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To Mr David Hatfield **Facsimile** (02) 6243 1199
Adjudication Branch
Australian Competition &
Consumer Commission

From Stuart Ariff
 Stuart Ariff Insolvency Administrators

Date 4th October 2005 **Number of pages (including cover sheet): 5**

Subject **JUICE STATION FRANCHISING PTY LIMITED**
(ADMINISTRATOR APPOINTED)
A.C.N. 096 549 147
Notifications N31192 and N31144

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I refer to the pre-decision conference held in respect of the above notifications on 23 September 2005.

On behalf of Juice Station Franchising Pty Ltd (Administrator Appointed) ("Juice Station"), I attach a further written submission on matters arising out of that conference.

Juice Station reserves its rights as to the holding of the pre-decision conference and objects to the Australian Competition & Consumer Commission ("Commission") relying on any material raised at that conference by persons other than current franchisees who have an interest in the future status of the notifications.

Juice Station also objects to the Commission relying in any way on the matters raised at the conference by Mr Barkis of the Australian Franchisees Association on the basis that he has no interest in the matter.

AUST. COMPETITION &
 CONSUMER COMMISSION
 CANBERRA
 - 4 OCT 2005

Please do not hesitate to contact Ms Yazni Ariff or Mr Peter Kefalas if you have any questions arising from the attached submission.

Yours sincerely,
Juice Station Franchising Pty Limited
(Administrator Appointed)

A handwritten signature in black ink, appearing to read 'Stuart Ariff', with a long horizontal flourish extending to the right.

Stuart Ariff
Administrator

Juice Station (Holdings) Pty Ltd (Administrator Appointed)

Further Submission in respect of notifications lodged by Juice Station Franchising Pty Ltd (N31192, N31144)

1. Purpose of submission

This submission is made by Juice Station (Holdings) Pty Ltd (Administrator Appointed) ("Juice Station") in order to respond to a number of issues raised at the pre-decision conference held by the Australian Competition and Consumer Commission ("Commission") on 23 September 2005 on the above notifications.

A very wide range of issues were canvassed by Juice Station franchisees and former franchisees at that conference. Many of them were not relevant to the Commission's consideration of whether the notifications in question should be revoked.

This submission responds only to key matters raised at the conference which are relevant to the Commission's decision.

2. Bottle issues

2.1 Concerns raised at conference

Two key areas of concern were identified at the conference. The first was bottle quality and the second was reliability of supply.

Much of the evidence of bottle quality concerns was very dated. In part this is because a number of the franchisees or former franchisees who attended the conference indicated they no longer use Juice Station bottles. However, franchisees who continue to use the bottles did indicate that they had experienced few issues in recent weeks.

A more significant current concern raised by franchisees is their inability to always obtain on-time delivery of bottles. Juice Station is seeking to address this issue in three ways. First, by implementing a system of direct supply from manufacturer to franchisee (see further below). Secondly, by holding weekly meetings during which Juice Station can be consulted on matters of concern (see further below). Thirdly, by seeking to improve measures with the current manufacturer and if that fails, by switching to a Sydney supplier. At present, the supply of bottles has not been interrupted in any way and delivery is made within 24 hours of an order being received.

2.2 Distinction between ability to nominate and the current supplier

There is a clear distinction between Juice Station's right to nominate suppliers (which is the subject of the notifications) and the identity of its current supplier.

Juice Station's ability to nominate a supplier should not be determined by quality issues experienced with its current supplier. Juice Station concedes that there have been issues with the current bottle supplier but Juice Station has, at least since appointment of the Administrator in June 2005, taken these issues very seriously and will, if bottle quality issues are not resolved to its satisfaction, nominate an alternative supplier. Juice Station does not believe that the alleged public detriment results from the ability to nominate a supplier of bottles.

2.3 Benefits of a nominated supplier

(a) Discounts

Juice Station's ability to nominate a supplier allows it to obtain significant group discounts for franchisees on the purchase of bottles. If franchisees were free to choose their own suppliers, Juice Station would not be able to obtain the same level of discount. In the absence of the ability to nominate, Juice Station would lose its ability, in negotiations with suppliers, to ensure those suppliers of certain minimum purchases. The level of discount which Juice Station could therefore achieve would likely be reduced, and as a result the retail price for Juice Station juice may rise.

(b) Supply chain benefits

In its current circumstances of financial difficulty, Juice Station's ability to nominate is of critical importance.

Juice Station suppliers, have, owing to its financial difficulties, moved to only supply to Juice Station on a cash-on-delivery basis. Juice Station is therefore keen to implement a system whereby franchisees order direct from the manufacturer and pay the manufacturer direct. This would be of benefit to both Juice Station and franchisees. While some of the recent stock out issues arose due to measures being taken to ensure bottle quality, others have been as a result of Juice Station's financial difficulties. Direct communication will improve responsiveness and flexibility and will permit franchisees a greater level of autonomy in the ordering of supplies. If Juice Station is the "middle-man" in the supply chain for bottles between manufacturer and franchisees, it will suffer significant cash flow difficulties and supplies of bottles to franchisees could be delayed to the detriment of franchisees. In effect, each franchisee becomes hostage to the slowest payer among them because it is only with this money that Juice Station can pay its debts.

(c) Quality control

The ability to nominate a supplier allows quality control by Juice Station.

Whilst there have been some bottle quality issues, but Juice Station, particularly since it entered voluntary administration, has taken these issues seriously and has dealt with them on behalf of all franchisees.

Without a nominated supplier, franchisees would be free to purchase their bottles from anywhere. While it is obvious that many franchisees put the safety of their customers to the fore, others may choose the cheapest bottles in order to increase their profit margins. This could give rise to a range of new quality control issues, and at the same time damage the Juice Station brand.

3. Fruit supplies:

Franchisees and former franchisees raised issues about the quality and supply of fruit which had not before been canvassed in this process.

While the Franchise Agreement entered into by Juice Station with its franchisees provides for franchisees to obtain fruit from either Juice Station or a nominated supplier, it also has provision for franchisees to obtain fruit from other suppliers with the written approval of Juice Station.

Franchisees have taken advantage of this provision and obtain their fruit from suppliers of their own choosing.

4. Store fit-out

The Administrator is currently assessing the issues raised at the conference about the fit-out of stores.

The advantage of the system as it has operated in the past is that franchisees of new Juice Station outlets were provided with fully-fitted out stores in return for their franchisee fee payment. This was fully disclosed and transparent at the time of entry into the arrangement and all franchisees acceded to the system knowing this to be the case.

Going forward, Juice Station does not intend to use the same fit-out supplier for outlets as it has used previously. Juice Station is also willing to be flexible in the arrangements for the fit-out of new stores provided only that the guidelines designed to protect the Juice Station brand and goodwill are complied with.

5. Improved consultation with franchisees

From the conference it appears that franchisees feel there has been a lack of consultation and communication between Juice Station and its franchisees.

The Administrator is seeking to address this concern. The Administrator has, since before the conference, implemented weekly meetings and/or workshops with Juice Station franchisees. The Administrator's experience with these meetings is in considerable contrast to the level of concern raised by franchisees at the conference. With respect to two of the meetings convened by the Administrator, franchisees stated they were unable to attend. The meeting scheduled for Tuesday 4 October 2005 has been cancelled at the request of franchisees and the previous meeting, a week before, was attended by only two franchisees.

One of the aims of these meetings is to emphasise the symbiotic relationship between franchisor and franchisee and to foster a relationship which allows Juice Station and its franchisees to work together to ensure the future of the Juice Station system which relies on the success of franchisees for the success of the franchisor over the medium and longer term.

Issues of whether or not to change, for example, the nominated bottle manufacturer, will be canvassed with franchisees at these meetings. Another item of great concern expressed by franchisees is the supply of quality fruit at good prices. Meetings with franchisees have been convened to further progress the development of a fruit buying group.

4 October 2005