

Franchisors Report Increased Confidence in 2015

Franchise Consultants' January 2015 *Franchising Confidence Index* demonstrates improved optimism across many key growth drivers, as reported by responding Franchisors and Service Providers.

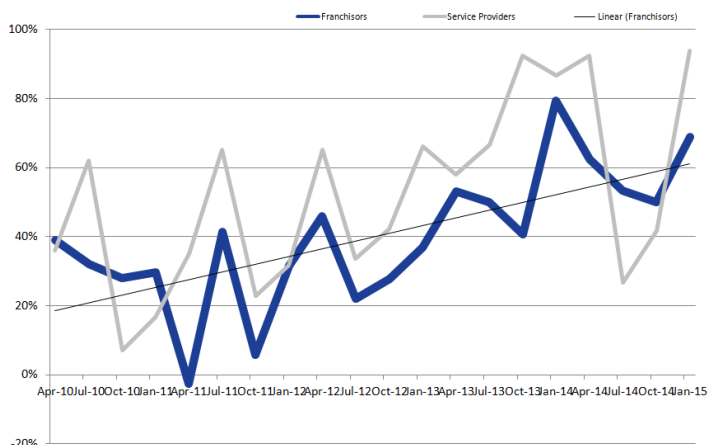
Franchisors were positive in their outlook for general business conditions (net 69%), sales levels per franchisee (net 62%) and franchisor growth (net 57%). By contrast, franchisors on balance held a negative view on the availability of suitable staff (negative 18%), and operating costs per franchisee (negative 3%).

Franchisee profitability, arguably a franchise system's key growth driver increased from 17% to 38%, as reported by responding franchisors. Service providers also were more positive in their sentiment this quarter, reporting 40%.

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 were very positive (net 69%), up from 50% in the last quarter. The majority of responding Service Providers also indicated substantial positivity for general business conditions (net 94%).

We note the high net 69% positivity experienced by franchisors tops that of other research involving general business, including ANZ Business Outlook (30% in December) and NZIER (21% in January) business confidence surveys.

GENERAL BUSINESS CONDITIONS



RESULTS SUMMARY TABLE *

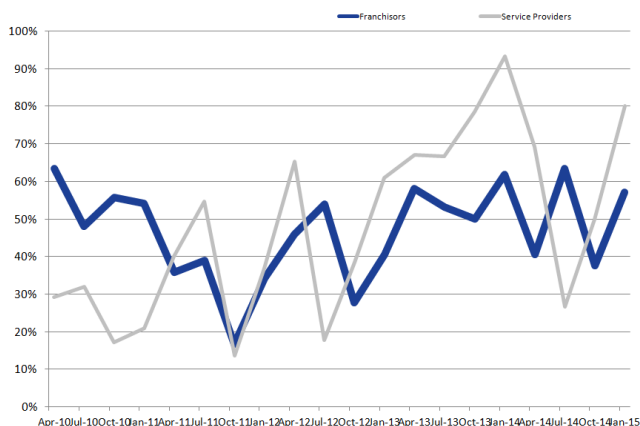
	Franchisors									Service Providers								
	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15
General business conditions	37%	53%	50%	41%	79%	63%	53%	50%	69%	66%	58%	67%	92%	87%	92%	27%	42%	94%
Access to financing	13%	28%	9%	0%	9%	3%	13%	21%	41%	26%	46%	27%	14%	33%	38%	7%	42%	88%
Access to suitable franchisees	5%	0%	9%	-13%	0%	-3%	17%	-17%	17%	9%	38%	33%	29%	47%	8%	47%	33%	44%
Availability of suitable staff	-5%	3%	3%	9%	3%	-19%	-7%	-17%	-18%	13%	17%	27%	29%	13%	-15%	-7%	0%	6%
Availability of suitable locations	-5%	0%	13%	19%	0%	7%	-8%	-17%	12%	31%	33%	20%	14%	40%	8%	7%	8%	27%
Sales levels per franchisee	32%	56%	53%	53%	65%	66%	70%	63%	62%	44%	54%	60%	50%	80%	85%	40%	50%	80%
Operating costs per franchisee	-11%	-11%	-16%	-16%	-18%	-6%	13%	-38%	-3%	-4%	-17%	-20%	-7%	-40%	-46%	-33%	-25%	6%
Franchisee profitability levels	13%	44%	28%	19%	38%	50%	53%	17%	38%	30%	25%	53%	36%	60%	31%	7%	18%	40%
Franchisor growth prospects	41%	58%	53%	50%	62%	41%	63%	38%	57%	61%	67%	67%	79%	93%	69%	27%	50%	80%

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

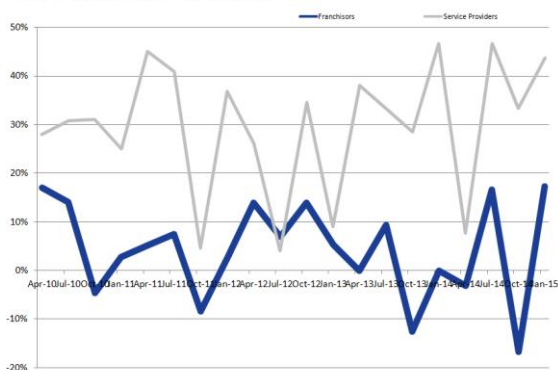
Franchisor sentiment for **franchisor growth prospects** also increased to a net 57% - up from the previous quarter (net 38%). Service Providers (net 80%) again provided significantly positive results, up from a net 50% in October.

Franchisor sentiment toward access to suitable franchisees increased from negative net 17% to 17%. Service Providers were also more positive this quarter at 44%. Franchisor sentiment toward access to financing also increased from 21% to 41%. Service Providers were extremely positive reporting 88%, an increase from 42% in the last quarter.

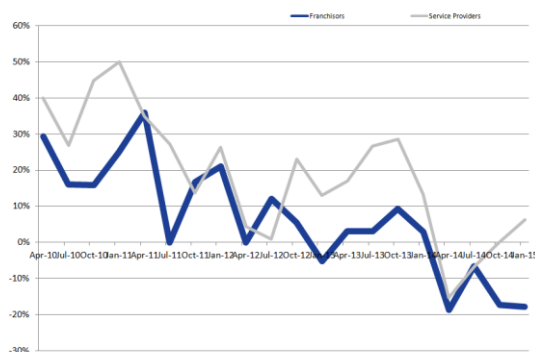
FRANCHISOR GROWTH PROSPECTS



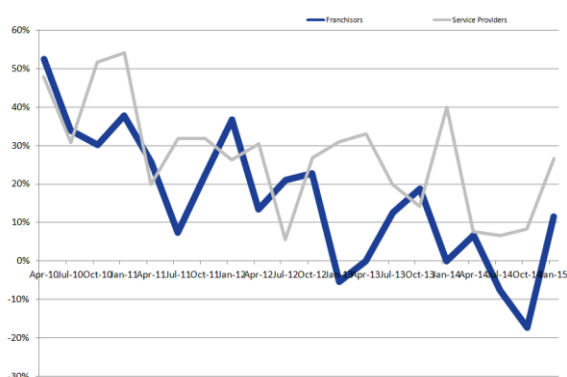
ACCESS TO SUITABLE FRANCHISEES



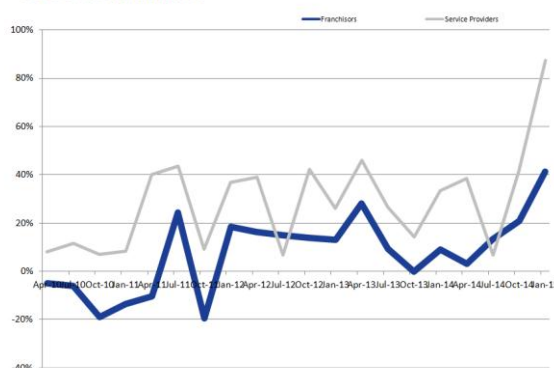
ACCESS TO SUITABLE STAFF



ACCESS TO SUITABLE LOCATIONS



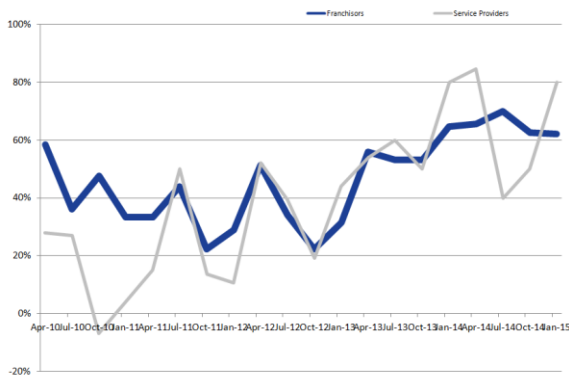
ACCESS TO FINANCING



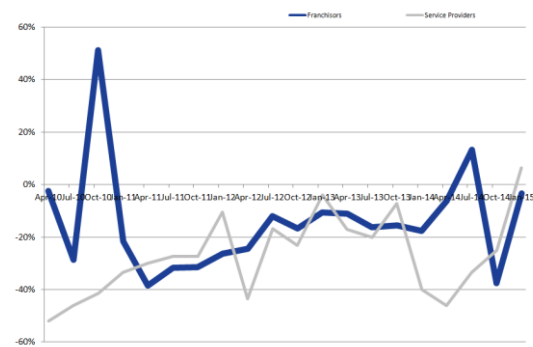
Both Franchisors and Service Providers were more optimistic this quarter in their outlook for access to suitable locations, however Franchisors were still subdued in their outlook for access to suitable staff (negative net 18%). Service Providers were slightly more positive at 6%.

Net Franchisor (62%) and Service Provider (80%) sentiment toward future franchisee sales levels also remain at elevated levels. Though the Franchisor outlook on franchisee operating costs remained negative, it had increased markedly from last quarter (negative net 3%, an increase from negative 38%). Service Provider sentiment had also increased from negative net 25% to a positive 6%.

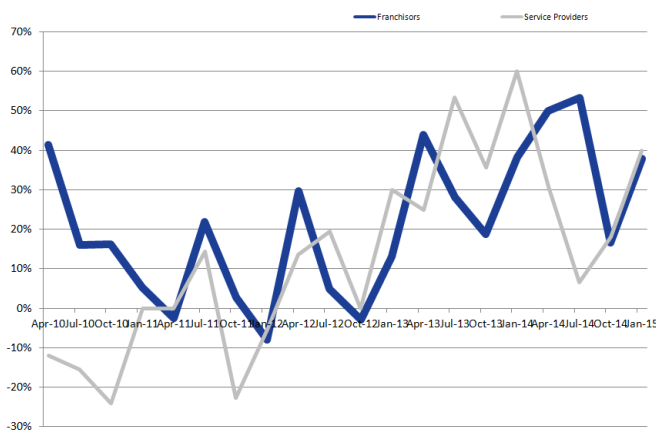
SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE



FRANCHISEE PROFITABILITY LEVELS



Both Franchisors and Service Providers reported increased positivity toward franchisee profitability levels, reporting a net 38% and 40%, respectively.

Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Twenty nine franchisors responded. Many noted that they were experiencing 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 business sales. However, real estate companies advised they were struggling with listings and staff, and home services reported a challenging and increasingly competitive market. The hospitality industry also advises of challenges following the changes to the drink driving laws. The following examples are indicative of this varied sentiment:

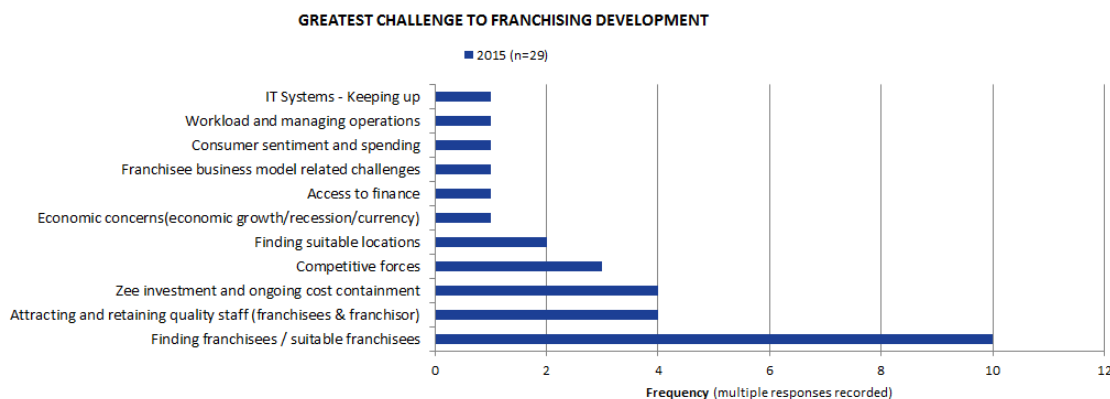
- *"Both NZ and Australia are showing good signs of growth"*
- *"Health retail category is having a tough time. The great summer has restricted discretionary dollars for our category and online continues to have significant impact to bricks and mortar retail"*
- *"Very good in the building sector"*
- *"General service requirements are still slow in regions but cities are booming"*
- *"Real Estate - shortage of listings and productive people"*
- *"Business sales - things are looking good"*
- *"Still strong in Auckland and Wellington - more fluctuations in other areas"*
- *"Services. Looking for an increase in overall sales"*
- *"Very busy"*
- *"It is for ever changing, but things are looking up. Cafe"*
- *"Challenging! Home Services"*
- *"Service provider. Hoping general confidence levels translate into action/commitment on part of SME owners"*
- *"Stable currently but always a concern with cross channel impacts"*
- *"Commercial Cleaning. Very competitive, but able to secure business with price competitive, quality offerings"*
- *"Customers are more willing to spend"*
- *"Retail food - the sector looks to have continued growth on back of strong NZ economy growth. Great summer weather helping weekly sales"*
- *"Hospitality - I believe the industry is going to go thru some difficult times with the recent changes in drink driving laws"*
- *"Hospitality - seems on the up, but you always get a lift in the summer months"*
- *"Garden & Landscape Supplies: with the upturn in Auckland retail and commercial building there is definitely good prospects for growth."*
- *"Gas - the market and industry itself is growing - consumer demand is increasing. However competitors are becoming more aggressive"*
- *"We're in the Business services sector and still have to work hard to get Clients but early indications are looking more positive for 2015"*
- *"Fast casual dining. Competitive market but customers will reward businesses with a quality product and a genuine connection with the reason behind the business"*

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

- *“Economy is active with high confidence. Most concerning thing is Isis and a pending war”*
- *“I think things are looking up, for good franchise networks”*
- *“Better trading conditions, hence opportunity to increase profits for those who keep costs under control”*
- *“With benign interest rate environment, low fuel prices and most retail categories showing strong year-on-year performance, conditions are the best for some time”*
- *“Continued improvement”*
- *“There is an opportunity for franchisors to recruit better this year if they have proven their success format and market aggressively”*
- *“It is still hard out there”*
- *“Much more positive”*
- *“Very competitive environment”*

Greatest Challenge to Franchising Development in 2015

For the fourth year running franchisors were asked what they perceived to be the greatest challenge to franchising development in the year ahead. The following chart plots the frequency of key comment themes.



As demonstrated, finding franchisees was identified as the top challenge by franchisors in the forthcoming year. Related, there were frequent mention of competitive forces, not just for end-user sales, but also franchisor competition for franchisees.

This year, finding and retaining quality staff, for both franchisee and franchisor, also featured highly. This appeared to be in response to system growth which is a good business and economic sign.

Challenges associated with the level of franchisee investment and on-going cost containment were also at the fore this year, with multiple mentions. This clearly points to a unit-level business model issue or challenge – with the goal of keeping the franchise format’s potential return on investment attractive.

Competitive forces also entered this mix here with three franchisors specifically noting competition from other franchisors (and independent businesses), remodelling requirements to keep up with competition, and

aggressive competition. In a market with an increasing number of franchisors, and some sectors becoming more saturated with franchising companies, we would expect this challenge to increase.

Finding suitable location was the fifth greatest challenge identified, with only two responses.

A variety of other challenges to franchising development were identified covering a range of areas, such as the economy impacting investor confidence, access to funding, business model challenges, consumer sentiment, managing an increasing workload (due to growth), and keeping up with IT system developments.

Previous Year Comparisons

Comparisons with previous years' challenges identified point to market improvements and increased business confidence. Like each previous year, finding suitable franchisees was identified as the number one challenge. Finding suitable staff this year is the second greatest challenge noted, up from fourth in 2014. Interestingly, finding suitable staff was only mentioned once in 2013, and not at all in 2012.

Other key differences include increased mention of addressing the franchisee business model (in terms of initial investment and cost containment) and competitive forces.

Previous years concerns relating to economic factors, franchisee complacency, access to finance, investor confidence, were hardly mentioned this year.

What Will Provide the Greatest Opportunity Related to Franchising Development in 2015?

This year we asked Franchisors and Service Providers what they perceived to be the greatest opportunity related to franchising development in the year ahead. A wide variety of internal and external factors were cited. Key themes identified by Franchisors and Service Providers included positive market sentiment and increased business confidence, access to financing, training, brand repositioning, better systems, low interest rates, regional growth and population growth. Real estate market strength, providing increased equity), was cited five times.

Opportunity-related examples included:

- *"A positive real estate market, immigration and low interest rates"*
- *"Increasing our franchise owners business skills to grow their business"*
- *"Good work levels and cheap finance for investment"*
- *"Re-defining our market and brand positioning and communicating same to consumers"*
- *"Increasing franchisees profitability and becoming better business owners"*
- *"More confidence in stability/growth of NZ economy"*
- *"Continued economic growth"*
- *"Continued positive market sentiment. Regional growth"*
- *"Banks being prepared to lend"*
- *"Ongoing population growth in Auckland"*
- *"Better systems, with professional input"*
- *"Increased consumer confidence"*
- *"Extra house equity may provide larger franchisee pool"*

Concluding Comment

Overall, Franchise Consultants' Franchising Confidence Index in January 2015 demonstrated an increase of the levels of optimism recorded in the previous quarter.

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

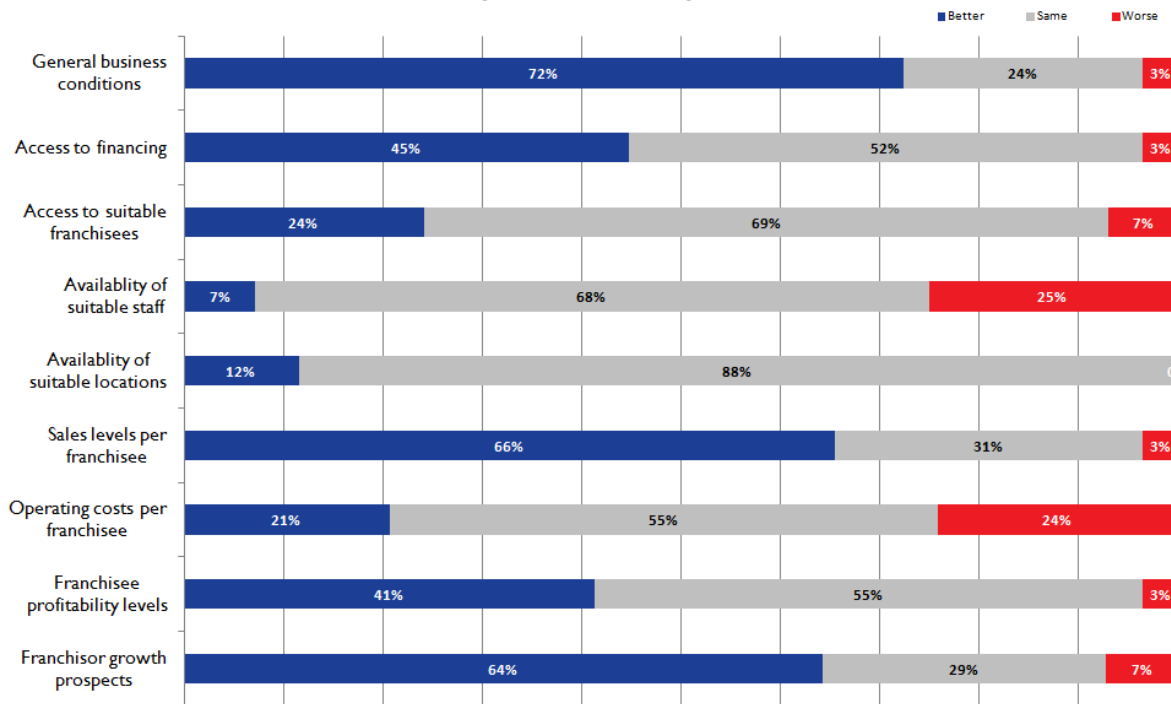
Key franchisor-identified challenges for growth in 2015 included the availability of suitable staff, operating costs, finding suitable franchisees, and a competitive environment.

The sentiment contained within the results indicate that in 2015 both Franchisors and Service Providers expect a strong and positive year for franchising in New Zealand.

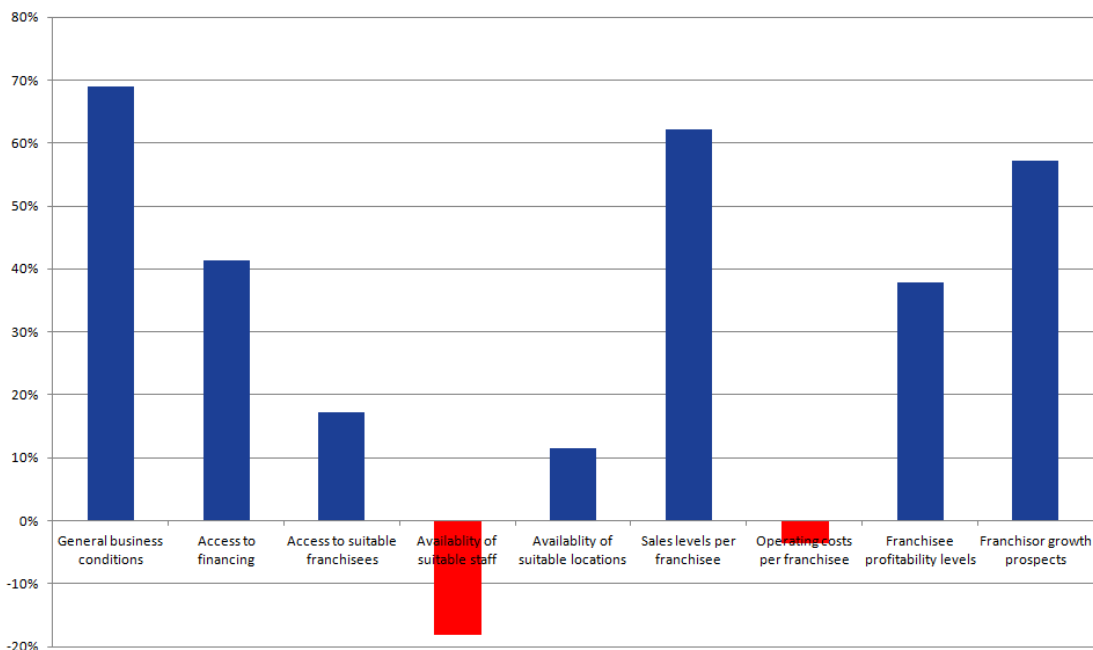
FRANCHISING CONFIDENCE CHARTS

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).

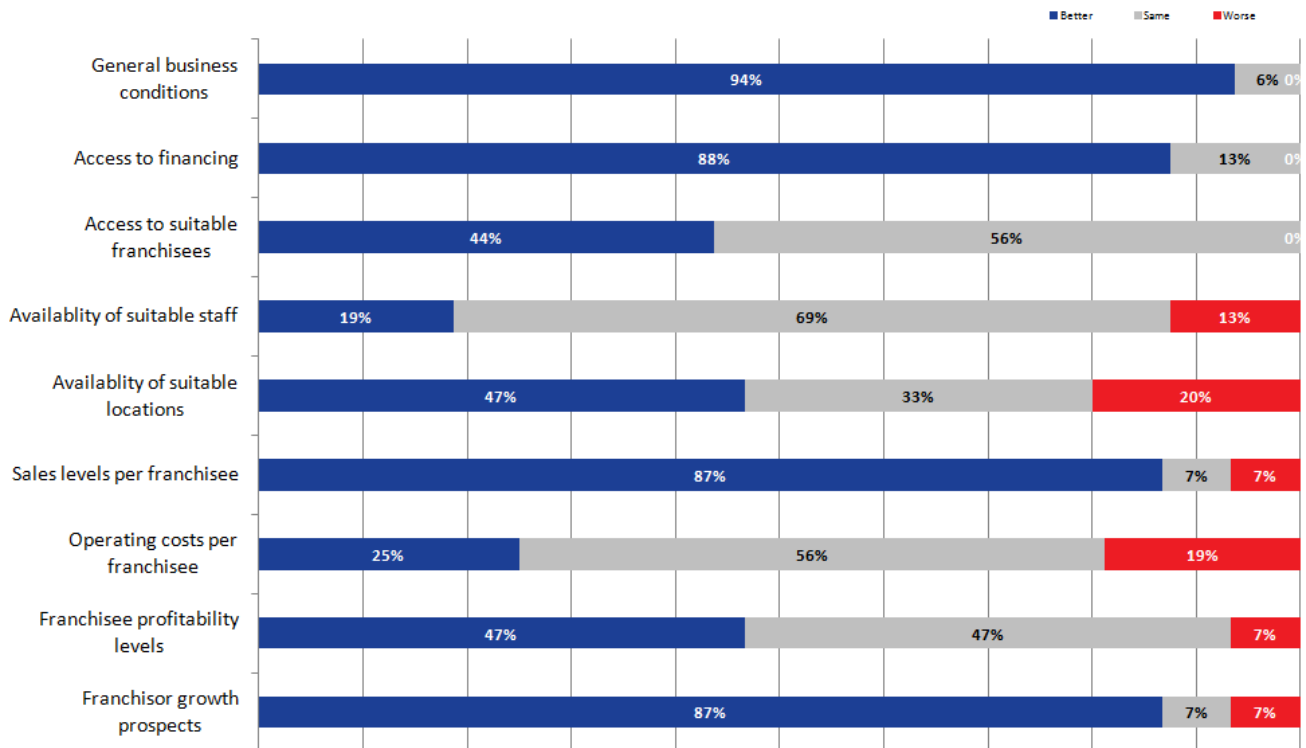
FRANCHISOR EXPECTATIONS (next 12 months)



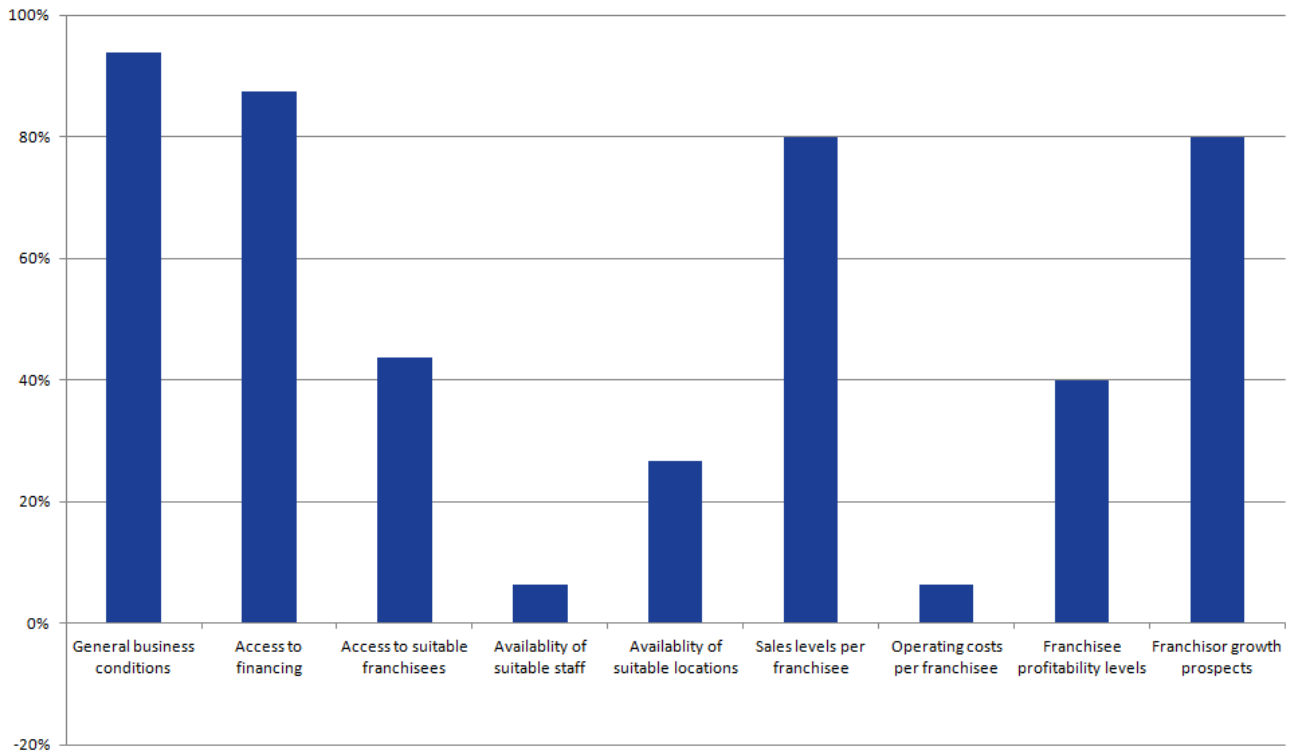
NET FRANCHISOR EXPECTATIONS



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 29 franchisors and 18 Service Providers collected between Wednesday 28th January and Thursday 5th February 2015. 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.'

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