

## New Zealand Franchising Outlook Improves

New Zealand franchising enters 2024 more optimistic than 2023. However, there remain a number of economic headwinds and challenges for most businesses, franchised or otherwise.

For the 13<sup>th</sup> year running, Franchise Consultants' January 2024 *Franchising Confidence Index* provides a good window into the current year. Franchising context, sentiment, predictions, and insight were provided by 34 franchisors, and separately, 16 service providers.

Compared to previous surveys, responding franchisors were much more positive about general business conditions, access to financing, franchisees, and suitable staff. Franchisors were also more positive about their own growth prospects. And while franchisors were generally more positive about franchisee topline sales levels, there were concerns for franchisee operating costs and the resultant impact on franchisee profitability levels.

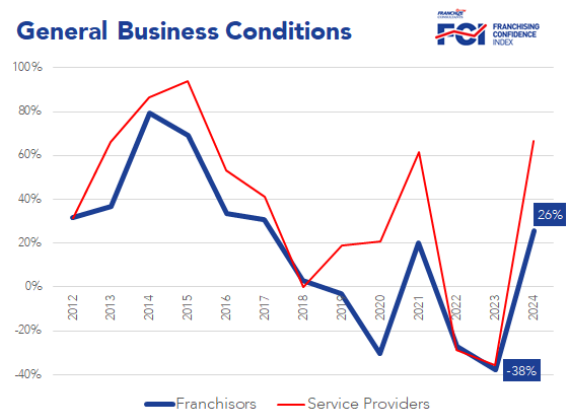
Franchisors were asked about key challenges and opportunities relating to franchise system development for 2024. Key challenges included access to finance, franchisees and staff. Opportunities for improvement involved technology, increased benefits associated with franchising (from a franchisee vs independent business perspective), growth and marketing.

Franchisors also responded to top trends impacting franchising, selecting the future regulatory environment, changing customer expectations, AI, and, changing demographics and diversity highest, respectively.

### General Business Conditions

Franchisor outlook for general business conditions showed good improvement from a net negative 38% in January 2023 to a net positive 26%. Service Provider sentiment reflected franchisor sentiment, directionally – but grew to a far more positive 63%.

This improvement in confidence from franchisors mirrored other research with general businesses. The latest ANZ New Zealand Business Outlook showed business confidence at positive net 37% in January 2024 – up from a negative 52% in 2023.



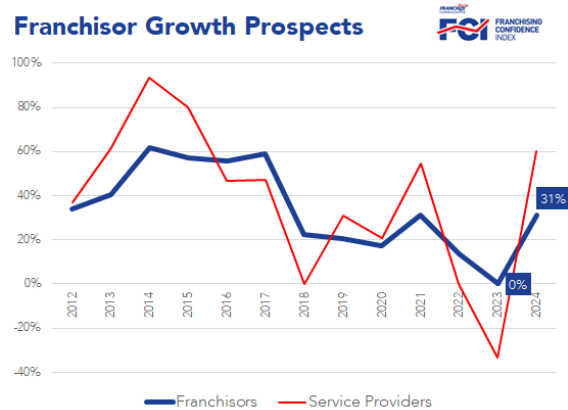
Similarly, the NZIER Quarterly Survey of Business Opinion showed much improved business confidence, albeit negative, rising from -73% (January 2024) to -10% (January 2024).

Thus while there are improvements in general business sentiment overall, there are undeniably a suite of challenges ahead.

### Franchisor Growth Prospects

Vast improvements were recorded for franchisor growth sentiment.

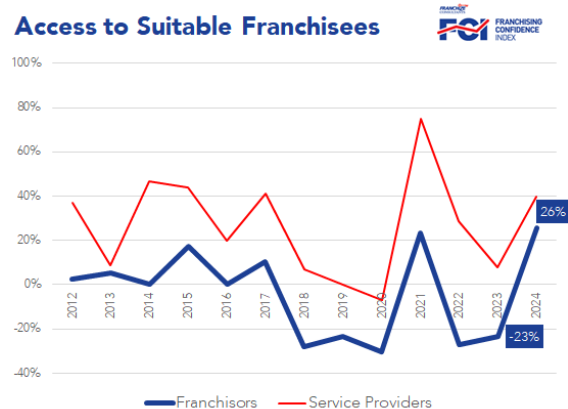
Franchisor outlook improved from 0% to 31%. Service Provider sentiment toward the same improved markedly from -33% (2023) to a very high positive 70% (2024).



### Access to Suitable Franchisees

Franchisor outlook for access to suitable franchisees showed good improvement from a net negative 23% in January 2023 to a net positive 26%.

Service Provider sentiment grew from a positive 26% (2023) to 40% (2024).



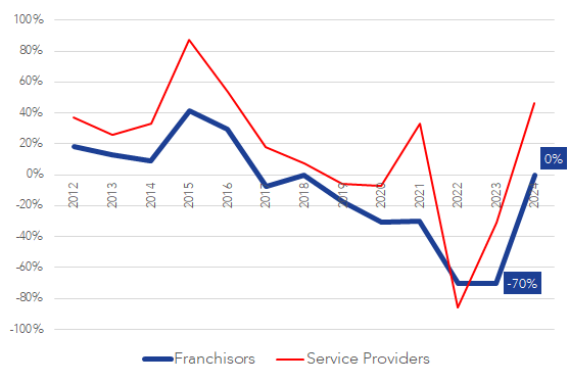
### Access to Financing

Franchisor outlook for access to financing showed great improvement from a very low and net negative 70% in January 2023 (lowest recording) to a net 0%.

While much higher than 2023, franchisor sentiment still suggests challenges for 2024.

Service Provider sentiment grew from a negative -31% (2023) to a positive 47% (2024).

Access to Financing

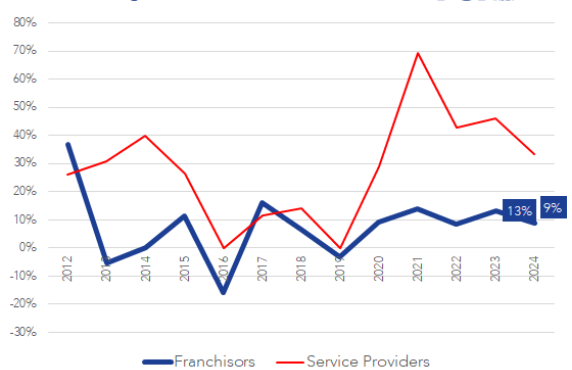


### Access to Suitable Locations

Franchisor outlook for access to suitable locations tempered from a net 13% to 9%.

While still positive overall, Service Providers reflected this drop in sentiment - moving from 46% (2023) to 33% (2024).

Availability of Suitable Locations

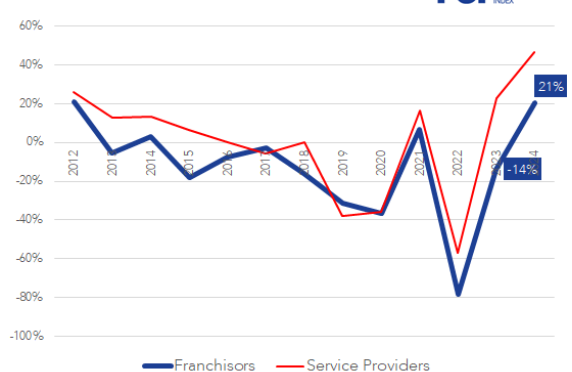


### Access to Suitable Staff

Franchisor outlook for access to suitable staff improved from a net negative 14% to a more positive 21%.

Service Provider sentiment also grew from 23% (2023) to 47% (2024).

Access to Suitable Staff

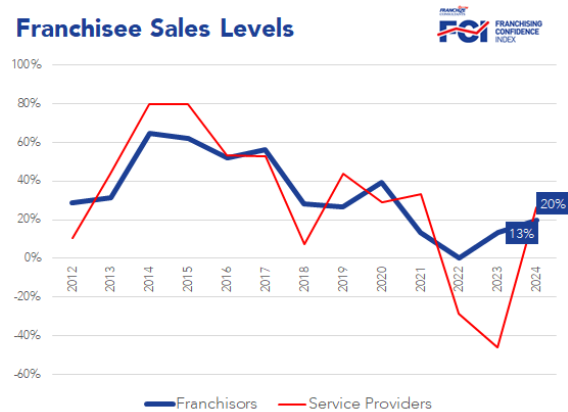


### Sales Levels Per Franchisee

Franchisor outlook for franchisee sales levels improved from a net negative 13% to a more positive 20%.

Service Provider sentiment grew strongly from a more negative -46% (2023) to a net positive 27% (2024).

Franchisee Sales Levels

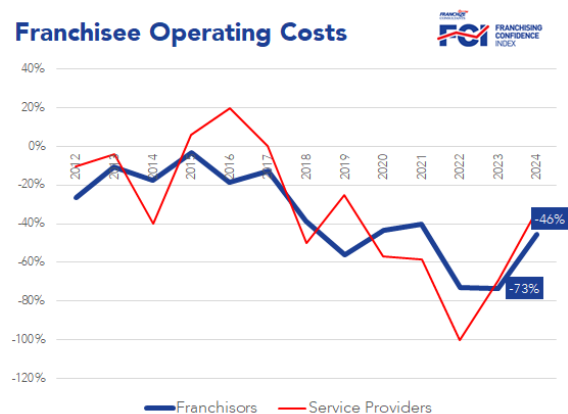


### Franchisee Operating Costs

Franchisor outlook for franchisee operating costs continues to present a huge area of concern, albeit the outlook is better than 2023. Franchisor sentiment moved from a net -73% (2023) to -46% (2024).

Service Provider sentiment similarly improved from -69% (2023) to -33% (2024).

Franchisee Operating Costs



### Franchisee Profitability Levels

Franchisor outlook for franchisee profitability levels remained negative at -14% compared to -13%.

Service Provider sentiment improved markedly from -77% (2023) to a still negative but -20% (2024).

Franchisee Profitability Levels



## **Franchising Outlook**

Franchisors were asked for qualitative responses on how things were looking in their sector. 34 franchisors responded from a variety of self-reported industries such as commercial and home services, construction, trade, retail, hospitality, automotive, and health & wellness.

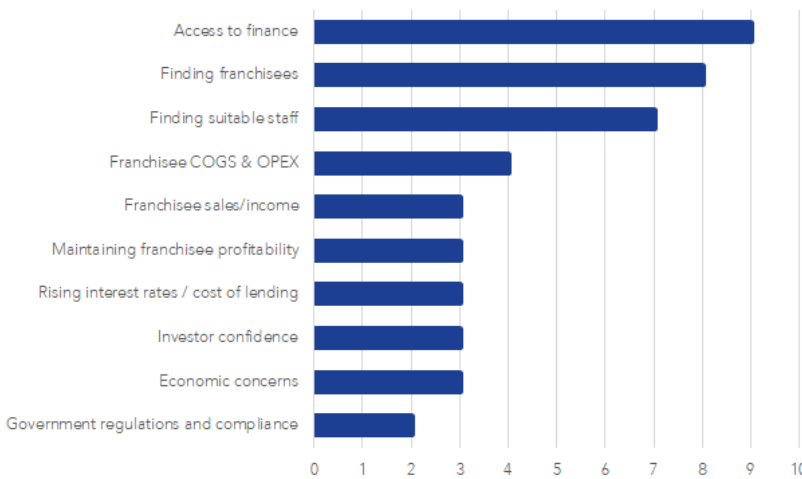
Most franchisors noted headwinds. Almost 30% referred to customer cost of living concerns leading to reduced demand, sales and/or margin. Other headwinds included finding franchisees, the slowdown in new home construction, the housing market generally, interest rates, inflationary cost pressures (e.g., material & labour costs), competition, finding staff and compliance costs.

A notable bright spot appeared to be travel, with the following noted: “Travel is booming.” Other positive comments related to changes from new government policy, increased migration and access to staff, and, demand improvements (albeit limited to a few respondents).

**Greatest Challenge to Franchising Development in 2024**

We asked franchisors what they perceived to be the greatest challenge to franchising development in the year ahead. The following chart plots the frequency of key themes from the comments.

**Greatest Challenge to Franchising Development**



9 of the 34 franchisors who responded to the question identified access to finance as the top challenge to their development. This is followed by finding suitable franchisees and staff with 8 and 7 franchisors respectively identifying them as a challenge.

Other challenges highlighted by franchisors include rising costs, franchisee sales and profitability levels, rising interest rates and costs of lending, weak investor confidence, economic concerns, and government regulations and compliance.

### Previous Year Comparisons

Once again, access to finance, finding suitable franchisees and staff, and rising operating costs continue to be the key areas of concern for franchisors.

### Top Challenge Rankings



	2021	2022	2023	2024
#1	COVID-19	Staff	Finance	Finance
#2	Staff/Finance	COVID-19	Franchisees	Franchisees
#3	Costs	Franchisees	Staff	Staff

### Greatest Opportunity for Franchising Development in 2024

Franchisors identified improved use of technology, increased benefits associated with franchising (from a franchisee vs independent business perspective), growth and marketing as key opportunities for franchising development in 2024.

Technology references ranged from general IT deployment and better use of smart technology to more specific uses of AI, automation software, improvements to customer management, marketing, general processes, and online channels.

Great value of franchise benefits were also a theme with references relating to franchises' (versus independents) brand strength, systems to manage increasing compliance, and greater success likelihood. Other references included people looking for work, whether in or out of employment. These were seen as particularly relevant to the current economic situation.

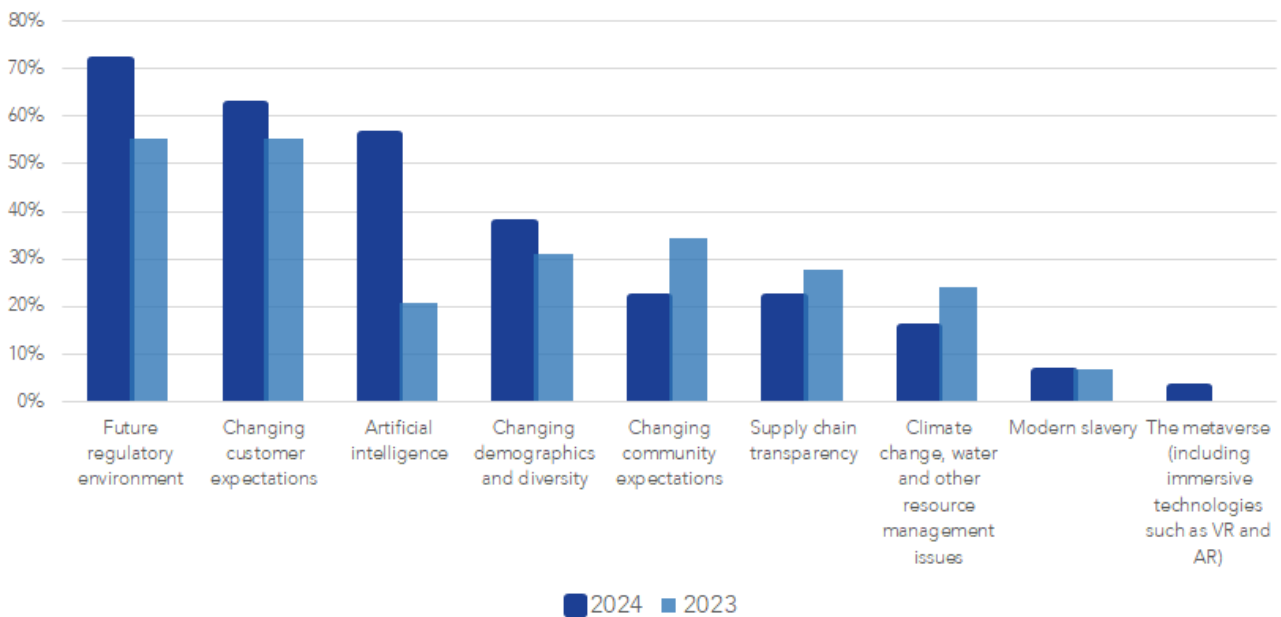
### Major Future Trends Impacting Franchise Systems

Once again, we asked franchisors to identify the future major trends that are most likely to impact on their business in the next 5-10 years from a list of options provided.

The chart below illustrates the responses from franchisors with the future regulatory environment and changing customer expectations identified as the most impactful major trends. Other notable trends include artificial intelligence, changing demographics and diversity, changing community expectations, supply chain transparency, trends related to climate change, water and other resource management issues.

More than half franchisors (56%) cited Artificial Intelligence as a major trend compared to 21% a year ago.

### Top Trends Impacting Franchising





## Concluding Comment

New Zealand franchising business confidence is much improved across many areas as we head into 2024. However, there strong general economic headwinds and concerns in some key areas for many franchise networks.

Compared to previous surveys, franchisors were much more positive about general business conditions, access to financing, franchisees, and suitable staff. Franchisors were also more positive about their own growth prospects. Key concerns related to franchisee operating costs and franchisee profitability levels.

Key challenges to franchise system development included access to finance, franchisees and staff. Opportunities involved areas like technology, increased benefits associated with franchising (from a franchisee vs independent business perspective), growth and marketing.

Franchisors identified the future regulatory environment, changing customer expectations, AI, and, changing demographics and diversity as top trends impacting franchising over the next 5-10 years.

The current environmental and business performance challenges, coupled with the franchise outlook, highlight the importance of great long-term franchise system planning coupled with short-term management execution.

We suggest franchisors should, if not already, be considering taking any opportunity to review and improve their franchise business model, associated franchise structure and management – alongside long-term strategic planning disciplines.

Now is a time to be clear about the total business and make clear and considered changes as appropriate of the unit-level and franchise system business models - with the purpose of strengthening long-term value creation and franchise system sustainability.

Aligned, it will be most crucial for franchisors to work closely and cooperatively with franchisees – to not only optimise their individual performance but to explore future required improvements and changes. Franchisors will need to be increasingly sophisticated in working with franchisees to facilitate needed franchise system changes.

## 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 recent *Franchising New Zealand 2021* survey, conducted by Massey University, indicates New Zealand has 590 individual franchise systems comprising some 32,300 units (owned mostly by franchisees). The survey also suggests local franchise systems employ some 156,800 people and total franchise system turnover estimated to be around \$36.8 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, MTF Finance, McDonald's, Columbus Coffee, Aramex (formerly 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 34 franchisors and 16 service providers collected between 14<sup>th</sup> and 31<sup>st</sup> January 2024.

Respondents were asked whether they expected conditions to be 'better,' 'same' or 'worse.' 'Net' confidence is the difference between those reporting 'better' and 'worse.'

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