

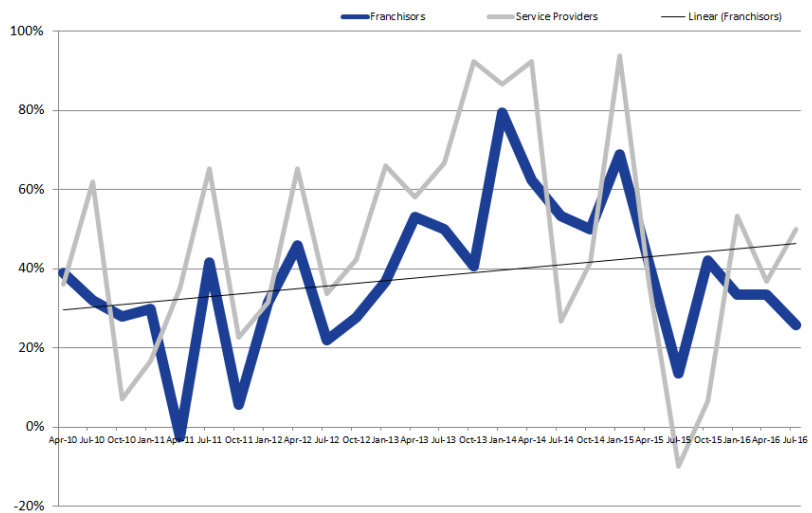
## Franchisee Sales and Profit Outlook Strong

Franchise Consultants' July 2016 *Franchising Confidence Index* demonstrates a strong increase in confidence levels for many areas, particularly, franchisor growth prospects, franchisee sales levels and, particularly, franchisee profitability – arguably a franchise networks most important key performance indicator.

Franchisors were slightly more sombre in their outlook for **general business conditions** (net 26%), down from a net 33% the previous quarter. Service Providers, by contrast, increased from a net 37% in April to 50% here.

The franchisor net 26% positivity in outlook for general business conditions was still higher than that of other research involving general business, who saw a marked increase due to the construction sector. Indeed, the ANZ Business Outlook increased to a net 20% in June (up from 3% in March) and NZIER business survey improved from -1% in April to a positive net 19% in July.

**GENERAL BUSINESS CONDITIONS**



Our experience now over 26 quarters (or more than six years) indicates franchisors are often more positive toward future general business conditions compared to datasets involving other organisational forms. But this quarter, in particular, sees some convergence in general business condition future sentiment.

### RESULTS SUMMARY TABLE

	Franchisors								Service Providers							
	Oct-14	Jan-15	Apr-15	Jul-15	Oct-15	Jan-16	Apr-16	Jul-16	Oct-14	Jan-15	Apr-15	Jul-15	Oct-15	Jan-16	Apr-16	Jul-16
General business conditions	50%	69%	41%	14%	42%	33%	33%	26%	42%	94%	36%	-10%	7%	53%	37%	50%
Access to financing	21%	41%	28%	19%	21%	30%	21%	0%	42%	88%	36%	30%	27%	53%	37%	-5%
Access to suitable franchisees	-17%	17%	17%	-8%	-16%	0%	-6%	11%	33%	44%	55%	40%	33%	20%	21%	5%
Availability of suitable staff	-17%	-18%	-7%	-6%	0%	-7%	-9%	-12%	0%	6%	0%	30%	0%	0%	11%	5%
Availability of suitable locations	-17%	12%	7%	-3%	-6%	-16%	3%	6%	8%	27%	9%	20%	20%	0%	53%	5%
Sales levels per franchisee	63%	62%	38%	32%	53%	52%	39%	51%	50%	80%	45%	10%	7%	53%	-21%	30%
Operating costs per franchisee	-38%	-3%	-10%	-16%	-6%	-19%	3%	-6%	-25%	6%	-9%	-20%	-7%	20%	26%	5%
Franchisee profitability levels	17%	38%	41%	19%	26%	44%	21%	40%	18%	40%	55%	20%	27%	33%	47%	40%
Franchisor growth prospects	38%	57%	59%	35%	47%	56%	45%	46%	50%	80%	27%	0%	20%	47%	47%	50%

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

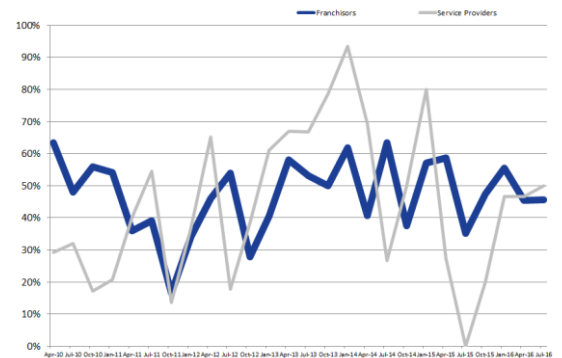
Franchisor sentiment for **franchisor growth prospects** remained stable at net 46% compared with a net 45% in April. Service Providers perceptions showed a slight increase at a net 50%.

Franchisor sentiment toward access to suitable franchisees increased markedly from a net negative 6% to net 11%. Service Providers remained less positive with a decrease of net 16% to net 5%.

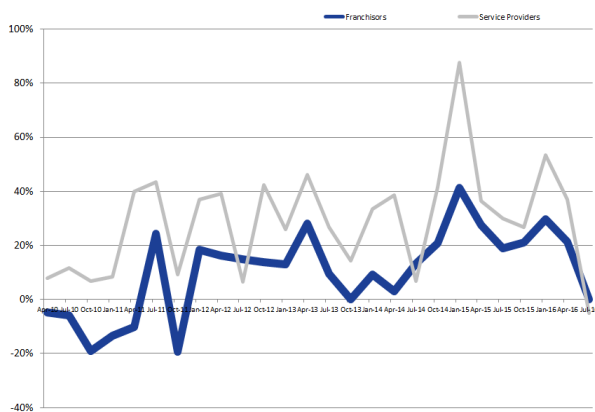
Franchisor and Service Provider sentiment toward access to financing decreased from net 21% to 0%, and net 37% to negative net 5% respectively.

Franchisors were again positive this quarter in their outlook for access to suitable locations, improving from a net 3% to net 6%. Service Providers outlook improved dramatically last quarter however after a short spike dropped back to net 5% (from net 53%).

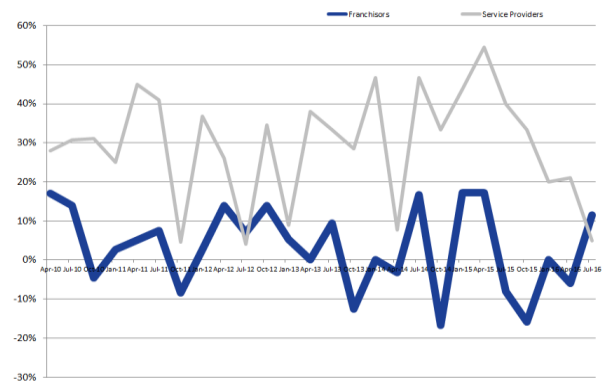
FRANCHISOR GROWTH PROSPECTS



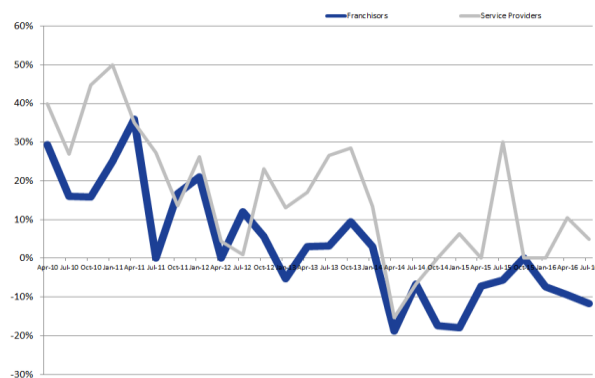
ACCESS TO FINANCING



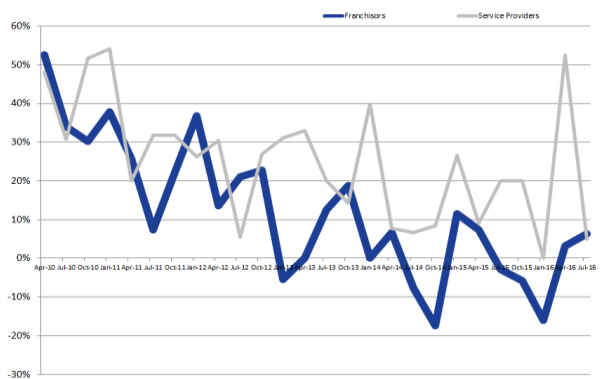
ACCESS TO SUITABLE FRANCHISEES



ACCESS TO SUITABLE STAFF



ACCESS TO SUITABLE LOCATIONS



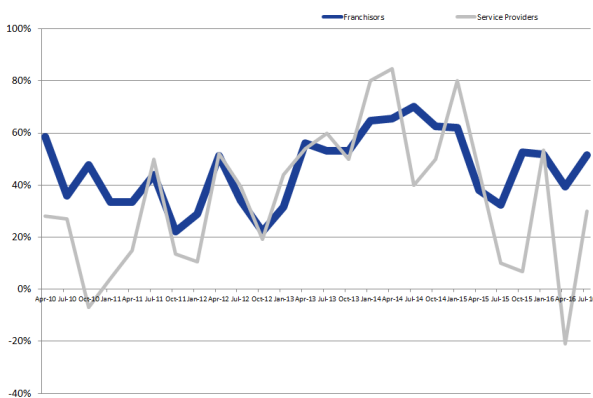
Franchisors remained constant and subdued in sentiment toward the availability of suitable staff at a net negative 12%, down from net negative 9%. Service Providers were moderately more positive at a net 5%, although down on the more positive net 11% in April.

### The Franchisee Picture

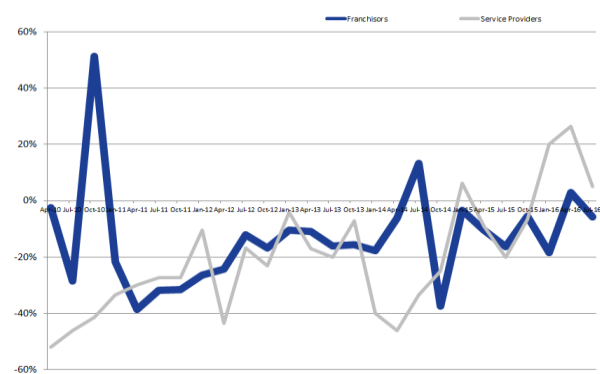
Both Franchisor and Service Provider sentiments of franchisee sales levels showed a positive increase, with franchisors increasing from a net 39% to 51%. Meanwhile, Service Providers featured a very confident increase from a net negative 21% to a positive 30%.

After seeing a positive outlook for operating costs in April, Franchisor and Service Provider groups outlook for franchisee operating costs has dipped. Franchisor sentiment decreased from net 3% to a net negative 6%, whilst Service Providers decreased from net 26% to a net 5%.

SALES LEVELS PER FRANCHISEE

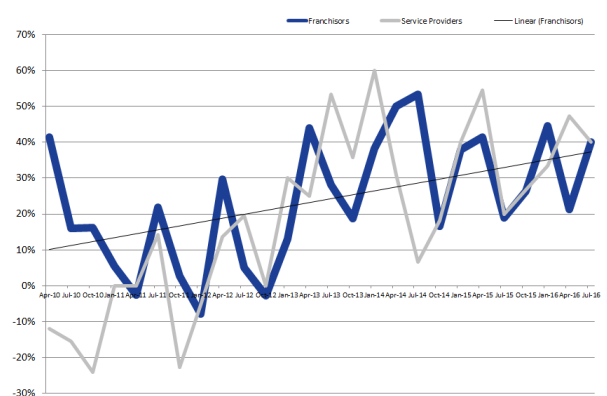


OPERATING COSTS PER FRANCHISEE



Finally, we would argue most importantly, it is somewhat pleasing to see the outlook for franchisee profitability levels bounce back to levels similar to January. Indeed, Franchisor sentiment recovered from a net 21% to a net 40% (net 44% January). Service Providers remained optimistic, with a net 40% in July, only slightly below the net 47% in April.

FRANCHISEE PROFITABILITY LEVELS



## Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Twenty-three useable responses were received with generally positive comments specifically where housing and construction impacts. Positive comments included increased sales growth, specific sector strength (e.g. building related, influenced by housing market), strong economy having impact, and, the retail sector looking positive. By contrast, less positive responses (often individual) included references to a very competitive market, levels of debt and ability to obtain financing, and, difficulties finding qualified staff (inhibiting growth).

The following examples were indicative of this sentiment:

- *We provide temporary accommodation. Things are improving in this space due to shortage of accommodation nationwide.*
- *Things are growing for us, franchising in Australia.*
- *ICT Services ; an area of rapid change and many franchisees are reluctant/resistant to change.*
- *Café. Our sector is very competitive and mature. We are achieving positive same store sales growth in part because of our channel relationships and our smart marketing and instore delivery programme.*
- *Fast casual restaurant. Ultra competitive in this new 'steal a share' economy.*
- *Biggest challenge is finding suitable skilled staff. This will continue with rising costs associated with finding, training and retaining them.*
- *Hospitality is competitive and tough particularly during winter months*
- *I think things are looking good in the sector. The main problem will be location costs in the cities.*
- *Fast food. Need for fast Fresh healthy food awareness is growing. Its good.*
- *Very competitive, downward price pressures with little scope to increase prices to customers.*
- *Prospects in our retail sector are looking very positive. Costs are stable and organic revenue growth is continuing.*
- *I am in the Commercial Cleaning sector and we believe that we will double our business in the next 5 years.*
- *Landscaping and Garden Supplies. The business is highly influenced by the building and construction sector, including residential development and is expected to remain strong and profitable.*
- *Auckland housing market and now changes in the LVR will have an impact on finding and franchisees being able to fund into businesses. Same factors are/will also influence spending patterns, particularly in Auckland.*
- *Difficult to say. Strong economy means our clients are busier and less prepared to dedicate time on the business. But increasing awareness of coaching and its benefits is a countervailing force. Which prevails? Time will tell."*
- *Very competitive in the service industry.*

- *Changes could come if the housing falls and people have overextended and lose equity in their homes. The size of peoples mortgages have increased which gives challenges for both borrowing money and servicing huge debt.*
- *It is a tough industry at the moment and working harder to get the same results is demotivating, however, with structure and clear vision I can see a change.*
- *Hospitality - positive outlook. Still tough and have to work hard to get the results but its still positive.*
- *Realestate shortage of listings , buyers lining up ,House hold debt record levels , many families struggling to pay their bills , no wage rises, to many kiwis spending not saving.*
- *Our operating markets are predominantly positive, we see a very encouraging year ahead.*
- *We're in the B2B sector and things are definitely improving although we still have to work hard for clients.*
- *The lack of suitably qualified staff is and will continue to inhibit growth.*

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

- *Marginal improvement overall, but still tough for non-food retail.*
- *Generally, conditions are positive for franchisors and franchisees.*
- *Positive.*
- *Positive in general. Stable economy, strong migration etc spell for a strong domestic demand outlook. Retail and services franchise businesses should experience period of growth.*
- *Notable increase in enquires to purchase franchises in markets outside of Auckland, particularly in Christchurch.*
- *Some concerns around hospitality with a number of sites experiencing difficulties or diminishing profits and constant increasing competition.*
- *Restrictions on property leverage may remove some available equity from the market and slow system growth.*
- *Very solid and a great business client at present.*
- *One would assume that overseas events may lead to immigration and attract more franchisees and staff and a bigger local market.*
- *Growth in economy will help main centres. Maybe 2 paced with regions affected by Dairy sector. RB restrictions may impact franchisees access to capital.*
- *Obviously the hard push against increasing property prices may have a dampener on future prospects.*



### **Concluding Comment**

Franchise Consultants' Franchising Confidence Index in July 2016 continues to demonstrate a generally positive outlook overall.

Many of the measures, which softened last quarter have seen some confidence regained, specifically, franchisors outlook for franchisee sales levels, franchisee profitability, and to a lesser degree franchisor growth suitability.

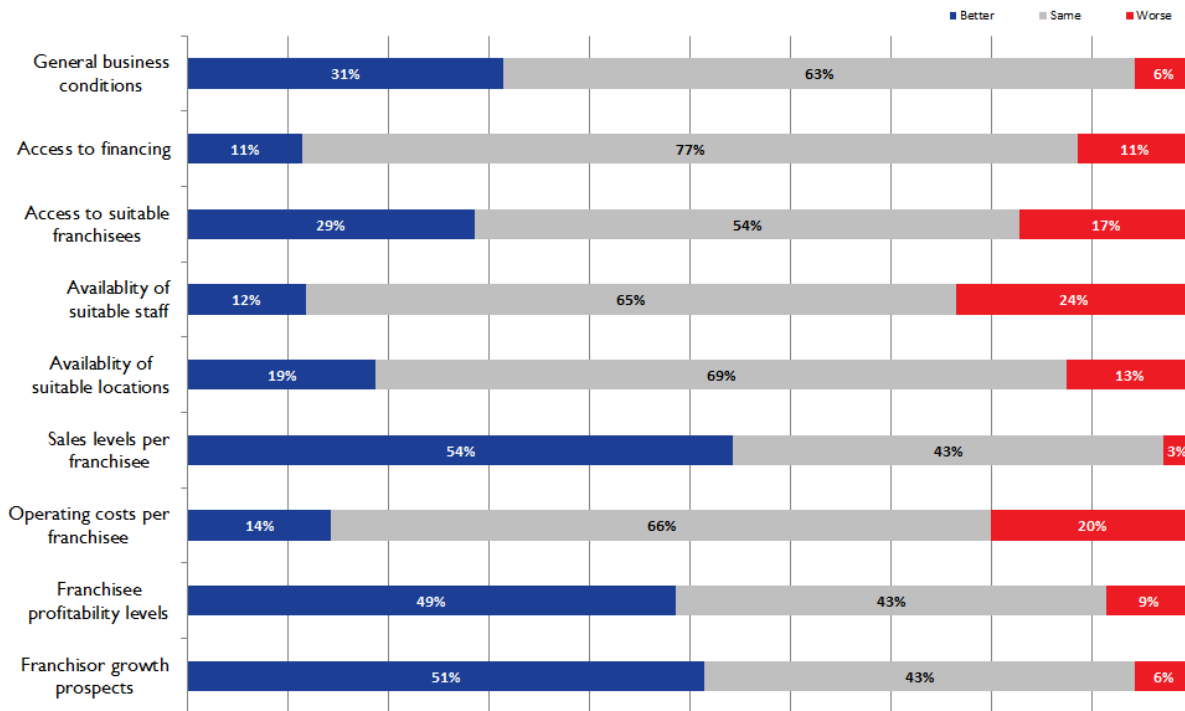
Franchisor and Service Provider comments confirm, overall, the level of sentiment recorded. Key challenges for 2016, identified in January, clearly remain – including finding franchisees, increasing investment or operating costs and access to finance.

This survey is notable for the commentary relating to property values and/or new lending rules, and the various impact either or both may have upon prospective franchisee sentiment and ability to raise capital. Combined with an environment where competitive intensity is high, margins are not expanding, good staff are hard to come by (a problem for expanding and static franchise systems) there is clearly a need for franchising companies (including franchisors and franchisees alike) to be structured and executing their business models to the highest possible standard.

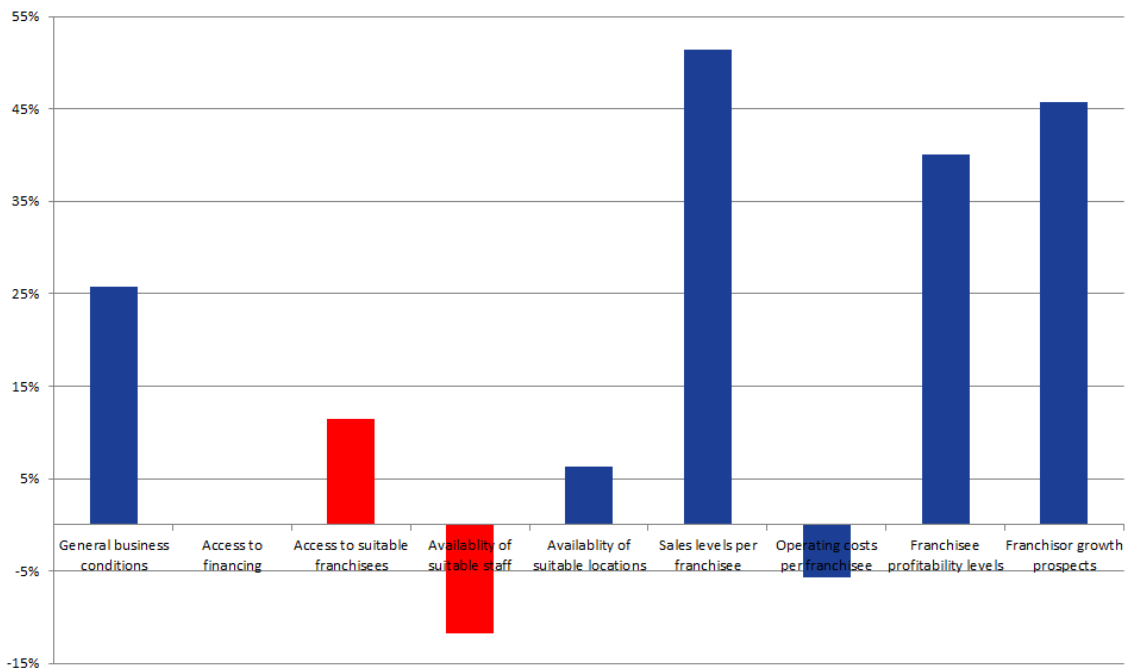
## FRANCHISING CONFIDENCE CHARTS

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).

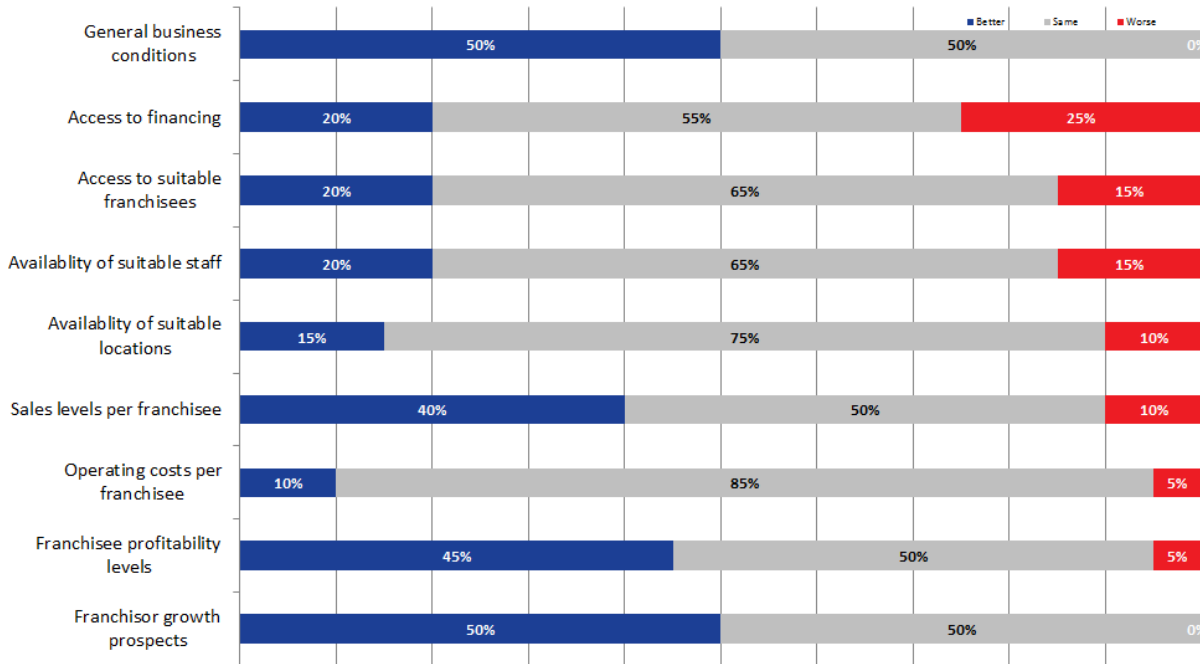
### FRANCHISOR EXPECTATIONS (next 12 months)



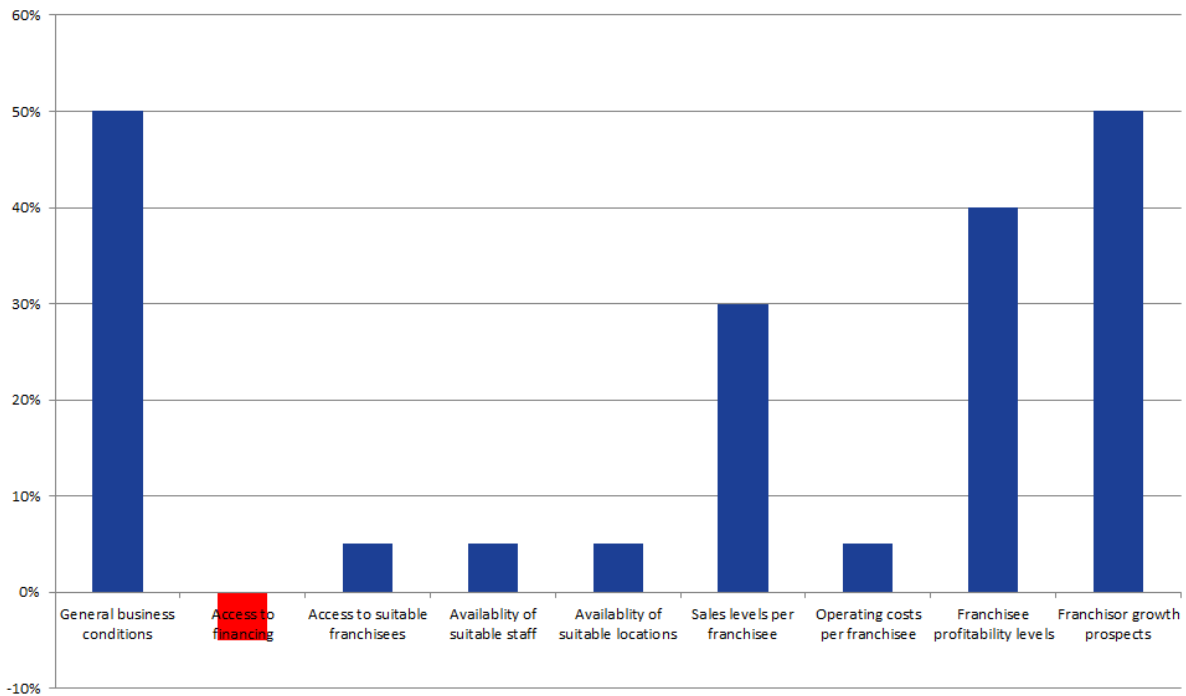
### NET FRANCHISOR EXPECTATIONS



**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 35 Franchisors and 20 Service Providers collected between Friday 22 July and Friday 29 July 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.'

*The results were compiled by Kayleen Smith, Business Support Manager, Franchise Consultants.*

For more information contact:



### Dr Callum Floyd

-----  
Franchise Consultants (NZ) Ltd  
Level 1, 27 Gillies Avenue  
Newmarket, Auckland  
Ph. 09 523 3858  
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)  
-----



Franchise Consultants have been New Zealand's premier franchise consulting specialists for more than 25 years.

**Thinking of franchising a business?** Franchise Consultants help evaluate and establish franchising and licensing networks.

**Thinking of improving the results of an established franchise network?** Franchise Consultants have had great success improving established franchising and licensing network performance for all stakeholders.