

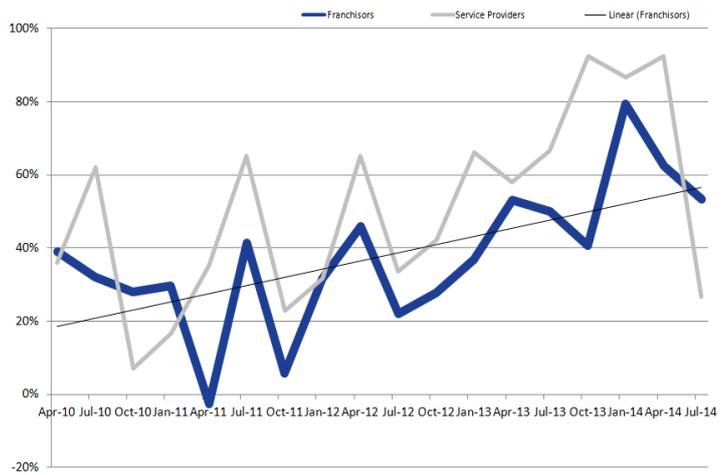
Franchising Sentiment Mostly Positive

Franchise Consultants' July 2014 *Franchising Confidence Index* continued an optimistic outlook across many key growth drivers, as reported by responding Franchisors. Service Providers were, however, less positive generally and markedly in some instances.

Franchisors remain positive in their outlook for general business conditions (net 53%), and sales levels per franchisee (net 70%). Franchisor growth prospects (net 63%) - increased 22% from the previous quarter.

Franchisors remain subdued in their outlook for the availability of suitable staff (negative net 7%) and suitable locations (negative net 8%). And Franchisors still reported a solid outlook for franchisee profitability (net 53%), arguably a franchise system's most important key growth driver. However, Service Providers were less optimistic at 7%, a drop from 31% in the previous quarter.

GENERAL BUSINESS CONDITIONS



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. Franchisor sentiment (net 53%) was slightly down from the previous quarter. This can be put into perspective as we have come from extreme levels of optimism. Interestingly, responding Service Providers reported an extreme decrease in sentiment from 92% to 27%.

The net 53% positivity experienced by franchisors tops other research involving general business, including ANZ Business Outlook (40% in July) and NZIER (32% in June) business confidence surveys. The sentiment of Service Providers proved to be more reflective of these results.

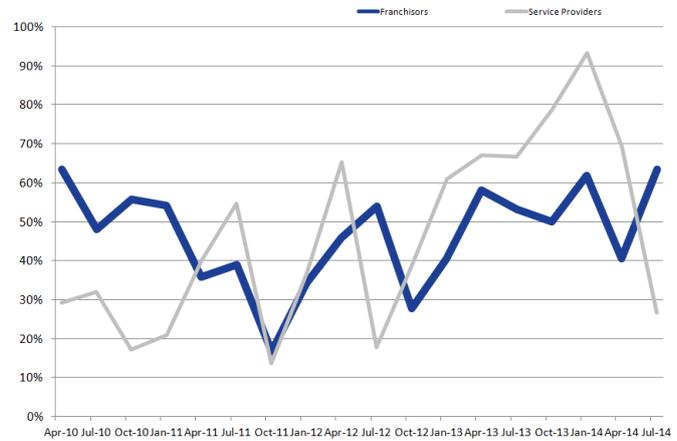
RESULTS SUMMARY TABLE *

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

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

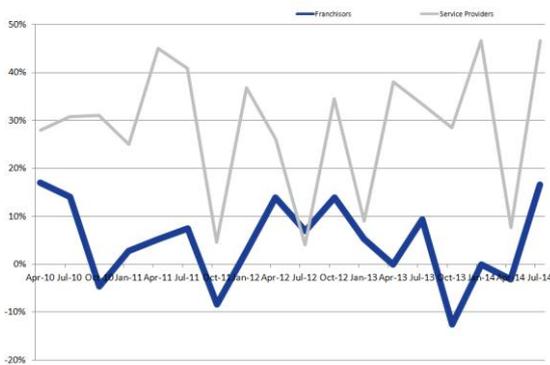
Franchisor sentiment for **franchisor growth** increased from a net 41% from the previous quarter to a net 63%. Service Providers did not match this sentiment and reported a net 27%, down from 69% in the last quarter.

FRANCHISOR GROWTH PROSPECTS



Franchisor sentiment toward **access to suitable franchisees** also increased (from negative net 3%) to a positive net 17%. Franchisor sentiment also increased slightly for **access to suitable staff** (from negative net 19% to negative net 7%). Availability to suitable locations decreased (from 7% to negative net 8%).

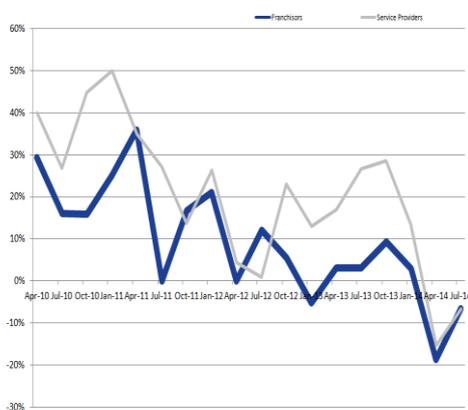
ACCESS TO SUITABLE FRANCHISEES



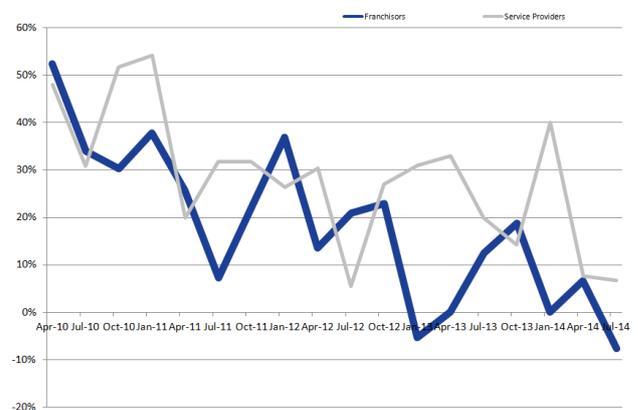
ACCESS TO FINANCING



ACCESS TO SUITABLE STAFF



ACCESS TO SUITABLE LOCATIONS

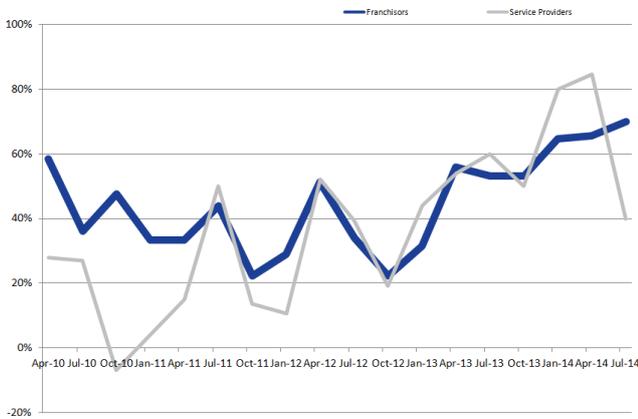


Service Providers were more positive in their sentiment towards access to suitable franchisees (net 47% - which has increased from 8% previously), they also reported a slight increase in levels of confidence in the outlook for accessing suitable staff (from negative net 15% to negative net 7%).

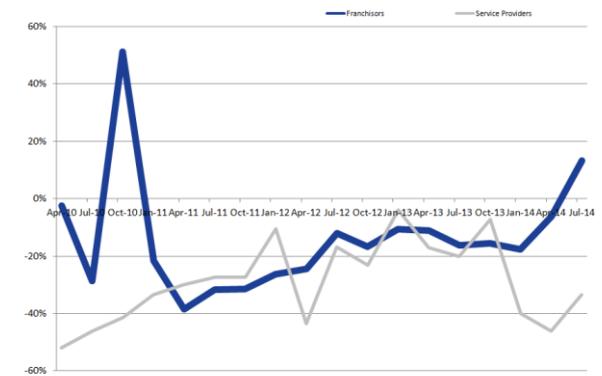
Franchisors reported an increase in sentiment for access to financing, from 3% to net 13%, however Service Providers decreased from a net 38% to a net 7%.

Net Franchisor (70%) sentiment toward future franchisee sales levels also rose from the last quarter. However, Service Providers were less positive reporting 40%, a drop from 85% in the previous quarter. The outlook for franchisee operating costs also reported mixed results, with Franchisors at a net 13%, and Service Providers at negative net 33%

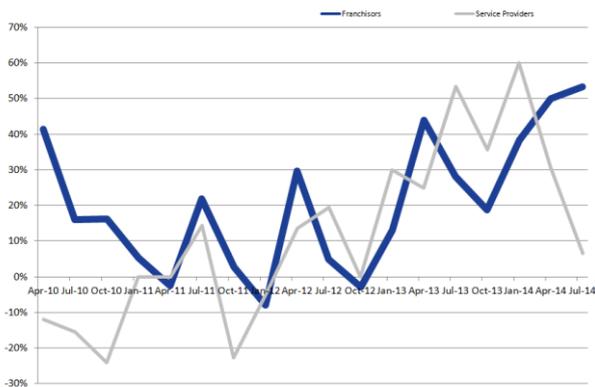
SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE



FRANCHISEE PROFITABILITY LEVELS



Franchisors still demonstrated solid, positive sentiment toward franchisee profitability levels, reporting a net 53%, Service Providers were far less optimistic reporting net 7% down from 31% in the previous quarter.



Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Eighteen franchisors responded. Notably, the education, tourism, retail and construction sectors reported strength and growth, but also advised of challenges with finding suitable franchisees and employees. However, retail food still reports a competitive market. The following examples are indicative of this varied sentiment:

- *“Retail – generally better but availability of suitable franchisees remains the most challenging aspect”*
- *“Cafe/Bakery – more opportunities are available in other new areas”*
- *“New Zealand, promising for the 12 months but slowing forestry sector may affect us. Australia has slowed but beginning to improve”*
- *“Business to business, good depending on immigration”*
- *“Overall improving trading environment, with increase in guest nights both domestically and internationally”*
- *“Education – our sector remains quite strong”*
- *“Competitive – Vending”*
- *“Health retail seems to have levelled off again and only just matching last year’s sales over this last quarter”*
- *“Very competitive market with off-price promotions prevalent and therefore shrinking margins”*
- *“Really good in Education!”*
- *“Still very competitive. Government procurement rules makes life a little more challenging. It will be interesting to see how markets look after the elections”*
- *“Retail is looking a lot better going forward still strong regional differences in performance”*
- *“Professional services sector is continuing to show signs of improvement”*
- *“Home Renovation – Constrained by suitable resources in main centres”*
- *“Retail – overall consumers are in a better frame of mind financially leading to increased spending”*
- *“With fuller employment harder to find potential franchisees and employees”*
- *“Retail Food Sector – I see the environment changing significantly for us. This however is due to a recent acquisition. The retail food game has become more competitive with new entrants”*

Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Most responses were positive; however, there was some concern for restrained cashflow and competition for newer franchisees. Key examples include:

- *“Consolidating and steadily more upbeat overtime. However there is considerable competition for franchisees. making it tougher for new, young and/or under-performing franchise systems”*
- *“Both the rural and lifestyle markets have seen an uplift. The major centres (Christchurch and Auckland) are driving the residential growth”*
- *“Once the election has taken place we will see a return to business as usual, seems like people are holding off now to see how much influence parties might have”*
- *“The business environment is very strong for both franchisors and franchisees. Rising interest rates and falling commodity prices may start to slow down growth and expectations”*
- *“Continued net immigration should see an improvement in availability of franchisees and staff. Profit will be steady with increases in Sales countered by increased costs (incl interest rates)”*
- *“Good for established properly operated franchises and for resales but still difficult for green fields recruitment. Same outlet sales should inch ahead”*
- *“Cash flow is strained in many sectors - capital resources will be stretched”*

Concluding Comment

Overall, Franchise Consultants’ Franchising Confidence Index in July 2014 demonstrates mixed results from reporting Franchisors and Service Providers. The subdued sentiment reported by Service Providers is shared by other recent general business confidence surveys.

Franchisors continue to maintain an optimistic outlook for general business conditions, sales levels per franchisee, and franchisor growth prospects. We were also encouraged to record a slight increase in positivity for franchisee profitability, arguably a franchise system’s most important key performance indicator. In contrast, however, it is interesting to note a general decline in the perceived availability of suitable locations and staff as other dimensions recover.

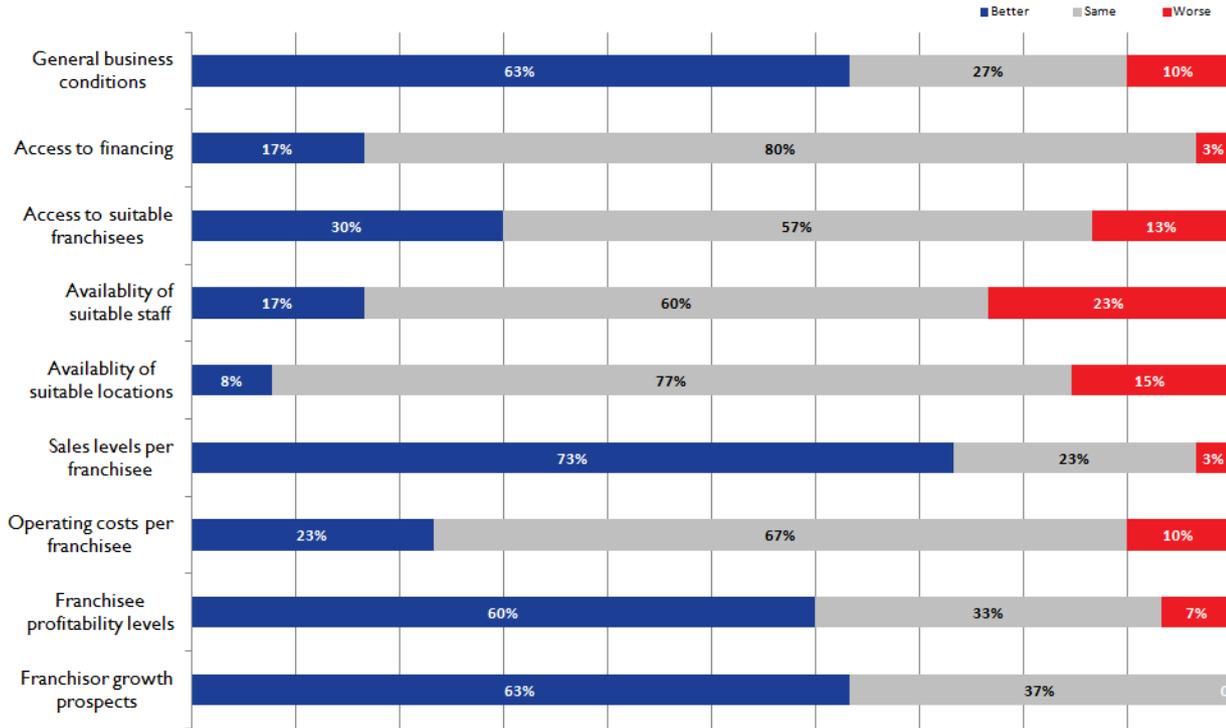
By contrast, Service Providers were most positive about access to suitable franchisees, general business conditions and sales levels per franchisee. Meanwhile, Service Providers were least positive about operating costs per franchisee.

Thus in summary, optimism needs to be balanced with challenge. While the perceived outlook improves and/or remains strong on many key variables, perceived difficulties also remain. Franchisors, as for other businesses, will need to plan and manage for growth and performance. Very few (only two out of 30 Franchisors) expected a better outlook across all areas.

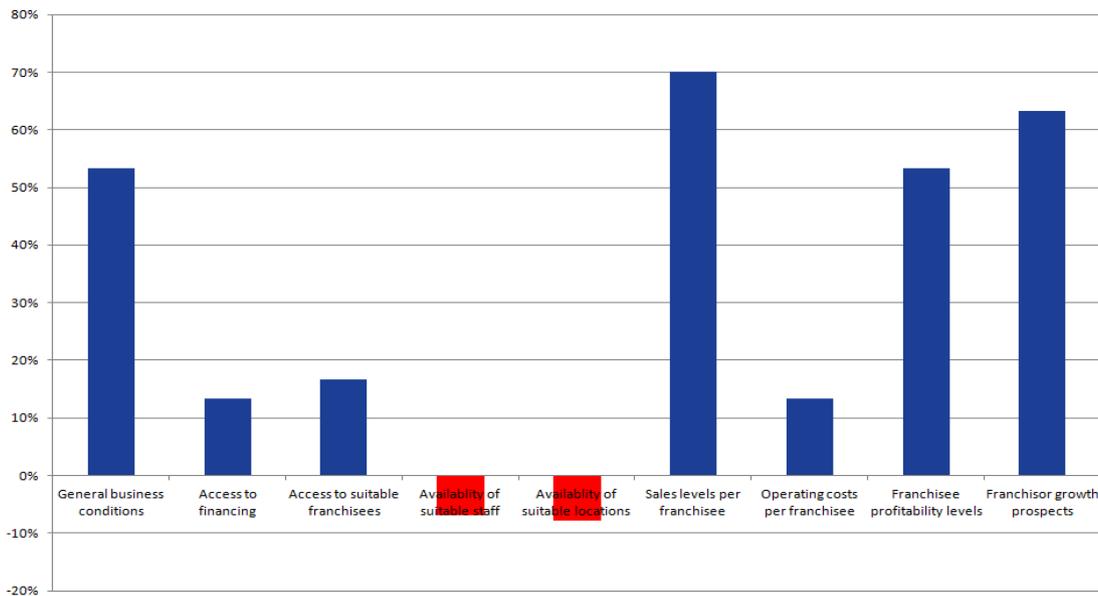
FRANCHISING CONFIDENCE CHARTS

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).

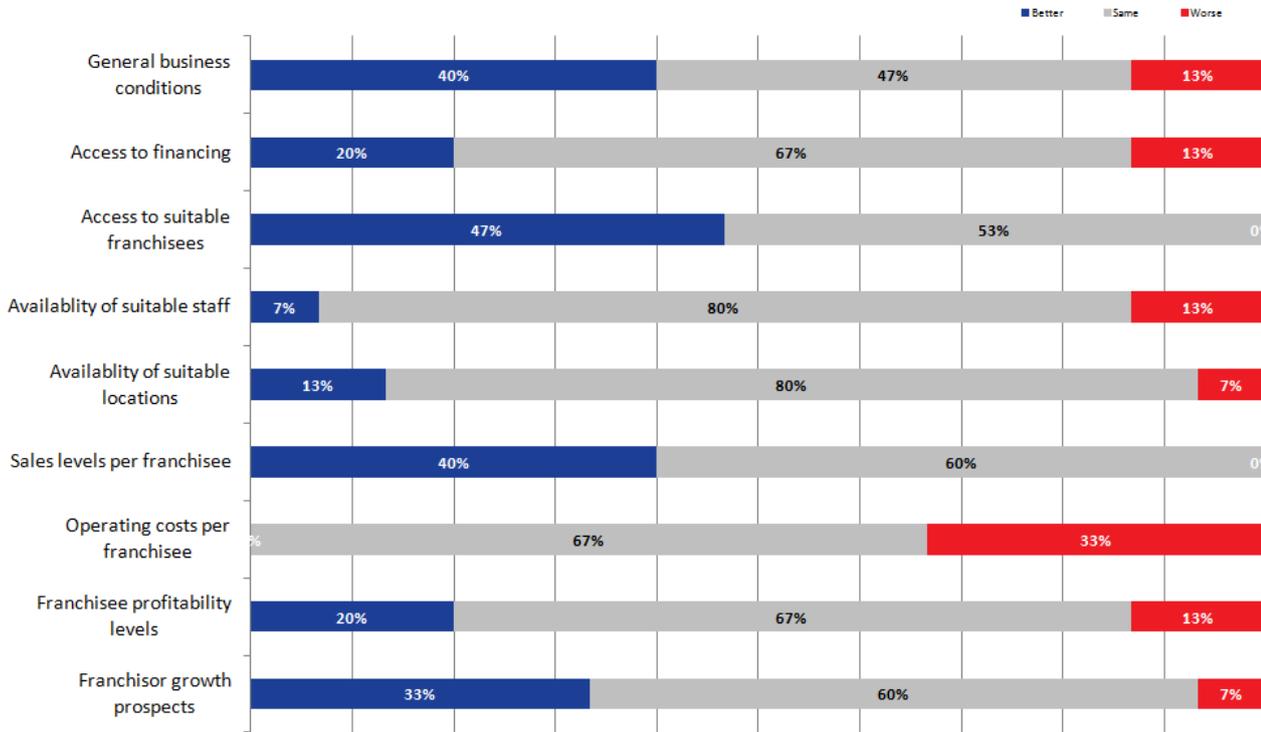
FRANCHISOR EXPECTATIONS (next 12 months)



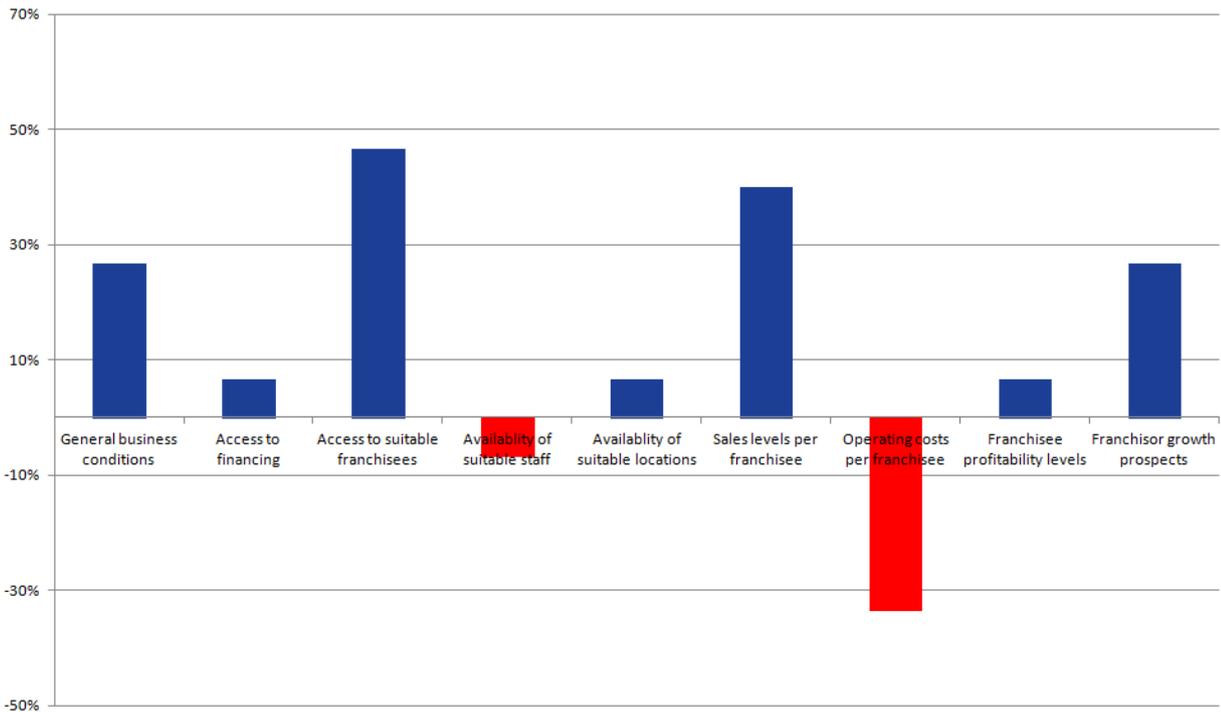
NET FRANCHISOR EXPECTATIONS



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 30 franchisors and 15 Service Providers collected between Monday 28th July and Friday 1st August 2014. 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.'

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