

Franchisors Remain Optimistic in 2016

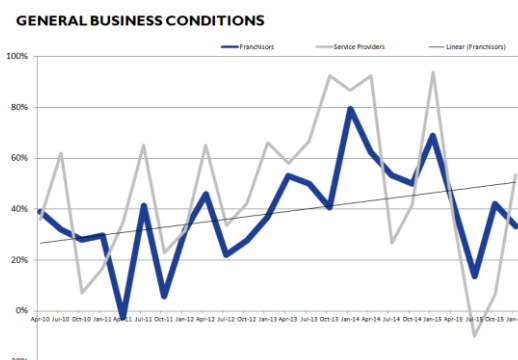
Franchise Consultants' January 2016 *Franchising Confidence Index* demonstrates continued optimism across many key growth drivers, as reported by responding Franchisors and Service Providers.

Franchisors were positive in their outlook for general business conditions (net 33%), sales levels per franchisee (net 52%) and franchisor growth (net 56%). By contrast, franchisors on balance held a negative view on the availability of suitable staff (negative 7%), and operating costs per franchisee (negative 19%). -

Sentiment for franchisee profitability, arguably a franchise system's key growth driver, increased from 26% to 44%, as reported by responding franchisors. Service providers also were positive in their sentiment this quarter, reporting 33%.

The outlook for **general business conditions** is a key measure for this research because it can be compared with other business confidence surveys. Franchisors remained positive (net 33%), down slightly from 42% in the last quarter. The majority of responding Service Providers also indicated positivity for general business conditions (net 53%).

We note the net 33% positivity experienced by franchisors was shared by that of other research involving general business, including ANZ Business Outlook (23% in December) and NZIER (13% in January) business confidence surveys.



RESULTS SUMMARY TABLE *

	Franchisors										Service Providers								
	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Apr-15	Jul-15	Oct-15	Jan-16	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Apr-15	Jul-15	Oct-15	Jan-16	
General business conditions	79%	63%	53%	50%	69%	41%	14%	42%	33%	87%	92%	27%	42%	94%	36%	-10%	7%	53%	
Access to financing	9%	3%	13%	21%	41%	28%	19%	21%	30%	33%	38%	7%	42%	88%	36%	30%	27%	53%	
Access to suitable franchisees	0%	-3%	17%	-17%	17%	17%	-8%	-16%	0%	47%	8%	47%	33%	44%	55%	40%	33%	20%	
Availability of suitable staff	3%	-19%	-7%	-17%	-18%	-7%	-6%	0%	-7%	13%	-15%	-7%	0%	6%	0%	30%	0%	0%	
Availability of suitable locations	0%	7%	-8%	-17%	12%	7%	-3%	-6%	-16%	40%	8%	7%	8%	27%	9%	20%	20%	0%	
Sales levels per franchisee	65%	66%	70%	63%	62%	38%	32%	53%	52%	80%	85%	40%	50%	80%	45%	10%	7%	53%	
Operating costs per franchisee	-18%	-6%	13%	-38%	-3%	-10%	-16%	-6%	-19%	-40%	-46%	-33%	-25%	6%	-9%	-20%	-7%	20%	
Franchisee profitability levels	38%	50%	53%	17%	38%	41%	19%	26%	44%	60%	31%	7%	18%	40%	55%	20%	27%	33%	
Franchisor growth prospects	62%	41%	63%	38%	57%	59%	35%	47%	56%	93%	69%	27%	50%	80%	27%	0%	20%	47%	

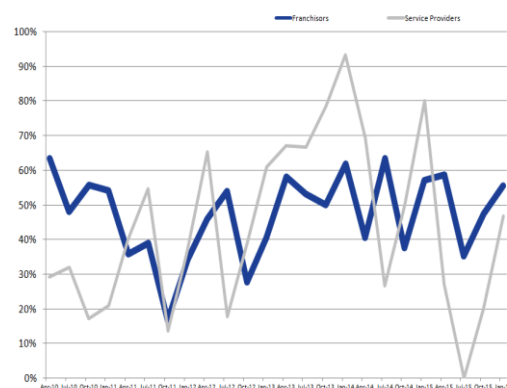
*The figures indicate 'net' confidence. Net' confidence is the difference between those reporting 'better' and 'worse'

Franchisor sentiment for **franchisor growth prospects** increased slightly to a net 56% - up from the previous quarter (net 47%). Service Providers (net 47%) also provided positive results, up from a net 20% in October.

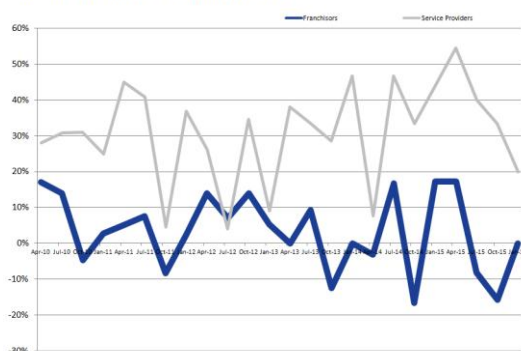
Franchisor sentiment toward access to suitable franchisees increased from negative net 16% to 0%. Service Providers were still positive this quarter at 20%.

Franchisor sentiment toward access to financing also increased from 21% to 30%. Service Providers were also very positive, reporting 53%, an increase from 27% in the last quarter.

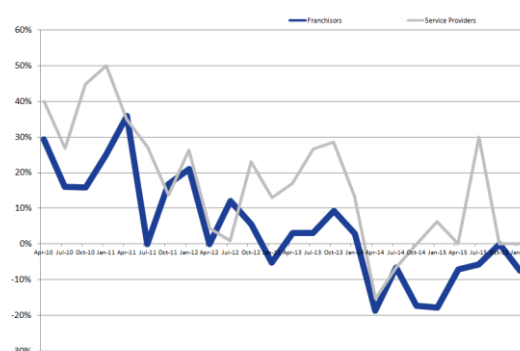
FRANCHISOR GROWTH PROSPECTS



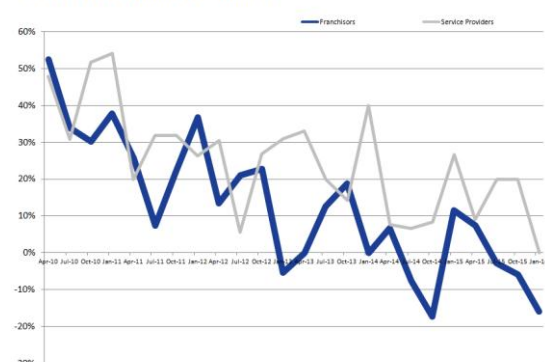
ACCESS TO SUITABLE FRANCHISEES



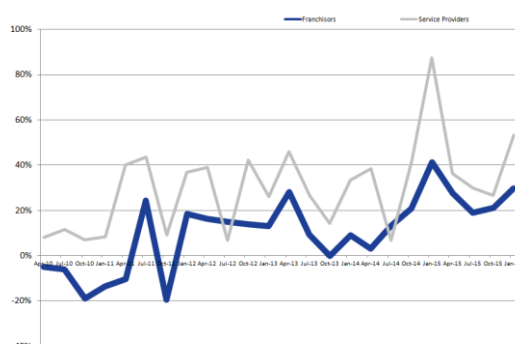
ACCESS TO SUITABLE STAFF



ACCESS TO SUITABLE LOCATIONS



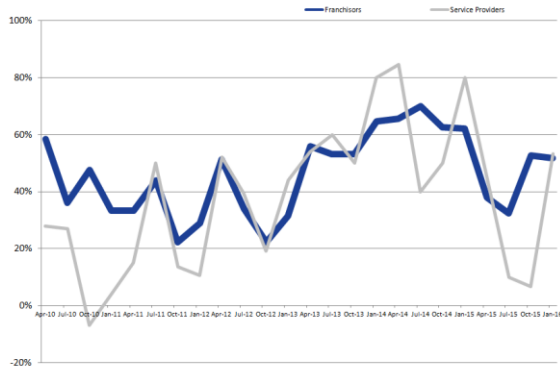
ACCESS TO FINANCING



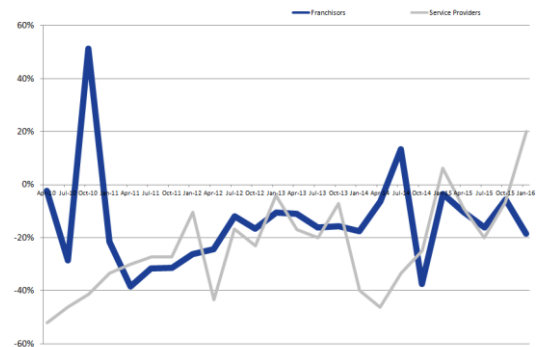
Both Franchisors and Service Providers were less optimistic this quarter in their outlook for access to suitable locations, and Franchisors were still subdued in their outlook for access to suitable staff (negative net 7%). Service Providers remained at 0%.

Net Franchisor (52%) and Service Provider (53%) sentiment toward future franchisee sales levels also remain at elevated levels. The Franchisor outlook on franchisee operating costs remained negative, decreasing from last quarter (down to negative net 19%). Service Provider sentiment increased from negative net 7% to net 20%.

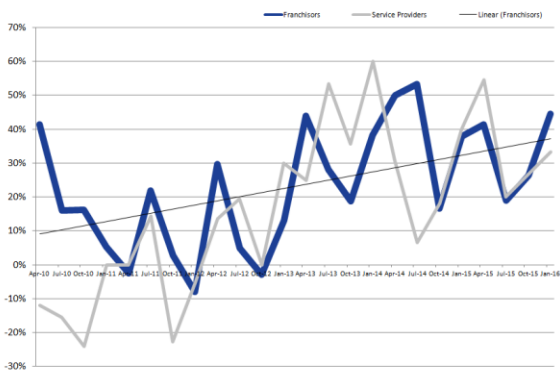
SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE



FRANCHISEE PROFITABILITY LEVELS



Franchisors reported increased positivity toward franchisee profitability levels at 44%. Service Providers also remained positive at net 33%.

Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Twenty five 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 hospitality, childcare and home services. The following examples are indicative of this sentiment:

- *"Food Retail - it's a tough market so many options out there."*
- *"Positive in commercial cleaning."*
- *"The cleaning sector is steady."*
- *"Childcare - better for franchisees."*
- *"Food & Beverage – Cafe. We are seeing good increase in both customer spend and number of visits in general. People seem to be 'spending' slightly more freely."*
- *"Hospitality - NZ has a unique coffee culture, cafe's will always be around."*
- *Believe they are looking good, but we are weather dependent as a roof painting company, so fingers crossed for more consistent weather than we have had."*
- *"Fragmented. Difficult in Auckland and better outside Auckland."*
- *"Ok. Education."*
- *"Sports retail. Key for us to chase new product opportunities given we are chasing Rugby World Cup numbers from 2015."*
- *"Home services. Generally positive but competitive."*
- *"Residential property renovation and maintenance. Likely to be similar unless global financial and commodity markets worsen."*
- *"Business Area is Hospitality and Cafes. Competition standards are going up, with more cafes opening up all the time, the customer base is being shared between all the stores."*
- *"Retail – Static"*
- *"Service: I don't think it's any better or worse just not what I thought would be like."*
- *"Hospitality, feeling a bit more buoyant, could just be time of year."*
- *"Restaurants. Stable."*
- *"We're in the Business Services sector and we're still having to work hard to find suitable clients."*
- *"Automotive servicing sector challenging and competitive."*
- *"End of year enquiries has led to a good start in 2016."*

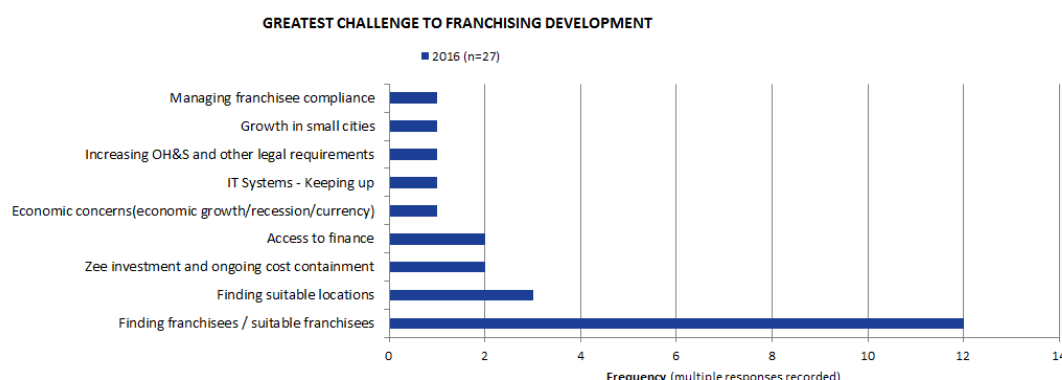
Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Their responses were mostly positive. Key examples include:

- *"Much the same as last year."*
- *"Still buoyant but need to be wary of not getting complacent in good times."*
- *"Market conditions will remain highly competitive in majority of sectors. Strong Tourism numbers and continued migrations will offset."*
- *"Generally better than last year."*
- *"Steady as she goes."*
- *"Positive and exciting"*
- *"Generally positive overall. Summer is always a good time for kiwis to feel positive, of course, but there seems to be an underlying strength to gradual growth. As always, though, it is very variable by industry and brand."*

- “Potential lower interest rates could lower NZ dollar which will increase price of imports. Lower fuel costs will reduce operating expenses. Slowing immigration will take heat out of demand but tourism will remain strong.”
- “Improved”

Greatest Challenge to Franchising Development in 2016

For the fifth 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, 50% of responding franchisors identified finding franchisees as the top challenge to their development. Finding franchisees was followed by finding suitable locations (3 mentions), and, concerns for franchisee investment / cost containment (2 mentions) and access to money / finance (2 mentions).

Other challenges mentioned included concerns around wider economic performance, the implementation of new IT systems, increasing legislative requirements (in particular, relating to OSH and Cartels), regional growth and managing franchisee compliance.

Previous Year Comparisons

Finding franchisees has been the dominant identified challenge to franchising development in each of the last five years – and the only individual challenge to make the top five list of challenges in each and every year. Finding suitable locations, also featuring highly this year, is the second most consistently identified challenge to franchise system development identified by franchisors.

Top Individual Challenges

	2012	2013	2014	2015	2016
<i>Finding Franchisees</i>	●	●	●	●	●
<i>Finding Suitable Locations</i>	●		●	●	●
<i>Economic Concerns</i>	●	●			●
<i>Franchisee Investment / Operating Costs</i>				●	●
<i>Finding Suitable Staff</i>			●	●	

What Will Provide the Greatest Opportunity Related to Franchising Development in 2016?

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 market growth, low cost of financing, immigration, and economic conditions. Opportunity-related examples included:

- *"Growth in the market."*
- *"Economic conditions and people's willingness to spend."*
- *"New immigrants"*
- *"Christchurch continues to grow and offers great opportunity in our sector for the next 12 to 18 months I believe."*
- *"NZ is a multi-cultural country so open to new franchises in all areas."*
- *"Our marketing, systems and new franchise areas opening."*
- *"Low cost of finance."*
- *"Getting core infrastructure in place."*
- *"To our franchisees in particular, the level of potential franchisees has really been going up, so we have a lot of opportunities for fantastic businesses!"*
- *"Diversification."*
- *"A stable economic/financial environment allowing franchisees and guests to continue BAU."*
- *"Improved economy = more parents working"*
- *"Economic conditions and people's willingness to spend."*
- *"Food Retail - I am expecting that we will provide more support for our existing franchisees this year through more frequent hands on visits."*
- *"Expanding into new geographic area."*
- *"Migrants looking for franchise opportunities."*
- *"More commercial optimism."*
- *"Developed concepts to be created into franchise systems now funding appears more readily available."*
- *"Business confidence and low interest rates."*
- *"With the sale of Fastway, the potential of franchising to create valuable companies is going to attract attention. This will encourage large companies to look at acquisition, and companies large and small to look at franchising. Sadly, too many will look at the \$125 million price tag and not at the years of investment and expertise that went into developing a professional system."*

Concluding Comment

Overall, Franchise Consultants' Franchising Confidence Index in January 2016 demonstrated continued levels of optimism.

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

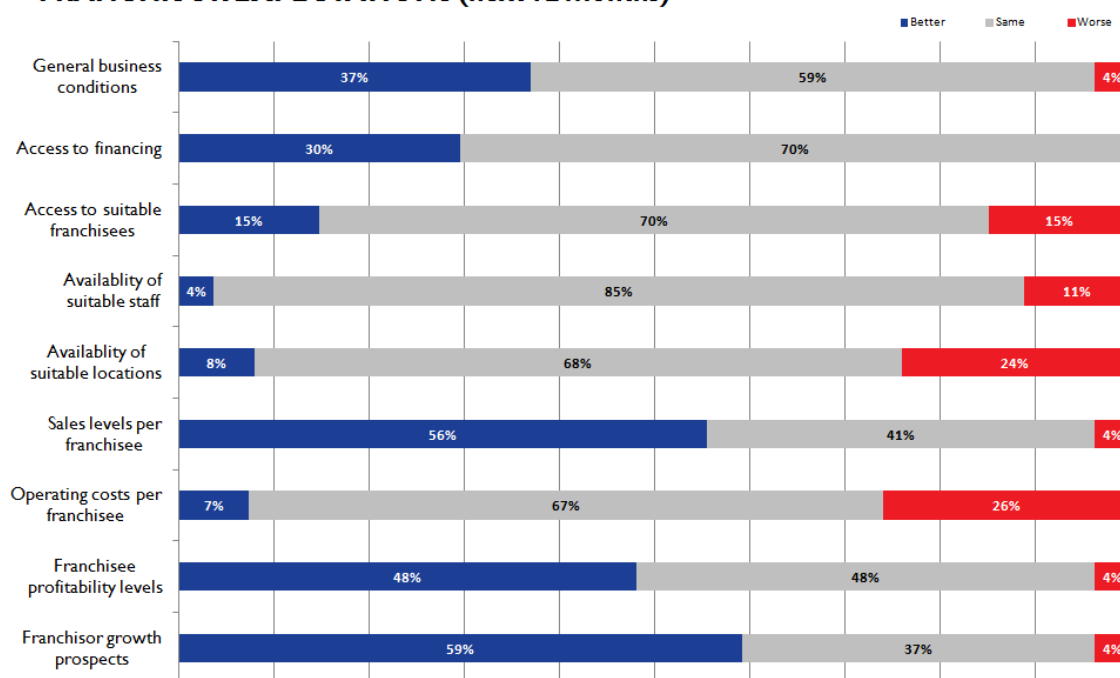
Key franchisor-identified challenges for growth in 2016 included finding franchisees, finding suitable locations, increasing investment or operating costs, and, access to finance.

The sentiment contained within the results indicate that in 2016 both Franchisors and Service Providers expect a positive year for franchising in New Zealand.

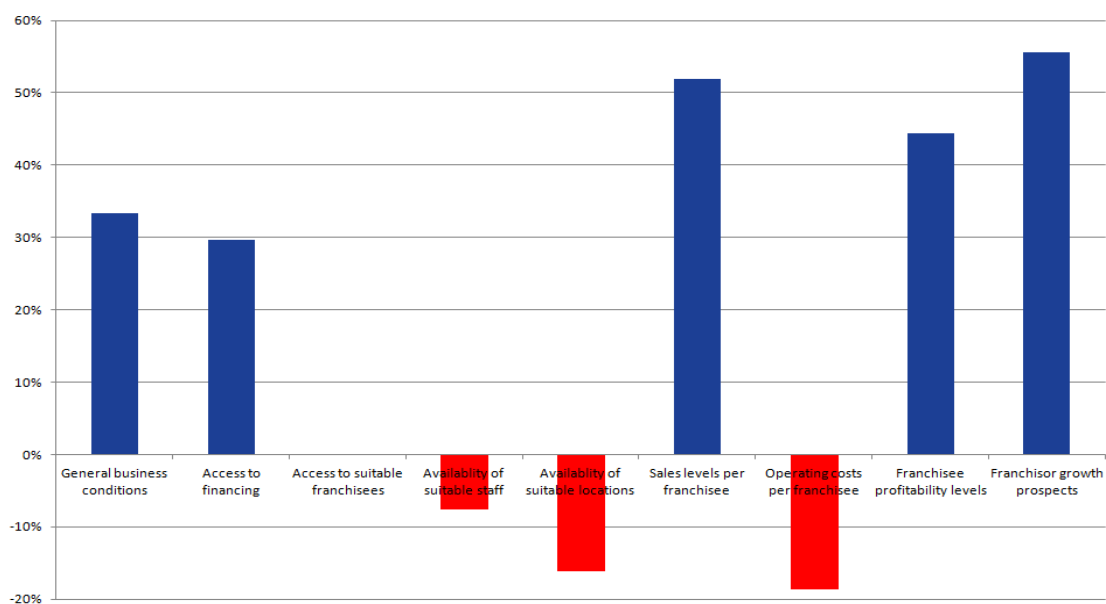
FRANCHISING CONFIDENCE CHARTS

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).

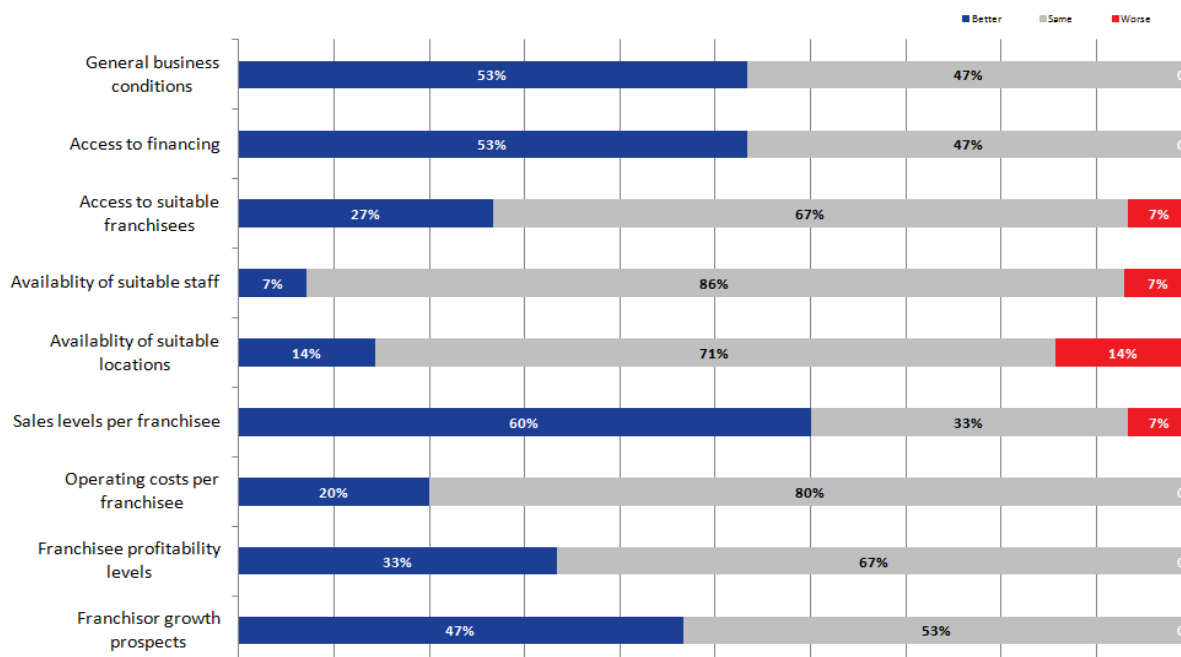
FRANCHISOR EXPECTATIONS (next 12 months)



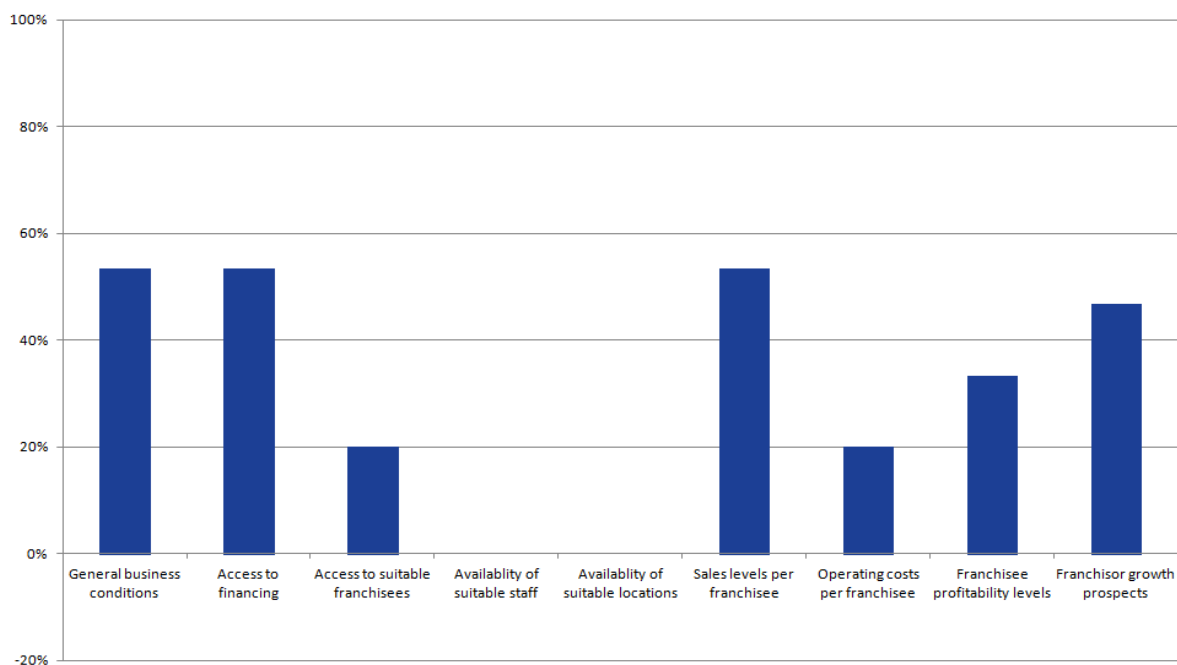
NET FRANCHISOR EXPECTATIONS



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 27 franchisors and 15 Service Providers collected between Monday 25th January and Wednesday 3rd February 2016. 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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Franchising Confidence Index

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