

# Franchising Confidence Slightly Moderated

Franchise Consultants' October 2014 *Franchising Confidence Index* continued an optimistic, though slightly moderated outlook across many key growth drivers, as reported by responding Franchisors. Results from Service Providers were mainly reflective of this sentiment.

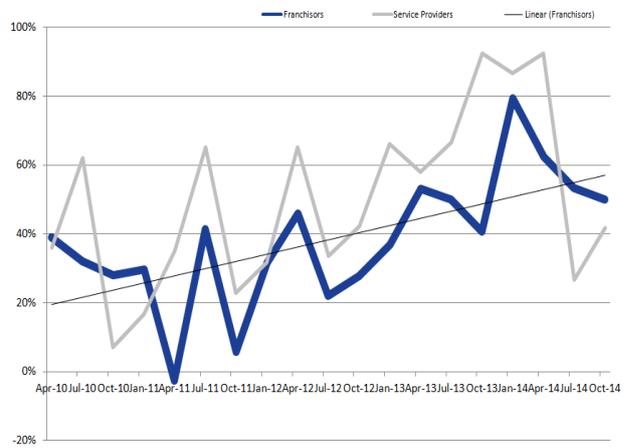
Franchisors still report positivity in their outlook for general business conditions (net 50%), and sales levels per franchisee (net 63%). Franchisor growth prospects (net 38%) decreased from the previous quarter's results of high net 63%.

Franchisors are less positive in their outlook for the availability of suitable staff, reporting negative net 17%, and suitable locations (also negative net 17%). Franchisors sentiment toward franchisee profitability has decreased from net 53% to net 17%, but remains positive. Franchisee profitability is arguably a franchise system's most important key growth driver. Service Providers matched this sentiment, reporting a net 18%.

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. Franchisor sentiment (net 50%) was slightly down from the previous quarter. Interestingly, responding Service Providers reported an increase in sentiment from 27% in July to 42% this quarter.

The net 50% positivity experienced by Franchisors is higher than other research involving general business, including ANZ Business Outlook (27% in October) and NZIER (20% in September) business confidence surveys. Reported confidence is down from the extreme levels of positivity reported in January 2014.

GENERAL BUSINESS CONDITIONS

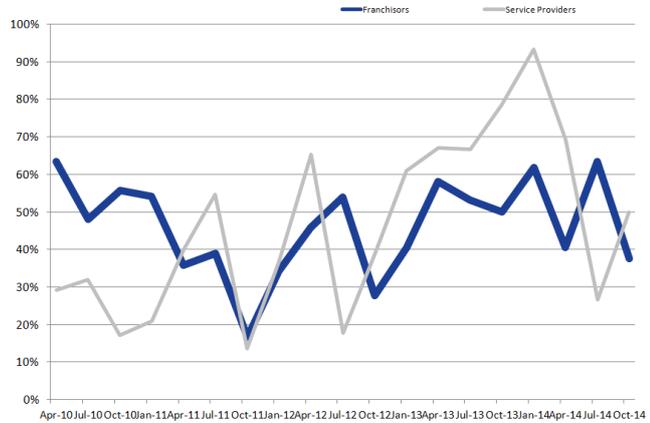


## RESULTS SUMMARY TABLE \*

	Franchisors								Service Providers							
	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14	Apr-14	Jul-14	Oct-14	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14	Apr-14	Jul-14	Oct-14
General business conditions	37%	53%	50%	41%	79%	63%	53%	50%	66%	58%	67%	92%	87%	92%	27%	42%
Access to financing	13%	28%	9%	0%	9%	3%	13%	21%	26%	46%	27%	14%	33%	38%	7%	42%
Access to suitable franchisees	5%	0%	9%	-13%	0%	-3%	17%	-17%	9%	38%	33%	29%	47%	8%	47%	33%
Availability of suitable staff	-5%	3%	3%	9%	3%	-19%	-7%	-17%	13%	17%	27%	29%	13%	-15%	-7%	0%
Availability of suitable locations	-5%	0%	13%	19%	0%	7%	-8%	-17%	31%	33%	20%	14%	40%	8%	7%	8%
Sales levels per franchisee	32%	56%	53%	53%	65%	66%	70%	63%	44%	54%	60%	50%	80%	85%	40%	50%
Operating costs per franchisee	-11%	-11%	-16%	-16%	-18%	-6%	13%	-38%	-4%	-17%	-20%	-7%	-40%	-46%	-33%	-25%
Franchisee profitability levels	13%	44%	28%	19%	38%	50%	53%	17%	30%	25%	53%	36%	60%	31%	7%	18%
Franchisor growth prospects	41%	58%	53%	50%	62%	41%	63%	38%	61%	67%	67%	79%	93%	69%	27%	50%

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

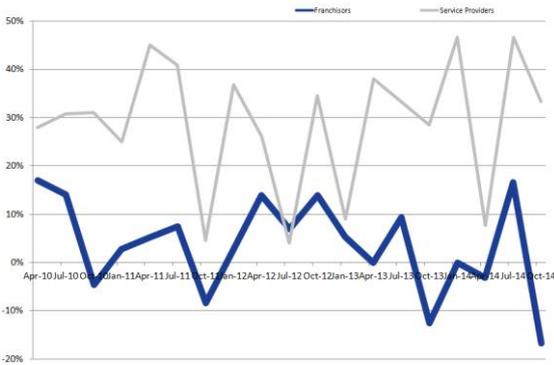
**FRANCHISOR GROWTH PROSPECTS**



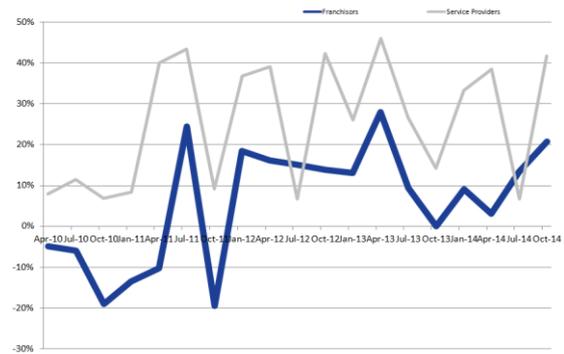
Franchisor sentiment for **franchisor growth** decreased from a net 63% from the previous quarter to a net 38%. Interestingly, Service Providers did not match this sentiment and reported a net 50%, up from 27% in the last quarter.

Franchisor sentiment toward access to suitable franchisees also decreased (from net 17%) to a negative net 17%. Franchisor sentiment also decreased for access to suitable staff (from negative net 7% to negative net 17%). Availability to suitable locations decreased (from negative net 8% to negative net 17%).

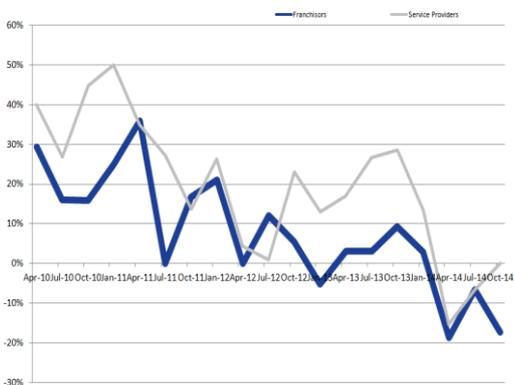
**ACCESSTO SUITABLE FRANCHISEES**



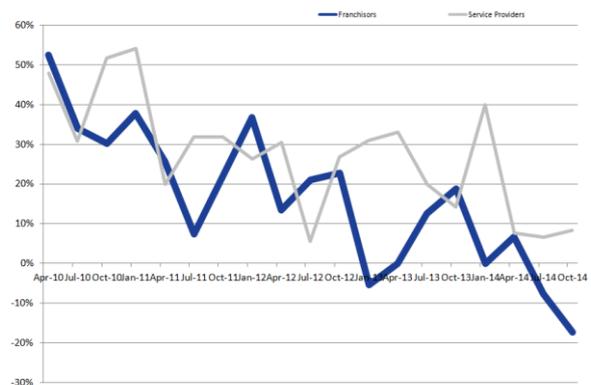
**ACCESSTO FINANCING**



**ACCESSTO SUITABLE STAFF**



**ACCESSTO SUITABLE LOCATIONS**

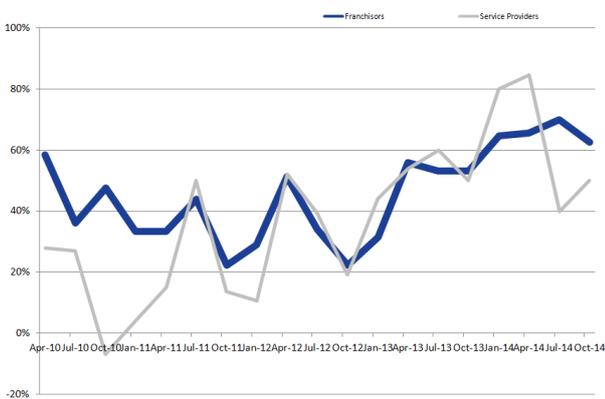


Service Providers were more positive in their sentiment towards access to suitable franchisees (net 33%). They also reported a slight increase in levels of confidence in the outlook for accessing suitable staff (from negative net 7% in the previous quarter to 0%).

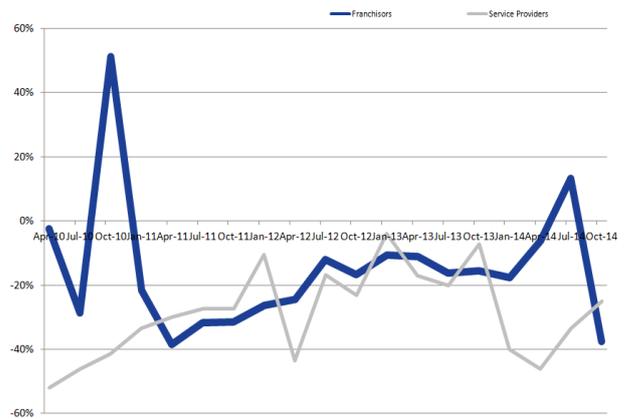
Interestingly both Franchisors and Service Providers reported an increase in sentiment for access to financing, with Franchisors up from 13% to 21%, this quarter, and Service Providers reporting a net 42% a marked increase from 7% in the previous quarter.

Net Franchisor (63%) sentiment toward future franchisee sales levels remained positive though slightly down from the last quarter. However, Service Providers reported a net 50%, an increase from 40% in the previous quarter. Sentiment for franchisee operating costs were very similar, with Franchisors at a negative net 38%, and Service Providers at negative net 25%

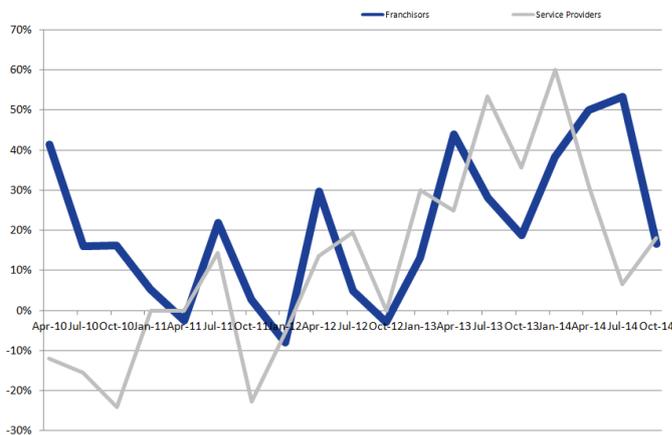
**SALES LEVELS PER FRANCHISEE**



**OPERATING COSTS PER FRANCHISEE**



**FRANCHISEE PROFITABILITY LEVELS**



Franchisors sentiment toward franchisee profitability levels were markedly down from last quarter reporting a net 17%. Service Providers again mirrored this sentiment, reporting net 18%.

## Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Eighteen franchisors responded. While not all companies identified their sectors, positive franchisors included companies operating in the construction industry (e.g. home building) and related services (e.g. landscape supplies), home services and business services. The cafe, food and hospitality sector reported a competitive and tight market. The following examples are indicative of this varied sentiment:

- *“Health Product retail - tough mixed trading”*
- *“Still very quiet -not helped by the influx into hospitality and retail of people who do not pay taxes GST or observe employment rules or public holidays”*
- *“Positive but growth is still slow and steady - Food and Beverage”*
- *“Franchise Cafe. Tight sector. Marginal profitable organic growth left.”*
- *“Landscape supplies franchise definitely looking better”*
- *“Realestate shortage of listings in cities, rural areas slow”*
- *“Home Services – always a growth sector”*
- *“Retail. Big concern is the farmers sector with the large reduction in payouts, and subsequent flow-on effects”*
- *“Construction sector - positive in Auckland & Canterbury in particular”*
- *“Positive but recruitment still tough”*
- *“With the change in focus into Pest control we feel optimistic that we will make good progress”*
- *“Business services sector definitely improving although we still have to work hard for results”*
- *“Food distribution. Tough due to growth in Grocery business and too many low cost competitors in the market”*

Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Most responses were positive. Key examples include:

- *“Greenfield recruiting is difficult re-sales are more positive. Some business people are looking to expand which will assist the numbers of franchisors”*
- *“The economy is pretty solid currently, with the only cloud on the horizon consumer confidence that is dropping. Inflation and interest rates are still looking good.”*
- *“There appears to be good activity within the industry and discussions with franchisors they seem to feel good about the industry at present.”*
- *“Auckland property re-valuations will drive a new stream of people looking to purchase business off new found 'wealth' which exists on paper only. This will lead to increased sales for a period and mean that franchisors will need to have robust systems for supporting people who may not have core business ownership skills.”*
- *“Retail sales and hospo will get a seasonal lift and rising house values in Auckland will make finance easier but there is still a concern as to the impact of on line sales for retailers and that consumers are still bargain hunting”*
- *“Much better all round with an increase in general business confidence”*



## Impact of the Election

This quarter we asked Franchisors and Service Providers what impact, if any, they thought the September election result would have on their business in the foreseeable future. There were 25 responses, with 17 of those respondents advising they felt the result would have a positive outcome for their business, and the rest advising that it would have little or no effect. Some examples of this sentiment are:

- *“The election has brought certainty to the business community. Providing the country’s exports remain healthy business and franchising should be optimistic”*
- *“Hopefully an improvement given certainty”*
- *“A positive result”*
- *“Greater financial stability in the market*
- *More house building is good for our business”*
- *“Very little - Election seems to have given the economy confidence (i.e. house sales) so that confidence if remains will rub off”*
- *“Positive - National govern alone”*
- *“Been a very unsettled trading period, so now that the Government is confirmed we expect the market to settle”*
- *“Historically it takes some time for people to act after an election. However with no change in government hopefully people will start to think of change”*
- *“Positive because of continuity”*
- *“Positive - good to have certainty”*
- *“No distractions so situation normal. Good result”*
- *“Little to none, other than currency”*
- *“Virtually none”*



### **Concluding Comment**

Overall, Franchise Consultants' Franchising Confidence Index in October 2014 demonstrated more moderated confidence from reporting Franchisors and Service Providers than the previous quarter.

Franchisors continue to maintain a reasonably optimistic outlook for general business conditions, sales levels per franchisee, and franchisor growth prospects. There was a decrease, however, in sentiment toward franchisee profitability, arguably a franchise system's most important key performance indicator. Reflective of this is a decline in the perceived availability of suitable locations and staff.

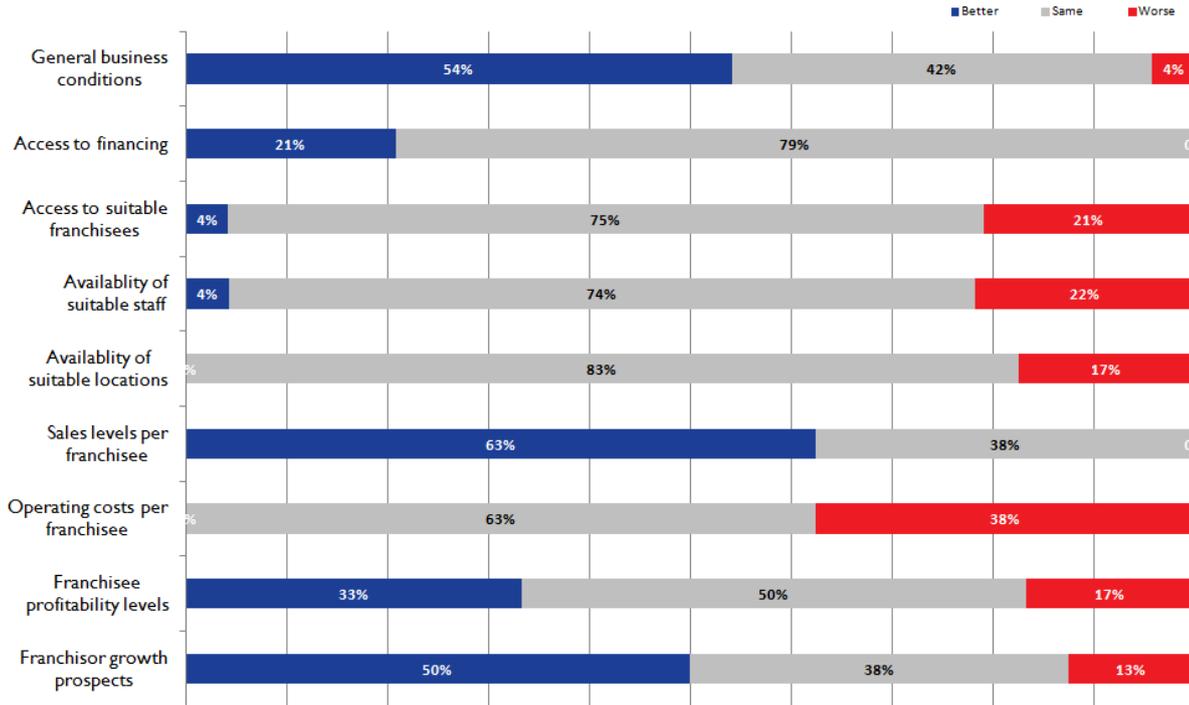
Service Providers remained positive about access to suitable franchisees, general business conditions and sales levels per franchisee.

Though confidence is down from the extreme levels of optimism reported earlier this year, the results are still high on average when compared to the results from the last couple of years.

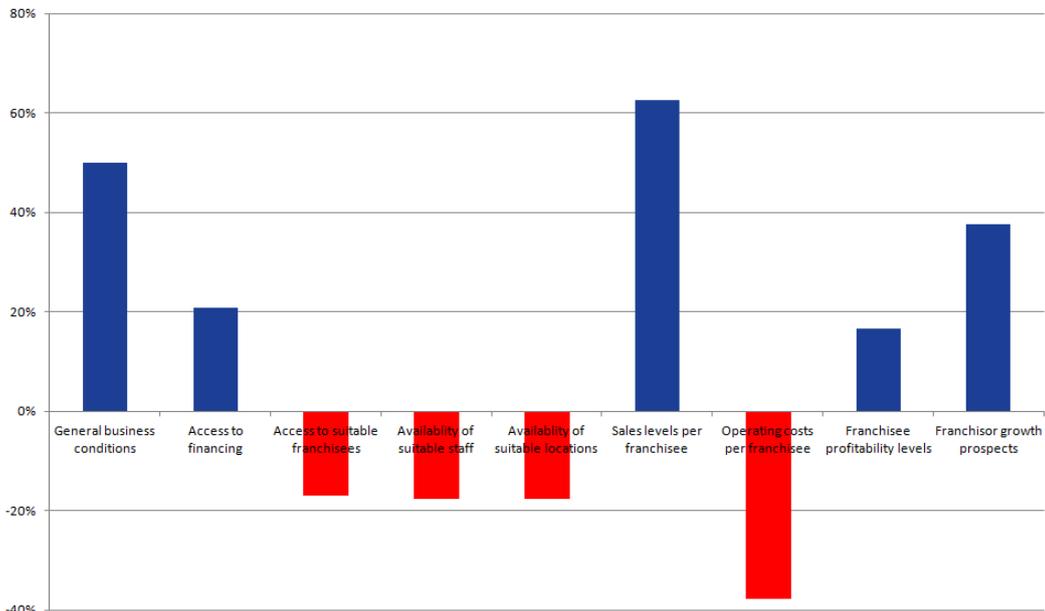
## FRANCHISING CONFIDENCE CHARTS

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).

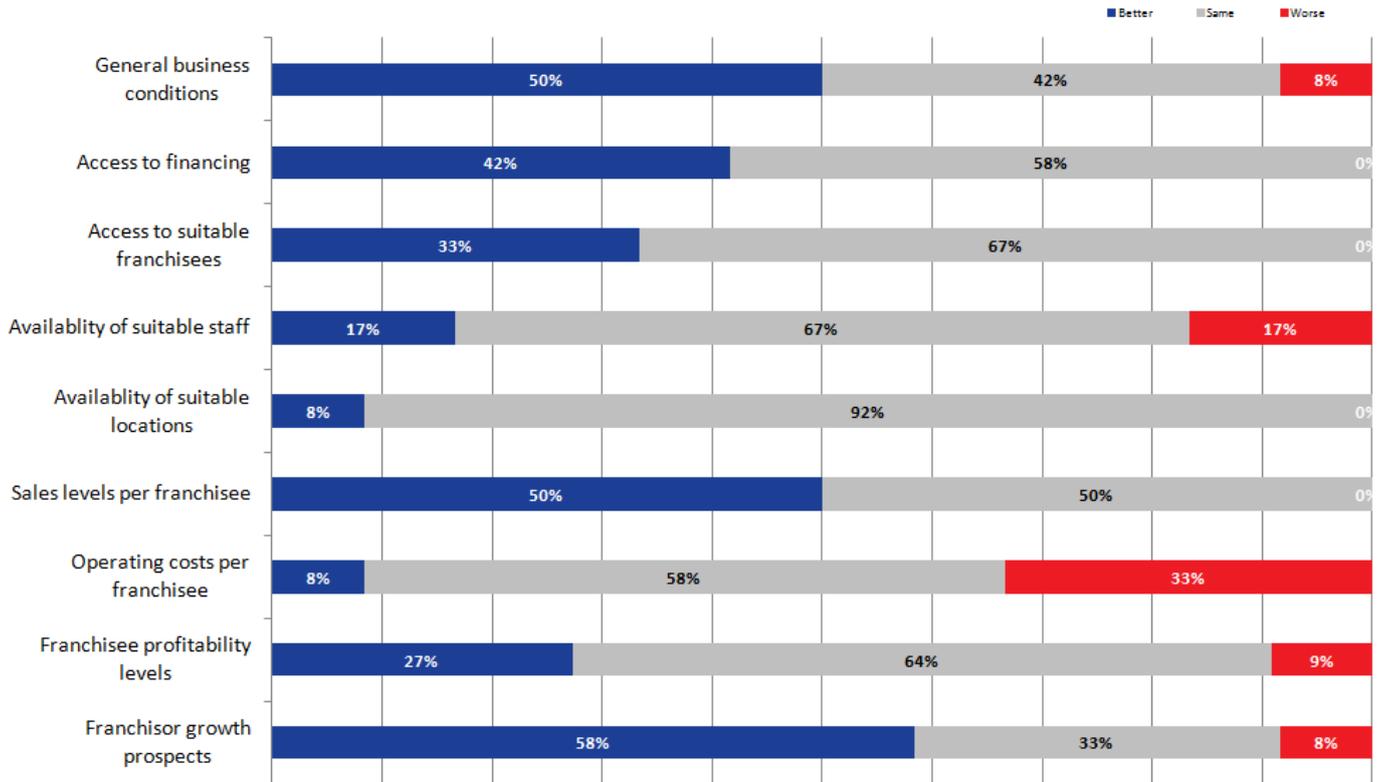
### FRANCHISOR EXPECTATIONS (next 12 months)



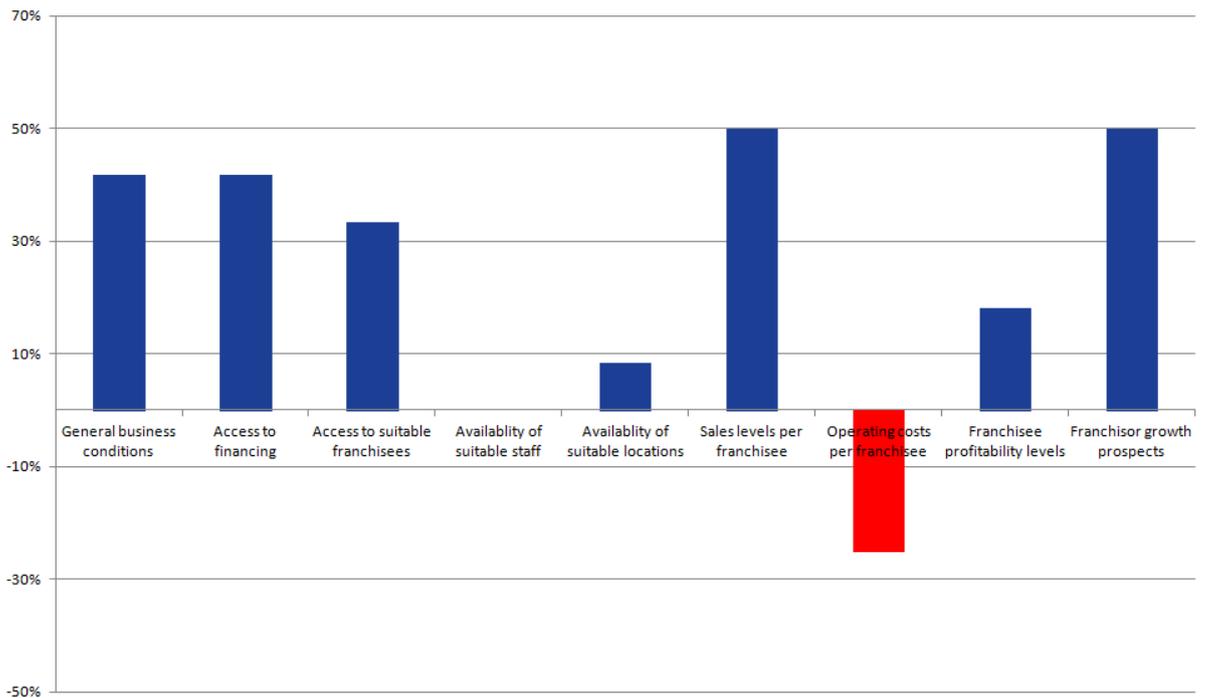
### NET FRANCHISOR EXPECTATIONS



**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 24 franchisors and 12 Service Providers collected between Wednesday 22<sup>nd</sup> October and Friday 31<sup>st</sup> October 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.

## For more information contact:



### Callum Floyd PhD

---

#### Franchising Confidence Index

Franchise Consultants (NZ) Ltd

Level 1, 27 Gillies Avenue

Newmarket, Auckland

Ph. 09 523 3858

Fax. 09 520 0387

Email. [callum@franchise.co.nz](mailto:callum@franchise.co.nz)

Web. [www.franchise.co.nz](http://www.franchise.co.nz), [www.franchisingconfidence.co.nz](http://www.franchisingconfidence.co.nz)

---