

# Key Franchising Sentiment Metrics Remain Positive

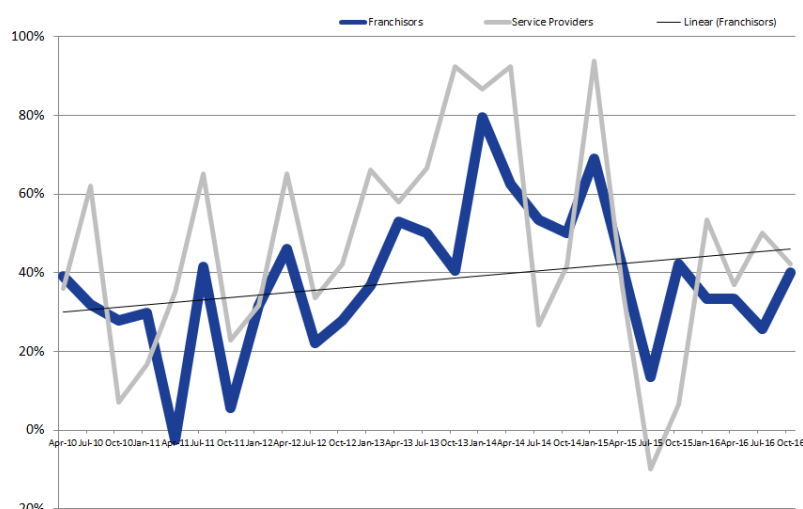
Franchise Consultants' October 2016 *Franchising Confidence Index* demonstrates a positive increase in confidence levels for many areas, particularly, franchisor growth prospects, franchisee sales levels and, franchisee profitability. There was also positive sentiment in relation to access to finance, predominantly from franchisors, reversing some of the large drop in the July survey.

Franchisors were substantially more positive in their outlook for **general business conditions** (net 40%), up from a net 26% the previous quarter. Service Providers, by contrast, converged from a net 50% in July to a net 42%.

The franchisor net 40% positivity in outlook for general business conditions was still quite markedly higher than that of other research involving general business, although they also saw similar increases from the previous quarter. The ANZ Business Outlook increased to a net 28% in September (up from 20% in July) and NZIER business survey improved from net 19% in July to a net 26% in October.

Our experience now over 27 quarters (or more than six years) indicates franchisors are often more positive toward future general business conditions compared to datasets involving other organisational forms. This quarter, is no different, however the increases in net positive sentiment quarter to quarter are very similar.

**GENERAL BUSINESS CONDITIONS**



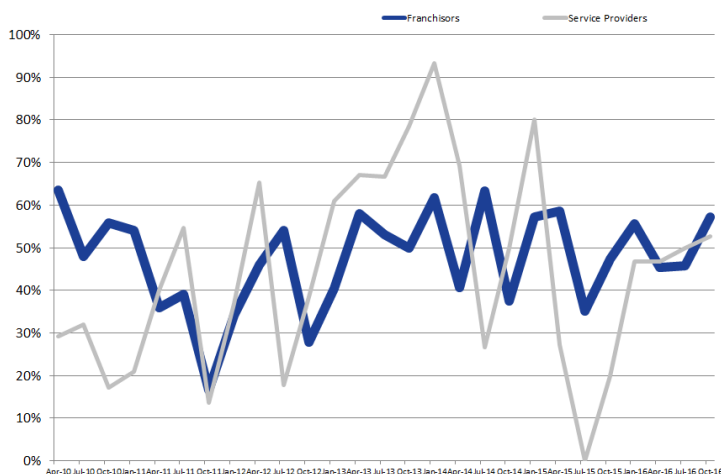
## RESULTS SUMMARY TABLE

|                                    | Franchisors |        |        |        |        |        |        |        |        | Service Providers |        |        |        |        |        |        |        |        |
|------------------------------------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|
|                                    | Oct-14      | Jan-15 | Apr-15 | Jul-15 | Oct-15 | Jan-16 | Apr-16 | Jul-16 | Oct-16 | Oct-14            | Jan-15 | Apr-15 | Jul-15 | Oct-15 | Jan-16 | Apr-16 | Jul-16 | Oct-16 |
| General business conditions        | 50%         | 69%    | 41%    | 14%    | 42%    | 33%    | 33%    | 26%    | 40%    | 42%               | 94%    | 36%    | -10%   | 7%     | 53%    | 37%    | 50%    | 42%    |
| Access to financing                | 21%         | 41%    | 28%    | 19%    | 21%    | 30%    | 21%    | 0%     | 15%    | 42%               | 88%    | 36%    | 30%    | 27%    | 53%    | 37%    | -5%    | 0%     |
| Access to suitable franchisees     | -17%        | 17%    | 17%    | -8%    | -16%   | 0%     | -6%    | 11%    | 12%    | 33%               | 44%    | 55%    | 40%    | 33%    | 20%    | 21%    | 5%     | 21%    |
| Availability of suitable staff     | -17%        | -18%   | -7%    | -6%    | 0%     | -7%    | -9%    | -12%   | -13%   | 0%                | 6%     | 0%     | 30%    | 0%     | 0%     | 11%    | 5%     | -5%    |
| Availability of suitable locations | -17%        | 12%    | 7%     | -3%    | -6%    | -16%   | 3%     | 6%     | -13%   | 8%                | 27%    | 9%     | 20%    | 20%    | 0%     | 53%    | 5%     | 26%    |
| Sales levels per franchisee        | 63%         | 62%    | 38%    | 32%    | 53%    | 52%    | 39%    | 51%    | 63%    | 50%               | 80%    | 45%    | 10%    | 7%     | 53%    | -21%   | 30%    | 42%    |
| Operating costs per franchisee     | -38%        | -3%    | -10%   | -16%   | -6%    | -19%   | 3%     | -6%    | 0%     | -25%              | 6%     | -9%    | -20%   | -7%    | 20%    | 26%    | 5%     | -11%   |
| Franchisee profitability levels    | 17%         | 38%    | 41%    | 19%    | 26%    | 44%    | 21%    | 40%    | 49%    | 18%               | 40%    | 55%    | 20%    | 27%    | 33%    | 47%    | 40%    | 21%    |
| Franchisor growth prospects        | 38%         | 57%    | 59%    | 35%    | 47%    | 56%    | 45%    | 46%    | 57%    | 50%               | 80%    | 27%    | 0%     | 20%    | 47%    | 47%    | 50%    | 53%    |

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

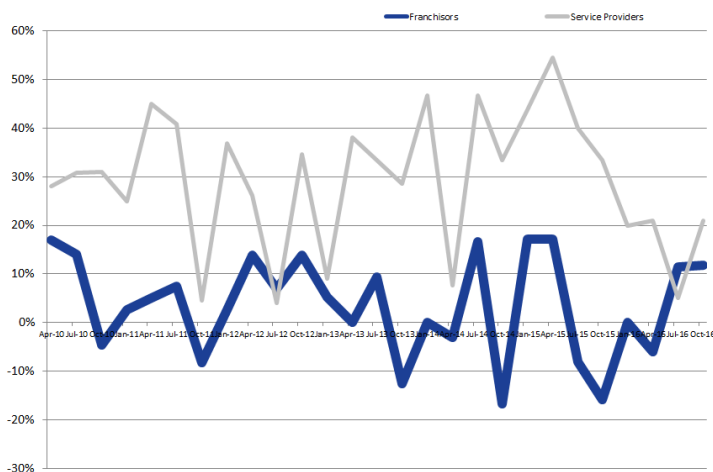
Franchisor sentiment for **franchisor growth prospects** continued to gain momentum at net 57% compared with a net 46% in July. Service Providers perceptions showed a slight increase at a net 53%, up from net 50%.

#### FRANCHISOR GROWTH PROSPECTS



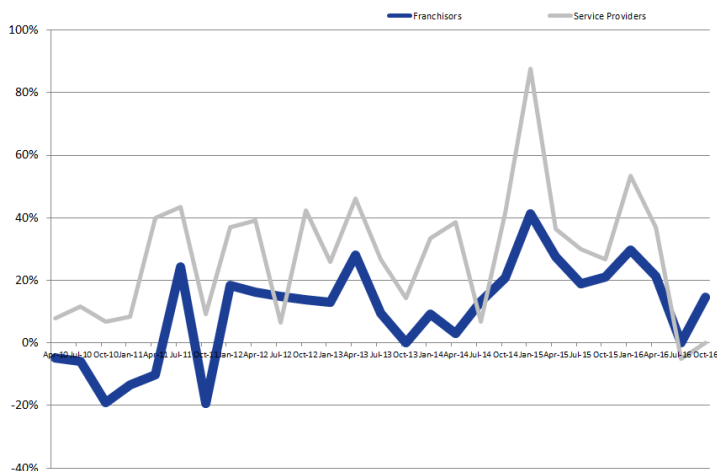
Franchisor sentiment toward access to suitable franchisees was more subdued up 1% to net 12%. Service Providers however were far more positive with an increase of net 16% to net 21%.

#### ACCESS TO SUITABLE FRANCHISEES



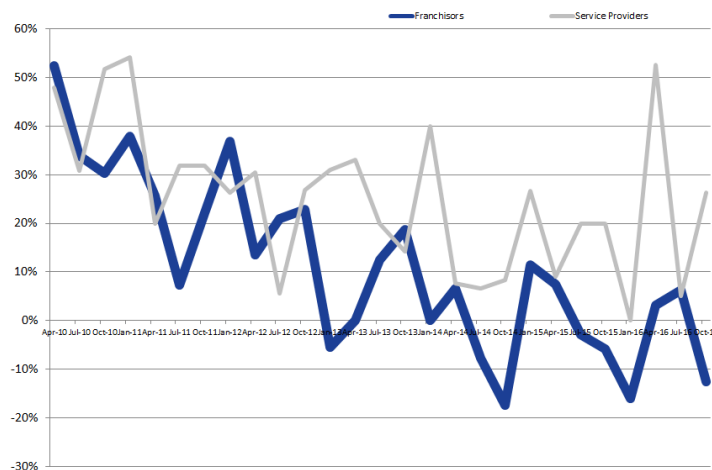
Franchisor and Service Provider sentiment toward access to financing bounced back significantly for franchisors from net 0% to net 15%, whilst the increase from Service Providers was less confident at net 0%, up from negative net 5%.

#### ACCESS TO FINANCING



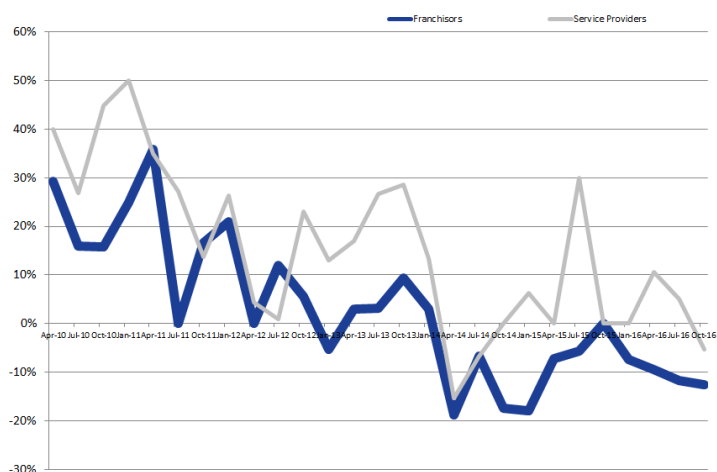
The ongoing fluctuations in access to suitable locations continued this quarter, decreasing from net 6% to net negative 13% for Franchisors. Service Providers sentiment on the other hand was equally more positive up from net 5% to net 26%.

#### ACCESS TO SUITABLE LOCATIONS



Franchisors remained constant and subdued in sentiment toward the availability of suitable staff at a net negative 13%, down from net negative 12%. Service Providers were moderately more positive at a net negative 5%, although down on the more positive net 5% in July. Clearly finding suitable staff is a key challenge and one that is envisaged to worsen, on balance.

#### ACCESS TO SUITABLE STAFF



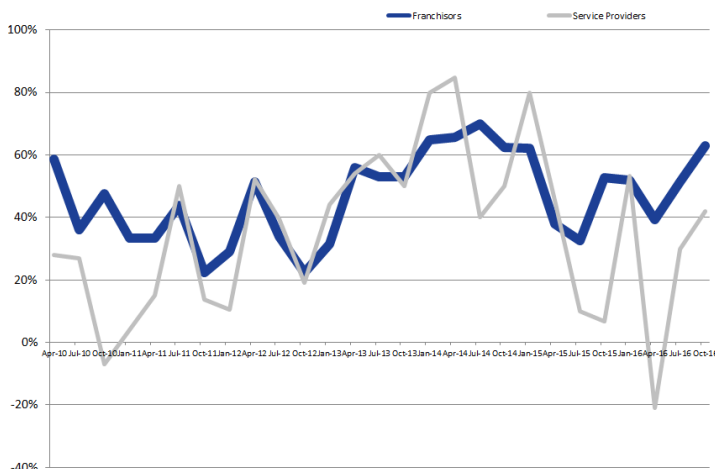
## The Franchisee Picture

Both Franchisor and Service Provider sentiment for franchisee sales levels showed a further positive increase this quarter, with Franchisors increasing from a net 51% to 63%. Service Providers, whilst overall slightly less positive than Franchisors showed an increase from a net 30% to a net 42%.

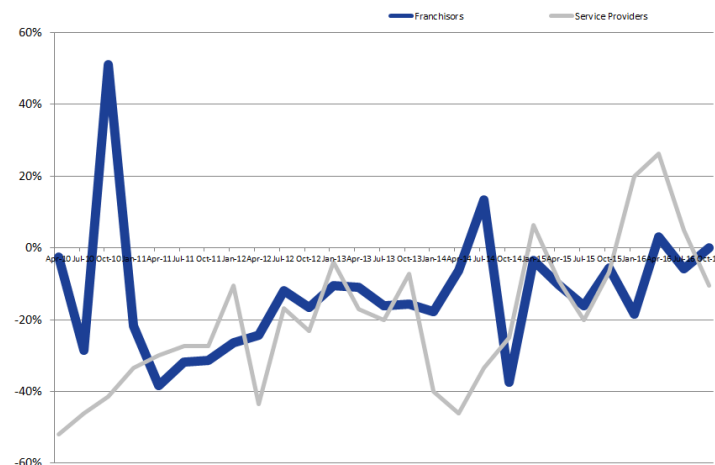
The dip in the outlook for operating costs in July has improved slightly for Franchisors this quarter from net negative 6% to net 0%. Service Providers outlook for franchisee operating costs has taken a further dip decreasing from net 5% to a net negative 11%.

Finally, sentiment toward franchisee profitability levels continue to fluctuate up and down between Franchisor and Service Providers. Franchisor sentiment grew in confidence, up from a net 40% in July to a high net 49% in October. Service Providers by contrast reduced forward looking sentiment, down net 19% on the July net 40%, leaving October at a net 21%.

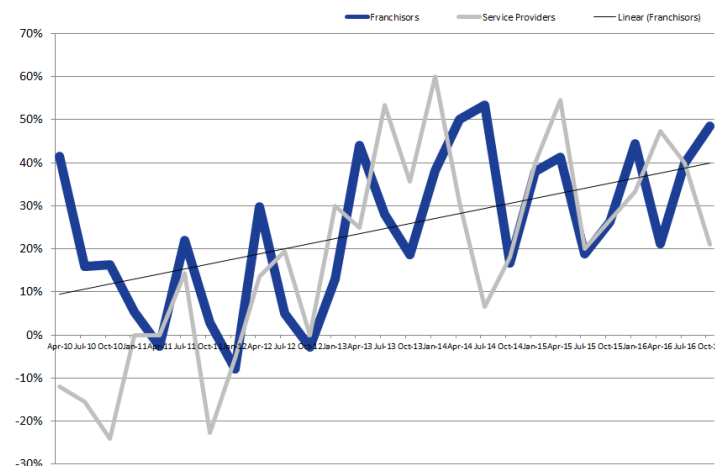
**SALES LEVELS PER FRANCHISEE**



**OPERATING COSTS PER FRANCHISEE**



**FRANCHISEE PROFITABILITY LEVELS**



## Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Twenty-two useable responses were received with generally positive comments specifically with regard to sales growth, profit levels and access to financing. Positive comments included increased sales revenue against previous periods, growth in both physical retail and especially businesses benefiting from e-retail. By contrast, less positive responses (often individual) included references to a very competitive market, pricing pressure, increasing overheads, demands of landlords making locations difficult to obtain, and a lack of good franchisees.

The following examples were indicative of this sentiment:

- *Things are growing, we are in Australia*
- *Sewing education lacking in many institutions, so believe there are many opportunities for our business*
- *Education market continues to grow. Finding good franchisees is my biggest challenge!*
- *With the boost of online shopping we are experiencing strong growth within our sector and predominantly as a result of introducing a new international inbound service targeting online retail merchants.*
- *Very competitive in the franchise sales space, plenty of new work, home services*
- *Positive. E retail growth will fuel parcel movements*
- *We are in a very buoyant time of strong demand which I believe will continue for the next two years at least with rural New Zealand markets strengthening considerably*
- *Cafe/hospitality franchising. We are experiencing very strong like for like sales growth this calendar year. Banks do seem to be tightening up lending, especially with the new responsible banking protocol now in place*
- *Very stable and positive*
- *Excellent*
- *Service Industry for Insurance Companies - big focus on cost reduction. The Auckland factor is having a big influence on business decisions with large corporates.*
- *Cleaning: extreme price pressure. New entrants from Australia further diluting market.*
- *We are trading around 8% up for the first 6 month for our financial year. Things are tough but we are trading well in the current trading conditions*
- *B2B looking ok. Would like to see more promotion to corporates to consider buying their own business in the B2B sector*
- *Mobile Car Valet can do nothing but grow*
- *Retail - Improving steadily*
- *The hospitality sector is highly competitive. One of the biggest new challenges is landlord attitude towards brands in the main cities and a drive for non-branded business making it harder to secure some sites. This is likely to increase the competition for sites amongst branded offers*
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- *Due to less use of cash (coins) our industry is slowly declining, but will be countered with the implementation of paywave technology*
- *Moderate improvement in sales but expenses are rising. Suitable locations and rents are a barrier relocating/new stores. Opportunity in certain areas but franchisees resistant to change. - Automotive servicing and repair*
- *Steady as she goes, but constantly looking for ways to improve and grow our business.*
- *Retail and in particular home and hardware are looking very solid at the moment*
- *Positive, residential building*

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

- *Great*
- *Generally quite stable and positive. Skilled labour still difficult to obtain. Expect to see upwards pressure on wages within the next 24 months*
- *Franchisors are not upholding adequate support across all business functions for franchisee.*
- *Seems very positive at the moment for both franchisors and franchisees*
- *A stable business environment which is good for franchisees and franchisors*
- *Generally good, although competition for good franchise candidates is still very strong. One positive is that the banks are getting more interested in business lending. An area of concern is a number of Australian franchisors looking to enter New Zealand often without doing adequate research and preparation into the local market. The resulting failures will impact upon local franchisees and damage franchising's reputation.*
- *Hard to see much change ahead up or down. The economy seems stable but politics, offshore in particular, not so much.*

## **Concluding Comment**

Franchise Consultants' Franchising Confidence Index in October 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 general business conditions, franchisee sales levels, franchisee profitability, and franchisor growth prospects.

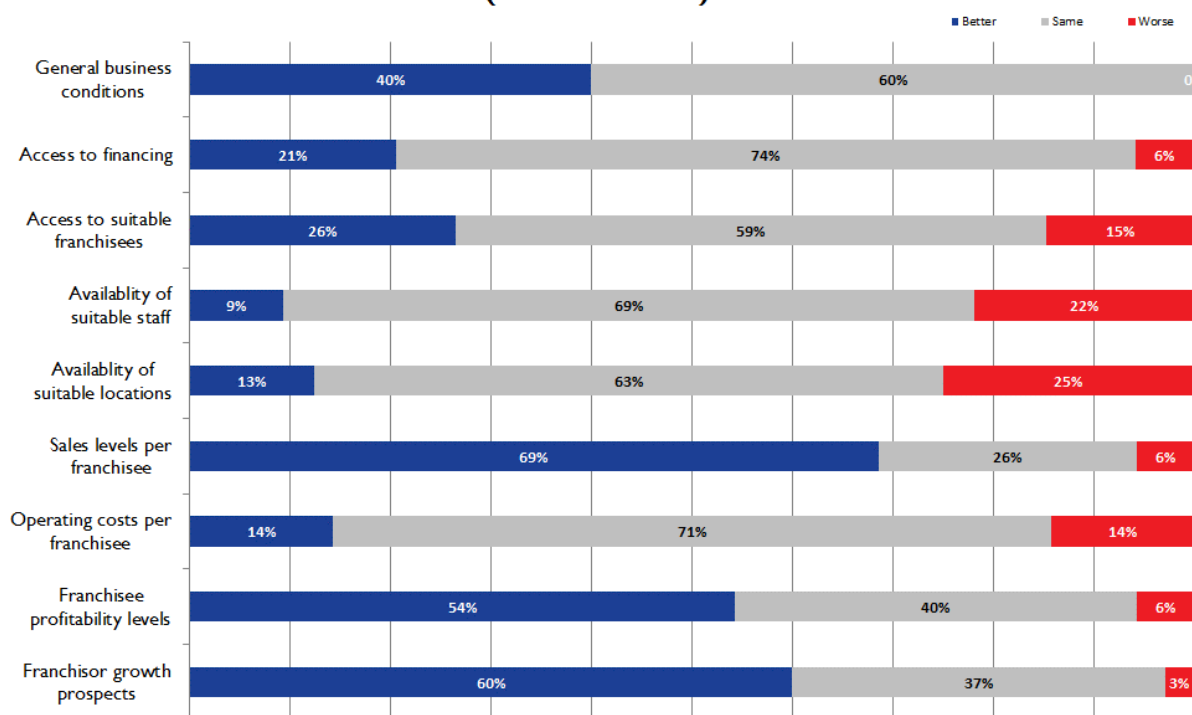
Perhaps most notable are strong Franchisor sentiment for franchisee sales and profit improvements, backed by comments demonstrating strong sales growth in existing sites.

Combined, these views are clearly positive. However assessments locally and internationally indicate potential future economic storm clouds (originating mainly internationally) that could easily, in turn, impact local trading. Aligned, it is Franchise Consultants view that now, particularly when there is some buoyancy, is a time to evaluate franchise system structure and performance for future improvement opportunities.

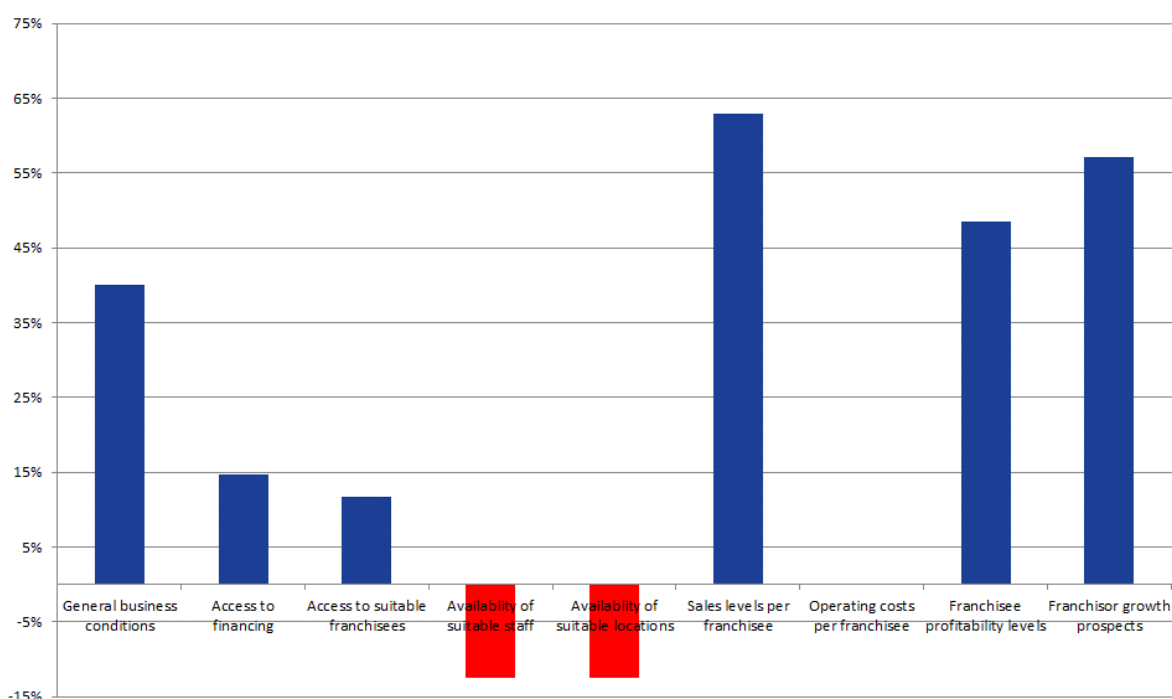
## FRANCHISING CONFIDENCE CHARTS

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)

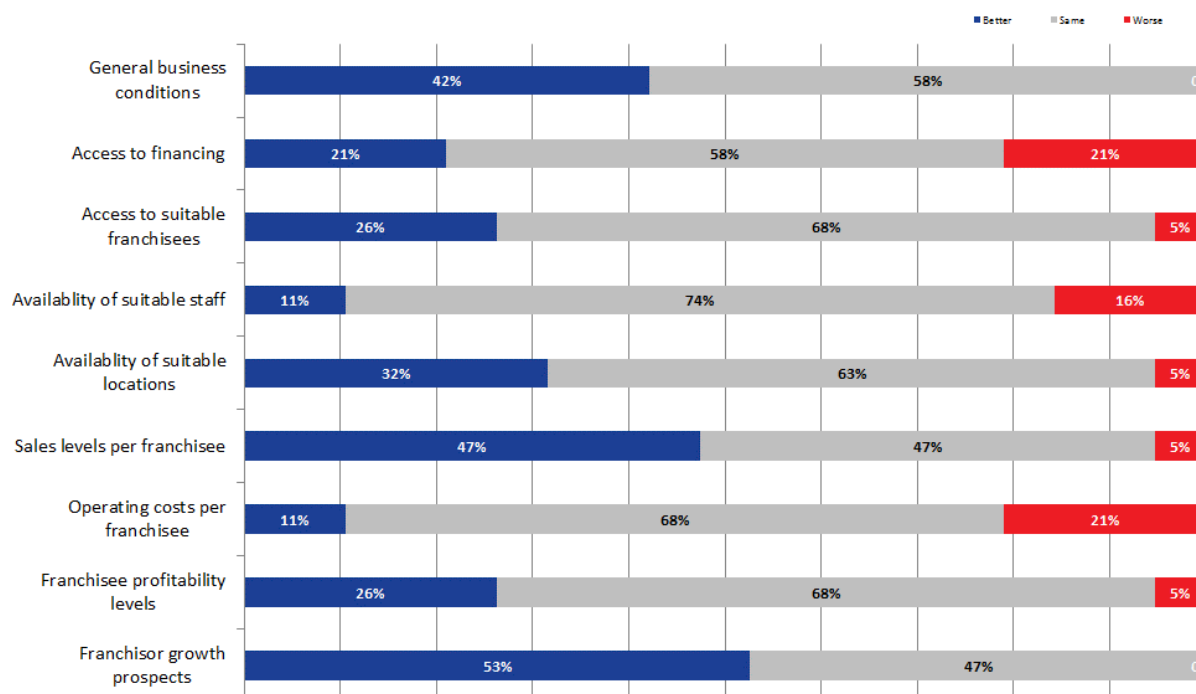


### NET FRANCHISOR EXPECTATIONS

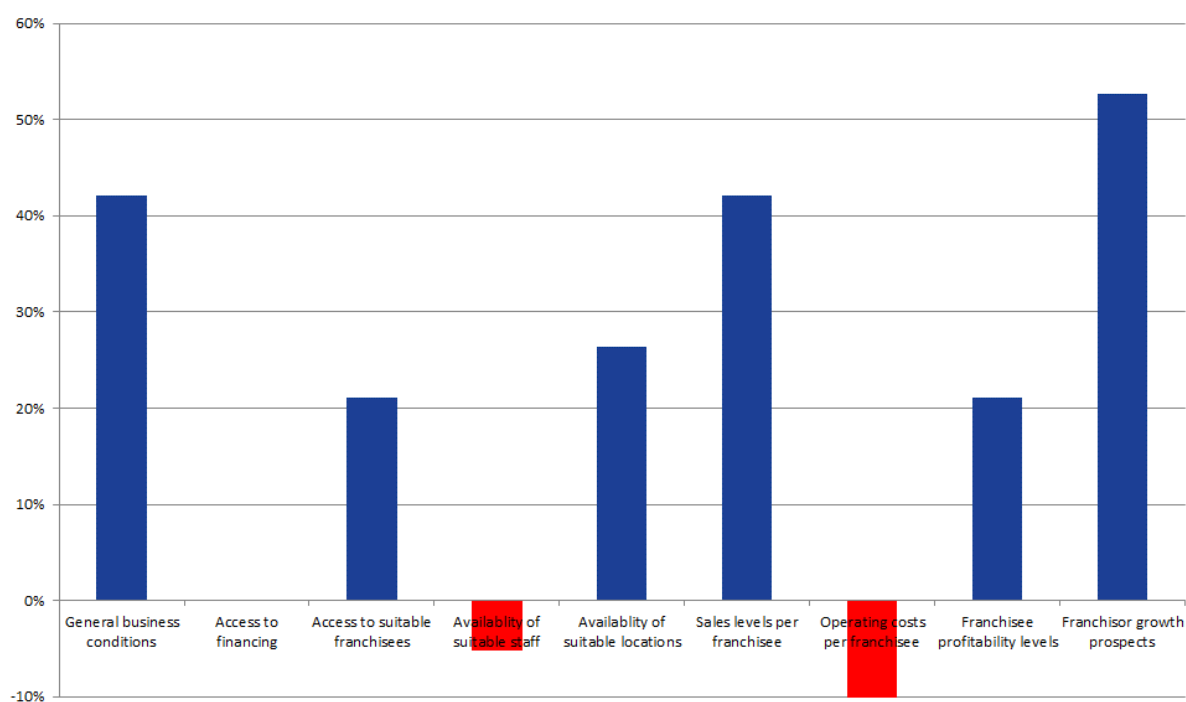




## SERVICE PROVIDER EXPECTATIONS (next 12 months)



## 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 19 Service Providers collected between Tuesday 11 October and Monday 17 October 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.*

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**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.