

FRANCHISORS ENTER 2013 CAUTIOUSLY OPTIMISTIC

Franchise Consultants' January 2013 *Franchising Confidence Index* demonstrates a continuation of mixed results across overall sector growth drivers, but with a slight increase in confidence from the October 2012 issue. Franchisors were most positive about prospects for growth, general business conditions and franchisee sales levels. Franchisors were also positive about access to financing and franchisee profitability levels, but projected a negative outlook for franchisee operating costs, availability of staff and franchisees.

The latest results indicate a consolidation in franchisor and Service Provider (views for franchisors generally) forecasts for general business conditions. Franchisor responses continued to improve to a net 37%, compared to 28% in October. Service Provider sentiment showed a more marked improvement from net 42% to net 66%.

Once again, franchisor sentiment for general business conditions (at net 37%) equalled or topped general business forecasts, as reported in the January NZIER (19%), December ANZ Business Outlook (23%) and BNZ (37%) business confidence surveys.

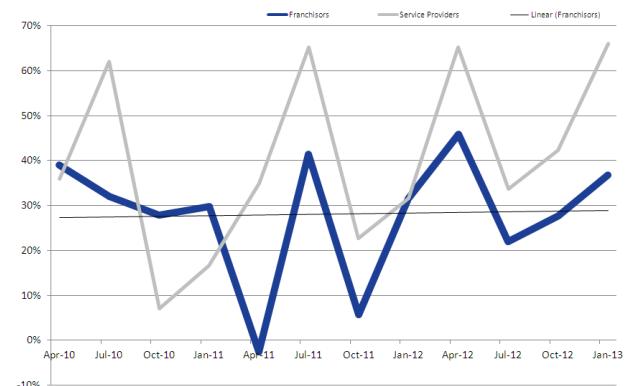
Both franchisor and Service Provider forecasts for franchisor growth improved, with franchisors increasing from net 28% to 41%, and Service Providers from 38% to 61%.

RESULTS SUMMARY TABLE *

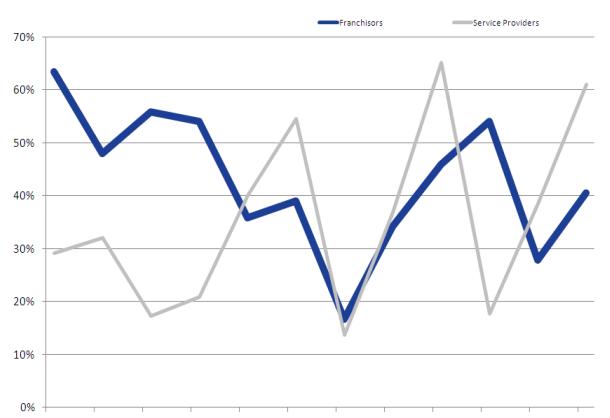
	Franchisors												Service Providers											
	Apr-10	Jul-10	Oct-10	Jan-11	Apr-11	Jul-11	Oct-11	Jan-12	Apr-12	Jul-12	Oct-12	Jan-13	Apr-10	Jul-10	Oct-10	Jan-11	Apr-11	Jul-11	Oct-11	Jan-12	Apr-12	Jul-12	Oct-12	Jan-13
General business conditions	39%	32%	28%	30%	-3%	41%	6%	32%	46%	22%	28%	37%	36%	62%	7%	17%	35%	65%	23%	32%	65%	34%	42%	66%
Access to financing	-5%	-6%	-19%	-14%	-10%	24%	-19%	18%	16%	15%	14%	13%	8%	12%	7%	8%	40%	43%	9%	37%	39%	7%	42%	26%
Access to suitable franchisees	17%	14%	-5%	3%	5%	8%	-8%	3%	14%	7%	14%	5%	28%	31%	31%	25%	45%	41%	5%	37%	26%	4%	35%	9%
Availability of suitable staff	29%	16%	16%	25%	36%	0%	17%	21%	0%	12%	6%	-5%	40%	27%	45%	50%	35%	27%	14%	26%	4%	1%	23%	13%
Availability of suitable locations	53%	34%	30%	38%	26%	7%	22%	37%	14%	21%	23%	-5%	48%	31%	52%	54%	20%	32%	32%	26%	30%	6%	27%	31%
Sales levels per franchisee	59%	36%	48%	33%	33%	44%	22%	29%	51%	34%	22%	32%	28%	27%	-7%	4%	15%	50%	14%	11%	52%	39%	19%	44%
Operating costs per franchisee	-2%	-29%	51%	-22%	-88%	-32%	-81%	-26%	-24%	-12%	-17%	-11%	-52%	-46%	-41%	-33%	-30%	-27%	-27%	-11%	-43%	-17%	-23%	-4%
Franchisee profitability levels	41%	16%	16%	5%	-3%	22%	3%	-8%	30%	5%	-3%	13%	-12%	-15%	-24%	0%	0%	14%	-23%	-5%	14%	20%	0%	30%
Franchisor growth prospects	63%	48%	56%	54%	36%	39%	17%	34%	46%	54%	28%	41%	29%	32%	17%	21%	40%	55%	14%	37%	65%	18%	38%	61%

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

GENERAL BUSINESS CONDITIONS

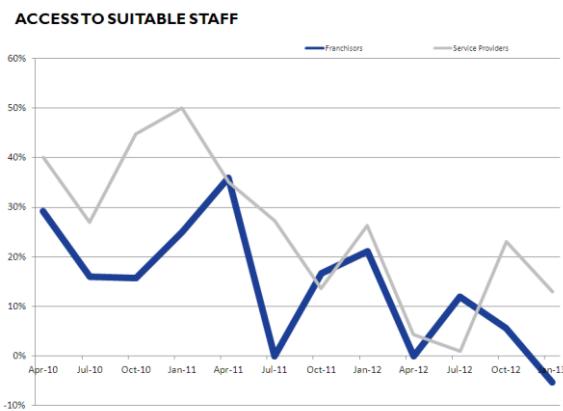
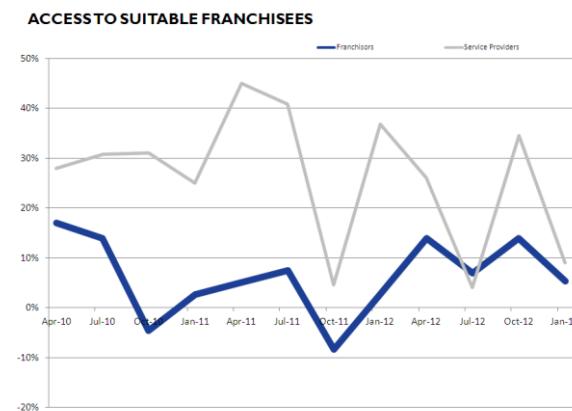


FRANCHISOR GROWTH PROSPECTS



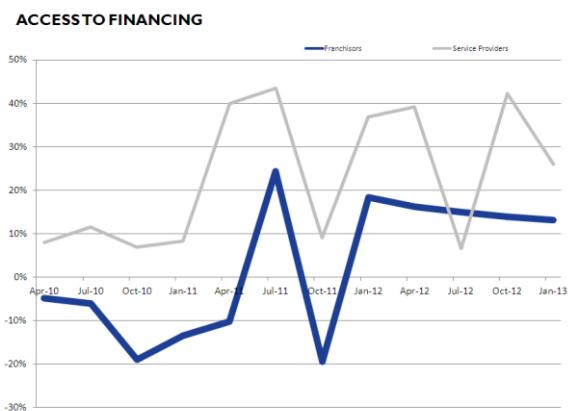
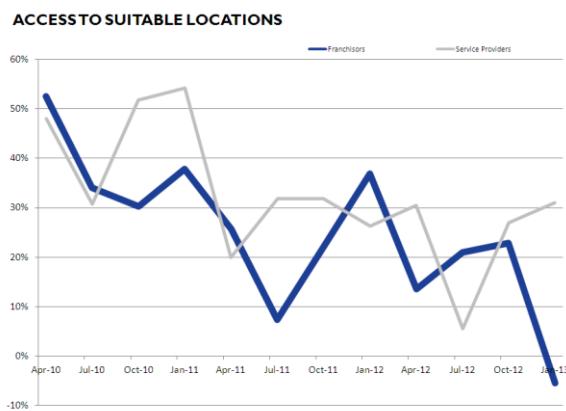
Franchisor sentiment for key growth drivers, including access to suitable franchisees, staff, locations and financing were more measured and featured declines compared to the previous quarter.

Franchisor sentiment for access to suitable franchisees dropped from net 14% to 5%. Service Providers showed an even larger decrease of net 28%, from 35% to 9%. This reduction in confidence was also reflected in the outlook for accessing suitable staff, with franchisors dropping negative net 5%. Service Provider confidence also dropped in this area.



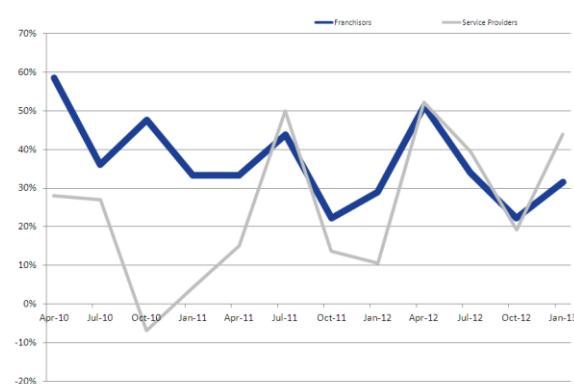
Franchisor outlook for access to suitable locations took a substantial tumble from a net 23% to negative 5%. Service Providers were more positive (net 31%).

Both franchisors and Service Providers remain positive in their outlook for access to financing, albeit Service Providers (net 26%) are more positive than franchisors (net 13%).

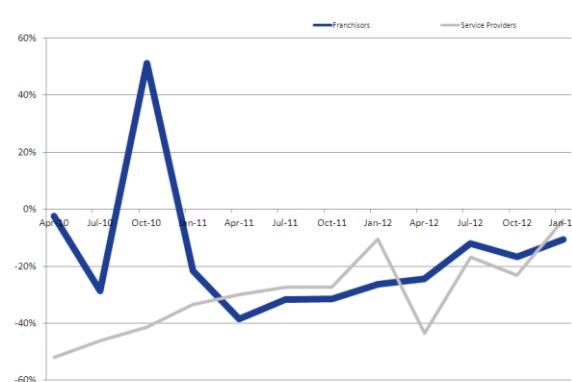


Expectations for franchisees demonstrate some improvement overall.

SALES LEVELS PER FRANCHISEE

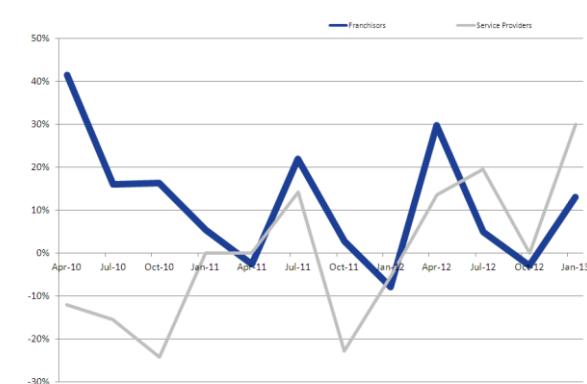


OPERATING COSTS PER FRANCHISEE



Franchisor expectations for franchisee sales levels (net 32%) and operating costs (negative net 11%) demonstrated positive improvements compared to the previous quarter. Perhaps most critical, franchisor outlook for franchisee profitability levels also improved from a net negative 3%, to a positive 13%. Service Providers were also more optimistic in their forecasts for franchisee profit generally, increasing from a net 0% (October 2012) to 30%.

FRANCHISEE PROFITABILITY LEVELS



Franchising Outlook for 2013

Franchisors were also asked for qualitative responses on how things were looking in their sector. An analysis of 29 written responses revealed a range of positive (14), neutral (5) and downbeat (8) views.

Many franchisors were particularly positive about their results and outlook:

- “Excellent with best ever monthly group revenue”
- “In our business we are experiencing healthy comparative sales growth”
- “Both the system and brand are growing steadily and we expect continued growth into 2013 at both levels”

Encouragingly, the positive outlook extended to construction-related businesses this quarter:

- “Construction - much better than previous years”
- “Construction, a better year as the industry cycle appears to have bottomed out”
- “As the economy and housing improve it will have positive onflow for our business”

Franchisors with more downbeat views talked of challenges associated with intense competition impacting sales and/margins, higher costs, reductions in franchisee capital reserves, consumer price sensitivity, and the impact of e-commerce to certain retail businesses.

There is no doubt that sector plays an important role in franchisor outlook.

Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Their responses were slightly more positive than the franchisors', but still recognised difficult conditions were still an issue for some. Some examples of responses given (from negative to positive) include:

- *"Franchisors will have another challenging year with the biggest challenge being securing suitable franchisees."*
- *"Consider fairly neutral over next 12 months except for likely rises in funding costs. Further redundancies and business failures should increase the pool of potential franchisees/staff and store locations, with potential to negotiate lower rents. Improving overall general confidence should assist growth prospects."*
- *"Much better – this is the year to do things and expand the business."*

Greatest Challenge to Franchising Development in 2013

Finally, franchisors were asked what they perceived to be the greatest challenge to franchising development in the year ahead. The following chart illustrates January 2012 and 2013 results (Note: There were 33 and 28 responding franchisors in 2012 and 2013, respectively).



Finding franchisees or [more specifically] 'suitable' franchisees continued as franchisors' top challenge to franchising development, mentioned 13 times this survey.

The second most identified and telling challenge (n=9) identified by franchisors' in 2013 related to their respective franchisees or unit-level business model. As examples, one franchisor talked of their need to build a more profitable business model in an effort to attract more franchisees. Another referred to the continuing need to keep stores sales levels up and costs down – resulting in improved profitability. Finally, one indicated the need to convince franchisees that they still had a viable business model capable of generating good results.

Only one other challenge generated multiple responses. There, two franchisors referenced to economic-related concerns, including a potential retail down turn and delayed recovery. Other identified challenges included loss of market share due to increasing online sales, poor consumer sentiment, challenges with franchisee complacency, and, attracting and retaining quality staff.

Aside from the common challenge of finding suitable franchisees, franchisors in 2012 were more concerned with the economy, access to finance, and prospective franchisee confidence.

Key identified challenges have obviously shifted during the last 12 months with franchisors now more concerned with factors they could impact (e.g. improving business model performance) than others they could not, such as macro-economic drivers, consumer and prospective franchisee confidence, and access to finance.

Service Providers were largely aligned with their views on the greatest challenge to franchising development. The top three identified challenges included franchisee business model profitability, finding suitable franchisees, and macro-economic concerns.

Concluding Comment

Franchise Consultants' January 2013 Franchising Confidence Index demonstrates the population of franchisor respondents as cautiously optimistic overall. However, beneath the surface, it is clear that there continues to be a range of viewpoints, which includes both positive and downbeat views. We note that sector plays some role in the outlook.

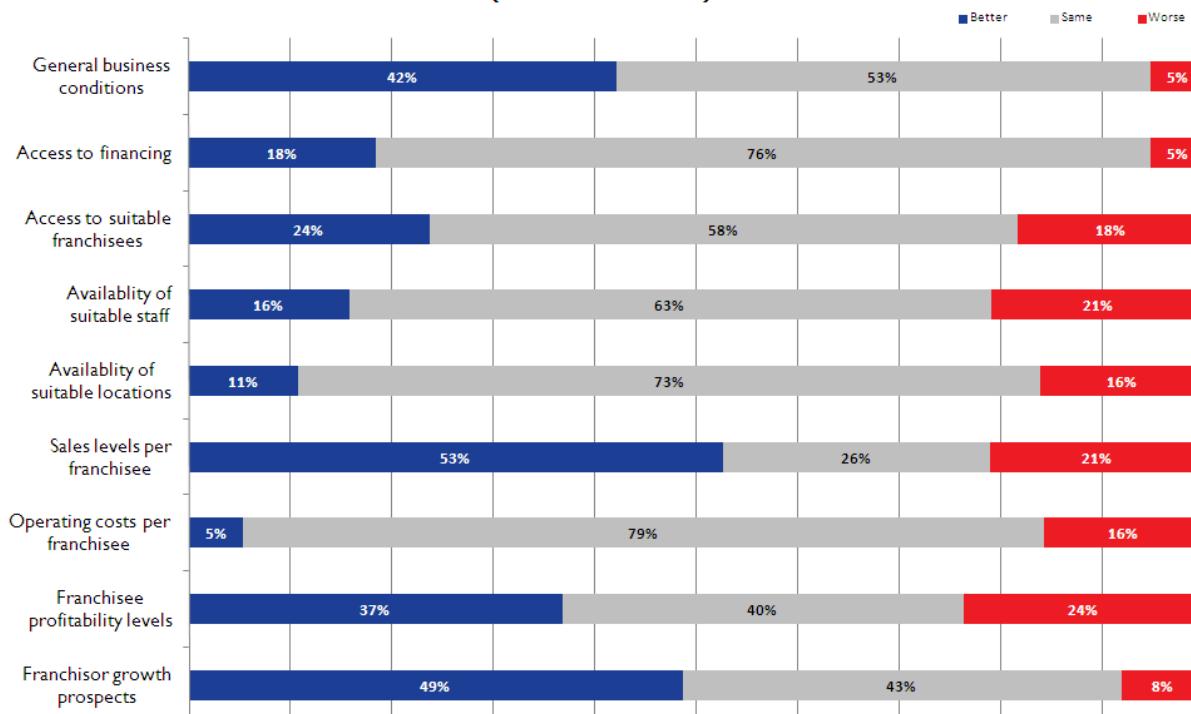
Franchisors continue to note their ability to find suitable franchisees as the greatest challenge to franchise system development, mirroring results in 2012. The second and final most mentioned challenge related to franchisee business model performance, which we know, as for many businesses (franchised and non-franchised), has been pressured by a variety of factors, not least intense/intensifying competition, customer belt-tightening, rising operating costs and the increased impact of internet-based retailing.

2013 looks set to be the year in which many franchisors need to review and improve their unit-level or franchisee business model.

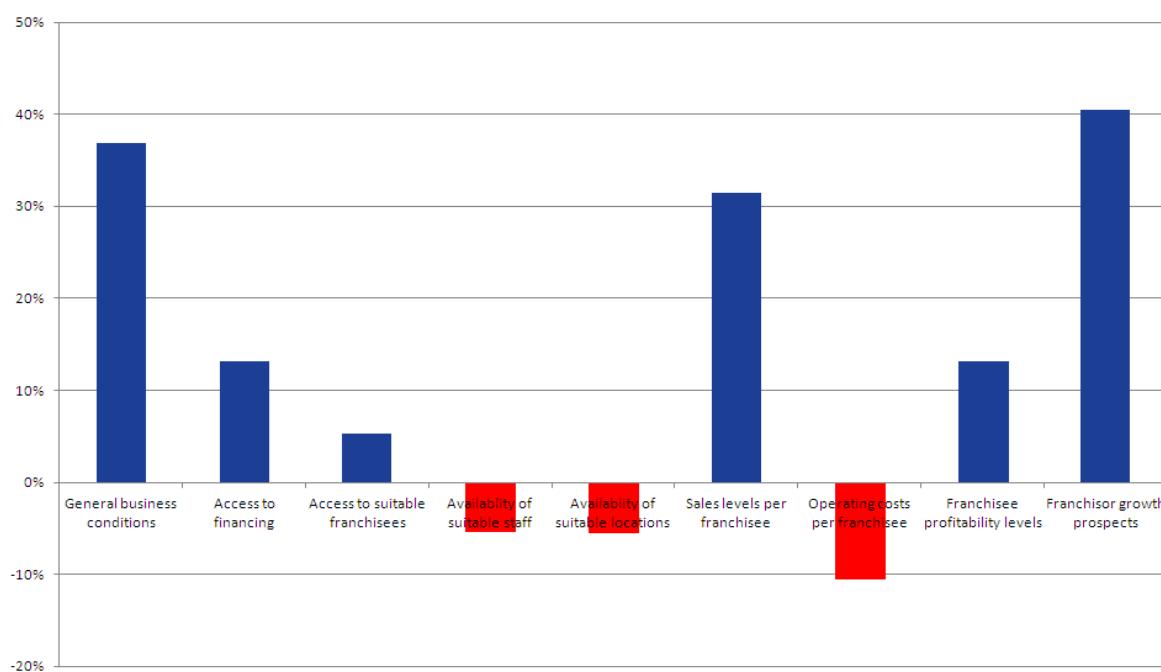
FRANCHISING CONFIDENCE CHARTS

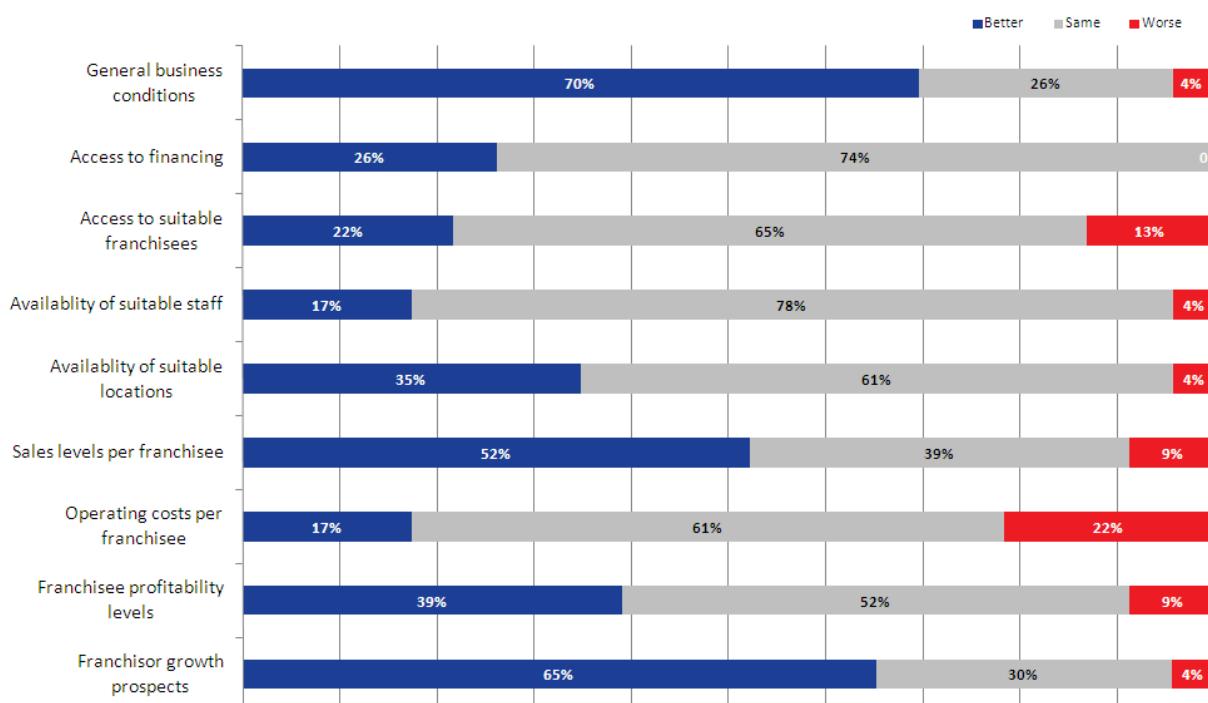
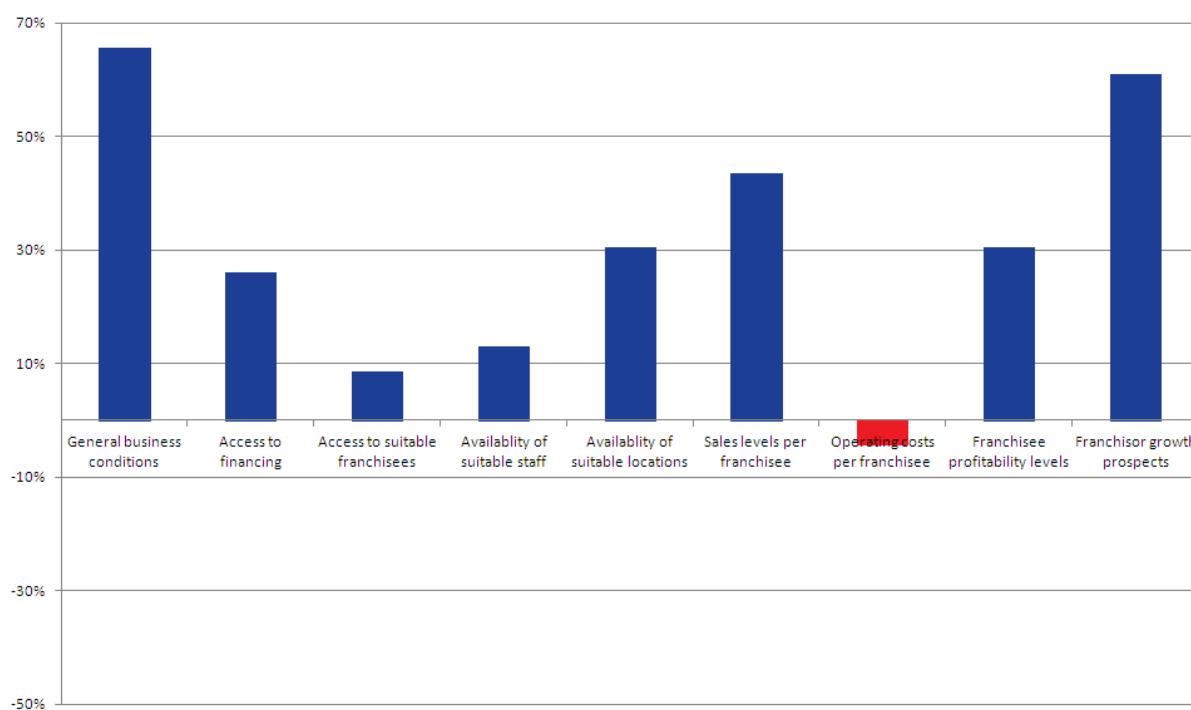
The following four illustrations present individual and net franchisor and Service Provider expectations (separate charts) for the following year across all questions, including general business conditions and franchisor growth prospects (covered above).

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 38 franchisors and 23 Service Providers collected between Monday 21 and Friday 25 January 2013. Findings from both groups are reported separately.

Respondents are asked whether they expect conditions to be ‘better,’ ‘same’ or ‘worse.’ ‘Net’ confidence is the difference between those reporting ‘better’ and ‘worse.’

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