



International Franchise Group

AUST. COMPETITION & CONSUMER COMMISSION
PERTH
6 OCT 2005

The Regional Director,
Australian Competition and Consumer Commission,
3rd floor, East Point Plaza
233 Adelaide Terrace
Perth WA 6000
Dear Sir,

6 October 2005

Notification – Exclusive Dealing

I enclose a Form G and a cheque payable to the ACCC for \$1000 as a lodgement fee.

Yours faithfully,

Michael Cooke
Group Legal Director



CASH CONVERTERS PTY LTD

ABN 75 009 288 804

Level 18, Citibank House, 37 St. George's Terrace, Perth, Western Australia 6000 PO Box Y3151 East St. George's Terrace, Perth 6832
Telephone: (08) 9221 9111 Fax: (08) 9221 9011 Email: General.Enquiries@iho.cashconverters.com Web Site: www.cashconverters.com

Form G

Commonwealth of Australia
Trade Practices Act 1974 — Sub-section 93(1)
**EXCLUSIVE DEALING
 NOTIFICATION**

To the Australian Competition and Consumer Commission:

Notice is hereby given, in accordance with sub-section 93(1) of the *Trade Practices Act 1974*, of particulars of conduct or of proposed conduct of a kind referred to in sub-section 47(2), (3), (4), (5), (6) or (7), or paragraph 47(8) (a), (b) or (c) or (9) (a), (b), (c) or (d) of that Act in which the person giving notice engages or proposes to engage.

(PLEASE READ DIRECTIONS AND NOTICES ON BACK OF FORM)

1. (a) Name of person giving notice
 CASH CONVERTERS PTY LTD A.C.N. 009 288 804

 (See Direction 2 on the back of this form)
 (b) Short description of business carried on by that person
 Franchising of secondhand dealer stores – see Annexure A Page 1 for details

 (c) Address in Australia for service of documents on that person
 Level 18, 37 St George's Terrace, Perth WA 6000

2. (a) Description of the goods or services in relation to the supply or acquisition of which this notice relates
 See Annexure A

 (b) Description of the conduct or proposed conduct
 See Page 5 and 6 of Annexure A

 (See Direction 4 on the back of this form)
3. (a) Class or classes of persons to which the conduct relates
 Franchisees

 (b) Number of those persons--
 (i) At present time 117
 (ii) Estimated within the next year 125
 (c) Where number of persons stated in item 3(b)(i) is less than 50, their names and addresses

4. Names and address of person authorised by the person giving this notice to provide additional information in relation to this notice Michael Cooke, Group Legal Director, Level 18, 37 St George's Terrace, Perth

Dated 5th October, 2005 _____

Signed by/on behalf of the applicant giving notice

M. I. Cooke

(Signature)

Michael Ian Cooke

(Full name)

Group Legal Director

(Description)



Annexure A to Form G
Exclusive Dealing Notification – Third Line Forcing

Cash Converters Pty Ltd

Introduction

Cash Converters Pty Ltd (“CCPL”) has been the franchisor for the name and business system of the Cash Converters franchise since 1988. CCPL is the wholly owned operating subsidiary of Cash Converters International Limited, a public company listed on the Australian Stock Exchange. CCPL has developed a chain of franchised stores throughout Australia and in many other countries. The current store numbers in Australia totals 117 made up as follows :

Western Australia	24
South Australia	15
Northern Territory	2
Victoria	26
New South Wales	7
ACT	2
Queensland	38
Tasmania	3

Of these, there are 104 stores which follow the well-known Cash Converters model of a large retail premises which buys and sells secondhand goods and does pawnbroking. These are referred to as “traditional stores”. There are three (3) stores which deal exclusively in furniture and which are not relevant to this application. There are nine (9) small outlets called Buys & Loans Centres (“BLCs”) which do pawnbroking, no retail sales and concentrate on micro-lending in the form of cash advances and personal loans and money transfers and one (1) small outlet called a Personal Finance Centre which does only micro-lending.

Background

Many of the traditional stores and all the BLCs act as agents of Western Union, the international money transfer agency. Over the past five years, CCPL has been encouraging all these franchisees to offer cash advances. This is a form of micro-lending which involves making small loans (averaging approximately \$200 per loan) to customers who have a regular source of income paid into a bank account. Repayments of the cash advances are effected by the direct debit system through the banking system via internet based computer software. This concept was first presented to CCPL as a potential form of business in 1999 by a small company called Mon-E Pty Ltd of 7 Mabel Street, North Perth (“Mon-e”) and with assistance from CCPL, Mon-e developed and proved up the software system and established the banking facility required for the business to operate. Once it was proven as a concept, CCPL granted Mon-e a non-exclusive licence to enter into arrangements with CCPL’s franchisees for franchisees to make cash advances from their stores using the Mon-e system and lending their own money. Mon-e charges the franchisees a fee for using their system and support and the whole operation runs on the Mon-e banking facility for the direct debits. Because it is web-enabled, regular and detailed reporting on every transaction is available to each franchisee, to Mon-e and to CCPL. CCPL is paid a royalty by Mon-e for the right to use the CCPL trade marks, name and colours etc to advertise the availability of cash advances at Cash Converters outlets.

Via the licence between CCPL and Mon-e, CCPL has been able to ensure that consumers are offered an ethical product. This is vital in an area in which there is constant lobbying by various consumer groups to limit or ban micro-lending or to cap interest rates. CCPL has successfully pointed out to regulatory authorities that it is better for consumers to have access to ethical lenders than to effectively eliminate this type of lending as that forces consumers to resort to fringe lenders and loan sharks whose practices leave much to be desired. Accordingly, CCPL insists that cash advances are made on the following basis :

- No more than 15% of a customer's net income will be advanced;
- No security is taken from a customer;
- No further loan is made until the existing loan is repaid.

These elements are designed to avoid customers getting into a debt spiral. Because all Cash Converters outlets within a state are operating on the same single system, customers cannot go to different stores and take additional loans while an existing loan is outstanding. Furthermore, for customer convenience, loan repayments can be made at any store. The uniform system is programmed to prevent a franchisee from advancing more than 15% of net income and the system is also programmed to ensure that a franchisee charges a standard fee for the photo ID card and the bank dishonour fee.

In South Australia and the Northern Territory, after obtaining the agreement of all the franchisees in those states, a group of the franchisees developed their own cash advance system with all of the same important features of the Mon-e system under their company called Quickdraw Financial Solutions Pty Ltd of Suite 1, 15 Fullarton Road, Kent Town SA 5067 and CCPL entered into a licence similar to the licence with Mon-e which allows Quickdraw to provide its service to franchisees in South Australia. Of the 17 outlets in these two states, 10 are using the Quickdraw system and the remainder have elected not to undertake the cash advance business.

Cash advances are typically made as loans below \$1,000 and to offer larger loans, CCPL engaged Safrock Finance Corporation (Qld) Pty Ltd of Suite 11, Princeton Court 2, 9 Princeton Street Kenmore Queensland to make personal loans to customers both secured and unsecured. These loans are made using Safrock's money and the franchisees act as agent for Safrock and receive a commission for each loan made in their store.

The current Disclosure Document for CCPL under the Code of Conduct for franchise offerings contains the following disclosure regarding these matters :

“Western Union

Each Cash Converters Franchisee will be offered the opportunity to enter into an agency agreement to become an agent of Western Union Financial Services Inc of One Mack Centre Drive, Paramus New Jersey 07652 USA. This will enable the Franchisee to receive international and domestic fund transfers and to make such transfers for its customers. On each transaction, the Franchisee will receive a commission from Western Union and, in addition to the commission received by the Franchisee, the Franchisor will receive a fee from

Western Union which is equal to one third of the commission which the Franchisee receives. The Franchisee is not obliged to accept this opportunity.

Payday advances

Each Franchisee will be offered the opportunity to become an agent of Mon-E Pty Ltd of 7 Mabel Street, North Perth for the purpose of making on-line loans to customers repayable by direct debit from the customer's bank account out of the customer's income. The Franchisor and Mon-E Pty Ltd will receive a fee on each advance made. The Franchisee is not obliged to accept this opportunity. Similar arrangements are available for Franchisees in South Australia and the Northern Territory through Quickdraw Financial Solutions Pty Ltd of Suite 1, 15 Fullarton Road, Kent Town SA 5067.

Personal Loans

Each Franchisee will be offered the opportunity to become an agent of Safrock Finance Corporation (Qld) Pty Ltd of Suite 11, Princeton Court 2, 9 Princeton Street Kenmore Queensland to make personal loans to customers both secured and unsecured. On each transaction, the Franchisee will receive a commission from Safrock and, in addition to the commission received by the Franchisee, the Franchisor will receive a fee from Safrock. The Franchisee is not obliged to accept this opportunity.”

Aside from the outlets in South Australian and the Northern Territory, there are 70 traditional stores committed to the Mon-e based cash advances. There are 75 traditional stores committed to acting as Western Union agents. There are approximately 70 traditional stores offering Safrock loans. All 9 BLCs and the 1 PFC offer all three products. Accordingly, in relation to cash advances, of the 100 outlets including all traditional stores and BLCs and the PFC outside of SA and NT, 80 have adopted the Mon-e system voluntarily, 85 are Western Union Agents and 80 are offering Safrock loans.

Uniformity

In order to be able to offer franchises for traditional stores and BLCs, CCPL needs to have a uniform system and business model as far as possible since that is the essence of a franchise chain.

From CCPL's point of view, the key issues are as follows :

1. **Uniformity** – under a franchise system, if each store “does its own thing” then the franchisor really has no way of keeping control over standards or even over what exactly it is that each franchisee is doing. The Franchisor has a need and a responsibility in relation to its brand to ensure that customers as far as possible do not experience different systems and products from one store to another. It is the common experience from store to store in all respects including get-up, colours, name, product range, trading terms and so on which creates the illusion of a single chain. This illusion that businesses which are independently owned and operated comprise a single homogenous chain of stores is the basis upon which the strength of a franchise is built and survives and grows. It is also the basis for customers to develop confidence in the chain and to enjoy the convenience of having the same facilities at each store.

2. **Quality Control** - As a vital part of achieving uniformity which is important as explained, the Franchisor needs to be able to monitor and control the conduct of franchisees. This is in the interests of both CCPL and the franchisees since the quality of service and standard of products must be maintained at a high standard for franchisees to prosper. Any poor performer in a franchise chain can drag down the brand image and the value of the franchise for the other franchisees. Consumers spread bad news much faster than good news! This quality maintenance activity must be capable of being done at a relatively modest economic cost since the fees charged to franchisees represent only a small percentage of their turnover and business activity. For such small fees, the Franchisor has to cover a huge geographical territory and a wide range of different personalities in each business, while dealing with independent people, not employees. It is very difficult to undertake the task of monitoring separate systems for micro-lending within each store. Extrapolated over the whole country, this could result in over one hundred systems and ways of doing business with respect to micro-lending. There are three aspects to this : consumers, franchisees and regulatory authorities.
- (a) As far as consumers are concerned, the Franchisor needs to ensure standards, check that franchisees do the right thing, prevent abuse, ensure a common product range and service standard and generally encourage consumers to be ongoing, happy customers.
 - (b) As far as franchisees are concerned, the Franchisor has a duty to ensure that any aspect of the business model is “foolproof” and can be learned by each franchisee. Franchisees with no experience in secured and unsecured lending could easily get into serious trouble with cavalier lending practices so the Franchisor needs to ensure proper training and clear guidelines. This task is made very difficult with a multitude of different systems. Without a single system, the Franchisor will struggle to ensure that their reporting is accurate and truthful to avoid disputes and also to ensure that no franchisee engages in inappropriate lending practices.
 - (c) As far as regulatory authorities are concerned, if there is a multitude of systems, the Franchisor cannot easily give assurances as to the kind of product being offered and the trading terms and the Franchisor cannot easily ensure changes to meet any compliance issues. The current regulatory review being conducted in Victoria into the micro-lending industry provides a good example of the benefit of being able to make representations on behalf of all franchisees on the basis of a common system and product.
3. **Viable Fees** – the whole basis of a franchise system being able to operate on economically sustainable fees which provide an income to the Franchisor and allow franchisees to be profitable, rests upon the uniformity of the model and systems. Such uniformity of the business model and systems, enables economies of scale and efficiencies of operation and reporting that make the concept viable. The cost of permitting a multitude of systems would mean that the fees CCPL would need to charge to cover its costs, would make each of the many systems unattractive to the franchisee as compared to the charges for a single system. Although individual franchisees may find competing

systems that appear to offer a lower cost, the royalty level which CCPL would require before granting a licence to use an alternative system would outweigh any expected savings since the costs to CCPL of monitoring a stand-alone system for one store would be far too high in relation to the amount of business a single store can do.

4. **Cost/Benefit** – There is both a cost to being in a franchise system in terms of lack of individual freedom and a benefit in terms of the brand impact. Franchisees usually have to accept the cost in order to enjoy the benefit and to accept that systems may not be capable of being tailored to suit each one but might need to be “one size fits all”. The upside of this is that any new idea which is considered to be beneficial to the model and the system as a whole, can be extended to all franchisees. This is a vital element in ensuring the relevance of the business model and its survival over time – an aspect in which many small businesses isolated from a larger group, miss out on and the results are often fatal – for a simple example one can refer to the fate of the corner deli. For a clear example within CCPL’s franchise system of the benefit, one need look no further than the fact that CCPL has been the market leader in the innovation of cash advances which now, some five years after CCPL saw the “future”, appears to be an “obvious” business concept. A vital aspect for the Franchisor when assessing a possible innovation, is that it can be assessed against a uniform background. It is very difficult to assess whether an innovation will be acceptable and profitable if there are a multitude of systems and the effect of the innovation in each different system has to be considered separately.
5. **Advertising** – For the franchisees and for the consumer, the more uniform and widely available the services offered by the chain are, the better result can be achieved from the advertising budget which is funded by franchisees. This is because consumers who see advertisements on television for a range of loans and cash advances etc become frustrated when the services are only available “at participating outlets”. If franchisees offered different products, then it would be impossible to get the economies of scale required to make an impact on television. There would also be a sense of unfairness if funds from one group of franchisees are used to raise awareness of the micro-lending products but other franchisees use their own systems and offer different products but in effect trade off the back of the advertising from the main group.

Since it has become clear that micro-lending is an important part of the traditional Cash Converter store offering and the financial products on offer form the cornerstone of the BLCs, CCPL regards this application as necessary from the point of view of its own business as a public company generating returns for its many public shareholders and also from the point of view of the franchisees who must survive in a competitive market and also from the point of view of the consumers whose needs we seek to service.

Competition

Although the conduct proposed might appear to inhibit franchisees from using other systems which might otherwise compete with the Mon-e system or the Quickdraw system for cash advances, this is not actually a true picture since no other system can

be used by franchisees unless and until the system provider has entered into a licence with CCPL for the use of the CCPL name and trade marks in connection with their system. Such a licence will require a level of royalty that compensates CCPL both for the use of its intellectual property and also for the additional costs of evaluating and monitoring the system and its legality and usage. Those costs in practice prove to be far too high for a single system to be economically viable for the franchisee or for CCPL. The only way fees can be kept reasonable is through the economies of scale of having the one system in many stores. It is only now that the Mon-e system has voluntarily reached 80% of the available stores that CCPL seeks to confirm its status as the system to use.

Furthermore, although the single system approach may appear to create a monopoly in favour of Mon-e or the other service providers, in all cases CCPL has retained the power to terminate the licences at any time upon proper notice so that there is still the ability to prevent service providers from charging excessive fees and for market forces to apply downward pressure on fees.

PROPOSED CONDUCT

1. CCPL wishes to require the following with respect to franchise offerings outside of South Australia and the Northern Territory :
 - (a) that all existing franchisees who wish to offer cash advances, must use the Mon-e system;
 - (b) that all new franchisees who join the Cash Converters system, must offer cash advances and must use the Mon-e system and may be required by CCPL to offer Western Union agency services and Safrock personal loans;
 - (c) that all existing franchisees who wish to offer cash advances may be required by CCPL to also offer Western Union agency services and Safrock personal loans.

2. CCPL wishes to require the following with respect to franchise offerings within South Australia and the Northern Territory :
 - (a) that all existing franchisees who wish to offer cash advances, must use the Quickdraw system;
 - (b) that all new franchisees who join the Cash Converters system, must offer cash advances and must use the Quickdraw system and may be required by CCPL to offer Western Union agency services;
 - (c) that all existing franchisees who wish to offer cash advances may be required by CCPL to also offer Western Union agency services.