

Franchising Sentiment Bounces Back

Franchise Consultants' January 2021 *Franchising Confidence Index* sets the stage for the year, with 30 franchisors providing a window into current and more long-term opportunities and challenges.

In terms of sentiment, the franchising community is more positive on most indicators compared to 2020. Franchisors' net sentiment is positive on six out of the nine measures - with significant improvement in results covering general business conditions, access to franchisees and access to suitable staff. Whilst still positive at a net position, the outlook for franchisee sales has declined compared to 2020 and franchisees' operating costs and access to finance remained concerning for franchisors.

2021 clearly brings the additional challenge of COVID-19, with the fear of another outbreak or lockdown, closed borders, and uncertainty as to the full extent of COVID-19 impact.

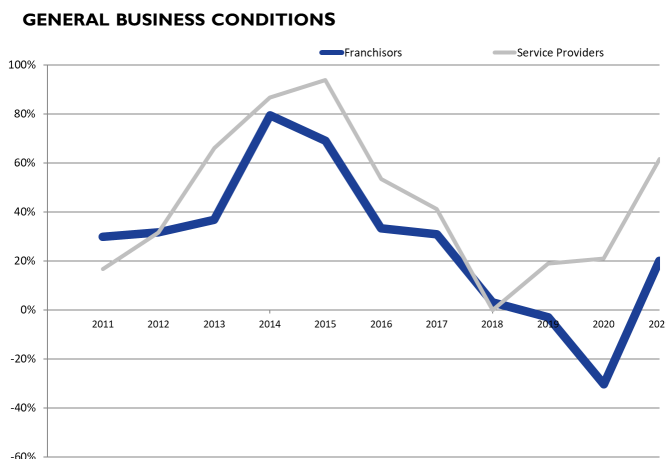
When asked on how things were looking among franchisors, comments were mixed depending on the sector of the business. Unsurprisingly, positive sectors included building and construction, home improvements and logistics. Meanwhile, less positive sectors included, for example, tourism, retail and hospitality.

General Business Conditions

Franchisor outlook for general business conditions (net 20%) shows strong improvement from 2020's net negative 30%. Service Providers sentiment is also positive increasing from net 21% to net 62%.

The general business conditions outlook by Franchisors of net 20% is stronger than other research involving general

business. The ANZ Business Outlook showed improvement at net 12% (preliminary result) in February 2021 from net negative 19% in February 2020. NZIER similarly saw an improvement in business confidence at net negative 16% in the last quarter of 2020 compared to net negative 70% in the first quarter of 2020.



RESULTS SUMMARY TABLE *

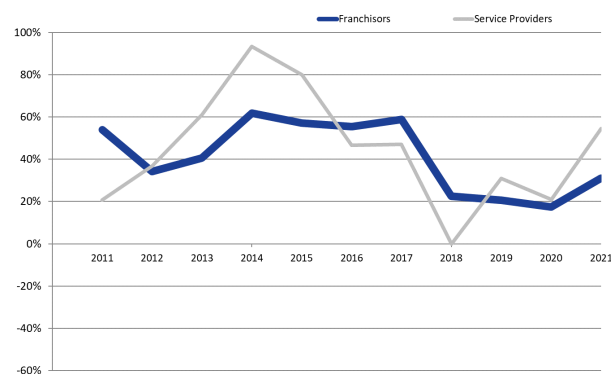
	Franchisors											Service Providers										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
General business conditions	30%	32%	37%	79%	69%	33%	31%	3%	-3%	-30%	20%	17%	32%	66%	87%	94%	53%	41%	0%	19%	21%	62%
Access to financing	-14%	18%	13%	9%	41%	30%	-8%	0%	-18%	-30%	-30%	8%	37%	26%	33%	88%	53%	18%	7%	-6%	-7%	33%
Access to suitable franchisees	3%	3%	5%	0%	17%	0%	10%	-28%	-24%	-30%	23%	25%	37%	9%	47%	44%	20%	41%	7%	0%	-7%	75%
Availability of suitable staff	25%	21%	-5%	3%	-18%	-7%	-3%	-16%	-31%	-36%	7%	50%	26%	13%	13%	6%	0%	-6%	0%	-38%	-36%	17%
Availability of suitable locations	38%	37%	-5%	0%	12%	-16%	16%	7%	-3%	9%	14%	54%	26%	31%	40%	27%	0%	12%	14%	0%	29%	69%
Sales levels per franchisee	33%	29%	32%	65%	62%	52%	56%	28%	26%	39%	13%	4%	11%	44%	80%	80%	53%	53%	7%	44%	29%	33%
Operating costs per franchisee	-22%	-26%	-11%	-18%	-3%	-19%	-13%	-39%	-56%	-43%	-40%	-33%	-11%	-4%	-40%	6%	20%	0%	-50%	-25%	-57%	-58%
Franchisee profitability levels	5%	-8%	13%	38%	38%	44%	44%	9%	-12%	0%	-7%	0%	-5%	30%	60%	40%	33%	35%	-36%	19%	-21%	-17%
Franchisor growth prospects	54%	34%	41%	62%	57%	56%	59%	23%	21%	17%	31%	21%	37%	61%	93%	80%	47%	47%	0%	31%	21%	55%

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

Franchisor Growth Prospects

Franchisor sentiment for franchisor growth prospects, showed improvement at net 31%, up from net 17% in 2020. Service Providers' net 55% improved even more from net 21%.

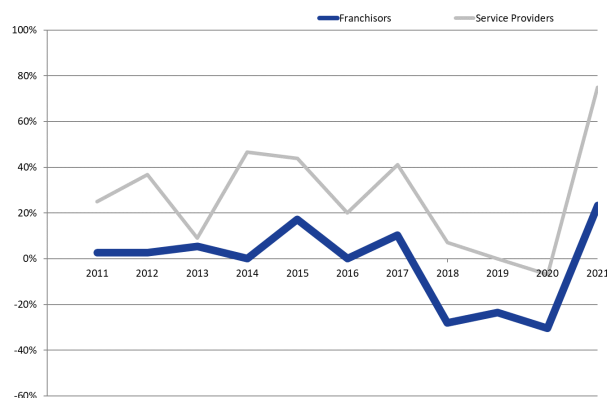
FRANCHISOR GROWTH PROSPECTS



Access to Suitable Franchisees

Franchisor sentiment towards access to suitable franchisees has seen the greatest improvement reaching net 23%, and is back in positive territory for the first time since 2017. Service Providers were also very positive at net 75%, the highest level in history of the Franchising Confidence Index.

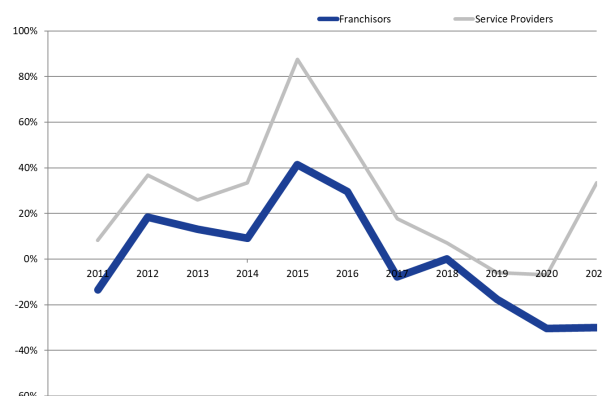
ACCESS TO SUITABLE FRANCHISEES



Access to Financing

Franchisor sentiment towards access to financing remained unchanged from 2020 at net negative 30%. Service Providers' confidence was more positive improving from net negative 7% to net positive 33%.

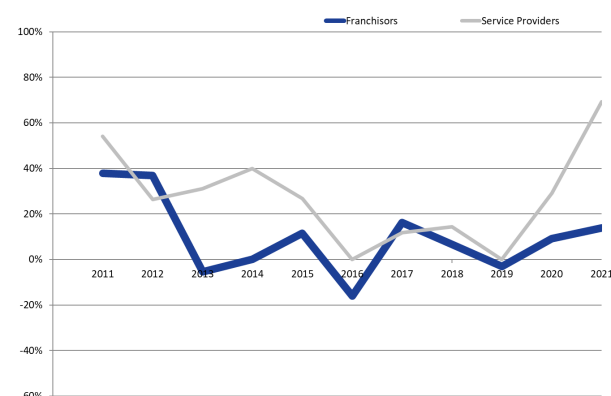
ACCESS TO FINANCING



Access to Suitable Locations

Franchisors, at net 14%, up from net 9% in 2020, were slightly more positive this year in their outlook for access to suitable locations. Service Providers were much more positive at net 69% up from net 29%.

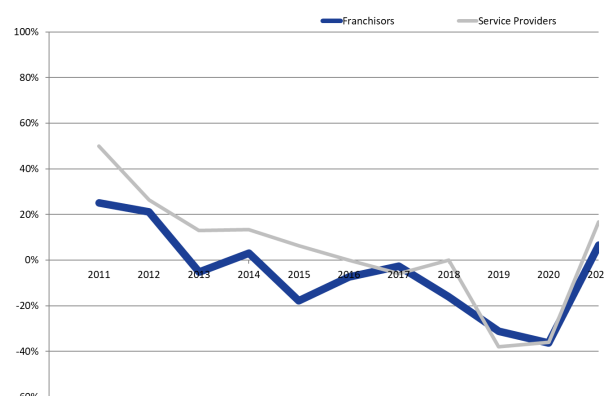
ACCESS TO SUITABLE LOCATIONS



Access to Suitable Staff

Similar to access to franchisees, franchisor outlook towards access to suitable staff has seen strong improvement reaching net 7% from net negative 36%, bouncing back to positive territory since 2014. Service Providers were also positive at net 17%, from net negative 36% in 2020.

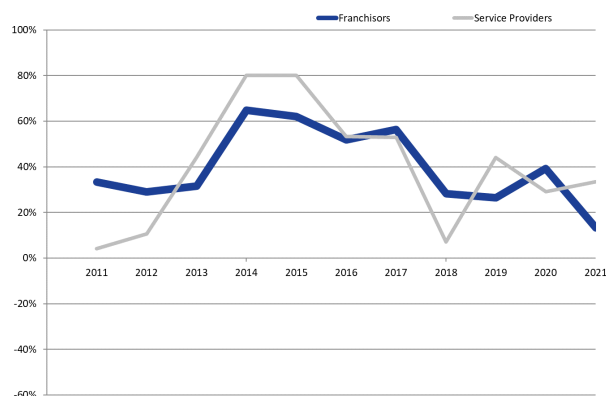
ACCESS TO SUITABLE STAFF



Sales Levels Per Franchisee

Franchisors sentiment toward future sales levels per franchisee has taken a hit, declining to net 13% (from net 39%). Meanwhile, Service Providers sentiment toward the same improved slightly from net 29% in 2020 to net 33%.

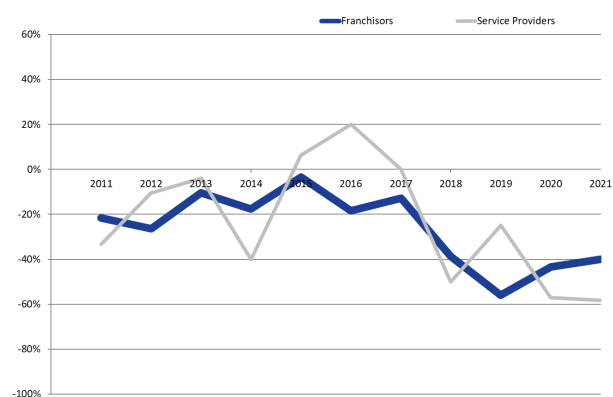
SALES LEVELS PER FRANCHISEE



Franchisee Operating Costs

Franchisee operating costs continue to be a concerning area – with franchisors recording a net negative 40%. Service providers were similarly dismal, recording a net negative 58%.

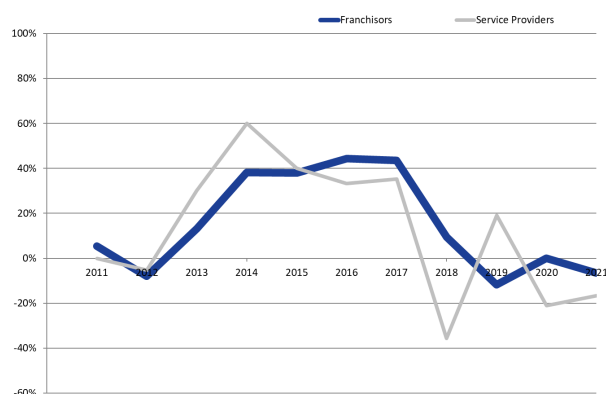
OPERATING COSTS PER FRANCHISEE



Franchisee Profitability Levels

Franchisor outlook toward franchisee profitability levels remained largely stable at net negative 7%, compared to net 0% in 2020. Service Providers changed from net negative 21% in 2020 to net negative 17%.

FRANCHISEE PROFITABILITY LEVELS



Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. 28 franchisors responded from a variety of self-reported industries such as retail, building and construction, tourism, home services, hospitality, residential and commercial cleaning, and childcare.

Comments were, as we would expect, mixed depending on the sector of the business. Sectors such as building and construction, home improvements, logistics and businesses in essential services are reporting positive sentiment with strong growth in sales. On the challenging side, are businesses in tourism, retail, hospitality and childcare with references to downwards sales, difficulty in finding staff, freight issues, government regulations, increasing operating and wage costs, and general economic condition and uncertainty.

The following examples were indicative of this sentiment:

- *Building industry. Quietly confident for the industry for the next 2 to 4 years.*
- *Cleaning. The industry is looking downwards in sales.*
- *Retail outbound travel agent. No overseas travel. Trying to sell domestic travel.*
- *Logistics. Has seen exceptional growth since coming out of lockdown, on the back of strong growth prior to Covid. Franchise enquiries have been strong since October with expected positive outcomes.*
- *More enquiries will drive more store openings, but we want to also focus on making our current franchisees more profitable.*
- *Tourism remains in trouble and we are a tourism business with a traditional client split of 50/50, domestic/international. Increased travel by Kiwis is unfortunately not enough to back fill the international hole and we are tracking about 20-30% behind each month as a group. Some properties are up to 65% down on prior year and we envisage 2021 to be much the same.*
- *Stable.*
- *Home Services. Potential franchisees are looking for additional income to replace income - so commercial sectors will be growing. There is a lot of caution and uncertainty.*
- *Building and broader home improvement. Very strong domestic demand and inquiry.*
- *Toughest it's been in a long time. Extremely difficult to find good staff, and general operating expenses are increasing at a rapid rate while sales are either halting or dropping, mostly due to Covid and general economic conditions.*
- *Home improvement. We are leveraged to house pricing, and low interest rates provide strong growth signal.*
- *Retail. Will be impacted by price increases because of freight issues, and lack of staff because it pays not to work.*
- *Adverse (and politically driven) government regulation has made one large part of our business unviable, the change in regulation has significantly hurt our customers.*
- *Things are looking very positive in our business and sector. We are an essential business so were able to operate throughout all lockdowns. We are prepared for future lockdowns. COVID has negatively impacted some channels/territories in our*

business (e.g. restaurants, hotels, commercial), but positively impacted others (e.g. grocery, superettes/dairies). On balance our franchise businesses are in good shape considering the overall landscape.

- 🔊 *Commercial and residential cleaning. More certainty and positivity entering the market. Lower interest rates mean finance easier to arrange.*
- 🔊 *Hospitality. With wage rises and other costs we will have less profitability. Staffing seems to still be a problem.*
- 🔊 *Retail. Positive*
- 🔊 *Commercial cleaning. On the up.*
- 🔊 *Childcare. Will get worse as redundancies increase.*
- 🔊 *Construction. Currently in an abnormally positive. Up circa 15% on last year.*
- 🔊 *Construction is strong.*
- 🔊 *Window and door repairs. We continue to grow and are exceeding our business plan.*
- 🔊 *2021 is going to be just as difficult, if not more difficult than 2020.*
- 🔊 *Challenging.*

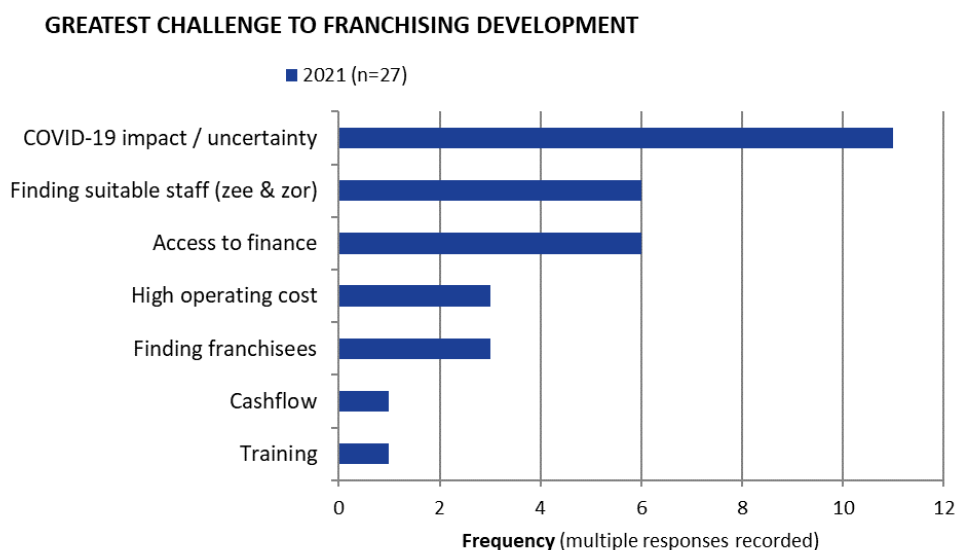
Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Their responses also provided a mixed outlook depending on the sector of the business. Key examples of comments include:

- 🔊 *Not business as usual with balance of challenges and opportunities.*
- 🔊 *In NZ, depends on further lockdowns.*
- 🔊 *I believe the economy is about to take a hit. The government has forced income through local business by denying overseas travel, but jobs will dry up, unemployment will grow and businesses will close - hence less money flowing through the economy.*
- 🔊 *Can't say, depends what happens with Covid and flow on effects of whatever does or doesn't happen.*
- 🔊 *It will vary greatly depending on sector.*
- 🔊 *Strong brands and systems will do well. Generally we will need to be adaptable - nimble!*
- 🔊 *Positive with low borrowing interest rates and an economy moving.*
- 🔊 *The current economy is better than expected but bumpy across sector. My read on this is that different industries are going to have very different experiences.*
- 🔊 *Depends on their market. Some franchisors will experience great growth despite COVID and economic uncertainty, for example construction, home services. Others like hospitality may struggle or those that require migrant workers/international students etc.*
- 🔊 *Reasonably positive with the backdrop of Covid resurgence, a bubble with Australia and the vaccine.*
- 🔊 *Many smaller franchisees doing it hard and just managing by drawing on reserves – very industry specific. Some sectors very buoyant, especially home services and improvements. Franchisors have realised they need to provide more consistent support through person engagement.*
- 🔊 *I think that generally franchisees will see business as usual. However, with the way the economy is, a savvy franchisor might be able to expand as sites are freed*

up by other businesses closing or consolidating, and good staff should be able to be attracted given flat wages generally in the economy.

Greatest Challenge to Franchising Development in 2021

We asked franchisors 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.



11 of the 27 responding franchisors identified COVID-19 and the uncertainty it brings as the top challenge to their development. The fear of another outbreak or possible lockdown, closed borders and unknown of the full extent of the impact of COVID-19 were included within the comments made.

The next greatest identified themes, each with six responses were finding suitable/good quality staff (for both franchisor and franchisees) and access to finance. A perception that banks have tightened up on lending was mentioned by some franchisors.

High operating costs (associated with increasing wage cost and rent in mall locations), and access to good franchisees remained as challenges highlighted by three responses each.

Previous Year Comparisons

The key challenges to franchising development remained largely the same as previous years with the newly added challenge of COVID-19 and the uncertainty it brings which is the greatest concern identified by franchisors for 2021. Access to finance and finding suitable staff remained in the top five coming in equal at second place. Finding franchisees, historically the dominant challenge to franchising development, is seen as a challenge in 2021 but to a lesser degree with the increased number of people potentially seeking to own their own business, and comes in at fourth equal with franchisee investment / operating costs.

TOP CHALLENGE RANKINGS

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<i>Finding Franchisees</i>	1	1	1	1	1	1	1	1	1	4=
<i>Access to Finance</i>	2	5			4			3	3=	2=
<i>Economic Concerns</i>	3	3	2		5	4	4=	4=		
<i>Investor Confidence</i>	4									
<i>Finding Suitable Locations</i>	5		5	5	2				3=	
<i>Franchisee Business Model Challenges</i>		2				5	4=		6=	
<i>Online Retail Threat</i>		4								
<i>Franchisee Business Execution</i>			3							
<i>Finding Suitable Staff</i>			4	2		3		2	6=	2=
<i>Franchisee Investment / Operating Costs</i>				3	3	2	3	4=	3=	4=
<i>Competition</i>				4						
<i>Increasing regulations and compliance</i>							2		2	
<i>COVID-19 impact / Uncertainty</i>										1

What Will Provide the Greatest Opportunity Related to Franchising Development in 2021?

This year we once again 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 increased number of potential franchisees (from returning New Zealanders, corporate redundancies and former employees), focus on financial metrics (e.g. profitability and costs) and franchisee benchmarking, site and asset availability from failing businesses, market share gains from shrinking competitors, leveraging value of being part of franchise system (e.g. strong systems and procedures, franchisor support), low interest rate, border opening, growth of the New Zealand brand and local tourism.

Concluding Comment

Franchise Consultants' *Franchising Confidence Index* in 2021 indicated improvement in sentiment, particularly relating to general business condition, access to franchisees and access to suitable staff. There were, however, continued negative sentiment towards franchisees' operating costs and access to finance. Increasing wages and rent appear to be most concerning regarding franchisee operating costs. 2021 has the added challenge of COVID-19 and the uncertainty it brings with mixed outlook among franchisors dependent on sector. A potential larger pool of prospective franchisees from returning Kiwis, corporate redundancies and former employees, a greater focus on franchisee benchmarking and financial metrics such as profitability and costs, and the availability of sites and assets from failing businesses, were expected to provide the greatest opportunity related to franchising development for 2021.

Franchise Consultants observes that many franchise systems have weathered the COVID-19 storm, along with many other changing factors, extremely well over the last 12 months.

Thinking ahead to the survey result, the responses highlight the importance of many important franchise system management practices over the year ahead. Some of these practices will be business as usual for many franchisors, however, some which are more strategic will need a much close focus to ensure franchise networks continue to be positioned well for the long term.

Examples of key management practices for the year ahead will include:

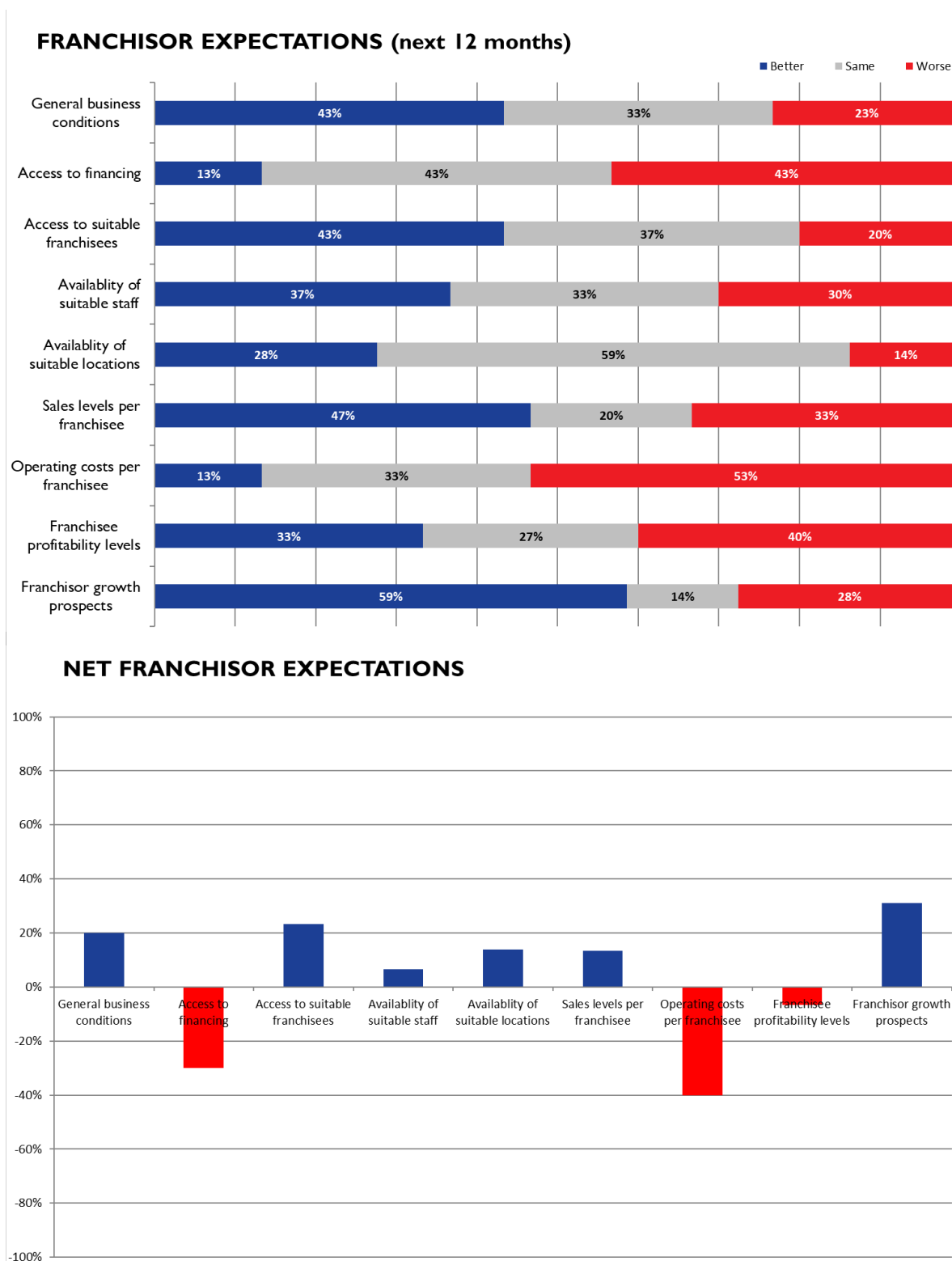
1. Close monitoring of franchisor and franchisee performance from both a profitability and sustainability perspective, then identifying, prioritising and actioning key performance or situational improvement opportunities and needs.
2. Strategic and contingency planning, planning for possible ongoing COVID-19 effects – along with changes/innovations required from other moving factors, like customer needs and behaviour, key economic variables (e.g., interest rates, inflation, economic growth, unemployment, property values, legislative changes etc), technology, workforce trends, etc.
3. Franchise structure and management adaptation to a changing environment, including potential changes to franchisee and franchisor roles, resource requirements and processes, communication structures, manuals and training systems, franchise agreements, information structures, and so on.
4. Increased franchisee engagement, including a focus on supporting group and individualised franchisee circumstances, needs, franchisee plans and objectives.

5. A focus on total franchise system team (i.e., Franchise Support Office leadership and staff, franchisees, franchisee staff, suppliers etc) wellbeing, given the previous year and ongoing uncertainty.

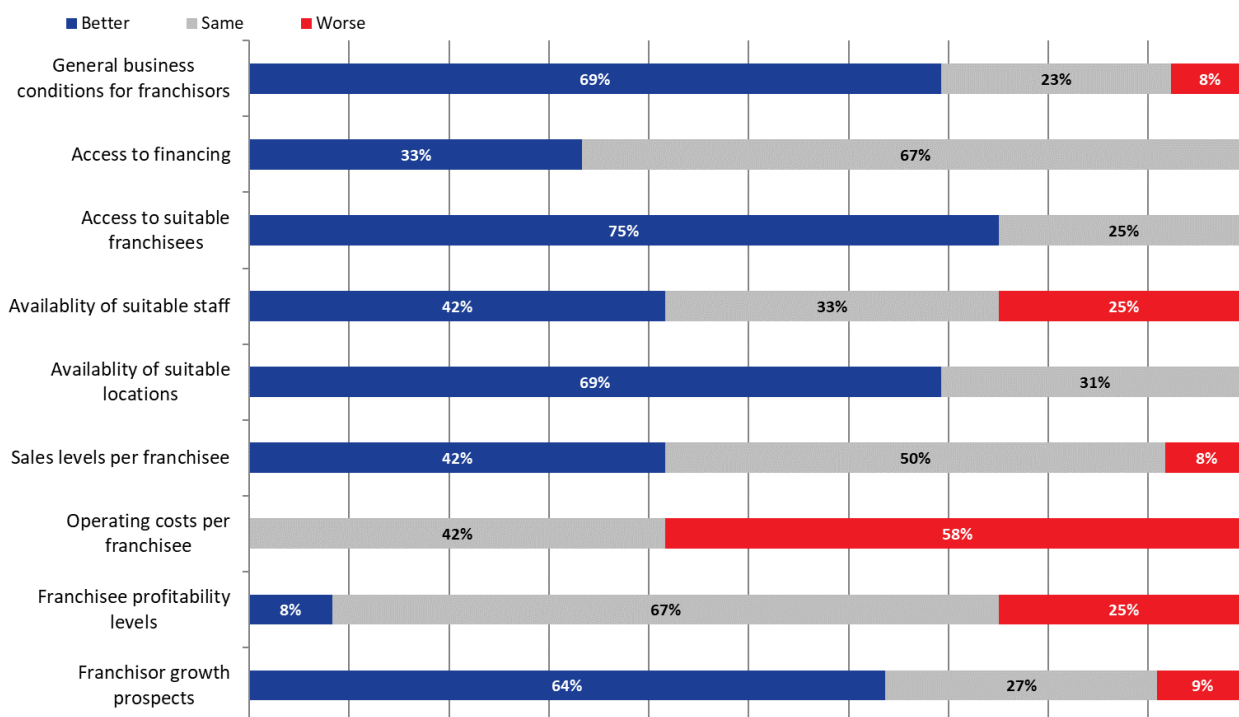
Franchise Consultants further comments that many New Zealand franchisors have been incredible in their response to COVID-19, including their incredible support to franchisees, and their significant adaptive undertakings at both a franchisor and franchisee level.

FRANCHISING CONFIDENCE CHARTS

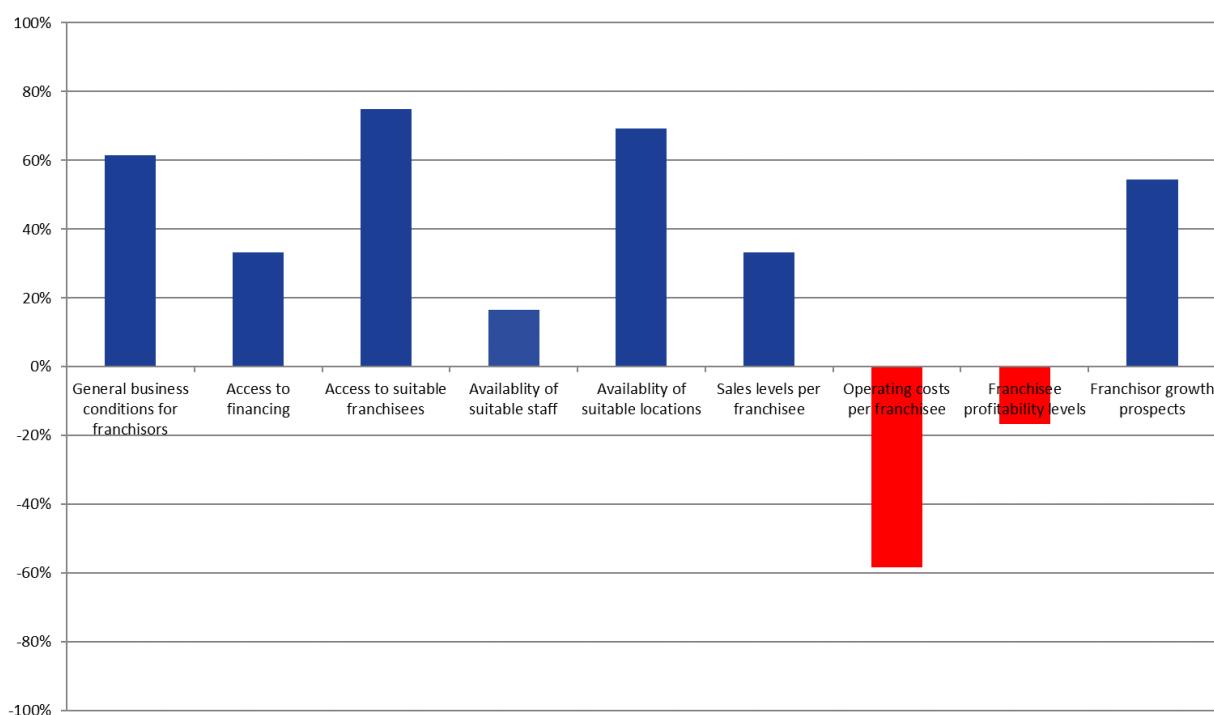
The following four illustrations present individual and net Franchisor and Service Provider expectations (separate charts) for the following year across all questions, including general business conditions and franchisor growth prospects (covered above).



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.

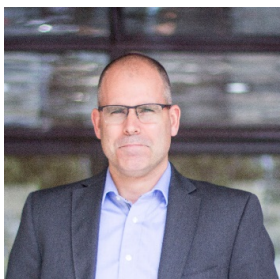
Franchising is a substantial and growing domain of business making up an important part of the New Zealand economy. The recent *Franchising New Zealand 2017* survey, conducted by Massey University in collaboration with Griffith Business School, indicates New Zealand has 631 individual franchise systems 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 is \$27.6 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, MTF Finance, McDonald's, Columbus Coffee, Aramex (formerly 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 30 Franchisors and 13 Service Providers collected between Wednesday 20th January and Tuesday 2nd February 2021. 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 Adrienne Heard, Franchise Consultants



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Franchise Consultants have been New Zealand's premier franchise consulting specialists for more than 30 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.