

CELEBRATING OUR 25TH EDITION

Franchising Confidence Strong But Mixed

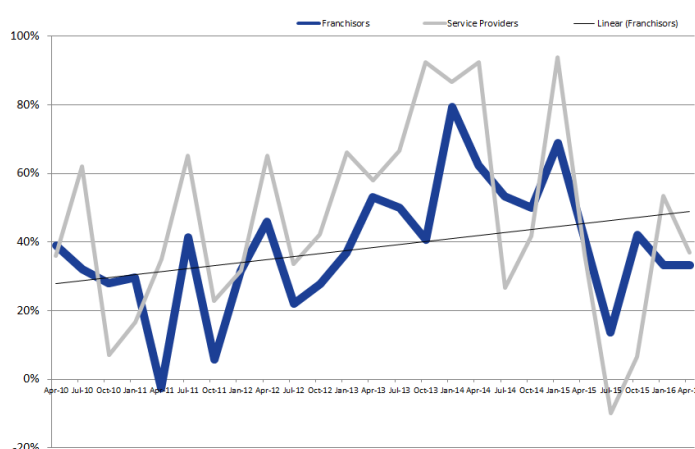
Franchise Consultants' April 2016 *Franchising Confidence Index* demonstrates sustained strong franchisor confidence levels for many areas, like general business conditions, franchisor growth prospects, franchisee sales levels and, to a lesser extent, franchisee profitability. However, sentiment reductions were evident across many of these and other measures.

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 still on balance quite positive (net 33%), the same as the previous quarter. Service Providers reported similar at a net 37%, but down from January (net 53%).

The net 33% positivity in outlook by franchisors was markedly higher than that of other research involving general business, including ANZ Business Outlook, (net 3% in March) and NZIER business survey, which was in the red (negative net 1% in April) but improving from the previous data point.

Our experience over 25 quarters, when compared to other confidence surveys, indicates franchisors are often more positive toward future general business conditions than datasets involving other types of businesses.

GENERAL BUSINESS CONDITIONS



RESULTS SUMMARY TABLE

	Franchisors										Service Providers									
	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Apr-15	Jul-15	Oct-15	Jan-16	Apr-16	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Apr-15	Jul-15	Oct-15	Jan-16	Apr-16
General business conditions	79%	63%	53%	50%	69%	41%	14%	42%	33%	33%	87%	92%	27%	42%	94%	36%	-10%	7%	53%	37%
Access to financing	9%	3%	13%	21%	41%	28%	19%	21%	30%	21%	33%	38%	7%	42%	88%	36%	30%	27%	53%	37%
Access to suitable franchisees	0%	-3%	17%	-17%	17%	17%	-8%	-16%	0%	-6%	47%	8%	47%	33%	44%	55%	40%	33%	20%	21%
Availability of suitable staff	3%	-19%	-7%	-17%	-18%	-7%	-6%	0%	-7%	-9%	13%	-15%	-7%	0%	6%	0%	30%	0%	0%	11%
Availability of suitable locations	0%	7%	-8%	-17%	12%	7%	-3%	-6%	-16%	3%	40%	8%	7%	8%	27%	9%	20%	20%	0%	53%
Sales levels per franchisee	65%	66%	70%	63%	62%	38%	32%	53%	52%	39%	80%	85%	40%	50%	80%	45%	10%	7%	53%	-21%
Operating costs per franchisee	-18%	-6%	13%	-38%	-3%	-10%	-16%	-6%	-19%	3%	-40%	-46%	-33%	-25%	6%	-9%	-20%	-7%	20%	26%
Franchisee profitability levels	38%	50%	53%	17%	38%	41%	19%	26%	44%	21%	60%	31%	7%	18%	40%	55%	20%	27%	33%	47%
Franchisor growth prospects	62%	41%	63%	38%	57%	59%	35%	47%	56%	45%	93%	69%	27%	50%	80%	27%	0%	20%	47%	47%

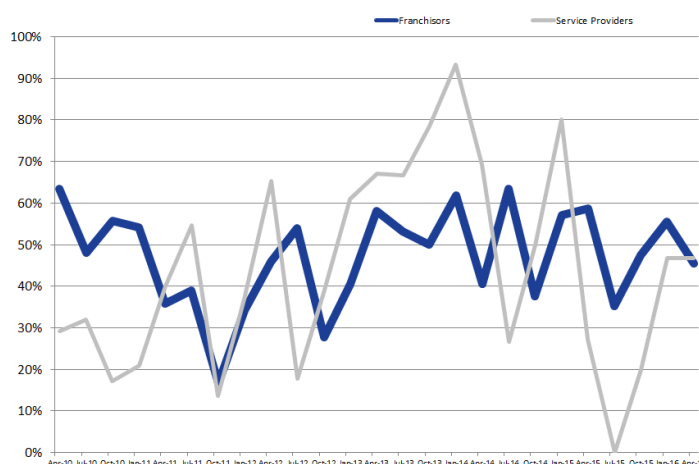
*The figures indicate 'net' confidence. Net' confidence is the difference between those reporting 'better' and 'worse'

Franchisor sentiment for **franchisor growth prospects** decreased from a net 56% in January to a still strong 45% here. Service Providers perceptions were equivalent and held at a net 47%.

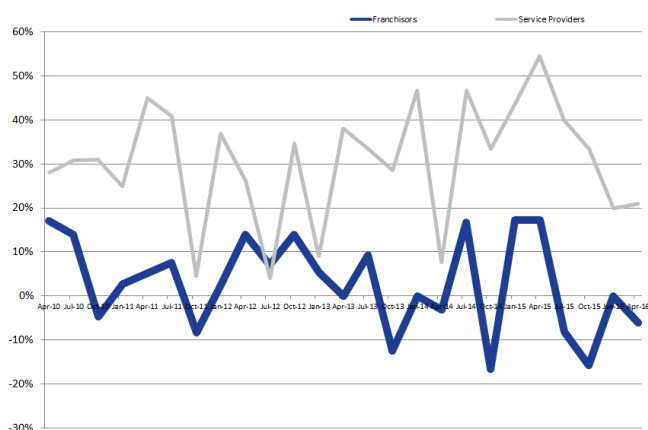
Franchisor sentiment toward access to suitable franchisees deteriorated further from a net 0% to -6%. Meanwhile, Service Providers remained more positive at a slightly improved 21%.

Franchisor sentiment toward access to financing decreased from 30% to 21%. Service Provider perceptions of the same fell faster, from a positive 53% in January to 37% now.

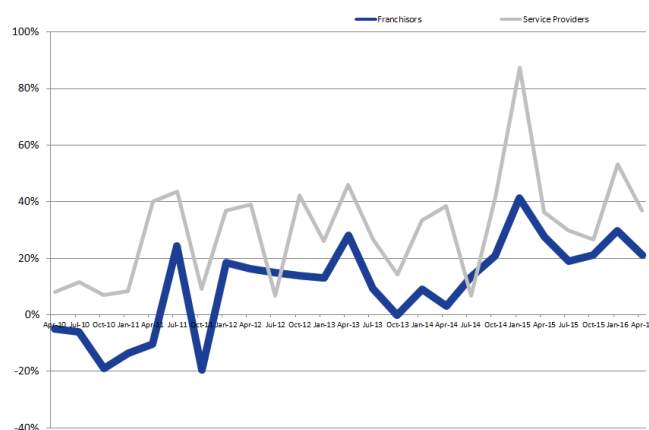
FRANCHISOR GROWTH PROSPECTS



ACCESS TO SUITABLE FRANCHISEES

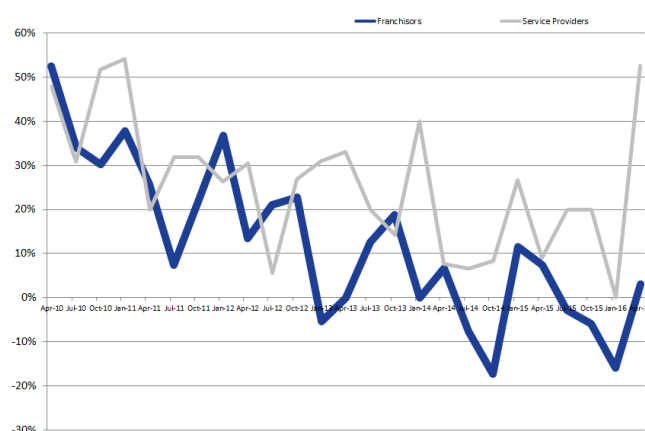


ACCESS TO FINANCING



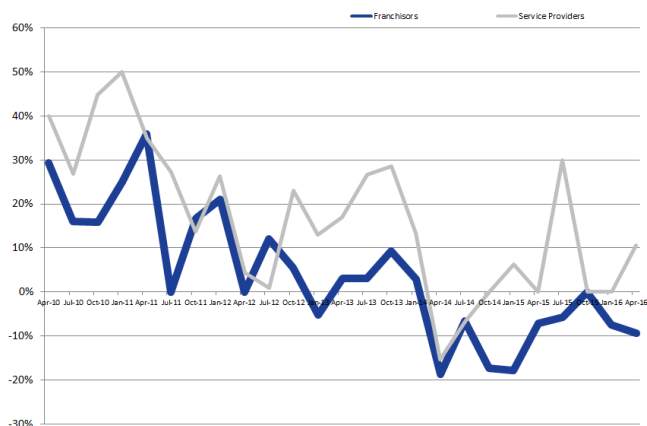
Franchisors were more positive this quarter in their outlook for access to suitable locations, improving from a net negative 16% to a positive 3%. Meanwhile, Service Providers outlook improved dramatically from 0% to an extremely positive net 53%.

ACCESS TO SUITABLE LOCATIONS

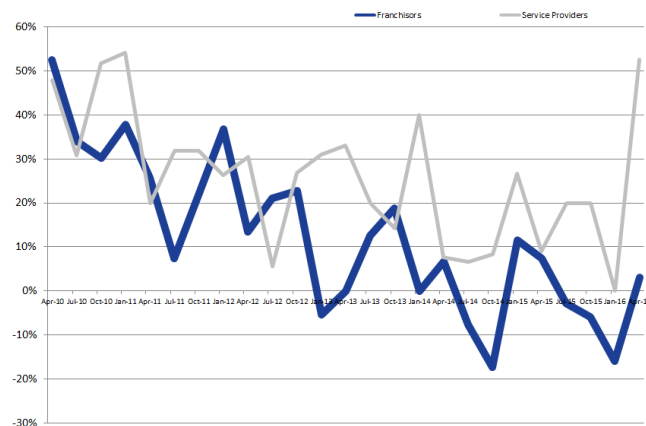


Franchisors remained constant and subdued in sentiment toward the availability of suitable staff at a net negative 9%, down from -7%. Service Providers were moderately more positive at a net 11%, up from 0% in January.

ACCESS TO SUITABLE STAFF



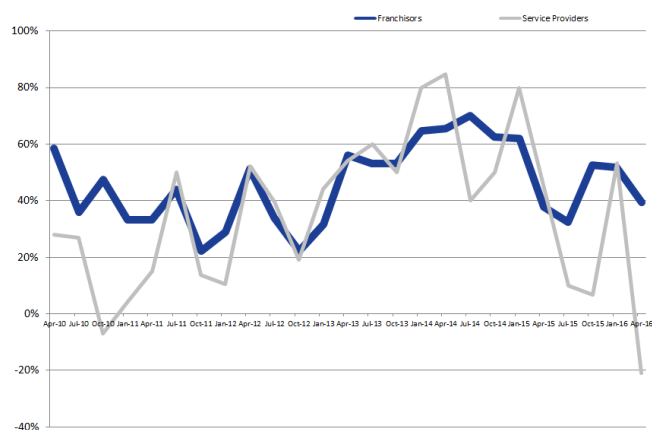
ACCESS TO SUITABLE LOCATIONS



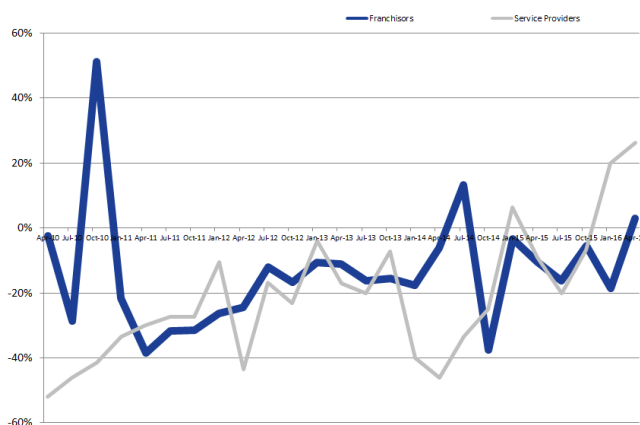
Franchisor perceptions of franchisee sales levels decreased from a very positive net 53% to a still strong but reduced 39%. Meanwhile, Service Providers were particularly negative falling from a similar starting position of 53% in January, to a net negative 21% now in April.

Both Franchisor and Service Provider groups see the outlook for franchisee operating costs as more positive, albeit Franchisor views improve from a net negative -19% to only just positive 3%, and Service Providers move from 20 to 26%.

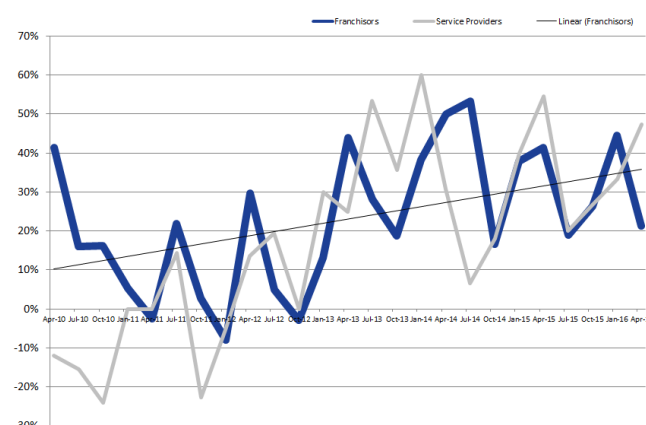
SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE



FRANCHISEE PROFITABILITY LEVELS



Finally, it is somewhat pleasing to see the outlook for franchisee profitability levels remaining in net positive territory. However, Franchisor perceptions reduced from a high net 44% to 21%. By contrast, Service Providers were increasingly optimistic, improving from a net 33% in January to 47% here in April.

Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Twenty useable responses were received with generally positive comments overall. Positive comments included stable operations, regional strength, specific sector strength (e.g. building, food & beverage growth), improved franchisee enquiries, positive impacts from house price inflation, and an abatement of price sensitivity (sector unknown). By contrast, less positive responses (often individual) related to weakness in Auckland, difficulties finding qualified staff and franchisees, increased lease and operating costs, down phase of annual cycle, and, sector competitive intensity.

The following examples are indicative of this sentiment:

- *Things are fairly stable for us in NZ.*
- *Not so good in Auckland, better in the regions.*
- *Generally looking good but the dairy sector is impacting some of our members and the lack of qualified staff in some areas is still an issue. Trade services.*
- *Contract construction service - slow increase in demand. First quarter is usually slowest in a year with business picking up in the 2 quarter.*
- *Very positive with current building boom. Dairy sector will have an effect on rural communities and associated businesses. Field days this year will be interesting.*
- *We are getting quite a few inquiries for new franchise sales - mainly in the lawn & garden care. which is positive.*
- *Retail - prospects are good for existing businesses. Single biggest challenge is recruitment of good franchisees.*
- *Retail improving with the perceived improvement in wealth from Housing.*
- *Positive - Retail Convenience.*
- *Retail Home Decorating - positive outlook. Increased lease and operating costs will have some impact.*
- *Much the same - steady. Vending machines*
- *Landscape and garden supplies - Improving as the house construction sector continues to grow.*
- *Home Services: an overcrowded market with static market size.*
- *Reasonably healthy. There appears to be more acceptance from clients to pay a slightly higher hourly rate which should in turn filter to the franchise operators. Certainly a positive feel to the start of 2016.*
- *Service Industry. I believe we are competing well within our sector. The last 12 months have been very hard in terms of attracting the right sort of franchisee's. However I believe changes made moving away from a set price structure will give us access to great numbers of prospective people*
- *Hospitality - we always see a downturn through winter so numbers start to back off from now.*

- *Hospitality sector is buoyant and seems to be growing still.*
- *QSR - very competitive.*
- *QSR. Better, good growth but high level of competition.*
- *Food & Beverage growth remains strong on the back of a good end to 2015 and a positive start to 2016.*

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

- *There are a number of pointers to the economy remaining robust.*
- *Having online sales capacity will improve the outlook of all parties but the discretionary spend of many NZer's has been reduced because of global trends in the O&G and dairy industries.*
- *I believe there will be steady growth in the economy but property costs will increase. This will impact on gross profits and the franchisor offer.*
- *Can only speak for Wellington but seems to be more activity on the franchise front.*
- *Retail lease space is hard to come by. Evidence of more systems looking to come in from Australia and further afield. Still lots of low investment level franchisee failures.*
- *Generally very positive. There is increased awareness of franchising among the general public again and franchisors have serious growth intentions as long as they can attract the right people. Good franchises which can demonstrate profitability at unit level will achieve that. One concern is the over-supply of retail/food locations, which can tempt franchisors to set up in new locations before the customer numbers are there to justify the investment. This can lead to franchisees entering the market too soon and result in them eating through their capital before their outlet can possibly achieve break-even. More care needs to be taken when selecting/negotiating on new sites.*
- *My reservation is the number of failures we are seeing through a few franchisors behaving badly or negligently.*
- *Low interest rates and good growth in some sectors v nervousness over dairy prices and wider impacts- may cancel each other out.*
- *Fairly steady at the moment. But some upside.*
- *It is hard to know at the moment. Low interest rates and low inflation are good, but there are pressures in the system that create uncertainty.*

Concluding Comment

Franchise Consultants' Franchising Confidence Index in April 2016 continues to demonstrate a generally positive outlook overall. However, many measures softened this quarter including, importantly, franchisors outlook for franchisee sales levels, franchisee profitability, and, franchisor growth prospects.

Franchisor and Service Provider comments confirm, overall, the level of sentiment recorded. However, challenges clearly remain – particularly in competitive sectors, but also relating to areas like finding staff and franchisees, and operating costs.

Franchise systems cover a huge diversity of industry sectors and often vary in strategy, structure, management and performance - even within sectors. In turn, we believe this helps explain why some responses in common sectors do vary.

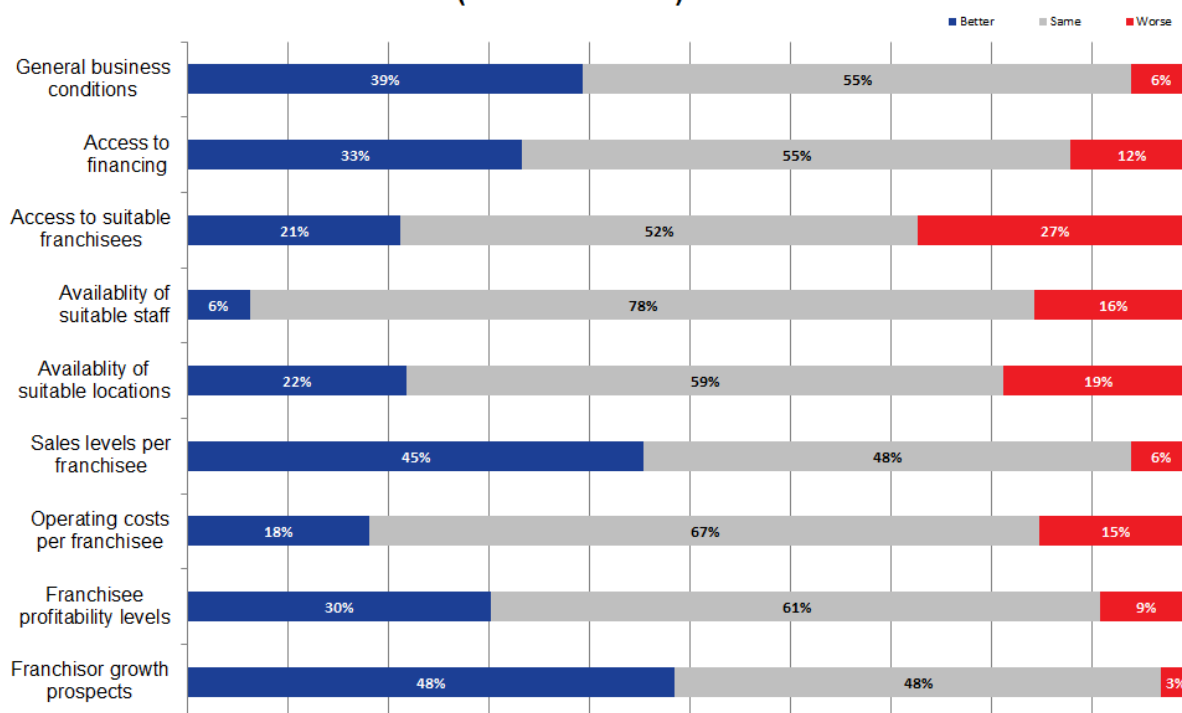
Some Service Providers also point to potential differences in the quality of franchise system leadership and performance, including some poor performing franchisors, and franchisee failures.

Franchise Consultants comments and adds, based on more than 25 years specialist franchising & licensing consulting, that not all franchise systems were created properly, and not all franchise systems are equally managed. Those establishing a franchise system must, in the simplest sense, ensure the right franchise structure is developed, select the right franchisees, and provide the right on-going management and leadership.

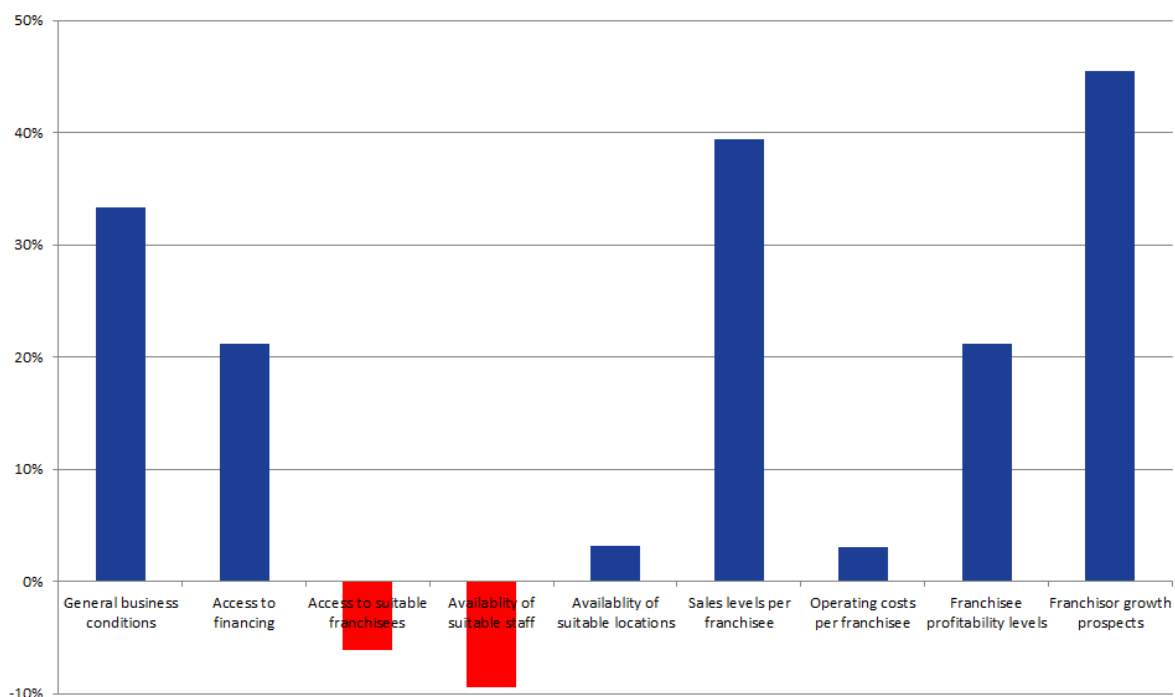
FRANCHISING CONFIDENCE CHARTS

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).

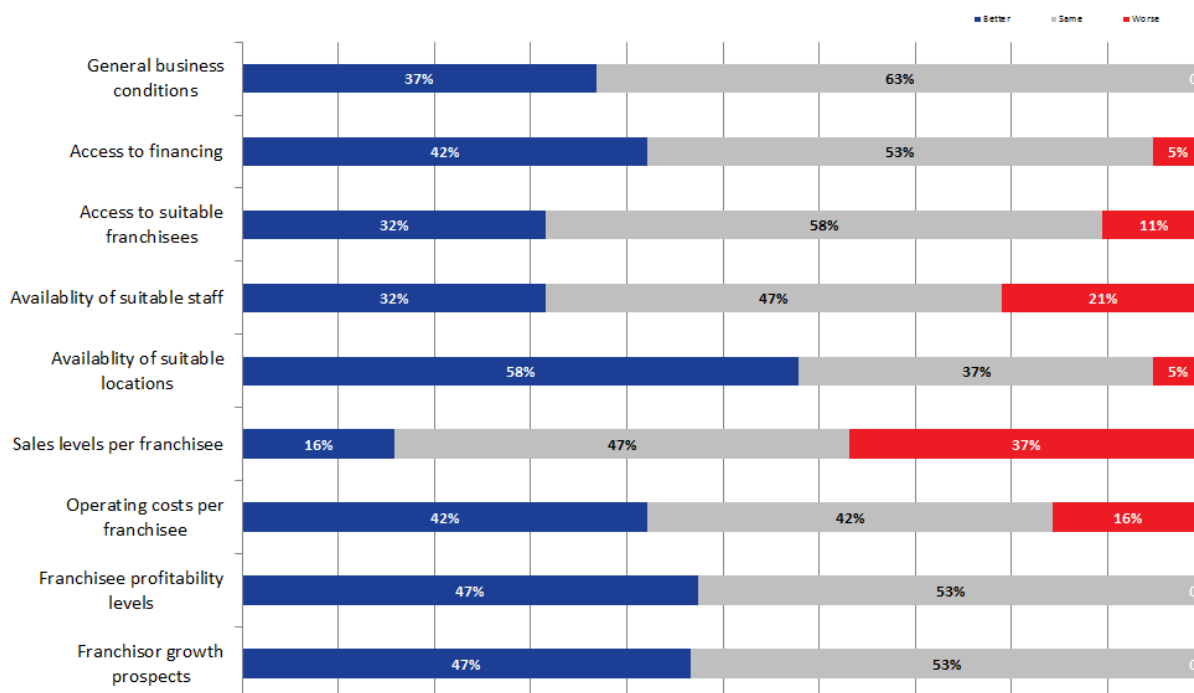
FRANCHISOR EXPECTATIONS (next 12 months)



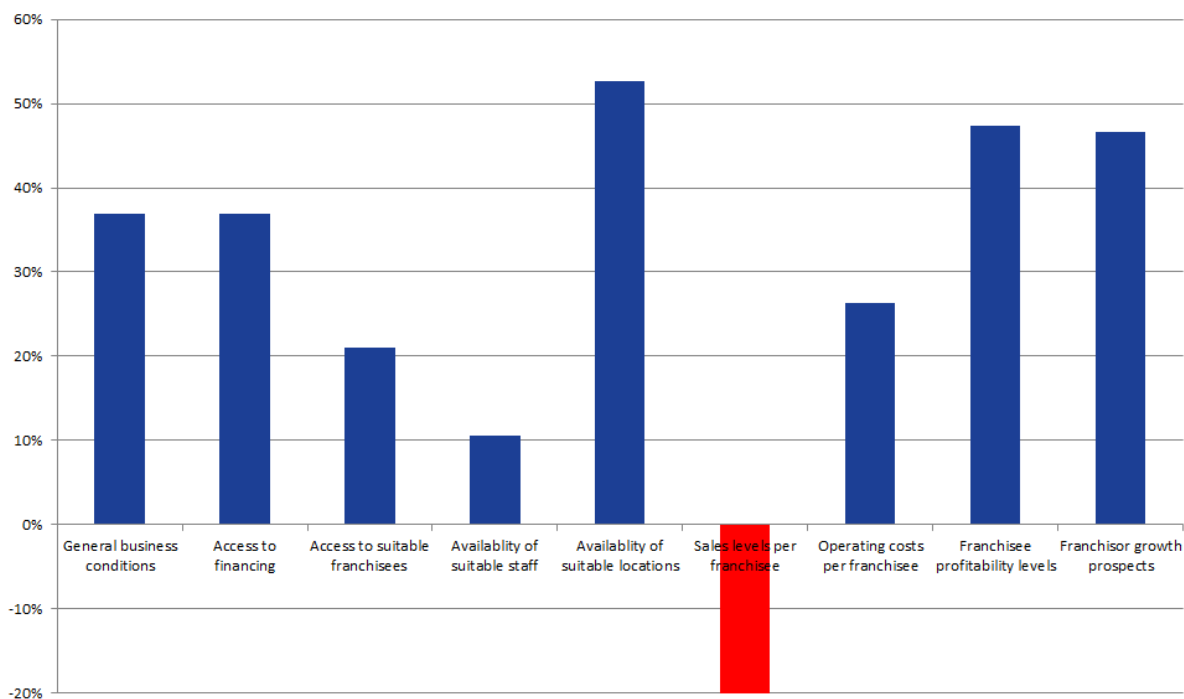
NET FRANCHISOR EXPECTATIONS



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 33 Franchisors and 19 Service Providers collected between Monday 11th April and Sunday 17th April 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.'

A very special vote of thanks to Shelley Cross, our Office Manager.

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

Web. www.franchise.co.nz, www.franchisingconfidence.co.nz