

Franchising Sentiment Remains Positive

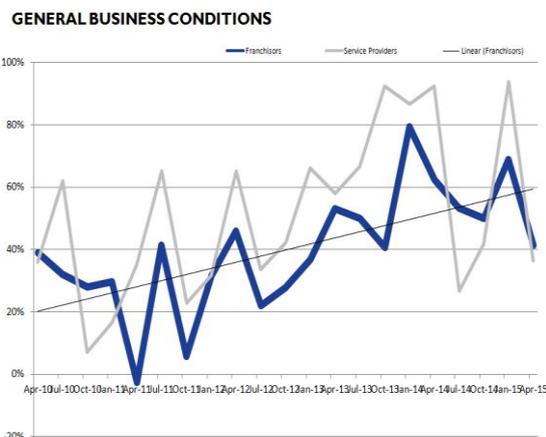
Franchise Consultants' April 2015 *Franchising Confidence Index* continues an optimistic outlook, though moderated from the previous quarter, across many key growth drivers, as reported by responding Franchisors and Service Providers.

Franchisors remain positive in their outlook for general business conditions (net 41%), sales levels per franchisee (net 38%) and franchisor growth prospects (net 59%). Franchisors on balance held a negative view on the availability of suitable staff (negative net 7%), and operating costs per franchisee (negative net 10%).

Sentiment toward franchisee profitability, arguably a franchise system's key health and growth driver, increased from 38% to 41%, as reported by responding franchisors. Service providers also were more positive in their sentiment this quarter, reporting a net 55%.

The outlook for **general business conditions** is a key measure for this research because it can be compared with many other general business confidence surveys. Franchisors were still positive (net 41%), albeit this is down from 69% in the last quarter. Service Providers also remained positive reporting 36%.

We note the net 41% positivity experienced by franchisors is higher than that of other research involving general business, including ANZ Business Outlook (35.8% in March) and NZIER (20% in March) business confidence surveys.



RESULTS SUMMARY TABLE *

	Franchisors										Service Providers									
	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Apr-15	Jan-13	Apr-13	Jul-13	Oct-13	Jan-14	Apr-14	Jul-14	Oct-14	Jan-15	Apr-15
General business conditions	37%	53%	50%	41%	79%	63%	53%	50%	69%	41%	66%	58%	67%	92%	87%	92%	27%	42%	94%	36%
Access to financing	13%	28%	9%	0%	9%	3%	13%	21%	41%	28%	26%	46%	27%	14%	33%	38%	7%	42%	88%	36%
Access to suitable franchisees	5%	0%	9%	-13%	0%	-3%	17%	-17%	17%	17%	9%	38%	33%	29%	47%	8%	47%	33%	44%	55%
Availability of suitable staff	-5%	3%	3%	9%	3%	-19%	-7%	-17%	-18%	-7%	13%	17%	27%	29%	13%	-15%	-7%	0%	6%	0%
Availability of suitable locations	-5%	0%	13%	19%	0%	7%	-8%	-17%	12%	7%	31%	33%	20%	14%	40%	8%	7%	8%	27%	9%
Sales levels per franchisee	32%	56%	53%	53%	65%	66%	70%	63%	62%	38%	44%	54%	60%	50%	80%	85%	40%	50%	80%	45%
Operating costs per franchisee	-11%	-11%	-16%	-16%	-18%	-6%	13%	-38%	-3%	-10%	-4%	-17%	-20%	-7%	-40%	-46%	-33%	-25%	6%	-9%
Franchisee profitability levels	13%	44%	28%	19%	38%	50%	53%	17%	38%	41%	30%	25%	53%	36%	60%	31%	7%	18%	40%	55%
Franchisor growth prospects	41%	58%	53%	50%	62%	41%	63%	38%	57%	59%	61%	67%	67%	79%	93%	69%	27%	50%	80%	27%

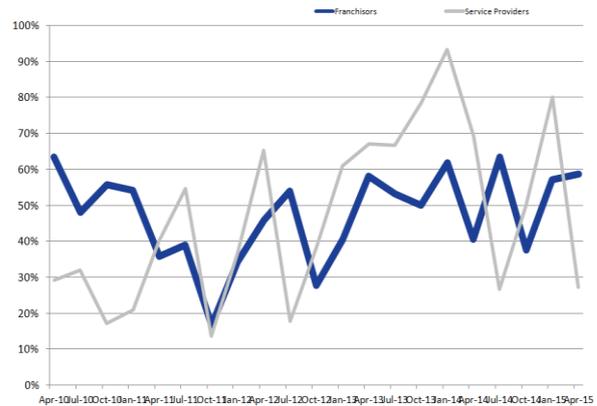
*The figures indicate 'net' confidence. Net' confidence is the difference between those reporting 'better' and 'worse'

Franchisor sentiment for **franchisor growth prospects** increased to a net 59% - up slightly from the previous quarter (net 57%). Service Providers however, were significantly down from last quarter's result of 80% to 27%.

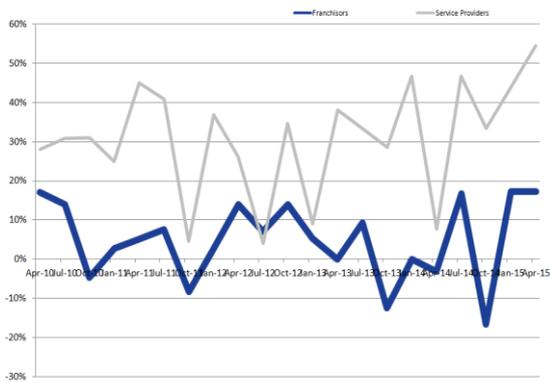
Franchisor sentiment toward access to suitable franchisees remained the same as last quarter at 17%. Service Providers were more positive at 55%. Franchisor sentiment toward access to financing also decreased from 41% to 28%.

Service Providers were also less positive reporting 36%, a decrease from a high 88% in the last quarter.

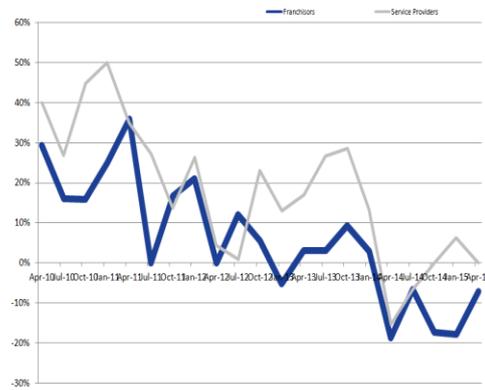
FRANCHISOR GROWTH PROSPECTS



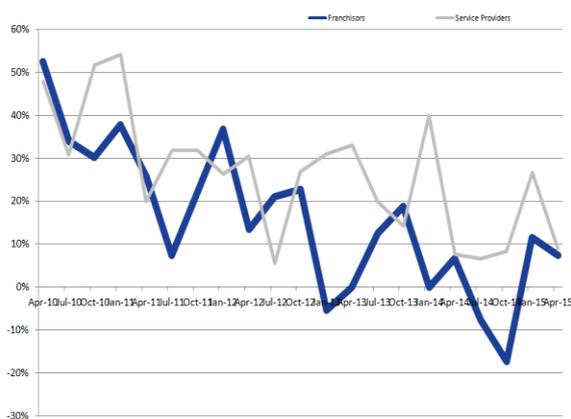
ACCESS TO SUITABLE FRANCHISEES



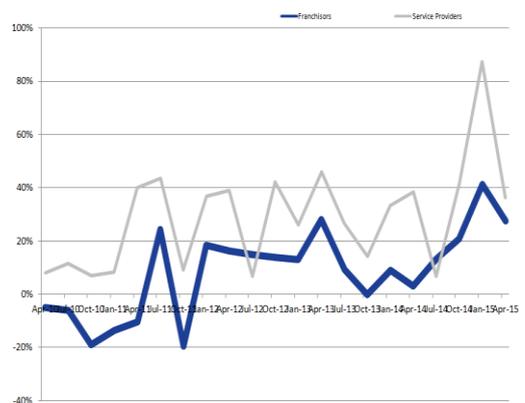
ACCESS TO SUITABLE STAFF



ACCESS TO SUITABLE LOCATIONS



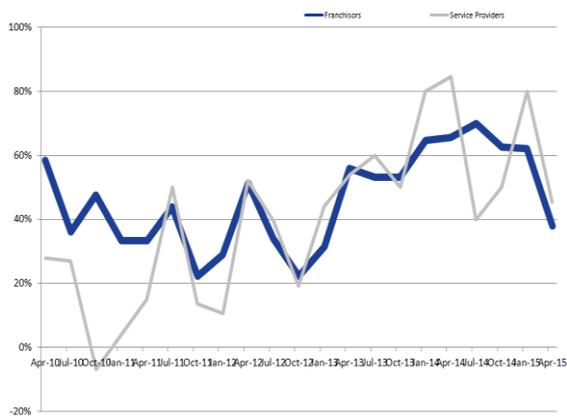
ACCESS TO FINANCING



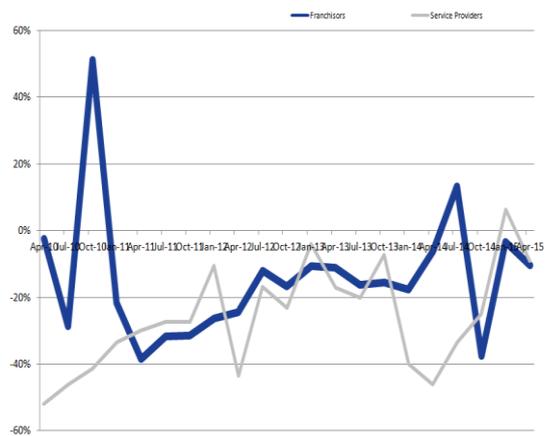
Both franchisors and service providers were less optimistic this quarter in their outlook for access to suitable locations, and they were also subdued in their sentiment toward the availability of suitable staff, with franchisors reporting negative net 7% and Service Providers at 0%.

Net Franchisor (38%) and Service Provider (45%) sentiment toward future franchisee sales levels remain at elevated levels, though down from the last quarter. Franchisor outlook on franchisee operating costs remained lower at negative net 10%. Service Providers nearly matched this sentiment at negative net 9%.

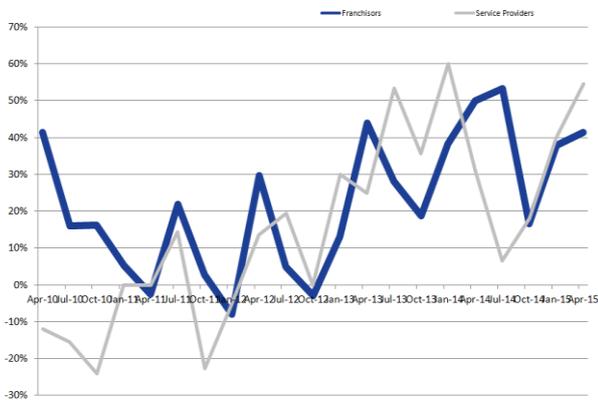
SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE



FRANCHISEE PROFITABILITY LEVELS



Notwithstanding the negative operating cost outlook, both Franchisors and Service Providers encouragingly reported increased positivity toward franchisee profitability levels, at a net 41% and 55%, respectively.

Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Sixteen franchisors responded, with varying results. Positive franchisors included those in the building and construction industry, however some identifying challenges outside the Auckland market, with related services also reflecting this. Companies involved in business to business services (e.g. commercial cleaning) noted more a challenged environment due to cost-conscious customers and increased labour costs. The following examples are indicative of this varied sentiment:

- *“Things are looking up for us, we are in the double glazing industry but in Australia not NZ”*
- *“Building residential homes: quite flat and challenging, especially in rural regions”*
- *“Landscape Supplies - seem to have hit a speed bump, not improving as was expected”*
- *“FMCG. Similar to previous years.”*
- *“Construction - Auckland positive, Christchurch slowing down, dairy pay-outs are a looming dark cloud in regional NZ”*
- *“Very flat at the moment, manufacture and building of a specialised building system”*
- *“Building - The building market continues to be strong in most regions. Good commercial projects enquiry is being experienced. Rural market has tightened but residential and lifestyle market remains good. We are confident that 2015 will again be a good year for us. Good staff resources (sales and building) are difficult to find and secure”*
- *“Commercial Cleaning. Market remains tight. A number of customers will not accept legislative labour adjustments (minimum wage). They would rather go to the market and check prices thus not only pulling the prices down, but eroding margin. Over all the environment is much the same as it has been for the past 2 quarters”*
- *“Quick service restaurant. Very hard with little prospect of adding franchisees without coming up with a downsized type of operation”*
- *“In the business services sector, things are showing a slight improvement although we still have to work hard for the 'wins'”*
- *“Pretty tough, keepsake jewellery”*
- *“Carpet Cleaning. Flood and Fire restoration. Insurers are squeezing providers for more service for less cost. As a result, key providers will be forced to trim margins to secure work. Growth seems limited in the restoration sector. Carpet Cleaning is a similar challenge. Although not controlled by insurers, commercial clients are constantly looking for lowest price and not quality”*
- *“Information Technology. The model is changing significantly ; some franchisees struggle to adapt”*

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

- *“Economy going very well for most industries, but a few clouds on the horizon”*
- *“Population growth will assist gaining franchisees and staff and buyer demand (sales). Stability from low interest rates will continue to provide consumers with financial stability and confidence. Banks continue to compete aggressively ensuring funding will be provided when it is appropriate to do so”*

Concluding Comment

Overall, Franchise Consultants’ Franchising Confidence Index in April 2015 demonstrates a positive outlook, though more subdued than the previous quarter. Although confidence is down from the extremely high levels reported last year, franchisors and service providers do remain reasonably optimistic.

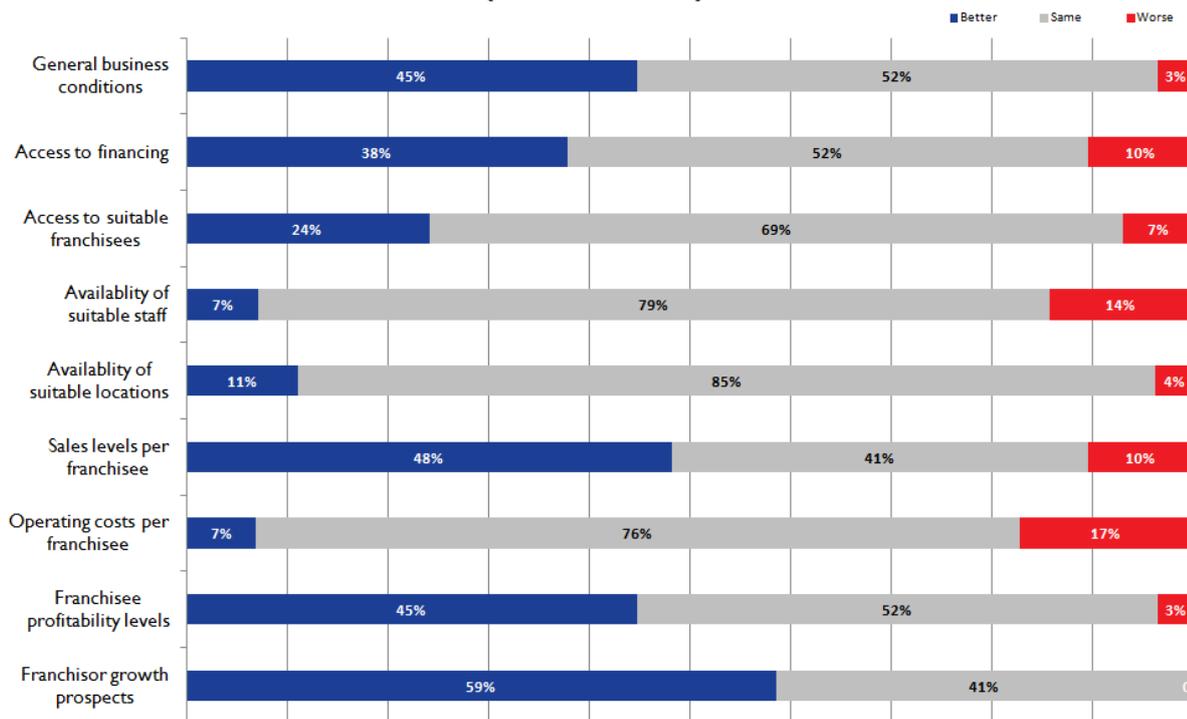
Franchisors continue to maintain a solid and positive outlook for general business conditions, sales levels per franchisee, with franchisor growth prospects also remaining elevated. Encouragingly, franchisee profitability, arguably a franchise system’s most important key performance indicator, also showed a slight increase from the last quarter.

By contrast, franchisors held a negative view on the availability of suitable staff, and operating costs.

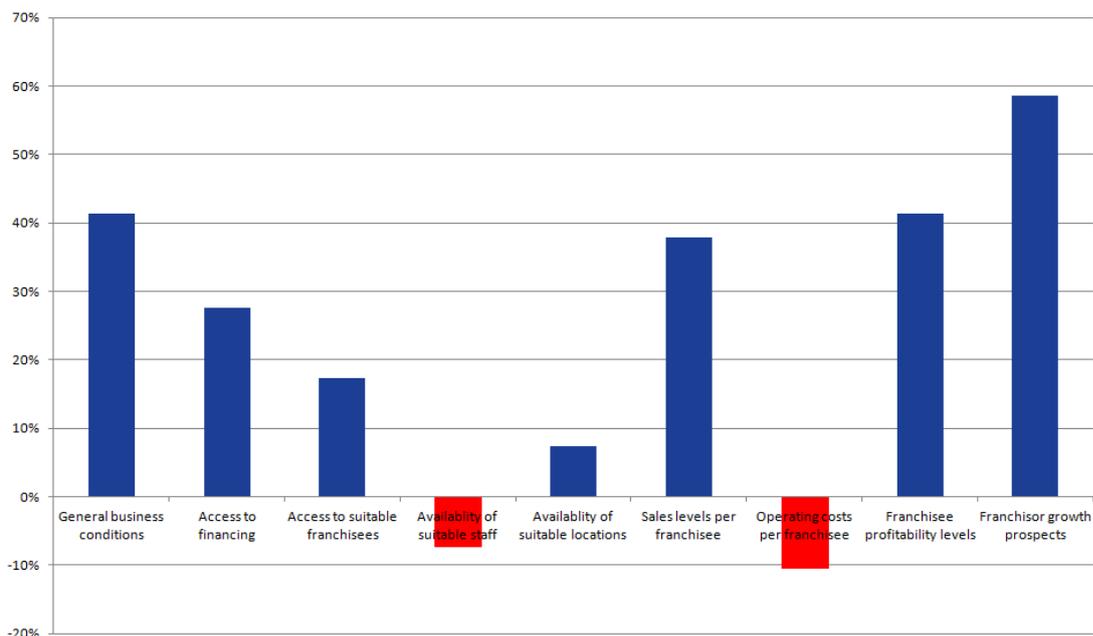
FRANCHISING CONFIDENCE CHARTS

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).

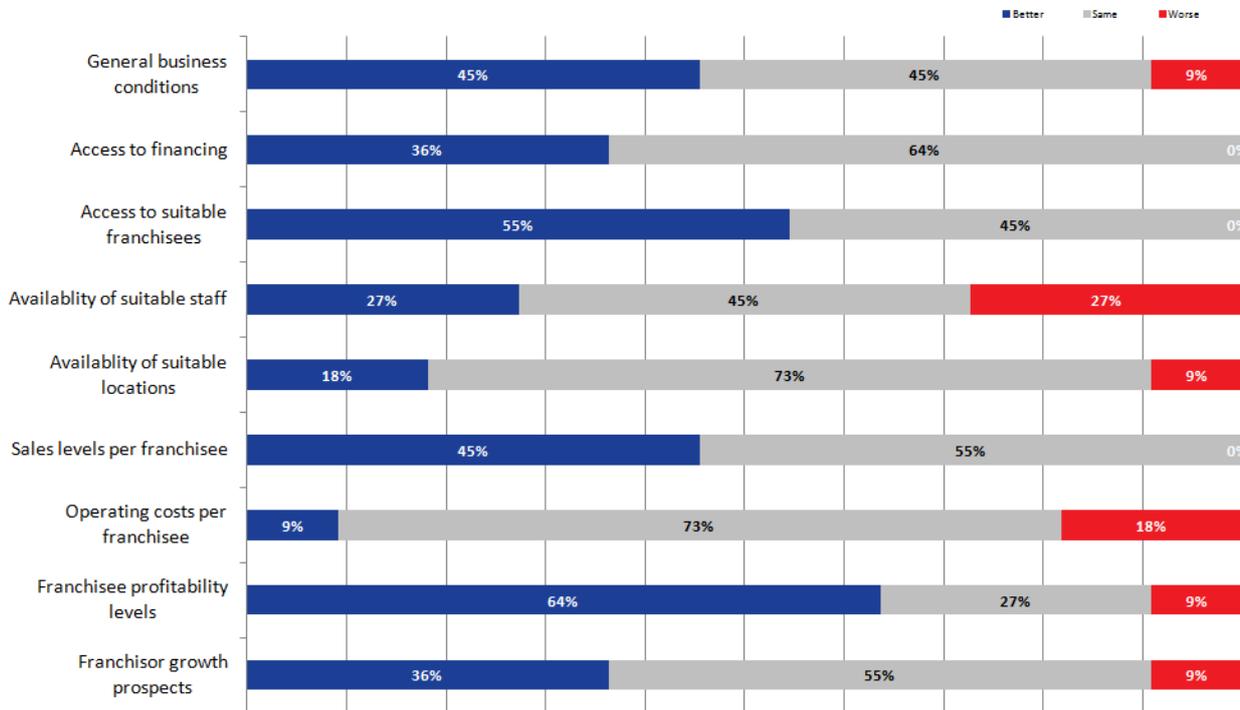
FRANCHISOR EXPECTATIONS (next 12 months)



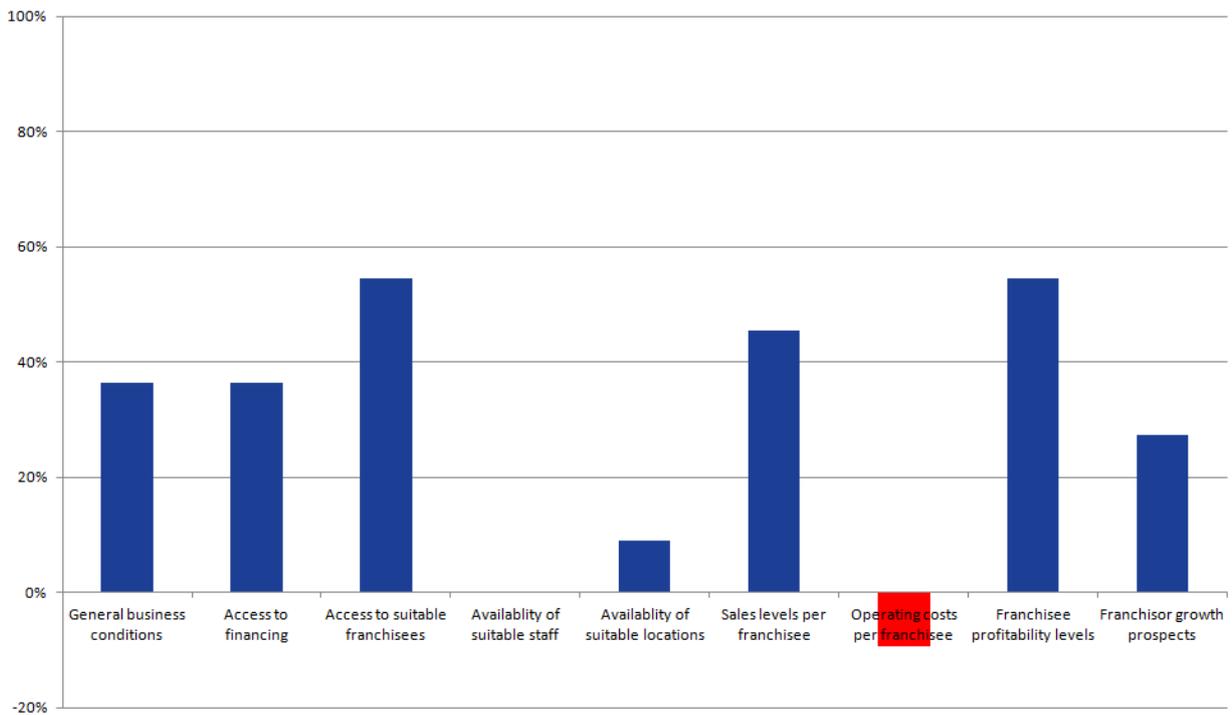
NET FRANCHISOR EXPECTATIONS



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 29 franchisors and 11 Service Providers collected between Tuesday 28th April and Friday 8th May 2015. 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 Shelley Cross.

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Franchising Confidence Index

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