

Franchising Confidence Improves in October

Franchise Consultants' October 2015 *Franchising Confidence Index* demonstrates an increase in confidence this quarter across many key growth drivers, as reported by responding Franchisors and Service Providers.

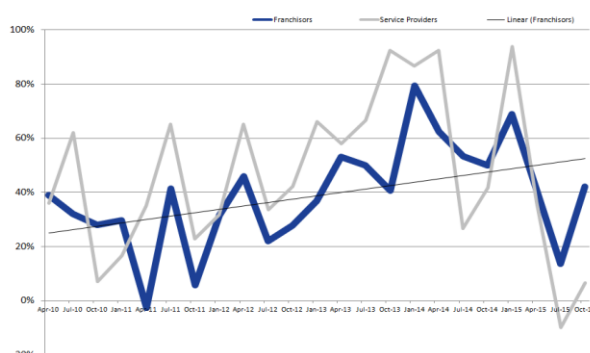
Franchisors are extremely positive in their outlook for general business conditions (net 42%), access to financing (21%), sales levels per franchisee (53%), franchisee profitability levels (26%) and franchisor growth prospects (47%). Franchisors held a more negative view on the availability of suitable franchisees (negative net 16%), availability of suitable locations (negative net 6%), and, operating costs per franchisee, also negative net 6%.

Sentiment toward franchisee profitability, arguably a franchise system's key health and growth driver, increased from a net 19% to 26%, as reported by responding franchisors. Service providers also were also more positive in their sentiment this quarter, reporting a net 27%.

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 encouragingly positive (net 42%) this quarter, up 14%. Service Providers reported 7%, also increasing.

We note the net 42% positivity experienced by franchisors is markedly higher than that of other research involving general business, including ANZ Business Outlook, (net 10% in October) and NZIER business survey, which is now in the red (negative net 9% in October).

GENERAL BUSINESS CONDITIONS



RESULTS SUMMARY TABLE

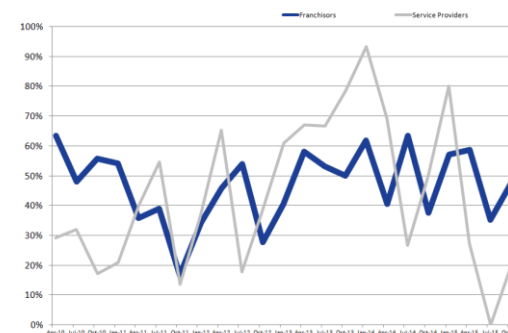
	Franchisors												Service Providers											
	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Apr-15	Jul-15	Oct-15	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Apr-15	Jul-15	Oct-15
General business conditions	37%	53%	50%	41%	79%	63%	53%	50%	69%	41%	14%	42%	66%	58%	67%	92%	87%	92%	27%	42%	94%	36%	-10%	7%
Access to financing	13%	28%	9%	0%	9%	3%	13%	21%	41%	28%	19%	21%	26%	46%	27%	14%	33%	38%	7%	42%	88%	36%	30%	27%
Access to suitable franchisees	5%	0%	9%	-13%	0%	-3%	17%	-17%	17%	17%	-8%	-16%	9%	38%	33%	29%	47%	8%	47%	33%	44%	55%	40%	33%
Availability of suitable staff	-5%	3%	3%	9%	3%	-19%	-7%	-17%	-18%	-7%	-6%	0%	13%	17%	27%	29%	13%	-15%	-7%	0%	6%	0%	30%	0%
Availability of suitable locations	-5%	0%	13%	19%	0%	7%	-8%	-17%	12%	7%	-3%	-6%	31%	33%	20%	14%	40%	8%	7%	8%	27%	9%	20%	20%
Sales levels per franchisee	32%	56%	53%	53%	65%	66%	70%	63%	62%	38%	32%	53%	44%	54%	60%	50%	80%	85%	40%	50%	80%	45%	10%	7%
Operating costs per franchisee	-11%	-11%	-16%	-16%	-18%	-6%	13%	-38%	-3%	-10%	-16%	-6%	-4%	-17%	-20%	-7%	-40%	-46%	-33%	-25%	6%	-9%	-20%	-7%
Franchisee profitability levels	13%	44%	28%	19%	38%	50%	53%	17%	38%	41%	19%	26%	30%	25%	53%	36%	60%	31%	7%	18%	40%	55%	20%	27%
Franchisor growth prospects	41%	58%	53%	50%	62%	41%	63%	38%	57%	59%	35%	47%	61%	67%	67%	79%	93%	69%	27%	50%	80%	27%	0%	20%

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

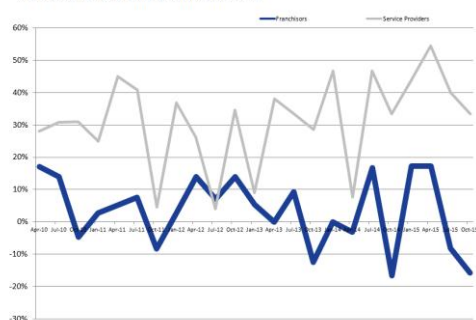
Franchisor sentiment for **franchisor growth prospects** increased from net 35% - to net 47%. Service Providers perceptions were also markedly up from last quarter's result of 0% to 20%.

Franchisor sentiment toward access to suitable franchisees was down again this quarter at negative net 16%. Service Providers were more positive at 33%. Franchisor sentiment toward access to financing increased slightly from 19% to 21%. Service Providers reported 27%, a slight decrease from 30% in the last quarter.

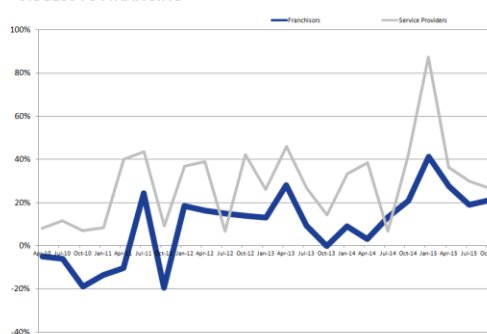
FRANCHISOR GROWTH PROSPECTS



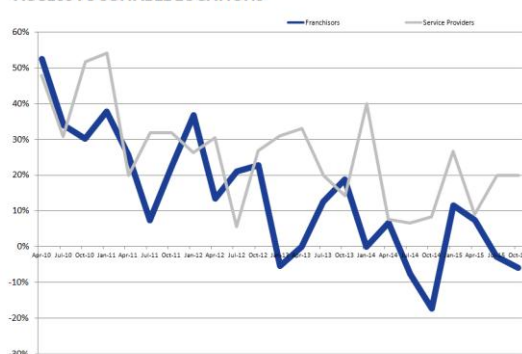
ACCESSTO SUITABLE FRANCHISEES



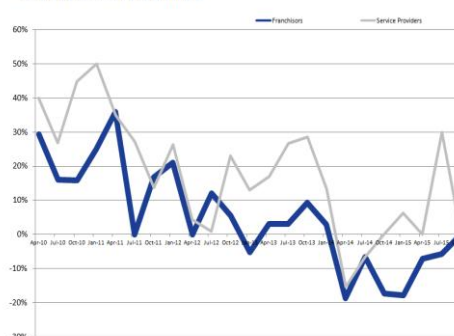
ACCESSTO FINANCING



ACCESSTO SUITABLE LOCATIONS



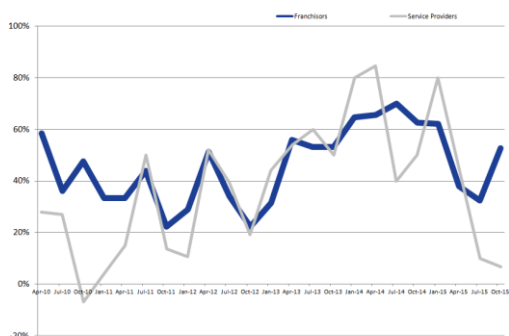
ACCESSTO SUITABLE STAFF



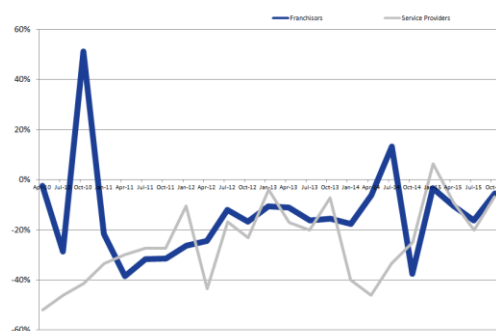
Franchisors were less positive this quarter in their outlook for access to suitable locations at a negative net 6%, Service Providers remained positive at net 20%, unchanged from previous quarter. Franchisors were equivocal in their sentiment toward the availability of suitable staff at 0%.

Net Franchisor (53%) sentiment toward future franchisee sales levels increased from the last quarter. Service Providers reported 7%. Franchisor outlook on franchisee operating costs also increased slightly from negative net 16% to negative net 6%. Service Providers sentiment also increased, but still remains in the negative at -7%.

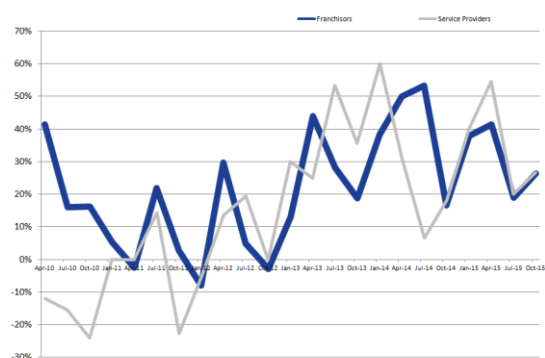
SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE



FRANCHISEE PROFITABILITY LEVELS



This quarter, both Franchisors and Service Providers reported an increase in positivity toward franchisee profitability levels, nearly mirroring each other at a net 26% and 27%, respectively.

Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Fifteen franchisors responded, mostly with positive comments. Positive franchisors included those in the education sector, building and construction industry, and related services, with those in the retail sector advising of challenges from online shopping and competitive pricing. The following examples are indicative of this sentiment:

- *"Better but still cautious - Residential Building"*
- *"While NZ does not have a lot more growth in new franchise areas available we are expecting good growth internationally especially in Australia and USA. We also have strong interest from several other countries. For the business broking side of the business, we see this as positive with plenty of listings. WE feel that we are starting to see the baby boomer effect occurring in business sales sector."*
- *"Very price-sensitive, margins being squeezed Commercial Cleaning"*
- *"Up lift in sales is clear now, biggest challenge is access to skilled staff"*
- *"Overall trading and revenue is up. Franchise sales are average. But am enjoying new opportunities in general business."*
- *"Landscape supplies - finding suitable long term sites is a challenge, growth per franchise is encouraging"*
- *"Wood service provisioning - machinery is becoming more expensive with little opportunity to raise prices will put this sector under pressure therefore requiring widening of type of services provided"*
- *"Health retail. Very challenging. Online increasingly a major threat. Discounting becoming more and more prevalent."*
- *"Still tough but positive with small wins in operating profitability"*
- *"Education: The year has been a buoyant one and we're optimistic that it will continue in to the New Year. Despite this the level of inquiry for franchises has fallen off significantly."*
- *"Garden/Home improvement sector is showing slight growth hampered to some degree by weather. "*
- *"Hospitality. Generally positive if you adjust to meet market trends."*
- *"Positive but extremely competitive"*

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

- *"I think we will see a slow-down in the food/hospo sector in Auckland as there seems to be an over saturation of food brands. In Auckland, I think we will see increased operating costs and reduced profits for franchisees coming off the back of the property market, with vacant retail locations being snapped up pretty quickly of late, and landlords increasing rents at rent reviews which, in our experience for retail, seem to either be at fixed annual increases of around 4% and others deferring to market reviews at the 2 yearly mark. I think we may see some franchisees getting unstuck in the coming years with crushing rental overheads (in Auckland) and that will in turn lead to increased supply of retail locations. I think the presence of international students will assist in creating a generous labour supply. I think that there is some potential uplift for increased consumer spending"*

as a result of the reduced strength of the NZD but suspect that will likely be isolated to the regions on the back of increased labour demand of our exporters (except in dairy which has low labour requirements anyway). I think the regions will benefit more than Auckland."

- *"In general, I think there's a renewed sense of cautious positivity. The vaunted recovery never turned into a boom period, but the underpinnings seem relatively solid now. The biggest concern I have is about a 7-Eleven-type scandal erupting here which would badly damage franchising's image. I'm not sure NZ franchisors are as aware as they need to be of potential issues within their system, particularly where there is now a strong immigrant franchise base."*
- *"Financing costs remain at historically low levels and net immigration should continue to assist with securing franchisees and staff."*
- *"Franchisees in most industries are performing well currently, but signs are there for an economic slowdown. Sharp fall in confidence and slowing commodity prices will negatively impact Franchisor growth in the medium term."*
- *"Market confidence seems to have stalled in neutral"*

Concluding Comment

Franchise Consultants' Franchising Confidence Index in October 2015 demonstrates an increase in positivity from the previous quarter.

Franchisors are more positive in their outlook for general business conditions, access to financing, sales levels per franchisee, franchisee profitability levels and franchisor growth prospects. The outlook for general business conditions markedly increased (i.e. from 14% to 42%).

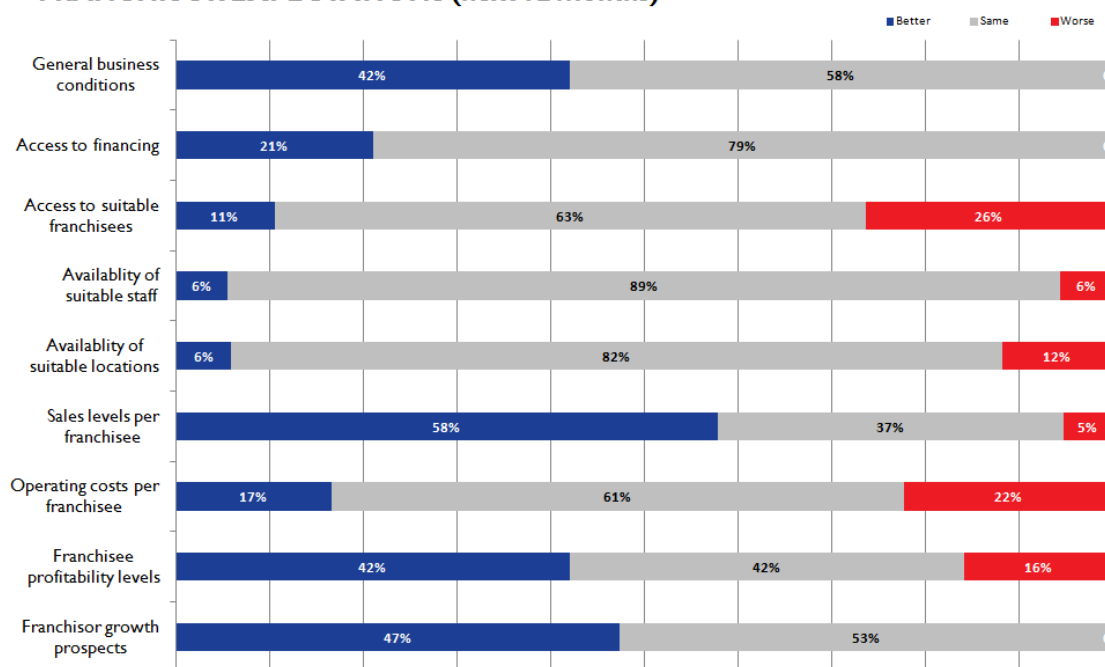
Meanwhile, franchisors held a negative toward the availability of suitable franchisees and locations, and operating costs per franchisee. Franchisors were equivocal on the availability of suitable staff.

Encouragingly, net franchisor sentiment for future franchisee profitability, arguably a franchise systems most important key performance indicator, also showed an increase from the previous quarter.

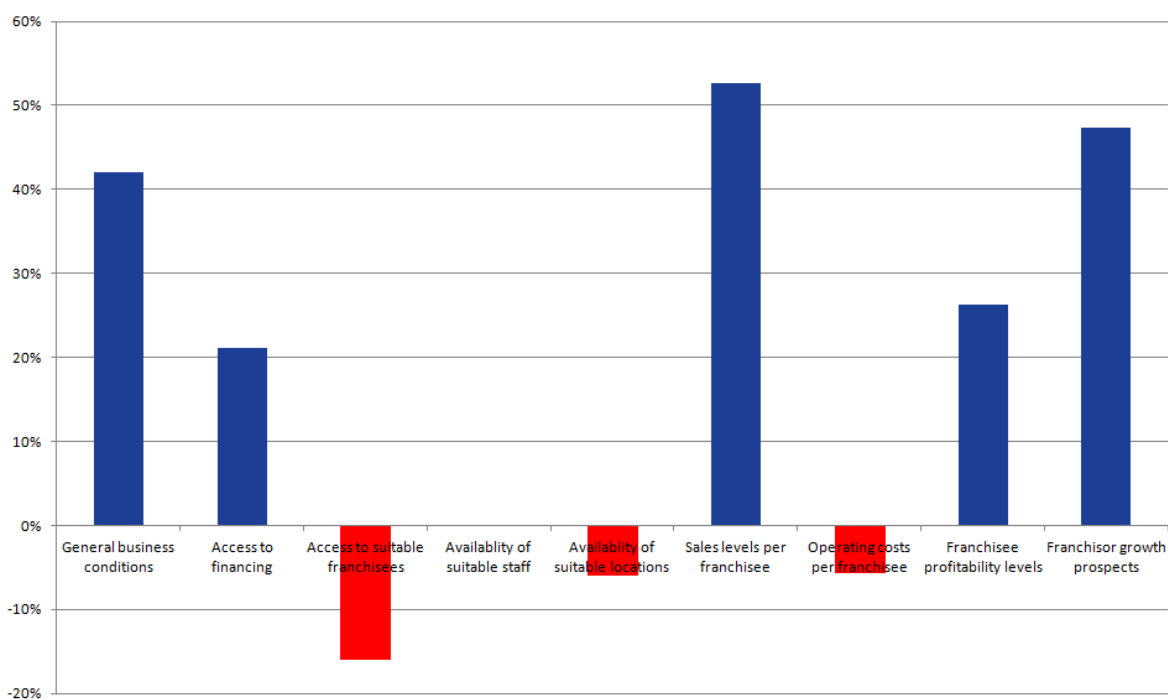
FRANCHISING CONFIDENCE CHARTS

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).

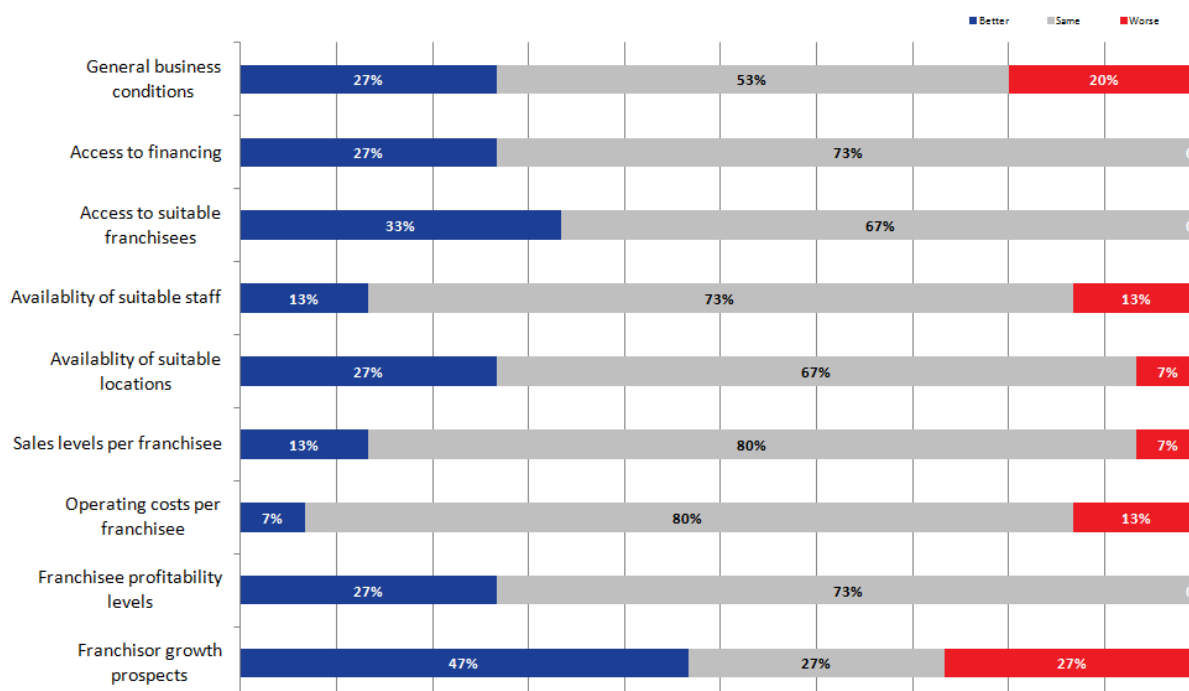
FRANCHISOR EXPECTATIONS (next 12 months)



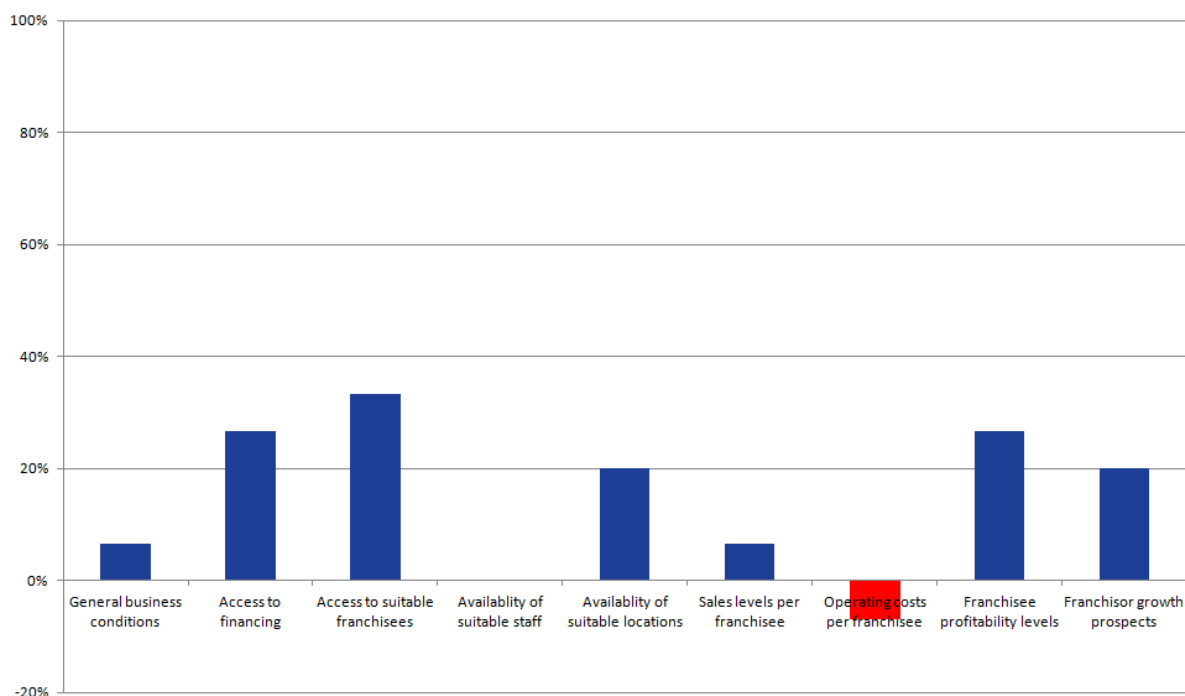
NET FRANCHISOR EXPECTATIONS



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 20 franchisors (fewer than normal) and 15 Service Providers collected between Monday 19th October and Friday 30th October 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.'

The data and analyses were compiled by Shelley Cross.

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Franchising Confidence Index

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