

FRANCHISE AGREEMENT

The key terms of the franchise agreement are set out below. Please note that all fees and levies set out here are exclusive of GST.

Franchise Fee - There is an initial one-off Documentation Fee payable to Group Office as the master franchisor for the establishment of a new store. This covers legal, accounting, administrative, training and other costs incurred by Group Office in developing a new franchise. A significant portion of this amount covers independent expert advice in relation to site selection and lease negotiation.

Transfer Fee – Where the franchise agreement is being assigned (i.e. the sale of an existing store) Guthrie Bowron charges a fee to cover its legal and administrative costs. New franchisees must be approved by Group Office.

Royalty Fee - As the master franchisor Group Office collects a monthly royalty fee of 4% on all retail sales in return for the ongoing right to use the brand, business model, supply arrangements and services provided by Group Office.

Advertising Levy – Group Office collects a national advertising levy calculated as 3% of retail all sales. Group Office also collects marketing contributions from suppliers which it disburses for the benefit of the Group.

Grant of franchise - Franchisees are granted the right to operate a Guthrie Bowron franchise within an exclusive, predefined territory and to use the franchise system (know-how, business plans, marketing methods, etc). They may use the trade name as well as all trademarks and intellectual property, logos and colours owned by or associated with Guthrie Bowron in the promotion and execution of their business.

Term - The franchise agreement provides for an initial term of 5 years plus a right of renewal for another 5 years subject to certain conditions.

Purchasing arrangements - Franchisees must purchase the core product range only through Guthrie Bowron. The core product range includes paint, wallpaper, curtains, blinds, related accessories and carpet. Each franchisee orders core stock lines and receives their own invoice.

Franchisee obligations - Franchisees have a number of obligations to Guthrie Bowron in the operation of their business. These relate to areas such as efficient service, suitable business premises, compliance with the franchise manual, staff, confidentiality, insurances and provision of information to Group Office.

Franchisor obligations - Under the franchise agreement Group Office is obligated to provide a number of services to the franchisees. These include, among other things:

- a) Onsite advice and assistance with the opening of the Franchisee's store;
- b) Initial training in relation to the Group Office system and core product range, along with further training as is reasonably required in response to changes in systems and products;
- c) Technical assistance in relation to hardware and software, and ongoing business advice;
- d) Maintain an active national advertising campaign, funded by the Advertising Levy and supplier contributions;
- e) Make available to the franchisee all improvements and modifications to the Group Office system and core product range; and
- f) Use its best endeavours to improve and promote the goodwill of the business and public demand for its products.

Training - Each new franchisee receives two days training post-settlement, provided by Group Office management in Wellington. Franchisees then work alongside an existing store owner (or departing store owner) for approximately two weeks. Group Office provides other ad-hoc support where appropriate.

Communication - In addition to initial training, Group Office also has the following regular meetings:

Annual Conference – each year Group Office organises an annual conference. This is at the franchisee's expense, although Group Office obtains contributions from suppliers towards the cost of the conference. The conference provides technical updates, training and business development.

Regional Meetings – Group Office holds two day-long meetings annually. These comprise of technical updates, business development issues and also provide an opportunity for the franchisees to exchange ideas and information. They culminate in an opportunity to mix socially with other store owners and exchange ideas.

Individual Store Visits – Group Office management aims to visit each store twice a year. The visits are designed to provide individual support tailored to each franchisee's needs and provides an opportunity for one-to-one discussions with the franchisee.

FINANCIAL

Anyone considering purchasing an existing franchise or establishing a new store should seek expert professional advice on all accounting, tax and legal matters. Guthrie Bowron does not guarantee the performance of any store but it can share considerable information around the historical operating performance of its network. Representatives from Group Office will work through a business plan with you to assist new franchisees in setting realistic financial goals.

Turnover can vary largely depending on location and size of the particular store. The two key overheads in the business are rent and wages, both of which can vary between locations. Some husband and wife teams will require less labour than solo operators and rents in Auckland are not comparable with those in provincial New

Zealand. New stores will need to invest in stock and fixture and fittings during the start-up phase. New franchisees will also need a working capital facility which may be in the form of a cash float or bank overdraft. Most core suppliers will provide favourable terms to assist in stocking new stores. Group Office will work through these issues with approved franchise candidates at the appropriate time.

SUCCESSFUL FRANCHISEES

A background in home decorating is useful but it is not necessary. Our franchisees come from all walks of life, the key attribute they have in common is commitment to the brand and to the business. Group Office makes every effort to assist new franchisees but often the defining success factor is the drive and ambition of the individual operator. Generally speaking successful Guthrie Bowron franchisees demonstrate some or all of the following qualities:

- Strong work ethic and a hands-on approach to business;
- Strong communication and selling skills;
- Enthusiasm for the home decorating sector;
- An ability to adequately capitalise the business and understand financial concepts;
- An ability to accept and work within the parameters of the franchise model;
- Drive, ambition and a positive approach to life.

CONTACTS

In February 2011 Steve Salmon was appointed General Manager. Steve is a career retailer, having 30 years retail experience in NZ and the United Kingdom. Most recently Steve was General Manager Operations with Briscoe Group having responsibility for the Briscoe, Rebel Sport and Living and Giving retail stores.

Steve has spent 13 years with Briscoe Group in various roles including General Manager of Rebel Sport. Prior to this Steve worked in a number of retail focused roles at Levene for 12 years, including Store Manager, Area Manager, National Operations Manager.

Steve Salmon
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