

## Franchising Sentiment Improves

Franchise Consultants' July 2019 *Franchising Confidence Index* indicated franchisors to be both more positive and less pessimistic about all but one area (availability of suitable locations) covered in the survey. We must, however, temper this outlook by noting a smaller than usual number of franchisor responses received to this survey iteration.

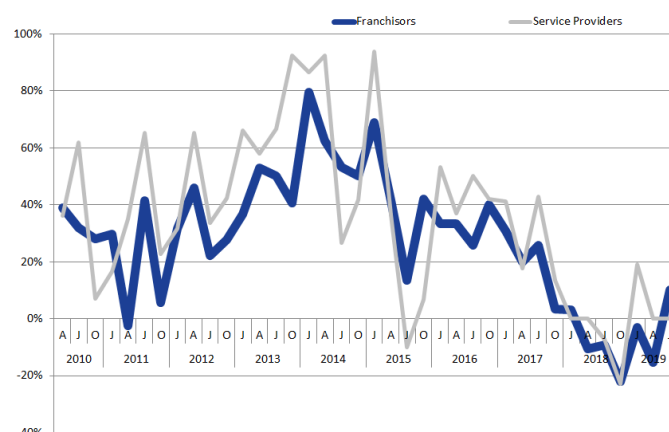
Whilst sentiment improved over majority of the areas surveyed, particularly general business conditions, franchisee sales levels, franchisee profit and franchisor growth prospects, sentiment still remained negative and challenging (albeit less negative in outlook) across a number of other areas.

Franchisors comments show they are drawing on their resilience in finding ways to manage the changing requirements.

Franchisor outlook for general business conditions (net 10%) saw a lift from net negative 15% in April to be in positive for the first time since January 2018. Service Providers sentiment toward general business conditions remained neutral.

The franchisor general business conditions outlook of net 10% is more positive than that indicated by other general business surveys – as has been the case for all 38 consecutive quarters researched. The ANZ Business Outlook, which showed a net negative 38% in March remained the same for the June survey. NZIER recorded sentiment of net negative 27% in April with a further dip of 6% to net negative 31% in July.

**GENERAL BUSINESS CONDITIONS**

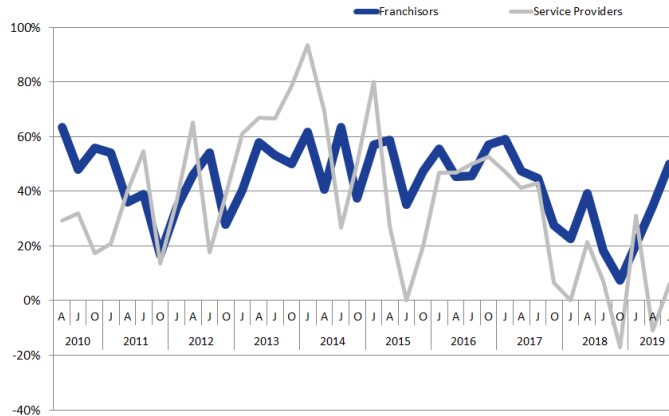


### RESULTS SUMMARY TABLE \*

	Franchisors							Service Providers						
	2018		2019					2018		2019				
	J	A	J	O	J	A	J	J	A	J	O	J	A	J
General business conditions	3%	-11%	-9%	-22%	-3%	-15%	10%	0%	0%	-7%	-23%	19%	0%	0%
Access to financing	0%	-21%	0%	-30%	-18%	-31%	-5%	7%	14%	7%	0%	-6%	-22%	6%
Access to suitable franchisees	-28%	-14%	-36%	-48%	-24%	-31%	-10%	7%	0%	-21%	-15%	0%	-11%	0%
Availability of suitable staff	-16%	-22%	-34%	-31%	-31%	-48%	-37%	0%	-50%	-43%	-31%	-38%	-11%	-25%
Availability of suitable locations	7%	4%	0%	13%	-3%	13%	11%	14%	38%	-7%	8%	0%	13%	53%
Sales levels per franchisee	28%	50%	33%	30%	26%	23%	50%	7%	36%	7%	15%	44%	11%	25%
Operating costs per franchisee	-39%	-39%	-42%	-70%	-56%	-58%	-30%	-50%	-57%	-50%	-54%	-25%	-78%	-69%
Franchisee profitability levels	9%	-4%	3%	-4%	-12%	-23%	25%	-36%	-7%	-29%	-31%	19%	-56%	-50%
Franchisor growth prospects	23%	39%	18%	7%	21%	35%	50%	0%	21%	7%	-17%	31%	-11%	6%

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

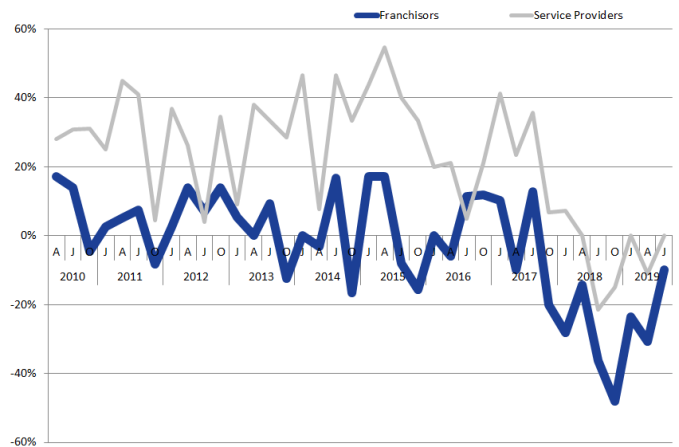
**FRANCHISOR GROWTH PROSPECTS**



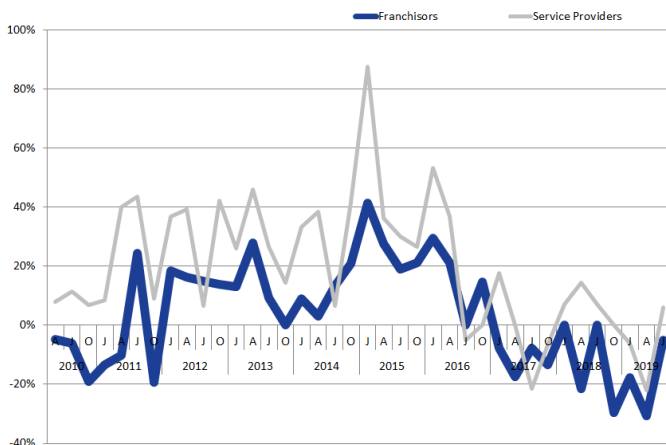
Franchisor sentiment for **franchisor growth prospects**, showed a positive improvement at net 50% up from net 35%. Service Providers perspective of the same was net 6%, up from net negative 11%.

Franchisor sentiment (net negative 10%) toward **access to suitable franchisees** has been a key challenge since October 2017. We note, however, the sentiment is less negative than the previous seven quarters. Service Provider sentiment toward access to suitable franchisees was neutral.

**ACCESS TO SUITABLE FRANCHISEES**

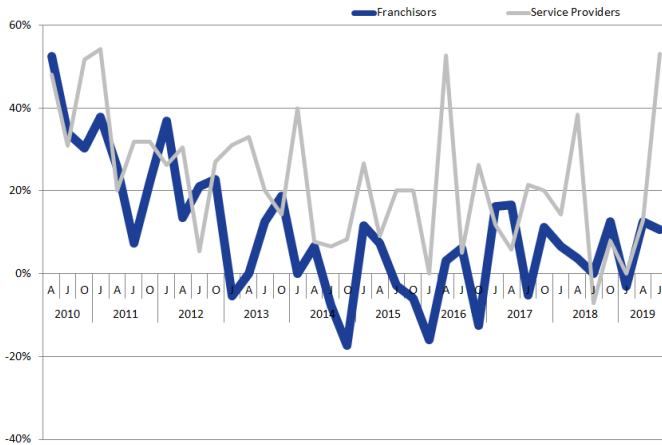


**ACCESS TO FINANCING**



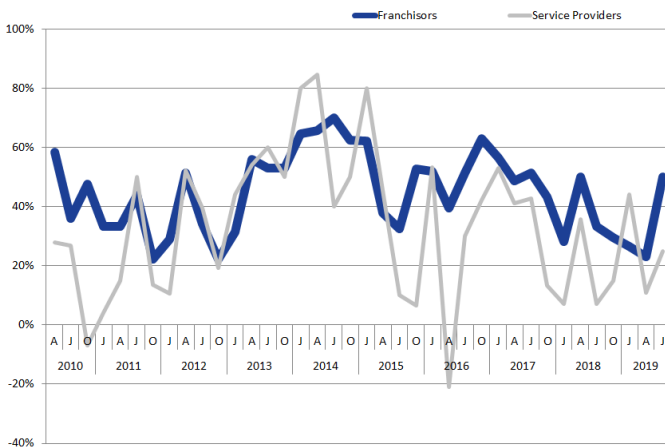
Franchisor sentiment toward **access to financing** remains a key challenge. That said, sentiment this quarter was less negative (at net negative 5%) than the previous three quarters. Service providers sentiment improved in line with franchisors at net 6% up from net negative 22%.

**ACCESS TO SUITABLE LOCATIONS**



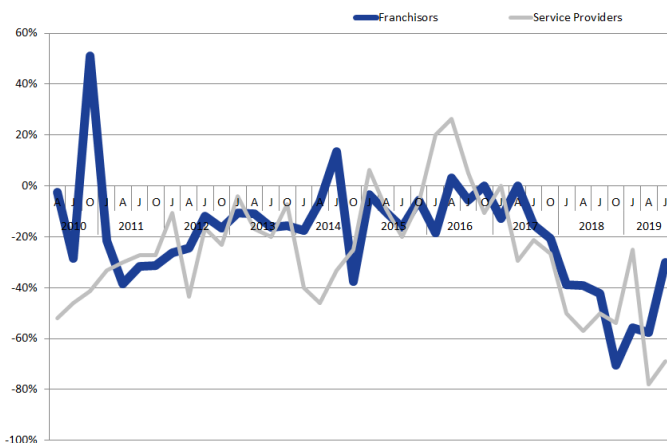
On balance franchisors expected access to suitable locations to improve (net 11%) Meanwhile, Service Providers were considerably more positive at net 53% (up from net 13%) matching previous high levels in 2011 and 2016.

**SALES LEVELS PER FRANCHISEE**



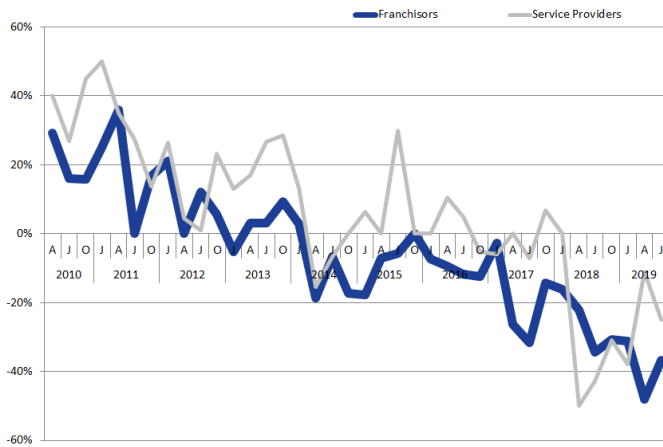
Franchisor sentiment toward future sales levels per franchisee have remained relatively positive in comparison to other key areas. July saw an increase in sentiment from net 23% to net 50%. Service Providers sentiment showed similar trends albeit with a smaller increase to net 25% up from net 11%.

**OPERATING COSTS PER FRANCHISEE**



Franchisee operating costs remains the most challenging area from both Franchisors and Service Providers viewpoint. Franchisors sentiment eased slightly, after dipping to all time low in April of net negative 58%, to a net negative 30% for July. Service Providers sentiment eased slightly but remains at very low levels with net negative 69%.

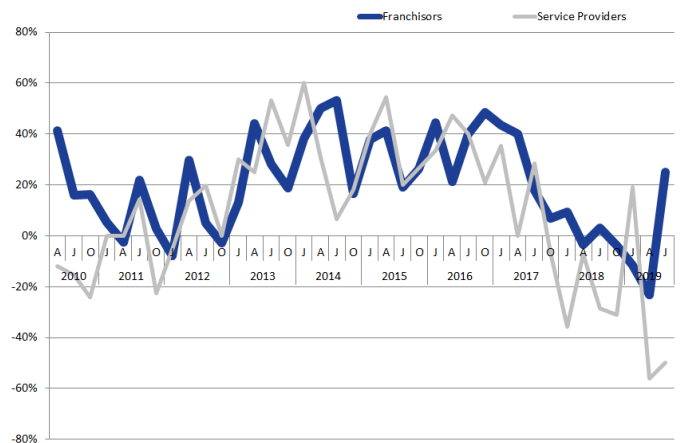
**ACCESS TO SUITABLE STAFF**



After hitting an all-time low Franchisor sentiment towards **access to suitable staff** has eased slightly to net negative 37%. However, this still remains a key area of concern. Service Providers sentiment was very similar at net negative 25% down on the net negative 11% previously.

Franchisor sentiment regarding **franchisee profitability levels** has seen a steep increase to net 25% up from net negative 23%. Service Providers sentiment toward the same however remained low at net negative 50% in comparison to net negative 56% previously.

**FRANCHISEE PROFITABILITY LEVELS**



## Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Fifteen franchisors responded from a variety of self-reported industries such as retail, cleaning, hospitality, finance, education, construction and subtrades.

The comments include positive and negative sentiment depending on the business and/or area of focus. Positive comments variously pointed to individual strengths, growth, steady business, increasing franchise demand, and continued or increasing business demand.

Negative comments pointed to potential viability challenges for both franchisor and franchisees due to regulator changes – most likely relating to minimum wage changes. Minimum wage and wage growth were referenced by two other companies. Increased rents were also cited by three companies. Other challenges included decreasing demand, availability of suitable staff (to satisfy increasing demand), and access to finance.

The following examples were indicative of this sentiment:

- 👉 *Retail - Overall the bricks and mortar retail sector is finding it tough, we are fortunate to be bucking the trend with our niche business.*
- 👉 *Cleaning is growing really well for us*
- 👉 *Very steady at present*
- 👉 *educational business is getting more interested by potential franchisees*
- 👉 *We are in the portable housing sector...there is still a lot of demand for housing*
- 👉 *Fast food consumption is generally up, as is plant based food consumption*
- 👉 *Franchisees are really being put under pressure from all sides - increased labour costs, increased compliance costs, increased rents, etc. It's a tough environment for them and we are working hard to offset these costs with increased margin and finding savings in other operating costs, but it's not easy!*
- 👉 *Regulatory changes have the potential of unintended consequences affecting the viability of Franchisees and the Franchisor.*
- 👉 *Availability of work is never in question. Labour to get it done is always a problem but with the advent of overseas Filipinos we are looking to dramatically increase output.*
- 👉 *We are in the building industry and we consider the market worse*
- 👉 *Rents are still too high considering many businesses are failing.*
- 👉 *Retail. We are being seriously affected by wage growth which is difficult to counter by staff reduction. Rent increases are also out of kilter with the market*
- 👉 *I think the biggest issue is ability to get finance for buyers*

Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Their responses also provided a mixed future outlook. Key examples include:

- ↩ *Better systems helping Franchisors. Franchisees grappling with slower growth and cost escalation (wages and availability of staff)*
- ↩ *Increased wage costs with flat sales will add pressure on marginal systems.*
- ↩ *Significant concerns about rising costs especially staff / min wages. Productivity remains a concern as does motivation levels amongst employees. Well being and welfarism seems to be overriding economic sensibility.*
- ↩ *Interest levels have increased considerably since the CGT was abandoned. Ongoing low interest rates are appealing. Economy appears stable.*
- ↩ *Business looks good but at the same time there are many ongoing pressures and potential headwinds.*
- ↩ *Market conditions are tightening up and a number of costs are rising which will make it harder for franchise systems.*
- ↩ *Very optimistic*

### **Concluding Comment**

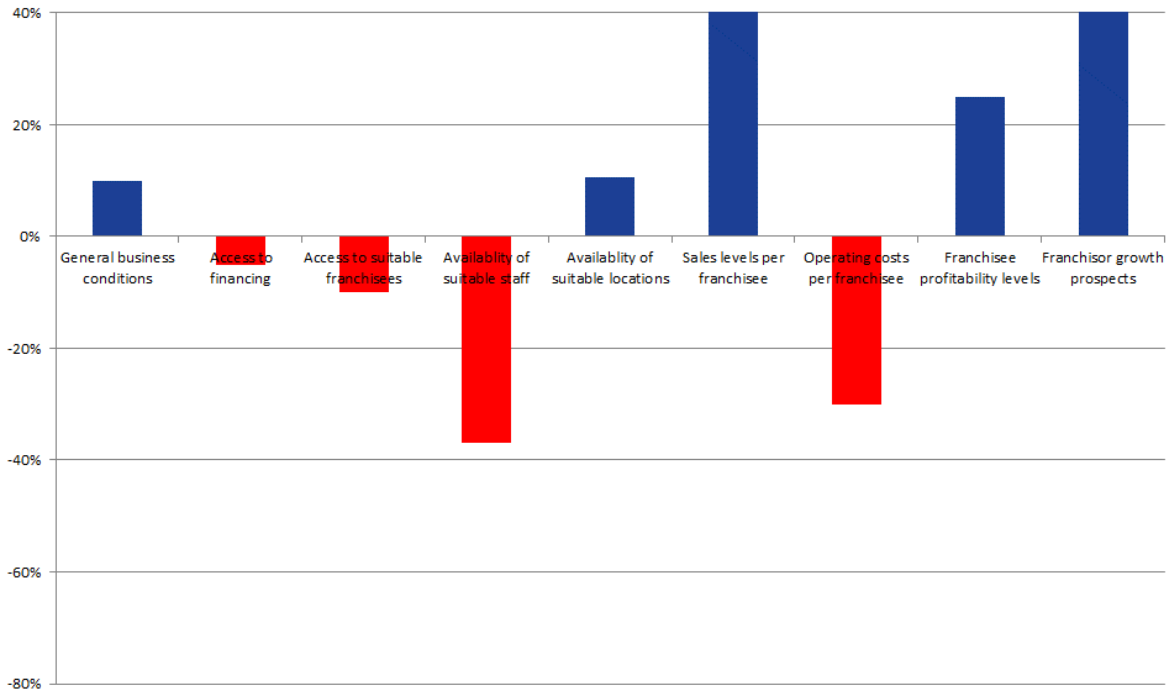
Franchise Consultants' Franchising Confidence Index in July 2019 indicated some positive sentiment, particularly relating to general business conditions, franchisee sales and profit levels, and franchisor growth prospects. There were, however, continued negative sentiment toward selected important areas; in particular, franchisee operating costs and finding suitable staff. Increasing wages and rents appear to be most concerning regarding franchisee operating costs – potentially pressuring both franchisee and franchisor models.

Franchise Consultants' comments that the current environment is particularly dynamic and likely only to become more challenging. At this time some progressive franchisors are taking active steps to future proof their franchisor and franchisee unit-level business models. Meanwhile, there remains an opportunity for many to consider a formal review of their franchise system and embrace many important best practices.

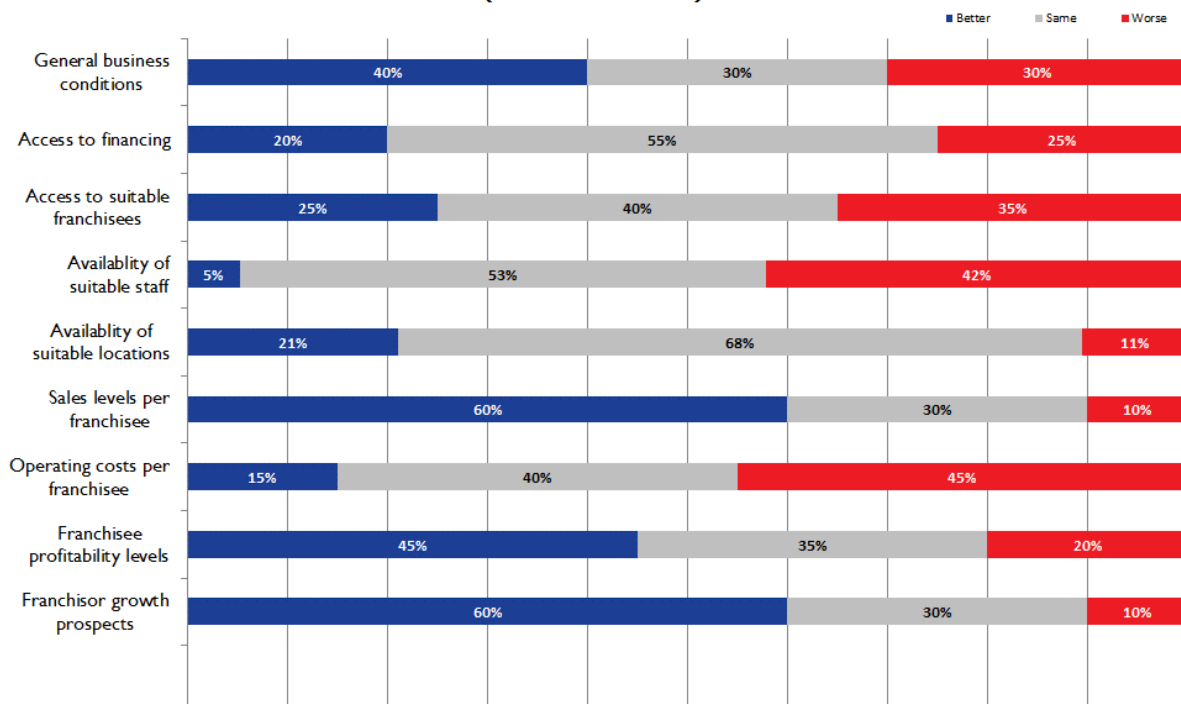
## FRANCHISING CONFIDENCE CHARTS

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).

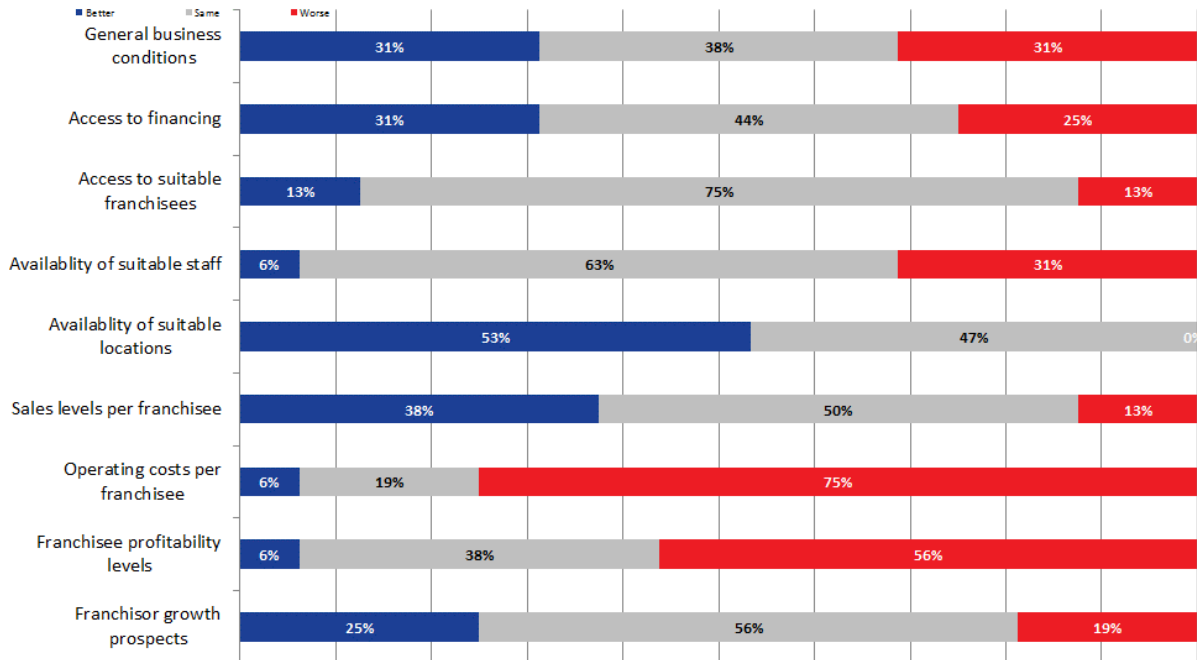
### NET FRANCHISOR EXPECTATIONS



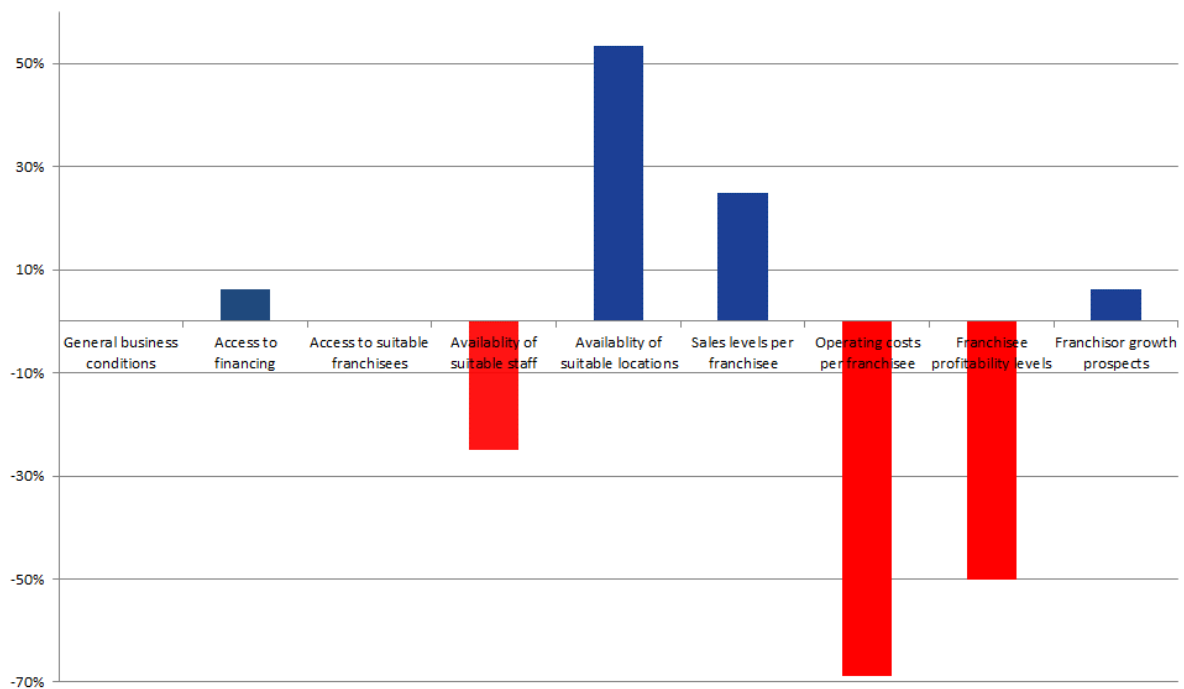
### FRANCHISOR EXPECTATIONS (next 12 months)



**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, 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 20 franchisors and 15 Service Providers collected between Monday 24 June and Monday 1 July 2019. 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 data and analyses were compiled by Kayleen Smith.

## 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

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)  
-----