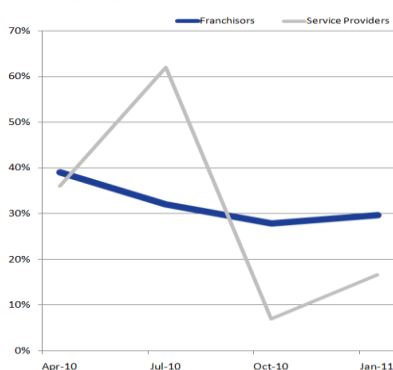


FRANCHISING CONFIDENCE INDEX QUARTERLY SURVEY

FRANCHISING COMMENCES 2011 WITH MIXED SENTIMENT. FRANCHISEE UNIT-LEVEL TRADING CONDITIONS ARE EXPECTED TO REMAIN CHALLENGING.

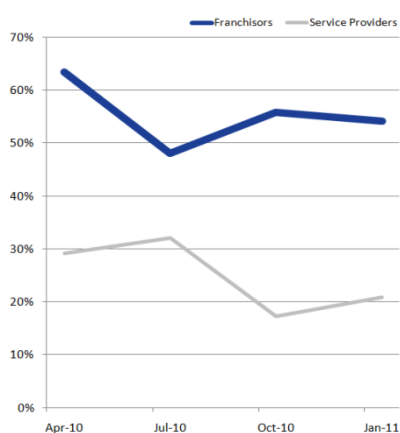
Franchise Consultants' January 2011 Franchising Confidence Index finds mixed sentiment, including further challenges for franchisees. Franchisee profits are expected to remain challenged despite perceived improvements to general business conditions, access to suitable staff and access to suitable locations. Franchisee sales levels and operating costs are also expected to deteriorate over the next 12 months.

GENERAL BUSINESS CONDITIONS



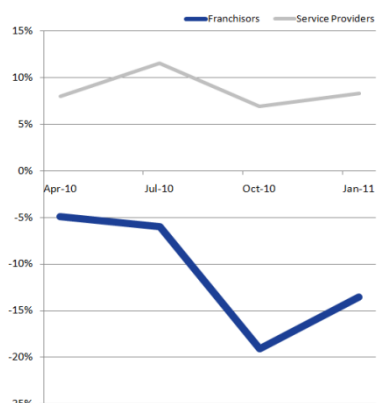
Franchisors sentiment toward general business conditions (net 30%) stabilises in positive territory, and compares closely to the National Bank Business Outlook Survey (35% in December). Meanwhile December results for the BNZ Confidence Survey (net 18%) and the NZIER survey (net 3%) are less optimistic. Franchise service providers are also less optimistic (net 17%).

FRANCHISOR GROWTH PROSPECTS



Franchisors are still generally positive about forthcoming growth prospects for their organisations (net 54%), compared with service providers perspective for franchisors generally (net 21%).

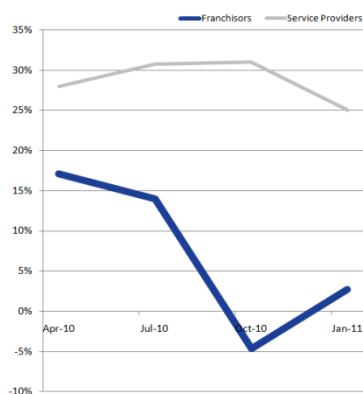
ACCESS TO FINANCING



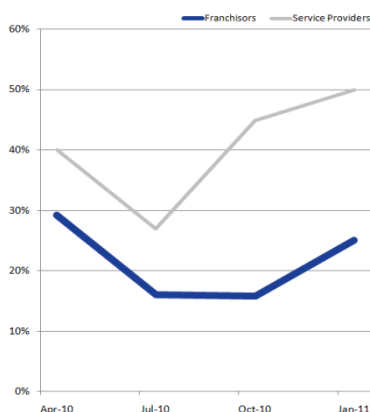
Franchisors expect access to capital to remain challenging (net -14%). Service providers are marginally more optimistic (net 8% positive) for franchisors generally. These findings demonstrate access to finance (a key growth constraint) continues to trouble development within the franchise sector. Franchisor expectations have been negative for 12 months.

Whilst improving marginally, franchisors expect franchisee recruitment to remain challenging (net 3% up from -5% in October 2010). Meanwhile, perceived access to suitable staff improves to 25%. Comparatively, service providers continue to see a more positive outlook for franchisee and staff recruitment generally with a net 25% and 50%, respectively.

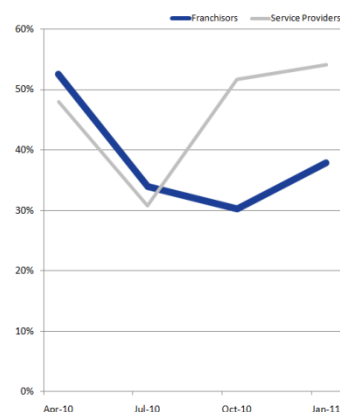
ACCESS TO SUITABLE FRANCHISEES



ACCESS TO SUITABLE STAFF

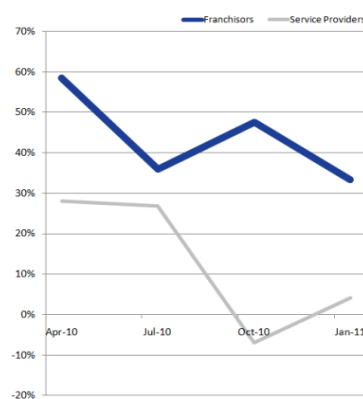


ACCESS TO SUITABLE LOCATIONS

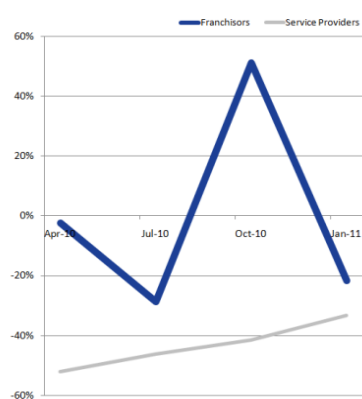


Franchisors (net 38%, up from 30% in October) and service providers (net 54%, up from 52% in October) share a generally positive outlook for finding good locations – where applicable.

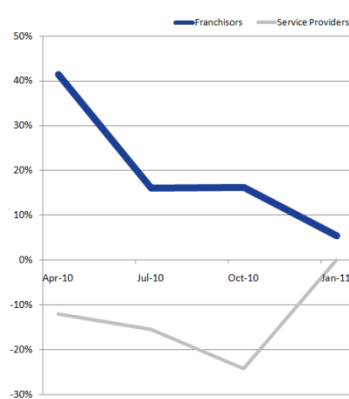
SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE



FRANCHISEE PROFITABILITY LEVELS



Franchisee expectations are increasingly discouraging. Franchisor expectations for franchisee sales levels (net 33%), operating costs (net -22%) and profitability (net 5%) all declined from the previous quarter. Operating costs are expected to worsen and franchisee profitability narrowly escapes net negative territory overall.

Comparatively, service providers again remain less optimistic in their outlook for franchisees, generally. A net 4% expected franchisees sales levels to improve. 33% (compared to -41% in October) expected deterioration in operating costs. Finally, service providers' expectations for franchisee profitability were equivocal (net 0%).

In summary, as per the last survey, both groups continue to see challenging times ahead for franchised businesses in 2011.

Franchisors were asked 'how things are looking in their sector,' and service providers 'how things are looking for franchisors and franchisees (generally).'

Responses were mixed with more franchisors expecting economic deterioration than improvement. Many challenges were noted (across sectors) including the Christchurch earthquake, few forward sales, demand for low-cost (versus premium) products, depressed demand from consumers not spending, increased competition, lower supplier loyalty, margin pressure, lease problems and issues with access to capital.

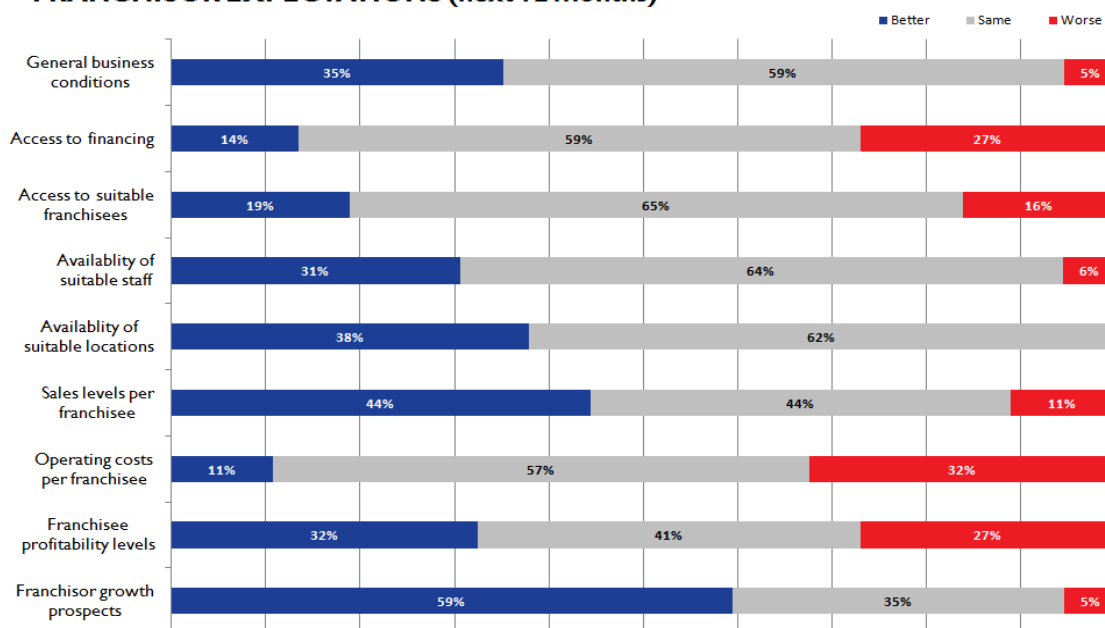
Conversely some franchisors were more optimistic (again, across sectors), noting increased interest from prospective franchisees, returning consumer confidence, increased sales, average spend and conversion rates.

Clearly, as noted by franchise service providers, there are substantial challenges ahead for businesses – franchised or otherwise. The business environment is expected to remain uncertain at best. Meanwhile, eroding franchisee sales and profitability pressure the franchise relationship.

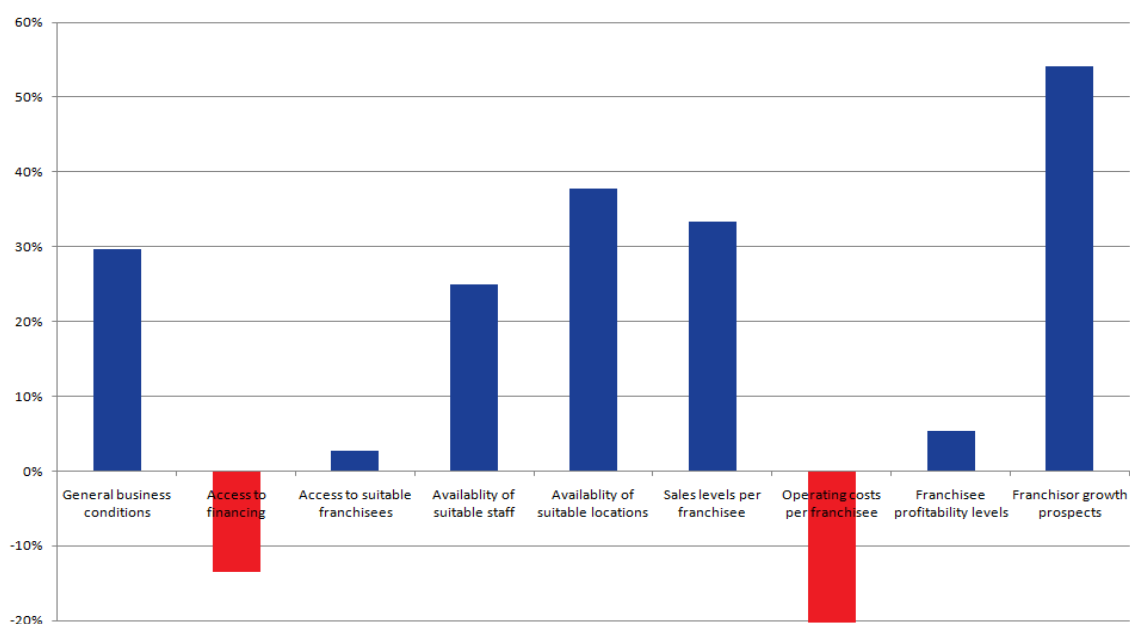
FRANCHISING CONFIDENCE CHARTS

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).

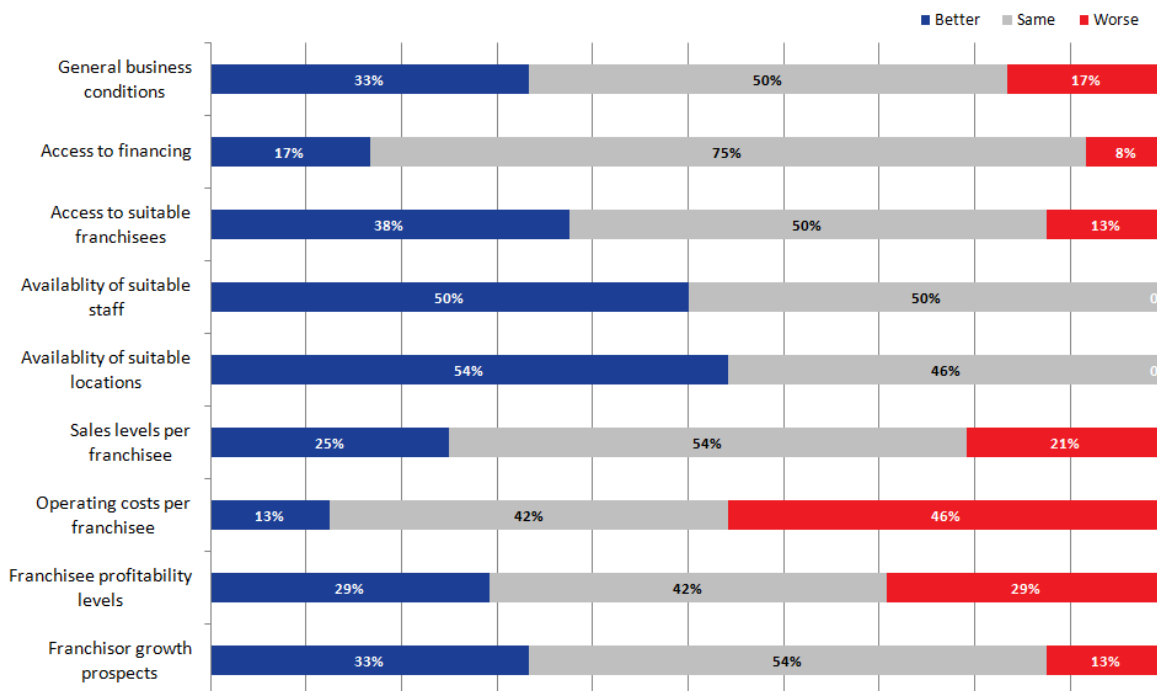
FRANCHISOR EXPECTATIONS (next 12 months)



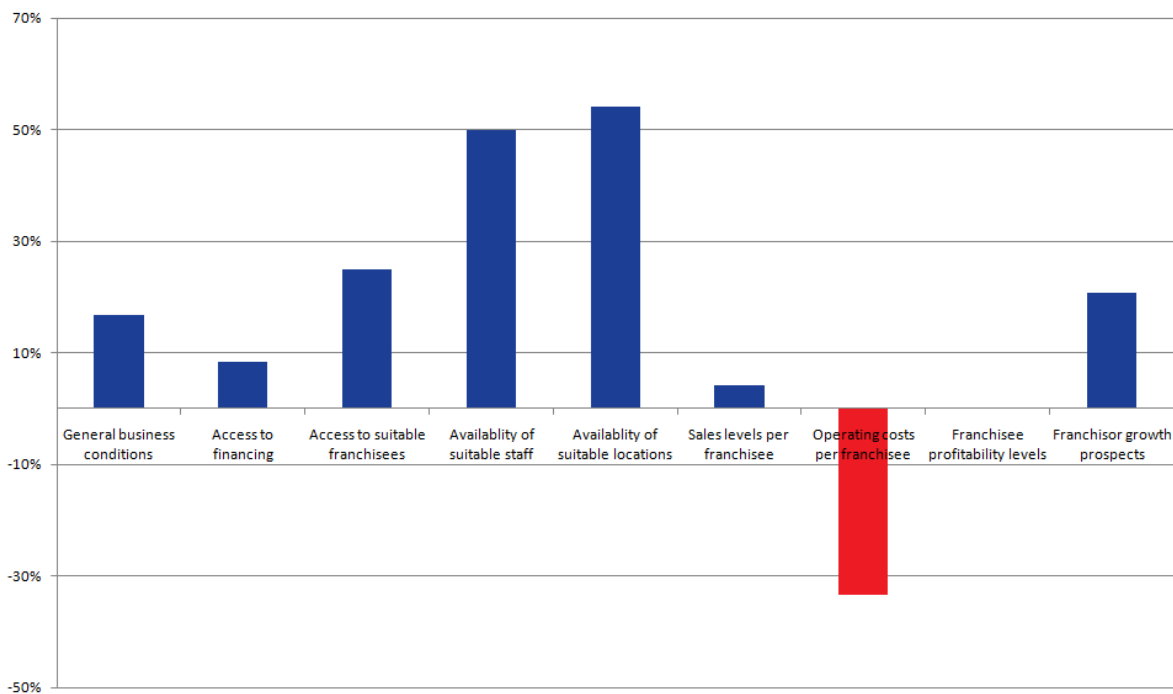
NET FRANCHISOR EXPECTATIONS



SERVICE PROVIDER EXPECTATIONS (next 12 months)







NET SERVICE PROVIDER EXPECTATIONS






FRANCHISOR COMMENTS

The following are franchisor comments in response to the question “[h]ow are things looking in your sector?”



BUILDING & CONSTRUCTION

-  Residential building and construction - As you are probably aware the building of new home house starts is pretty dismal.
-  Residential building and construction - Residential building remains tight/competitive and there are no material changes in business drivers foreseeable that will change this outlook over the coming 12 months.
-  Building related services and manufacturing - Generally optimistic and some levels of increased activity.
-  Landscape Supplies - Growth in retail / DIY but still flat in trade and commercial work.






AUTOMOTIVE

-  Mobile Automotive Repair - Service enquiries for Franchisees has improved through November, December and January. Conversion rates have also improved. Outlook is positive heading into 2011.
-  Rental cars - More hand-to-mouth than pre-booked.
-  Automotive components - sales have strengthened over previous period, but consumer continues to demand low cost product. It is a challenge to sell premium brands. Low cost items do not deliver margin / profit of premium items. Fixed and operating costs remain unchanged - however our off-shore suppliers have indicated that prices will rise in the near future. Feedback from customers is that they are optimistic about prospects for 2011.





FOOD AND BEVERAGE RETAIL

-  Retail food franchising - The food sector certainly, as per all the media reporting has had mixed successes, however in comparison to other sectors has performed well - given the climate. As far as our own performance on a same store basis we have performed with single digit growth, which in a normal economic climate would be considered average, however in comparison to some known results this is well above average for the sector. With respect to our business we are upbeat about the prospects for 2011! The pertinent factors underlying this belief are; 1 More availability of A Grade sites, 2 Key management appointments, 3 A number of growth opportunities (specific to our business model) for our franchisees businesses, 4 Change in marketing strategy.
-  Fast food retail - Still very depressed and static. Customers not spending more yet.



OTHER RETAIL

-  Retail leisure - holding around the same as last year. Some stores slightly up and some slightly down.
-  Video rental and entertainment - Believe that 2011 will be a similar year to last with little sales growth but more emphasis on reducing overheads by way of rents/relocations etc. The industry itself is in a highly competitive market for the discretionary dollar and will again be challenged this year. Piracy in our industry is also having some effect on business turnover.
-  Retail [deleted for confidentiality] stores - With the advancement of internet and online sales our category is being eroded. Competition on pricing is the key concern along with supplier non loyalty as to who sells their products. Customers are searching for the cheapest option to buy, and they are finding this either in NZ or international shopping sites such as Amazon. This is a major concern for retailers who have products available for purchase in this area.
-  Retail unknown - Retail is still struggling and while stores have cut costs and are more robust, customers are still not spending. There continues to be a problem with rents as landlords do not understand the situation or are highly leveraged and cannot move.
-  Retail unknown - Footfall into the stores is steady, similar to last year; average spend has increased in majority of areas; Conversion rate has increased in most areas.









COMMERCIAL & HOME SERVICES

-  Home services - I believe our customers have money but are unwilling to spend on anything which is not immediately necessary. Prospective franchisees are cautious with funding very difficult.
-  Home services - Demand for service remains constant. Prices are much the same for service. Franchisees are slightly harder to find with finding suitable financing still a big issue.
-  Cleaning (commercial, carpet, domestic, windows and one-off cleans) - We expect things to improve and lots of opportunities to continue with growth made over last year under tough conditions.
-  Commercial cleaning - We are continuing to assist customers reduce their operational costs via cleaning. This indicates there is still lag in the so called recovery. We work exceptionally hard at relationships / service delivery /client retention so our customer retention is still sitting around 97%. Most of the 3% are smaller operations taking their cleaning services in-house to reduce cost. My feeling is we have some distance to go.

EDUCATION/CHILDCARE

















-  Education - Our sector has been enjoying good interest both franchisee and customer. We expect this to continue.
-  Childcare - More competition, leases for premises more expensive, better quality of enquiry for prospective franchisees. Uncertainty around government funding.

OTHER/SECTOR UNKNOWN

-  Business services - Pretty tough on the whole, however we have formulated plans to ensure we have a better result this year.
-  Safety supplies - In general I think we should start to see growth in this area. We were affected by the earthquake so that took a lot of time, time not used in getting new people on board. So looking forward to this year, thank you.
-  B2B unknown - Business confidence remain tough. A more focused effort clarifying value proposition and clarity of information and communication would be a key driver for our business. We are in the B2B environment so ensuring staff alignment and robust measurement controls are essential to survive.
-  Finance company - There is still a gap in the market place which we are aiming to fill.
-  Unknown - I believe that 2011 will open additional doors for our business. We have had interest already this year from qualified potential franchisees.
-  Unknown - Currently a steady improvement in orders and turnover, much better prospects than Oct/Nov 2010. We believe a year of modest growth and new initiatives as a Franchisor.
-  Sector deleted for confidentiality - Not fancy reading in our sector [with] competition cutting prices to a silly level. Still no interest from prospective players - banks still waiting for the inevitable hit from their bad lending in dairy farms.
-  Sector unknown - Since the Earth Quake business in Christchurch has been slow but at last some daylight can be seen.

SERVICE PROVIDER COMMENTS

The following are service provider comments in response to the question "[h]ow do you think things are looking for franchisors and franchisees?"

-  While growth prospects will likely improve the quantum of the same will probably be minor. The RWC should bring incremental activity but it is doubtful whether there will be any sustained momentum. Another year of "grinding it out" for most franchisees and franchisors.
-  Still very uncertain - stronger systems continue to prosper while others pay the cost of their own weaknesses in the volatile economy.
-  Challenging, so franchisors will need to be proactive in driving profitability in existing locations and strategic in their growth plans for new locations, particularly in export markets. Franchisees will need to push for additional support from franchisors and increase the level and effectiveness of their marketing specifically.
-  Retail conditions will remain tough over the next 6 - 12 months and then begin to improve. Will be more room for franchisors to improve profitability (through growing number of franchisees) than franchisees.
-  As they are with all business sectors (in general) hopefully improving slowly as the local economy claws its way back up.
-  Stable interest rates, slowly improving confidence across most levels, tax cuts, Rugby world cup, and Christchurch rebuild will all generate people and property opportunities for franchisors.
-  I believe the cracks are showing in systems at present. This may not be the worst thing as it weeds out issues in the system but is creating division between franchisors and franchisees unless the relationship is extremely strong. There are also a number of both franchisors and franchisees struggling financially at present and I believe this may not get better over the next twelve months and in a number of sectors I believe it will get worse still. Having said that there are franchises that are flying at the moment, but in my experience these are in the minority.
-  Marginally better.
-  A tough time. Consumers are spending less. Finance is still not easy to get for most. It's not going to be an easy year ahead.
-  Short term - Flat at best, medium to longer term, looking better.
-  Expect same "confused" signals about the economy will continue into the start of the New Year with uncertainty and low confidence levels continuing to affect small businesses.
-  For those in the retail sector December 2010 statistics look encouraging particularly if the trend is to continue through 2011. Food-related businesses may still experience margin pressure as world commodity prices remain strong. Expansion in construction may result in better availability of suitable locations. Any significant growth is not expected until the latter half of the year. In the meantime the seasonal drop off in the first quarter, particularly in retail, will continue to present challenges to franchisors and franchisees.
-  The major challenge facing Franchisors is the lack of and/or the decline in the profitability of their Franchisees. Many Franchisors have not paid great attention over recent years to the business skill base and profitability of their Franchisees. This neglect is now showing through as Franchisees struggle to pay royalties and/or start down the "blame trail" with their Franchisor about their declining performance. Skilled and soundly financially based Franchisees are still doing "okay" but the gap with the remainder of the Franchisees has widened considerably. The latter group is growing in percentage terms.
-  Franchisees are finding it tougher to achieve sales and are experiencing real pressures on margins and operating costs. This of course is leading to the lack of performance / profitability referred to above. 2011 is not going to be an easy year for them unless they learn to work smarter.
-  Access to funds are still hampering growth. Some systems are doing well - even in retail, but many are finding difficulty in making any headway at all.
-  I think things will continue to be somewhat bleak all round. I can't see why someone with a job would at this stage take on personal business risk and further borrowings unless they had to. This may affect the calibre of prospective franchisees and reduce sales. Whilst bank funding may appear more competitive I think it would be safe to say that there will be no borrowing unless property with a suitable equity can be provided to the bank.

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 commands its own confidence index for at least two reasons. First, franchising is a substantial and growing domain of business making up an important part of the New Zealand economy. The latest *Franchising New Zealand 2010* survey, conducted by Massey University in collaboration with Griffith Business School, indicates New Zealand has 423 individual franchise systems comprising some 23,600 units (owned mostly by franchisees). The survey also suggests local franchise systems employ some 80,400 people, including 57,700 permanent full-time employees. 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.

Second, franchising is a distinct form of organisation with unique characteristics and associated challenges. Given this, and the importance of the sector overall, it is clear the Franchising Confidence Index provides information of value to all key franchising community stakeholders - which includes franchisors, franchisees, suppliers, customers, service providers, and government.

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 37 franchisors and 24 service providers collected between Monday 17 and Friday 21 January 2011. Findings from both groups are reported separately.

Note, 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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Franchising Confidence Index

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