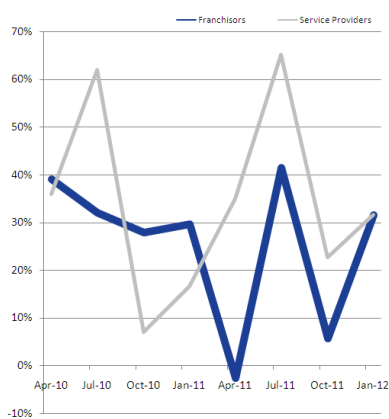


FRANCHISING STARTS 2012 WITH IMPROVED CONFIDENCE, BUT UNCERTAINTY REMAINS

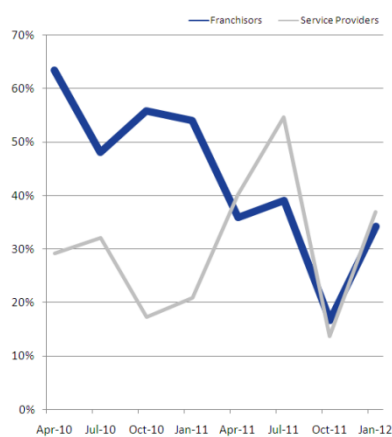
The Franchise Consultants' January 2012 Franchising Confidence Index finds a rebound in franchisor confidence, following the substantial deterioration in October 2011. However, considerable uncertainty remains. Notable improvements in franchisor sentiment are recorded for general business conditions, access to financing and franchisor growth prospects. Meanwhile operating costs per franchisee are perceived to remain challenged, and franchisors outlook for franchisee profitability falls to the lowest level (net negative 8%) on record.

GENERAL BUSINESS CONDITIONS



Both franchisor and service providers' outlook for general business conditions rebounded to the same net 32% level, following the substantial deteriorations recorded in the October 2011 survey. Responding franchisor sentiment in late January appears more positive than that reported by general business in the December reports of the NZIER (-3%), BNZ (3.20%) and National Bank business confidence surveys.

FRANCHISOR GROWTH PROSPECTS



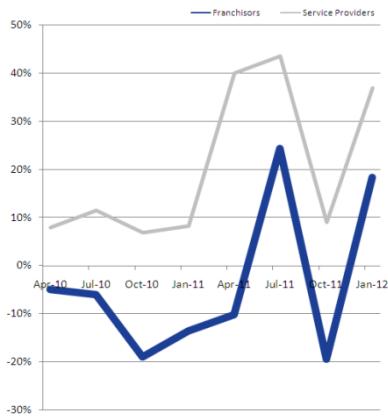
Franchisor (net 34%) and service provider (net 37%) outlook for franchisor growth prospects also bounced. However, a clear trend remains. Franchisors have become notably less confident in their growth prospects over time.

RESULTS SUMMARY TABLE *

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

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

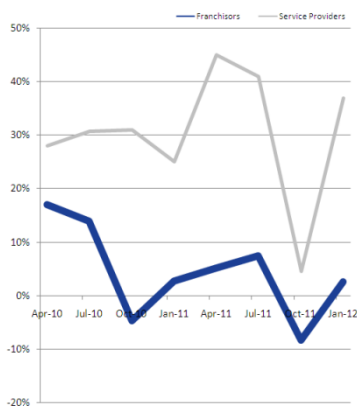
ACCESS TO FINANCING



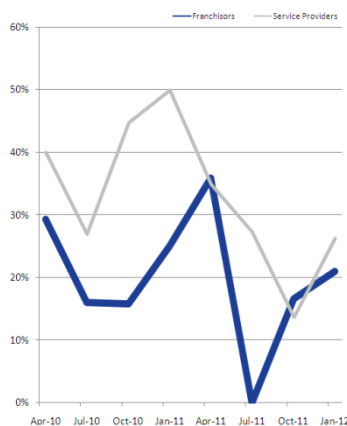
Encouragingly, the outlook for financing has improved. Both franchisors (net 18%) and service providers (net 37%) recorded substantial improvements in sentiment for access to financing.

Small franchisor uptrends are noted for access to suitable franchisees (net 3%) and access to suitable staff (net 21%), though both appear subdued compared to historic levels. The franchisor outlook for access to suitable locations (net 26%) remains reasonable. Service provider views for access to suitable franchisees (net 37%) and access to suitable staff (26%) both improve, while access to suitable locations lowers slightly from net 32% (Oct 2011) to 26%. On balance, as suggested in the comments below, recruitment is expected to remain challenged overall.

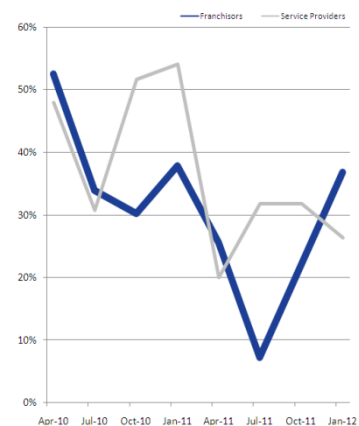
ACCESS TO SUITABLE FRANCHISEES



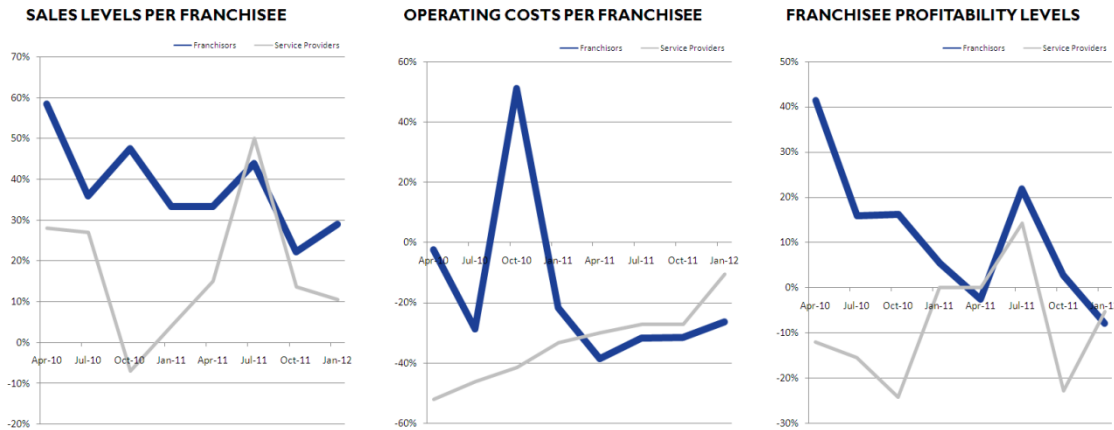
ACCESS TO SUITABLE STAFF



ACCESS TO SUITABLE LOCATIONS



Expectations for franchisees remain worrisome, from franchisor and service provider perspectives alike.



Franchisor expectations for franchisee sales levels (net 29%) and operating costs (negative net 26%) showed slight improvements, while their outlook for franchisee profitability levels declined (negative net 8%). Service provider sentiment for franchisee sales levels decreased slightly (net 11%), but increased for franchisee operating costs (negative net 11%) and profitability levels (negative net 5%).

Franchising Outlook for 2012

Franchisors were also asked for qualitative responses on how things were looking in their sector. An analysis of 33 written responses revealed contrasting views. Notably 19 indicated a positive outlook, 12 negative, and three (3) as middling or the same. Positively, almost half (16) reported current and/or expected sales growth. Of these, a number indicated strong levels of sales growth – particularly those involved with pet care, but also selected domestic and/or commercial service companies. The following responses were indicative:

- *“We are achieving growth across all sectors of the business”*
- *“I expect huge growth over the next 12 months and beyond. The next 10 years will see a big change in this industry as it becomes more professional and more responsive to customer expectations”*

Only two franchisors stated good franchise recruitment sales and one mentioned improved margins.

For those more challenged seven reported flat, patchy, plain difficult or just uncertain trading conditions. Notably, five of the seven identified themselves as retail and three complained of margin, profit, cost containment and/or landlord issues. Two noted:

- *“We are in retail and we expect all retail stores to have a tough 2012. In our specific retail sector there are opportunities for consolidation and any growth will come from capitalising on those opportunities”*

- *“Market remains flat at best. Provincial towns are worse off than the centres. Little can be done to improve sales without sacrificing margin. Cost containment remains a priority but retail rents are still proving to be difficult with intractable landlords”*

Views from those involved in construction remain challenged, but the outlook is improving slightly:

- *“Construction is looking more positive with a big lump of work coming in Canterbury”*
- *“Market remains relatively flat with high levels of competition. Some small signs of improving enquiry but lacks consistency”*
- *“Steady improvement over last year after major overhaul of business thinking and strategy over the last 18 months”*

Other responses variously referred to the negative impact of external factors, such as the World Cup (diverting spending), cheap imports (as substitutes) and rub off in consumer confidence and spending from international economic concerns.

Service providers had similarly contrasting perceptions on how things looked for franchisors and franchisees, generally. But, as the following examples suggest, none made resoundingly positive forecasts:

- *“Slightly more positive but with continuing uncertainty”*
- *“The franchise systems that sell into the retail market will continue to find trading tough. There is already a lot of “specials” or discounting in the retail sector which is having quite an effect on profitability of franchised outlets. Franchisors in these cases will need to monitor franchisee performance closely to minimise franchisee failure. There are better opportunities in the service industries but again competition is increasing.”*
- *I think the situation is tough for many franchisors, on the back of 3-4 years challenging trading. However, the challenges are to some extent sector dependent and thus, some systems have been impacted more than others. Unless Europe completely melts down, and contagion follows, I believe the operating environment will be better in 2012.*

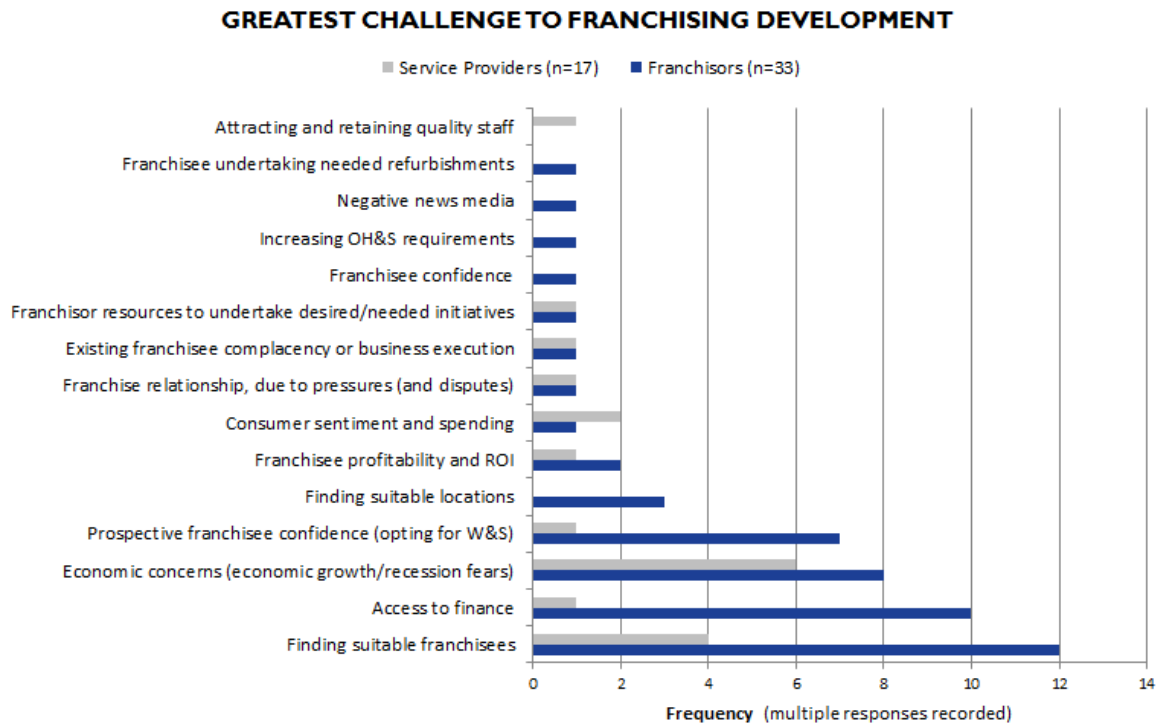
Roughly half indicated a continued tough and challenging market. Meanwhile, half were more optimistic in their outlook. Indeed, most referenced uncertainty emanating from global economic concerns – particularly Euro-driven.

Specific challenges outside the general economic malaise included employees wanting more (after a period of low wage inflation), changing consumer behaviour reducing discretionary spending, increased competition, continued franchisee margin and profitability pressure, slow franchisee recruitment, and failures of poorly prepared franchise systems. By contrast, positive mentions included new outlet and system concept growth, perceptions of stabilising input costs with low inflation, improved access to quality sites, franchisees and access to finance.

Greatest Challenge to Franchising Development in 2012

Franchisors and service providers alike were asked what they perceived to be the greatest challenge to franchising development in the year ahead.

The following table sums the frequency of key themes distilled from responses.



The responses indicate real concern for franchise network growth, with both franchisors and service providers indicating challenges associated with finding suitable franchisees and aligned prospective franchisee confidence to invest.

Access to finance for franchisees rated next for franchisors, followed by challenge, fear and uncertainty relating to the general economic outlook. The latter concern (economic factors) rated most highly for service providers. Other notable concerns (with at least two responses from franchisors and service providers combined) included finding suitable locations, franchisee profitability and return on investment, consumer sentiment, relationship pressures, franchisee complacency or business execution, and, franchisor resources.



Concluding Comment

Franchising sentiment improved for most factors compared with the previous quarter, however uncertainty remains. Crucially, the outlook for franchisee profitability has not improved. In fact, it has deteriorated.

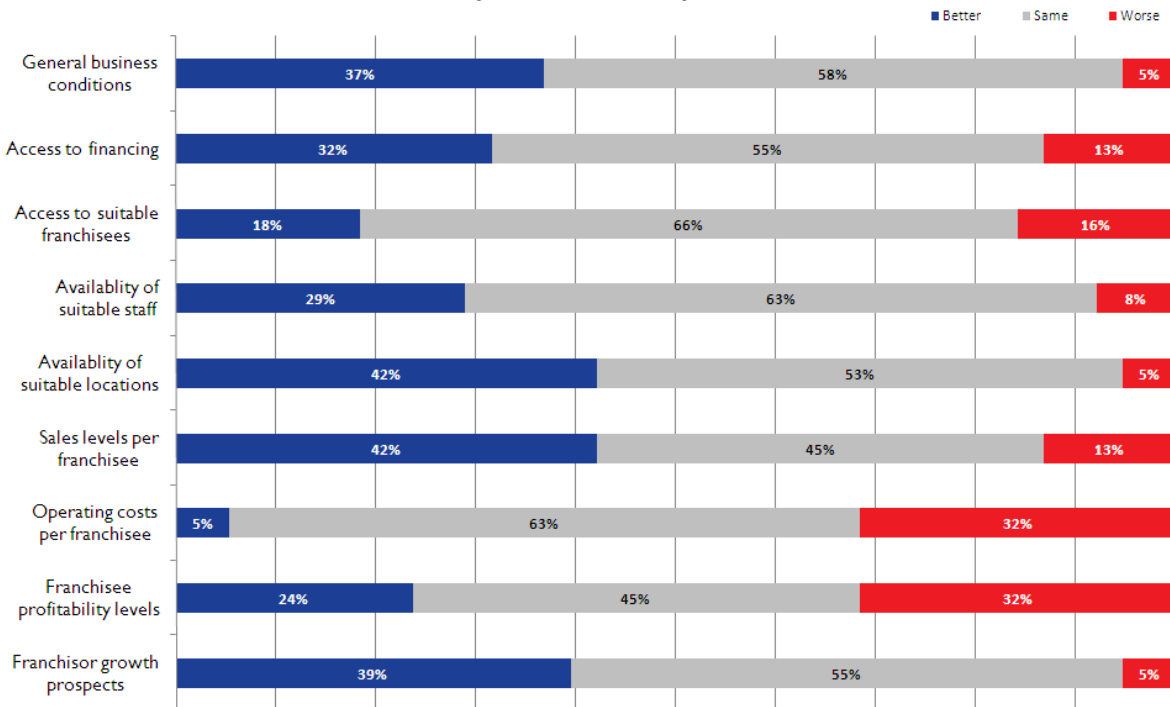
Franchisor sentiment, like general business confidence, has been on a roller coaster ride since Franchise Consultants launched the Franchising Confidence Index in April 2010. The current survey is the eighth survey in a series monitored quarterly in January, April, July and October.

The current rebound in sentiment is welcomed, but we cannot help but think perceptions for the next quarter could easily return to more challenging territory. The sentiment recorded in many responses shows some optimism. However optimism appears largely reserved due to economic concerns emanating mainly from Europe. Those factors impact real drivers of franchise system growth and performance. Franchisors are clearly finding trading tough and difficult, and retail appears particularly challenged.

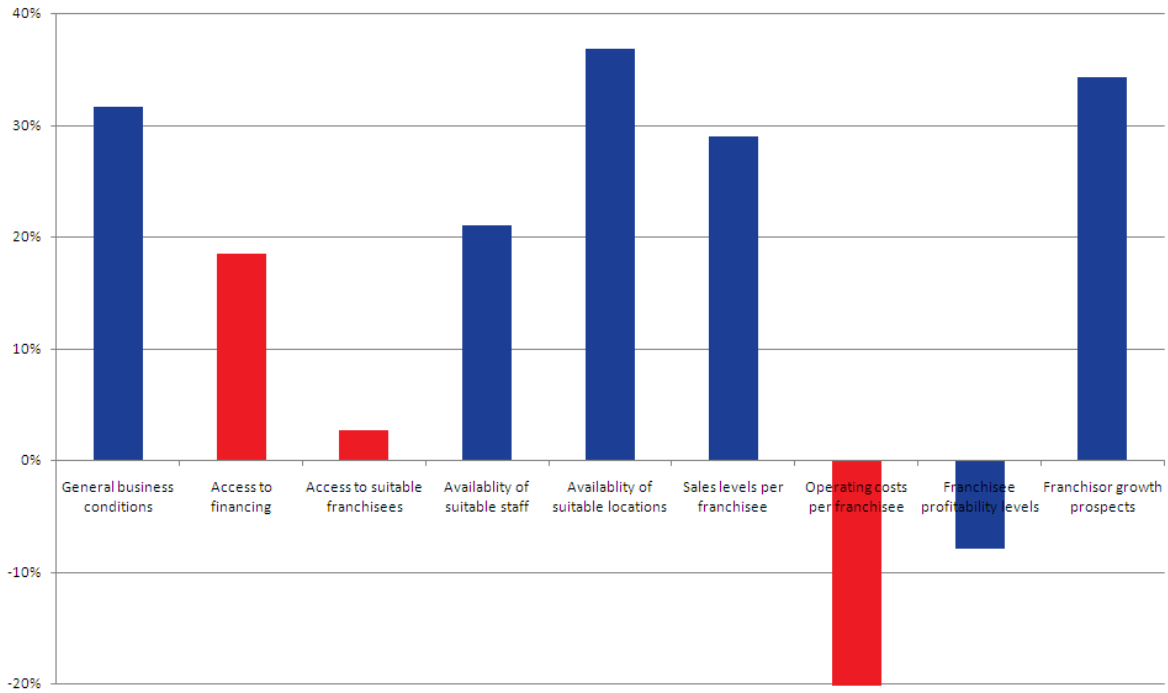
FRANCHISING CONFIDENCE CHARTS

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).

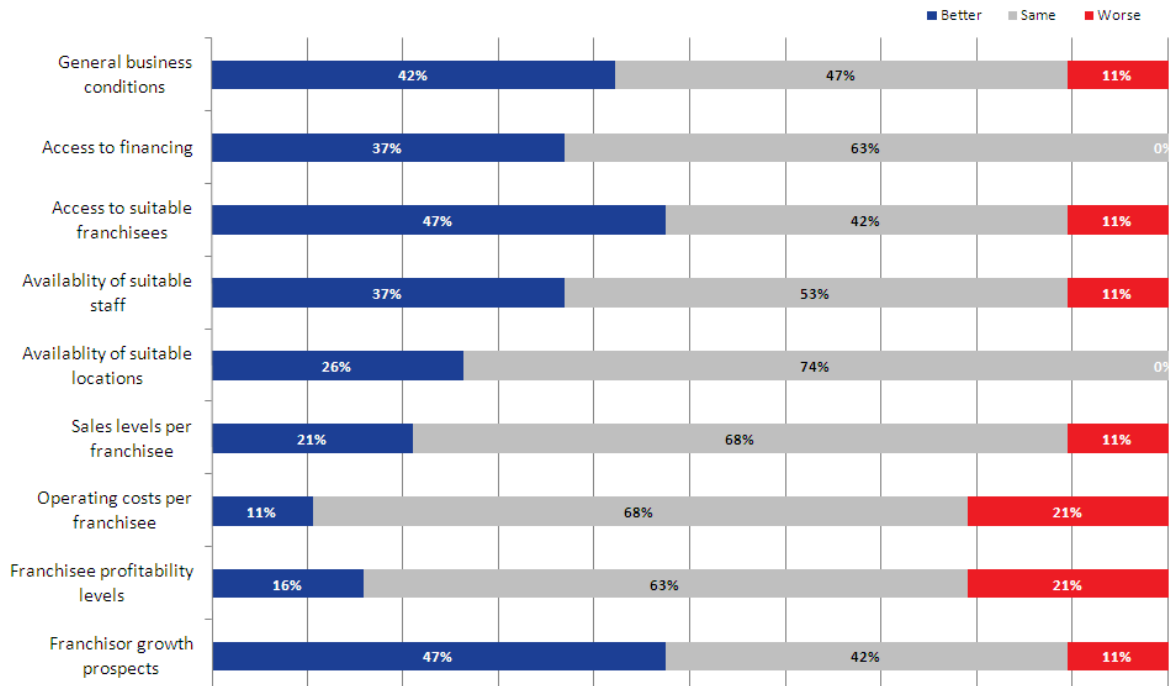
FRANCHISOR EXPECTATIONS (next 12 months)



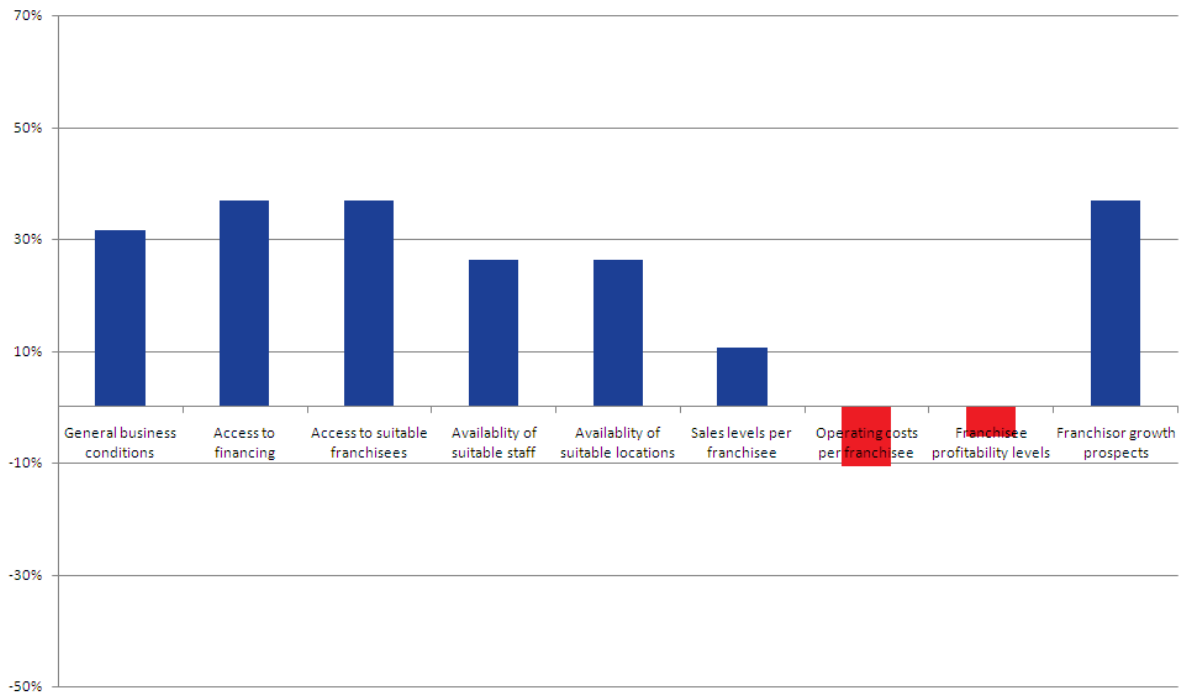
NET FRANCHISOR EXPECTATIONS



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 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. 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 franchisor and 19 service provider (e.g. franchise specialist bankers, lawyers, accountants, consultants, publishers, shop designers and fitters) respondents collected between Monday 23 and Friday 27 January 2012. 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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Franchising Confidence Index

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