.

The difference is charged to FSE by interest. The interest is Bank Interest plus 1%.

In order to avoid the interest charges FSE has to increase net worth to around $75,000 that is $45,000 stock initially paid and earnings in balance sheet by $30,000.

Now the total for stock stands at 12.5%. This is roughly at 30-35% for most of the stores.

Stores with high volume of Sales have higher Franchise fee, labour costs and a threat of a new store with in the proximity.

2.2.1 Numbers Game

A practical example of a store

Revenue

Merchandise sale: $1,815,000

Gross profit: $690,000 (38%)

7-Eleven Charge (SEA Share): $365,000

Minimum Income Guarantee: $325,000

Add other Income + Fuel Commission: $47,900

Total Income: $ 372,900 **(a)**

Wage Bill

Total No of Hours in a week 168

Add Managerial Activity Hrs 20

FSE Wages 60hrs @ $26.60 = $1,596 x 52 weeks = $82,992

Staff Regular wages 80hrs @ 26.60 = 2128 x 52 weeks = $110,656

Staff Penalty wages 48hrs @ 36.60 = 1756 x 52 weeks = $91,353

Total = $285,001

Superannuation @ 9.5%: $27,075

Total = $312,076 rounded to $312,000

Annual Expenses (supplies and drive offs) before G.P = $51,143

Total = $363,219 rounded to $363,200 **(b)**

Gross Profit before tax **(a) – (b)** = $9,700 **(c)**

Total Investment

Goodwill = $600,000

FSE Fee = $125,000

Stock = $45,000

Total = $770,000

Bank Loan 60% = $462,000

Monthly Bank Repayments = $5600 X 12 months = Annual amount $67,200 **(d)**

Balance Amount paying to Bank Loan from FSE Family wages (d)-(c)

i.e., $67,200 - $ 9700 = **-$57,798**

2.2.2 FSEs Become Headless Chooks

By the time FSE realizes the business mistake the banker is happily charging monthly payments regardless of any income generated. At this stage the FSE is pretty much locked in as the franchise fee is non-refundable.

However any FSE who wants to walk away can do so by selling the store to the new FSE. But then the franchise fee is charged again at the 20% levels. This enforces the exiting FSE to either cut the losses or continue operating to recover the investment. In most cases this is the whole life savings at the mercy of SEA.

The extravagant control by SEA is that they can terminate a FSE any time for any minor breach and take over the store. If someone has completed the total lease of 10 or 15 years and are in good books of SEA the FSE Agreement will be renewed.

If not the store will be taken over and the exiting FSE gets only the net-worth that is the Stock cost of approx. $75,000 only.

All this painstaking process is for paying $805,000 (total investment) and paying off the banks with interest for the rest of the 10 years.

For 600 plus stores on average of $75,000 stock totals to 45 Million working for SEA while most of the FSEs are struggling to meet the ends.

The business practice of 20% Franchise fee is not justifiable given the plight of FSEs.

This is totally unethical especially the financials of outgoing FSE are passed on by the SEA.

The financials for almost all stores never totalled to 168 hours per week. Given these stores are 24 hours and a yearly minimum hours are 8736.

2.2.3 Incorrect Cost Disclosure

During the selection process of FSE SEA provides the “Cost Disclosure” document which represents the Profit and Loss of the business and shows average income of per store.

This document which they provide does not represent to the real store financials. A sample Disclosure document is attached to this report.

For example real wages wouldn’t reflect in the Cost Disclosure document, it gives an indication of $100,000 circa as Payroll expense but to cater full roster hours it would be $300,000 circa. It is not possible to operate a 24/7 business on the basis of the data provided.

SEA provides false and fabricated information to the new FSEs.

2.2.4 In the Eyes of Fair Work Ombudsman

An extract from the FWO in their April 2016 report “A Report of the Fair Work Ombudsman’s Inquiry into 7-Eleven”

> *“Information received from concerned parties included:*
>
> > *In early 2014, a person claiming to be a District Manager alleged 7-Eleven was complicit in falsification of records and coached FSEs in satisfying FWO audits. They further alleged 7-Eleven was motivated to encourage underpayment of wages to ensure profitability of stores and the franchise model more broadly. The correspondence alleged stores with more than one site weren’t viable for 24 hours a*

day, 7 days a week (24/7) if paying award wages. In particular, the correspondence alleged: 'overseas student employees at 7-Eleven are happy that they are getting more work so they can meet with their expenses and fees for universities and colleges…"

2.2.5 Questions to beg for

Why didn't SEA exercise its duty of care at entry?

Why didn't the SEA explain the actual costs of running the store with true labour costs?

Why did the SEA pass on the incorrect financials to the incoming FSE?

Did any FSEs grow as exponentially as SEA?

What other vested interests are there with the Bank in getting the loans funded by ANZ Bank for a goodwill that is not valuated either by Bank or SEA?

What is the basis for SEA to provide Goodwill benchmark factor of 2.1 to 2.7 times the Previous Year's GP? Is it to charge higher Franchise Fee?

What happened to the viability of the store at entry for an incoming FSE?

3 Money Minting Tool - Franchise Fee

3.1 Birth of Goodwill

The common underlying principle for all 650 stores is that they are all brand new stores at one stage and were charge a Franchise Fee by SEA.

The brand new stores are sold to FSEs by EOI. A typical EOI bid will be finalised anywhere between $300,000 and $900,000 or higher depending on the number of EOIs.

Needless to say the highest bidder with enough monetary resources will get the store and most of the stores are procured by SEAs loyal FSEs making them Multi-Site Operators.

The brand new store gets a number with suffix "A. For example if store number is 6000 it will be termed as 6000A. If this 6000A is sold to next FSE it is converted to 6000B. When sold again to a next FSE, it becomes 6000C and it goes on.

Average price of store based on the feedback from the members of ASFA is around $500,000 for Franchise fee plus stock $45,000.00. The Franchise Fee for a brand new store is almost over 90% for an Agreement period of 10 years.

Banks will lend the investment in to SEA by up to 70% without any historical sales data or valuation, but purely based on SEA brand image and any agreement between them which we don't have enough information.

Let us use an arbitrary example store 6000A bought by a FSE with Franchise Fee of $500,000.00 plus GST $50,000 plus minimum Stock $45,000.

The total purchase price is $595,000 excluding GST.

Let us assume the FSE wants to sell store 6000A to new FSE after 4 years and the store sale is performing at $40,000 per week. Annual sales are $2,080,000. The FSE GP share is at 19% or $395,000 circa.

The FSE in consultation with the SEA Franchising Manager and the guidelines of 2.1 to 2.7 times GP of previous year financials and depending on several other factors, values the Store Goodwill at $1,066,000 plus Franchise Fee of $160,000.00 plus minimum Stock $45,000. The total listing price of 6000A for a prospective buyer is $1,271,000.

The new FSE negotiates hard with the outgoing FSE to bring the Goodwill to $835,000 and the new purchase price is $1,020,000.00.

This is where the initial Franchise Fee of $500,000 was not only banked by SEA during Store A, but an additional $160,000 was on charged to FSE of Store B.

On average let's assume a FSE remains in the system by up to 7 years with few FSEs selling the stores within the last 3 years. The franchise fee is non-refundable. This franchise fee at every changeover is like a Ponzi scheme at around 20%.

Now Store B FSE works hard long hours to improve the sales and lists the store at even higher Goodwill and the Franchise Fee hike (in the disguise of Goodwill) goes on at every change over.

Throughout the lifecycle of the Store SEA not only enjoys the GP from the FSEs investment and labour but also promotes Franchise Fee by churning the stores and cashing up.

Because FSE doesn't own anything other than Stock and Goodwill, SEA is also benefiting from depreciation of the whole investment against the Gross Profits and further beefing up their Net Profits.

The above strategy explains how SEA is the single most beneficiary of this Franchising Ponzi System.

In current environment those who are seeking the exit are being price gouged. What happened to the 2.1 times to 2.7 times?

Isn't the SEA the only beneficiary out of this whole scheme?

What happens to the Goodwill of the FSE at the end of the Agreement after paying to the banks, employee wages and taxes?

3.2 Balance of Power

SEA has been generating millions by the above process, has grown from 1 Store in 1977 to 650 stores today while misleading the entire Country.

In stark contrast the franchisees have lost their life savings, and some are living in fear of Lease/Agreement denial.

Some are struggling to pay off their mortgages, some are waiting in SILENT AGONY for someone to save them as they cannot imagine the prospect of facing the Franchisors wrath.

Contract negotiation has never occurred in the history of SEA during a Store take over, despite receiving independent legal advice and or accounting advice. SEA repeatedly knocked down the concerns of existing franchisees and the new FSEs are left with no option to sign on or walk away.

There is an unwritten rule that SEA will renew Agreement/Lease for a good FSE (Good FSE is someone who doesn't question SEA decisions and can tolerate the slavery). Where the lease didn't get extended by few landlords FSEs have settled with SEA under confidentiality.

Going by the information available, SEA uses Time Delay as a tactic when it comes to the negotiation. This leaves FSEs in dark and desperate to find out the outcome.

Given the lack of money, unfair contract and being alone in the midst of bunch of grey and black suits, FSEs are compelled to take the minimum offer and sign away the confidentiality and the indemnity, thus burying the sins of SEA.

Finally when SEA offers a settlement it is often a loss on the return on investment, FSEs gets so desperate that they have no choice but to accept.

It is very complex to present the documentation as they are all protected by confidentiality clauses. In fact only Senate can obtain the information and contact those FSEs to verify the rip off.

3.3 Dictatorship

The absolute control of business, legal supremacy and intimidation adds on by lack of representative in FCA and a total disregard of ASFA by SEA to help struggling FSES.

The issues of Profit Shifting, Leases, Breaches, Franchise Fee, Termination, Store Sale Price Control and Ability to call in banks can never be tilted.

Imagine millions and billions of dollars' worth Franchisors growing even stronger with an army of corporate staff, legal teams singling out a vulnerable FSE that cannot move from their store to survive but to stand against the corporate intimidation.

From the above scenarios it is clearly evident the SEA has directly benefited from the Franchise Fee and or Goodwill, thus growing to 650 stores.

In view of the FSE, the Franchise Fee is like Ponzi or cascade scheme, the senate needs to question this practice.

3.4 Questions to beg for

How old was the contract? How many changes were made?

What modifications were done in favour of SEA and how many more were added to the unfair terms on a franchisee? And why were they never challenged?

Why were the minimum income guarantee (FSE GP of $110,000) stores being sold at over half a million to million dollars though the wages rising up year after year?

Why was the fuel commission left at 0.01 cents prior to 2015 and how long did SEA earned 15 times the combined total franchisees commission on fuel without any consideration for the wage costs, drive offs, forecourt maintenance?

Does the word good faith even exist in the world of SEA in their financial and operational dealings with the FSEs?

When was the last time any franchisor or a governing body conducted a meaningful survey independent of intimidation?

Does FSE Associations that have formed lately due to ease of technology have enough resources to fight the mighty billion dollar empires (companies)?

How many times did the owners of SEA meet directly with the minimum income guarantee stores and walked through their financial difficulties?

When was the last time SEA meet a struggling FSE before the formation of the ASFA and their intervention?

Why is there no legitimate organisation to protect the rights of FSEs?

Why is there a no name and shame register?

4 7-Eleven Model Deficiencies

The root cause of the issues with the model is fixed overheads and variable costs, shared disproportionately with FSE.

FWO is aware of SEA deficiencies of the model. An extract from the FWO in their April 2016 report "A Report of the Fair Work Ombudsman's Inquiry into 7-Eleven"

> ***"7-Eleven motivator for non-compliance: profitability***
>
> *Relevant to the question of 7-Eleven's involvement and choices, is the operating environment and various business needs and pressures faced by convenience stores in Australia.*
>
> *7-Eleven informed us early in the Inquiry that it views itself as an ethical, family business that looks after its FSEs.*
>
> *As with all businesses, profitability is a key concern to 7-Eleven and the profitability of individual stores has direct and indirect impacts on 7-Eleven. In particular:*
>
> - *7-Eleven receives a percentage of each store's gross profit (turnover less cost of sales) and therefore gains direct financial benefit when stores are successful. At the time of the Inquiry, 7-Eleven received 57% of each store's gross profit. While 7-Eleven does not directly benefit when a FSE underpays their workers, an artificial net profit allows the store to continue to trade and generate gross income which 7-Eleven benefits from.*
> - *7-Eleven benefits financially from expansion of its network of stores. FSEs pay a fee on entering into a franchise arrangement and new stores grow 7-Eleven's revenue stream. The marketability of new stores is impacted by public perception of 7- Eleven as a profitable business.*
> - *When an existing franchise is sold or transferred, 7-Eleven receives fees charged as part of this process. Again the appeal of a store being sold will be impacted by its gross and (alleged) net profitability.*
>
> *Store's net profitability is impacted by wages paid by the store. Systemic and substantial non- compliance with wage obligations will consequently inflate a store's profitability."*

From the above it clear that FSE bears the variable costs of labour, drive offs, stock shrinkage (theft or missing deliveries). Also during peak times extra staff need to be rostered for busy days such as 7-Eleven day, BYO cup days, C-store deliveries and ad-hoc promotions.

These additional are in conjunction to sharing the costs of raw materials. There is also labour costs that keep going up by 3% a year. Increased foot traffic can reduce FSE take home due to this imbalance on variable costs and fixed overheads split.

SEA overhead costs that is the rent, electricity, water remain steady.

More impacts of pricing and foot traffic are illustrated under Slurpee and Coffee Section of this report.

4.1 Typical Rip-off

Assume Store sale is $35,000 per week.

To attain this sale the store receives approximately 600 customers a day at average transaction of $8.33.

The FSE Gross Profit split is $6,650 (Calculated at 19%)

The SEA gross profit split is $6,650 (Calculated at 19%)

Wages per week is $6,000 (Refer above example 312,000 divided by 52 weeks)

FSE is left with $650.00

SEA net profit is not available due to the lack of transparency but assuming it is same at $650.00 and cost at $6000.

This $650 need to service the bank loans and the tax obligations.

If the above foot traffic increases by 100 customers it is usually at peak hours of morning or after school hours. This demands an extra hand or a swap over shifts. This adds minimum of two hours but no one works for one hour shifts in practical world so the swap overs or scheduled shifts are at 3 hours shifts adding 6 hours a day Monday to Friday. That is additional 30 hours by the cost of $850 ($26 times 18 plus super and workers compensation)

Now sale stands at 40,800.00

Gross profit split for FSE and SEA at $7752

Labour costs for FSE at $6,850

FSE net profit is $902 ($7,752 - $6,850) an increase of $252, which is an increase of FSE costs by 38%.

An increase in sale is good but the FSE would have paid a higher good will and a franchise fee along with higher stock levels.

SEA fixed overheads remain at $6000 and net profit is $1752, which is an increase by 269%.

SEA will charge higher franchise fee and has the benefit of higher secondary rebates and the stock net worth rotation as well as higher PAYG withholding and super entitlements.

4.2 Questions to beg for

What steps did SEA take during promotions, pricing and purchases?

Why was the model so tilted in benefit of SEA at every twist and turn of the business?

At the end if FSE works hard and increase sales, SEA not only makes more money during the lease period but also controls exit price by increasing FSE fee. Why?

Why is there no transparency on SEA when every penny of the FSE is laid in black and white?

Does the combined total gross profit of all FSEs and the SEA match up at the implied gross profit splits of tiered 50-50%, 47%-53% and 44% and 56%?

Why is the SEA share inversely proportional when the SEA has higher net profit due to the fixed overheads? This is especially due to time constraints of 10 years lease?

Why did the SEA change the lease from 15 years lease to 10 years?

Why did the gross profit split decrease from 46% to FSE to 54% SEA at a time when lease term was reduced from 15 years to 10 years?

5 Store/Lease Renewals, Lack of Geographical Exclusivity

5.1 Site Leasing

SEA property team controls all leasing and does not share any information with FSEs, even FSEs are not aware whether and when site lease is going to be renewed or not till last few weeks.

If site lease is not renewed then FSEs will lose all their investment. There is no regular practice to refund Franchise Fee or Goodwill to FSEs against their loss of investment.

5.2 FSEs Agreement Renewal Process

When new FSEs joins the SEA business, by default they get 10 years of license to run the business, prior to 2015 99% of the FSEs were renewed to operate for another 10 years.

After 2015 SEA changed their tactic regarding the renewal of Franchise Agreement and now majority of the FSEs are not getting renewed.

SEA has adopted new culture to convert the stores into corporate store, thus generating millions at the expense of FSEs.

When SEA denies the renewal of the store for a FSE, they lose all the goodwill and investment vested in the business and are left with empty hands for their future.

It is a painful situation when someone operates a business for 10 years and there is no renewal and investment return becomes to zero value.

Typical store takes 10 years to pay off the bank loan, their return on investment will start only in the second term of 10 years which would be generally their retirement income.

5.3 Lack of Geographical Exclusivity

Currently there is no protection for FSEs in terms of the exclusivity of the areas or proximity of the Stores.

It is purely at the mercy of the SEA and to add to the misery, there is no guarantee that the closest FSE will get the opportunity to purchase the new Store that is being planned so that the FSE will not lose the business from the area of their existing Store.

6 Back pay

SEA back pay programs include Alan Fel's Panel, Wage Repayment Program and Wage Claims Program.

Why SEA change three programs and didn't consult the franchisees.

How does SEA justify collecting the repayments from FSEs especially when they know that the FSEs can go bankrupt?

How does the FSE know the authenticity of the claim?

How does SEA justify a store whose claims were completed by Alan Fel's and didn't receive even one since then for the same period that is pre September 2015 while other store claims may have received for the same period that is Pre September 2015 but during the WRP or WCP?

Why is only an employee treated as underpaid when the FSE is the one who is the most grossly underpaid person for the store?

7 Lease Renewals

The issue of lease renewals was raised to the SEA by ASFA on several occasions. SEA reply was it is case by case basis and that ASFA is not privy to it.

ASFA has been negotiating with SEA since the Variation Agreement to provide certainty to FSEs regarding the Store Agreement renewals for those FSEs doing the right thing and abiding by the law.

At that time there were at least 50 Franchisees whose renewals were due within next 12-18 months. ASFA clarified that it will only support those FSEs who abide by the laws of Australia.

It appears to be that SEA cannot exercise its supremacy over the FSEs when they are doing the right thing by law. Hence they start finding ways to terminate the FSEs at the slightest opportunity.

Why is SEA waiting to pounce on only the franchisees life but the whole family as if the misery is not enough?

Why cannot SEA begin the lease renewal process 18-24 months ahead to provide certainty around lease renewal?

Why does the lease renewal process have to be a closed door and case by case policy?

Why cannot SEA work with ASFA to weed out unethical and deliberate non law abiding FSEs?

Why cannot the lease renewal policy be transparent?

Why does a renewal process have to be so cumbersome especially when the FSE has been in the system for 10-15 years?

Why does SEA find the approach of ASFA as confronting?

Does the SEA really know the issues of FSEs?

Currently there are FSEs whose lease renewals are due within 2-3 months and still uncertainty prevails. This only indicates the SEA authority to exercise control over FSEs.

8 Terminations

A sample scenario of how SEA terminates FSEs.

On Friday week a FSE store was terminated and the store was converted to corporate.

The reason for termination was that the FSE Company Registration under which the store was trading has lapsed. This is an honest oversight by the FSE.

It later came to the FSE attention that SEA was aware that the company registration lapsed on Monday of the week.

The FSE contacted ASIC and reinstated the company registration. The ASIC has clearly issued a letter stating the company of the FSE has been registered as if the company was never been deregistered.

Despite the letter from ASIC, SEA didn't withdraw the termination. SEA exercised the powers and tormented the FSE by not answering the calls and leaving the FSE in dark.

When ASFA stepped in and negotiated, the terminated FSE is so gutted he decided to walk away with store buyback offer. The store was bought back by the SEA at the purchase price. The FSE worked hard and improved the store sale by up to 20%. The FSE has to let go of his return on investment at an inferior price.

Why is SEA going very harsh on lease renewals?

Why is SEA not negotiating the lease renewals 2 years before the lapse?

Why is SEA not answering the reasons for not renewing?

Why did SEA terminate a Franchisee for an honest over sight of not paying the company renewal with ASIC?

Given that Franchisee was not aware of this what effort did SEA took to remind the franchisee of his obligation?

Why did SEA come forward to terminate the franchisee on a Friday of the week without giving a prior opportunity?

Why didn't the SEA hand over the store back to the Franchisee when the franchisee obtained the company renewal?

Why did the SEA have to go so hard on the franchisee bread and butter?

Why is SEA asking the franchisee to go through the Franchisee approval process again?

Why does the SEA have to wait until such time of Association intervention to buy back the store?

9 Minimum Income Guarantee (MIG stores)

MIG Stores are nothing but loss making stores and SEA supporting the income to meet payroll obligations. There were not many MIG stores prior to 2015 but since the wage scandal erupted, MIG Stores have blossomed out of blue with true wage reflection.

ASFA brought it to the attention of SEA the unforeseen circumstances for the MIG stores. The MIG stores situation can never be understood unless the person who has empathy walks through the life of an MIG FSE.

Some of the MIG FSEs have gone to that extent of even notifying SEA that they will commit suicide.

Since the variation agreement in 2015, the plight of MIG Stores have become commercially unviable with increase in wages especially non fuel stores as their wage costs have jumped by 15% since 01 January 2018.

As explained in other sections of this report MIG stores were bought at higher Goodwill prices. To provide a viable solution to MIG stores for both SEA and FSEs, ASFA suggested closing the stores for night trading.

SEA is reluctant to close the stores for night trading. SEA argues that MIG stores are being handed out the money to meet payroll costs.

9.1 CEO's Arrogance

When ASFA pointed out that MIG FSEs will go bankrupt, the current CEO's response was not only shocking "I know that" but didn't show any empathy to provide a solution.

This current CEO walked into the job after the Variation Agreement. What does the CEO know about what Franchisees have gone through pre variation agreement?

How does the CEO feel the pain and grievance of franchisees?

How does the CEO understand that no FSE will ever genuinely trust given his intimidation?

Instead of gaining trust, the CEO demonstrated to the FSEs that his job is to approach with heavy handedness.

The CEO has sent out memos on Class Action (CA) with threat and intimidation implied into the message that anonymity needs to be considered.

Aren't the franchisees entitled for their basic right to have legal representation to achieve justice through Australian Legal system?

SEA hands down the back pay letters and offers to take care of back pay provided FSEs sign the indemnity against the CA.

The State Managers contacted the franchisees directly to inform the decision by the SEA. It is only the CA intervention that has stopped the signing away of indemnity.

In a normal circumstance a FSE never stands a chance to fight against the SEA.

A visionary funder who knew that there is strong case against SEA has come forward to support CA for their own benefit as well as those CA signatories and a promise for a better model in the future.

Only when CA has become reality and the intervention of the CA lawyers, the intimidating CEO memos have been restrained.

But how is that a FSE going to survive when the income is not matching the outgoings even after including the handouts for payroll support.

It has been clearly expressed that majority of the FSEs do not want to deal with SEA independently given the heavy handedness and the intimidation of the SEA staff.

This is very hard for history to be erased as majority of FSEs have lost trust on SEA. FSEs repeatedly get misled by SEA with false promises when represented individually.

ASFA neither supports CA nor withdraws its support to FSEs who participated in CA. ASFA is neutral on the issue of CA and the intention of ASFA is always to work with SEA for a mutual benefit.

Is it SEA's Strategic Plan to close down these MIG stores?

If so what happens to the FSE who invested life time savings as deposit, 10 years of free labour that fed the bank repayments that continued the Ponzi scheme?

SEA should buy back the stores at the same buy in ratio as SEA was the sole beneficiary of this whole network of Ponzi or a cascade scheme.

10 Buy Back and Exit strategy

Since the scandal plagued SEA in2014-15, instead of working with FSEs it started exercising excessive control over the Store Agreement Renewals, Goodwill prices and the Banks' lending criteria.

SEA started scrutinising the incoming FSEs to a different set of rules as opposed to the set of rules that were dictated to the current FSEs. All this is being done to control the Goodwill (in the disguise of Franchise Fee) which is the root cause of the problems.

The fact is that good stores with high turnovers were purchased at higher prices and have higher payroll costs and borrowing expenses, threat of a new store within close proximity and no guarantee of agreement/lease renewal is being ignored.

ASFA has asked repeatedly about the long term strategy of SEA on how it will restore the Goodwill. SEA now points to the banks independent valuation.

When all the above issues were raised by ASFA with SEA, it found the excuse of CA for not being able to negotiate over the issues to be resolved.

CA wouldn't have happened if the Grievances of Franchisees have been addressed with genuine empathy.

It is a sad truth that SEA entertained ASFA only by demonstrating more intimidation. Hence not many franchisees want to pursue against the might of the billion dollar empire.

10.1.1 Questions to beg for

What happened to the banks valuation in the past?

Who conducted the valuation when the stores changed for store A or B or C or D?

Why are the SEA actions pointing towards Goodwill's being written off?

Why is SEA hiding its gross negligence that caused this unsustainable market for the franchisees?

While SEA provides the statements that it doesn't condone any FSE who breaches the law how can SEA ignore that it is the major beneficiary by 650 stores?

Why cannot SEA accept to work with FSEs in fair, transparent and mutual respect?

Why SEA cannot do right thing for the franchisees?

How many more chances does SEA need to come clean for good?

Why cannot the SEA let go of the dictatorship attitude?

The worst attitude how can a responsible current CEO address ASFA that SEA is aware that FSEs will go bankrupt?

Isn't that blood on the hands?

How can a FSE approach a mediation body at a time when anytime taken off the work is further financial misery?

How can FSE rely on the mediation of ACCC when it is a time consuming process?

How can a FSE believe ACCC representation outcome when SEA has the best lawyers with all the information about FSE but nothing about SEA?

11 Unfair Business Operations

11.1 7-Eleven Night Trade and 24 Hours Service

SEA advised that Night trade is an obligation to SEA by 7-Eleven America, where they have no penalty rates for night trade and have an opportunity to generate more revenue.

But the same model in Australia is not viable for 24 hour operations. SEA costs remain more or less same for the night that is rent and utilities remain same except handful of night runs and checks done once in a Quarter. FSE has to fork in penalty rates to keep trading.

11.1.1 Forcing FSEs to Open Stores 24/7 to Operate Business in Loss

Around 20% stores out of 670 stores are running in loss, especially non-fuel stores.

Following example illustrates for an average store doing $500 sale during 11:00 pm to 4:00 am. The labour cost is $175 for those hours on a standard day. The GP of 19% means FSE makes $95.00 while spends $175 on labour making it a net loss trade of $80.00

$80 multiplied by 365 days is $29,200. For 650 stores it is $18,980,000. Combined all FSEs lose approximately $19 Million.

The SEA on the other hand makes $95 a night per store for 365 days and for 650 stores, the GP is same $18,980,000 from across the stores.

Because wages expense is FSE responsibility, SEA does not allow FSE to close the business during night and it points to Franchise Agreement and threaten FSE of contractual breach if they close during the night.

11.1.2 No Night Window Policy for FSE Stores

It is a well-known fact that Service Stations during night time are an easy target for robberies, many service stations either close during the night or operate under night window service.

SEA do not support night window or night time store closing policy for FSEs. In contrary most Corporate Stores have Night Windows.

SEA puts Safety at risk and argues that a customer should come inside the store to buy the items.

During the Night time between 11pm-4am stores do not serve more than 4 to 5 customers per hour, these customers can be easily served by a night window but SEA does not do it.

SEA risks FSE night staff to face the robbery and wouldn't care about the consequences of the incidents as it is FSEs responsibility.

Robberies in Service station are very common and there are no much safety measures for staff to be safe.

All staff have a Safety Policy to keep them safe and if staff does not follow the policy then FSE gets a breach letter to prove authorities that SEA is doing it right, in reality the safety precautions suggested would be close to impossible to implement.

There are many blind spots where CCTV do not capture anything and CCTVs are not high definitions either. In many cases it is very hard to recognise the face of the robber or the number plates.

11.1.3 Questions to beg for

Why is SEA enforcing night trade across all sites as a blanket policy quoting fulfilling obligation to provide service? For the 19 million profit shift?

Why can't the SEA bear the night trade costs to fulfil their obligation?

Why can't the SEA refund the unfair costs enforced to the FSE?

Why can't the SEA close the night trade for the non-fuel especially when the non-fuel labour costs are 15% higher to fuel stores on mutual agreements?

11.2 Equipment Breakdown

Equipment maintenance is SEA responsibility and need to be addressed within the threshold of the product threshold constraints.

Due to cost saving measures by SEA, at times there will be huge stock loss for the FSE and this would be an added burden for an already ailing FSE.

11.3 Supply Items

While most Supply Items are shared cost as it should be some items like Coffee Cups, Slurpee Cups, 7-Eleven plastic bags etc. are 100% FSE cost. No justification for this unfair splits to date.

Can SEA justify the rationale behind this unfair split of Supply Item costs?

11.4 Unfair Media Policy

According to the SEA, FSEs should not be speaking to media. Other side SEA does not follow the same guidelines and do not take advise from FSEs when they speak to media.

The media policy is being implemented so none of the FSEs can exposes any wrong doings of SEA to the outside world.

SEA strict guidelines work in their favour and work as a giant barrier between FSE and outside world.

If any FSE is really unhappy then SEA would advise them to sell their business and get out from the network, they do not bother to listen or resolve FSEs issues.

11.5 IT System and Escalation Process

SEA technology backbone is running under SAP application, this application was customized by many people long time ago and no one knows much about this software.

If there is an error in financials due to some technical constraints under this application then process is for FSE is to raise an "Information Request" to SEA and their business analysts and financial team looks into it, in many cases these enquiries takes 6-9 months to resolve the matter.

There are few cases where it took more than 4-5 years and still haven't been resolved. If FSEs are lucky and remember the issues and pursue the matter they get resolved, but in many cases it goes to deaf ears.

For Example: There was an error in calculating the Cost Price for Flowers. The variation was escalated in 2013 and till date it hasn't been resolved. And total amount of this variation is more than $15,000 on average.

Under this SAP application FSEs have very limited access to the reporting tools and in many cases FSEs have to request SEA to provide the data.

None of the data from this SAP application could be matched. For example if we run 2 reports from two different modules to find the total wages for the month then there will be variations in total amount.

SEA has failed to verify whether the reports are true and trustworthy because they do not match at all. Whole business model is running on trust that SEA being fair to FSEs but unfortunately it's not the case.

12 Harassment and Bullying

An easy tool to harass and bully FSE is a Retail Audit. A person who looks at SEA Retail Assurance and Excellence criteria can understand it takes at least 20 - 25 hours extra labour costs per week for an FSE to maintain the store to the required standards.

Since the post model the criteria documents have increased. However it is agreed that the sales have increased proportionately across the most stores but the model is skewered to push up FSE labour costs while SEA profits are inversely proportional to FSEs expenses.

12.1 Horrors of SEA

Every FSE in SEA network is stressed no matter fuel store or non-fuel store, big store or small store. Mainly because SEA is unique business model and it sets its own rules and as well be its own referee.

While preaching everyone that FSEs are partners, it never treats them like one. Several examples have been highlighted in this report.

There are many performance matrix where SEA judges FSE performance and if we don't pass this performance test then there is a risk of breach notification.

Also SEA expects FSEs to perform 50 - 60 hours in store weekly basis to show we are really active in the business.

Also SEA expects us to keep wages cost low that means every FSE has to work during public holiday to reduce the wages cost, other side FSEs are not able to spend much time with their family and their kids. This statement can be verified easily from roster software.

All these factors bring stress in FSE life and their family life.

Many FSEs are having some serious medical condition because they are not able to handle the pressure mounted by SEA.

In some cases FSEs get terminated immediately and FSEs don't get paid any investment back. Termination process is similar to treating a criminal convict. FSEs have to face horrible trauma and financial crisis after they get terminated.

In the past many FSEs got terminated where they lost all their investment and life savings which they invested into the business.

FSEs do not have enough savings to take this matter into the court for justice and they suffer depression. It is horrible and stressful to face termination in SEA network.

No one should be treated the way SEA treats a FSE when they decide to terminate the FSE agreement.

SEA takes advantage of their big brand power and unlimited cash to dominate any situation and suppress the FSEs.

12.2 Bad Retail Review Practice

In SEA business model, there are many ways to conduct audit to review store performance, like NPS, Retail Review Assurance and Retail review Excellence.

Retail Review Assurance and Retail review Excellence conducted by SEA employees who works under the guidance of Senior Management.

These audits takes between 3-8 hours to complete and a very lengthy set of questionnaire. The process is mostly reactive than being proactive.

This audits are planned by SEA and schedule is unannounced to FSEs.

When these auditors come for audit they expect FSEs to be in store, if FSEs are not in store then they force FSEs to leave other commitments and come and join this audit.

As the FSEs are not aware of date and time of these audits, FSEs have to go to extra lengths to be at Stores keeping all their daily routines aside and in most cases FSEs need to roster extra staff at short notice.

During these audits, most auditors treat the Stores as a Crime Scenes and FSEs as Criminals. Sometimes these auditors body language is very aggressive and FSEs feel threatened.

Under this process they check CCTV, payroll, stock level, OH&S, Promotion.

If FSEs does not get more than 80% score in this audit then these auditors come back again under 3 months to audit the store again.

13 Financial Management

13.1 Restricted to Cash Access

In SEA business model there is no access to cash flow for the FSE, they operate the store as a Manager and deposit all cash to SEA Bank account on daily basis (Late penalties 'delinquency charges in attached Cost Disclosure' should the monies are not deposited same day). FSEs do not have access to the cash despite being a 'partner'.

SEA controls all money from entire network of 670 stores. If we assume average weekly sale of per store is $30,000, it generates $1billion cash every year within the network. SEA has full access to this money, SEA use this fund according to their requirement and use for the business expansions. FSEs have to wait up to 60 days to get their hard earned money.

13.2 No Cash Flow – FSE Suffers

As mentioned above SEA controls all the cash, they make the payments to all suppliers in their own terms. After payment to suppliers and wages and all other expenses if there is any money left against the store then it transferred into FSEs bank account.

In many scenarios there will be no money to transfer into FSEs Bank Account. For example during the peak season of December and January, every FSE gets allocated more stock to increase the sales. During that time FSEs are left with no money for up to 3-4 months.

However during that period FSEs still have to pay their Bank Loan, sometime FSEs use their credit card to pay Business Loan monthly payments and later pay 20% interest rate on credit card.

13.3 GST and PAYG – Free Cash Flow to SEA

SEA holds GST and PAYG monies in their account and release this fund to franchises 2-3 days prior to the due date every Quarter. SEA does not pay any interest on this fund to the FSEs.

This fund belongs to the FSEs, which has to be paid to ATO on a quarterly basis. Per store annual GST amount is around $200,000 and PAYG is $50,000, if we calculate this value with 600+ stores then one can imagine how much Cash Flow SEA is taking advantage of.

SEA has the luxury to use FSEs monies for their own purposes and no one to question them.

13.4 Inventory Variation – Burden of FSE

SEA and FSEs are business partners and they both share the Gross Profit and pay their bills based on the business model but if there is any shop lifting or damage to the stock inside the store it is FSE responsibility ironically.

Either SEA believes there is no scope for shop lifting and damaged stock or being ignorant of that fact in retail environment. SEA charges stock variation arising from shop lifting and damaged stock to the FSEs.

13.5 Interest - Additional Income to SEA

SEA has an open account for every store, if stock level is higher than open account fund or in other words if stock is not fully vested then SEA charges interest to FSE of Bank interest rate plus 1%.

This model works in great favours of SEA but FSEs do not have enough cash flow and have to pay extra interest every month before they get any monies from SEA.

13.6 Cash Variation – FSE Burden

SEA expects retail business to operate with zero cash variation. SEA forces FSEs to take the cost of any cash variation but SEA share the Gross Profit which is generated by the sales.

No retail business can be operated without cash variation.

Cash variation is very usual and it can happen when a FSE/Staff does the mistake or steal the cash from the cash register.

SEA does not consider this cost to be shared at same ratio as they share the Gross profit.

13.7 Store Financials – Lack of Transparency

As described in the previous sections all cash is tightly controlled by SEA.

SEA organises the payment to the suppliers, wages to the staff, rent, maintenance etc, which show balance of control of the business.

FSEs do not have any visibility of any type of transactions. Around 20th of each month, report will be sent to FSEs about the previous months transactions.

This report contains 15-20 pages which shows the basic information of the store performance and financials. Even a Chartered Accountant would find it hard to reconcile or analyse it.

It is close to impossible to find out if any pending financial issues been resolved or being considered.

Other financial reports provided include very basic report to show monthly store sales, purchases and expenses.

Only SEA can generate detail report and it only happens when franchises request it. In many cases FSEs find it hard to digest this information due to the lack of proper transparency and wouldn't be in a position to query any transaction.

General consensus amongst FSEs is that they will get victimised by raising any queries that SEA wouldn't be comfortable to provide any information.

14 Purchase Commissions and Rebates

FSEs are not privileged to purchase any stock from their supplier of choice or make any negotiations with their preferred suppliers.

There is a total lack of transparency in terms of total Cost of Goods. General retail industry works on rebates based on monthly and annual turnovers, however it is unbelievable that suppliers provide only single rebate to SEA on monthly promotions that too not competitive with other brands.

14.1 No FSEs on Purchasing Board

In traditional Franchise model there are always a group of FSEs who are part of a committee who negotiate with the suppliers for pricing and promotions.

Within SEA network there is no such culture and in contrast they force FSEs to buy expensive items from their preferred suppliers.

ASFA has requested several time to facilitate FSEs to be part of Purchasing Process and it has gone to deaf ears.

14.2 Expensive Stock Purchase from Preferred Suppliers

SEA mandates their FSEs to purchase stock from their preferred suppliers from where they have exclusive contract, the transaction between SEA and Supplier are strictly kept confidential and lacks transparency.

If any FSEs wanting to purchase from other sources, SEA threatens them with breach of franchise agreement or termination. For Example: Coke 375ml can is available in Woolworths and Coles for $0.50 cents if we buy pack of 24 but same stock from SEA preferred supplier costs approx. $1.

14.3 Force FSEs to Sell Slow Moving Items

New items are forced by SEA to be trailed by FSEs to sell in store, does not matter whether they are feasible to sell or not. Sometime these products are subject to demography and some stores does well and some stores wouldn’t perform well.

Such products generally expire and the cost of these products is a huge burden on the FSEs.

14.4 Force FSEs to Sell Low Margin items Increasing Wage Cost

There are many products which have been introduced recently where FSEs have less than 1% commission, in some case FSEs only get $0.50 cents commission per transaction. These products brings more foot traffic, generate more sales but commission is very low.

To handle this more foot traffic FSEs have to keep additional staff during the busy hours which increases FSE wages cost. SEA wouldn’t worry about wages cost because it is FSEs responsibility.

Some low margin products that consume a lot of man-hours include MoneyGram, Travel Cards, Parcel services etc.

14.5 Rebate and Promotional Fund – Lack of Transparency

There is no proper paper work to show how much Rebate and Promotional funds received by the SEA from Suppliers. All these calculations are done in the background and none of these calculations would be explained to the FSEs.

Only total amounts would be shared with FSEs. No detail report has ever been provided to the FSEs. Some small - medium promotions conducted in store would be at the expense of the FSEs.

SEA use store stock for their own product promotions and pay very low GP to the FSEs and they justify these promotions by forecasting future sales.

14.6 No Credit Policy from Suppliers

SEA has done many changes in their business model since 2015 and one of the major changes is credit claim from supplier on damaged and short life products.

In past suppliers used to provide credit on damaged products and short life products, which means it would allow FSEs to have flexibility with stock movement.

Under new changes SEA protocol is for FSEs to scan damaged and short life product on POS (Point of Sale) and Bad merchandise it, when we do it this way, SEA and FSEs share the cost of the loss.

Under new change FSEs have to pay 50% cost from their own pocket when it can be negotiated with the Suppliers.

There is no evidence what agreements have been made between SEA and Suppliers and begs for clarity.

14.7 No Term Credit on Purchase from Suppliers

In Retail business when someone starts their own business and contact supplier to purchase the products to sell, supplier provides credit term between 1 - 30days to pay for the purchased items.

In SEA business model there is no credit period at all. Once we do the order from the supplier invoice against our store been generated and paid by SEA. This is not a standard industry practice.

SEA network has more than 670 stores, so technically SEA should have more flexible credit terms from the supplier but in our case it is not helpful to the FSEs and it is working in favour of suppliers.

14.8 Questions to beg for

What steps has the SEA taken to obtain bulk rebates?

Why is the SEA not having transparency when FSE is entitled to 50%-47% and 44% of gross profits?

How can SEA solve the issue of transparency?

The FSE operations are completely black and white to SEA and why cannot the SEA maintain same transparency with their operations?

What kind of law, contractual breaches and fraudulent accounting practices are prevalent by the SEA in maintaining a closed financial, marketing and pricing operations and policies?

15 Marketing Nightmare – Slurpee and Coffee

When the wage scandal broke out, SEA has changed the gross profit splits.

The pre 2015 model splits were 43% FSE and 57% to SEA. From September 2015, the post model gross profit splits of tiered 50-50%, 47%-53% and 44% and 56%.

During this time the SEA has changed the Coffee costing calling it counting beans.

Cost of cups for Coffee and Slurpee have been on to the FSE without explaining the actual implications.

To rub salt to the wound after few months they reduced the price of Slurpee by implying SEA wants to capture market share.

This has resulted in not only increasing the cost of supplies of FSE but also the labour costs.

The gross profits can be obtained from back office Product Movement Analysis (PMA) report provided by the SEA.

Following is an illustration.

FY2016 – Part counting beans and full Slurpee price

Slurpee Gross Profit (SGP) FY2016 (pre market capture pricing) - $33,000 at 63%

Coffee Gross Profit (CGP) FY2016 - $63,000.00 at 59%

Supplies cost is $21,000.00

Combined total is $96,000. FSE split is evened out for calculations at 48%

FSE split is $46,000 minus supplies $21,000 = $25,000

SEA split is 50,000 there is no minus costs here as the PMA has removed other costs that are split between FSE and SEA.

FY2017 - Full counting beans and reduced Slurpee price for market share

SGP FY2017 is 35,000.00 at 42% (A drop by 21%)

CGP FY2016 is $92,000.00 at 62% (An increase by 3% due to full year counting beans)

Supplies cost is $37,000.00

Combined total is $127,000. FSE split is evened out for calculations at 48%

FSE split is 61,000 minus supplies 37,000 = 24,000 (FSE loses 1k from the FY2016).

Couple this with an increased quantity by 5000 (BOPC) and foot traffic by 4000 per month. This increased wage cost by $16,000 or 7% per annum to service the customers. This reduces the FSE net profit on the category by $17,000 (1k reduced by supplies and increase in wage costs) simply by following the SEA pricing. This is a clever profit shifting when you look in to the details below.

SEA split is $66,000 there is no minus costs here as the PMA has removed other costs that are split between FSE and SEA. This is an increase of 32% (16k FY2017 increase from the 50k from FY2016).

When this goes unquestioned the practice of profit shifting becomes business as usual.

FSEs were grossly mislead on this during the lease period.

This is outright disguised fraud.

When few FSEs raised the concern at the business update, FSEs were told the total gross profit will increase. This is very hard to understand even for FSEs in the system for over a decade.

15.1 Profit Squeeze through Proprietary Brands

Needless to say over the last three years SEA has added several proprietary products at a lot lower margins.

The solution being offered by SEA is to increase the quantity of sales. These proprietary products margins to SEA are inversely proportional to labour costs as these products are marketed aggressively.

The disguised increase in GP with increased costs only makes FSEs over worked and lose money. It is nothing but a slow process to bleeding death of a FSEs through Stress.

Is this a strategy to drive out the franchisees at a cheaper goodwill price? Reminding SEA has the authority to change the prices at an ideal environment on their terms.

15.2 Questions to beg for

Why did they change this pricing at a time when franchises are still struggling?

Why should FSEs bear the cost of Coffee and Slurpee cups while SEA enjoying profits?

Why didn’t the SEA correct the pricing or take over the costs when there are severe implications for the FSEs?

If SEA wants to get into pricing war they can do so at their expense rather than looting hard working FSEs who invested their life savings. Who asked SEA to get into pricing war with Hungry Jacks and McDonalds?

How do franchisees know the cost is not being double dipped at source and at split of Gross Profits?

16 Fuel commission and labour costs

16.1 Fuel Commission

In Australia, general commission on fuel and gas is between 4 - 12 cents based on the brand.

Pre 2015 Fuel commission for FSE used to be $0.01 and now it is $0.015. This means for every 100 litres sold the commission is $1.00 in pre model and $1.50 in post model. The numbers in BOPC indicate there ae minimum 30% fuel only foot traffic or customers walk in.

Fuel commission earned by FSE need to cater to store performance and pumps related supplies that need to be provided to the customers

FSEs need to clean forecourt, supply water bucket, squeeze, and paper towel at all pumps at all times. This cost is fully charged to FSEs.

Also, FSEs to bear lawn maintenance costs, drive offs and non-payments costs.

SEA is happy to provide exclusive discounts to 7-Eleven fuel cards and other charge cards up to $0.04 in pre model and up to $0.03 cents in the post model.

This doesn't make economic or business sense to FSE as SEA is willing to lend fuel on 44 days interest free but also carry the risk of arrears and or liquidation or non-payments.

This indicates the fuel margins are higher fo SEA but the FSEs are never allowed to know how much the SEA makes on fuel with no drive off costs.

There was an article in Herald Sun that covered SEA fuel profits at $180million while combined FSEs were paid 18 million with approximately $4million of dive offs.

16.2 Petrol Drive Off Cost to FSEs

Technically FSEs are commission agents for SEA fuels and they get commission on every litre sold.

When some customers fill the petrol and drive away from the outside then it is considered as a drive-off.

FSEs earn $0.015 commission on every litre of fuel sold. FSEs average earning from fuel commission is $75 - $150 per day. This commission comes after FSEs serve more than 1000 customers per day, if one customer does the drive-off then all efforts of the full day is gone in vain.

SEA does not provide any technology to control or stop this loss, not even share this cost with FSEs.

16.3 Questions to beg for

Why are FSEs bearing the 30% labour costs when the commission is barely reaching 10% of labour costs while also spending on cleaning supplies and forecourt services?

Why is the SEA commission payments not treated as under payments?

Why FSE is not protected from employee obligations or the employer obligations

Why SEA is allowed to manipulate the FSEs underpayment and life savings?

How much did SEA make on fuel commissions?

Is this a fair outcome for SEA when compared to FSEs work and labour costs? SEA should be enforced to pay compensation.

How much did the SEA really make after all the depreciations of the equipment while the forecourt maintenance is passed on to the Franchisee?

17 Free Labour, Wages and Payroll

17.1 Treat FSEs as an employee to work for free

SEA force every FSEs to work around 50 – 60 hours in their store and their payroll software is setup as $0 per hour award rate for FSEs. This has been made purposely to reflect low operational cost and good profitable business.

FSEs have to sign IN and Out during their visits in the store, nothing more than a Staff member.

17.2 FSE Staff

All store staff are employed through SEA processes and protocols by FSE credentials.

SEA controls all the Staff data and communicate directly with them, sometimes against their own FSE. This practice has put a lot of strain on the relationship between the FSE and their Staff

SEA in principle treats FSE staff as their staff including any wage payments which they get deducted from FSE Open Account.

In recent years SEA have been communicating directly with the FSE staff and provoke staff to bring the issues to SEA bypassing the FSE.

Rather than addressing the problems posed by the FSE staff, SEA takes advantage of the situation and terminates the FSEs.

In many cases the terminated FSEs never be able to recover their investment made in to SEA.

SEA should be supporting the FSEs and educating them should there be any shortfalls and give an opportunity to FSEs to rectify the issues.

17.3 Unlawful Payroll Rules

In 2015 SEA released a custom designed RTA (Rostering and Timesheet) software, under this system they use their own rules and validation which is over and beyond the laws of the Country.

In many cases SEA knows that franchisees won't be able to challenge and deduct false validations and rules. If FSEs find faults, there is no process in the software to rectify it.

17.4 Superannuation Company Choice Restriction

FSEs or its Staff do not have any authorisation to select their own superannuation fund, though SEA provides the documentation to complete with the Choice Forms, it would mandate the protocols such that Staff has to use REST Super Fund only.