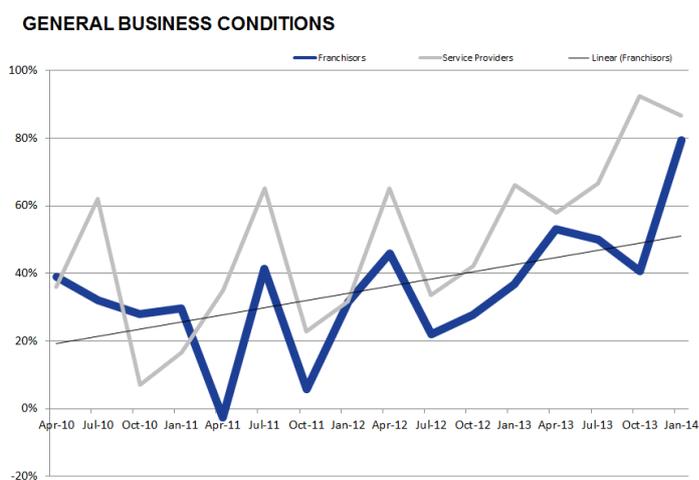


Franchisors Report Record Confidence in General Business Conditions

Franchise Consultants' January 2014 *Franchising Confidence Index* demonstrates continued elevated optimism across many key growth drivers, as reported by responding Franchisors and Service Providers. Franchisors were most positive in their outlook for general business conditions (net 79%), sales levels per franchisee (net 65%) and franchisor growth (net 62%) - a marked increase from the previous quarter. By contrast, franchisors on balance held a neutral to negative view on the availability of suitable franchisees and locations (both net 0%), availability of suitable staff (net 3%), and operating costs per franchisee (negative 18%). Meanwhile franchisors reported a solid outlook for franchisee profitability (net 38%).

The outlook for **general business conditions** is a key measure for this research because it can be compared with many other general business confidence surveys. Franchisors responses jumped to record levels (net 79%). Correspondingly, the majority of responding Service Providers also indicated substantial positivity for general business conditions (net 87%).

We note the high net 79% positivity experienced by franchisors is shared by other research involving general business, including the BNZ (net 68% in January), ANZ Business Outlook (64% in December) and NZIER (52% in December) business confidence surveys.



RESULTS SUMMARY TABLE *

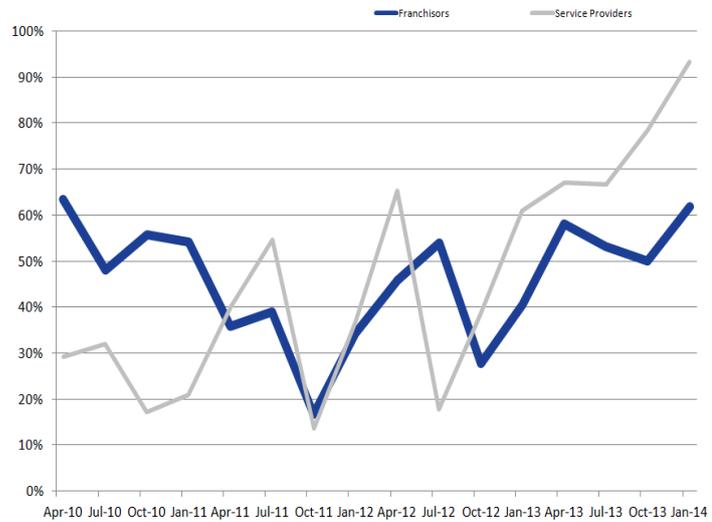
| | Franchisors | | | | | | Service Providers | | | | | |
|------------------------------------|-------------|--------|--------|--------|--------|--------|-------------------|--------|--------|--------|--------|--------|
| | Oct-12 | Jan-13 | Apr-13 | Jul-13 | Oct-13 | Jan-14 | Oct-12 | Jan-13 | Apr-13 | Jul-13 | Oct-13 | Jan-14 |
| General business conditions | 28% | 37% | 53% | 50% | 41% | 79% | 42% | 66% | 58% | 67% | 92% | 87% |
| Access to financing | 14% | 13% | 28% | 9% | 0% | 9% | 42% | 26% | 46% | 27% | 14% | 33% |
| Access to suitable franchisees | 14% | 5% | 0% | 9% | -13% | 0% | 35% | 9% | 38% | 33% | 29% | 47% |
| Availability of suitable staff | 6% | -5% | 3% | 3% | 9% | 3% | 23% | 13% | 17% | 27% | 29% | 13% |
| Availability of suitable locations | 23% | -5% | 0% | 13% | 19% | 0% | 27% | 31% | 33% | 20% | 14% | 40% |
| Sales levels per franchisee | 22% | 32% | 56% | 53% | 53% | 65% | 19% | 44% | 54% | 60% | 50% | 80% |
| Operating costs per franchisee | -17% | -11% | -11% | -16% | -16% | -18% | -23% | -4% | -17% | -20% | -7% | -40% |
| Franchisee profitability levels | -3% | 13% | 44% | 28% | 19% | 38% | 0% | 30% | 25% | 53% | 36% | 60% |
| Franchisor growth prospects | 28% | 41% | 58% | 53% | 50% | 62% | 38% | 61% | 67% | 67% | 79% | 93% |

*The figures indicate 'net' confidence. Net' confidence is the difference between those reporting 'better' and 'worse'

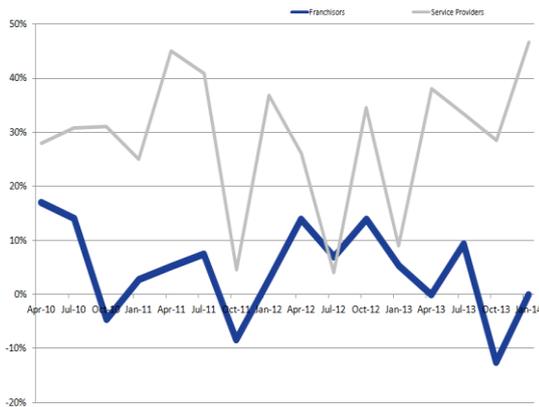
Franchisor sentiment for **franchisor growth** also remained very high at a net 62% - up from the previous quarter (net 50%). Service Providers (net 93%) again provided significantly positive results, up from a net 79% in October.

Franchisor sentiment toward access to suitable franchisees increased (from negative net 13%) to 0%. Franchisor sentiment toward access to financing also increased from 0% to a positive 9%. Interestingly, franchisor sentiment decreased for both access to suitable staff (from net 9% to 3%) and locations (from net 9% to 0%).

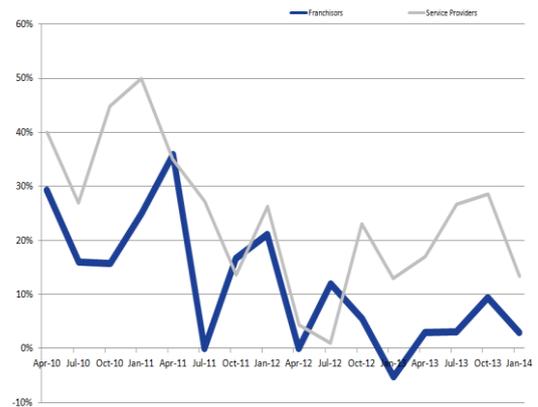
FRANCHISOR GROWTH PROSPECTS



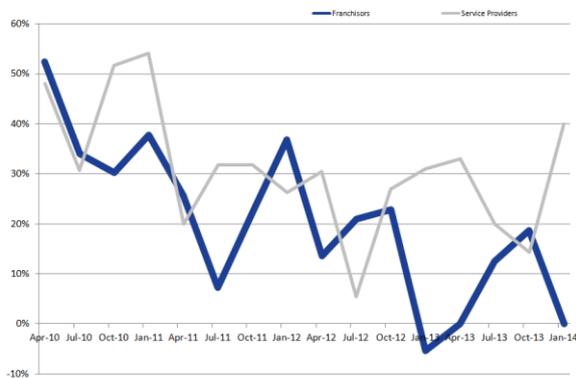
ACCESS TO SUITABLE FRANCHISEES



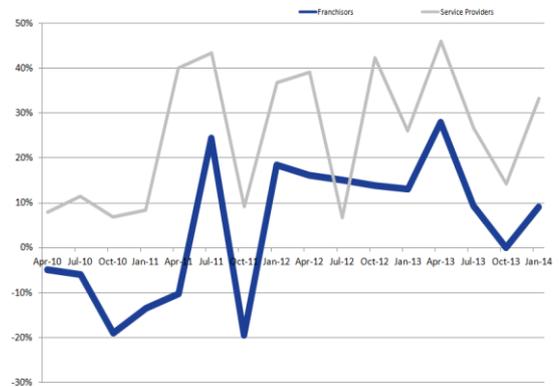
ACCESS TO SUITABLE STAFF



ACCESS TO SUITABLE LOCATIONS



ACCESS TO FINANCING

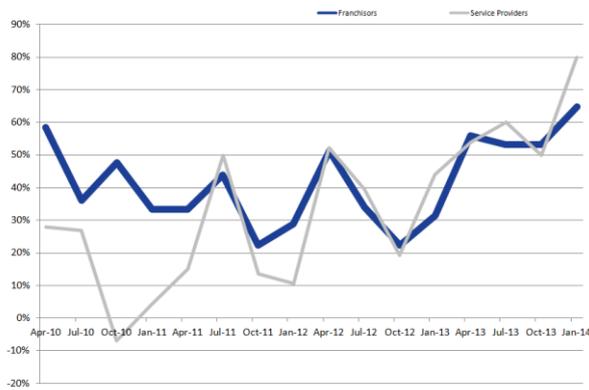


Within these results the majority of franchisor respondents expected access to suitable franchisees (65%), staff (74%), locations (76%) and finance (79%) to remain the same over the next 12 months.

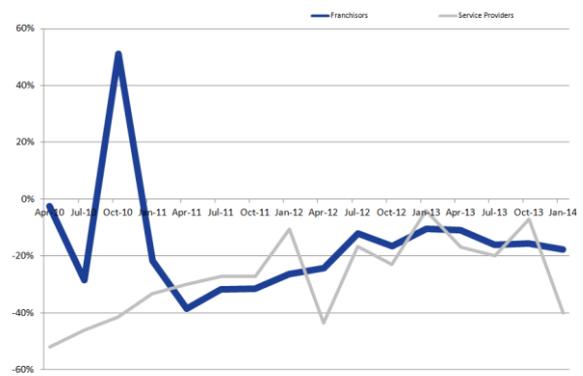
Service Providers were more optimistic in their outlook in two of these dimensions. A notable gap in sentiment was recorded in access to suitable franchisees (i.e. - 0% vs 47%), with a drop in confidence also in the outlook for accessing suitable staff. However, both franchisors and Service Providers reported improved sentiment in their outlook for access to financing, with franchisors rising from 0% to net 9% and Service Providers increased to net 33% from net 18% in the last quarter.

Net Franchisor (65%) and Service Provider (80%) sentiment toward future franchisee sales levels also rose from the last quarter. Meanwhile, the outlook on franchisee operating costs remained negative. Franchisors (negative net 18%) and Service Providers (negative net 40%), both showing a continued expectation that operating costs will increase.

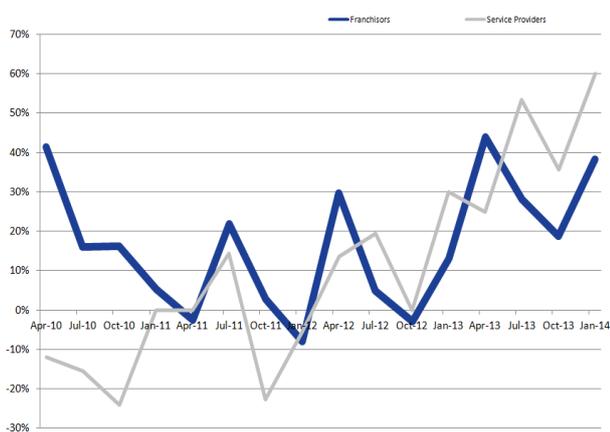
SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE



FRANCHISEE PROFITABILITY LEVELS



On balance, however, both franchisors and Service Providers still demonstrated solid, positive sentiment toward franchisee profitability levels, reporting a net 38% and 60%, respectively.

Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Twenty two franchisors responded. Many noted that they were experiencing strong improvements in demand, with positive expectations for the next 12 months. While not all companies identified their sectors, positive franchisors included companies operating in construction and related services, and the retail food sector. The following examples are indicative of this positive sentiment:

- *“Increasing competitive but we are meeting the challenge”*
- *“Food franchising. We have noticed a much improved inquiry rate from prospective franchisees. Alternative forms of advertising for franchisees are potentially producing better results than previous. We see 2014 being our best year in the last 5!”*
- *“Building Industry is better”*
- *“Retail food – sector looking better and better”*
- *“Residential renovation – good market activity both with enquiry and conversion”*
- *“Home Services – improving”*
- *“Getting stronger, yet much more competitive as lots of people wanting to be part of the Natural Health Sector – Aromatherapy and Beauty and Massage”*
- *“Construction – stronger consent numbers looking promising for our business”*
- *“Pet Industry. We are opening a school, therefore creating better trained staff. So the optimism is self-generated but there none the less”*
- *“Landscape and Garden Supplies – will be more competitive but improvement in domestic and commercial building development will bring greater sales”*
- *“Hospitality is still a competitive market, however we are positive about the coming year”*

Some companies advised of a more challenging environment, with the DVD rental industry struggling with the impact of technology, and Home Services advising of slow franchise sales.

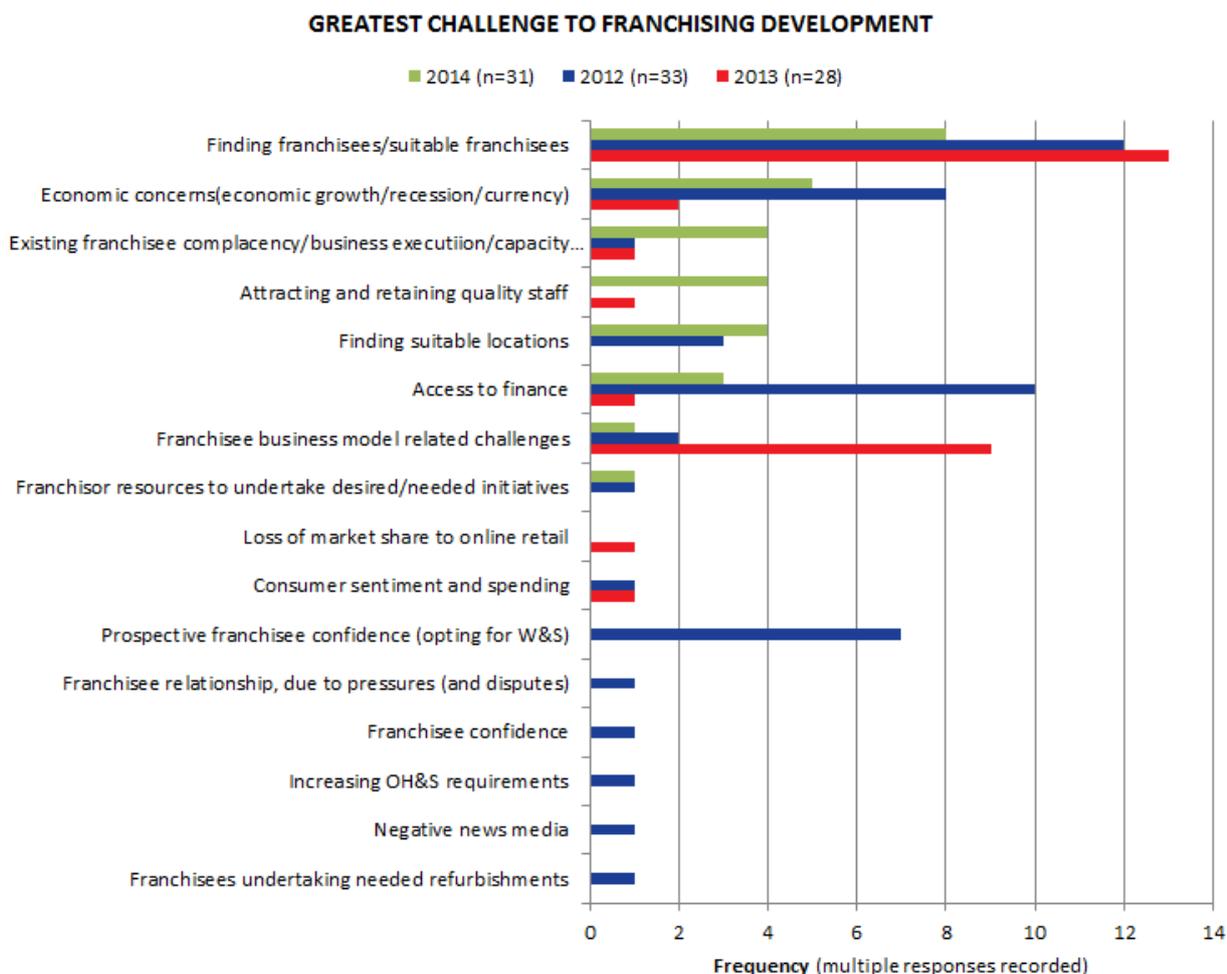
- *“DVD Rental. Watershed time for industry. Lots of consolidation/rationalisation taking place. Strongest will end up better off but lots of casualties in the last 12 months”*

Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Their responses were notably positive, reflecting that New Zealand business confidence is at a 20 year high. Key examples include:

- *“More positive because business people in general are more optimistic and more opportunities becoming available. With stimulated growth in the economy franchising in general should prosper”*
- *“Positive, economy in upswing, record number of new build consents, strong dollar”*
- *“Generally better with the economy seemingly reaching a point where people have confidence to undertake activity”*
- *“A lot more activity in the market. More system sales and new concepts entering the market”*

Greatest Challenge to Franchising Development in 2014

For the third year running franchisors were asked what they perceived to be the greatest challenge to franchising development in the year ahead. The following chart illustrates January 2012, 2013 and 2014 results (Note: There were 28 responding franchisors for their question in 2013, 33 in 2012, and 31 in 2014).



Finding franchisees or [more specifically] 'suitable' franchisees continues as franchisors' top challenge to franchising development, mentioned 8 times this survey. Although notably, fewer franchisors (by number and percentage) identified finding franchisees as an issue compared with 2012 and 2013.

The second most identified challenge (5 mentions) to franchising development pertained to economic concerns. Examples here included industry outlook, the strength of the New Zealand dollar, interest rates, and potential wage and other input cost rises.

Three areas of challenge received five mentions apiece included the capacity for organic franchisee growth (in particular, the challenge of getting existing franchisees to grow their territories), the ability to attract good staff for franchisee operations, and finding suitable locations. Of these, it is particularly interesting to see the increased identified importance of existing franchisee execution, and finding quality staff, coming to the fore.

Access to finance (3 mentions), franchisee business model challenges (1 mention) and franchisor resources to improve (1 mention) rounded out all identified challenges.

Notable differences between the current year, and 2012 and 2013, include a considerable reduction in responses relating to:

- Access to finance
- Franchisee business model related challenges
- Prospective franchisee confidence and willingness to invest
- Finding franchisees, and
- Economic-related concerns

Clearly, the current outlook is very positive compared to previous years.

Concluding Comment

Overall, Franchise Consultants' Franchising Confidence Index in January 2014 demonstrates a further increase of the generally high levels of optimism recorded in the previous quarter. This positive sentiment is shared by other recent general business confidence surveys – and is reflective of an improved outlook and forecast for the economy, with business confidence levels at a 20 year high.

Franchisors continue to maintain a very positive outlook for general business conditions, sales levels per franchisee, with franchisor growth prospects nearly at record levels for this Index. We were also encouraged to record a continued and positive outlook for franchisee profitability, arguably a franchise system's most important key performance indicator.

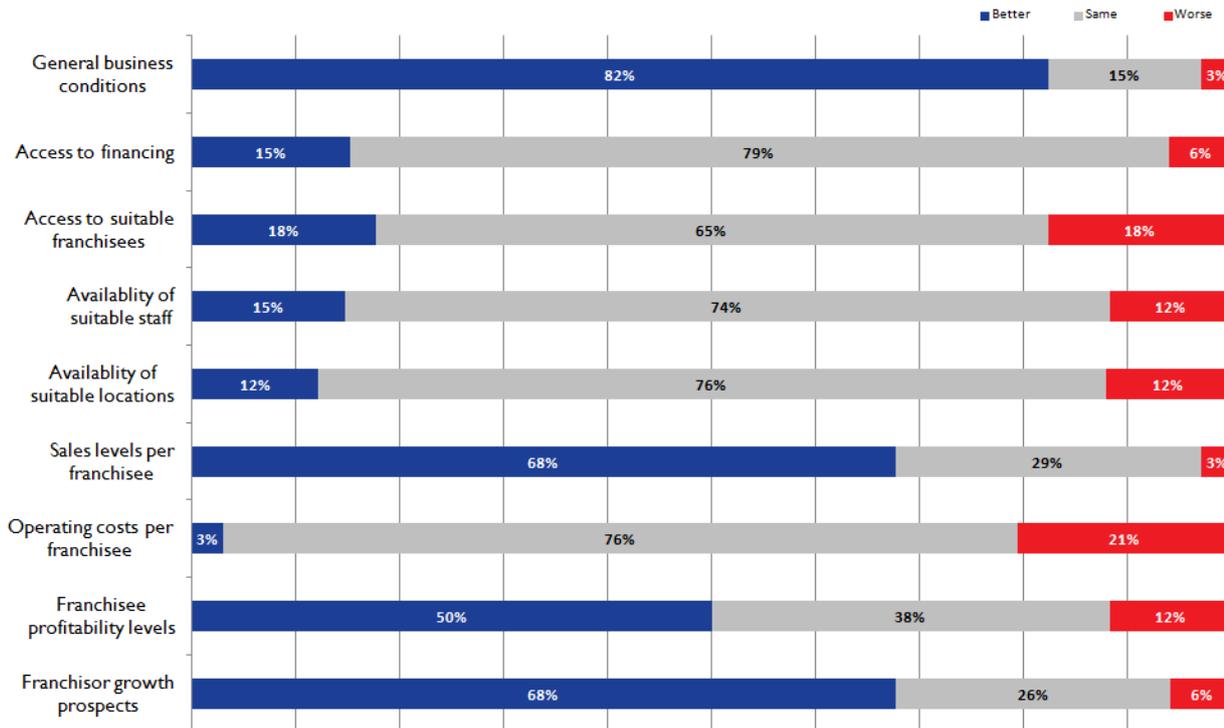
Key franchisor-identified challenges for growth in 2014 included finding franchisees, potential economic factors, franchisee complacency, and, finding suitable locations and staff. Notably, challenges associated with access to finance, potential franchisee confidence (to invest) and business model potential, were much reduced compared to the previous 2012 and 2013 results.

The sentiment contained within the results indicate 2014 could be a very strong year for franchising in New Zealand.

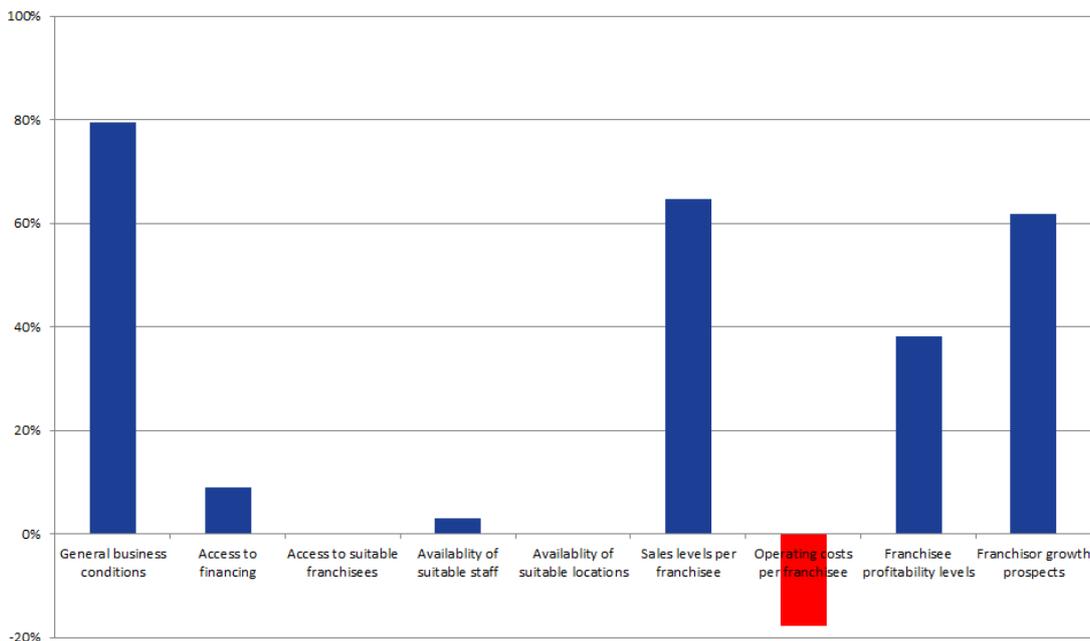
FRANCHISING CONFIDENCE CHARTS

The following four illustrations present individual and net franchisor and Service Provider expectations (separate charts) for the following year across all questions, including general business conditions and franchisor growth prospects (covered above).

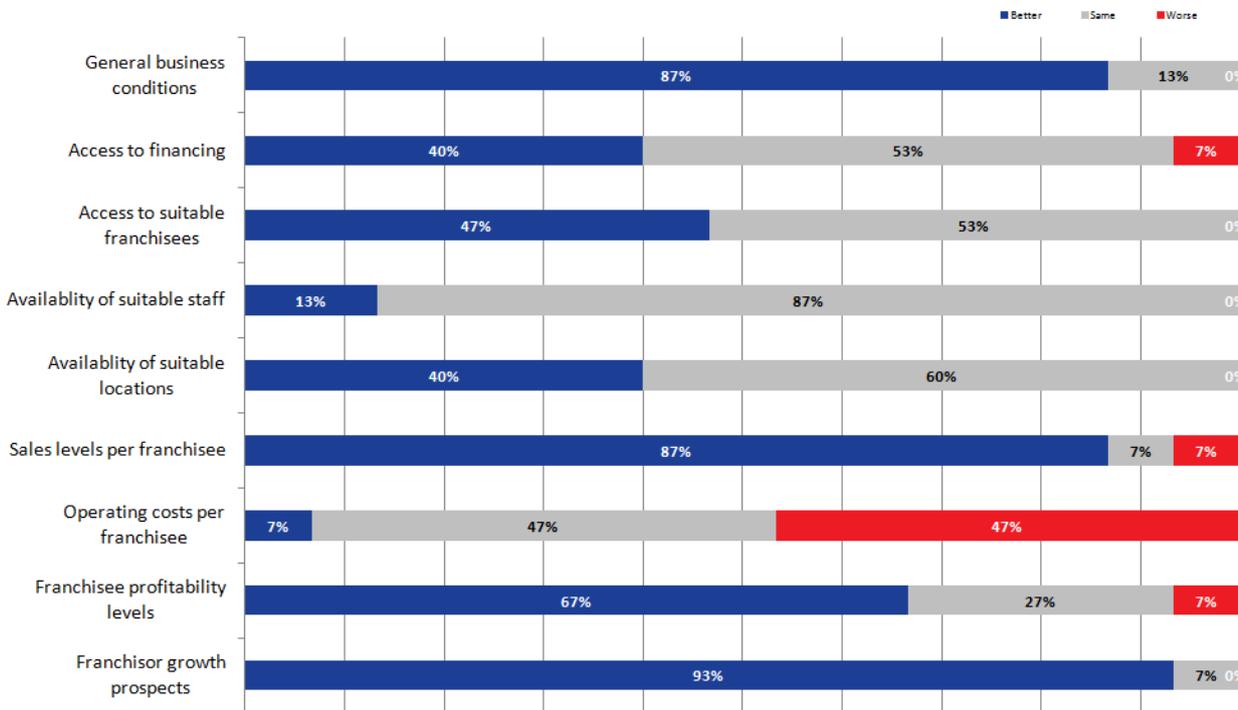
FRANCHISOR EXPECTATIONS (next 12 months)



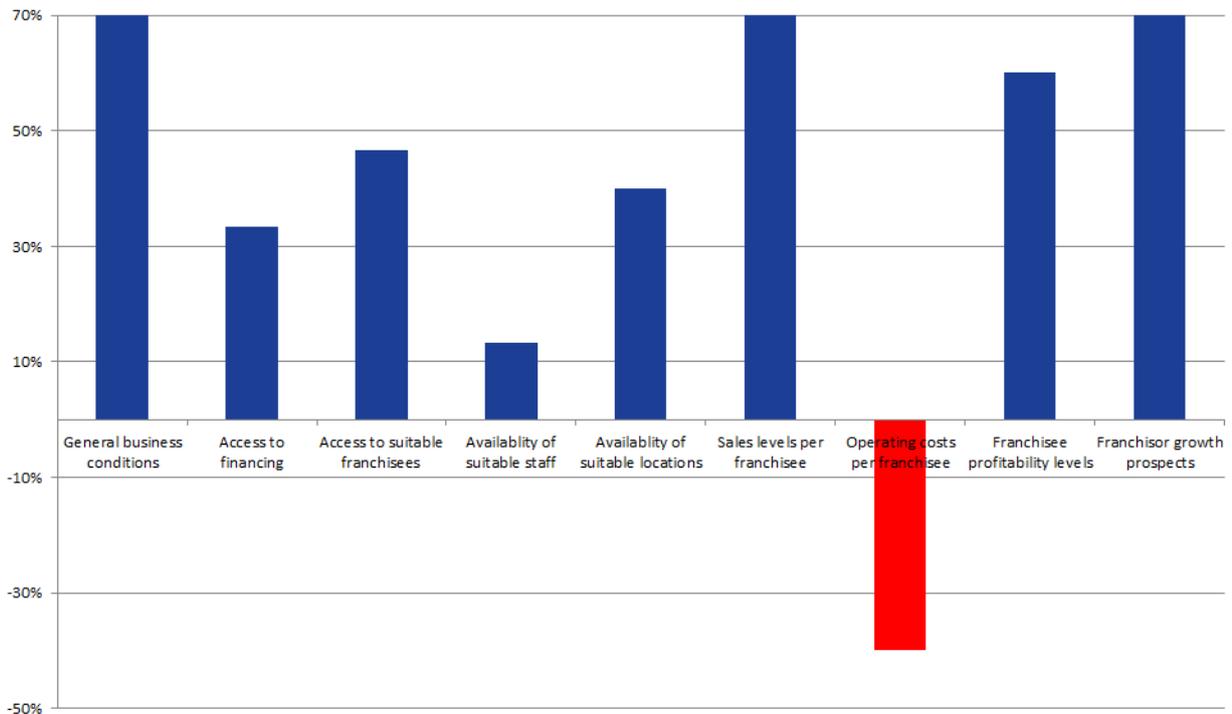
NET FRANCHISOR EXPECTATIONS



SERVICE PROVIDER EXPECTATIONS (next 12 months)



NET SERVICE PROVIDER EXPECTATIONS



Franchising Confidence Index

The Franchising Confidence Index represents the views and expectations of franchising, an important domain of business within the New Zealand economy.

Franchising is a substantial and growing domain of business making up an important part of the New Zealand economy. The *Franchising New Zealand 2012* survey, conducted by Massey University in collaboration with Griffith Business School, indicates New Zealand has 446 individual franchise systems comprising some 22,400 units (owned mostly by franchisees). The survey also suggests local franchise systems employ some 100,000 people. Finally, local expert estimates of total franchise system turnover range from \$15 to \$25 billion – suggesting franchising is a strong contributor to New Zealand GDP – as it is around the world. Companies involved in franchising are as diverse as Foodstuffs (New World, PAK'nSAVE, Four Square), NZ Post, Fisher & Paykel, Contact Energy, McDonald's, Columbus Coffee, Fastway Couriers, Harcourts and Fletcher Building.

The Franchising Confidence Index represents confidence in key measures critical to the success of franchising in this country by reporting attitudes toward general business conditions, as well as key franchising growth determinants including access to capital, suitable potential franchisees, staff and locations. The Franchising Confidence Index also covers franchising health attributes and outcomes by exploring franchisee sales, operating costs and profitability, and franchise system growth prospects.

The data and analysis presented represents the views of 35 franchisors and 15 Service Providers collected between Monday 27th and Friday 31st of January 2014. Findings from both groups are reported separately.

Respondents were asked whether they expected conditions to be 'better,' 'same' or 'worse.' 'Net' confidence is the difference between those reporting 'better' and 'worse.'

The data and analyses were compiled by Shelley Cross.

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