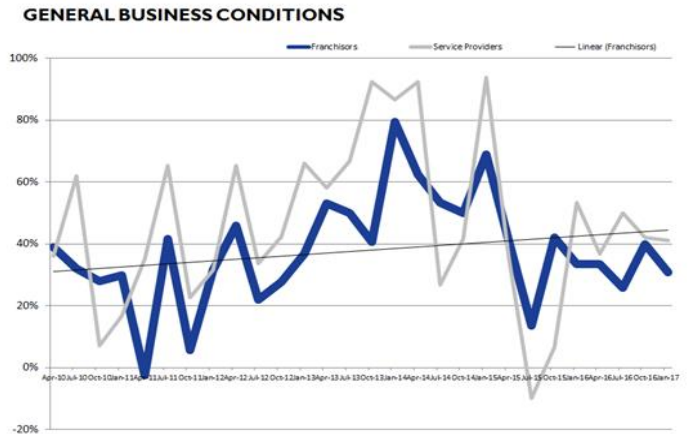


Franchisors Start 2017 Optimistic

Franchise Consultants' January 2017 *Franchising Confidence Index* demonstrates optimism across many key growth drivers, as reported by responding Franchisors and Service Providers.

Franchisors remained positive, on balance, in their outlook for general business conditions (net 31%) although slightly down on the October (40%) result. Availability of suitable staff (though still net negative -3%) and suitable locations (net positive 16%) were areas of improvement overall. Meanwhile, perceptions for accessing finance and franchisee operating costs saw a negative impact down a net 23% and net 13%, respectively.



Sentiment for franchisee profitability remained elevated at a net 44% (compared to 49% in October) and continues strong overall sentiment for that metric since late 2012. Franchisor growth prospects continues a recent steady increase to a net 59% from 57% in October. Service Providers in contrast felt the outlook for franchise profitability levels had improved at net 35% (compared to 21%) and remained strongly positive on the outlook for franchisor growth prospects (net 47%).

The outlook for **general business conditions** is a key measure for this research because it can be compared with other business confidence surveys. Franchisors remained positive (net 31%), down slightly from 40% in the last quarter. The majority of responding Service Providers also indicated positivity for general business conditions (net 41%).

We note the net 31% positivity experienced by franchisors was shared by that of other research involving general business, including ANZ Business Outlook (22% in December) and NZIER (26% in January) business confidence surveys.

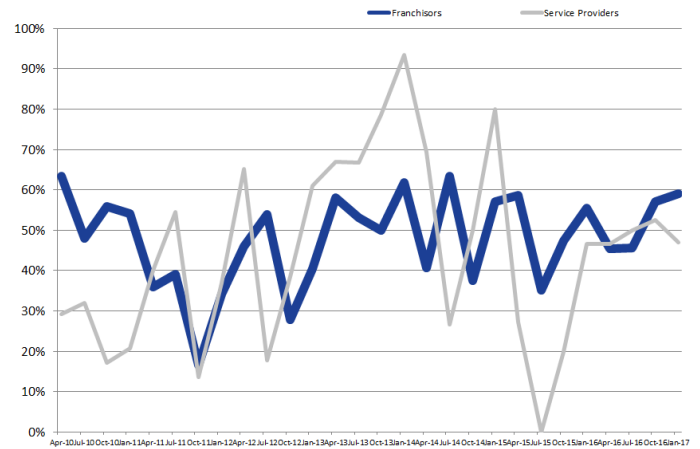
RESULTS SUMMARY TABLE *

| | Franchisors | | | | | | | | | | Service Providers | | | | | | | | | |
|------------------------------------|-------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|-------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Oct-14 | Jan-15 | Apr-15 | Jul-15 | Oct-15 | Jan-16 | Apr-16 | Jul-16 | Oct-16 | Jan-17 | Oct-14 | Jan-15 | Apr-15 | Jul-15 | Oct-15 | Jan-16 | Apr-16 | Jul-16 | Oct-16 | Jan-17 |
| General business conditions | 50% | 69% | 41% | 14% | 42% | 33% | 33% | 26% | 40% | 31% | 42% | 94% | 36% | -10% | 7% | 53% | 37% | 50% | 42% | 41% |
| Access to financing | 21% | 41% | 28% | 19% | 21% | 30% | 21% | 0% | 15% | -8% | 42% | 88% | 36% | 30% | 27% | 53% | 37% | -5% | 0% | 18% |
| Access to suitable franchisees | -17% | 17% | 17% | -8% | -16% | 0% | -6% | 11% | 12% | 10% | 33% | 44% | 55% | 40% | 33% | 20% | 21% | 5% | 21% | 41% |
| Availability of suitable staff | -17% | -18% | -7% | -6% | 0% | -7% | -9% | -12% | -13% | -3% | 0% | 6% | 0% | 30% | 0% | 0% | 11% | 5% | -5% | -6% |
| Availability of suitable locations | -17% | 12% | 7% | -3% | -6% | -16% | 3% | 6% | -13% | 16% | 8% | 27% | 9% | 20% | 20% | 0% | 53% | 5% | 26% | 12% |
| Sales levels per franchisee | 63% | 62% | 38% | 32% | 53% | 52% | 39% | 51% | 63% | 56% | 50% | 80% | 45% | 10% | 7% | 53% | -21% | 30% | 42% | 53% |
| Operating costs per franchisee | -38% | -3% | -10% | -16% | -6% | -19% | 3% | -6% | 0% | -13% | -25% | 6% | -9% | -20% | -7% | 20% | 26% | 5% | -11% | 0% |
| Franchisee profitability levels | 17% | 38% | 41% | 19% | 26% | 44% | 21% | 40% | 49% | 44% | 18% | 40% | 55% | 20% | 27% | 33% | 47% | 40% | 21% | 35% |
| Franchisor growth prospects | 38% | 57% | 59% | 35% | 47% | 56% | 45% | 46% | 57% | 59% | 50% | 80% | 27% | 0% | 20% | 47% | 47% | 50% | 53% | 47% |

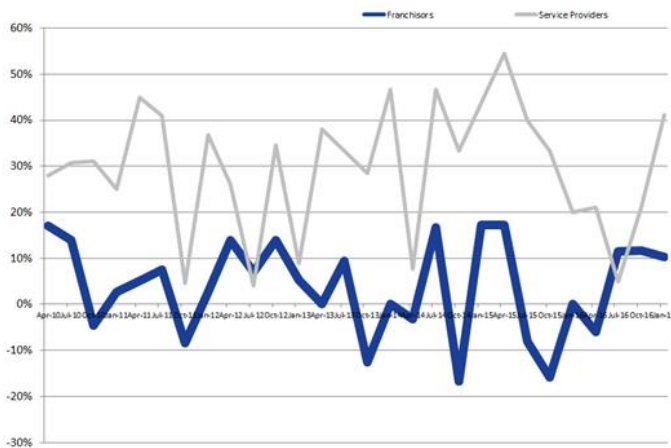
*The figures indicate 'net' confidence. Net' confidence is the difference between those reporting 'better' and 'worse'

Franchisor sentiment for **franchisor growth prospects** continued to gain strength with a slight increase to a net 59%, up from the previous quarter net 57%. Service Providers net 47% also provided positive results, although slightly down on the net 53% in October.

FRANCHISOR GROWTH PROSPECTS



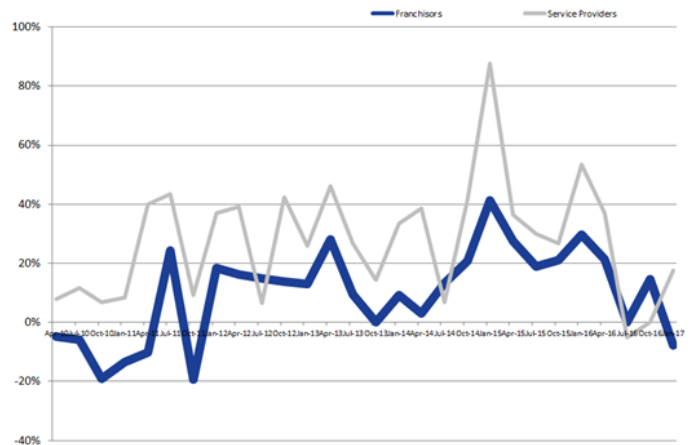
ACCESS TO SUITABLE FRANCHISEES



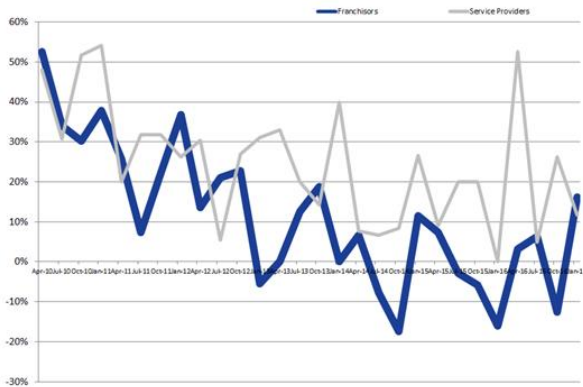
Franchisor sentiment toward **access to suitable franchisees** remains a key challenge although consistent at a net 10% (back from 12%). Service Providers in comparison were very confident at a net 41%, up from net 21% last quarter.

Franchisor sentiment toward **access to financing** dipped significantly from last quarter to a net negative 8% from a net 15%. Service Providers in comparison were much more positive, reporting net 18%, an increase from net 0% in the last quarter.

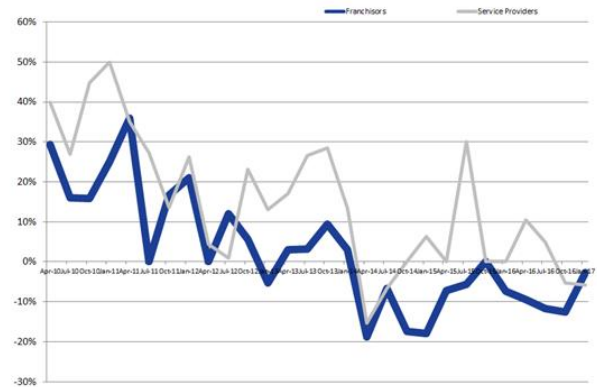
ACCESS TO FINANCING



ACCESS TO SUITABLE LOCATIONS



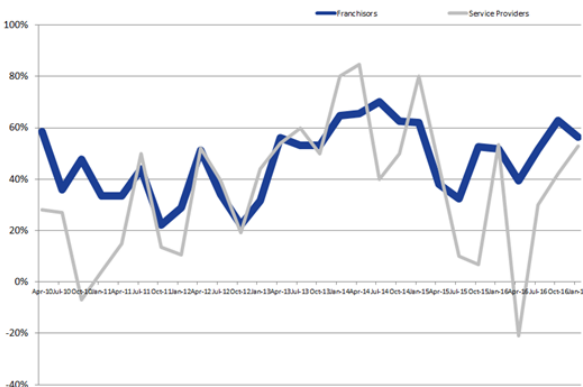
ACCESS TO SUITABLE STAFF



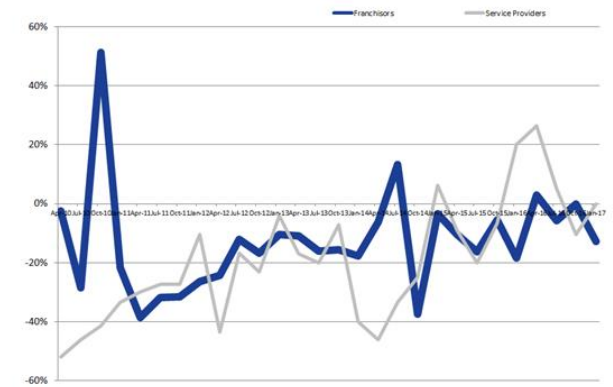
Franchisors were much more optimistic this quarter in their outlook for **access to suitable locations**, at net 16% up from net negative 13%. Similarly Franchisors, whilst still subdued in their outlook for access to suitable staff, saw a lift from net negative 13% to net negative 3%. Service Providers remained less certain in their views of suitable locations, dropping to net 12% from 26%. Meanwhile, Service Providers placed the outlook for access to suitable staff at a net negative 6% (down from net negative 5%)

Net Franchisor (56%) and Service Provider (53%) sentiment toward future **sales levels per franchisee** also remain at elevated levels. The Franchisor outlook on **franchisee operating costs** remained negative, decreasing from last quarter (down to net negative 13%). Service Provider sentiment increased from net negative 11% to net 0%.

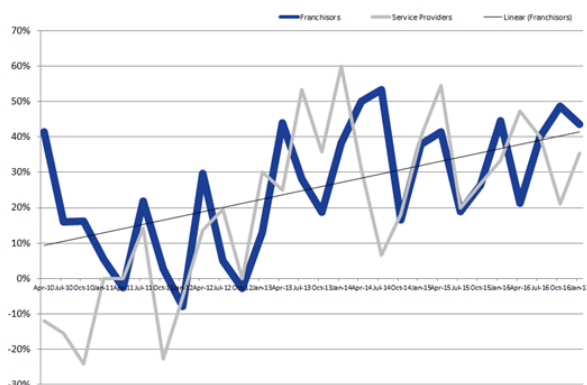
SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE



FRANCHISEE PROFITABILITY LEVELS



Franchisors reported continued positivity toward **franchisee profitability levels** at a strong and encouraging net 44%. Service Providers also remained positive increasing to net 35%.

Franchising Outlook

Franchisors were asked for qualitative responses on how things were looking in their sector. Thirty nine franchisors responded from a variety of self-reported industries including retail, financial, hospitality, building and construction. Most are experiencing positive, albeit competitive environments. There is also uncertainty of how the economic environment may impact the future. The following examples are indicative of this sentiment:

- *Our sector (pest control) is looking promising with greater awareness around our services will create new opportunities*
- *The cleaning industry is becoming more and more competitive with prices being driven very low, especially in the main cities.*
- *Cafe with new growth as we are new to NZ*
- *Very positive - Residential Property Management.*
- *challenging*
- *Positive*
- *Buying and selling secondhand goods and short term small value personal finance*
- *Things are looking soft as more traditional cafes and restaurants try to enter the fast-casual space*
- *Realestate Recruitment and retention of good people major problem often payout to salespeople unsustainable*
- *Promising - Mobile Car Valet*
- *Finance - strong national economic conditions may be eroded by international uncertainty and volatility.*
- *Strong*
- *Finance and Insurance. Positive but uncertainty on horizon.*
- *A competitive market with increasing price pressure due to discounting by new players.*
- *Sector remains reasonably strong. Product differentiation from competitors remains important*
- *Service industry. Business consistent and solid*
- *Little growth opportunities via franchise sales*
- *Hospitality - looking ok but growth in store numbers will need to come from non traditional areas*
- *Portable accommodation.*
- *With demand outstripping supply of housing and rents set to increase, we anticipate the demand for our services will continue to grow. Natural disasters can also have a positive impact on demand from time to time.*
- *Services and the last quarter of 2016 was one of our better trading quarters for some time.*
- *New Building*
- *Our business is experiencing solid work levels with nothing in the crystal ball looking at stopping it.*
- *Vehicle finance. Strong off the back of record levels of new and used car sales.*
- *Opportunities for the entire industry to lift margin. Profitability is no longer a forbidden word as many small business owners are waking up.*
- *Retail is looking much better*
- *Home Service still a challenge to sell*
- *To many stores so always hard to plan on big growth*
- *Business Advisory. Probably marginally better as business owners more likely to seek assistance in times of increasing uncertainty. (Trump, Brexit, rising funding costs)*
- *Demand is growing for quality reporting and service, meaning we are seeing an increase in work and More demand across the country.*
- *Home maintenance sector very busy*
- *Construction - positive year ahead, plenty of enquiry and sale opportunities, challenge will be finding the right amount of resources.*

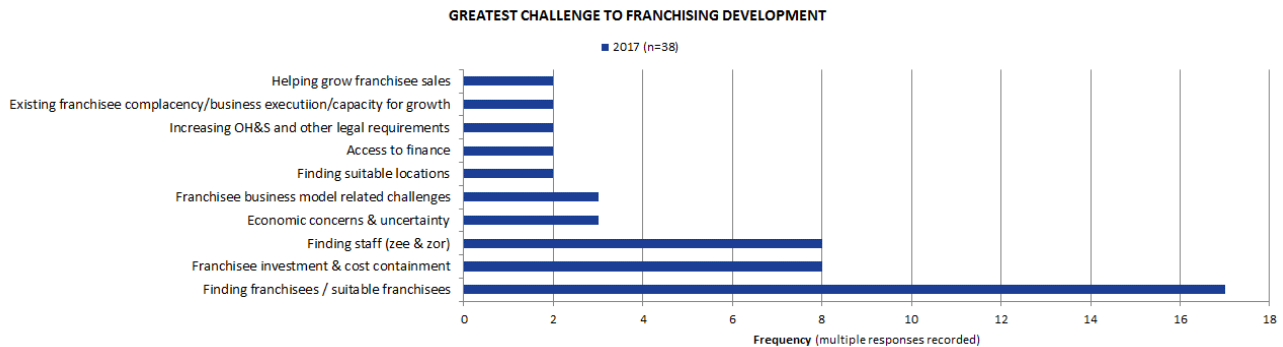
- *Very good, landscaping services*
- *Very good*
- *Tourism numbers around the globe and into NZ continue to grow. A strong domestic economy keeps Kiwis travelling in their own country. Both contribute to strong/growing visitor numbers*
- *Positive, seeing same store sales growth and a positive attitude in the general economy feeding through to positive attitude.*
- *Positive, we are still growing at a strong rate*

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

- *Things are becoming tighter and more competitive*
- *Outlook for 2017 includes moderate growth @3%, gradual increase in inflation back over 1%, flat OCR outlook and slower house price growth. Restaurants, Cafes, Hardware and Liquor stores had an amazing couple of years of sales growth.*
- *Much the same with general domestic economic conditions remaining stable. Wild card will be any external influences such as the Don and Vlad show*
- *Positive overall. While F&B will never be an 'easy' industry to be part of, we are seeing many great improvements in our group that are providing growth opportunities.*
- *Generally very good*
- *Very positive, unless global economic circumstances change dramatically - which is very possible.*
- *Should be a stable/improving economy, biding well for well managed businesses. Uncertainty over housing value may cloud prospective franchisee decision making and investment.*
- *Strong sales and revenue streams, high level of confidence all round*
- *We will likely see rising costs on the back of increased interest rates and dairy commodities*
- *Very positive*
- *Pretty good*
- *generally positive, although possibly more scrutiny around franchisor responsibility towards consumers where franchisee does not perform/fails to perform/fulfil*
- *As franchisor the outlook for 2017 is positive and we are getting similar feedback from franchisees*

Greatest Challenge to Franchising Development in 2017

For the sixth year running franchisors were asked what they perceived to be the greatest challenge to franchising development in the year ahead. The following chart plots the frequency of key comment themes.



As demonstrated, almost half (18) of responding franchisors identified finding franchisees as the top challenge to their development. Finding franchisees was followed mainly by concerns around the level of franchisee establishment investment and operating cost pressures (8), and, both franchisor and franchisee ability to hire suitable staff (8).

Other key challenges cited included factors relating to economic concerns and uncertainty (3 mentions) and references to challenges to, or sustainability of, their franchisee business model.

Lesser mentioned areas (2 citations each) included finding suitable location, access to finance, new Health & Safety compliance, existing franchisee business execution and helping franchisees find end-customers.

Previous Year Comparisons

Finding franchisees / suitable franchisees continues to be the dominant identified challenge to franchising development, as it has for the preceding five years.

Top Themed Challenges to Franchise System Development

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 |
|--|------|------|------|------|------|------|
| <i>Finding Franchisees</i> | 1 | 1 | 1 | 1 | 1 | 1 |
| <i>Access to Finance</i> | 2 | 5 | | | 4 | |
| <i>Economic Concerns</i> | 3 | 3 | 2 | | 5 | 4 |
| <i>Investor Confidence</i> | 4 | | | | | |
| <i>Finding Suitable Locations</i> | 5 | | 5 | 5 | 2 | |
| <i>Franchisee Business Model Challenges</i> | | 2 | | | | 5 |
| <i>Online Retail Threat</i> | | 4 | | | | |
| <i>Franchisee Business Execution</i> | | | 3 | | | |
| <i>Finding Suitable Staff</i> | | | 4 | 2 | | 3 |
| <i>Franchisee Investment / Operating Costs</i> | | | | 3 | 3 | 2 |
| <i>Competition</i> | | | | 4 | | |

Finding franchisees also continues to be the only challenge that made the top five list of challenges in each of the last six years. This year is notable for a transition toward future focused concerns that ultimately impact

future franchisee profitability, return on investment, and, sustainability. Key examples include mention of economic concerns, franchise investment and operating cost pressure, finding suitable staff, and business model related challenges.

What Will Provide the Greatest Opportunity Related to Franchising Development in 2017?

This year we asked Franchisors and Service Providers what they perceived to be the greatest opportunity related to franchising development in the year ahead. A wide variety of internal and external factors were cited. Key themes identified by Franchisors and Service Providers included new and innovative ways of marketing, looking for opportunities to differentiate from competition, broadening locations offered, and economic conditions. Opportunity-related examples included:

- *Regional cities with less aggressive competition*
- *The fact that we are a new exciting cafe franchise*
- *A growing market*
- *the return on time invested in the business to be better than what one would obtain as an employee*
- *Strong brands with strong systems will hang on while weaker brands will not survive.*
- *Independent offices looking for brand support Profile cash flow forecasts support with recruitment*
- *Winning lotto*
- *Expanding product opportunities*
- *building customer relationships through genuine direct marketing - not spamming*
- *Continued buoyant immigration numbers.*
- *Better structure and streamlining of business systems*
- *working with new business opportunities*
- *Opening up new areas that we haven't offered before.*
- *Innovative marketing, social media, fending competitors and refined in-going costs of Franchise.*
- *Capturing market growth*
- *Recruitment of franchisees*
- *Momentum*
- *Learning from the past issues*
- *Strangely perhaps, increasing uncertainty*
- *working together for mutual success, at least within our own network.*
- *New areas of growth in our company providing more incentives for our franchisee's*
- *Good returns across almost all franchisees will see a greater appetite for capital investment and product improvement. Continued low borrowing costs may see new franchisees come into the market and/or the purchase of existing franchises*
- *New developments, regional growth which will benefit our system*
- *Economy is still going strong and a lot of money available for investment in businesses (because of low interest rates on offer & perceived high property and share market prices)*
- *Attracting good franchisees*
- *New developments providing new location opportunities.*
- *Sound growth in the economy*
- *Well-structured franchises with profitable franchisees will continue to find and convert good applicants.*
- *Any improvement in the perception that business returns may outstrip passive property investment - i.e. more prospective franchisees considering the franchise opportunity*
- *Stability in the economy providing people with confidence to make investment and expansion decisions and or enter franchising for the first time*
- *Those with sound equity and cash reserves will be able to take advantage of opportunities as they arise*
- *Converting employees in the non-franchising sector into franchisees with passion to own their own businesses*
- *Population growth and positive economic outlook*
- *Growth of established markets*

Concluding Comment

Overall, Franchise Consultants' Franchising Confidence Index in January 2017 demonstrated continued levels of optimism whilst recognising some areas of challenge.

Franchisors continue to maintain a positive outlook for growth prospects, availability of suitable locations, and availability of suitable staff. We were also encouraged to record a continued positive outlook for franchisee profitability, arguably a franchise system's most important key performance indicator.

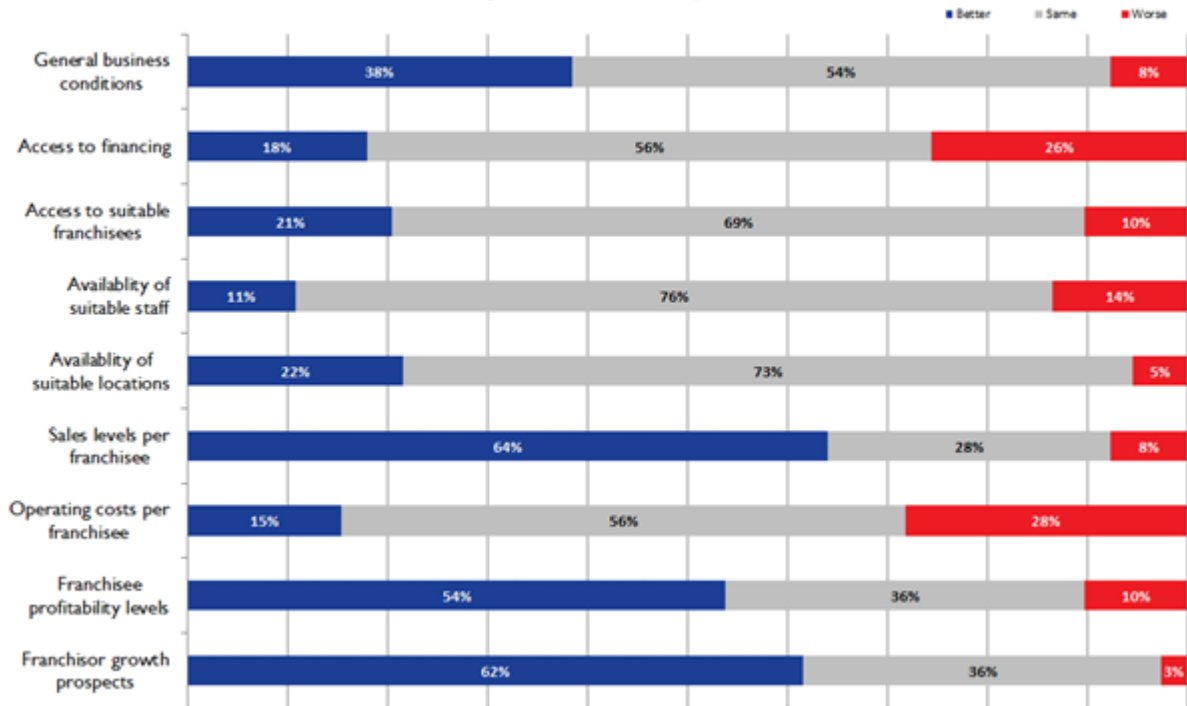
Key franchisor-identified challenges for growth in 2017 included access to financing, access to suitable franchisees, increasing investment or operating costs, and, impact of economic conditions.

The sentiment contained within the results indicate that in 2017 both Franchisors and Service Providers expect a challenging although positive year for franchising in New Zealand.

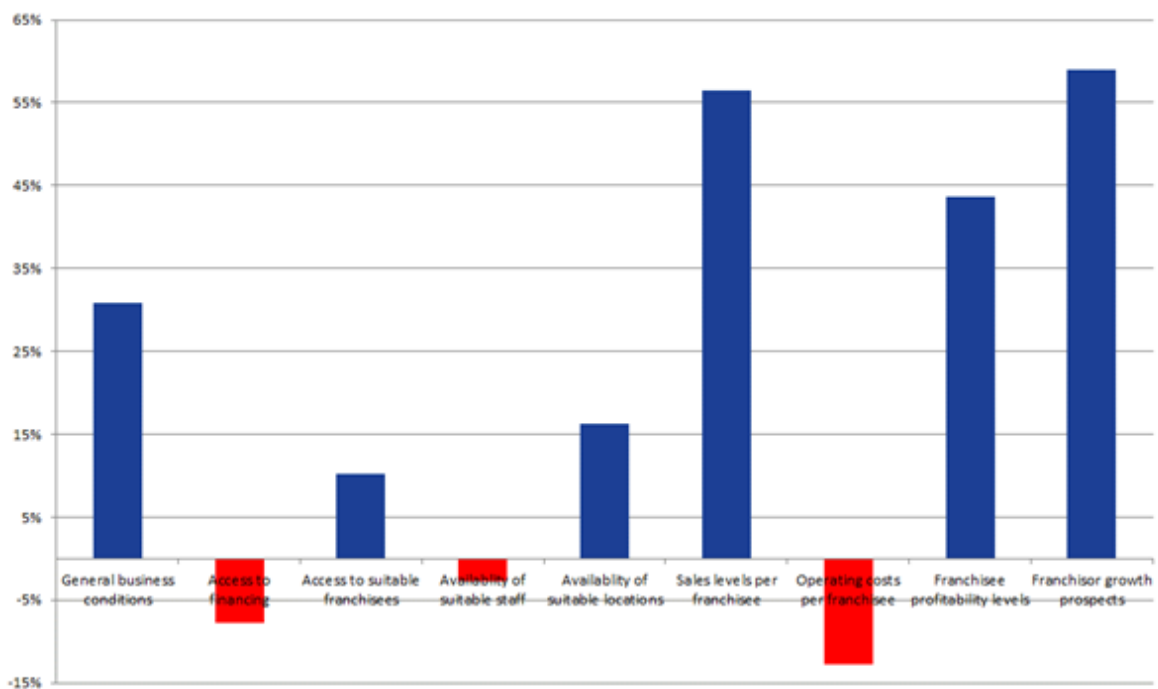
FRANCHISING CONFIDENCE CHARTS

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).

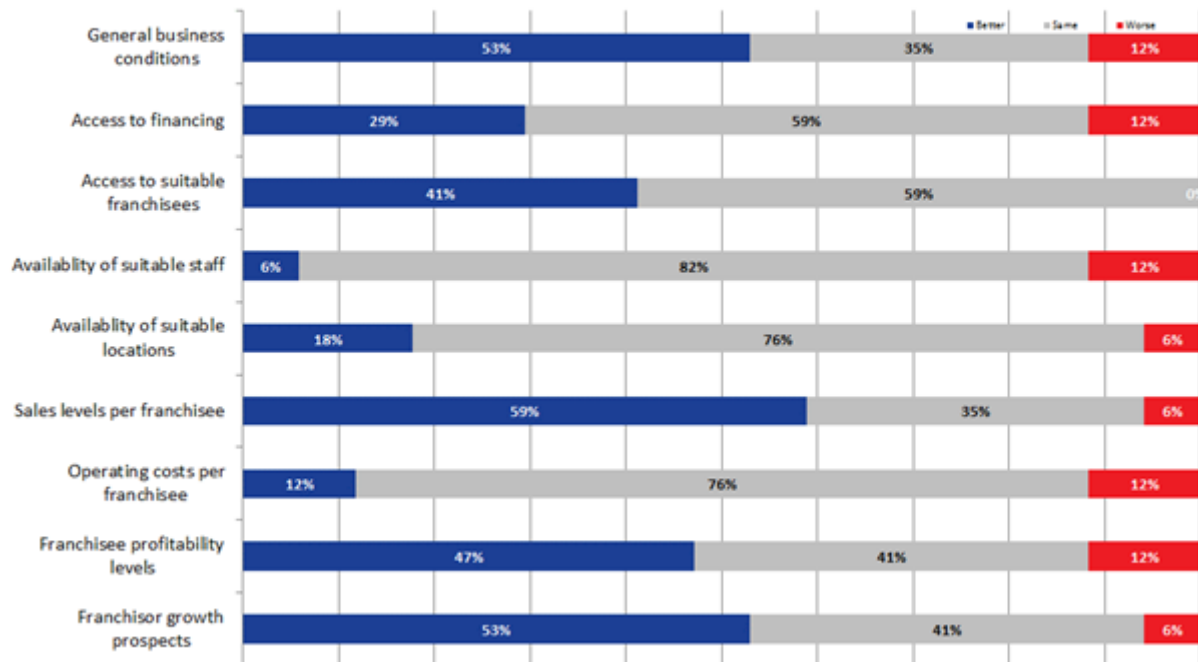
FRANCHISOR EXPECTATIONS (next 12 months)



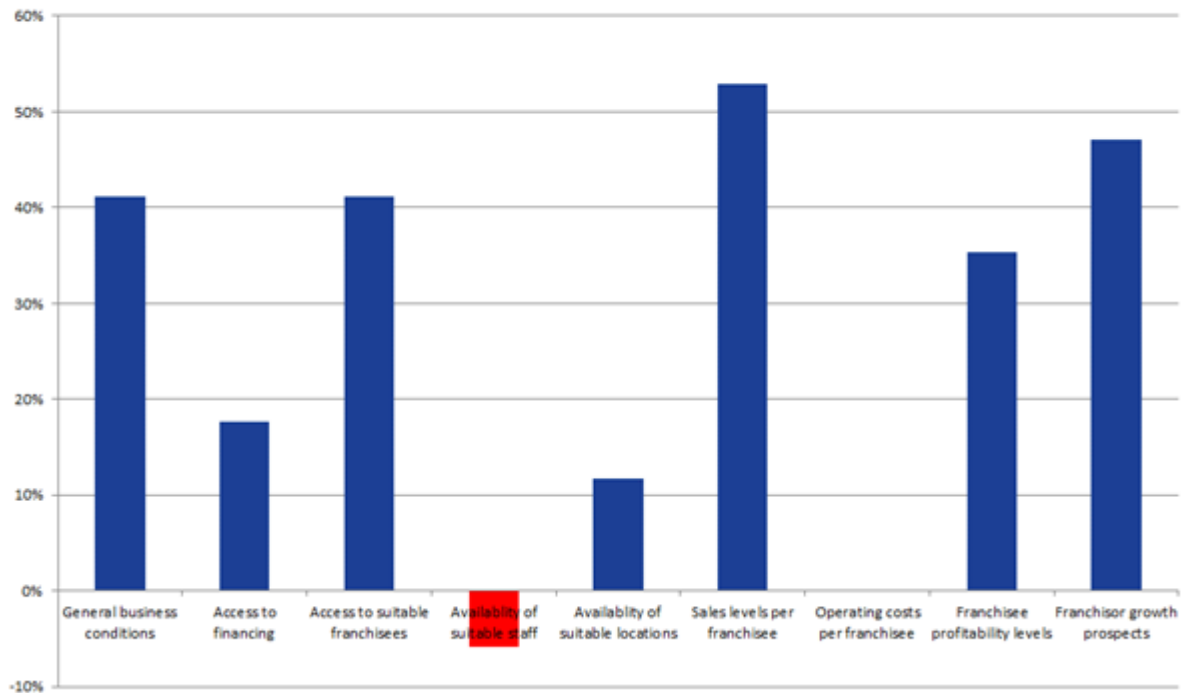
NET FRANCHISOR EXPECTATIONS



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 39 franchisors and 17 Service Providers collected between Monday 16th January and Friday 20th January 2017. 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 Kayleen Smith.

For more information contact:

Callum Floyd PhD



Franchising Confidence Index

Franchise Consultants (NZ) Ltd

Level 1, 27 Gillies Avenue

Newmarket, Auckland

Ph. 09 523 3858

Fax. 09 520 0387

Email. callum@franchise.co.nz

Web. www.franchise.co.nz, www.franchisingconfidence.co.nz
