

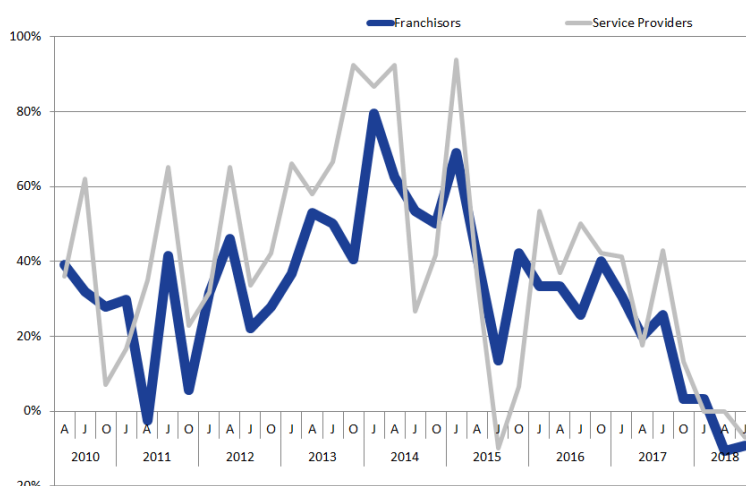
Franchisor Quarterly Sentiment Fluctuating

Franchise Consultants' July 2018 *Franchising Confidence Index* continues to demonstrate mixed confidence levels. Reductions in franchisor sentiment towards availability of suitable franchisees and finding suitable staff continue. Meanwhile, notable franchisor outlook improvements included access to financing and, to a lesser extent, improved sentiment towards franchisee profitability levels.

Franchisors' sentiment towards **general business conditions** lifted very slightly from net negative 11% to net negative 9% indicating a small but positive improvement from the previous quarter's all-time low.

Service Providers sentiment which had settled at a neutral 0% for the past two quarters, dipped slightly to net negative 7%.

GENERAL BUSINESS CONDITIONS



Franchisors' view on general business conditions was considerably better, as it often is, from that of other research involving general business confidence. The ANZ Business outlook dropped markedly to a net negative 39% in June, back to levels seen in January, after confidence had improved to net negative 20% in March. The NZIER business survey which was released on July 3 also saw a drop to net negative 19% from a net negative 10% in April.

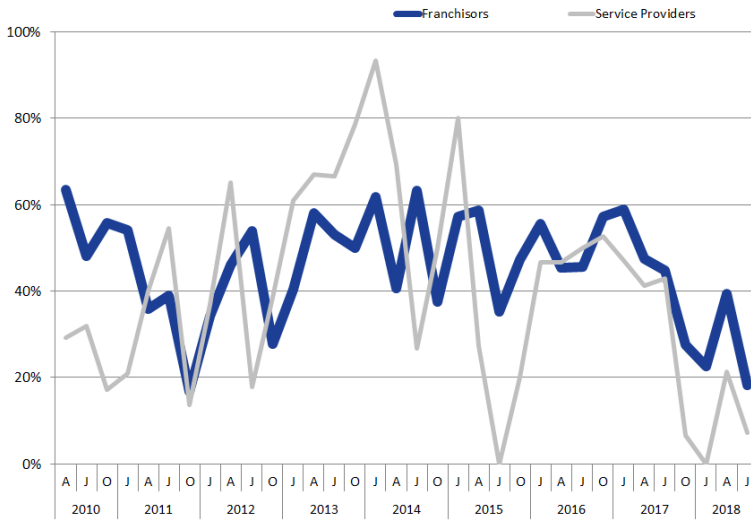
Our experience, now involving some 34 consecutive quarters (over eight calendar years), indicates that franchisors are normally more positive toward future general business conditions compared to datasets involving other organisational forms.

RESULTS SUMMARY TABLE

	Franchisors										Service Providers											
	2016		2017				2018				2016		2017				2018					
	J	A	J	O	J	A	J	O	J	A	J	J	A	J	O	J	A	J	O	J	A	J
General business conditions	33%	33%	26%	40%	31%	20%	26%	3%	3%	-11%	-9%	53%	37%	50%	42%	41%	18%	43%	13%	0%	0%	-7%
Access to financing	30%	21%	0%	15%	-8%	-18%	-8%	-13%	0%	-21%	0%	53%	37%	-5%	0%	18%	0%	-21%	-7%	7%	14%	7%
Access to suitable franchisees	0%	-6%	11%	12%	10%	-10%	13%	-20%	-28%	-14%	-36%	20%	21%	5%	21%	41%	24%	36%	7%	7%	0%	-21%
Availability of suitable staff	-7%	-9%	-12%	-13%	-3%	-26%	-32%	-14%	-16%	-22%	-34%	0%	11%	5%	-5%	-6%	0%	-7%	7%	0%	-50%	-43%
Availability of suitable locations	-16%	3%	6%	-13%	16%	17%	-5%	11%	7%	4%	0%	0%	53%	5%	26%	12%	6%	21%	20%	14%	38%	-7%
Sales levels per franchisee	52%	39%	51%	63%	56%	49%	51%	43%	28%	50%	33%	53%	-21%	30%	42%	53%	41%	43%	13%	7%	36%	7%
Operating costs per franchisee	-19%	3%	-6%	0%	-13%	0%	-15%	-21%	-39%	-39%	-42%	20%	26%	5%	-11%	0%	-29%	-21%	-27%	-50%	-57%	-50%
Franchisee profitability levels	44%	21%	40%	49%	44%	40%	18%	7%	9%	-4%	3%	33%	47%	40%	21%	35%	0%	29%	-7%	-36%	-7%	-29%
Franchisor growth prospects	56%	45%	46%	57%	59%	48%	45%	28%	23%	39%	18%	47%	47%	50%	53%	47%	41%	43%	7%	0%	21%	7%

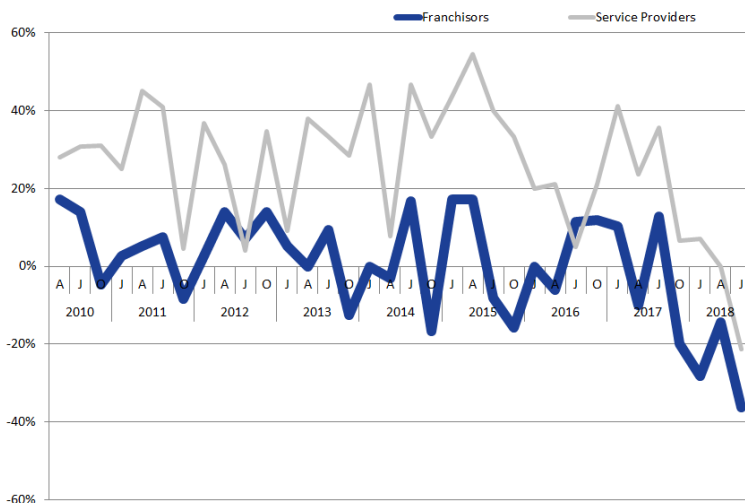
*The figures indicate 'net' confidence. Net' confidence is the difference between those reporting 'better' and 'worse'

FRANCHISOR GROWTH PROSPECTS



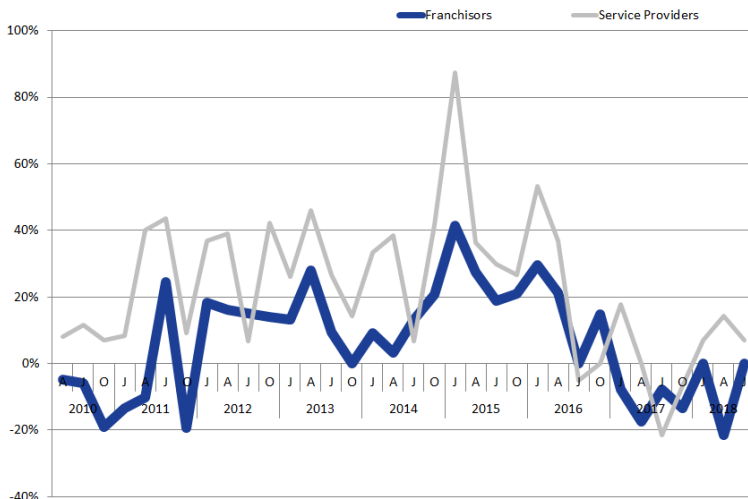
Franchisor sentiment toward **franchisor growth prospects** has, after a strong improvement to net 39% in April, dropped back to net 18%, similar to the levels seen immediately after the election. Service Providers sentiment followed a similar trend, dropping from net 21% in April to net 7% this survey.

ACCESS TO SUITABLE FRANCHISEES



Franchisor sentiment toward **access to suitable franchisees** has shown decreased sentiment this quarter to a new all time low of net negative 36% down from net negative 14%. Service Providers sentiment also dropped to a net negative 21% from net 0%.

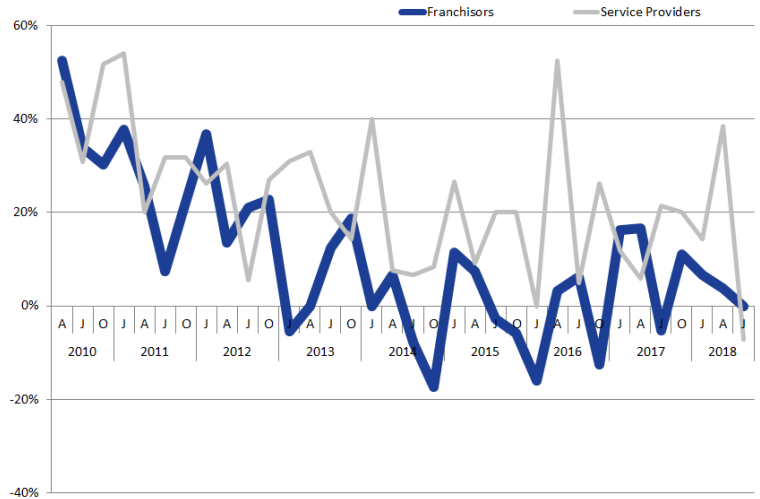
ACCESS TO FINANCING



Franchisor sentiment toward **access to financing** improved to net 0% from a net negative 21% previously. In contrast Service Provider sentiment reduced from net 14% to net 7%.

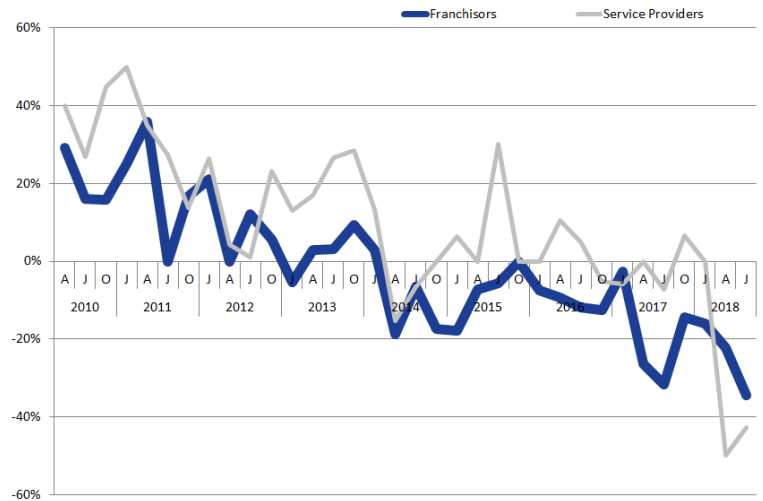
This quarter's Franchisors and Service Provider sentiment towards **accessing suitable locations**, saw a small dip from franchisors down from net 4% to net 0%. Service Providers' sentiment saw a severe drop, down from a high net 38% to a net negative 7%

ACCESS TO SUITABLE LOCATIONS



Franchisors and Service Provider sentiment toward the **availability of suitable staff** remains low, in negative territory. Franchisors dipped from net negative 22% to net negative 34%, whilst Service Providers improved moderately from net negative 50% in April to a still very low net negative 43% this quarter.

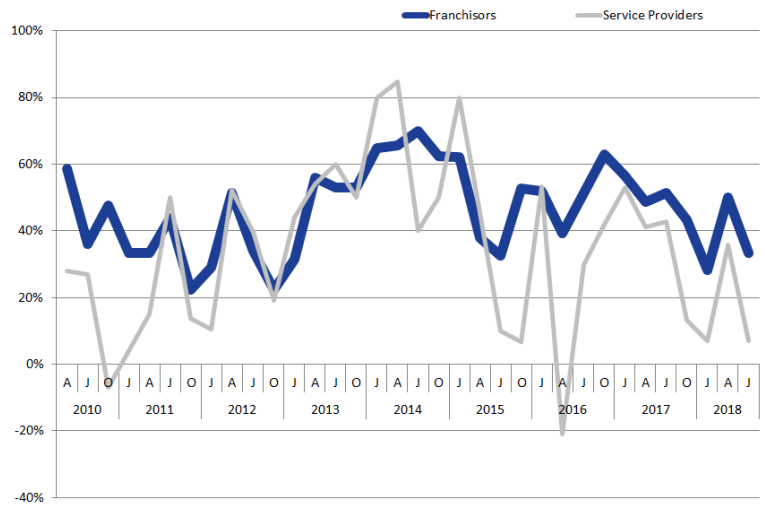
ACCESS TO SUITABLE STAFF



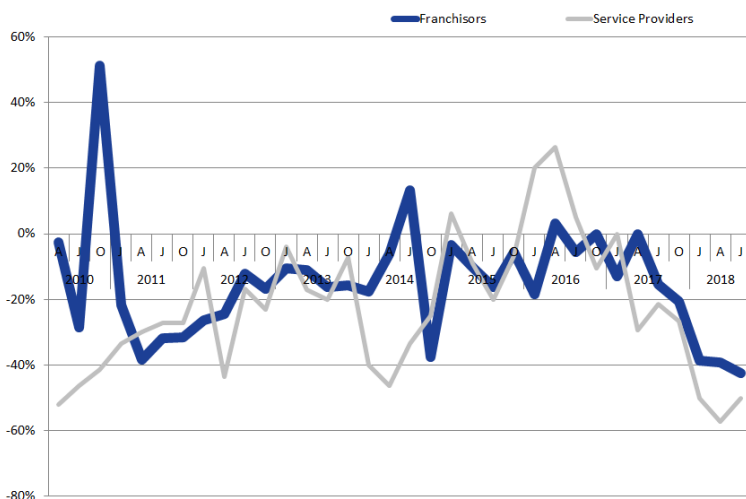
The Franchisee Picture

Sentiment towards expected **franchisee sales levels** fluctuates quarter to quarter with a reduction reflected this quarter. Overall sentiment remains positive, despite Franchisor expectations declining from net 50% to net 33%, and Services Providers declining from net 36% to net 7%.

SALES LEVELS PER FRANCHISEE



OPERATING COSTS PER FRANCHISEE

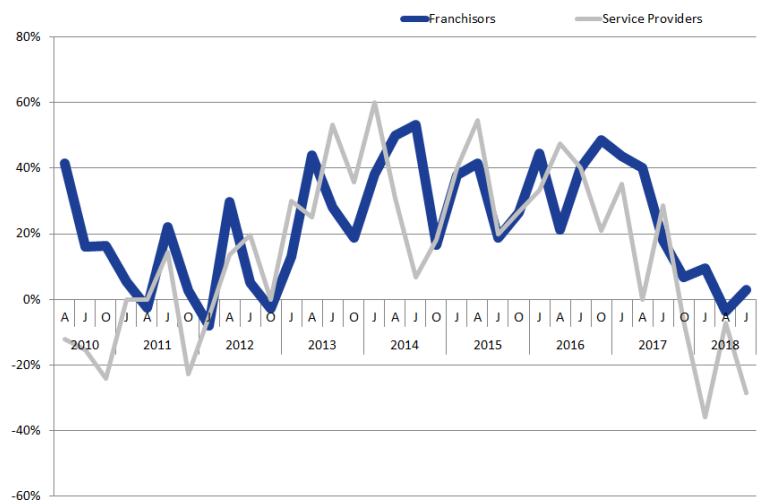


Anticipated **Franchisee operating costs** remain challenging with Franchisor sentiment dipping to a net negative 42% - the lowest point ever recorded in Franchise Consultants' FCI Index. Service Provider outlook rallied very slightly to a net negative 50% up from April's net negative 57% but is still on par with the previous low recorded back in 2010.

Finally, Franchisors' sentiment towards **Franchisee profitability levels**, which are a strong indicator of the economic climate, lifted back into a positive net 3% after a previous dip to net negative 4%.

Conversely, after a temporary lift in April, Service Providers' positive sentiment has dropped back to net negative 29%, putting it back again into levels not seen since 2011.

FRANCHISEE PROFITABILITY LEVELS



Franchising Outlook

In addition to the framed topics, **Franchisors** were asked for qualitative responses about how things were looking in their particular business sector. Twenty useable responses were received from a cross section of sectors. Notable themes continued to include uncertainty due to increasing wage requirements and immigration requirements – the latter also increasing perceived pressure on access to staff and franchisees. The food & beverage and cleaning sectors in particular expressed concern around the impact of increased fuel costs and the flow on effects of that. From a positive perspective, a number of comments alluded to industry sectors where demand is very strong, and growth is improving. Property management and renovations, along with business support services, were two of note.

The following Franchisor comments were indicative of this sentiment:

- *Pest control. Our sector is strong. However, government regulation changes and increased fuel costs are causing issues in our franchisees' profit margins*
- *Early childhood education. Staff are becoming hard to find in areas, but overall our quality is increasing, and the business should further develop and be profitable.*
- *Hospitality sector .Getting good staff is continuing to be difficult.*
- *Fast Food. Pressure from more independents, oversupply of locations due to the sunset of retail, franchising getting a bad reputation (RFG Group, Caltex Aussie etc), malls looking to take less franchises, so they can take the royalty margin themselves via high rent.*
- *Sports retail. Seems to be a growing category across all channels.*
- *IT services. Starting to come right again.*
- *Demand is starting to pick up again, per normal for the latter part of the year. There is still a scarcity of people wanting to purchase a franchise despite high level of interest.*
- *Regulatory review (CCCFA) is concerning and causing nervousness amongst franchisees*
- *Commercial cleaning. We work hard for the results*
- *Home Services. Lack of quality franchisees i.e. speak english, want to work during the day, have access to money - all challenging.*
- *Markets are stable - possibly a little positive if anything*
- *Retail. Will be affected by price of fuel and in particular freight, as well as increase in minimum wages. This will force us to increase prices to maintain profitability, and this process is already underway.*
- *Cafe operators. Sector is mature and saturated, so growth is very hard. Minimum wage issues and potential immigration clampdown a serious problem for the sector.*
- *Residential and Commercial property maintenance. Heaps of work available, we have trouble meeting the demand.*
- *I believe that as economic conditions tighten the demand for business support services is likely to improve.*
- *Increase in labour and operational costs will hurt Franchisees and all pricing must move to try to offset this. Market acceptance might be difficult.*
- *Getting staff and/or franchisees is next to impossible and is the single biggest issue we face*
- *Positive in residential renovations*
- *Real estate consumer confidence down - lack of property to sell, no urgency from buyers, banks tightening their lending criteria*
- *Food & Beverage - Cafe. New immigration laws and minimum wage increases are making employment more difficult. Like for like sales continue to grow at a steady rate which is positive obviously.*



Franchise Service Providers were similarly asked how they thought things were looking for franchisors and franchisees. Their responses showed a mix in sentiment with equally positive and negative thoughts. Comments alluded to a level of uncertainty both nationally and internationally, although on the converse side there were positive feelings toward this settling down and recovering in the future.

Key examples include:

- *The outlook for franchisors is now far less robust than in the past. Increases to the minimum wage costs will affect profitability when paired with declining general business confidence. Potential franchisees will become more hesitant to commit in the current environment.*
- *Tightening labour market in the fast food & retail industries. Increased fuel costs.*
- *Uncertainty prevails*
- *Really good - lots of positive activity during recent weeks*
- *Unless there is some unforeseen international event, I believe that the current uncertainty will settle down and confidence will increase again. We will continue to see slow economic growth, not at the rate of some recovering economies, but still positive. Franchisees will do well if their franchisors provide good leadership.*
- *Local and international uncertainties ahead*

Concluding Comments

Franchise Consultants' July 2018 Franchising Confidence Index continues to reflect the air of economic uncertainty commented on in the last few quarters.

As we referenced back in our October survey, records show this is common around election years, and more so when there has been a change in government.

Nine months on from the last election, there is still an air of uncertainty mainly driven by changes to government policy (minimum wages, immigration, fuel cost increases) and the speculative effects these will have on the economy.

With regulatory changes coming into effect early in July the cautionary sentiment towards general business conditions may have been influenced by the unknown outcomes of these changes, which could settle over the next few quarters – but more policy changes and policy amendments may yet be to come.

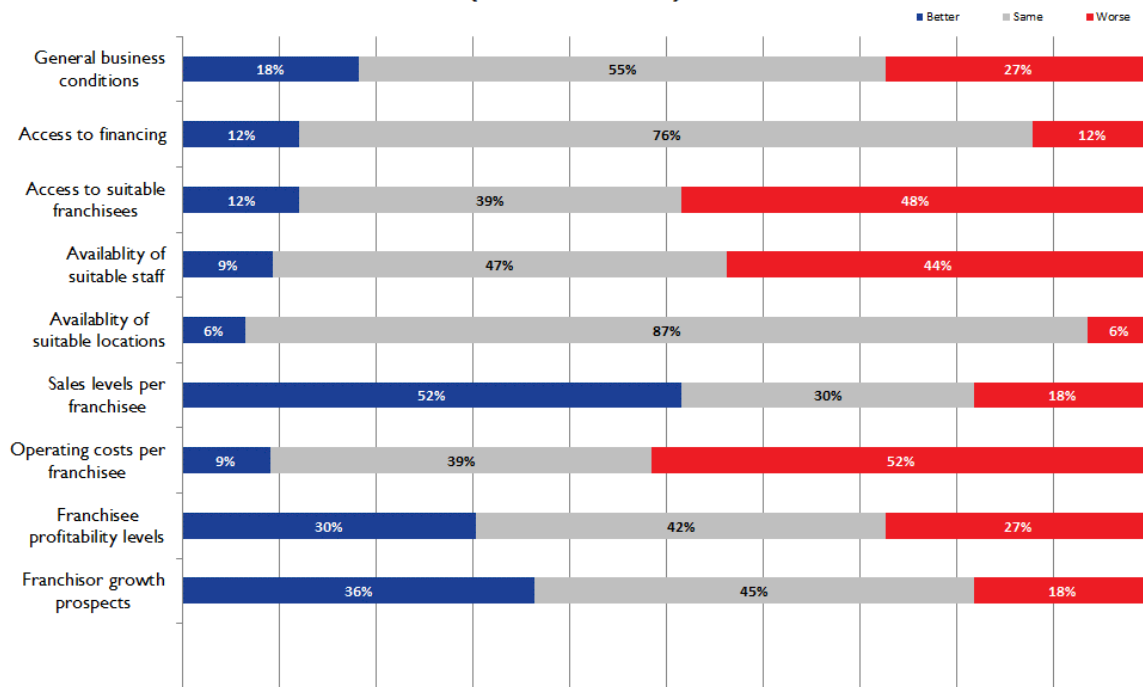
The franchising sector covers a diverse range of business enterprises, and as to be expected, policy changes can have both positive and negative impacts, depending on the individual business activity. The survey reflects some Franchisors are seeing or expecting a lot of growth, whilst others are experiencing a flat or slightly declining base and continuing or increasingly difficult trading conditions.

There are areas where sentiment is decreasing markedly one quarter, only to increase back in the next, such as access to finance and Franchisor growth prospects, reflecting the uncertainty. However, as mentioned previously, Franchisor sentiment towards general business conditions improved slightly this quarter, bucking the trend of other general business sentiment surveys.

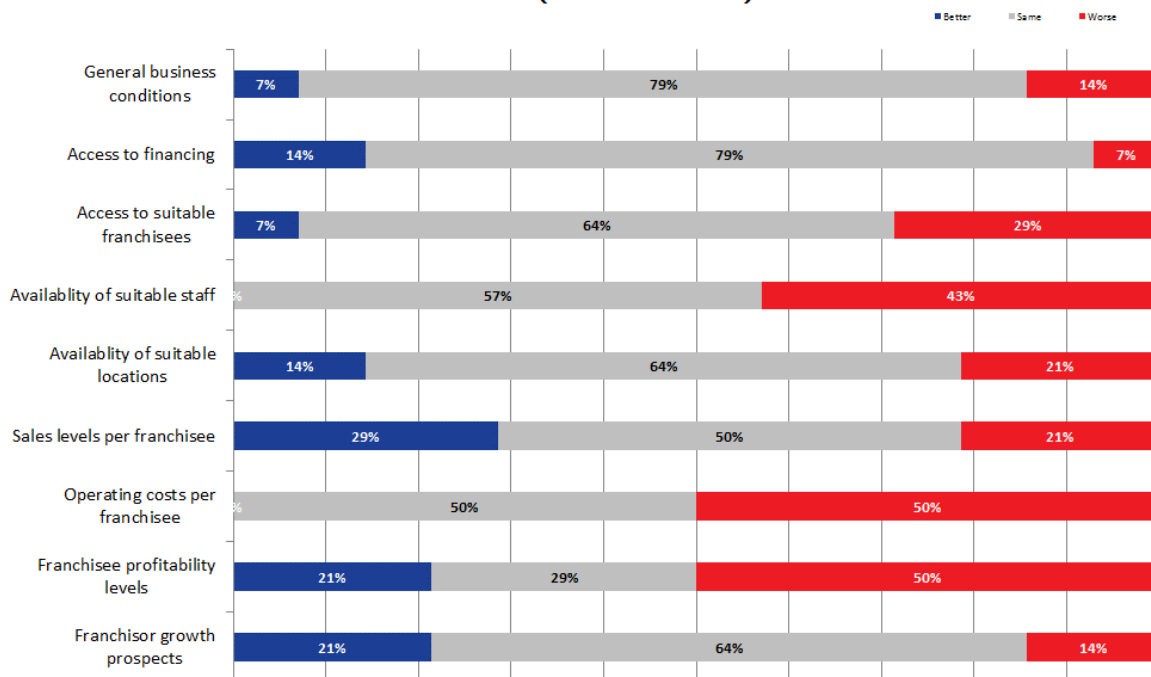
FRANCHISING CONFIDENCE CHARTS

The following four illustrations summarise 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)

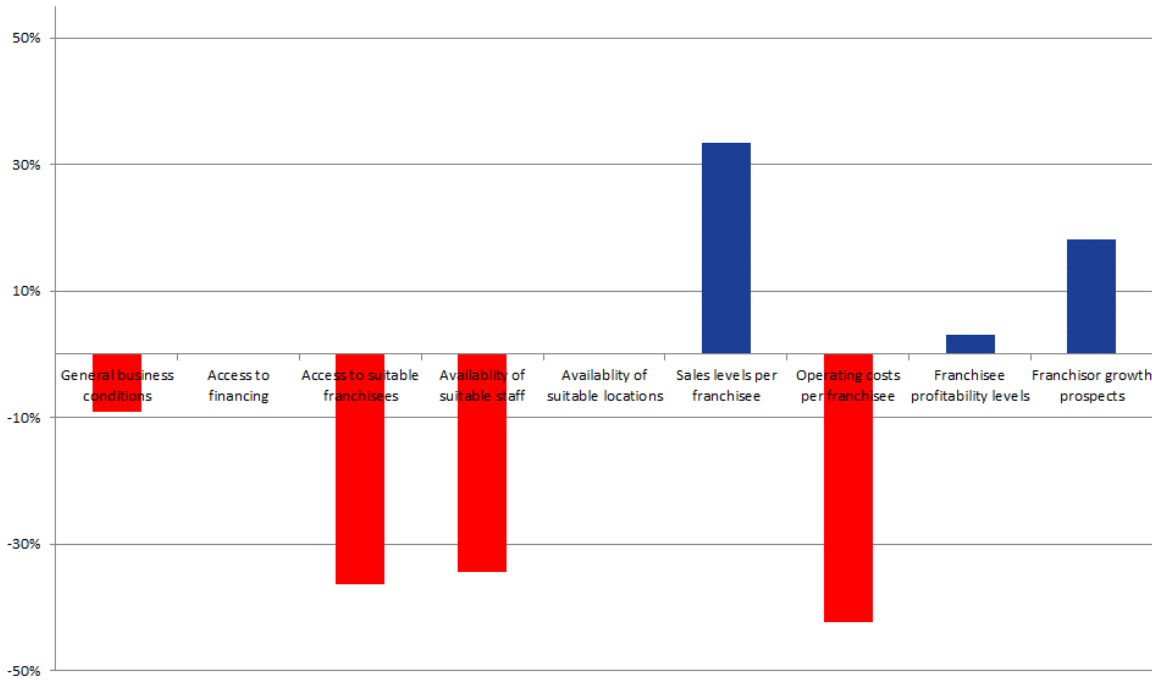
FRANCHISOR EXPECTATIONS (next 12 months)



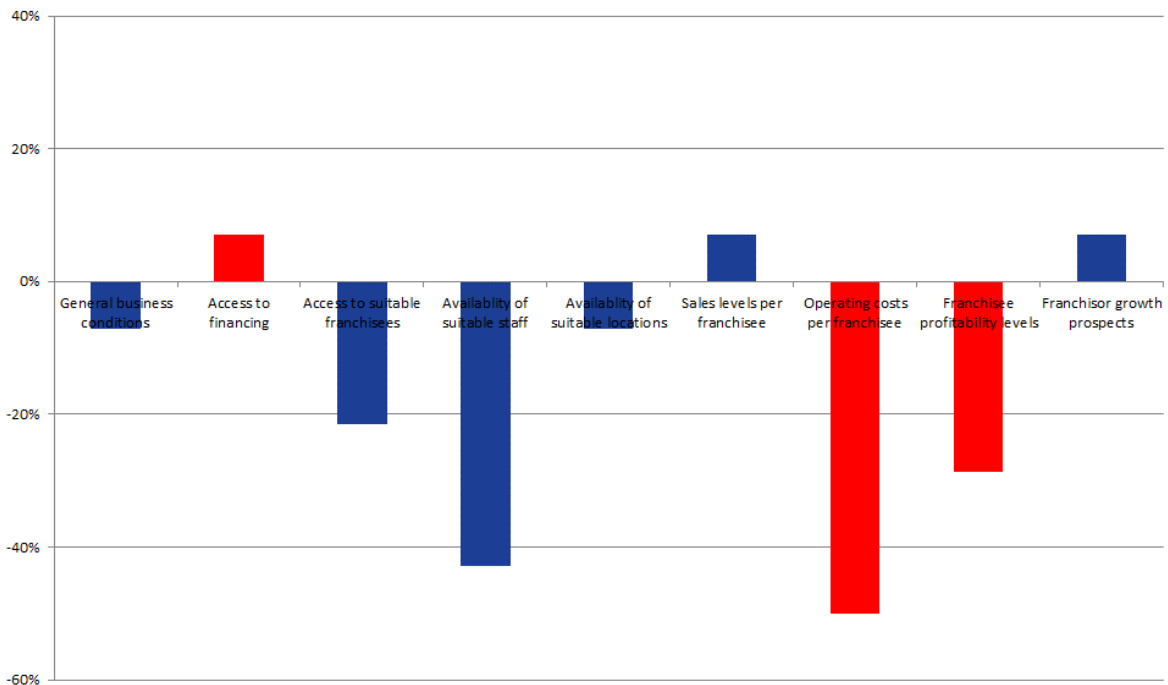
SERVICE PROVIDER EXPECTATIONS (next 12 months)



NET FRANCHISOR EXPECTATIONS



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 2017* survey, conducted by Massey University in collaboration with Griffith Business School, indicates New Zealand has 631 individual franchise systems comprising some 37,000 units (owned mostly by franchisees). The survey also suggests local franchise systems employ some 124,200 people. Finally, local expert estimates of total franchise system turnover range from \$27 to \$46 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.

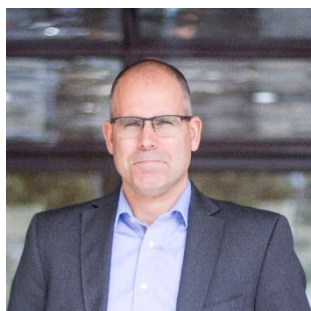
The Franchising Confidence Index represents confidence in key measures critical to the success of franchising in this country by reporting attitudes toward general business conditions, as well as key franchising growth determinants including access to capital, suitable potential franchisees, staff and 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 33 Franchisors and 14 Service Providers collected between Monday 25 June and Friday 29 June 2018. 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 results were compiled by Kayleen Smith, Business Support Manager, Franchise Consultants.

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