

Franchising New Zealand 2017



Franchising New Zealand 2017
Copyright © 2017
Massey University
Griffith University

Acknowledgements.

The authors are grateful for the following research assistance: **Debbie Griffin and Sharon Henderson at Massey University's Auckland campus.**

Icons and images from www.flaticon.com and www.freepik.com and are licensed under Creative Commons 3.0.

Report created by *&designs*.

Photography courtesy of Andrea Grace.



The Franchise Association of New Zealand is the peak body representing the franchising community at government and other industry forums and therefore views the collection and collation of the franchising survey as incredibly important to the future development of franchising as a business model in the New Zealand environment.

The Franchise Association thanks Massey University and Griffith University for their expertise in conducting the survey. FANZ also thanks our co-sponsors Westpac, Hayes Knight, ASCO Legal, Franchise Consultants and The Franchise Coach for their support which has made this survey possible.



This is the third Franchising New Zealand Survey undertaken by Massey University New Zealand and Griffith University Australia, again supported by Westpac New Zealand Limited. For the franchise industry and our franchisee and franchisor customers the Survey proves invaluable to identify trends, base decisions on and use for representation with Government, Labour Unions and Industry bodies.



Hayes Knight is an innovative chartered accountancy practice based in Albany and Newmarket that works beyond the numbers to keep our clients' businesses future fit. Our primary role is to improve your life by helping you grow your wealth and protect your assets. We are proud to support this survey.



The team at ASCO Legal are franchise specialists that have had a hand in franchising since its infancy in New Zealand, are founding member of the Franchise Association of New Zealand and continue to support FANZ and its various initiatives to support and promote positive franchising practices in New Zealand, including sponsoring the Franchise Survey, which provides the industry and the public with important insights into the present state of the franchise sector in New Zealand.



Franchise Consultants is proud to support the 2017 Franchising New Zealand Survey. Founded in 1989, and led by Dr Callum Floyd, Franchise Consultants is the primary franchising specialist for:

- Companies looking to franchise a business
- Established franchise systems wanting improved results
- Companies investigating/capitalising upon international franchising potential
- Franchise systems increasing franchisor/franchisee capability

“The Franchise Coach”

The complete franchise resource

The 2017 Survey provides the business sector, internationally and New Zealand wide and government with independent undisputable facts that are invaluable to investors to grow the franchise sector both for the franchisor and franchisee.

“The Franchise Coach” congratulates the survey team in writing relevant questions and for clearly communicating the results in a manner that will be of great value to drive business forward.



We appreciate the support of Franchise New Zealand Media

Foreword

Tēnā koutou katoa,

Rau rangatira mā o te ao pakihī, ngā mihi. Ānei tētahi pūrongo hou e whakaatu nei i te rahi me te ora o ngā pakihī e kīa nei he franchise o Aotearoa New Zealand.

Massey and Griffith Universities are proud to endorse the Franchising New Zealand 2017 survey sponsored by the Franchise Association of New Zealand and supporting contributors Westpac; Franchise Consultants; Hayes Knight; Asco Legal, and The Franchise Coach. Representing the only reliable and systematic data collected on the New Zealand franchise sector, the *Franchising New Zealand 2017* report provides an up-to-date profile of the sector.

Franchising New Zealand 2017 reveals:

- There are 631 business format franchisors in New Zealand in 2017, compared with 446 in 2012
- There is an estimated total of 37 000 units operating in business format franchises. This represents a net increase of 14 600 (65.2%) units in the sector over the past five years or greater than 13 percent growth year on year
- More than 124 200 people are employed directly in business format franchises
- Sales turnover for the entire franchising sector was estimated at \$46.1 billion
- Sales turnover for business format franchises was estimated at \$27.6 billion
- Seventy-two percent of franchise brands originated in New Zealand
- Fewer than 20 percent of franchisors have entered international markets, although in 2012 we reported internationalisation was a high priority for just under a quarter of brands
- A full 60 percent of franchise brands engage in online sales, an increase of 25 percent over the past five years.
- Sixty percent of franchisors encourage their franchisees to communicate with customers via social media
- A mere 22 percent of franchisors were involved in a substantial dispute in the past twelve months

The New Zealand economy has performed strongly over the past five years and underpinned a wave of business confidence. It has been a period of political stability and solid financial performance. Despite some budget deficits between 2011 and 2013 owing mainly to the Christchurch earthquakes, in 2014/15 and 2015/16 budget surpluses were reported. In the current financial year, a modest \$0.5b excess is forecast and set to increase in coming years. In this context New Zealand businesses have flourished. Competition remains keen, there has been fluctuation in dairy prices, and a bullish property market, but a generally positive business environment has encouraged expansion in the franchise sector, as elsewhere. The number of franchise systems has grown at the rate of 37 new businesses year on year meaning there has been an increase in both employment numbers and sales turnover across the sector. Throughout the period the perennial problems of finding good franchisees and suitable locations have remained, whilst there is some unease about franchisee access to finance as banks restrict lending in some areas and look to pass on some of their overseas borrowing costs.

The data provided in this report provides a reliable source of information about the New Zealand franchise sector. I am very pleased to recommend the *Franchising New Zealand 2017* survey results to franchise sector stakeholders. The 2017 report comes five years after previous reports in 2010 and 2012 and is intended to be completed on an ongoing biennial basis. The results are the only longitudinal data on the franchise sector since 2010. Massey University and Griffith University are pleased to collaborate with the peak body of franchise representation, the Franchise Association of New Zealand, in this important research.

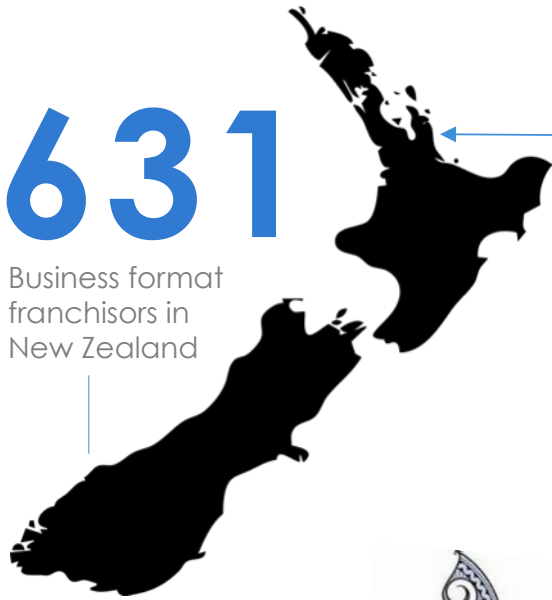
Heoi anō,



Professor Ted Zorn
Pro-Vice Chancellor
Massey Business School
Te Kura Whai Pakihī

631

Business format franchisors in New Zealand



Auckland is the most popular location for franchisee support offices



72%

of franchise brands currently operating, originated in New Zealand

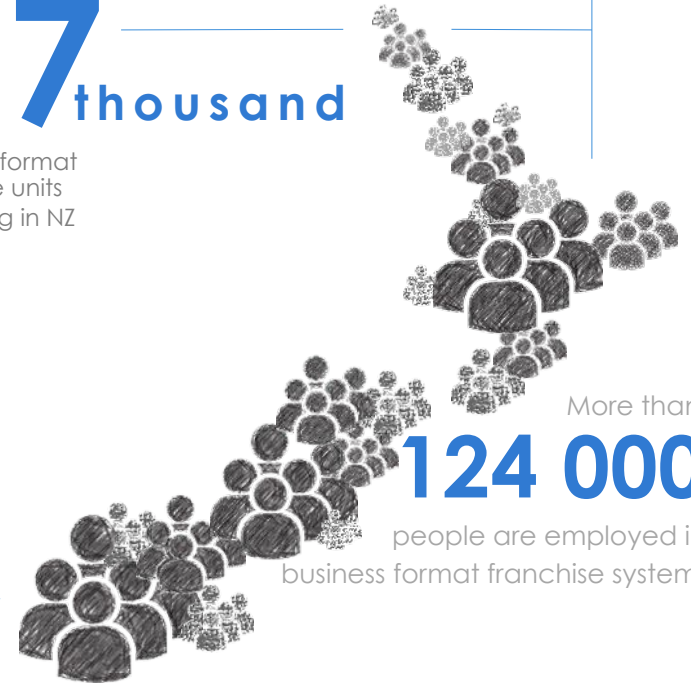


67%

of franchisors reported that NZ Maori owned units in their franchise system

37 thousand

business format franchise units operating in NZ



More than

124 000

people are employed in business format franchise systems

Sales turnover of the franchise sector estimated at

\$46.1 bn



TABLE OF CONTENTS

Sponsor Profiles	3
Foreword	4
Infographic	5
Introduction	7
Executive Summary	8
Section A: Franchise Profile	14
Section B: Sector Issues	30
Section C: Franchise Operations	38
Conduct of the Survey	54
Author Profiles	56



Introduction

The *Franchising New Zealand 2017* survey was conducted from April to May 2017. The identified population of business format franchisors (excluding supermarkets) was included in the survey.

The main purpose of the survey was to obtain current information about the practices and performance of the New Zealand franchising sector, including recent trends. The 2017 survey is the third in a planned series that will enable us to build an analytical time series and benchmarks for the franchising sector.

In 2017 the survey gathered data relating to:

- A profile of the franchising sector in terms of size, age, growth, composition, and international expansion
- Operational practices of franchisors including growth strategies, dispute resolution procedures, financing options, employments trends, training, and contemporary communication methods
- Measures of franchisor response to significant challenges faced and their levels of activity over 2016 and 2017

Executive Summary

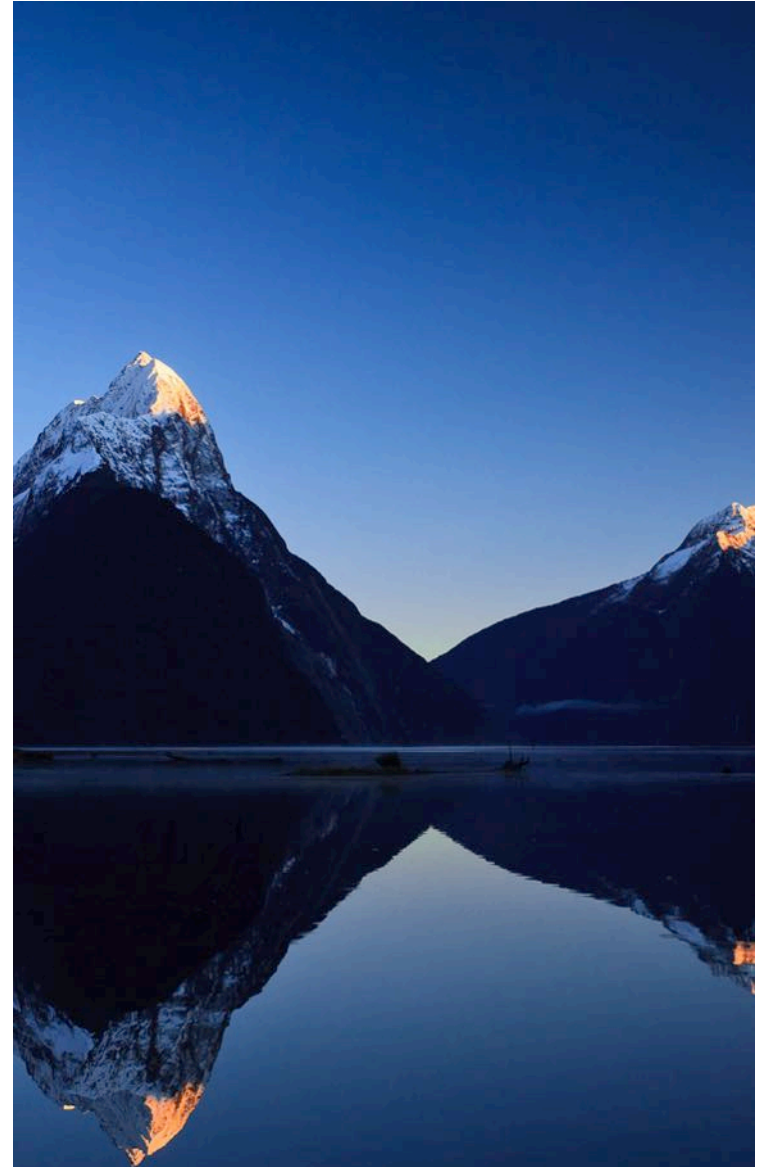
The *Franchising New Zealand 2017* survey gathered current data on the New Zealand franchise sector during a period of strong economic growth and consumer optimism. The past five years have been characterised by stable government and a recapturing of the certainty and confidence necessary in the business environment after 2011. The 2016 to 2017 period covered in this report focuses on a franchise sector dominated by small businesses and a smattering of larger organisations, most of which have experienced a period of expansion. Mid-year 2017 a net 38 percent of businesses reported an expectation of good times ahead, with the service sector most optimistic and the retail sector somewhat less positive in the face of increased competition*.

Looking forward to 2018, the New Zealand Institute of Economic Research (NZIER) foresees consumer spending rising higher; construction speeding up and increased demand for labour. Net migration remains high and wages are expected to begin a long awaited increase. The outcome is a forecast average percentage change in GDP growth of around three to four percent. So both the current and future business environment in NZ looks encouraging.

The key findings of the *Franchising New Zealand 2017* survey are highlighted in this Executive Summary. Where possible, estimates have been included for the entire population of New Zealand business format franchises. Franchising activity in motor vehicle and fuel retailing was not captured in the survey due to the unique characteristics of these industries. However, data on motor vehicle and fuel retail franchises have been generated from relevant industry sources** and this information has been incorporated into the Executive Summary only.

* ANZ Business Outlook May 2017

** Data was sourced from the New Zealand Motor Traders Association Inc.; publically available annual reports from the supermarket duopoly, and New Zealand Statistics



Franchise Brands

There are an estimated 631 franchise brands operating in New Zealand compared with 446 in 2012. This figure includes several systems that offer multiple concepts under a single brand name and therefore counted once only. Growth in the number of franchise systems is not surprising given the strong economy. Whilst the number of brands increased by 185 since 2012, individual franchise systems also grew internally with modest increases in the number of franchise units, especially in the retail sector. Of total franchise systems, 72 per cent originated in New Zealand.

Franchise Units

In 2017 there are an estimated 35 000 business format franchised units and 2000 company-owned units, producing a total of 37 000 units operating in business format franchises in NZ. Business format franchised units increased by 15 700 in five years and company units decreased by 1100. A similar trend towards a reduction in company units was observed in Australia in 2016*, indicating that franchising is the preferred model for expansion in both countries. However, growth overall in the Australian industry has remained static, while the NZ sector has flourished. In addition, 1200 fuel retail outlets and 590 motor vehicle retail outlets were estimated.

Boosted by strong population and tourism growth the biggest increase occurred in the retail sector (both food and non-food retail), where franchising traditionally dominates. Whilst food retail remained strong, non-food retail businesses faced pressure to adapt to systematic changes in shopping preferences. Further, modest growth in sales over the past 12 months is expected to decline around 1.1 percent in 2018** as anticipated higher interest rates dampen spending.

* Franchising Australia 2016, page 6

** New Zealand Institute of Economic Research Quarterly Predictions – June 2017

Sales Turnover

Turnover of the franchise sector provides an important measure of the contribution of franchising to the New Zealand economy. In 2012 respondents reported median system turnover of \$6.0 million. In 2016/2017 median turnover across all respondent brands increased to \$10.0 million.

Estimated turnover for business format franchising* was \$27.6 billion representing a growth of approximately \$12.6 billion in five years. Together with estimated motor vehicle sales of \$11.1 billion and seasonally adjusted fuel retail of \$7.4 billion** the total sales turnover for the entire franchising sector was estimated to be \$46.1 billion (compared with approximately \$30.8 billion in 2012***).

	2012	2017
Business format franchises included in survey	\$6.0 billion	\$17.0 billion
Franchised supermarkets	\$9.0 billion	\$10.6 billion
Total: All business format franchises	\$15.0 billion	\$27.6 billion
Plus:		
Motor vehicle sales	\$8.4 billion	\$11.1 billion
Fuel retail	\$7.4 billion	\$7.4 billion
Total sector turnover	\$30.8 billion	\$46.1 billion

* Comprises business format franchises included in survey population plus franchised supermarkets

** Statistics New Zealand

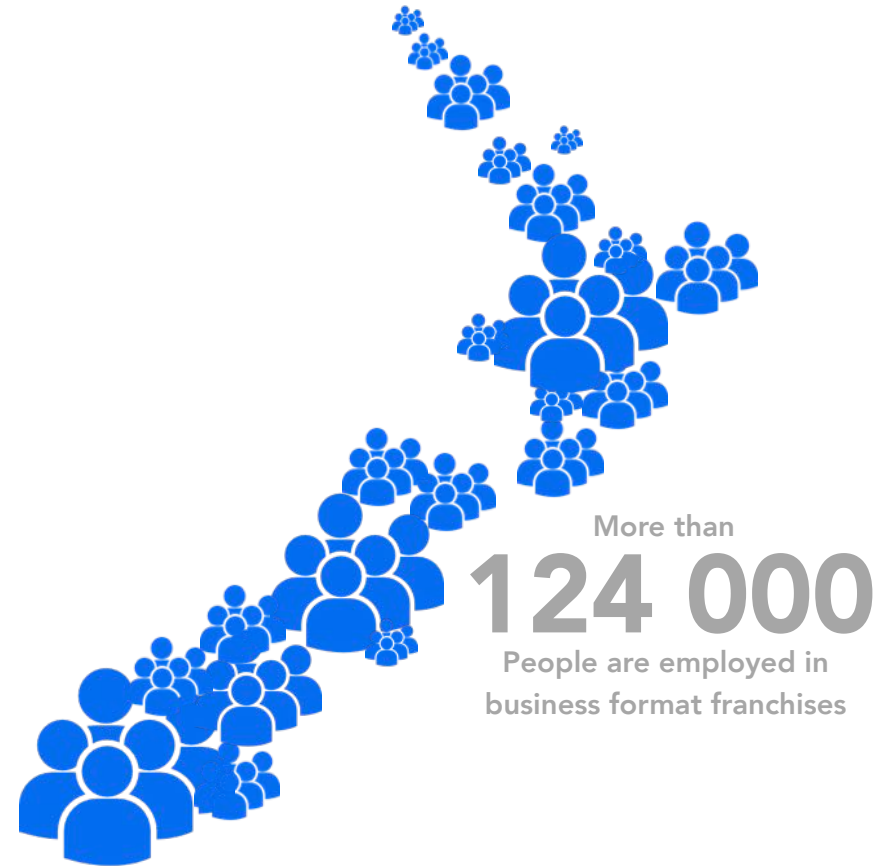
*** 2012 figures were originally inclusive of company owned Countdown supermarkets but have been reassessed here. Total turnover figure has been revised to allow a clearer view of growth in business format franchising over the past 5 years.

Employment in the New Zealand franchising sector

The total number employed in New Zealand business format systems is estimated to be 124 200, an increase of just under 4500 a year since 2012, and made up as follows:

Employment Type	2012		2017	
	No.	%	No.	%
Permanent full time	55 400	54.4	74 300	59.8
Permanent part time	39 000	38.3	42 500	34.2
Casual	7400	7.3	7 400	6.0
Total	101 800	100	124 200	100

In 2010 it was estimated there were 80 400 people employed in the sector, two years later that figure had increased to 101 800. Of these only just over half were in permanent full-time employment and there was a significant increase in part-time and casual positions. In 2017 the number employed increased by some 22 400 commensurate with growth in the number of franchise systems. Slightly fewer than 60 percent of people were in permanent full-time employment. The small increase since 2012 could be accounted for by progression to full time from part time positions, in line with increased business growth and optimism. The level of casual employment remained static over the intervening five years.





Profile of Franchise Brands

Industries:

The most significant sector growth in NZ franchising has been in non-food retail with the addition of 51 more brands since 2012. Retail brands now account for almost 23 percent of the entire sector. Accommodation and food services grew by 36 new brands and in the construction sector there were 25 additions. Growth in the construction sector is not surprising given the high demand forces operating in the property market, particularly in Auckland, and pressure over the past five years from Christchurch rebuild activity. However, recent cooling reported owing to the rising cost of building may result in a deceleration of this growth trajectory. A strong tourism industry may underpin growth in accommodation and food services. Three other industries showed notable increases with rental, hire and real estate services (45 brands, growth of 18 over 5 years); arts and recreation (+18 brands), and education and training (+14 brands). The most significant reduction in sector size of just under 17 percent occurred in administrative and support services that include amongst others such businesses as travel agencies; and domestic and gardening services.

Size of Systems:

The size and age of franchise brands is correlated. As brands mature, they grow in size. Across the sector franchise brands continued to grow internally and in 2017 the median total of units was 32. Small brands (up to 20 units) made up the bulk of the NZ franchising sector at just over 40 percent, and medium brands (21 to 50 units) accounted for almost 33 percent, so together small and medium brands dominated. Large franchise systems (more than 50 units) made up around 27 percent of the sector. Retail brands held a median of 26 franchised units (18 in 2012) and non-retail brands were slightly bigger at a median of 29 units as opposed to 24 in 2012.

Age of Systems:

Fifty percent of franchise brands have been franchising since 2000 so the sector is increasingly mature. Organisations tested their business concept for a median of 4.5 years prior to commencing franchising. Just over one third began franchising immediately, or within the first year of business.

Cost of a New Franchise

The total median start-up cost for a new retail franchise unit was \$308 500 compared to \$87 550 for a non-retail franchise. This included an initial franchise fee, charged by the vast majority of brands (97%), of \$35 000 and \$28 750 respectively.

Challenges

Finance Issues:

Finance is the lifeblood of the franchise community and there is evidence in this report of some concern over access to suitable finance. This confirms recently reported perceptions on the difficulties of obtaining business finance*. Fewer than 7 percent of respondents reported dissatisfaction with service delivery from funding organisations and textual commentary suggested some negative sentiment related to general finance issues and the control exerted by funding bodies. Low level of franchisee equity was an issue for more than half of franchisor respondents and around one third found problems accessing cashflow lending to franchisees.

Franchising Disputes

Substantial disputes (those referred to an external advisor for action) were experienced by fewer than 22 percent of franchisors within the past 12 months involving only 1.9 percent of franchisees (compared with 4 per cent in 2012)**. The main cause of disputes (as in 2010 and 2012) was compliance with system requirements. Communication problems as a cause of disputes scored low in the quantitative data but what appears an insignificant result was strengthened by a group of textual comments relating to franchisor frustrations over franchisee truculence or lack of understanding of contractual responsibilities. Other areas of dispute amongst the respondents involved franchisee profitability; and to a lesser extent incorrect payment of staff; fees, and misrepresentation issues. In 2012 site suitability and franchisor support issues tended to cause disputes but neither was a consideration in 2017, even in the additional textual comments asked for in the survey. Suitable site selection was raised in the Franchising Confidence Index*** as an ongoing problem for franchisors but is not shown as a cause of disputes amongst the respondent group in the current survey. Franchisors and franchisees initiated dispute proceedings in equal proportions and there was a noteworthy change in the way disputes were handled in 2017. A full 49 percent of disputes were referred to mediation compared to fewer than 17 percent five years previously. Legal correspondence dropped from 64 percent in 2012 to 41 percent in 2017, and litigation almost halved from 19 percent to fewer than 10 percent in 2017.

*ANZ Business Outlook, May 2017

**Franchising New Zealand 2012

***Franchising Confidence Index 12 April, 2017

International Operations

Seventy-two percent of franchise brands responding to the survey originated in New Zealand and 16 percent of these were currently operating overseas. These figures represent a slight decline from 2012, although intention to internationalise within the next two years remained a strategic option for a growing number of respondents (48%). Australia was still the most common international market, followed by the US and United Kingdom. Although fewer franchisors targeted non English speaking countries in South East Asia and the Middle East, the Chinese/Hong Kong market was increasingly popular.

Social Trends

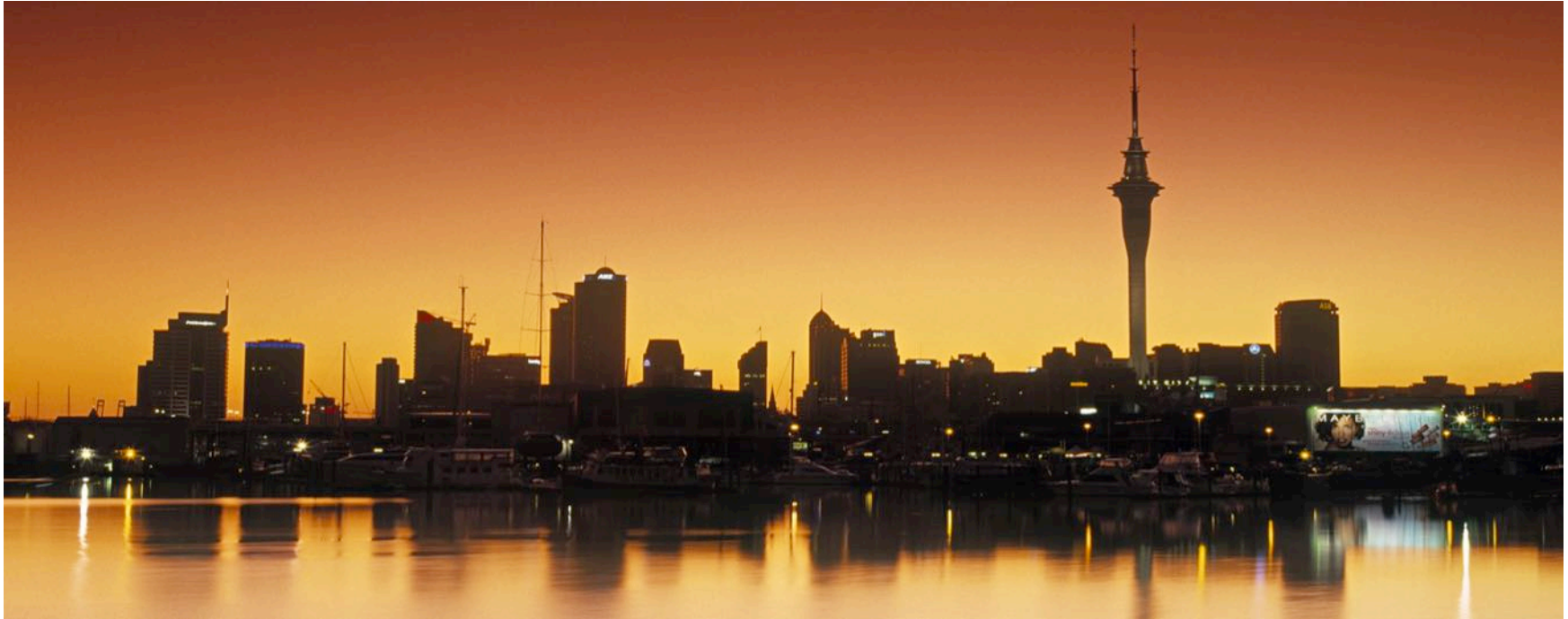
Use of Social Media:

The changing face of business to customer and business to business communication was indicated by the fact that almost three quarters of franchisor respondents rated keeping an active social media presence as important for brand awareness. However, only 60 percent of franchisors allowed or encouraged the use of a Facebook page by their franchisees.

The Pre Entry Franchise Programme:

Since our first report in 2010, franchisors have continually raised the problem of finding suitable franchisees. In fact, in the March quarter in 2017 the Franchising Confidence Index reported a significant issue in this regard amongst service providers and a drop in confidence of some 20 percent from a net 41 percent in the previous quarter*. Further, the main issue causing disputes, and increasingly so, remains compliance with system requirements. In 2010, 2012 and in the current report, other related issues like communication and lack of understanding were exposed. Given this background it is worthy of note that fewer than one third of franchisors alerted their potential franchisees to the pre entry franchise programme or encouraged its completion. Furthermore, a mere 7 percent made completion of the programme mandatory.

* Franchising Confidence Index 12 April, 2017, page 2



Summary

The New Zealand franchise sector has grown and performed strongly in the robust economic environment that has prevailed over the past five years. Brand numbers have increased and systems have grown internally in unit size. Sales turnover has increased substantially with further growth forecast into 2018 and 2019. Franchising offers employment opportunity for increasing numbers of people and full time positions have risen. The *Franchising New Zealand 2017* survey provides evidence of a strong, experienced sector riding the wave of an upbeat national economy.

SECTION A

Franchise Profile



INDUSTRY KEY FACTS

631 franchisors in 2017.

446 franchisors in 2012.

41% of franchisors operate in food
and non-food retail industries.



Over the past five years (since the Franchising New Zealand 2012 survey) the number of *franchise brands* has grown steadily. A total of 631 franchise brands has been identified in the current survey. Most of the recent growth has occurred in *retail brands*. Slightly fewer than one quarter (23 percent) of brands operate in non-food retailing and a further 18 percent are involved in accommodation and food services. Together, these brands operate more than one quarter (27 percent) of franchise units. The *service sector* is also well represented. The category 'other services', which includes personal services, auto repairs and servicing, IT services etc, is heavily represented with almost 20 percent of brands operating in this industry. However, this is fewer than the 26 percent recorded five years previously. Administration and support services, which includes cleaning, gardening and lawn mowing, accounts for a further 8 percent of brands, again fewer than 14 percent in 2012. Franchising is also well represented in the rental, hire and real estate (7 percent), construction at 5 percent is up on 2012 figures (2%), as is arts and recreation (4 percent) and education and training industries (4 percent). So there has been both growth in brand numbers and redistribution in brand categories since the last report.

The population of franchisors in New Zealand has also been compared from 2012 to 2017. Over this five year period 185 new brands have entered the franchise sector. The number of brands in most industries has grown over this time, particularly in food retailing (additional 36 brands) and non-food retailing (51 new brands). The construction sector has also experienced growth with 25 new brands now operating. Brands in only a few industries have declined, namely, administration and support services; gas electricity and waste services; and wholesaling.

Hence, there is clear evidence that the NZ franchise sector is continuing to expand, reflecting the robust growth in the economy that has occurred over the past five years.

A1 In what product or service does this franchise brand predominantly deal?

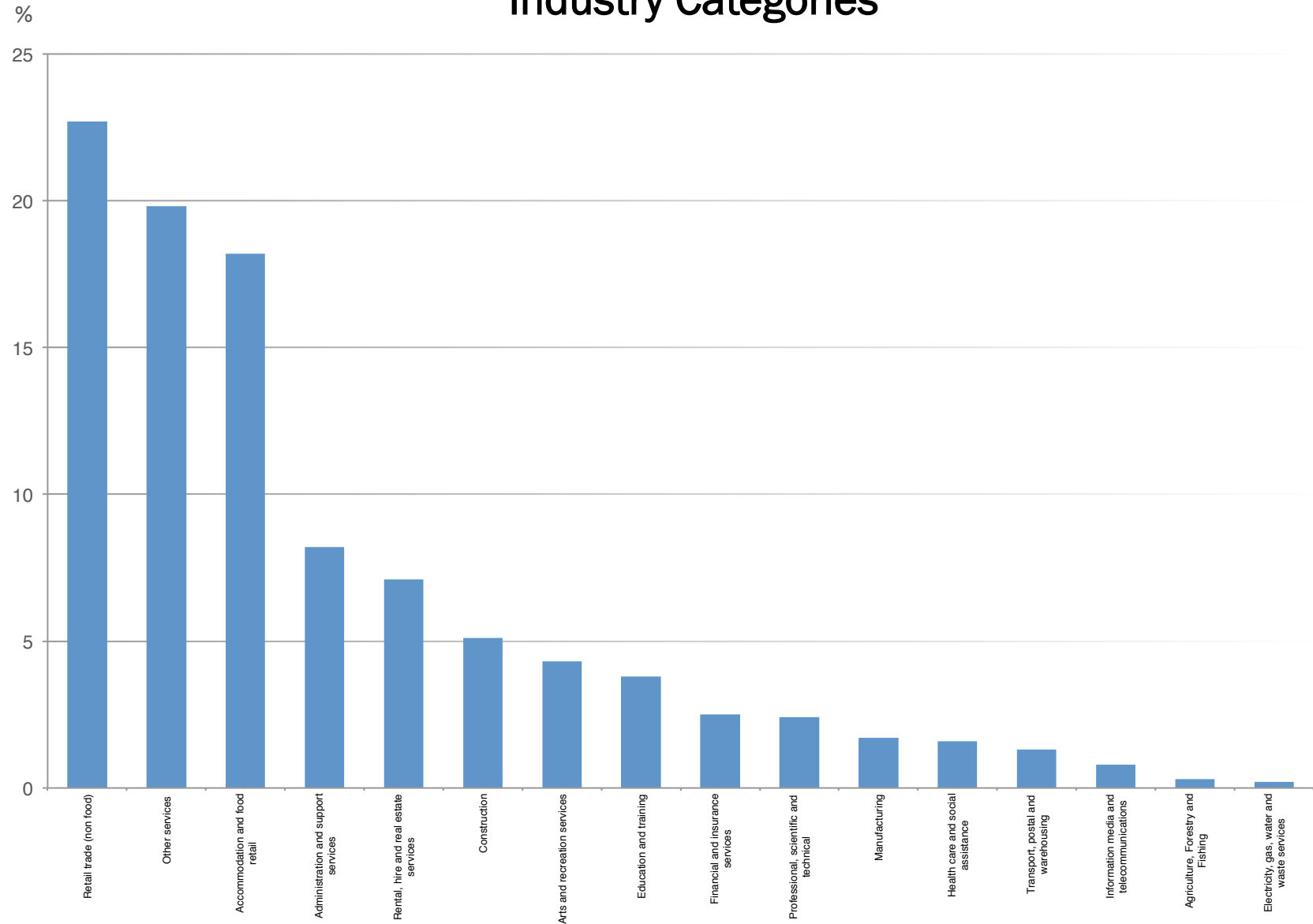
Industry	Population of franchisors		Respondent franchisors		Total number of respondents' units per industry	
	Number	Percent	Number of responses	Percent	Number of units	Percent
Retail trade (non food)	143	22.7	36	22.4	1418	16.4
Other services (includes personal services, pet services, auto repairs and servicing, IT services etc)	125	19.8	22	13.7	903	10.4
Accommodation and food retail (includes fast food, coffee shops etc)	115	18.2	25	15.5	952	11.0
Administration and support services (includes travel agencies, office services, domestic and industrial cleaning, gardening services, lawn mowing etc)	52	8.2	28	17.4	3529	40.7
Rental, hire and real estate services	45	7.1	12	7.5	432	5.0
Construction	32	5.1	13	8.1	184	2.1
Arts and recreation services	27	4.3	2	1.2	55	0.6
Education and training	24	3.8	4	2.5	26	0.3
Financial and insurance services	16	2.5	5	3.1	209	2.4
Professional, scientific and technical	15	2.4	5	3.1	116	1.3
Manufacturing	11	1.7	0	0.0	42	0.5
Health care and social assistance	10	1.6	3	1.9	96	1.1
Transport, postal and warehousing	8	1.3	1	0.6	325	3.8
Information media and telecommunications	5	0.8	2	1.2	129	1.5
Agriculture, Forestry and Fishing	2	0.3	2	1.2	57	0.7
Electricity, gas, water and waste services	1	0.2	1	0.6	190	2.2
Total	631	100.0	161	100.0		100.0

Note:

1) Franchisors were coded according to industry type using the major categories provided under the Australia and New Zealand Standard Industrial Classification (ANZSIC) coding system.

2) All 161 respondents provided data.

Industry Categories



Comparison of franchise brands 2012-2017

Industry	Number of brands 2012	Number of brands 2017	Change (number)
Retail trade (non food)	92	143	+51
Other services (includes personal services, pet services, auto repairs and servicing, IT services etc)	116	125	+9
Accommodation and food retail (includes fast food, coffee shops etc)	79	115	+36
Administration and support services (includes travel agencies, office services, domestic and industrial cleaning, gardening services, lawn mowing etc)	63	52	-11
Rental, hire and real estate services	27	45	+18
Construction	7	32	+25
Arts and recreation services	9	27	+18
Education and training	10	24	+14
Financial and insurance services	15	16	+1
Professional, scientific and technical	1	15	+14
Manufacturing	9	11	+2
Health care and social assistance	3	10	+7
Transport, postal and warehousing	5	8	+3
Information media and telecommunications	3	5	+2
Agriculture, Forestry and Fishing	0	2	+2
Electricity, gas, water and waste services	3	1	-2
Wholesale	4	0	-4
Total	446	631	+185

AGE OF FRANCHISE SYSTEMS

KEY FACTS

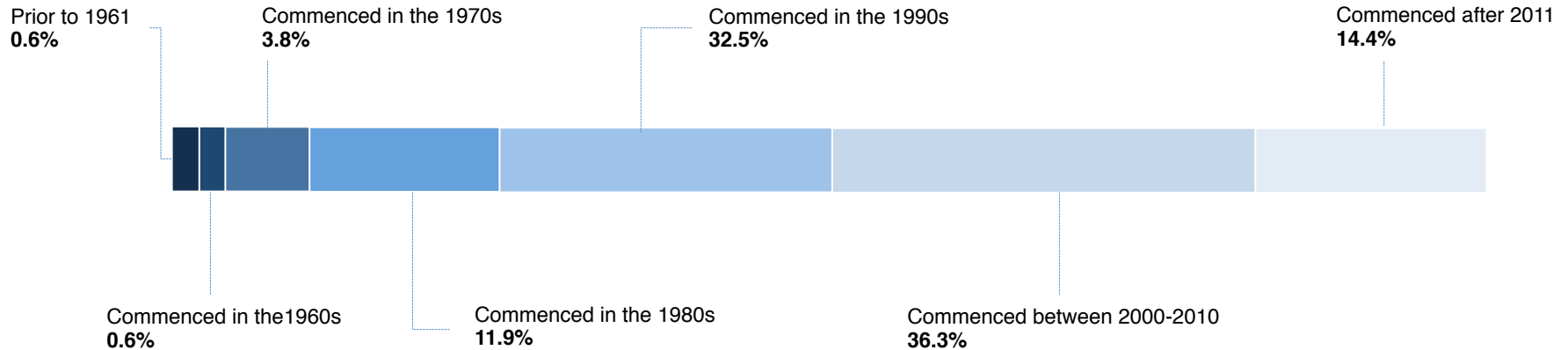
Franchisors have 25 years of operational experience and 17.5 years of franchising experience.

Some 50 percent of brands have been franchising since 2000.

Brands piloted their concepts for a median of 4.5 years prior to commencing franchising.

Just over one third (36 percent) of brands began franchising immediately or within the first year of operation.

Commenced Franchising



The NZ franchise sector is continuing to mature. Franchisors have been operating their brands for a median of 25 years and franchising for almost 18 years, indicating significant levels of business and franchising experience. Retail brands have significantly more franchising experience behind them (22 years) compared to 15 years in non-retail brands, possibly because franchising has long been associated with the fast food industry.

Whilst slightly more than one third (36 percent) of brands began franchising within the first 12 months of operation, the remaining franchisors tested their concepts for a median of 4.5 years prior to commencing franchising. The choice between being first in market to achieve rapid market penetration was offset by the majority of brands that spent considerable time pilot testing their concepts prior to recruiting franchisees. This strategy is another indication of the continued maturity of the NZ franchise sector because it reflects the sector's commitment to achieving best practice in franchising.

A2 In which year did this brand commence operations?

A3 In which year did this brand commence franchising?

Year	Year commenced operations		Year commenced franchising	
	Number of responses	Percent	Number of responses	Percent
Prior to 1961	10	6.3	1	0.6
1961 to 1970	12	7.5	1	0.6
1971 to 1980	12	7.5	6	3.8
1981 to 1990	34	21.3	19	11.9
1991 to 2000	44	27.5	52	32.5
2001 to 2010	38	23.8	58	36.3
2011 to 2017	10	6.3	23	14.4
Total	160	100.0	160	100.0

Notes:

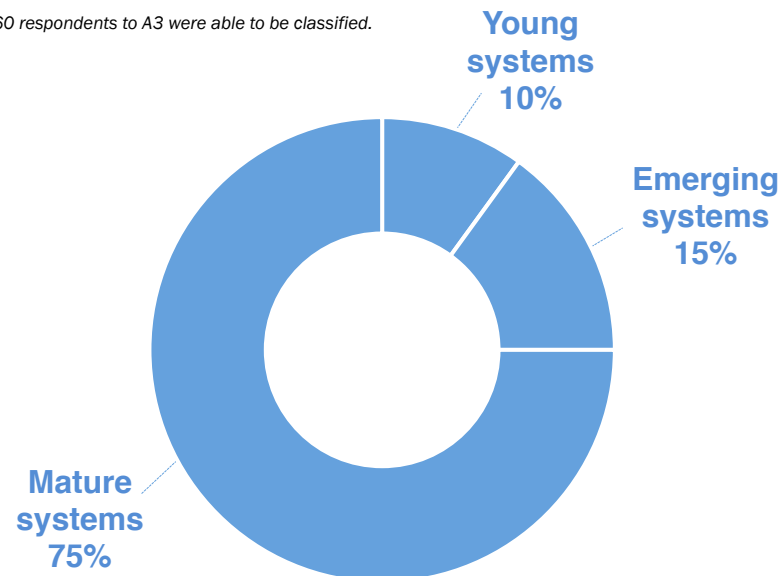
- 1) A total of 160 respondents provided a response from an expected 161.
- 2) The median number of years was: operating 25 years and franchising 17.5 years.
- 3) Businesses had been operating for a range of 2 to 133 years and franchising for a range of 1 to 68 years.

The sample was further analysed in terms of level of experience. Some 10 percent of brands were classified as 'young', 15 percent as 'emerging' and 75 percent as 'mature'. By comparison, in the 2012 survey only 67 percent of franchise brands were mature. This positive trend will continue as the NZ sector carries on maturing.

Level of franchising experience	Number of responses	Percent
'Young' systems – franchising for 1 to 5 years	16	10.0
'Emerging' systems – franchising for 6 to 10 years	24	15.0
'Mature' systems – franchising for more than 10 years	120	75.0
Total	160	100.0

Notes:

- 1) All 160 respondents to A3 were able to be classified.



SIZE OF FRANCHISE SYSTEMS

KEY FACTS

The majority of franchise systems are small or medium in size.

The median number of total units was 32.

27 percent of franchise systems hold more than 50 franchise units.

Commensurate with the NZ franchise sector's increasing maturity, franchise systems are growing in terms of the number of franchise units held. The median number of *franchised units* across the sample was 28. Slight differences were noted across industry types. Retail franchise brands held a median of 26 franchised units and non-retail franchises held a median of 29 franchised units.

The majority of franchisors (62 percent) hold zero or one *company-owned* unit, indicating that franchising is the preferred model for expansion. The median number of one company-owned unit was reported across all industry segments.

The age and size of franchise systems was positively correlated, confirming that over time franchise brands will grow. However, New Zealand's small population means that there are limits on franchise brand expansion. Some 40 percent of the sample were classified as small (holding up to 20 total units). A further 33 percent were of medium size (holding between 21 and 50 total units), with only 27 percent being considered large (holding more than 50 total units).



A4 How many franchised units were operating within your franchise brand in NZ in the financial year ending 31 March 2017?

Franchised units

	Number of responses	Percent
0 to 10 franchised units	35	21.7
11 to 50 franchised units	76	47.2
51 to 100 franchised units	22	13.7
101 to 500 franchised units	19	11.8
More than 500 franchised units	9	5.6
Total	161	100.0

Notes:

- 1) All 161 respondents provided data.
- 2) The median number of franchised units was 28.
- 3) Retail systems had a median of 26 franchised units; non-retail systems had a median of 29 units.
- 4) Responses ranged from 1 to 560 franchised units.

A5 How many company-owned units were operating within your franchise brand in NZ in the financial year ending 31 March 2017?

Company owned units

	Number of responses	Percent
0 (zero) company units	62	42.5
1 company unit	28	19.2
2 to 5 company units	38	26.0
More than 5 company units	18	12.3
Total	146	100.0

Notes:

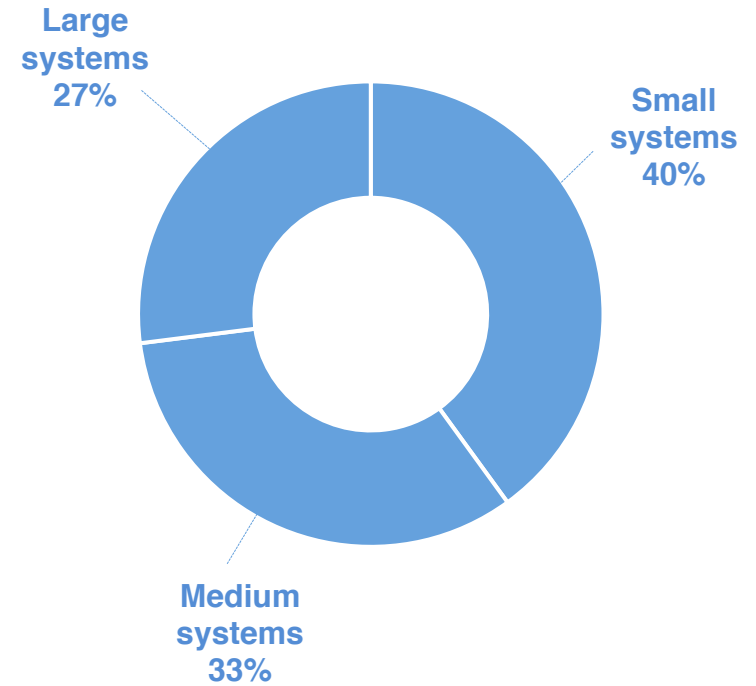
- 1) A total of 146 respondents provided a response from an expected 161.
- 2) The median number of company-owned units was 1 across the sample with no difference between retail and non-retail franchise systems.
- 3) Responses ranged from zero to 101 company-owned units.

Total Units

	Number of responses	Percent
Up to 10 total units	29	19.9
11 to 50 total units	78	53.4
51 to 100 total units	20	13.7
101 to 500 total units	18	12.3
More than 500 total units	1	0.7
Total	146	100.0

Notes:

- 1) A total of 146 respondents provided a response from an expected 161.
- 2) The median number of total units was 32.
- 3) Responses ranged from 2 to 562 total units.



System Size

	Number	Percent
Small (up to 20 total units)	59	40.4
Medium (21 to 50 total units)	48	32.9
Large (More than 50 total units)	39	26.7
Total	146	100.0

Notes:

- 1) Some 146 out of the 161 responses were able to be classified.

Franchisee Lifecycle

The duration of the franchisee lifecycle is a signal of the stability of a franchise system. Franchisors reported that the median length of time that their franchisees remained in the system was 8 years. A typical franchise agreement is for 5 years, indicating that most franchisees extend their agreements to a second term before exiting the franchise.

A6 If you have been franchising for more than five years, what is the average length of time (years) that a franchise remains in the system?

Franchisee life-cycle

	Number of responses	Percent
Up to 5 years	16	26.7
6 to 10 years	33	55.0
More than 10 years	11	18.3
Total	60	100.0

Notes:

- 1) Some 144 franchise brands had been operating for more than five years.
- 2) A total of 60 respondents provided a response from an expected 144.
- 3) The median length of time was 8 years.
- 4) The length of time ranged from 3 to 20 years.

Franchisee Operations

The majority of franchise outlets operate from a branded location. As expected, these are predominantly retail brands (82 percent). Non-retail brands tend to operate from sign-written vehicles (44 percent) or a combination of branded locations and mobile operations (31 percent).

A7 Do your franchises operate from:

Location of Franchise Units	All Respondents		Retail Brands		Non-Retail brands	
	Number of responses	Percent	Number of responses	Percent	Number of responses	Percent
A branded location	55	40.7	42	82.4	13	15.5
Sign-written vehicles	40	29.6	3	5.9	37	44.0
Both branded location and sign-written vehicles	32	23.7	6	11.8	26	31.0
None of the above	8	5.9	0	0.0	8	9.5
Total	135	100.0	51	100.0	84	100.0

Notes:

- 1) A total of 135 respondents provided a response from an expected 161.

SALES TURNOVER KEY FACTS

Retail franchises reported median sales turnover of \$18.3 million for the 2016-2017 financial year.

Non-retail franchises reported median sales turnover of \$6.7 million in the same period.



The median sales turnover across all respondent brands was approximately \$10 million in the 2016-2017 financial year (up from \$6 million in 2011/2012). However, the sales turnover is significantly different across industry types. The median sales turnover for franchise retail brands was \$18.3 million compared to \$6.7 million in non-retail brands. The average sales turnover per franchise unit was approximately \$947,000 in retail franchises and \$174,000 in non-retail brands.

A8 What was the total brand turnover (i.e. annual sales) for all units in New Zealand for the financial year ending 31 March 2017?

Brand turnover	Financial year 2017	
	Number of responses	Percent
Up to \$1 million	11	9.4
\$1 million to \$5 million	20	17.1
\$5 million to \$20 million	51	43.6
\$20 million to \$100 million	30	25.6
More than \$100 million	5	4.3
Total	117	100.0

Notes:

1) A total of 117 respondents provided a response from an expected 161.

EMPLOYMENT KEY FACTS

The majority of staff are in permanent full-time positions. The stronger NZ economy has resulted in increased employment in the franchise sector.

A9 How many staff are employed in your franchise brand?

Employees	Head Office		Franchisee Units		Company Units	
	Number of employees	Percent	Number of employees	Percent	Number of employees	Percent
Permanent full-time	1 369	85.6	13 490	58.3	693	51.6
Permanent part-time	154	9.6	8 200	35.5	604	45.0
Casual	77	4.8	1 431	6.2	45	3.4
Total	1 600	100.0	23 121	100.0	1 342	100.0

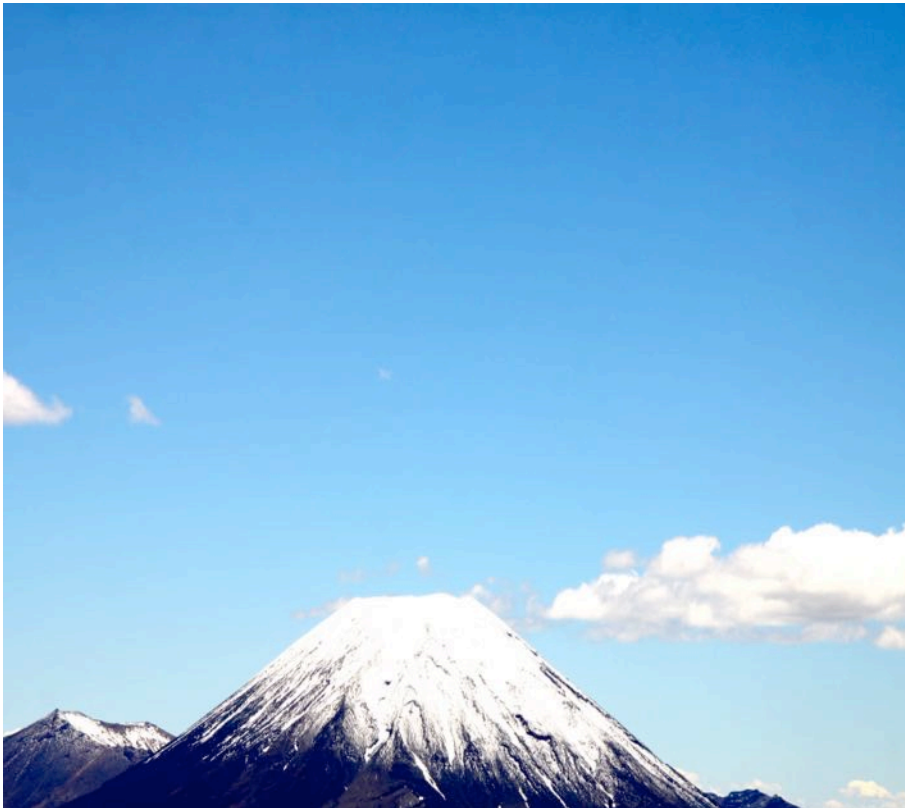
Notes:

1) Responses ranged from 133 to 135 franchisors out of an expected 161.

The increase in franchising activity in the sector has been reflected in higher levels of employment since the 2012 survey. The stronger economic position has resulted in a shift towards permanent full-time staff with a slight shift away from part-time positions and less reliance on casual employment.

FRANCHISEE SUPPORT KEY FACTS

The majority of franchises locate their franchisee support office in Auckland.



Auckland is the most popular location for franchise brands to host their franchisee support office (58 percent). Christchurch is used by 12 percent of franchisors. Provincial centres account for 7 percent of support office locations. Only 4 percent of franchisors locate their support office in the capital, Wellington. Ties to Australia are noted with a few respondents (3 percent) running their support operations across the Tasman. A small proportion of franchisors (2 percent) do not provide a dedicated support office for franchisees.

A10 In which city or town is your Franchisee Support Office for New Zealand franchisees based?

Location of Franchisee Support Office

	Number of responses	Percent
Auckland	80	58.4
Christchurch	17	12.4
Wellington	6	4.4
Hamilton	4	2.9
Palmerston North	4	2.9
Brisbane/Sydney (Australia)	4	2.9
Dunedin	3	2.2
Manukau	3	2.2
Napier	3	2.2
Other	10	7.3
No dedicated support office	3	2.2
Total	137	100.0

Notes:

1) A total of 137 respondents provided a response from an expected 161.

2) Other locations included Cambridge, Clevedon, Hastings, Mt Maunganui, Nelson, Masterton, Otaki, Papamoa, Rotorua, Roxburgh, Tauranga, Waikanae and Wanaka.

LOCATION OF
FRANCHISEE
SUPPORT OFFICE



ONLINE SALES KEY FACTS

60 percent of franchise brands engage in online sales. Of these, approximately 12 percent of product/service sales are conducted online.



Some 60 percent of franchise brands engage in online sales transactions (compared with 35 percent in 2012). The brands utilising online sales are predominantly retailers (62 percent) compared with those involved in non-retail industries (58 percent). Of those that do sell online products or services to end-user customers, the median percentage of sales attributed to online transactions was 12 percent.

A11 What percentage of your product/service sales to end-user customers is online?

Percentage of Online Sales

	Number of responses	Percent
Zero	54	40.3
1 to 25 percent	47	35.1
26 to 50 percent	14	10.4
51 to 100 percent	19	14.2
Total	134	100.0

Notes:

- 1) A total of 134 respondents provided a response from an expected 161.
- 2) The median percentage of sales conducted online is 12%.

SECTION B

Sector Issues



COMMUNITY SUPPORT KEY FACTS

Franchise brands contribute a median of \$16 000 a year to the community.

Just under half of the franchise brands contribute more than \$20 000 per annum.



The median value contributed by franchise brands to community support and sponsorships was \$16 000 per year. Some 14 percent of franchise brands do not contribute to community support. Just over one third (39 percent) contribute up to \$20 000, and the remaining 46 percent contribute more than \$20 000 per annum.

B1. Please indicate the \$value your total franchise brand (franchisor and franchisee) returns to community support (include sponsorships)

Value of Community Support

	Number of responses	Percent
Zero	15	14.4
\$1 to \$5000	21	20.2
\$5001 to \$20 000	20	19.2
\$20 001 to \$100 000	24	23.1
Over \$100 000	24	23.1
Total	104	100.0

Notes:

- 1) A total of 104 respondents provided a response from an expected 161.
- 2) The median value was \$16 000.
- 3) Responses ranged from zero to \$5 million.

FINANCE ISSUES KEY FACTS

Low level of franchisee equity is a problem for more than half of franchisor respondents.

There is evidence of frustration amongst franchisors over bank control in relation to general finance issues and lack of full understanding of the franchise model.

The biggest problem revealed by 59 percent of franchisors relating to growth finance was *lack of equity from potential franchisees*. This finding was backed up qualitatively by several additional written comments relating to franchisee equity shortfall. Further, approximately one third of franchisors reported that franchisees experienced problems accessing funding (34 percent) and that lenders lacked understanding of the franchise model (33 percent). Several respondents provided commentary expressing frustration with bank lending preferences and their lack of specialised understanding of the franchise model. In addition, 31 percent of respondents found problems accessing cash flow lending to franchisees.

B2 Which of the following, if any, issues did you experience when obtaining growth finance for franchisees?

Issues Experienced Sourcing Growth Finance for Franchisees

	Number of responses	Percent
Lack of franchisee equity	76	58.5
Problems accessing funding	44	33.9
Lack of understanding amongst lenders of the franchise model	43	33.1
Access to cash flow lending to franchisees	40	30.8
Service delivery	9	6.9
Other issues	30	23.1

Notes:

1) A total of 130 respondents provided a response from an expected 161.

2) Multiple responses were recorded from some respondents.

DISPUTES KEY FACTS

Twenty-two percent of franchisors were involved in a substantial dispute in the last 12 months.

Referral of disputes to mediation services has increased to almost a half; 41 percent go to solicitors and 10 percent reach the court system.

Lack of compliance with the system is the main cause of disputes.

Almost 78 percent of franchisor respondents had no disputes that required outside intervention. However, 22 percent of franchisors indicated they had been involved in a dispute with a franchisee that required resolution from an external party. Although this figure is a slight increase from five years previously, the level of disputes in the sector appears to have remained fairly static.

The majority of disputes (49 percent) were referred to mediation, representing a dramatic change from the 2012 statistics that indicated a mere 17 percent mediation referral. Slightly fewer disputes over the current period went to solicitors (41 percent), and only 10 percent reached the court system by way of litigation. Actions to resolve disputes are more likely to be initiated by franchisors.

B3 In the past 12 months has your brand been involved in any dispute with a franchisee that involved external advisory assistance?

Disputes 2017	Number of responses	Percent
Yes	29	22.3
No	101	77.7
Total	130	100.0

Notes:

1) A total of 130 respondents provided a response from an expected 161.

B4 Please indicate the number of franchisees in these disputes

Action	Initiated by Franchisor			Initiated by Franchisee		
	Number of Franchisors	Number of Franchisees	Percentage of Franchisees	Number of Franchisors	Number of Franchisees	Percentage of Franchisees
Correspondence via Solicitor	21	30	28.5	16	27	79.4
Mediation	8	66	62.9	2	2	5.9
Litigation	6	9	8.6	4	5	14.7
Other	0	0	0	0	0	0
Total		105	100.0		34	100.0

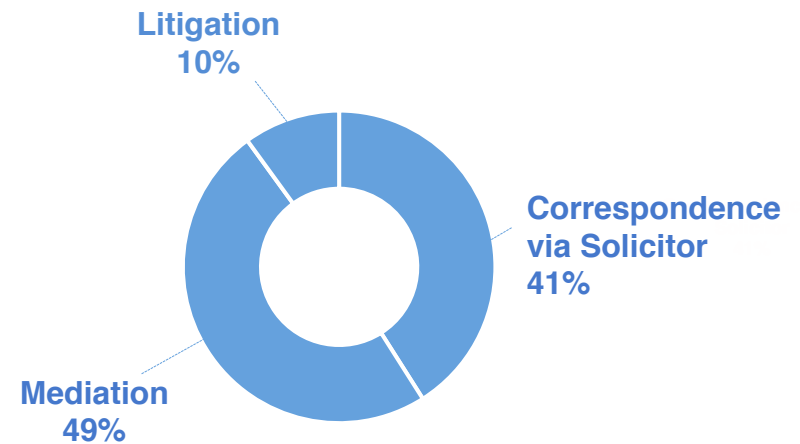
Notes:

1) The expected total of 29 franchisors provided a response.

2) Multiple responses were recorded for some respondents

Total Disputes

	Number of Franchisees	Percentage of Franchisees
Correspondence via solicitor	57	41.0
Mediation	68	49.0
Litigation	14	10.0
Total	139	100.0



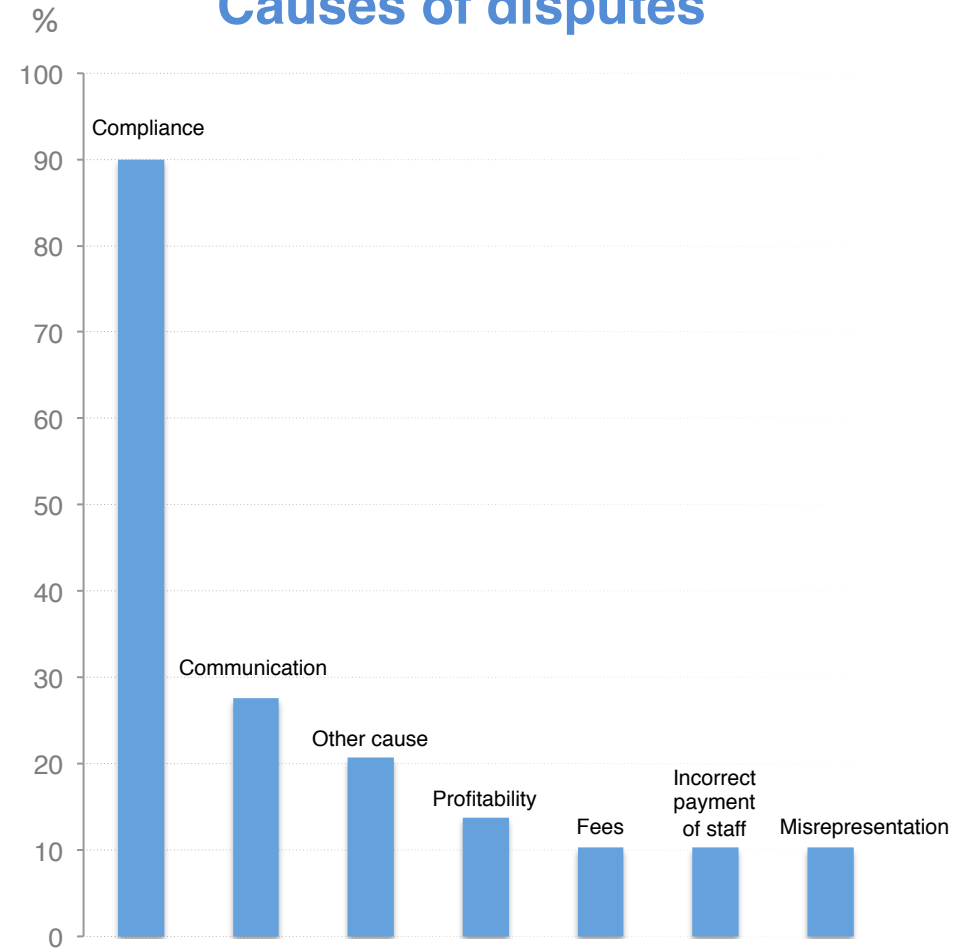
In 90 percent of instances, compliance with system requirements was revealed as the biggest cause of disputes, quite a leap from the 74 percent revealed in the 2012 survey. This was followed by communication problems (28 percent) but reinforced by qualitative comments provided under the 'other' category, like general franchisee intransience and lack of understanding of the responsibilities inherent in the franchise agreement. Profitability caused disputes amongst 14 percent of the respondents, followed in equal proportions of 10 percent related to incorrect payment of staff; fees, and misrepresentation issues. The old adage of 'getting the beginning correct' might apply here. If franchisees are well selected and communication and understanding is clear, a dispute free future could be more likely.

B5 What do you consider to be the main causes of these disputes?

Causes of Disputes	Number of responses	Percent
Compliance with system	26	90.0
Communication problems	8	27.6
Profitability	4	13.8
Misrepresentation issues	3	10.3
Fees	3	10.3
Incorrect payment of staff	3	10.3
Other cause	6	20.7

Notes:
 1) The expected total of 29 franchisors provided a response.
 2) Multiple responses were recorded for some respondents.
 3) Causes of disputes categorised as 'other' are discussed in the commentary above.

Causes of disputes



PRE ENTRY PROGRAM KEY FACTS

Fewer than one third of franchisors recommend the pre-entry programme to prospective franchisees. A mere 7 percent make completion of the course mandatory.



The franchise pre-entry education programme is available free of charge on the Franchise Association of NZ website to those people considering buying into a franchise. However, to date just under a third of franchisor respondents (32 percent) have recommended prospective franchisees complete the course. Promotion of the course was more common with franchisors in non-retail brands than retail brands, although why this might be so is perplexing, given that retail franchises are typically more complex systems.

Furthermore, when asked if franchisees were required to complete the programme prior to signing the franchise agreement only 7 percent said they made this requirement, while a full 93 percent did not. This is a revealing statistic as the course has been designed to arm franchisees with prerequisite knowledge they might not otherwise have about the sector and prepare them for potential success going forward. Signing the franchise contract without such knowledge is arguably unsound business practice from both the franchisor and franchisee perspective.

B6 Do you promote the FANZ Franchisee Pre-Entry Education Programme to prospective franchisees?

Promotion of the Pre Entry Program	Number of responses	Percent
Yes	41	32.0
No	87	68.0
Total	128	100.0

Notes:

1) A total of 128 respondents provided a response from an expected 161.

B7 Do you require your potential franchisees to complete the FANZ Franchisee Pre-Entry Education Programme prior to signing a franchise Agreement?

Compulsory Completion of the Pre Entry Program	Number of responses	Percent
Yes	9	7.0
No	119	93.0
Total	128	100.0

Notes:

1) A total of 128 respondents provided a response from an expected 161.

SOCIAL MEDIA KEY FACTS

A social media presence for the brand is important to almost three quarters of franchises.

Sixty percent of franchisors allow their franchisees to maintain a Facebook page.



A full 74 percent of respondent franchisors rated the use of social media as important or extremely important. A further 11 percent felt that the use of social media was of low or slight importance. Some 12 percent were neutral about the issue and only 3 percent felt that the use of social media was not important for their brand awareness.

B8 How important is maintaining an active social media presence for your brand?

Importance of Maintaining an active Social Media Presence	Number of responses	Percent
Not important	4	3.3
Low or slight importance	13	10.9
Neither important nor unimportant	15	12.4
Important or extremely important	89	73.5
Total	121	100.0

Notes:

1) A total of 121 respondents provided a response from an expected 161.

The majority of franchisors (60 percent) allowed their franchisees to have a Facebook page but the remainder do not allow this practice.

B9 Do you allow your franchisees to operate an active social media presence (e.g. their own Facebook page)?

Franchisee Facebook Presence	Number of responses	Percent
Yes	72	59.5
No	49	40.5
Total	121	100.0

Notes:

1) A total of 121 respondents provided a response from an expected 161.

SECTION C

Franchise Operations



TRAINING KEY FACTS

New franchisees receive 13.5 days of initial training.

Existing franchisees receive 20 hours training per annum.

New employees in franchisee units receive 40 hours of training per annum.

Established employees receive 15 hours of training per annum.

New franchisees. Direct initial training of franchisees is not extensive, considering most business format franchises are promoted as 'turnkey' operations. Just under one-third of respondent franchisors (30 percent) provided training to *new franchisees* from 1 to 5 days in duration, with a further 17 percent of franchisors providing between 6 to 10 days of initial training. The median amount of training provided to new franchisees across the sample was 13.5 days. Retail franchises provided 14 days and non-retail franchises provided 10 days of initial training to new franchisees.

C1 How many days of direct Initial Franchise Training do you provide to a new franchisee when joining the franchise system

Days of Initial Training for New Franchisees	Number of responses	Percent
1 to 5 days	37	30.3
6 to 10 days	21	17.2
11-20 days	28	23.0
21 to 30 days	24	19.7
31 to 60 days	12	9.8
Total	122	100.0

Notes:

1) A total of 122 franchisors provided a response from an expected 161.

2) The median duration of initial training was 13.5 days.

3) Training ranged from 1 to 95 days.

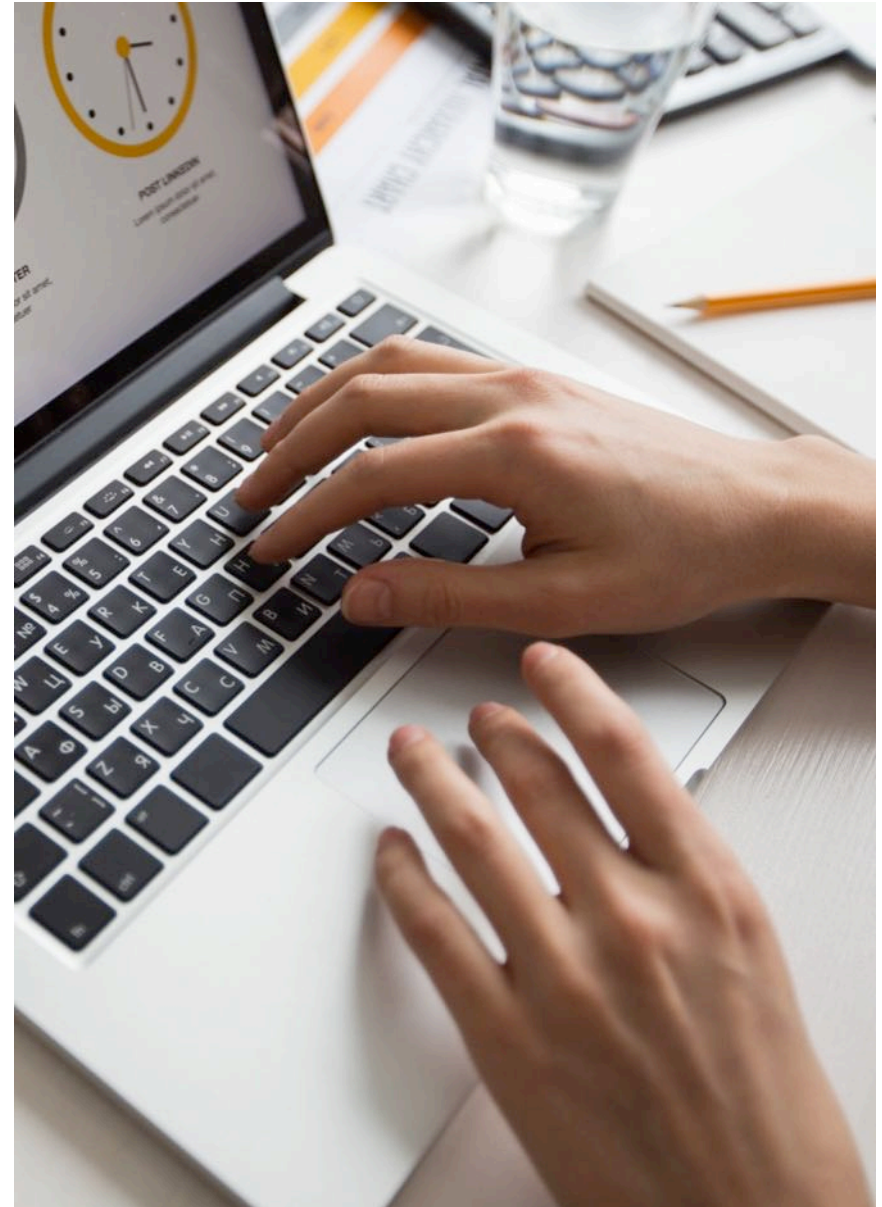
Established franchisees. Only 2 percent of franchisors did not provide any training for *established franchisees*, while most franchisors provided between 1 to 10 hours of annual training (20 percent), 11 to 20 hours (29 percent), 21 to 50 hours (28 percent) and 51 to 100 hours (18 percent). Training in excess of 100 hours was only provided by 2 percent of franchisor respondents. The median annual amount of training provided for established franchisees was 20 hours and was similar across industry sectors.

C2 On average, how many hours of direct Franchise Training do you provide to an already *established franchisee* annually?

Hours of Initial Training for Established Franchisees	Number of responses	Percent
No training	3	2.4
1 to 10 hours	25	20.3
11 to 20 hours	36	29.3
21 to 50 hours	34	27.6
51 to 100 hours	22	17.9
More than 100 hours	3	2.4
Total	123	100.0

Notes:

- 1) A total of 123 franchisors provided a response from an expected 161.
- 2) The median duration of training for established franchisees was 20 hours per annum.
- 3) Training ranged from 0 to 280 hours per annum.



New employees (in franchisee units). More than one third (39 percent) of franchisors allocated between 1 and 20 initial training hours to *new employees* within franchisee units, with a further 48 percent allocating additional time (21 to 100 hours) to this task. Approximately 12 percent of franchisors allocate more than 100 hours to formally train new employees. The median number of training hours across the sample was 40 hours, varying from 30 hours in retail brands and 40 hours in non-retail industries.

C3 On average, how many hours of formal initial training are provided to a *new franchisee employee* in his/her first year (whether provided by the franchisee or the franchisor)?

Hours of Initial Training for New Franchisee Employees in the First Year	Number of responses	Percent
No training	1	0.9
1 to 10 hours	20	17.7
11 to 20 hours	24	21.2
21 to 50 hours	35	31.0
51 to 100 hours	19	16.8
More than 100 hours	14	12.4
Total	113	100.0

- Notes:
- 1) A total of 113 franchisors provided a response from an expected 161.
 - 2) The median duration of initial training for new franchisee employees was 40 hours.
 - 3) Training ranged from 0 to 240 hours.

Established employees. Around 90 percent of respondents indicated that ongoing training is provided to *existing employees* annually. The median number of hours training across the sample was 15 hours per annum, varying from 10 hours in retailing and 20 hours in non-retail franchises.

C4 On average, how many hours of direct ongoing training do you provide to an *established employee* annually?

Hours of Ongoing Training for Established Employees Annually	Number of responses	Percent
No training	11	9.6
1 to 10 hours	40	35.1
11 to 20 hours	27	23.7
21 to 50 hours	27	23.7
51 to 100 hours	8	7.0
More than 100 hours	1	0.9
Total	114	100.0

- Notes:
- 1) A total of 114 franchisors provided a response from an expected 161.
 - 2) The median duration of ongoing training for established employees was 15 hours per annum.
 - 3) The number of hours training ranged from 0 to 200 hours per annum.

TOTAL START-UP COSTS

KEY FACTS

Median total start-up cost of a new franchise unit is \$123 000.

Median start-up cost of \$308 500 (Retail) and \$87 550 (Non-retail).

Initial franchise fees are charged by 97 percent of franchise brands.

Initial franchise fees vary from \$35 000 (Retail) to \$28 750 (Non-retail).

Total start-up costs of a new franchise showed considerable variation depending on format with the median across all industries being \$123 500. The median start-up cost (excluding GST) of a new retail franchise was \$308 500 compared with \$87 550 in non-retailing. Most franchise brands (97 percent) charge an initial franchise fee (median \$30 000). The median initial franchise fee in retail formats was \$35 000, slightly above \$28 750 in non-retail franchises. Retail franchises were significantly more expensive due to higher required investments in inventories, fit-out costs and/or equipment, and initial working capital.



C5 What is the total start-up cost of a new franchise unit for a franchisee (excluding GST)?

Total start-up costs all industries	Median cost	Range
Initial franchise fee	\$30 000	\$0 to \$120 000
Inventories	\$2 500	\$0 to \$80 000
Fit-out costs and/or equipment	\$17 000	\$0 to \$850 000
Training costs	\$275	\$0 to \$20 000
Legal and accounting costs	\$2 000	\$0 to \$10 000
Initial working capital	\$12 750	\$0 to 350 000
Vehicles	\$0	\$0 to \$250 000
Other costs	\$0	\$0 to \$50 000
Total start-up costs	\$123 500	\$3 000 to \$1 188 250

Notes:

1) A total of 118 franchisors provided a response from an expected 161.

Total start-up costs	Retail franchisees		Non-retail franchisees	
	Median cost	Range	Median cost	Range
Initial franchise fee	\$35 000	\$0 to \$100 000	\$28 750	\$0 to \$120 000
Inventories	\$12 000	\$0 to 450 000	\$500	\$0 to \$800 000
Fit-out costs and/or equipment	\$100 000	\$0 to \$850 000	\$5 000	\$0 to \$600 000
Training costs	\$0	\$0 to \$20 000	\$400	\$0 to \$18 000
Legal and accounting costs	\$2 000	\$0 to \$10 000	\$1 750	\$0 to \$10 000
Initial working capital	\$20 000	\$0 to 350 000	\$10 000	\$0 to \$300 000
Vehicles	\$0	\$0 to \$155 000	\$9 750	\$0 to \$250 000
Other costs	\$0	\$0 to \$50 000	\$0	\$0 to \$30 000
Total start-up costs	\$308 500	\$3 000 to \$1 188 250	\$87 550	\$5 500 to \$998 000

Notes:

1) A total of 118 franchisors provided a response from an expected 161.

FRANCHISE AGREEMENTS KEY FACTS

Most franchise agreement terms are 5 years.

The majority of franchisors offer franchise agreement renewals.

The most common length of franchise agreements was an initial term of 5 years (offered by 46 percent of franchisors), followed by 10 years (favoured by 18 percent of franchisors). A majority (75 percent) offer franchise agreement renewals, with one renewal being common for 35 percent of franchise systems. While 2 percent of franchisors tie renewals to existing leases, some 20 percent of franchisors offer perpetual terms to their franchisees. Only 4 percent of respondents indicated that they do not offer franchise renewals.

C6 What is the normal initial term in years granted for new franchise agreements?

Initial Term of Franchisee Agreement	Number of responses	Percent
Length of retail lease	1	0.8
Perpetual	3	2.5
Up to 5 years	67	55.8
6 to 10 years	39	32.5
More than 10 years	10	8.3
Total	120	100.0

Notes:

- 1) A total of 120 franchisors provided a response from an expected 161.
- 2) The median initial franchise agreement term was 5 years.
- 3) The initial term of franchise agreements ranged from 2 years to unlimited.

C7 How many renewals of franchise agreements are offered?

Number of Franchisee Agreement Renewals Offered	Number of responses	Percent
Matched with lease	2	1.7
N/A (Perpetual)	24	19.8
No renewals offered	5	4.1
Up to 3 renewals	78	64.5
More than 3 renewals	12	9.9
Total	121	100.0

Notes:

- 1) A total of 121 franchisors provided a response from an expected 161.

MULTIPLE UNIT FRANCHISING KEY FACTS

Seventy percent of franchisors have multiple unit franchisees.

Franchise systems have a median of 2 multiple unit franchisees.

Most multiple unit franchising occurs in larger and more experienced franchise systems.

Fully 70 percent of franchisors encourage multiple unit ownership in their franchise systems. In those systems, the number of multiple unit holders ranges from 1 to 45. Multiple unit franchisees were more prevalent in retailing with 72 percent of franchisors reporting between 1 and 5 multiple unit franchisees, compared to 45 percent in non-retail systems. Moreover, multiple unit franchising is encouraged in larger and more experienced systems. Smaller systems (less than 20 units) reported that 43 percent of franchisees owned more than one unit, compared to larger systems (more than 50 units) in which 86 percent of franchisees were multiple unit holders.

C8 How many of your current franchisees operate more than one unit in your system?

Number of Multi-Unit Franchisees	Number of responses	Percent
None	36	29.8
Up to 5 franchisees	66	54.5
6 to 10 franchisees	10	8.3
11 to 20 franchisees	5	4.1
More than 20 franchisees	4	3.3
Total	121	100.0

Notes:

1) A total of 121 franchisors provided a response from an expected 161.

2) The median number of franchisees holding multiple units was 2.

3) Responses ranged from 0 to 45 franchisees with multiple units.

INTERNATIONAL FRANCHISING KEY FACTS

Seventy-two percent of franchise systems were founded in New Zealand.

Sixteen percent of NZ-based franchisors are currently operating overseas.

Australia remains the most popular international destination.

A majority (72 percent) of franchise systems were founded in New Zealand, with the remaining systems being international master franchising or licensing arrangements (17 percent), subsidiaries of international brands (5 percent) or some other arrangement (6 percent). Only 16 percent of New Zealand-based franchise systems are franchising in international markets. Of the smaller number of non-New Zealand based franchises operating in the local market, 29 percent possessed expansion rights outside of New Zealand. Just under half (48 percent) of franchisors who are currently operating only domestically intend to franchise their concepts overseas over the next 2 years.

The majority of franchise units reported by franchise brands were held in English speaking countries including Australia, United Kingdom and United States of America. The most popular destinations selected by franchisors who have exported their franchise brands include Australia (100 percent of franchisors and accounting for 79 percent of units), the USA (22 percent of franchisors and one percent of units) South Africa (17 percent of franchisors and 11 percent of units) and Indonesia (6 percent of franchisors and 5 percent of units).

Franchisors still appear to favour entering culturally similar markets in order to gain experience prior to entering other, more diverse international markets. Popular destinations for future international expansion include Australia (68 percent), United States of America (32 percent), the United Kingdom (26 percent) and Canada (16 percent). Except for China/Hong Kong (21 percent), fewer franchisors intend to target non-English speaking countries in South East Asia or the Middle East.



C9 Are you:

- a) A New Zealand founded franchise system
- b) A Master Franchisee/Licensee of an international brand
- c) A subsidiary of an International brand
- d) Other (please specify)

Domestic / International Franchise Brand	Number of responses	Percent
A New Zealand founded franchise system	87	71.9
Master Franchise/ Licensee of an International brand	21	17.4
Subsidiary of International brand	6	5.0
Other	7	5.8
Total	121	100.0

Notes:

1) A total of 121 franchisors provided a response from an expected 161.

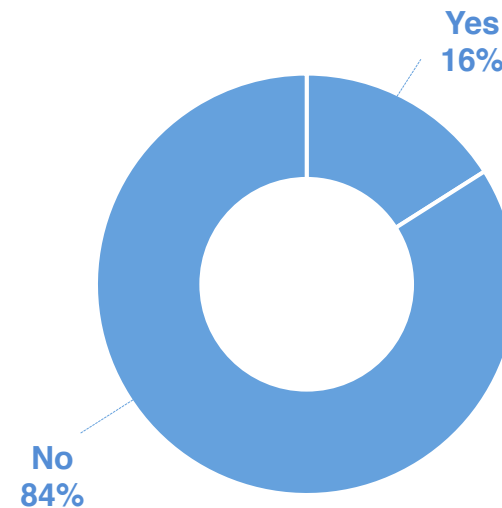
C10 Are you currently franchising overseas?

Franchising Overseas	New Zealand Systems		Other Systems	
	Number of responses	Percent	Number of responses	Percent
Yes	14	16.1	4	40.0
No	73	83.9	6	60.0
Total	87	100.0	10	100.0

Notes:

1) The expected number of 97 respondents provided answers to this question.

New Zealand systems franchising overseas



C11 Do you have expansion rights outside New Zealand?

Expansion rights	Number of responses	Percent
Yes	10	29.4
No	24	70.6
Total	34	100.0

Notes:

1) The expected number of 34 respondents provided an answer to this question.

C12 Are you planning to expand overseas within the next two years?

Expand overseas	Number of responses	Percent
Yes	38	48.1
No	41	51.9
Total	79	100.0

Notes:

1) The expected number of 79 respondents provided an answer to this question.



C13 How many units (franchised and company-owned combined) are held in the following countries or regions?

Overseas location	Number of Franchisors		Total number of units	
	Number of Franchisors	Percent	Total number of units	Percent
Australia	18	100.0	2 247	78.8
South Africa	3	16.7	312	10.9
Indonesia	1	5.6	145	5.1
United Kingdom	1	5.6	70	2.4
USA	4	22.2	35	1.2
Middle East	1	5.6	23	0.8
India	1	5.6	8	0.2
China/Hong Kong	1	5.6	4	0.1
Singapore	1	5.6	1	0.2
South Korea	1	5.6	1	0.2
Other	3	16.7	3	0.1
Total			2 849	100.0

Notes:

- 1) The expected total of 18 franchisors provided an answer to this question.
- 2) Multiple responses were recorded from some respondents.

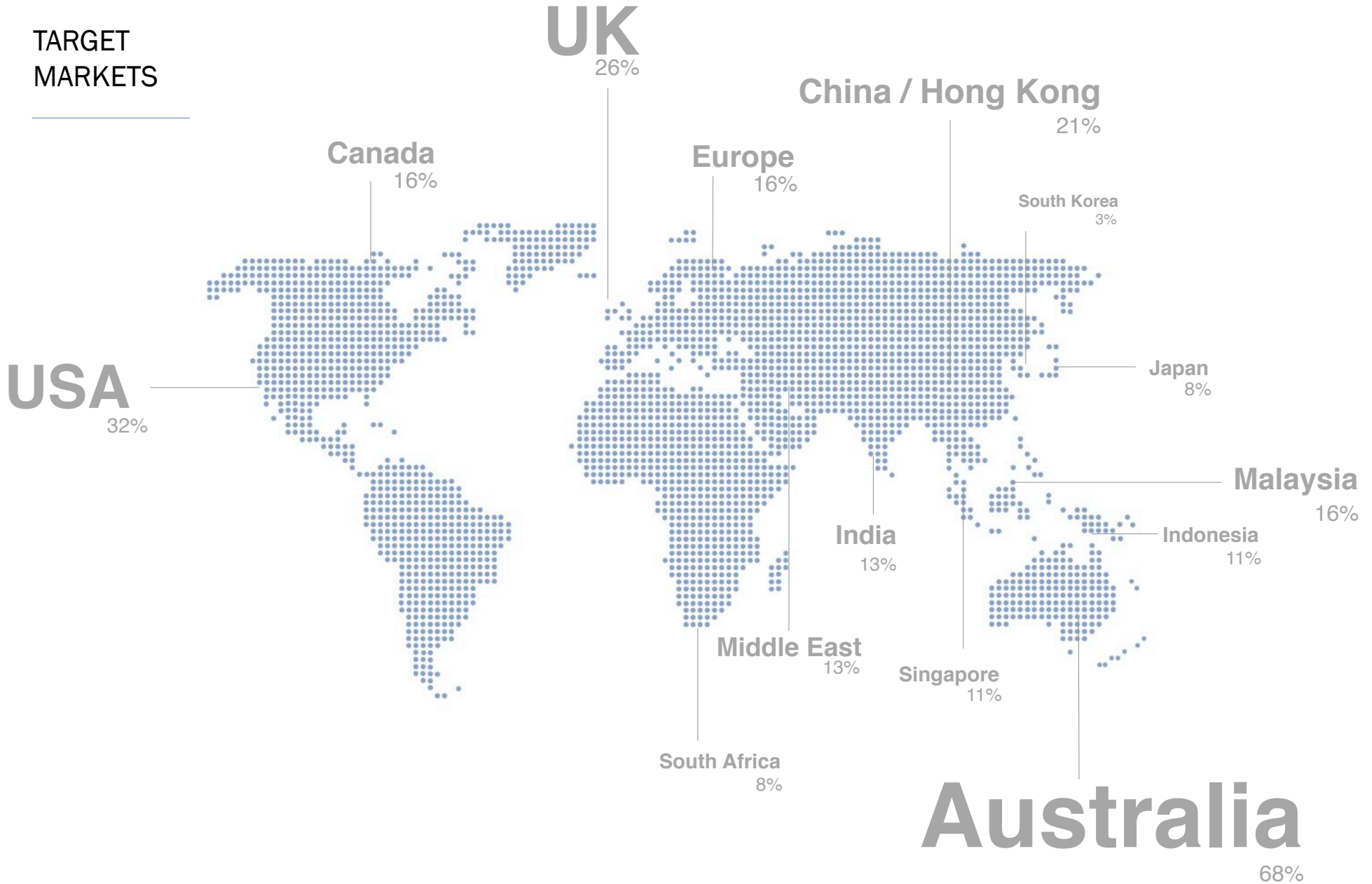
C14 What are your target markets for international expansion?

Target markets	Number of Franchisors	
	Number of Franchisors	Percent
Australia	26	68.4
USA	12	31.6
United Kingdom	10	26.3
China/Hong Kong	8	21.1
Canada	6	15.8
Europe (excluding the UK)	6	15.8
Malaysia	6	15.8
India	5	13.2
Middle East	5	13.2
Indonesia	4	10.5
Singapore	4	10.5
Japan	3	7.9
South Africa	3	7.9
South Korea	1	2.6
Other country	3	7.9

Notes:

- 1) The expected number of 43 franchisors provided a response.
- 2) Multiple responses were recorded from some respondents.

TARGET
MARKETS



MIGRANT FRANCHISEES KEY FACTS

Over a quarter of franchisors actively recruit or intend to target migrant franchisees.

Five percent of franchisees are NZ Maori.

The most common countries of origin for migrant franchisees are China and India.

Most, franchisors (73 percent) reported that they have not actively sought to recruit migrant or 'new Kiwi' franchisees over the past five years. However, while 8 percent of franchisor respondents reported that they had no migrant franchisees in their systems, over half (52 percent) reported between 51 and 100 percent migrant ownership. The most common countries of origin were China (64 percent of franchisors), India (64 percent), South Africa (36 percent) and the United Kingdom (32 percent).

Over two-thirds (67 percent) of franchisors reported that NZ Maori owned units in their franchise system. Of these systems just over half (52 percent) indicated Maori comprised between 1 and 10 percent of all franchisees, with a small percentage (12 percent of respondents) having between 11 and 20 percent of Maori as franchisee owners. Across all franchisor respondents the median proportion of NZ Maori franchisees was 5 percent.

C15 Do you actively recruit migrants or new Kiwis ('new' means arrived in the past 5 years)?

Recruit Migrant Franchisees	Number of responses	Percent
Yes	25	20.7
No	88	72.7
Plan to do so in the future	8	6.6
Total	121	100.0

Notes:

1) A total of 121 franchisors provided a response from an expected 161.

C16 What percentage of your current franchisees are migrants or new Kiwis?

Percentage of migrants or new Kiwis	Number of Responses	Percent
None	2	8.0
1 to 25%	5	20.0
26% to 50%	5	20.0
51% to 75%	5	20.0
76% to 100%	8	32.0
Total	25	100.0

Notes:

- 1) The expected number of 25 franchisors provided an answer to this question.
- 2) The median proportion of migrants or new Kiwis was 52%.

C17 From which countries did your migrant franchisees originate?

Countries of Origination	Number of Responses	Percent
China	16	64.0
India	16	64.0
South Africa	9	36.0
United Kingdom	8	32.0
Malaysia	7	28.0
Australia	6	24.0
Philippines	6	24.0
Sri Lanka	6	24.0
Hong Kong	4	16.0
South Korea	4	16.0
Vietnam	3	12.0
Indonesia	2	8.0
Ireland	2	8.0
Iraq	1	4.0
Netherlands	1	4.0
Japan	1	4.0

Notes:

- 1) The expected number of 25 franchisors provided a response.
- 2) Multiple responses were recorded for some respondents.





C18 What percentage of your current franchisees are NZ Maori?

Percentage of Maori Franchisees	Number of Responses	Percent
0%	40	33.1
1 to 5%	33	27.3
6% to 10%	30	24.8
11% to 20%	14	11.6
More than 20%	4	3.3
Total	121	100.0

Notes:

- 1) A total of 121 from an expected 161 respondents provided an answer to this question.
- 2) The median proportion of Maori franchisees was 5%.

Conduct of the Survey



Conduct of the Survey

The Franchising New Zealand 2017 survey was conducted by a research team from Massey University and Griffith University's Asia-Pacific Centre for Franchising Excellence from April to May 2017. The identified population of business format franchisors was included in the survey.

The primary purpose of the survey was to obtain current information about the practices and performance of the franchise sector in New Zealand. Previous surveys have been conducted by the team in 2010 and 2012.

Population of New Zealand franchise brands

The lack of any official registration requirements on franchisors makes it impossible to accurately identify the population. However, the search conducted by the research team was extensive, leading to confidence that the database has a high degree of accuracy. Thus, sampling error is not a concern in this survey.

Massey University's database of business format franchisors was updated prior to the survey. Several sources were used to update the database, including the Franchise Association of New Zealand database, published franchise directories and information obtained from media articles and advertisements.

All organisations were contacted to confirm their status. Organisations were removed from the database if they appeared to be no longer operating or if they indicated they were either no longer franchising, not yet franchising, or were not involved in franchising arrangements.

Survey instrument

An online survey was used to collect data. The questionnaire was pilot tested twice (hard copy followed by online) by a sample of academics and industry practitioners. Several follow-up emails and telephone calls were made to nonrespondents to encourage participation.

Full ethical clearance was granted by Massey University's Human Ethics Committee and was disclosed within the survey. Only members of the research team had access to the submitted surveys.

Survey responses

Surveys were sent to the identified population of business format franchisors as indicated:

Confirmed population of franchisors 2012 survey	446
Net additions	<u>185</u>
Confirmed population of franchisors 2017	631
Excluded from sample: Unable to be contacted (emails unopened)	<u>31</u>
Organisations included in survey	600

A total of 631 franchise brands were confirmed. The sample comprised 600 franchises after removing 31 brands that were unable to be contacted. Some 161 usable responses were submitted, resulting in a **response rate of 26.8%**. This response rate is excellent for business related surveys and is commensurate with the Franchising Australia 2016 response rate of 28.7%.

Estimations for the franchise sector

As not all franchisors responded to the survey, the problem exists of estimating results for the entire franchising sector with confidence. Non-sampling errors may occur when estimates are derived from a sample. These include errors that occur because not all franchises are included in the sample of respondents. In particular, there may be a difference between those who responded and those who chose not to participate. Two tests were performed to determine whether such nonresponse bias was evident.

Firstly, the common statistical test of comparing early with late respondents was conducted on key variables. Late respondents are assumed to be similar to nonrespondents because they respond less readily and only after prompting. The results of this test indicated that there were no significant differences between the two groups.

A second test compared a sample of 30 nonrespondents (obtained from the *Franchise New Zealand* online directory) with the 161 survey respondents on key variables: industry, size and franchise unit start-up costs. This test also confirmed that there were no significant differences between the two groups.

Another form of non-sampling error may occur due to incorrect responses being provided by respondents. To minimise this possibility, the data were checked carefully for out-of-range values and data were removed if respondents were not able to be contacted for verification.

Survey results

The survey results in this report were presented in the order of appearance in the questionnaire. Response have not been manipulated in any way, apart from the correction of errors made by respondents. Due to the non-normal distribution of the data, which has occurred because of the large variation in responses, the median figure (that is, the middle figure in a graded list of responses to a question) has been reported rather than the mean value (that is, the arithmetic average of a set of values). Due to the rounding of figures in tables, discrepancies may occur between the sum of component items and the total (that is, not all percentages will add exactly to 100%).

Author Profiles

Dr Susan Flint-Hartle is a senior lecturer in the School of Economics and Finance at the Massey Business School. Susan's most recent research in franchising includes the internationalisation of small franchises in emerging economies. She also researches in property studies and has been working on the issue of affordability and house price volatility. Both areas of extreme interest in the New Zealand environment. Dr Flint-Hartle is a member of the International Society of Franchising and has assisted NZ industry professionals with the development of a pre entry franchise education programme. On behalf of Massey, she formed a collaborative agreement with the Asia Pacific Centre for Franchising Excellence at the Griffith Business School to undertake a biennial survey of NZ franchising that enables ongoing comparison between the New Zealand and Australian sectors.

Professor Lorelle Frazer is the Director of the Asia-Pacific Centre for Franchising Excellence at Griffith University. Professor Frazer was the first person in Australia to complete a PhD in franchising and she has been actively researching franchising since the 1990s. In 2010 Professor Frazer was presented with the Contribution to Franchising award by the Franchise Council of Australia for her 'significant contributions to the education of the Australian franchise community'. The Franchising Australia surveys, which have been published biennially since 1998, have all been co-authored by Professor Frazer.

Professor Scott Weaven is the Deputy Director of the Asia-Pacific Centre for Franchising Excellence and the Head of Department of Marketing at Griffith University. He has a PhD in franchising and has co-authored the Franchising Australia surveys since 2002. Professor Weaven has published in excess of 100 academic articles in franchising and has won awards for research excellence at Griffith University.

Dr Anthony Grace is an academic in the Asia-Pacific Centre for Franchising Excellence at Griffith University. He has a PhD in franchising and has co-authored the Franchising Australia Survey since 2014. He is an active member of the International Society of Franchising. Dr Grace lectures in marketing at the Dūcere Global Business School, Canberra University.

