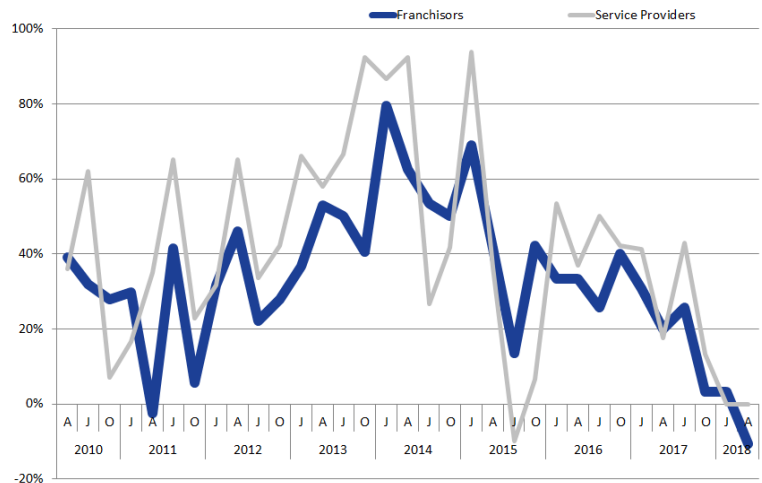


Franchisors Report Mixed Sentiment

Franchise Consultants' April 2018 *Franchising Confidence Index* demonstrates a mixed shift in confidence levels. Reductions in franchisor sentiment were evident toward general business conditions, access to financing and finding suitable staff. Meanwhile, notable improvements included sales levels per franchisee and franchisor growth prospects.

Franchisors continued to show a decline in sentiment towards **general business conditions**. Franchisor sentiment (net negative 11%) decreased from the previous quarter (3%), to its lowest level since this survey began in 2010. Service Providers remained neutral at 0%.

GENERAL BUSINESS CONDITIONS



Franchisors view on general business conditions brought it more in line with that of other research involving general business. The ANZ Business outlook improved slightly to a net negative 20% in March, after having dipped substantially to a net negative 38% in January. The NZIER business survey also saw some improvement at net negative 9% in April up from a net negative 11% in January.

Our experience, now involving some 33 consecutive quarters (over eight calendar years), indicates franchisors are normally more positive toward future general business conditions compared to datasets involving other organisational forms.

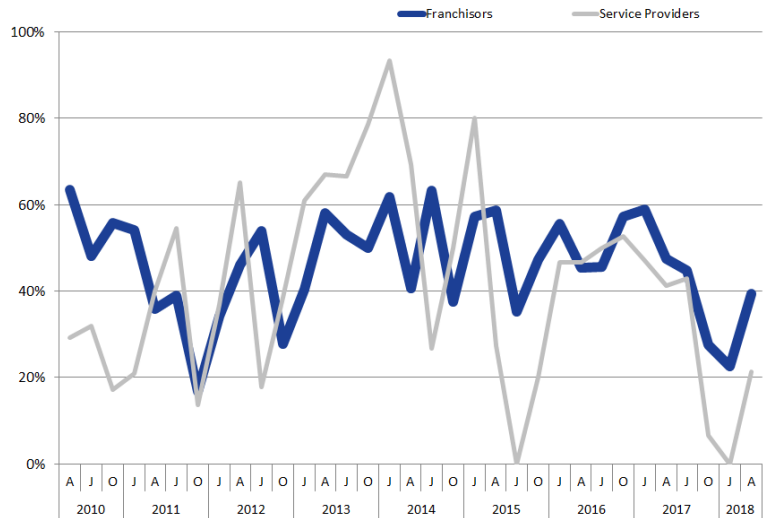
RESULTS SUMMARY TABLE

	Franchisors										Service Providers													
	2016				2017				2018				2016				2017				2018			
	J	A	J	O	J	A	J	O	J	A	J	O	J	A	J	O	J	A	J	O	J	A	J	O
General business conditions	33%	33%	26%	40%	31%	20%	26%	3%	3%	-11%	53%	37%	50%	42%	41%	18%	43%	13%	0%	0%				
Access to financing	30%	21%	0%	15%	-8%	-18%	-8%	-13%	0%	-21%	53%	37%	-5%	0%	18%	0%	-21%	-7%	7%	14%				
Access to suitable franchisees	0%	-6%	11%	12%	10%	-10%	13%	-20%	-28%	-14%	20%	21%	5%	21%	41%	24%	36%	7%	7%	0%				
Availability of suitable staff	-7%	-9%	-12%	-13%	-3%	-26%	-32%	-14%	-16%	-22%	0%	11%	5%	-5%	-6%	0%	-7%	7%	0%	-50%				
Availability of suitable locations	-16%	3%	6%	-13%	16%	17%	-5%	11%	7%	4%	0%	53%	5%	26%	12%	6%	21%	20%	14%	38%				
Sales levels per franchisee	52%	39%	51%	63%	56%	49%	51%	43%	28%	50%	53%	-21%	30%	42%	53%	41%	43%	13%	7%	96%				
Operating costs per franchisee	-19%	3%	-6%	0%	-13%	0%	-15%	-21%	-39%	-39%	20%	26%	5%	-11%	0%	-29%	-21%	-27%	-50%	-57%				
Franchisee profitability levels	44%	21%	40%	49%	44%	40%	18%	7%	9%	-4%	33%	47%	40%	21%	35%	0%	29%	-7%	-36%	-7%				
Franchisor growth prospects	56%	45%	46%	57%	59%	48%	45%	28%	23%	39%	47%	47%	50%	53%	47%	41%	43%	7%	0%	21%				

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

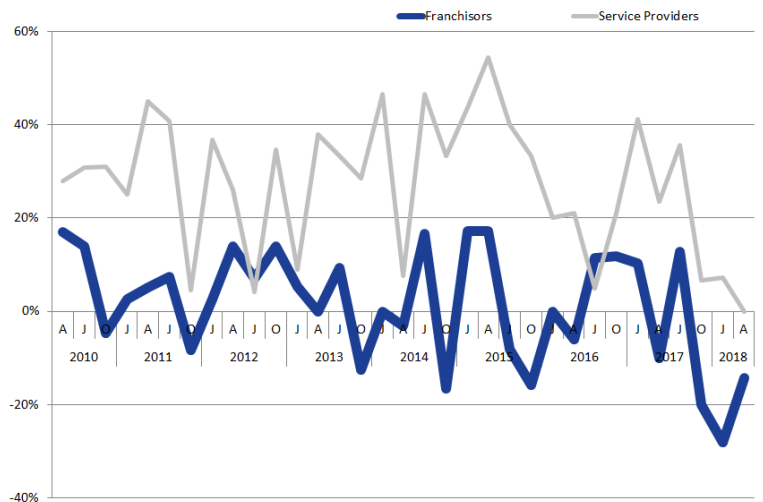
Franchisor sentiment toward **franchisor growth prospects** has improved, climbing back to net 39% up from 23%. Service Providers were similarly positive at a net 21%, up from 0%.

FRANCHISOR GROWTH PROSPECTS



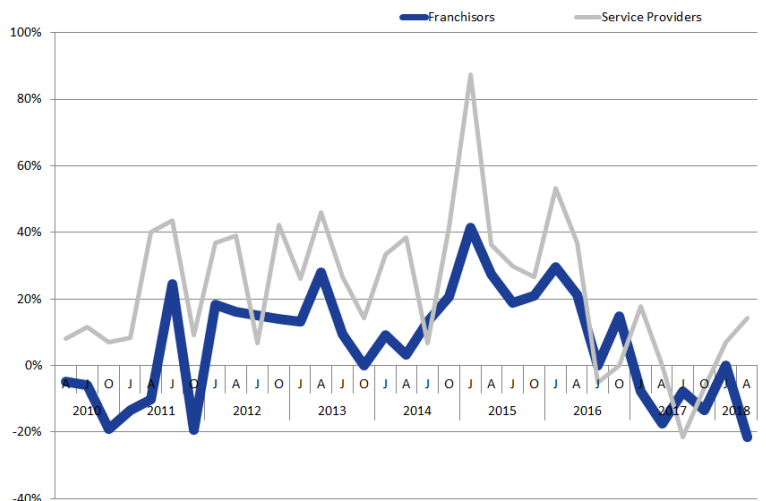
Franchisor sentiment toward **access to suitable franchisees** has shown improved sentiment this quarter after hitting an all time low in January. April sentiment at net negative 20%, improved from net negative 28%. Service Providers who had been more positive previously have dipped in sentiment dropping to a net 0% from net 7%.

ACCESS TO SUITABLE FRANCHISEES

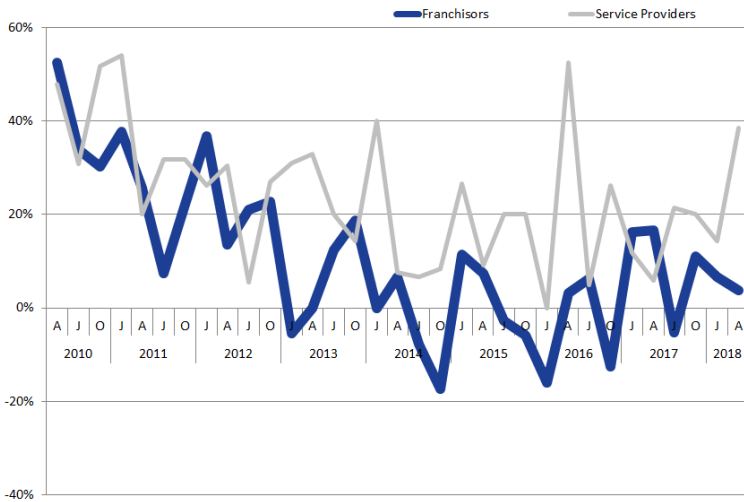


Franchisor and Service Provider sentiment toward **access to financing** moved in opposite directions, with franchisors dipping further to a net negative 21%, down from 0%. Service provider sentiment continued to elevate from a net 7% to a net 14%.

ACCESS TO FINANCING

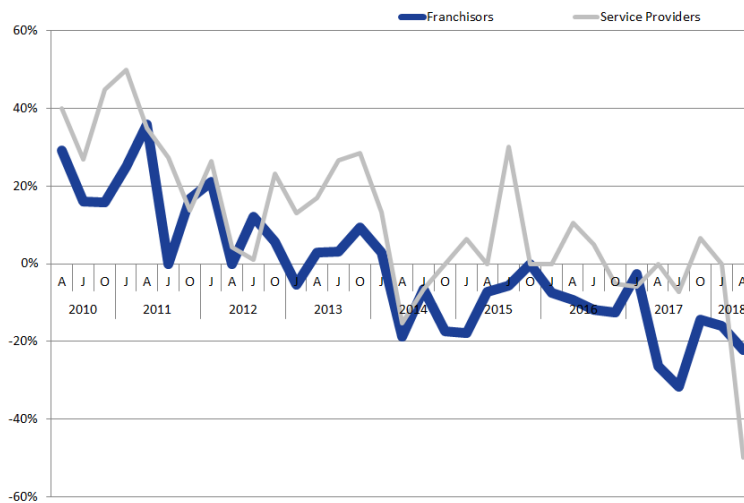


ACCESS TO SUITABLE LOCATIONS



Franchisors sentiment this quarter towards **accessing suitable locations**, which fluctuates regularly, slipped slightly to net 4%, down from a net 7%. Service Providers sentiment showed more confidence at a net 38%, up from net 14%.

ACCESS TO SUITABLE STAFF

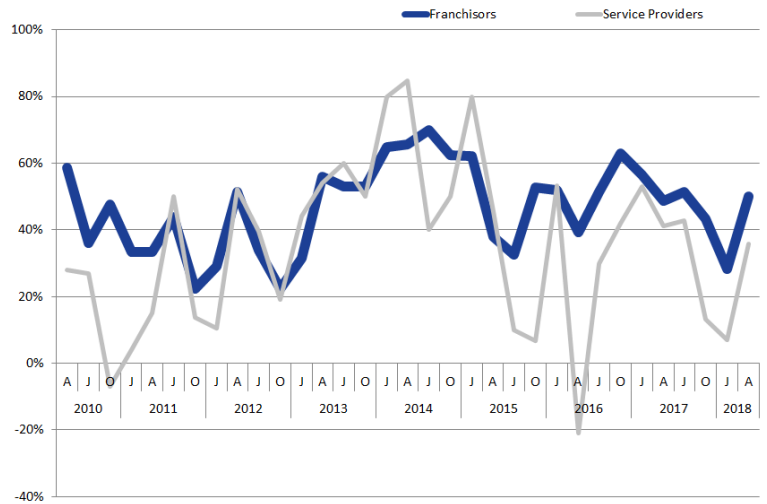


Franchisors and Service Provider sentiment toward the **availability of suitable staff** dipped further to a net negative 22% from net negative 16% and net negative 50% down from net 0%, respectively. Sentiment appears to be showing caution based on the perceived challenges with upcoming government changes to the immigration policy.

The Franchisee Picture

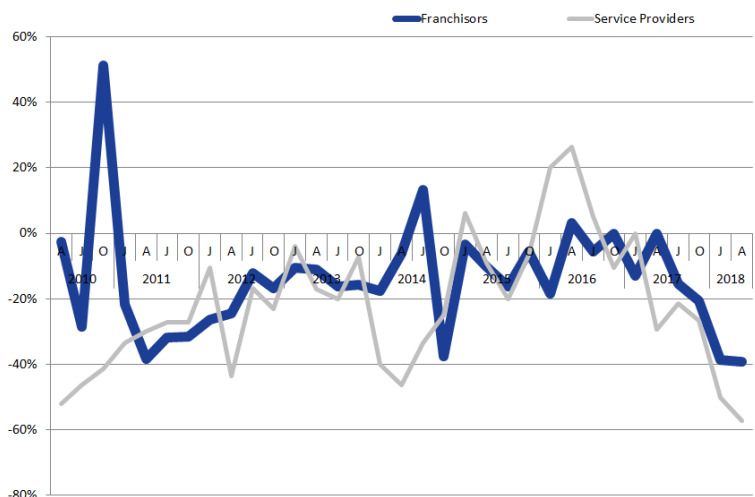
Whilst there are challenges in some areas, both Franchisor and Service Provider sentiment toward **franchisee sales levels** were very strong. Franchisors recorded a positive increase at a net 50%, up from 28%. Meanwhile, Services Providers improved from a net 7% to 36%.

SALES LEVELS PER FRANCHISEE



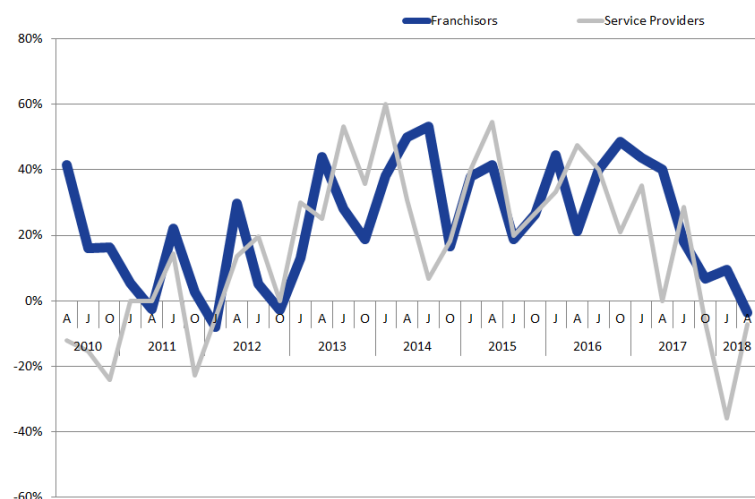
Franchisee operating costs, meanwhile, remained a challenge with Franchisor sentiment remaining stagnant at net negative 39%. Service Provider outlook dipped slightly further to a net negative 57% down from January's net negative 50%.

OPERATING COSTS PER FRANCHISEE



Finally, Franchisors sentiment towards **franchisee profitability levels**, which are a strong indicator of the economic climate, took a dip to net negative 4%, after lifting slightly in January to net 9%. A very negative decrease, net negative 36%, in January for Service Providers was reversed to a net negative 7%.

FRANCHISEE PROFITABILITY LEVELS



Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Thirteen useable responses were received. Some were not shown where an individual company was identifiable. Notable comment themes included uncertainties of regulation in certain industries (one specific comment not shown), uncertainty due to increasing wage requirements and immigration requirements – the latter also increasing perceived pressure on access to staff. Competition and inflating operating costs were also an issue – particularly in food and beverage, and, commercial cleaning. On the positive side, a number of comments pointed to strong demand and future potential.

The following examples were indicative of this sentiment:

- *Agriculture lots of challenges with our clients having increasing cost of compliance but a more stable payout at present is helping to balance*
- *Excellent growth potential - Vehicle Grooming*
- *Restaurants: tough. Competition high, staff shortages, costs will come under pressure with significant minimum wage increases over the next 3 years impacting both labour, COGS and servicing costs*
- *Commercial cleaning. Compliance costs continue to bite hence the costs affect both Franchisees and Franchisor. Should the Auckland fuel tax take affect that too will have another cost that is difficult to absorb or pass on.*
- *There are too many franchised coffee offers*
- *We are the market leaders in the North Island, the hire sector is highly competitive therefore we need to constantly develop and improve our business*
- *Things are positive in our industry. The thing we are struggling with is in the recruitment of Service Technicians. We are in the window maintenance sector*
- *Still positive on the momentum of the past year*
- *"Property Trade Services. Franchisees generally busy nationwide. Franchise recruitment slow - possibly due to low unemployment rates and change of Government. Calibre of franchisee enquiry (combined with ability to obtain finance) is biggest issue hindering growth of the group."*
- *Wood & Manufacturing - labour shortage of skilled people. Customers more conservative.*
- *Business advisory and coaching. Counter cyclical demand for our services??*
- *Commercial Cleaning: minimum wage rise will mean all in Industry will need to move pricing*
- *Hospitality Industry, Increased competition from independents, rising fit out costs a major concern, availability of chefs is also poor and the increased exposure in the news of RFG, Aussie Farmers & Caltex, whilst this will die down it will remain on google for a long time to come when prospects are undertaking due diligence, maybe not as much of a concern for the sub \$300k market but a big impact on the \$600k+ market pool*

Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Their responses also focused on wage cost and immigration changes plus pending new taxes. Other comments alluded to some industries being in a positive environment however were not specific. Some comments also referenced a slowdown in some sectors. Key examples include:

- *Overall in our industry the market is very positive*
- *Government legislation affecting employment costs and fuel taxes will place more pressure on franchisees cost structures and profitability levels.*
- *Costs - minimum wages are increasing and immigration restrictions will mean a shortage in prospective employees and franchisees - it looks a difficult year ahead for all*
- *At this stage OK but the new government shows early signs of damaging the economy by pushing policies that are anti business*
- *Proposed transport cost increases will create further pressure on bricks & mortar based businesses. Green Acres' move into uber-style delivery methods could impact upon service franchises. It remains to be seen how this will affect service standards, brand reputation and existing franchisees.*
- *Changes in Visa requirements will have a negative effect on finding suitable employees in 6 - 18 months for Food/Retail franchisees, and may increase wage cost (outside of minimum wage increases).*
- *Very positive firing on all cylinders*
- *Influenced by political uncertainty, wage and tax policy direction*

Concluding Comment

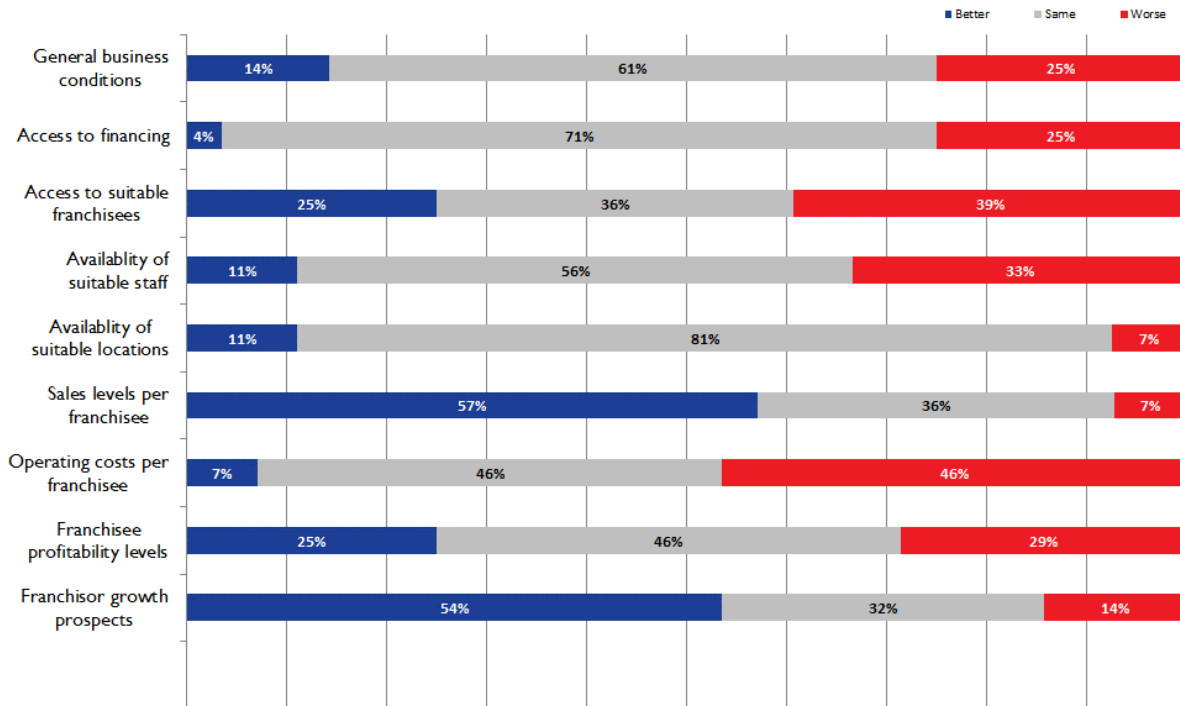
Franchise Consultants' Franchising Confidence Index in April 2018 shows there is still an air of caution in regard to the potential impact of local and worldwide uncertainties. There are areas where sentiment is decreasing substantially, such as access to finance and potential staff shortages. Conversely, we note some very positive sentiment toward franchisee sales levels. There are still levels of concern regarding regulatory changes however growth prospects are still seen as being high from both Franchisor and Service Providers perspective.

As we referenced in our October survey, records show there is often uncertainty around election years, and more so when there has been a change in government. We also note that these dips in general business confidence do tend to rally again once changes settle. It will be particularly interesting to see if the next few quarters reflect what has occurred previously.

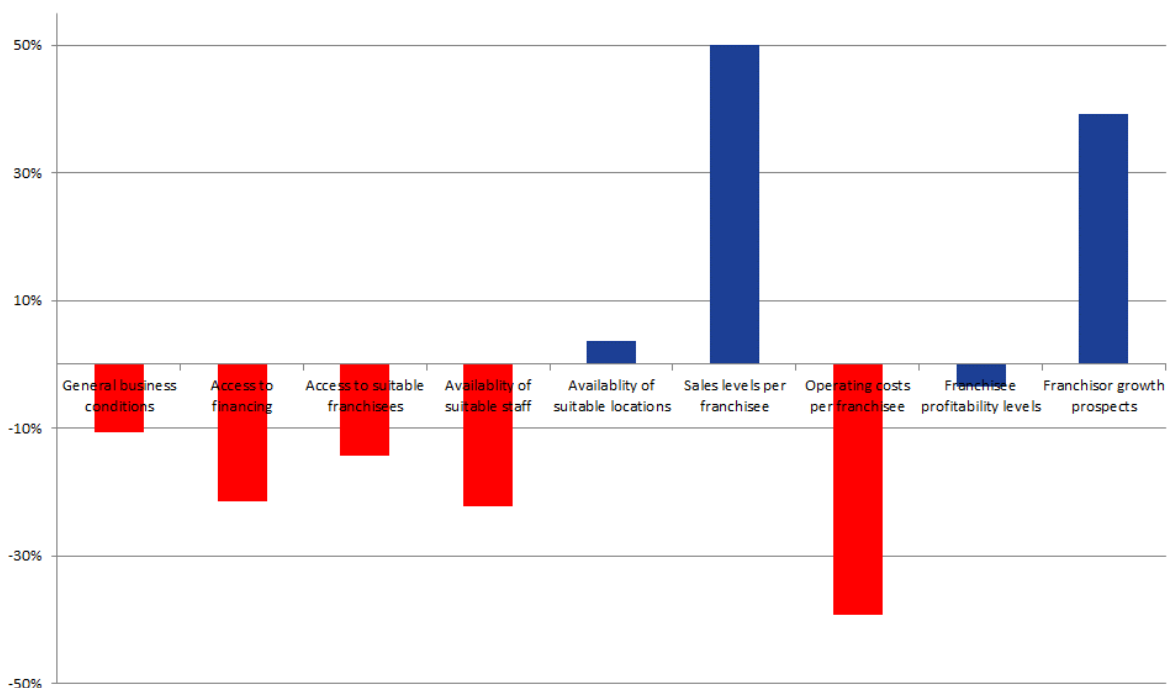
FRANCHISING CONFIDENCE CHARTS

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).

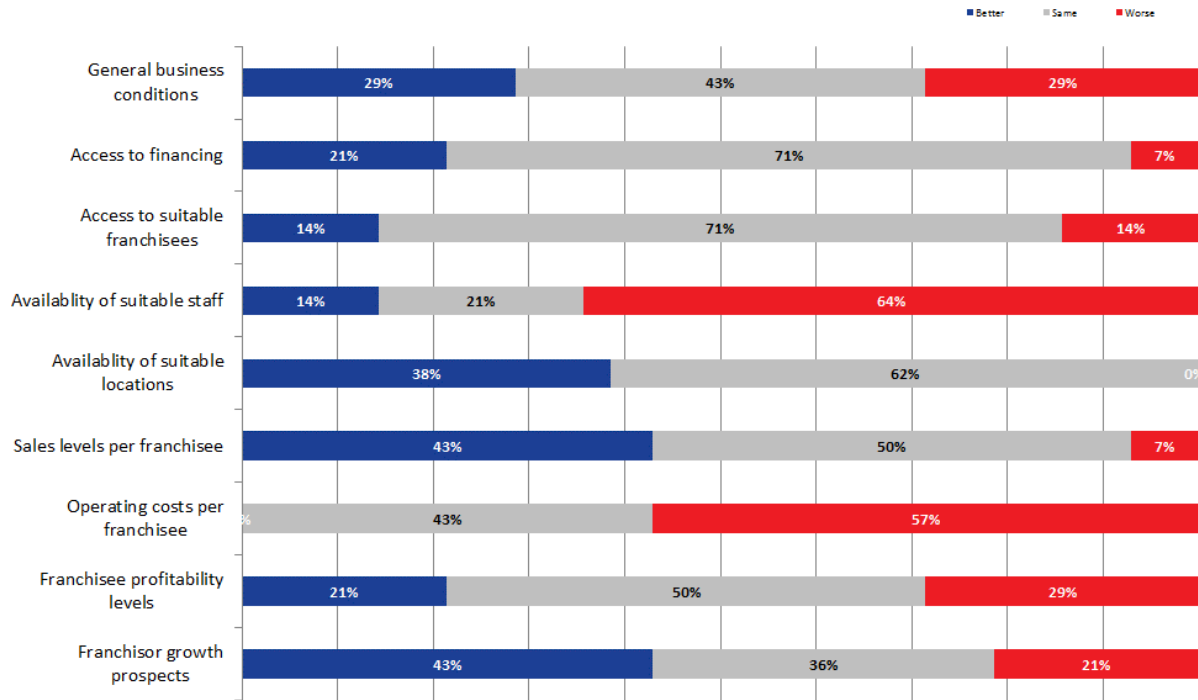
FRANCHISOR EXPECTATIONS (next 12 months)



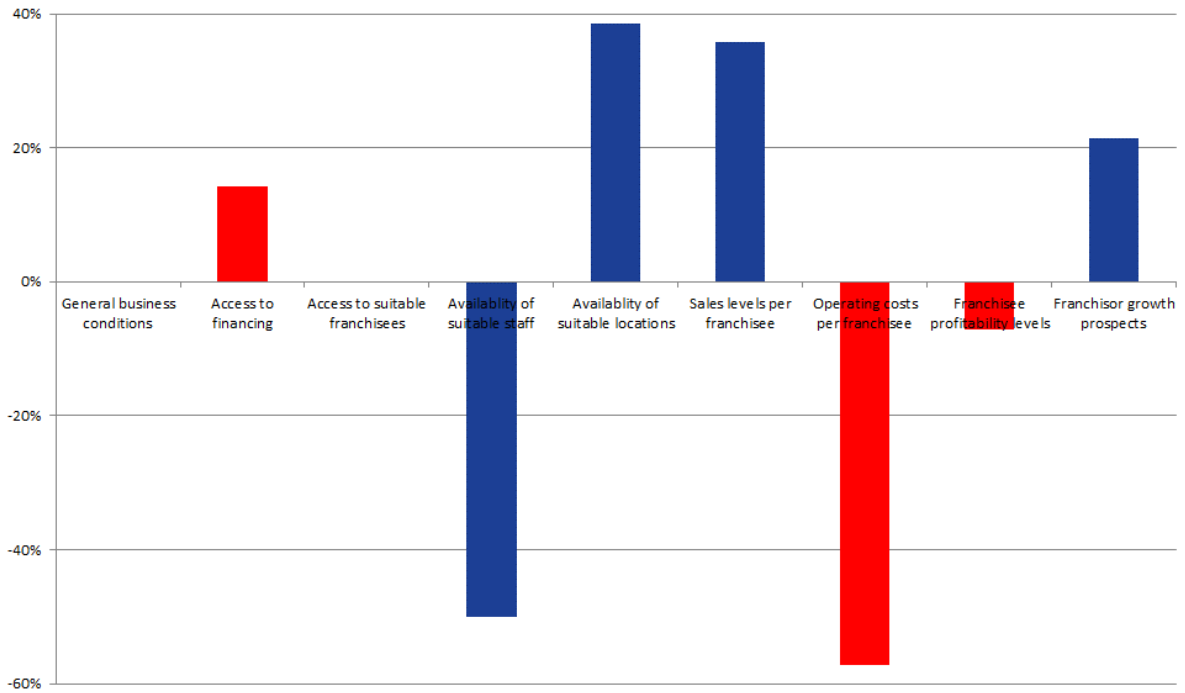
NET FRANCHISOR EXPECTATIONS



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 2017* survey, conducted by Massey University in collaboration with Griffith Business School, indicates New Zealand has 631 individual franchise systems comprising some 37,000 units (owned mostly by franchisees). The survey also suggests local franchise systems employ some 124,200 people. Finally, local expert estimates of total franchise system turnover range from \$27 to \$46 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 26 Franchisors and 14 Service Providers collected between Tuesday 3 April and Friday 13 April 2018. 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
Web. www.franchise.co.nz, www.franchisingconfidence.co.nz
