



FRANCHISING

New Zealand

2010



MASSEY UNIVERSITY



Asia-Pacific Centre
for Franchising Excellence



Prepared by
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Franchising New Zealand 2010
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Acknowledgements:

The authors are grateful for the following support:

Chris Read (NZ), Frances Asha, Fiona Taylor and Kerry Miles (AUS) for the care taken in assisting this research.

Generous sponsorship from the NZ Franchise Association, Davenport Harbour Lawyers, The Franchise Coach (Berkshire), and Hayes Knight.

Support from Westpac.



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Foreword

I am pleased to endorse this Franchising New Zealand survey undertaken by Massey University in collaboration with the Griffith Business School. It is the first in a planned biennial series sponsored by the Franchise Association of New Zealand, Davenport Harbour Lawyers, The Franchise Coach (Berkshire Ltd), Hayes Knight Accountants, and supported by Westpac.

Representing the only systematic data collected on the New Zealand franchise sector, the Franchising New Zealand 2010 report provides an accurate view of the sector status and begins the process of collecting longitudinal, benchmarking data in subsequent years.

Franchising New Zealand 2010 reveals:

- There are approximately 423 business format franchisors in New Zealand in 2010, compared with an estimated 350 in 2003
- 94 per cent are Kiwi born enterprises
- Franchised businesses account for 5 per cent of New Zealand Small and Medium sized enterprises
- Most business format franchisors operate in service industries and demonstrate moderate growth in system size in 2009 and 2010
- Retail franchises remain important but exhibit static growth in the same period
- Just over half systems report increased sales activity and profits despite a retraction in the economy from 2008
- There are an estimated 23 600 units operating in business format franchises, almost double 2003 estimates
- 80 400 people are employed in the sector
- There is a trend to increase permanent positions as employers are reluctant to take on increased staff in uncertain and increasingly competitive times

The NZ franchise sector is expanding. Although relatively small in comparison to the Australian sector, it remains more significant per capita. NZ franchising is still unregulated despite government led debate in 2009 and the franchise fraternity seems on the whole, content with that situation. This should pose few problems as long as industry participants have strong corporate governance provisions in place. However, the Massey College of Business research team discovered considerable industry churn probably owing to the current recession, notwithstanding NZ's relative insulation from the main effects of 'the credit crunch' in the US and Europe.

This report provides much needed, reliable information about the current relevance of franchising in New Zealand. It is aimed at assisting stakeholders in the sector to make informed investment decisions and comparisons, not only with other NZ franchises but also with their Australian counterparts.

I am very pleased to recommend the *Franchising New Zealand 2010* survey results to interested participants of the franchise sector. A partnership between the two universities has enabled us to draw on the experience of leading Griffith researchers in Australian franchising. Massey University is pleased to be able to collaborate with the primary body of franchise representation, the Franchise Association of New Zealand plus a group of leading commercial organisations in this important research.

A handwritten signature in black ink that reads "Lawrence C. Rose". The signature is written in a cursive style with a large, stylized initial 'L'.

Professor Lawrence Rose
Pro-Vice Chancellor (College of Business)
Massey University

Author Profiles

Dr Susan Flint-Hartle



Dr Susan Flint-Hartle is a senior lecturer in the School of Economics and Finance at Massey University. She has a PhD in Property Studies, specifically the entrepreneurial nature of real estate brokerage franchises.

Dr Flint-Hartle is a member of the International Society of Franchising and has recent publications in the *International Small Business Journal*, the *International Journal of Entrepreneurship and Small Business* and the *International Journal of Entrepreneurial Behaviour and Research*. Her interests cover equity capital, and amongst several journal articles has co authored a chapter in 'Growth Orientated Women Entrepreneurs and Their Businesses: A Global research Perspective', a publication edited by members of the International Diana Research Group.

Susan is working with a franchise industry leadership group to examine the possible role of Massey University in franchise education in New Zealand. On behalf of Massey, she formed a collaborative agreement with the Asia Pacific Centre for Franchising Excellence at the Griffith Business School to undertake this inaugural biennial survey of the NZ sector. The Massey Research team has drawn on twelve years of Australian franchise survey experience and laid the groundwork for fruitful ongoing comparison between the two countries.

Professor Lorelle Frazer



Professor Lorelle Frazer is the Director of the *Asia-Pacific Centre for Franchising Excellence* and the Dean, Learning & Teaching, of the Griffith Business School.

Professor Frazer was the first person in Australia to complete a PhD in franchising and she has been actively researching franchising since the 1990s. She has published more than 100 academic papers in her field covering topics as diverse as international franchising, franchising conflict and franchising relationships. She is a member of the International Society of Franchising and she co-chaired the Society's 2010 conference in Sydney.

Professor Frazer has led research teams on three major Australian Research Council Linkage Project grants in collaboration with industry partners the Australian Trade Commission (Austrade), Franchise Council of Australia (FCA), Australian Competition and Consumer Commission (ACCC) and the Department of Innovation, Industry, Science and Research (DIISR).

Professor Frazer teaches franchising in the Griffith Business School at both undergraduate and postgraduate levels. Her postgraduate Franchising course has been commended by the University for its innovative teaching approach and strong support from industry.

The *Franchising Australia* surveys, which have been published biennially since 1998, have all been co-authored by Professor Frazer.

Dr Scott Weaven



Dr Scott Weaven is a Senior Lecturer in the Department of Marketing, Griffith University and is Deputy Director of the *Asia-Pacific Centre for Franchising Excellence*. He has a PhD in franchising and has co-authored the *Franchising Australia* surveys since 2002.

Dr Weaven has published in excess of 65 academic articles in franchising and has published manuscripts in journals including the *Journal of Retailing*, *European Journal of Marketing*, *Academy of Marketing Science Review*, *International Small Business Journal*, *Asia Pacific Journal of Marketing and Logistics* and the *Journal of Business Ethics*.

Dr. Weaven has been a chief investigator in major Australian Research Council Linkage Project grants in collaboration with industry partners the Franchise Council of Australia (FCA), Australian Competition and Consumer Commission (ACCC) and the Department of Innovation, Industry, Science and Research (DIISR).

Currently he is investigating multiple unit growth strategies in franchising, the role of franchisee personality in recruitment and selection, and service quality in franchising networks. Dr Weaven is a member of the International Society of Franchising and teaches marketing in the Griffith Business School.

Sponsor Profile

The Franchise Association of New Zealand (FANZ) is the industry body that represents and works for the benefit of the franchise community which represents a major part of the SME market in this country. We provide an opportunity for people with a common method of doing business to combine forces, to help each other, to promote franchising as a business system and to protect the interests of franchising in New Zealand.

The work of the Association includes the promotion of good franchising practice, both through the members' application process and also through other activities, including the advocacy for the maintenance of a self regulatory system in New Zealand and our principal sponsorship of this survey. Members share in the credibility that the Association has developed and also share, have influence and add weight to the voice of the Association as the spokesperson for franchising in New Zealand. As a national franchise association, FANZ also plays a part in the activities of the World Franchise Council and the Asia Pacific Franchise Confederation to promote and advocate franchising best practice standards.



Graham Billings Executive Director

Membership

Membership of FANZ is only available to those who meet the membership criteria and undertake to comply with the Association's Rules, Codes of Practice and Ethics.

The Members of FANZ are a wide range of people involved in franchising and include franchisors, who make up the majority of the membership, together with franchisees and also service providers who represent many of the business that have an interest or expertise in franchising such as lawyers, accountants, consultants, publishers and others.

Web: www.franchiseassociation.org.nz

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Executive Summary

The *Franchising New Zealand 2010* survey was conducted when the New Zealand (NZ) economy was in recession. The impact of the global financial crisis was comparatively light in NZ owing to the nature of the banking system and continued growth of the nation's main trading partners. New Zealand's Australian owned major banks were not exposed to 'toxic' assets and neither threatened to fail nor needed government intervention. Hence, the full effects of the 'credit crunch' were avoided. However, whilst the negative effect on NZ business operations of emphasis on debt reduction and less spending cannot be underestimated, the news is not all bad. Although general business confidence has trended downwards in the third quarter of 2010, the NZ franchise sector remains relatively resilient and even exhibits signs of modest growth.

Key findings of the *Franchising New Zealand 2010* survey are highlighted in this summary. Where possible, estimates have been included for the entire population of New Zealand business format franchises. Vehicle related franchising activities including motor vehicle and fuel retailing were not captured in the survey owing to the unique nature of these industries. Instead relevant data was gathered from publically available sources including the Motor Trade Association (Inc.) which indicated the extent of franchising amongst its 4100 members. This information is incorporated into the executive summary only.

Below are the highlights of the *Franchising New Zealand 2010* survey.

Total number of franchisors in New Zealand

After spending over two months undertaking an extensive search and confirmation process 423 business format franchises were identified. This figure includes several systems that offer multiple systems under a single brand name and these organisations have been counted only once. Therefore it is estimated there are around 450 business format franchise systems currently operating. Of these, 94 percent are home grown NZ franchise systems.

The small net growth between 2003 and 2010 of 82 franchisors is accounted for by the emergence of new franchise systems and the exit of others.

Total number of units in New Zealand franchise systems

There is an estimated 22 000 business format franchised businesses and 1600 company owned units, or in total 23 600 units operating in business format franchises in New Zealand. Most would be classified as small or medium sized businesses (SME's), thus representing 5 percent (476 558 in total) ²of all SME's in NZ. An additional 873 fuel retail outlets and 520 motor vehicle retail outlets are estimated.

² Ministry of Economic Development 2010

Growth of franchised units in New Zealand

Extrapolated data from a survey undertaken in 2003³ estimated 12 300 franchise units in total. In 2010 our estimate of 23 600 units suggests that the number of units has almost doubled over the seven year period. Therefore, the sector continues to expand despite the effect of any slowdown that occurred in 2009 and 2010.

Turnover of the New Zealand franchising sector

Estimation of the turnover of franchise systems provides an important measure of the contribution of franchising to the New Zealand economy. The total sales turnover of business format franchise units was estimated at \$6.9 billion in 2003⁴. In 2010 franchisors were asked to provide data on turnover of company-owned units as well as total system turnover for the fiscal years 2009 and 2010. It was anticipated this information would provide evidence of the performance of New Zealand franchising and reflect the country's period of economic downturn. However, only a small number of survey participants were willing to disclose financial data. Hence, we are unable to report any findings about franchise system turnover.

We are, however, able to estimate total motor vehicle sales of \$6.9 billion and fuel retail of \$7.0 billion⁵. Trends in this industry have shown a steady increase in fuel sales and a decrease in the sale of motor vehicles especially during 2009.

Franchisor activity levels

Inquiry into the level of franchise system activity in 2009 and 2010 gave us some idea of the degree of commercial success experienced by franchisors in the period. The aim was primarily to ascertain the effect of the recession. Around half respondents reported increases in revenues from sales over the two years. However, around 30 percent reported a decrease and a further 20 percent reported no significant change. Most activity occurred in promoting products or services. Franchisors remain active sourcing franchisees but are holding back on further borrowing in line with a general trend amongst the NZ community.

The economic downturn is mostly impacting franchises by increasing competition, reducing the number of customers and effecting profit margins. To mitigate these effects franchisors are trying to reduce costs with more efficient operations, highlighting key performance indicators, and increasing staff training. New promotional tools like direct marketing especially via optimised websites and social networks, and introducing loyalty rewards are being used. Customer satisfaction is receiving increased attention and to foster public loyalty, sustainability practices are being adopted.

³ The Survey of Franchising (2003) Report sponsored by the National Bank, Colmar Brunton Research, p 3.

⁴ Ibid, p 3.

⁵ Statistics New Zealand

Employment in the New Zealand franchising sector

The total number employed in New Zealand business format systems is estimated to be 80 400, made up as follows:

Employment status	Number of employees	Percent
Permanent full time	57 700	71.8
Permanent part time	19 000	23.6
Casual	3 700	4.6
Total	80 400	100.0

In 2003 it was estimated that 40 915 people were employed in the franchise sector, just over half in permanent full time positions; one third part time and the remainder in casual positions⁶. There has been a shift in the employment profile in 2010. It is estimated that there are now more than 80 000 employed in the sector, predominantly in permanent full-time or part-time positions.

Profile of franchise systems in New Zealand

Industries: Most franchising takes place in the service sector. This sector includes a raft of personal services, and when wider administrative and support services are added, accounts for 38 percent of all franchise systems and more than 50 percent of franchise units. Retail trade comprises 24 percent of franchisors, but only 7 percent of franchise units. Accommodation and food services account for a further 17 percent of franchisors and 11 percent of franchise units. We are not able to make comparisons with the 2003 data on industry as a different method of industry categorisation was used in 2010⁷. In 2003 however, the largest portion of franchises were allocated the 'other' category, taken at that time as indication of the diversity of the sector⁸.

Size of Systems. Despite the presence of some large franchise systems, the vast majority of NZ franchise systems are small. The median number of franchise units in the systems sampled is 21 in 2010, representing a weak increase from the previous year (19). There is a median of one company owned unit, although it should be noted that 47 percent of the sample do not operate a company unit at all. The largest systems are found in the retail sector, however retail growth has remained static whilst non retail activity has shown moderate growth, again perhaps evidence of economic conditions.

Age of Systems. The sector shows signs of maturity and experience. Franchisors in the sample have been operating their businesses for a median of 16 years and franchising for 13 years. In general, concepts are piloted for only one year prior to launching the franchise. This latter point appears to be a trend that carries on from findings in 2003⁹.

⁶ Ibid, p 3.

⁷ The 2010 survey used Australia and New Zealand Standard Industrial Classification (ANZSIC) coding system.

⁸ The Survey of Franchising (2003) Report sponsored by the National Bank, Colmar Brunton Research, p 4.

⁹ Ibid, p 5.

Franchisor confidence and challenges

Franchisor lack of confidence noted in 2003 was somewhat underpinned by perception of a poor public image of the sector¹⁰. Gauging public image is not within the scope of this report but a recent, widely published conviction for selling nonexistent sub franchises in a large service organisation cannot have had a positive effect. In 2003 those who supported changes to the regulatory regime felt a move away from self regulation could arrest such negativity; whilst others felt regulation might produce its own negative effect by hampering expansion. Franchisors reported lack of business and franchising knowledge amongst franchisees as a core challenge at that time.

In 2009 the issue of regulation was mooted between the sector and government, with the status quo remaining at least for the foreseeable future. This issue has now largely receded from scrutiny. Recruiting franchisees is the number one challenge faced by franchisors, followed by maintaining standards and accessing suitable franchisee capital. Other challenges include franchisee non compliance, franchisor cash flow, industry competition, issues with landlords and poor performance amongst franchisees.

Franchise sector trends

Increased Full Time Employment. The trend towards full time work is in line with recent government findings that, owing to uncertainty about the future, firms are increasing the hours worked by existing staff rather than employing new staff.

Part Time Franchising. In order to facilitate comparison with the Australian sector the survey gathered data on part-time franchising. As was found in 2008 in Australia, just under half NZ franchisors appoint *part-time franchisees* so the sector appears to cater for franchisees who require more flexibility in operations. However, it is noted that although part-time franchisees generally enjoy success they need an equal amount of head office support.

Franchisee Selection. Despite recruitment of suitable franchisees being a significant challenge and expense for franchisors, the selection criteria commonly reported appear unsophisticated and may depend largely on judgement. Most franchisors make a decision based on perceptions of honesty and integrity, passion, enthusiasm, willingness to conform, and the recommendation of existing franchisees. An ability to raise capital and communicate on a meaningful level is also important. However, despite concerns over franchisee business ability expressed in 2003 and poor franchisee performance in 2010, more accurately measureable traits like business and management skills, industry experience, and time management do not appear to be rated highly. Although there is strong evidence that franchisee innovation has an important role to play within the system, an ability to innovate is given little consideration at the selection stage.

Specific Growth Strategies. Offering exclusive territories is the most common growth strategy, especially in service industries. Conversion of independents is another core method and the use of proven franchisee operators through multi-unit ownership appears to be used by over half of the sector, especially in the current period of economic

¹⁰ Ibid, p 6.

uncertainty. A multi-unit strategy is most common in non-retail industries and appears to be supportive of reported recruitment challenges.

Mature System Trends. Two trends associated with mature franchise systems are observed. First the use of a Franchise Advisory Council (FAC) is more likely in systems with more than 10 years franchising experience and in the non-retail sector. Despite reported advantages, less than half franchise systems use FAC's. Second, master franchising is most common amongst mature franchise systems and is used to stimulate system growth and provide local support to franchisees.

Awareness of Sustainability Issues. Whether as a result of increased worldwide awareness or an attempt to foster customer loyalty during the recession, there is evidence that franchisors are becoming more conscious of sustainability issues. This concern is being translated into innovative product design, packaging, supply processes, and an emphasis on a 'green' image in promotional campaigns.

Franchising disputes and unit changes

Substantial disputes (those referred to an external advisor for action) were experienced by 19 percent of franchisors within the past 12 months but as only one or two franchisees per system were involved the proportion of franchisees involved in disputes was only 2 percent (compared with 1 percent in 2003)¹¹. The main cause, as in 2003, is non compliance. Other areas of dispute involve franchisee profitability, royalty payments, and misinterpretation and communication issues. The majority of disputes were at the stage of legal correspondence and awaiting resolution.


Data on franchise unit changes provide evidence of stability in the sector. In 2009 only 13 per cent of units under went some change mostly owing to sale or transfer. Two per cent ceased altogether and 3 per cent were either terminated, not renewed or were taken over by the franchisor. Across the entire business format franchised unit population of 23 600 this would amount to approximately 470 closures and 700 non renewals during a 12 month period. Respondents to the 2010 survey reported franchisees operated for around 6 years, and the median agreement was for 5 years with usually one renewal option.

Internationalisation

In 2003 only 20 percent of NZ based franchise systems operated overseas¹² but 50 percent had plans to do so. However, in 2010 only 23 percent were involved in international franchising and 32 percent had an overseas strategy plan. Hence, internationalisation appears to have presented challenges to most NZ based franchises. English speaking and culturally similar countries like Australia and the UK remain the most popular destinations. However, fledgling excursions into the Asia Pacific market may increase as the government continues to deliver free trade and market access agreements with countries in this region. Just how well franchisors will understand their new customers and build strong personal relationships is yet to be seen.

¹¹ The Survey of Franchising (2003) Report sponsored by the National Bank, Colmar Brunton Research, p 10.

¹² Ibid, p 1.



Most franchisors entered international markets within the last 9 years and held a median of 13 units in the domestic market before venturing overseas. Master franchising is the most common method of entering foreign markets.

Conclusion

The *Franchising New Zealand 2010* survey reveals a sector that continues to grow despite two difficult years. The data collected illustrate those two years rather than any indication of the future but there is a signal of caution amongst franchisors. For most sector participants 2010 has been a year of contrasts. NZ franchise business owners have not only faced economic challenges and experienced cautious signs of recovery but also anticipated a rise in GST from October. Furthermore, although not captured here as the survey took place in July and August, the effects of a devastating earthquake in Canterbury have placed many small business owners at risk. The franchise sector is no exception. It is little wonder business owners remain guarded as the full impact of the recession will only become apparent when the global economy returns to equilibrium.

Background

Franchising New Zealand 2010 provides a comprehensive report on the current status of the New Zealand franchising sector. It is the inaugural *Franchising New Zealand* survey in an ongoing series to be undertaken on a biennial basis so that a longitudinal perspective of the development and impact of the sector may be gained.

Data for the 2010 report was gathered in July and August 2010 at a stage when the New Zealand economy was showing the effects of almost two years of contraction. The last survey of NZ franchisors took place in 2003¹³ when the economy was moving towards a boom period that lasted five years. In the 2009 and 2010 fiscal years however, the situation had changed. The Reserve Bank reported a decline in business credit growth, increased numbers of unemployed, reduced public spending and the unsettling effects of finance company collapses. This report must be seen in that context.

The sector continues to be self regulated in spite of debate in 2009 on the efficacy of this situation. Despite recent investigation by the Serious Fraud Office related to the granting of bogus sub franchises by an independent contractor in a large service franchise, the sector maintains a positive image.

Notwithstanding leading indicators like gross domestic product growth (Statistics NZ September 2010) and business confidence (National Bank Business Confidence Survey September 2010) trending down in the third quarter of the year, NZ franchising continues to grow, albeit slowly. The market research company Colmar Brunton estimated 17% growth in the number of systems between 2001 and 2003¹⁴. More conservative average growth of around 3% a year reported in 2010 may contain within it roller coaster figures to account for the seven year gap and the boom and bust economic experience.

Franchising New Zealand provides reliable current information about the sector during a period of economic recession and inquiry by both government and stakeholders. The survey results are robust within the confines of the response rate. It is disappointing that some of the larger food retailers found there was 'nothing in it for them', so refused to take part. Despite this attitude however, the survey provides valuable information of the status of the sector in New Zealand.

¹³ The Survey of Franchising (2003) Report sponsored by the National Bank, Colmar Brunton Research.

¹⁴ Ibid, p 3.

Introduction

The *Franchising New Zealand 2010* survey was conducted from June to early September 2010. The identified population of business format franchisors was included in the survey.

We adapted and widened the Australian definition of a franchising agreement in the following way:

1. An agreement between two parties
2. Where the franchisor grants the franchisee right to carry on business under a system and/or marketing plan substantially determined by the franchisor
3. In association with a brand/trademark controlled by the franchisor
4. Franchisees pay the franchisor an initial capital fee and/or an ongoing fee (sometimes called a royalty), or training fee
5. Or, an independently owned, multi unit operation

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 2010 survey is particularly timely in view of a seven year gap since the last survey was undertaken. This inaugural survey in a planned biennial series will enable us to build an analytical time series and benchmarks for the franchising sector. By following the unique survey series begun in Australia in 1998, and modelling the NZ survey on the Australian example, Trans Tasman comparisons can be made.

In 2010 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, and start up costs for franchise systems and franchisee units, and employments trends
- A franchisee profile in terms of age, gender, background experience, franchisee unit life cycles, and challenges
- Measures of franchisors response to the economic downturn; responses to the other most significant challenges faced, and their levels of activity over 2009 and 2010.

Conduct of the Survey

The Franchisors

The *Franchising New Zealand 2010* survey included the identification of New Zealand business format franchisors. In the absence of official registration requirements this task involved painstaking compilation of business names from a variety of sources. Several existing databases plus master databases on the Internet, including that of the Franchise Association of NZ were searched. In addition trade journals and local newspapers were scanned for information. This extensive search resulted in initial identification of 473 organisations assumed to be involved in franchising.

Our research team then telephoned every business owner or significant person to confirm their business status and to explain the overall purpose of the survey. Organisations were removed from the database if they were found to be no longer operating or if they indicated they were not, or were no longer involved in franchising. We used an adapted and widened definition of franchising to qualify each business in this respect and to capture the finer nuances of the types of franchise arrangements.

The lack of official registration requirements makes it impossible to claim total accuracy in identification of the population. However, our search was extensive and we spoke personally to a huge number of people, thus we have confidence that the database has a high degree of accuracy. For that reason sampling error is not an area of concern in the 2010 survey. The number of business format franchisors in New Zealand in 2010 is estimated to be 423. When multiple concepts under a single brand name are included, the number of franchise systems approximates to 450. In a country with a population of just over 4 million, this type of business strategy is therefore significant.

The Questionnaire

The survey was conducted electronically over the Internet. After being contacted each franchisor was sent an email containing a URL link to the questionnaire. A hard copy was tested at a preliminary stage by a sample of 13 people: 3 industry consultants, 4 franchisors and 6 academics who provided feedback to the research team. This allowed refinement of the questions and identification of any problem questions. The most difficult part involved length, because we knew people would claim time pressure and so we worked hard to condense the content. The end result was simple and short but still covered topics we needed to know about to get a true picture of the NZ sector after a seven year gap.

Full ethical clearance was granted by both Massey University and Griffith University Human Research Ethics Committees and was disclosed in both the covering email and in the survey. Only one of the survey authors had access to the data submitted. Participants were asked to name their systems in their responses so non respondents could be identified and a survey prize winner chosen. The research team conducted two follow ups to non respondents to try to encourage participation. In addition there were several press releases informing the public of the upcoming survey and one author spoke at functions attended by franchising representatives.

Those respondents who were uncomfortable with using an online survey were invited to have a hardcopy. No hard copies were returned. To promote participation in the survey a prize draw of \$700 was offered. In October the winner was randomly drawn from the list of respondents and notified by telephone and email.

Survey Response

Surveys were sent to 423 business format franchisors in total including the original four franchisors who acted as pilots. Of the 423 included in the survey, 88 responded and two failed to complete. Thus the **response rate was 20.8 percent**. This is disappointing especially since the bigger retail firms failed to respond despite personalised telephone calls and email reminders. There seems to be a distrust of surveys, and feelings of commercial sensitivity and lack of time. Some even told us they saw 'nothing in it for them'. We sincerely hope the next survey in 2012 is met with more professionalism and collective goodwill of franchisors.

Estimations for the Entire Franchising Sector

Because not all franchisors in NZ responded to the survey we are faced with the problem of estimating results across the entire population. All surveys face this issue. Non sampling errors can occur when not all franchises are represented in the sample. One issue is the possibility of differences between those who responded and those who chose not to participate. This is called non response bias and so we performed two tests to determine the extent of the problem.

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

A second test compared a random sample of 29 non respondents with the 88 survey respondents on key variables. Information for non respondents was obtained from master franchise directories on the Internet and in some cases by phone calls. This test also confirmed no significant differences between the two samples. Therefore it can be concluded that non response bias was not a problem with the survey and that there were no significant differences between franchisors who responded and those who did not. For these reasons the survey results may be generalised to the entire population of business format franchisors.

Another form of non-sampling error relates to incorrect responses being given by some franchisors. To minimise this possibility the data was checked for out of range values, and even value judgements that appeared strange in the textual comments. In these cases respondents were contacted and asked to explain in more detail. Irregular responses were thus verified.

As no franchisors in the fuel and motor vehicle retail industries were contacted because they are unique and not comparable, we have excluded them from estimations and refer to them separately in the Executive Summary. The estimated results for the entire franchise population of New Zealand are included in the Executive Summary only and in other areas where it is feasible to extrapolate. However, the actual results for each individual question and accompanying comments are contained within the main report.

A Franchise Profile

Industry

Key facts

- 423 franchisors in 2010.
- 350 franchisors in 2003.
- The average franchise system size has grown as the sector matures.

The population of business format franchisors in New Zealand has increased since 2003. The *Survey of Franchising* in that year reported a total of 350 franchisors and in 2010 this figure has increased to 423 active systems. An increase of only 21 percent over seven years is not unexpected in view of negative economic growth in the fiscal years 2009 and 2010. This demonstrates that the sector has remained resistant to recessionary forces. The average size of franchise systems has increased since 2003, reflecting the increasing maturity of the New Zealand sector. The total number of franchised and company owned units reported in the 2010 survey was 4465 from 86 franchisor respondents (average 52 units per system) compared with 4217 units reported by 120 respondents in 2003 (average 35 units per system).

In the following table the sample of respondents has been compared with the population of franchisors operating in New Zealand. Respondents were represented across all major industries, with most responses received from the *'other' services* category. This group includes numerous personal services such as pet services, auto repairs and servicing, and IT services. As the biggest sector it accounts for just over a quarter of all New Zealand franchisors.

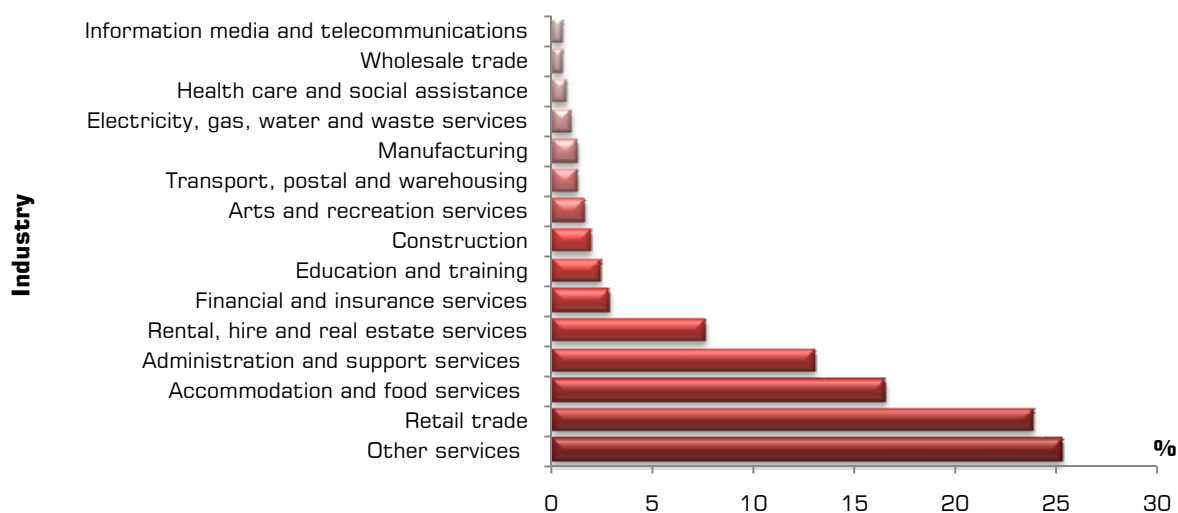
Retail trade accounts for 24 percent of franchisors in the population. Another 17 percent are involved in *accommodation and food services* including food retailing, fast food and coffee shops. *Administration and support services* (including travel agencies, office services, domestic and industrial cleaning, gardening services and lawn mowing) make up 13 percent of the franchisor population. *Rental, hire and real estate services* account for 8 percent of the population, and the remaining industries represent small proportions of franchising activity across a broad range. It is interesting to note that there are currently no New Zealand franchise systems operating in the professional, scientific and technical sector.

A1 What is the main product or service provided by this franchise system?

Response (Industry)	Population of franchisors		Respondent franchisors		Total number of respondents' units per industry 2010	
	Number	Percent	Number of responses	Percent	Number of units	Percent
Retail trade	101	23.9	12	13.6	321	7.1
Accommodation and food services (includes food retail, fast food, coffee shops etc)	70	16.5	14	15.9	497	11.1
Administration and support services (includes travel agencies, office services, domestic and industrial cleaning, gardening services, lawn mowing etc)	55	13.0	16	18.2	1982	44.4
Other services (includes personal services, pet services, auto repairs and servicing, IT services etc)	107	25.3	19	21.6	406	9.1
Rental, hire and real estate services	32	7.6	6	6.8	342	7.6
Financial and insurance services	12	2.8	1	1.1	18	0.4
Education and training	10	2.4	1	1.1	6	0.1
Construction	8	1.9	6	6.8	192	4.3
Arts and recreation services	7	1.6	4	4.5	140	3.1
Transport, postal and warehousing	5	1.2	5	5.7	538	12.4
Manufacturing	5	1.2	0	0	0	0
Electricity, gas, water and waste services	4	0.9	0	0.0	0	0
Health care and social assistance	3	0.7	2	2.3	10	0.2
Wholesale trade	2	0.5	1	1.1	8	0.1
Information media and telecommunications	2	0.5	1	1.1	5	0.1
Total	423	100.0	88	100.0	4465	100.0

- Notes:
- 1) All 88 respondents were classified.
 - 2) Franchisors were coded according to industry type using major categories provided under the Australian and New Zealand Standard Industrial Classification coding system (ANZSIC).
 - 3) A total of 86 franchisors provided a response regarding the number of units held from an expected 88.

Industry categories



Franchise ownership

Key facts

- The majority of respondents were franchisors.

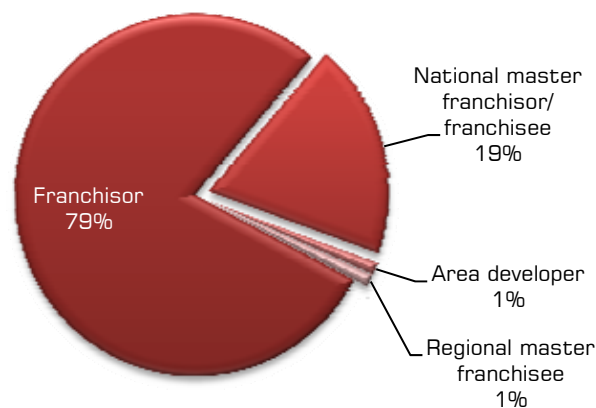
The vast majority (78 percent) of survey respondents were franchisors with the remainder being master franchisors or franchisees at the national level. Area developers and regional master franchisors and franchisees make up an insignificant portion of the sample.

A2 Please indicate your franchise status.

Response (Franchise arrangement)	Number of responses	Percent
Franchisor	69	78.4
National master franchisor/franchisee	17	19.3
Area developer	1	1.1
Regional master franchisee	1	1.1
Total	88	100.0

Note: 1) All 88 respondents provided a response to this question.

Franchise arrangement



Age of franchise systems

Key facts

- Franchisors have 16 years operational experience and 13 years franchising experience.
- Pilot operations were mostly conducted for one year prior to franchising.
- Three quarters of respondents have franchised for at least 5 years.

New Zealand franchise systems are increasingly experienced. The median number of years operating across the sample is 16 years and the median number of years franchising is 13 years. The median time taken to pilot test the concept was one year before embarking on a franchise strategy. This result is in line with 2003 findings of an average of seven months between commencing business operations and employing a franchise strategy. The retail sector has around six years more operational experience than the non retail sector. The table below reveals that, although franchising began in the 1980s, it gained momentum in the 1990s.

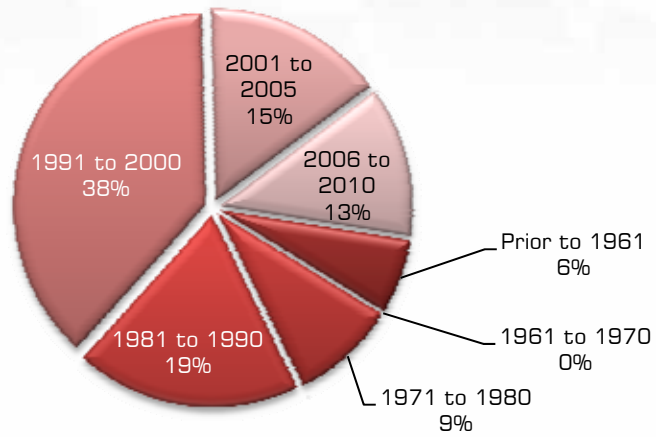
A3 *In what year did this business commence business operations?*

A4 *In what year did this business commence franchising?*

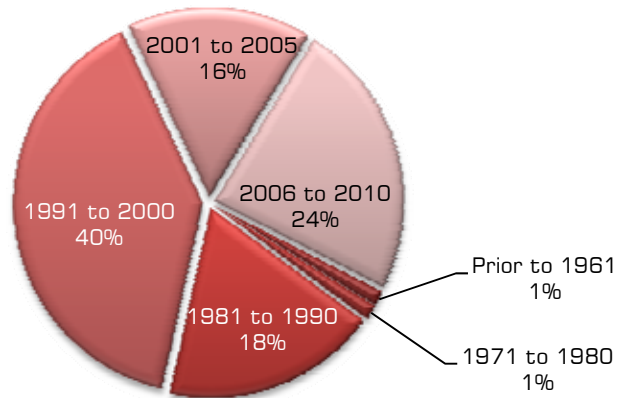
Response (Year)	Year commenced business operations		Year commenced franchising	
	Number of responses	Percent	Number of responses	Percent
Prior to 1961	5	6.3	1	1.3
1961 to 1970	0	0.0	0	0.0
1971 to 1980	7	8.9	1	1.3
1981 to 1990	15	19.0	14	18.4
1991 to 2000	30	38.0	30	39.5
2001 to 2005	12	15.2	12	15.8
2006 to 2010	10	12.7	18	23.7
Total	79	100.0	76	100.0

- Notes:
- 1) A total of 79 respondents provided a response out of an expected 88 for years operating.
 - 2) A total of 76 respondents provided a response out of an expected 88 for years franchising.
 - 3) The median number of years was: operating 16 years and franchising 13 years.
 - 4) Businesses had been operating from 2 to 147 years and franchising from 1 to 57 years.

Year commenced operations



Year commenced franchising

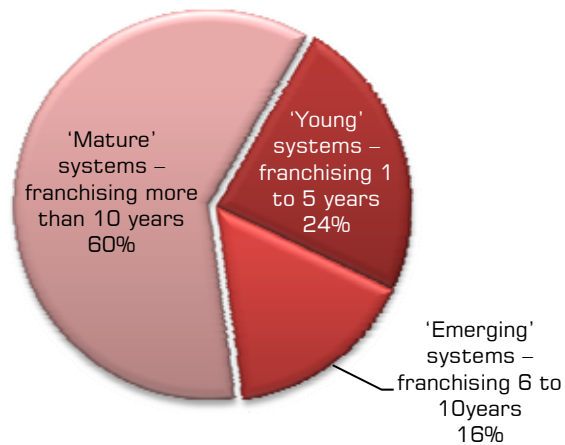


To demonstrate the level of franchising experience in New Zealand, the table below divides the sample into young, emerging, and mature franchise systems. Sixty-one percent of the sample had been franchising for more than 10 years.

Level of Franchising Experience	Number of responses	Percent
'Young' systems – franchising 1 to 5 years	18	23.7
'Emerging' systems – franchising 6 to 10 years	12	15.8
'Mature' systems – franchising more than 10 years	46	60.5
Total	76	100

Note: 1) Based on 2010 data.

Franchising experience



Size of franchise systems

Key facts

- Franchise systems show evidence of growth from 2009 to 2010.
- Just over half operate a company owned unit.
- One quarter of respondents were large systems with more than 50 units.

Data provided from respondents about system size in 2009 and 2010 showed small individual system growth. The median number of total units per system (franchised and company owned) increased from 19 to 21 over the two year period. The median number of franchised units was 20 and the median number of company units was 1 in both years.

Although there is growth and evidence of increasing maturity, system size remains small with half of the respondents reporting systems with fewer than 20 units. A significant number of franchise systems do not operate any company owned units (47 percent).

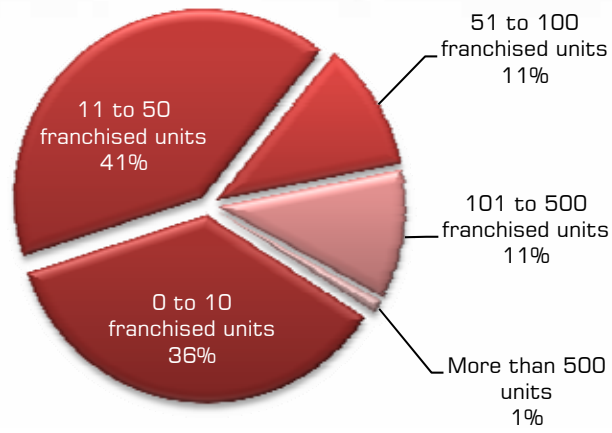
Retail franchise systems are larger than those in other industries. However, with a median of 25 units in both years, retail system growth has remained static while non retail systems have grown from a median of 16 in 2009 to 20 in 2010. This could reflect the prevailing economic conditions over the two years and a trend amongst consumers to reduce debt rather than increase discretionary spending. It may also indicate a modern emphasis on service industries.

A5 *How many franchised units were operating within your franchise system in New Zealand on 31 March 2009 and 31 March 2010?*

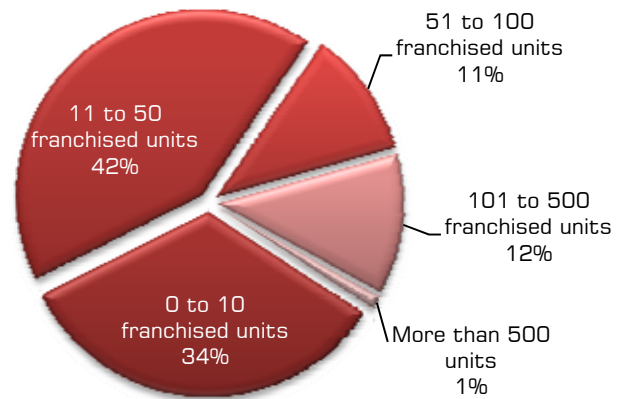
Response (Franchised units)	2009		2010	
	Number of responses	Percent	Number of responses	Percent
0 to 10 franchised units	29	35.8	27	33.4
11 to 50 franchised units	33	40.7	34	42.0
51 to 100 franchised units	9	11.1	9	11.1
101 to 500 franchised units	9	11.1	10	12.3
More than 500 units	1	1.2	1	1.2
Total	81	100.0	81	100.0

- Notes:
- 1) A total of 81 franchisors out of an expected 88 answered the question for both 2009 and 2010.
 - 2) The median number of franchised units was 20 in both years.
 - 3) The total number of franchised units increased from 3941 in 2009 to 4150 in 2010 which represents a 5.3% increase.
 - 4) Responses ranged from zero to 735 franchised units in 2009 and from zero to 753 in 2010.

Franchised units as at 31st March 2009



Franchised units as at 31st March 2010

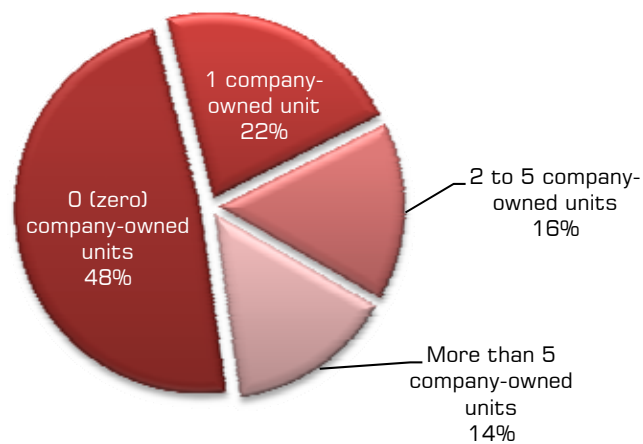


A6 How many company-owned units were operating within your franchise system in New Zealand on 31 March 2009 and 31 March 2010?

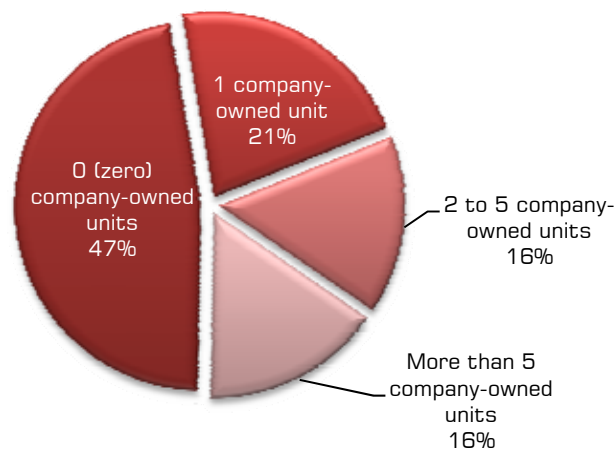
Response (Company-owned units)	2009		2010	
	Number of responses	Percent	Number of responses	Percent
0 (zero) company-owned units	40	48.2	39	47.0
1 company-owned unit	18	21.7	18	21.6
2 to 5 company-owned units	13	15.7	13	15.7
More than 5 company-owned units	12	14.5	13	15.7
Total	83	100.0	83	100.0

- Notes: 1) A total of 83 franchisors out of an expected 88 provided a response for both 2009 and 2010.
 2) There was a median of 1 company unit in both years.
 3) Responses ranged from zero to 57 company-owned units in 2009 and from zero to 61 in 2010.

Company-owned units as at 31st March 2009



Company-owned units as at 31st March 2010

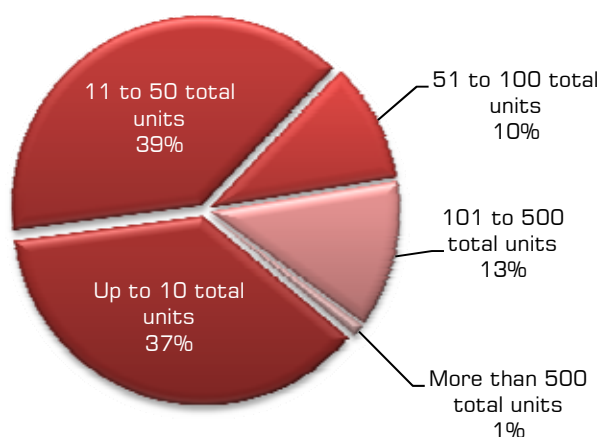


A summary of the total units (franchised and company-owned) held by respondents is shown below.

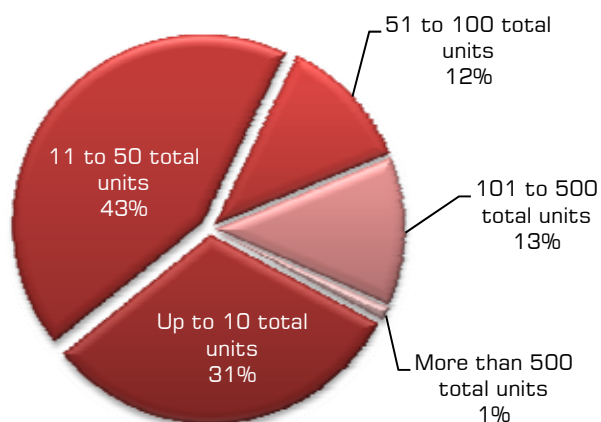
Response (Total units)	2009		2010	
	Number of responses	Percent	Number of responses	Percent
Up to 10 total units	32	36.8	27	31.4
11 to 50 total units	34	39.2	37	43
51 to 100 total units	9	10.3	10	11.6
101 to 500 total units	11	12.6	11	12.8
More than 500 total units	1	1.1	1	1.2
Total	87	100.0	86	100.0

- Notes: 1) The median number of total units was 19 in 2009 and 21 in 2010.
 2) Responses ranged from zero to 735 in 2009 and from zero to 753 in 2010.
 3) A total of 87 franchisors provided data for both franchised and company units for 2009.
 4) A total of 86 franchisors provided data for both franchised and company units for 2010.

Total units as at 31st March 2009



Total units as at 31st March 2010

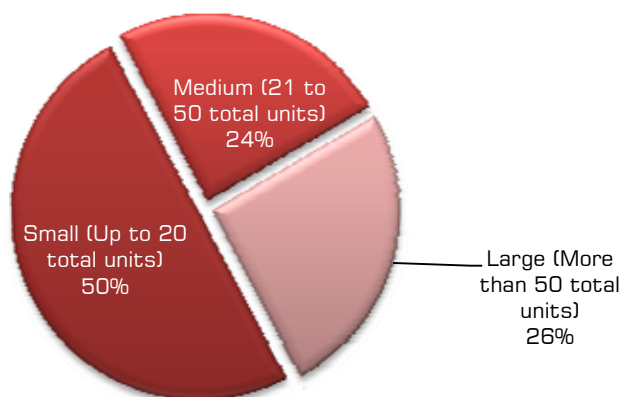


Franchise systems have been categorised by size in the table below to demonstrate the mixture of small (50 percent), medium (24 percent) and large franchise systems (26 percent).

Category (System size)	Number of responses	Percent
Small (Up to 20 total units)	43	50.0
Medium (21 to 50 total units)	21	24.4
Large (More than 50 total units)	22	25.6
Total	86	100.0

Note: 1) Based on 2010 data.

System size



Turnover of franchise systems

The turnover of franchise systems provides an important measure of the contribution of franchising to the New Zealand economy. Franchisors were asked to provide data on sales turnover of company-owned units as well as total system turnover for financial years 2009 and 2010. It was anticipated that this data would provide evidence of the performance of New Zealand franchising during the country's period of economic downturn. However, survey participants appeared unwilling to disclose this financial data. Hence, we are unable to report any findings about franchise system turnover.

Franchise agreements

Key facts

- Most franchise agreements are fixed and offered for 5 years.
- 84 percent of franchisors offer at least one renewal option, mostly for a fixed term.

The majority of franchisors (88 percent) offered a fixed term initial franchise agreement. The most common length, used by slightly more than half the respondents (53 percent), was for 5 years. Approximately one third of franchisors offered initial agreements that were longer than 5 years, but 15 percent offered shorter agreements.

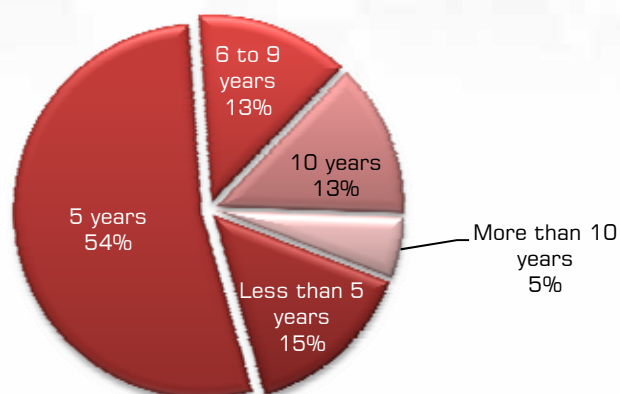
Of those who offered fixed term agreements, the majority (84 percent) also offered renewal terms. The preference of almost two thirds of franchisors (61 percent) was to offer a single renewal term, but the remainder offered multiple terms. As with initial agreements, the most common renewal term was for 5 years.

A9 *What is the initial term of your current franchise agreement?*

Response (Initial term of franchise agreement)	Number of responses	Percent
Less than 5 years	11	14.8
5 years	40	53.3
6 to 9 years	10	13.3
10 years	10	13.3
More than 10 years	4	5.3
Total	75	100.0

- Notes: 1) A total of 75 franchisors provided a response from an expected 76.
 2) The median initial franchise agreement term was 5 years.
 3) The initial term of franchise agreements ranged from 1 to 25 years.

Initial term of franchise agreement

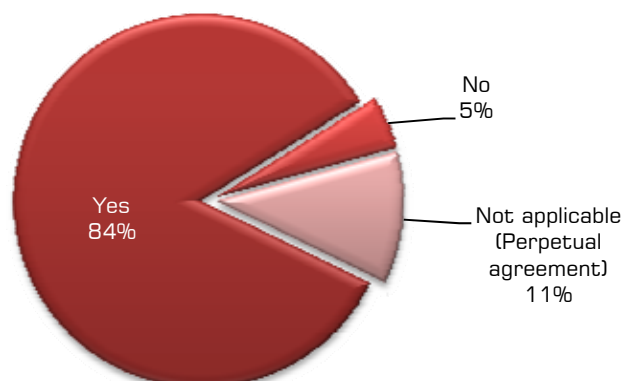


A10 Does your franchise agreement offer renewal terms?

Response (Franchise agreement renewals)	Number of responses	Percent
Yes	73	83.9
No	4	4.6
Not applicable (Perpetual agreement)	10	11.5
Total	87	100.0

Note: 1) A total of 87 franchisors provided a response from an expected 88.

Franchise agreement renewal terms

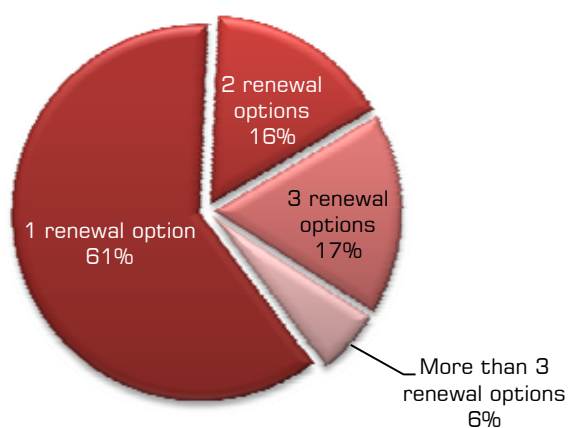


A11 How many franchise agreement renewal options are offered?

Response (Franchise agreement renewal options)	Number of responses	Percent
1 renewal option	42	60.9
2 renewal options	11	15.9
3 renewal options	12	17.4
More than 3 renewal options	4	5.7
Total	69	100.0

- Notes: 1) The expected total of 69 franchisors provided a response.
 2) The median number of renewal options offered was 1.
 3) The number of renewal options ranged from 1 to 6.

Franchise agreement renewal options



A12 For what length of time are the franchise agreement renewal options?

Median length of franchise agreement renewal options 5 years

- Notes: 1) A total of 67 franchisors provided a response from an expected 69.
 2) The length of renewal options ranged from 1 to 25 years.

Franchise unit locations

Key facts

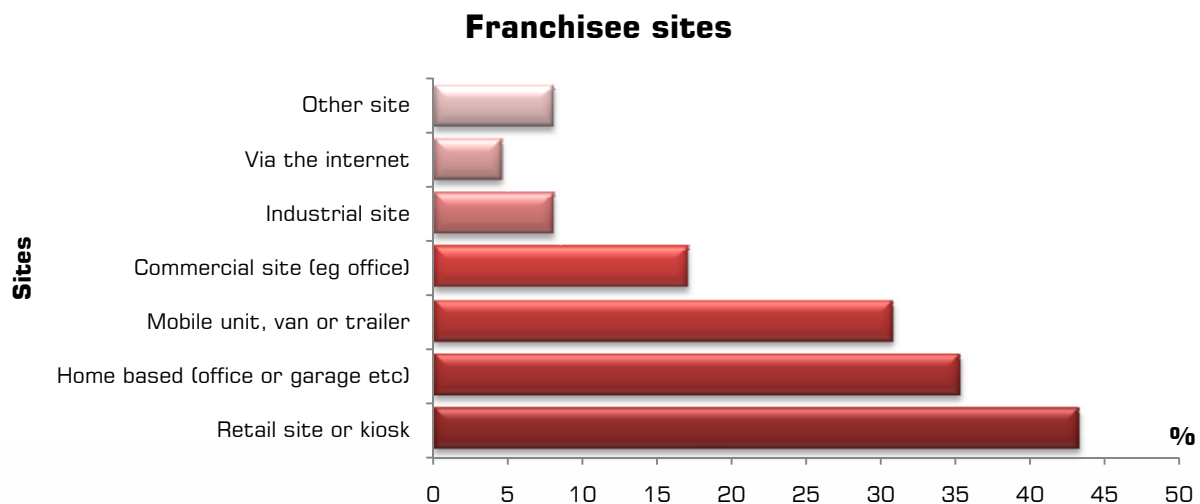
- 66 percent of franchisors offer mobile or home based franchises.
- 60 percent of franchisors offered fixed retail and commercial sites.

The majority of franchisors reported their franchisees operate from fixed sites, favouring retail sites or kiosks (43 percent) or commercial (17 percent) or industrial sites (8 percent). Both the use of mobile units, vans or trailers (31 percent) and working from home (35 percent) were significant locations. There is some evidence in the sample that a small group of franchisees were conducting their businesses online (5 percent). Other locations noted by respondents included schools and show homes.

A13 From where do your franchisees operate their businesses?

Response (Franchisee sites)	Number of responses	Percent
Retail site or kiosk	38	43.2
Home based (office or garage etc)	31	35.2
Mobile unit, van or trailer	27	30.7
Commercial site (eg office)	15	17.0
Industrial site	7	8.0
Via the internet	4	4.5
Other site	7	8.0

- Notes: 1) All 88 franchisors provided a response.
2) Multiple responses were recorded for some respondents.



Employment

Key facts

- The majority of staff are in permanent full time positions.
- Part time staff make up 25 percent of the franchise workforce.
- Casual staff account for a small proportion of overall staff numbers.

In the 2003 survey it was estimated just over half the people employed in franchising were in full time positions and one third part time. The 2009/2010 data indicates 70 percent are employed in full time equivalent (FTE) positions. One quarter of employees (25 percent) work on a part time basis and a further 5 percent are casual staff.

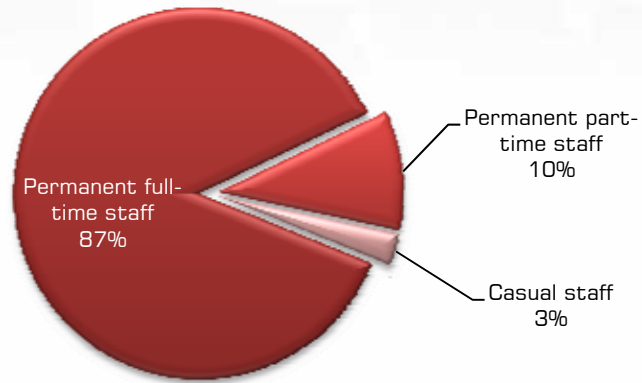
Most systems do not employ dedicated staff for franchisee recruitment or to handle site selection and leasing issues. However, the majority dedicate one or more employees to each of marketing, training and field support for franchisees and franchise administration. The size of franchise system determines the level of support staff required with larger systems dedicating more staff to these functions.

A14 Please estimate how many staff members in each category below are employed in your system.

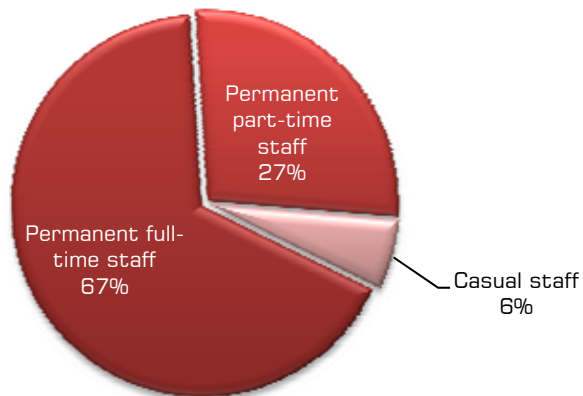
Response (Employee status)	Head Office		Franchised units		Company units	
	Number of staff	Percent	Number of staff	Percent	Number of staff	Percent
Permanent full-time staff	533	86.8	7413	66.8	2018	82.4
Permanent part-time staff	64	10.4	3034	27.3	412	16.8
Casual staff	17	2.8	659	5.9	19	0.8
Total	614	100.0	11106	100.0	2449	100.0

Note: 1) Responses from an expected 88 franchisors were: 73 responses for permanent full-time staff, 78 responses for permanent part-time staff and 79 responses for casual staff.

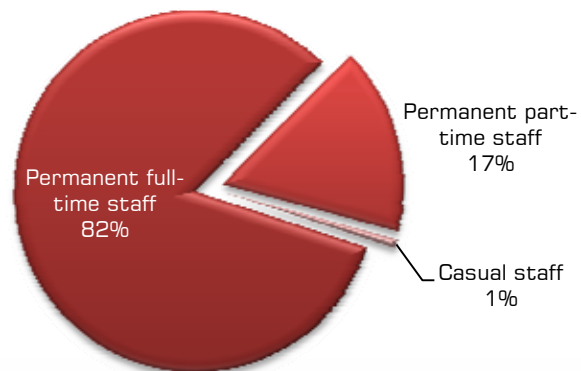
Head office employees



Franchise unit employees



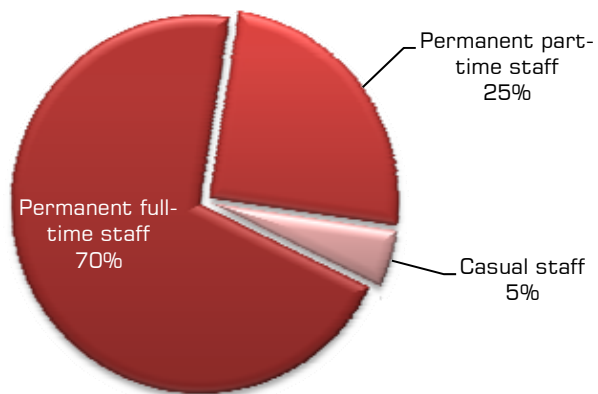
Company unit employees



Summary of total employees reported by respondents:

Response (Employee status)	Total number of employees	Percent
Permanent full-time staff	9964	70.3
Permanent part-time staff	3510	24.8
Casual staff	695	4.9
Total	14169	100.0

Employee status

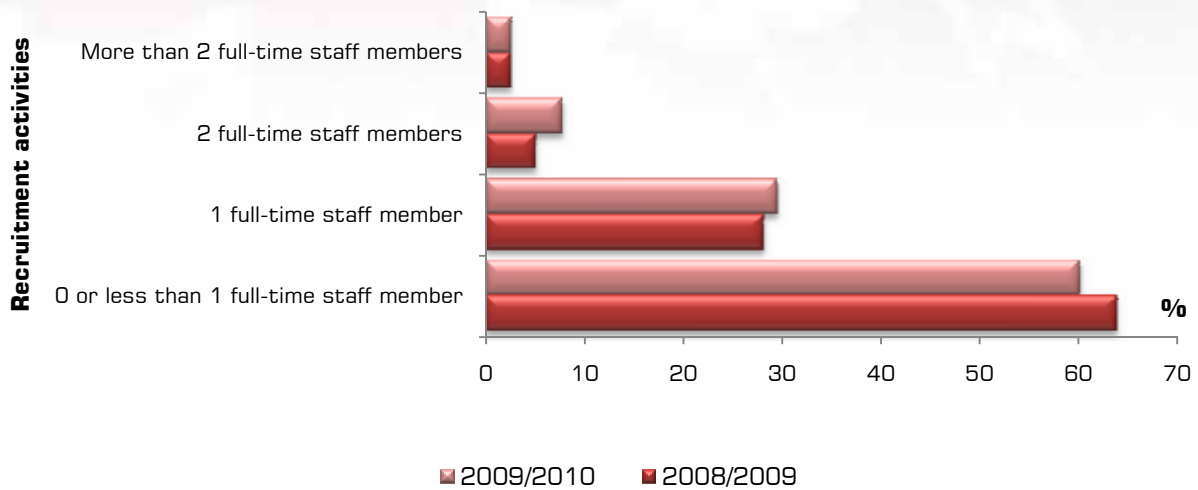


A15 How many Head Office staff (full-time equivalent (FTE)) work in the following activities?

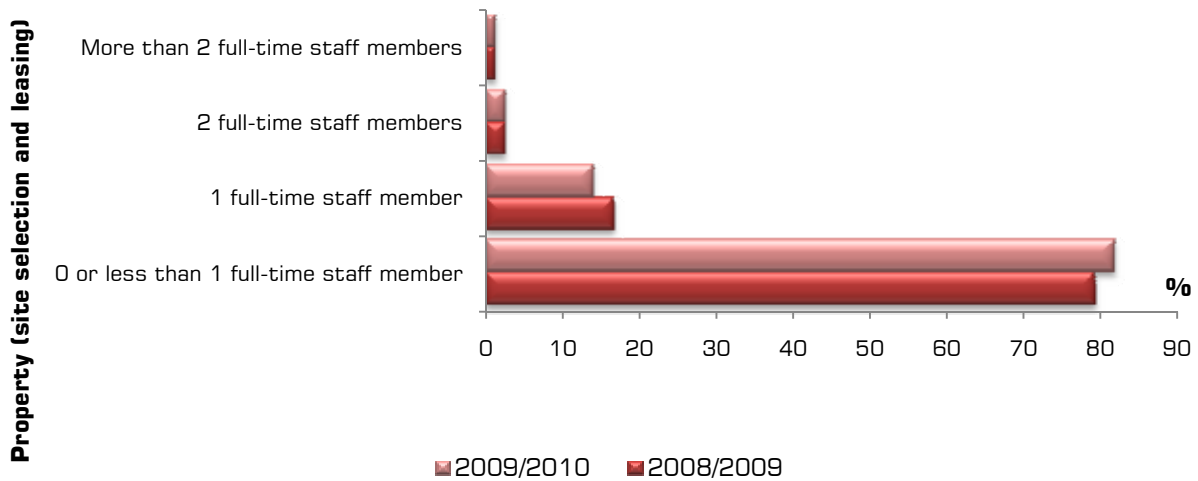
Response (Head office staff)	2008/2009		2009/2010	
	Number of responses	Percent	Number of responses	Percent
Recruitment				
0 or less than 1 full-time staff member	50	64.1	47	60.3
1 full-time staff member	22	28.2	23	29.5
2 full-time staff members	4	5.1	6	7.7
More than 2 full-time staff members	2	2.6	2	2.6
Total	78	100.0	78	100.0
Property (site selection and leasing)				
0 or less than 1 full-time staff member	62	79.5	64	82.1
1 full-time staff member	13	16.7	11	14.1
2 full-time staff members	2	2.6	2	2.6
More than 2 full-time staff members	1	1.3	1	1.3
Total	78	100.0	78	100.0
Marketing				
0 or less than 1 full-time staff member	34	43.6	34	43.6
1 full-time staff member	27	34.6	28	35.9
2 full-time staff members	8	10.3	6	7.7
More than 2 full-time staff members	9	11.5	10	12.8
Total	78	100.0	78	100.0
Training and field support				
0 or less than 1 full-time staff member	27	34.6	24	30.8
1 full-time staff member	20	25.6	20	25.6
2 full-time staff members	14	17.9	15	19.2
More than 2 full-time staff members	17	21.8	19	24.4
Total	78	100.0	78	100.0
Administration				
0 or less than 1 full-time staff member	17	21.8	20	25.6
1 full-time staff member	26	33.3	21	26.9
2 full-time staff members	16	20.5	19	24.4
More than 2 full-time staff members	19	24.4	18	23.1
Total	78	100.0	78	100.0

Note: 1) A total of 78 franchisors provided a response from an expected 88.

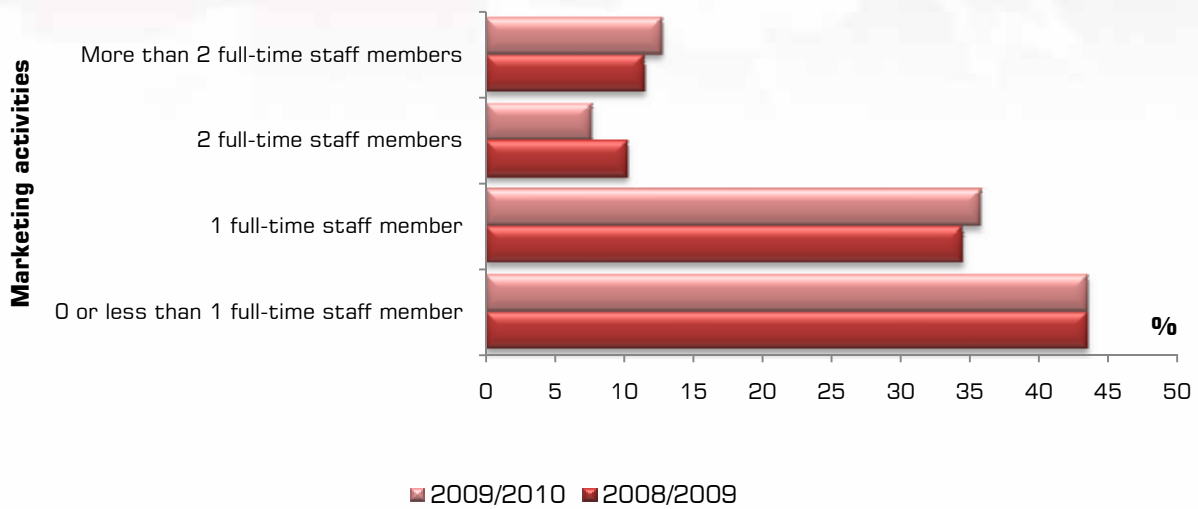
Head office staff involved in recruitment activities



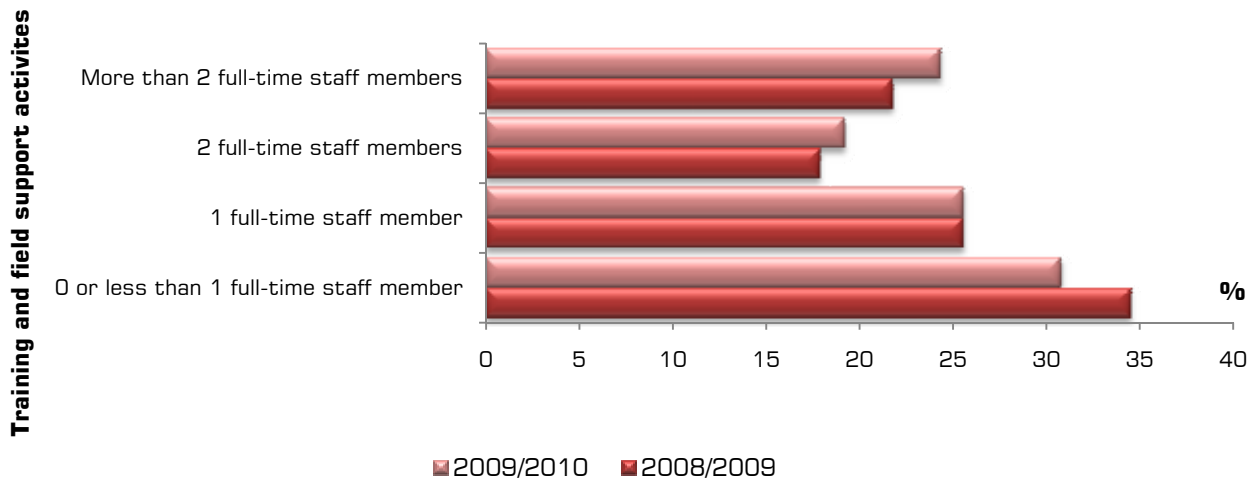
Head office staff involved in property-related activities



Head office staff involved in marketing activities



Head office staff involved in training and field support activities



Head office staff involved in administration



Franchise system set up costs

Key facts

- The majority of franchise systems (70 percent) started more than five years ago.
- The median start-up cost of franchise systems was \$50 000.
- Personal financial resources underpin the business operations of most franchisors.

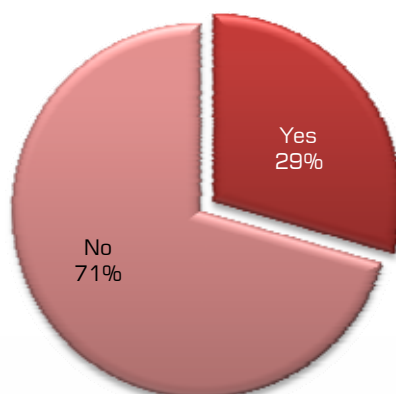
The majority of respondent systems (70 percent) have over five years experience in franchising. Of the remaining 30 percent of franchisors that began franchising within the last five years, the median cost to set up the franchise system was \$50 000. The majority of these franchisors relied on their personal financial resources to set up their franchise systems, with bank loans and private investors also being used. Only 6 franchisors indicated that they relied on franchise fees to cover the set-up costs. Where loans were used, most were secured against the franchisor's personal assets.

A16 Did you start franchising in the last five years?

Response (Commenced franchising within last 5 years)	Number of responses	Percent
Yes	26	29.5
No	62	70.5
Total	88	100.0

Note: 1) All 88 franchisors provided a response.

Commenced franchising in the last 5 years

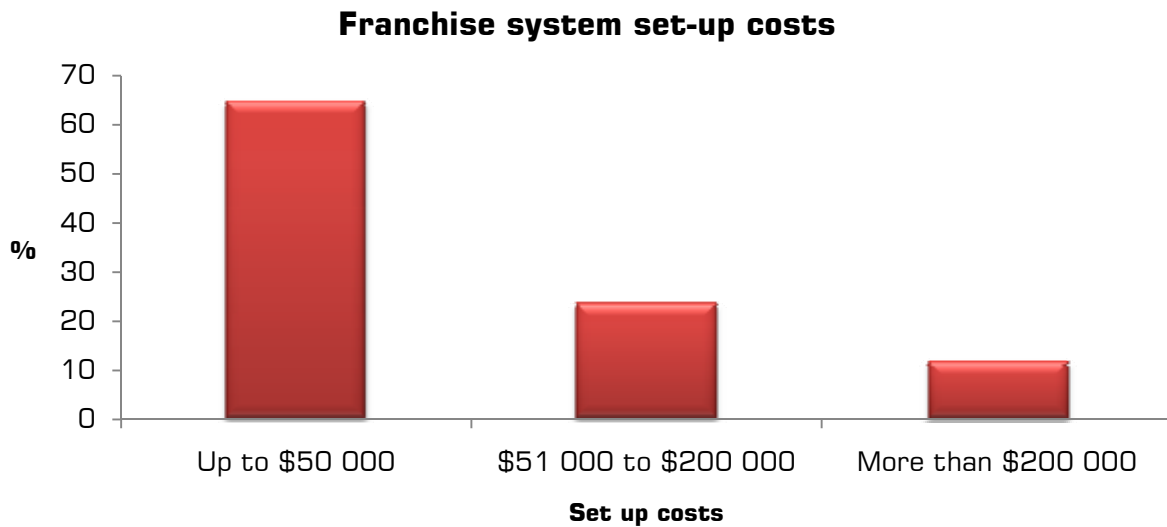


A17 If you started franchising in the last five years what did it cost to set up your system?

(Your total cost would include things like legal, accounting, other advice/consultation, and branding prior to set up. Include the first six month period of operation).

Response (Franchise system set up costs)	Number of responses	Percent
Up to \$50 000	11	64.7
\$51 000 to \$200 000	4	23.5
More than \$200 000	2	11.8
Total	17	100.00

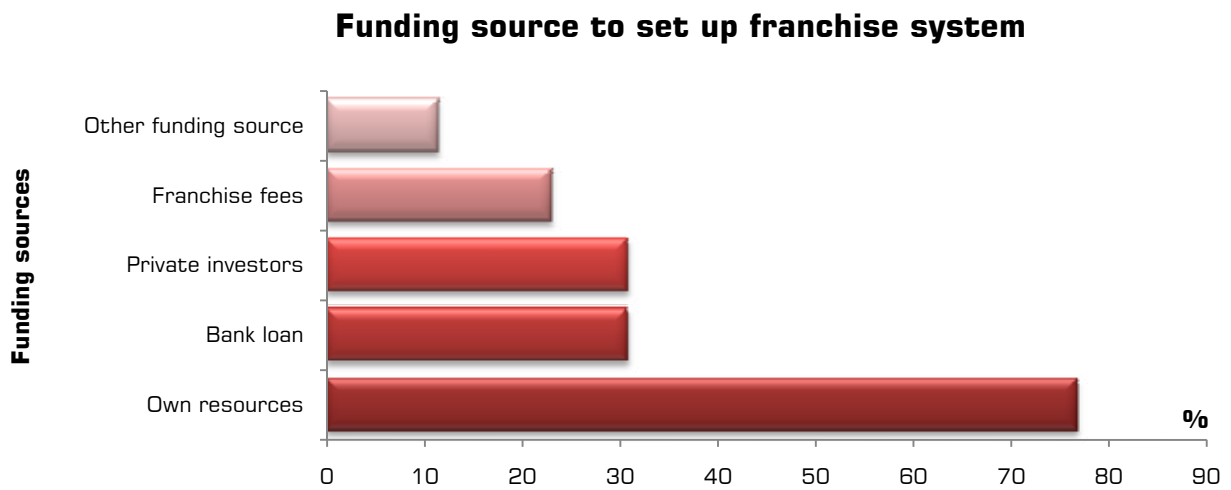
- Notes: 1) A total of 17 franchisors provided a response from an expected 26.
 2) The median franchise system set up cost was \$50 000.
 3) Set up costs ranged from \$20 000 to \$500 000.



A18 How did you fund the set up costs of your franchise system?

Response (Funding Source)	Number of Responses	Percent
Own resources	20	76.9
Bank loan	8	30.8
Private investors	8	30.8
Franchise fees	6	23.1
Loan from other financial institutions	0	0.0
Other funding source	3	11.5

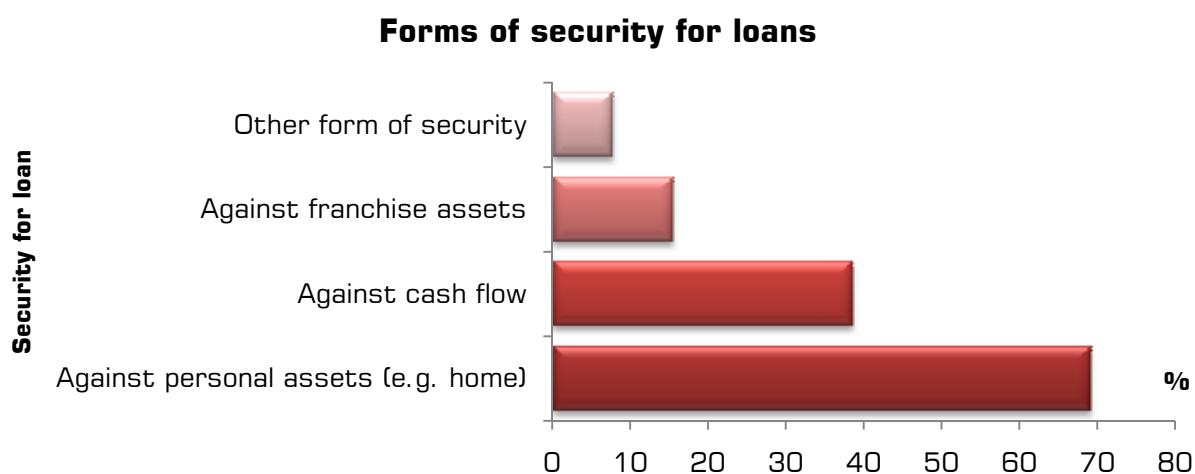
- Notes: 1) The expected total of 26 franchisors provided a response.
 2) Other sources of funding included franchisor finance and bank overdraft.
 3) Multiple responses were recorded for some respondents.



A19 If used, how is the loan secured?

Response (Security for loan)	Number of Responses	Percent
Against personal assets (e.g. home)	9	69.2
Against cash flow	5	38.5
Against franchise assets	2	15.4
Other form of security	1	7.7

Notes: 1) A total of 13 franchisors provided a response.
2) Multiple responses were recorded for some respondents.



Franchise unit start-up costs

Key facts

- Retailing start-up cost: \$242 000.
- Non-retailing start-up cost: \$76 750.
- \$30 000 initial franchise fee in both retailing and non retailing.

The median total *start-up cost* of a new retail franchise unit was \$242 000. Responses ranged from \$3000 to \$1.3 million, reflecting the diversity of the sample. The total start-up cost of a non-retail franchise was significantly lower at \$76 750, ranging from \$2000 to \$597 000.

In food retailing, the median start up cost was \$242 000 and in non-food retail it was \$239 000. The median total cost of starting a franchise unit across all industries was \$96,000, ranging from \$2000 to \$1.3 million.

Most franchisors charged an *initial franchise fee*; only 5 of the 83 who responded did not charge an initial fee. Across retail and non retail including the food sector, the median initial fee was uniform at \$30 000.

Median *inventory* costs were \$10 000 in retail franchises and \$5000 in non retail franchises. Finer breakdown into non-food retail indicates, not unexpectedly, that inventory was more expensive (\$90 000) than in retail food outlets (\$8000).

Retail *fit-out costs* were a median of \$60 000, but only \$10 000 in non-retail franchises. Owing to capital costs associated with setting up service areas the fit-out costs in food businesses were high at a median of \$200 000 compared to \$55 000 in non-food retailing.

Training costs varied widely across systems, ranging from zero to \$300 000 in retailing and from \$750 to \$29 500 in non-retail franchises. However, almost 50 percent of respondents did not allocate any funds to training despite lack of training being listed as an important franchisee challenge in the 2003 survey.

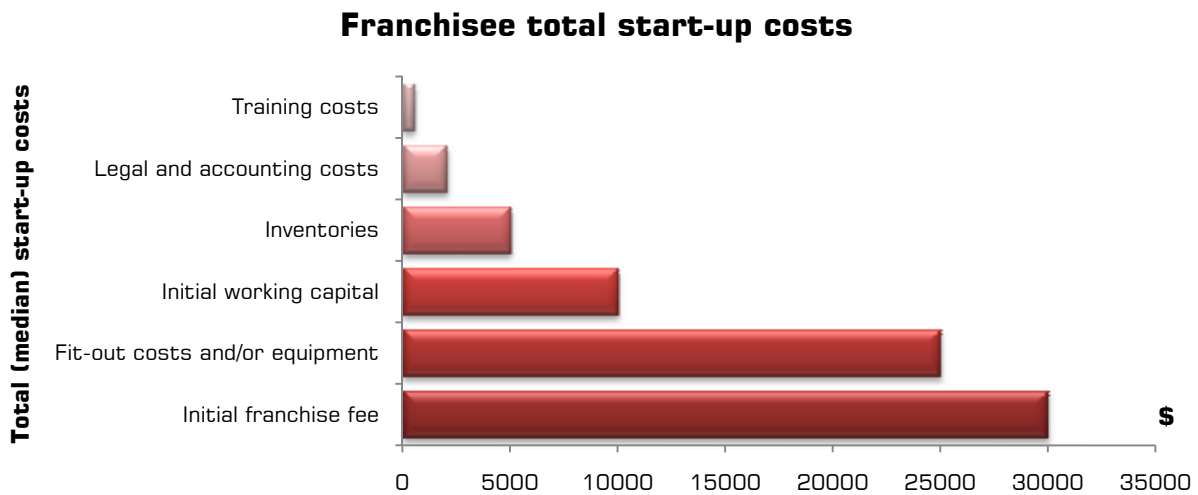
Legal and accounting fees were allocated by 69 percent of respondents. The median cost in retail was \$2000, and slightly lower at \$1750 in non-retail franchises. These costs ranged from zero to \$5000 in retailing and from zero to \$30 000 in non-retail franchises.

The requirements for *initial working capital* were the same across both retail and non-retail franchises at a median of \$10 000.

A20 For a franchisee how much does it cost to start a new franchise unit (excluding GST)?

Response (Total start-up costs)	Median cost	Range
Initial franchise fee	\$30 000	0 to \$100 000
Inventories	5 000	0 to 300 000
Fit-out costs and/or equipment	25 000	0 to 1 000 000
Training costs	500	0 to 300 000
Legal and accounting costs	2 000	0 to 30 000
Initial working capital	10 000	0 to 300 000
Other costs	0	0 to 100 000
Total start-up costs	\$96 000	\$2000 to \$1 310 000

Note: 1) A total of 83 franchisors provided a response from an expected 88.

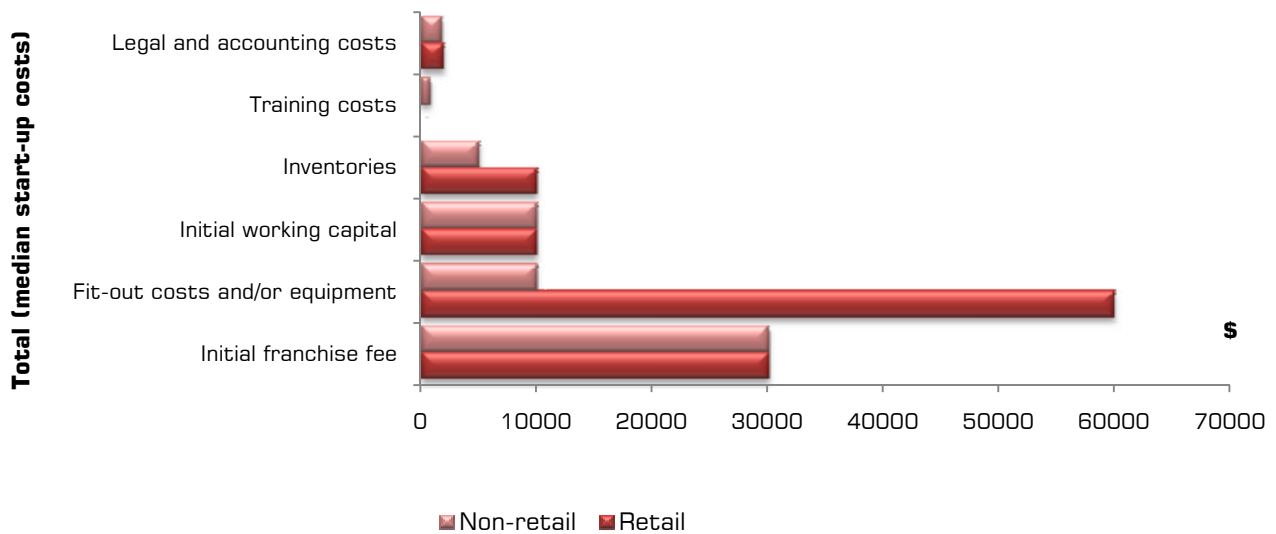


A further split into the costs of starting a retail versus non-retail franchise unit is outlined in the following table.

Response (Total start-up costs)	Retail franchises		Non retail franchises	
	Median cost	Range	Median cost	Range
Initial franchise fee	\$30 000	0 to \$50 000	\$30 000	\$0 to \$100 000
Inventories	10 000	0 to 300 000	5000	0 to 150 000
Fit-out costs and/or equipment	60 000	0 to 1 000 000	10 000	0 to 500 000
Training costs	0	0 to 300 000	750	0 to 29 500
Legal and accounting costs	2 000	0 to 5 000	1750	0 to 30 000
Initial working capital	10 000	0 to 50 000	10 000	0 to 300 000
Other costs	0	0 to 27 000	0	0 to 100 000
Total start-up costs	\$242 000	\$3000 to \$1 310 000	\$76 750	\$2000 to \$597 000

Note: 1) A total of 25 respondents were retail franchisors and 58 were non-retail franchisors.

Franchisee total start-up costs



Ongoing franchise fees

Key facts

- The vast majority of franchisors charge an ongoing franchise service or royalty fee.
- Three quarters administer a percentage fee and the remainder use a flat fee.
- The median fee is \$400 per month or 6 percent.

The majority of respondents (89 percent) indicated they charged *franchise service/royalty* fees. Of these, 73 percent used a percentage based royalty and the remaining 27 percent used a flat fee. The median royalty was 6 percent (percentage fees) or \$400 per month (flat fees). The fees ranged from 1 to 20 percent and from \$30 to \$1248 per month.

Marketing levies ranged from 0.7 to 4 percent or \$35 to \$420 per month. *Advertising* levies were higher, ranging from 1 to 4 percent or \$100 to \$1000 per month.

Some franchisors also charged a *computer service* fee, ranging from 1 to 3 percent or \$20 to \$2000 per month.

Only three franchisors in this sample indicated they charged a *training* fee.

A21 What ongoing fees do you charge your franchisees?

Response (Ongoing fees)	Range	
	\$ per month	%
Franchise service fee/royalty	\$30 to \$1248	1 to 20%
Marketing	\$35 to \$420	0.7 to 4%
Advertising levy	\$100 to \$1000	1 to 4%
Computer service fee (IT)	\$20 to \$2000	1 to 3%
Training fee	\$238 to \$5000	N/A
Other fees	\$50 to \$300	0.5 to 6%

Note: 1) A total of 82 franchisors provided a response from an expected 88.

Ongoing challenges

Key facts

- Franchisee recruitment is the most significant challenge facing franchisors.
- Franchisors are concerned about maintaining standards in the system.
- Franchisors are satisfied with franchise sector self regulation.

In the 2003 *Survey of Franchising*, franchisors reported franchisees faced challenges associated with lack of adequate knowledge of franchising and business systems, and the capital and cash flow requirements of business, as well as lack of confidence and feelings of uncertainty. Lack of training was rated as the fourth most important problem. In *Franchising New Zealand 2010*, franchisors nominated recruitment of suitable franchisees as their most significant challenge (76 percent). Maintenance of standards was nominated by 41 percent of franchisors and 37 percent cited franchisee access to funding as significant issues.

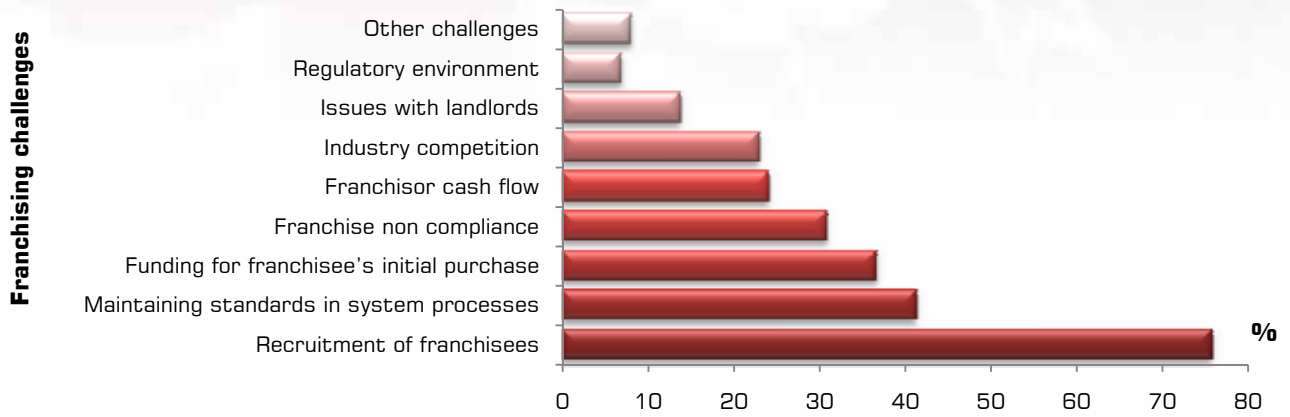
Interestingly, despite the time spent in 2009 in debating regulatory issues, only 7 percent of respondents rated this as a challenge. It seems that most franchisors are content with the status quo in that area. Other challenges included franchisee non-compliance (31 percent), franchisor cash flow (24 percent), industry competition (23 percent) and issues with landlords (14 percent). A small number of franchisors nominated the poor quality and performance of franchisees, recruitment and training of franchisee staff and difficulty sourcing customers for their franchisees as additional areas of concern.

A22 *What are your most significant ongoing challenges?*

Response (Significant ongoing challenges)	Number of responses	Percent
Recruitment of franchisees	66	75.9
Maintaining standards in system processes	36	41.4
Funding for franchisee's initial purchase	32	36.8
Franchise non compliance	27	31.0
Franchisor cash flow	21	24.1
Industry competition	20	23.0
Issues with landlords	12	13.8
Regulatory environment	6	6.9
Other challenges	7	8.1

Notes: 1) A total of 87 franchisors provided a response from an expected 88.
2) Multiple responses were recorded for some respondents.

Significant ongoing franchising challenges



B Franchisees

Franchisee performance

Key facts

- 80 percent of franchisees are operating profitably.

Franchisors estimated that 80 percent of their franchisees were earning profits beyond employee and owner wages. Some 22 percent of franchisors claimed that all of their franchisees were operating profitably. This finding is a positive result for the sector during a period of economic downturn and recovery.

B1 What proportion of your franchisees do you estimate are operating profitably (ie earning profits beyond employee and owner wages)?

Proportion of franchisees operating profitably 80 percent

Notes: 1) A total of 76 franchisors provided a response from an expected 88.
2) Responses ranged from zero (in 2 systems) to 100 percent (in 17 systems).

Franchisee gender and age

Key facts

- Twice as many men (62 percent) are primary franchisees compared with 29 percent of women.
- The majority of franchisees (71 percent) are aged 30 to 50 years.

Franchise units are more than twice as likely to be operated by men as women. Whereas 29 percent of franchise units are sole operated by men, only 13 percent of women are sole operators. Similarly, in partnership arrangements, some 33 percent of men predominantly manage the franchise unit compared with just 17 percent of women. It appears that the franchising model may not be perceived as an attractive opportunity by women, but this situation is also the norm in Australia.

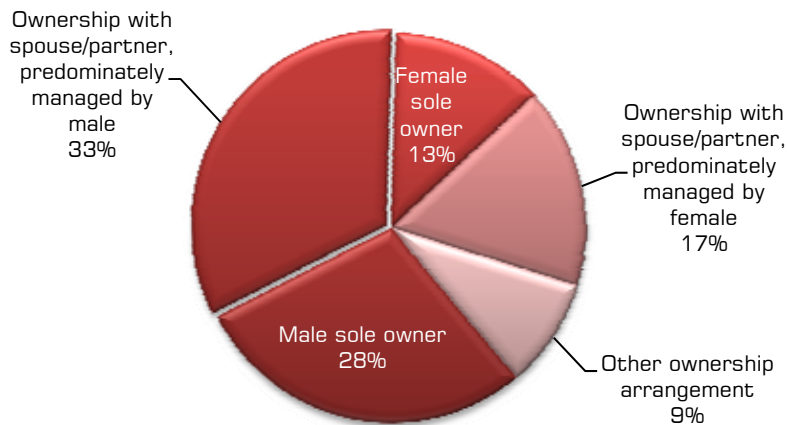
The majority of franchisees (71 percent) are in the 30 to 50 years age group and a further 26 percent are older than 50 years, reflecting the effect of an ageing population on the sector. Only 4 percent of franchisees are younger than 30 years, identifying a potential recruitment market for franchisors wishing to expand.

B2 Approximately what percentage of your franchisees are owned by the following groups?

Response (Franchisees)	Percentage of franchisees	Percentage by gender
Male sole owner	28.6	
Ownership with spouse/partner, predominately managed by male	32.9	61.5
Female sole owner	12.7	
Ownership with spouse/partner, predominately managed by female	16.7	29.4
Other ownership arrangement	9.1	9.1
Total	100.0	100.0

Notes: 1) A total of 82 franchisors provided a response from an expected 88.
 2) As the data are normally distributed, the mean has been reported as the average.

Ownership structure

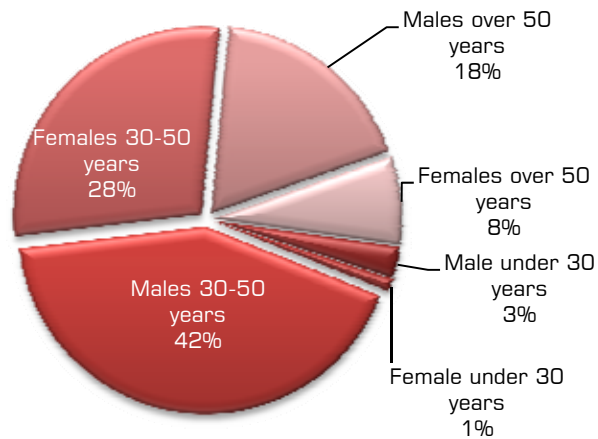


B3 For those franchisee owners identified above approximately what percentage fit into the following age groups?

Response (Age of Franchisees)	Percentage of franchisees	Percentage by age
Male under 30 years Female under 30 years	2.7 1.1	3.8
Males 30-50 years Females 30-50 years	42.1 28.4	70.5
Males over 50 years Females over 50 years	18.1 7.6	25.7
Total	100.0	100.0

- Notes: 1) A total of 78 franchisors provided a response from an expected 88.
2) As the data are normally distributed, the mean has been reported as the average.

Age of franchisees



Franchisee preparation

Key facts

- The majority of franchise agreements (94 percent) require franchisees to obtain independent professional advice.
- 89 percent of franchisors provide business management training for franchisees internally.
- The greatest need for franchisee training is in sales/marketing and customer service.

Whilst a clear majority of franchise agreements (94 percent) require franchisees to obtain independent professional advice prior to entering the franchise, the proportion of franchisees who do so is unknown. Most franchisors failed to answer a question regarding this issue perhaps indicating that they are unaware of the degree of follow through by their franchisees.

The most common form of assistance provided by franchisors to build the management capacity of franchisees was via training opportunities. Some 89 percent of franchisors provided in-house training for franchisees and 52 percent outsourced training to external providers, with some franchisors undertaking both options. One third of franchisors (34 percent) relied on their franchisee selection criteria to enlist franchisees with an appropriate skill level and 3 percent of franchisors provided no assistance. Other forms of business management experience provided by a minority of franchisors included technical and sales training, marketing and accounting advice, and opportunities for franchisees to engage in mentoring.

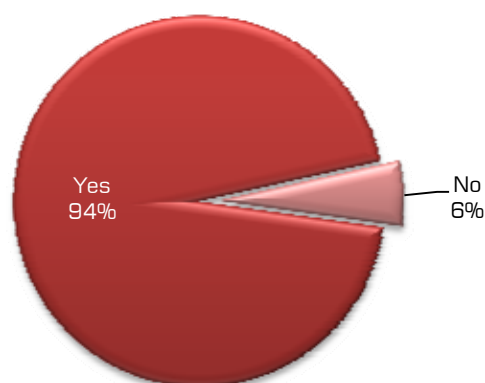
One quarter of franchisors (25 percent) nominated sales/marketing skills and customer service as the major area in which franchisees need additional training. Development of management skills and business acumen was nominated by 13 percent of franchisors, followed by accounting and financial knowledge (11 percent). Less prominent were calls for IT skill development (8 percent), staff selection and training (8 percent) and technical skills and product knowledge (7 percent). It is interesting to note that respondents in the 2003 survey noted franchisee business and financial skills as a problem and yet in 2010 there appears to be no increased weighting in importance allocated in this area.

B4 Does your franchise agreement require a potential franchisee to obtain independent professional advice before entering into the contract?

Response (Professional advice requirement)	Number of responses	Percent
Yes	83	94.3
No	5	5.7
Total	88	100.0

Note: 1) All 88 franchisors provided a response.

Professional advice requirement



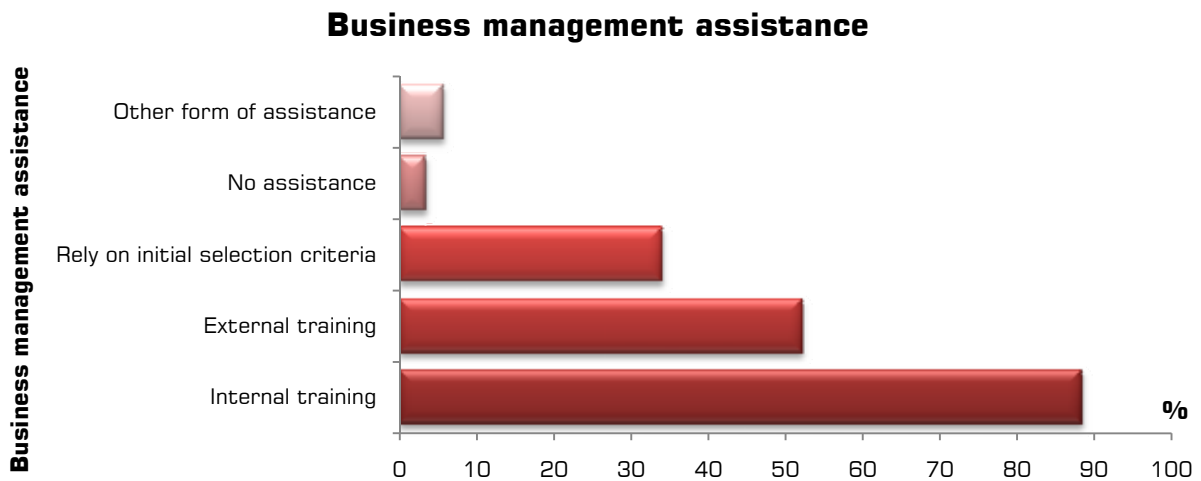
B5 What percentage of potential franchisees do you estimate seek professional advice of their own accord?

Insufficient responses were provided for this question.

B6 In which ways do you assist in building your franchisee's business management ability?

Response (Business management assistance)	Number of responses	Percent
Internal training	78	88.6
External training	46	52.3
Rely on initial selection criteria	30	34.1
No assistance	3	3.4
Other form of assistance	5	5.7

- Notes: 1) All 88 franchisors provided a response.
 2) Multiple responses were recorded for some respondents.
 3) Other forms of assistance included technical and sales training, marketing and accounting advice, mentoring opportunities and other individual assistance as required.

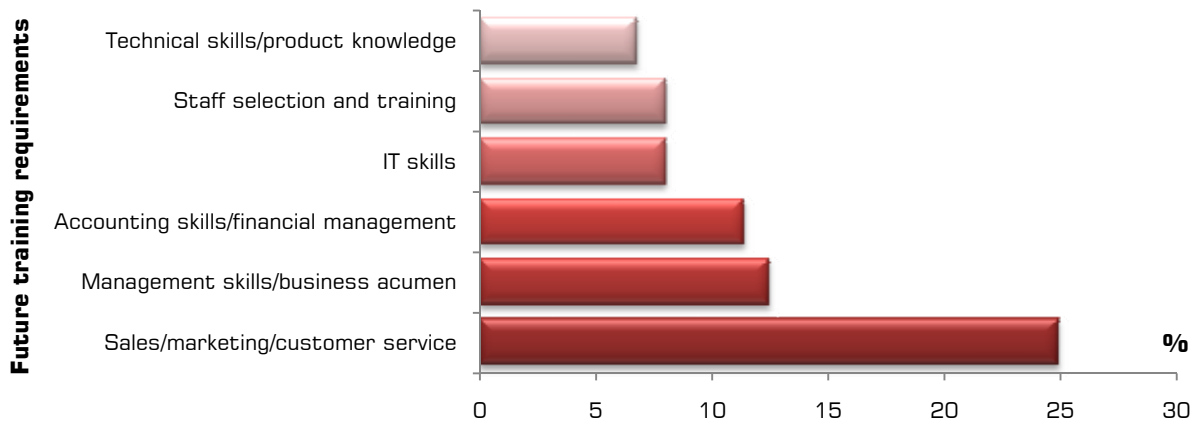


B7 What aspects of franchisee training require more development for the future in your franchise system?

Response (Future training requirements)	Number of responses	Percent
Sales/marketing/customer service	22	25.0
Management skills/business acumen	11	12.5
Accounting skills/financial management	10	11.4
IT skills	7	8.0
Staff selection and training	7	8.0
Technical skills/product knowledge	6	6.8

Notes: 1) All 88 franchisors provided a response.
2) Multiple responses were recorded for some respondents.

Future training requirements for franchisees



Part-time franchising

Key facts

- 41 percent of franchise systems have franchisees who operate part-time.
- Part-time franchising is profitable for approximately three quarters of franchisors and franchisees.
- Part-time franchisees tend to require the same level of support as full-time franchisees.

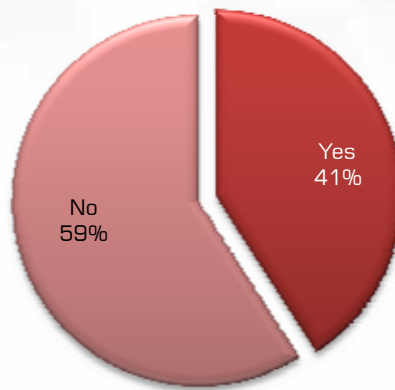
Part-time franchisees operate in 41 percent of franchise systems, predominantly in retail and administration. Some 79 percent of respondents reported that the part-time model is profitable for franchisors and 74 percent indicated that it was profitable for franchisees. More than two thirds of franchisors (69 percent) indicated that part-time franchisees require the same level of support as full-time operators. Although some franchise systems are specifically designed as part-time business models (for example, weekend recreational activities) it appears that other systems may have encouraged part-time operations to provide flexibility for franchisees. However, franchisors should analyse the performance of their part-time operations as many appear to be unprofitable, yet demanding the same resources and support as full-time operations.

B8 *Do you have any franchisees who work on a part-time basis in your franchise?*

Response (Part-time franchising)	Number of responses	Percent
Yes	36	40.9
No	52	59.1
Total	88	100.0

Note: 1) All 88 franchisors provided a response.

Part-time franchising

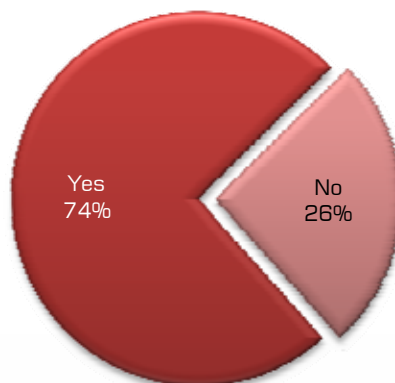


B9 *Is the part-time franchise model profitable?*

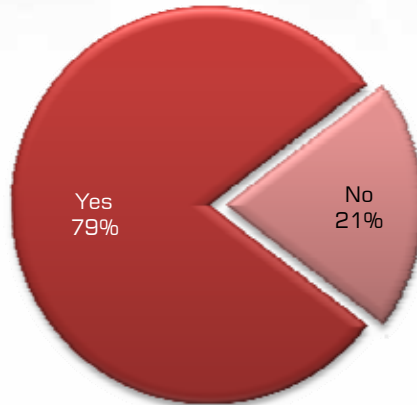
Response	Number of responses	Percent
Franchisees		
Yes	26	74.3
No	9	25.7
Total	35	100.0
Franchisors		
Yes	27	79.4
No	7	20.6
Total	34	100.0

Notes: 1) A total of 35 franchisors out of an expected 36 provided a response regarding franchisees.
 2) A total of 34 franchisors out of an expected 36 provided a response regarding franchisors.

Franchisees: Profitability of part-time franchising



Franchisors: Profitability of part-time franchising

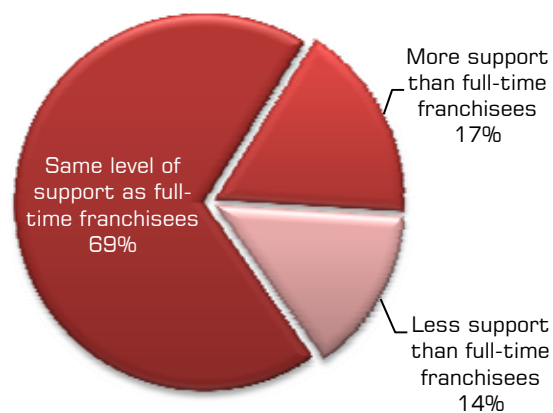


B10 What level of support do part-time franchisees require?

Response (Level of support)	Number of responses	Percent
Same level of support as full-time franchisees	24	68.6
More support than full-time franchisees	6	17.1
Less support than full-time franchisees	5	14.3
Total	35	100.0

Note: 1) A total of 35 franchisors provided a response from an expected 36.

Support for part-time franchisees



Franchisee life cycle

Key facts

- Franchisees operate for an average of 6 years.

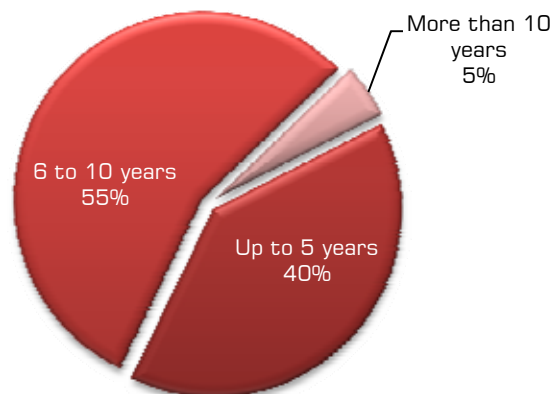
Of the approximately three quarters of franchisor respondents that had been operating for more than five years it was shown that franchisees remained in the system for a median of 6 years before exiting. There was only a slight difference in the tenure of retail franchisees (7 years) and non-retail operators (6 years). As the average franchise agreement is for 5 years, many franchisees renew their agreements at least once.

B11 If you have been franchising for more than five years, what is the average length of time (years) that a franchisee remains in the system?

Response (Franchisee life cycle)	Number of responses	Percent
Up to 5 years	25	39.7
6 to 10 years	35	55.6
More than 10 years	3	4.7
Total	63	100.0

- Notes: 1) A total of 63 franchisors provided a response from an expected 69.
 2) The length of time ranged from 2 to 25 years.
 3) The median length of time that a franchisee remains in the system is 6 years.

Franchisee life-cycle



Franchising disputes

Key facts

- 19 percent of franchisors were involved in a substantial dispute with a franchisee in previous 12 months.
- Most disputes at stage of legal correspondence.
- 17 percent of disputes resulted in litigation and 8 percent in mediation.
- The main cause of disputes was lack of franchisee compliance with the system.

Some 19 percent of franchisors indicated they had been involved in a substantial dispute (that is, a dispute with a franchisee that had been referred to an external party for action) within the past 12 months. Roughly equal numbers of disputes were initiated by franchisors and franchisees and only small numbers of franchisees were involved, usually only one or two per system. Mature franchise systems experienced more disputes than younger firms but there was no difference in the pattern of disputes related to size of organisation. The majority of disputes occurred in the non-retail sector.

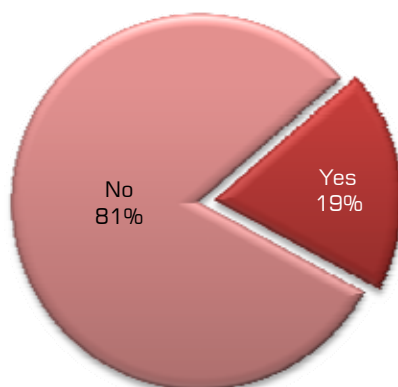
The majority of disputes (76 percent) were at the stage of being dealt with via legal correspondence, with a further 17 percent involving litigation and 8 percent using mediation as a resolution method. The main causes of disputes were related to franchisee compliance (67 percent), concerns over profitability (33 percent), payment of franchise fees (20 percent), misrepresentation issues (13 percent) and communication problems (13 percent).

B12 *In the past twelve months, has your organisation been involved in any dispute with a franchisee that has been referred to external parties for action?*

Response (Disputes)	Number of responses	Percent
Yes	17	19.3
No	71	80.7
Total	88	100.0

Notes: 1) All 88 franchisors provided a response.

Franchise disputes

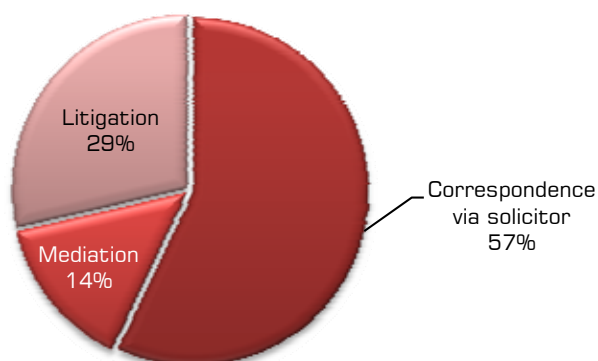


B13 Please indicate the number of franchisees in these disputes.

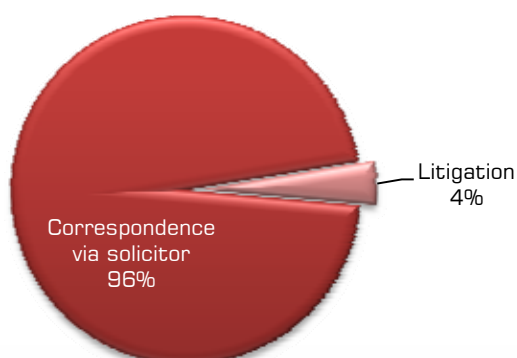
Response (Action)	Initiated by franchisor			Initiated by franchisee		
	Number of franchisors	Number of franchisees	Percentage of franchisees	Number of franchisors	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	9	16	57.1	8	24	96.0
Mediation	2	4	14.3	0	0	0.0
Litigation	5	8	28.6	1	1	4.0
Total		28	100.0		25	100.0

Notes: 1) A total of 15 franchisors provided a response from an expected 17.
 2) Multiple responses were recorded for some respondents.

Disputes initiated by franchisor Proportion of franchisors

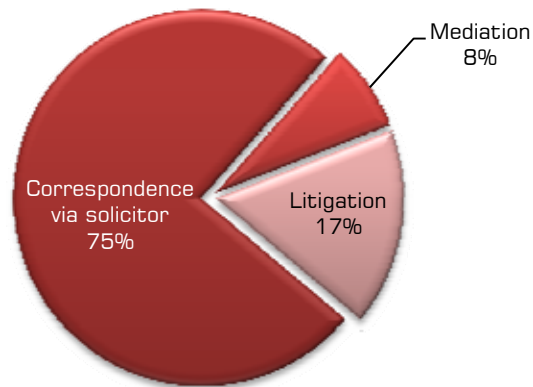


Disputes initiated by franchisees Proportion of franchisees



Response (Action)	Total Disputes	
	Number of franchisees	Percentage of franchisees
Correspondence via solicitor	40	75.5
Mediation	4	7.5
Litigation	9	17.0
Total	53	100.0

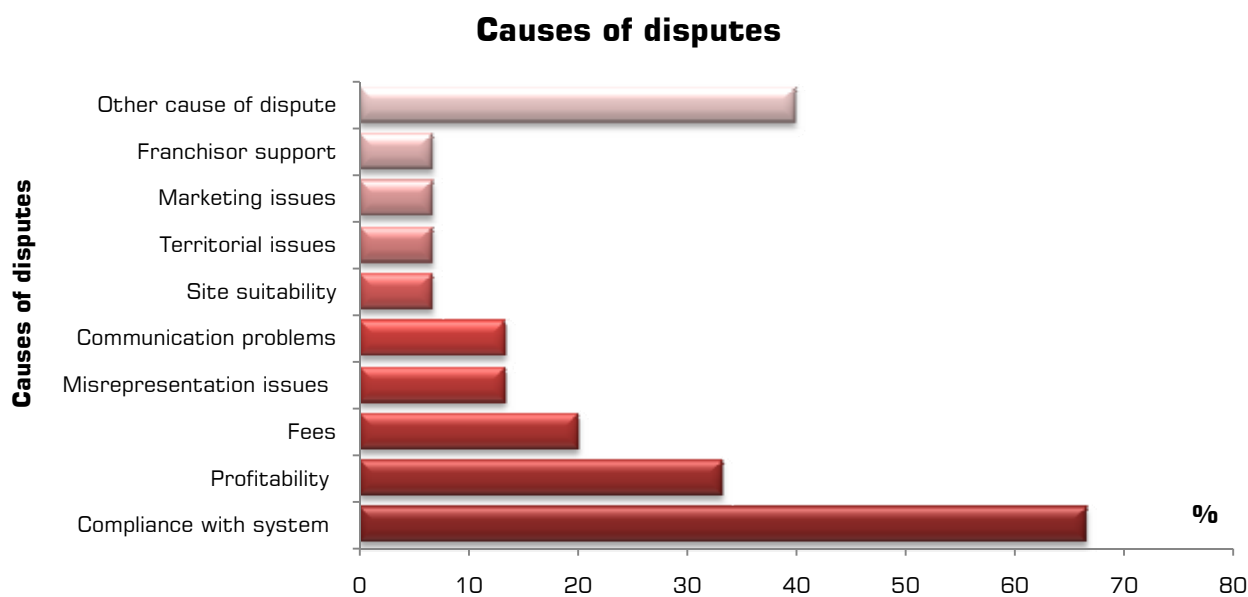
Total disputes



B14 What do you consider were the main causes of these disputes?

Response (Causes of disputes)	Number of responses	Percent
Compliance with system	10	66.7
Profitability	5	33.3
Fees	3	20.0
Misrepresentation issues	2	13.3
Communication problems	2	13.3
Site suitability	1	6.7
Territorial issues	1	6.7
Marketing issues	1	6.7
Franchisor support	1	6.7
Other cause of dispute	6	40.0

- Notes: 1) The expected total of 15 franchisors provided a response.
 2) Multiple responses were recorded for some respondents.
 3) Other causes of disputes included breaches of restraint of trade, franchisee misconduct and purchase of unauthorised products.



Franchised unit changes

Key facts

- 87 percent of franchised units did not change ownership during 2009.
- 8 percent of units were sold by franchisees.
- 2 percent of units ceased operating.
- 3 percent of agreements were terminated, not renewed or acquired by the franchisor.

Franchisors were asked to report 2009 data on franchise units that underwent a change in ownership. Some 13 percent of units held by franchisor respondents resulted in some form of change. The majority of franchise units (87 percent) did not change ownership.

The greatest movement in the sector (8 percent) was due to transfer (sale) of franchise units from existing to new franchisees. Slightly fewer than 2 percent of franchise units were reported to have ceased operating during 2009. A further 3 percent of franchise agreements were terminated, not renewed or acquired by the franchisor.

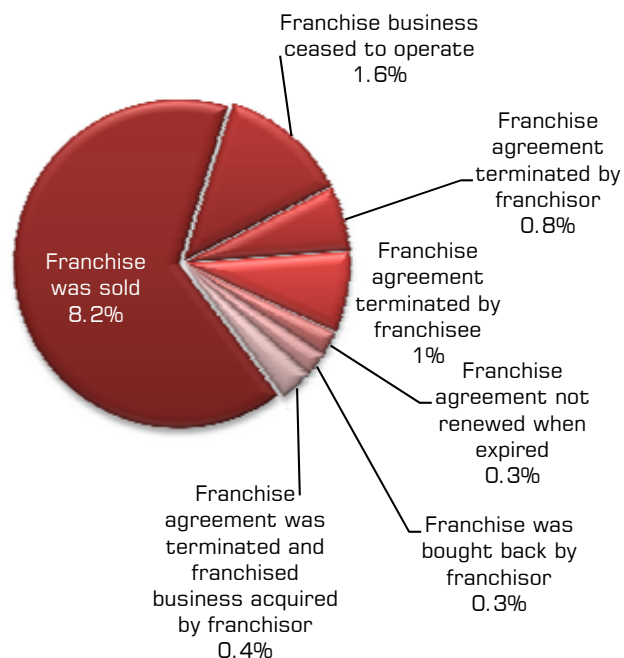
The reasons for the changes in unit ownership were also provided by franchisors. Some 23 percent of the changes were attributed to franchisees who had achieved their personal goals, thus providing a positive explanation for nearly one quarter of the units. A further 19 percent of changes were related to personal or family reasons. However, the remaining changes were largely related to the franchise. A total of 22 percent of changes in units was attributed to the lack of suitability of the franchisee, 21 percent was related to profitability of the units and 8 percent of changes occurred due to franchisor-franchisee conflict.

**B15 For 2009 enter the number of franchise units involved in the following:
(Please obtain data from your own records or from the FANZ Code of Practice
Appendix A (9) (b) disclosures, to answer this question.)**

Response (Franchise unit change)	Number of franchisees affected	Percent	Percentage of total (4150) franchised units held
Franchise was sold	340	64.9	8.2
Franchise business ceased to operate	67	12.8	1.6
Franchise agreement terminated by franchisor	34	6.5	0.8
Franchise agreement terminated by franchisee	41	7.8	1.0
Franchise agreement not renewed when expired	14	2.7	0.3
Franchise was bought back by franchisor	11	2.1	0.3
Franchise agreement was terminated and franchised			
Business was acquired by franchisor	17	3.2	0.4
Total	524	100.0	12.6

- Notes: 1) A total of 83 franchisors provided a response from an expected 88.
2) Multiple responses were recorded for some respondents.
3) The number of franchises sold (340) includes a single system which reported 101 sales.

Franchise unit changes

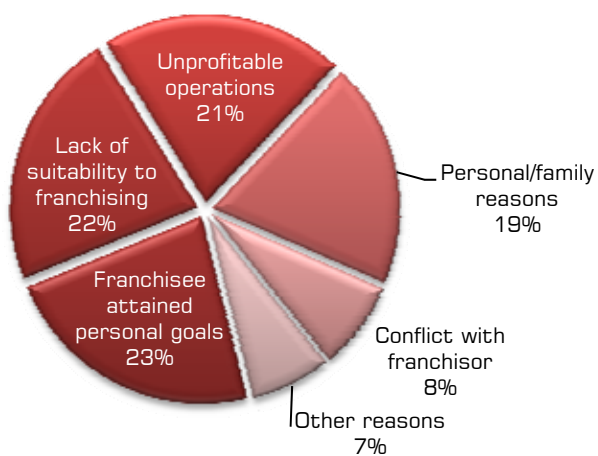


B16 Please estimate what percentage (%) of franchise units from the previous question are due to the following factors.

Response (Reasons for unit exits and transfers)	Percentage of franchisees
Franchisee attained personal goals	22.7
Lack of suitability to franchising	22.3
Unprofitable operations	21.0
Personal/family reasons	19.4
Conflict with franchisor	7.7
Other reasons	6.9
Total	100.0

- Notes: 1) A total of 75 franchisors provided a response from an expected 83.
 2) As the data are normally distributed, the mean has been reported as the average.

Reasons for unit changes



C Franchise Operations

Franchise Advisory Councils

Key facts

- Franchise Advisory Councils (FAC's) operate in 45 percent of franchises.
- FAC's are used by larger and more experienced franchisors.
- FAC's are most commonly utilised in the non-retail sector.

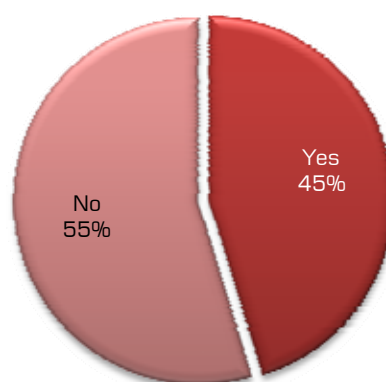
Although the advantages associated with the use of Franchise Advisory Councils (FAC's) in franchise networks have been widely reported, only 45 percent of franchisors utilised FAC's in their systems. Generally, franchise systems with more than 10 years franchising experience utilised FAC's within their networks. FAC's were most commonly utilised in the non-retail sector (62 percent) with just over one third (39 percent) of franchisors in the retail sector employing these types of committees. FAC's were most prominent in accommodation and food services (21 percent), retail trade (18 percent), administration and support services (13 percent) and other service (13 percent) industries. The fact that FAC's are used more extensively in the non retail sector could have some resonance in the dominance of this sector in NZ franchising.

C1 Do you have a Franchise Advisory Council or similar?

Response (Franchise Advisory Council)	Number of responses	Percent
Yes	39	45.3
No	47	54.7
Total	86	100.0

- Notes: 1) A total of 86 franchisors provided a response from an expected 88.
2) A Franchise Advisory Council (FAC) is a group organised by the franchisor. It comprises a representative cross-section of franchisees and key franchisor officers. The FAC meets regularly to discuss issues that affect the franchise system including initiatives and innovations intended for system-wide benefit.

Franchise advisory council



Franchisee selection

Key facts

- A franchisee applicant's honesty and integrity, passion and enthusiasm, and ability and willingness to follow system directives were highly regarded by franchisors.
- Industry experience is unimportant.

In this section franchisors were asked a series of questions regarding the criteria they used in *franchisee selection* in order to gauge the desirable characteristics of suitable franchisee candidates. A majority of franchisors nominated honesty and integrity (97 percent), passion and enthusiasm (93 percent), ability and willingness to follow system guidelines (91 percent), communication ability (89 percent) and ability to access funds (81 percent) as 'important' or 'extremely important' characteristics that they sought from individuals seeking to join their systems. While business and management experience was highly regarded by just under half of franchisor respondents (46 percent), relevant industry experience was viewed as a less important influence on future franchisee performance. Some 61 percent of franchisors believed that industry experience was unimportant in determining the 'fit' of applicants to their system, suggesting they have confidence in the current operational processes and training programs within their franchise networks. Less important selection criteria included prior sales and marketing experience and the ability for applicants to innovate at the local market level.

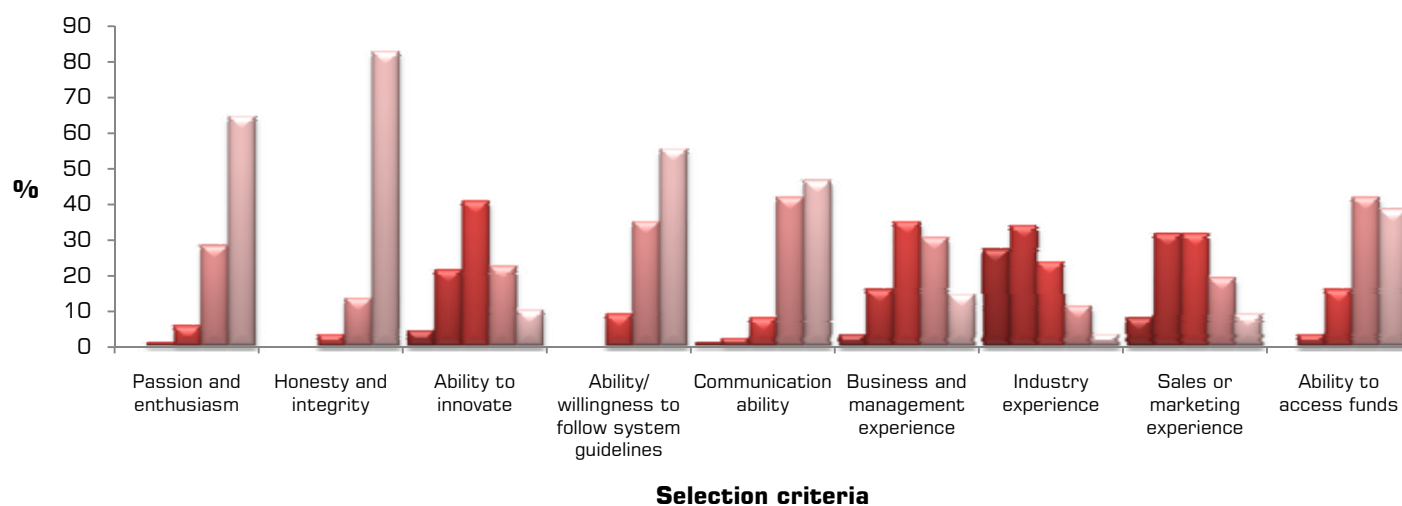
Other criteria reported by franchisors focused upon disclosure of an applicant's personal situation particularly in relation to family demands, ability to work in team environments, approach to accountability, and motivation to work independently (when required to do so).

C2 Please rate the following criteria when you select franchisees.

Response (Franchisee attributes)	Extremely unimportant	Unimportant	Neither important nor unimportant	Important	Extremely important
	Percent	Percent	Percent	Percent	Percent
Passion and enthusiasm	0	1	6	28	65
Honesty and integrity	0	0	3	14	83
Ability to innovate	4	22	41	23	10
Ability/willingness to follow system guidelines	0	0	9	35	56
Communication ability	1	2	8	42	47
Business and management experience	3	16	35	31	15
Industry experience	27	34	24	12	3
Sales or marketing experience	8	32	32	19	9
Ability to access funds	0	3	16	42	39
Other attributes	7	0	7	13	73

Note: 1) All 88 franchisors provided a response.

Franchisee selection criteria



■ Extremely unimportant ■ Unimportant ■ Neither important nor unimportant ■ Important ■ Extremely important

Franchisee innovation

Key facts

- Franchisee innovation included three key areas:
 - Operational improvements
 - Promotional campaigns
 - New products and product modifications

A total of 23 franchisors described a host of innovative ideas which were derived from their franchisees and complemented the current profile of their franchise system. A majority of franchisors indicated that they encouraged continual communication between Head Office and franchisees, so as to benefit from ideas generated at the local market level.

The innovations focused on three areas. By far the most innovative ideas concerned *operational improvements* to the current system. Examples relevant to operational improvements included scheduling programs, intra-network training initiatives, compliance processes and technical changes resulting in superior service outcomes.

The second area identified by franchisors related to *promotional campaigns*. Common examples included the development of transactional websites, search engine optimisation, up-dated media campaigns and new point-of-sale material to encourage customer retention and brand loyalty.

Thirdly, franchisors reported that franchisees constantly requested the inclusion of *new or modified products* so as to diversify their current product offerings and remain competitive within their industry. Several franchisors recalled significant sales growth resulting from these initiatives.

Overall, there was strong evidence that franchisees do play an important role in the continued evolution of franchise systems and franchisors appear to value and often reward these franchisee contributions.

Franchisee recruitment

Key facts

- Franchisors spent a median of \$10 000 on franchisee recruitment marketing.
- A recommendation from current franchisees is the most popular internal franchisee recruitment method.
- Growth in new franchise sales and re-sales were modest.

On average, franchisors spent \$10 000 on advertising and marketing promotion to prospective franchisees over the 2009/2010 period. Specifically, 40 percent of franchisors spent less than \$5 000 on these activities, while 15 percent of respondents spent in excess of \$50 000.

Of the franchisors that recruited franchisees from within the organisation, just under one third (32 percent) relied upon recommendations from current franchisees. Other internal recruitment strategies included identifying potential franchisees involved in company training and development activities, or in existing franchise networks.

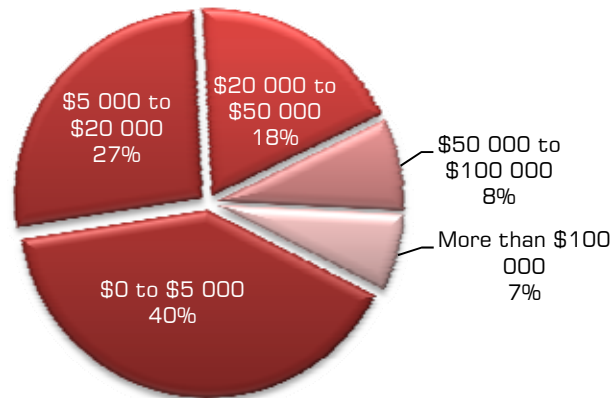
Overall, the growth in new franchisee sales for the 2008/2009 financial year appears modest. Franchisors reported an average of 5 new franchise sales and 3 franchise unit re-sales, which may reflect a tightening in the pool of prospective franchisees due to the recent global financial crisis. Although 31 percent of franchisors reported no new unit sales during this period, just over half indicated that they had granted between 1 and 5 new franchise units, and a further 10 percent had granted between 6 and 10 units. Six percent of franchisors had approved more than 20 new franchise agreements. Similar growth patterns were evident in franchise unit re-sales, with a third of respondents granting re-sales of between 1 and 5 units, 6 percent approving between 6 and 10 unit re-sales, and 5 percent reporting between 11 and 20 resales during this time. Significantly, more than half of all respondents reported no re-sales (53 percent) in this period.

C4 What was your total marketing expenditure on franchisee recruitment in the 2009/2010 financial year?

Response (Franchisee recruitment expenditure)	Number of responses	Percent
\$0 to \$5 000	30	40.0
\$5 000 to \$20 000	20	26.7
\$20 000 to \$50 000	14	18.6
\$50 000 to \$100 000	6	8.0
More than \$100 000	5	6.7
Total	75	100.0

- Notes: 1) A total of 75 franchisors provided a response from an expected 88.
 2) The median marketing expenditure was \$10 000.
 3) Marketing expenditure ranged from zero to \$1 million.

Expenditure on franchisee recruitment

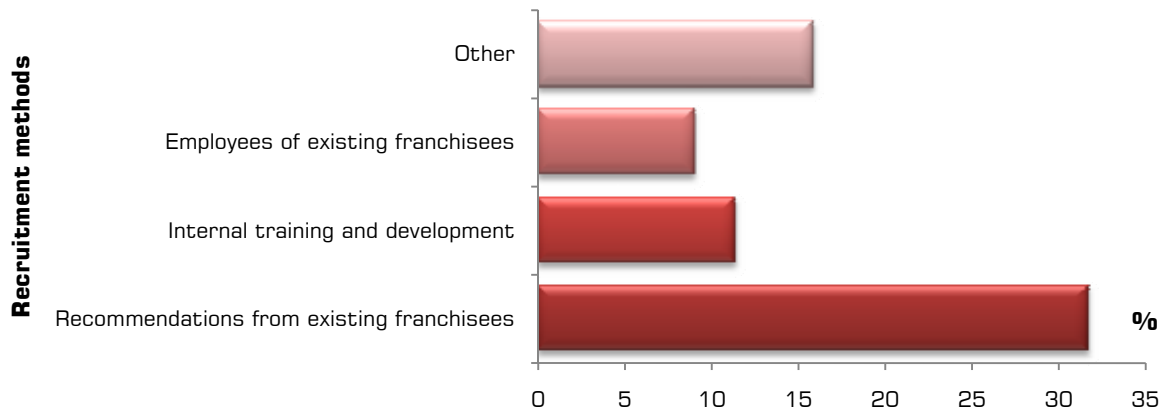


C5 *If recruiting is mostly internal please indicate the methods you use to identify appropriate franchisee owners.*

Response (Internal recruitment methods)	Number of responses	Percent
Recommendations from existing franchisees	28	31.8
Internal training and development	10	11.4
Employees of existing franchisees	8	9.1
Other recruitment method	14	15.9

Notes: 1) All 88 franchisors provided a response.
2) Multiple responses were recorded for some respondents.

Internal franchisee recruitment methods

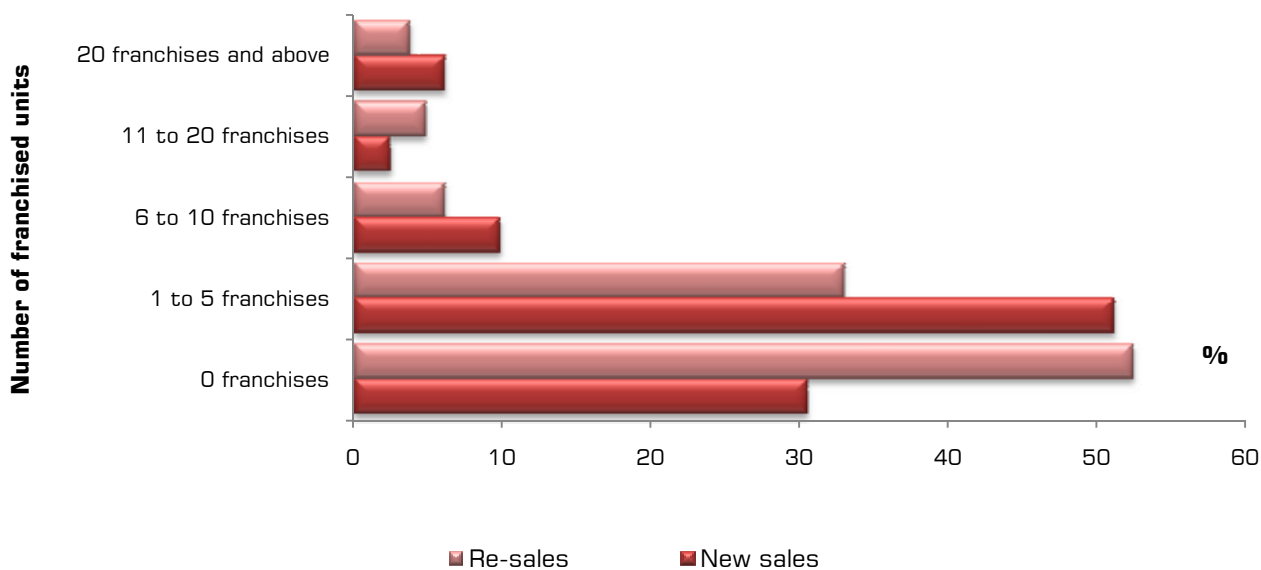


C6 How many franchises were granted in the last 12 months?

Response (Financial year)	Growth in franchise units (New Sales)		Growth in franchise units (Re-sales)	
	Number of responses	Percent	Number of responses	Percent
0 franchises	25	30.5	43	52.4
1 to 5 franchises	42	51.2	27	33.0
6 to 10 franchises	8	9.8	5	6.1
11 to 20 franchises	2	2.4	4	4.8
20 franchises and above	5	6.1	3	3.7
Total	82	100.0	82	100.0

- Notes: 1) A total of 82 provided a response from an expected 88.
 2) A median of 1 new franchise was granted.
 4) Responses ranged from zero to 65 new franchises and from zero to 35 re-sales.

Growth in franchise units 2008/2009 Financial year



Franchising strategies

Key facts

- Most common growth strategy was to offer exclusive territories.
- Conversion franchising also used to achieve system growth.

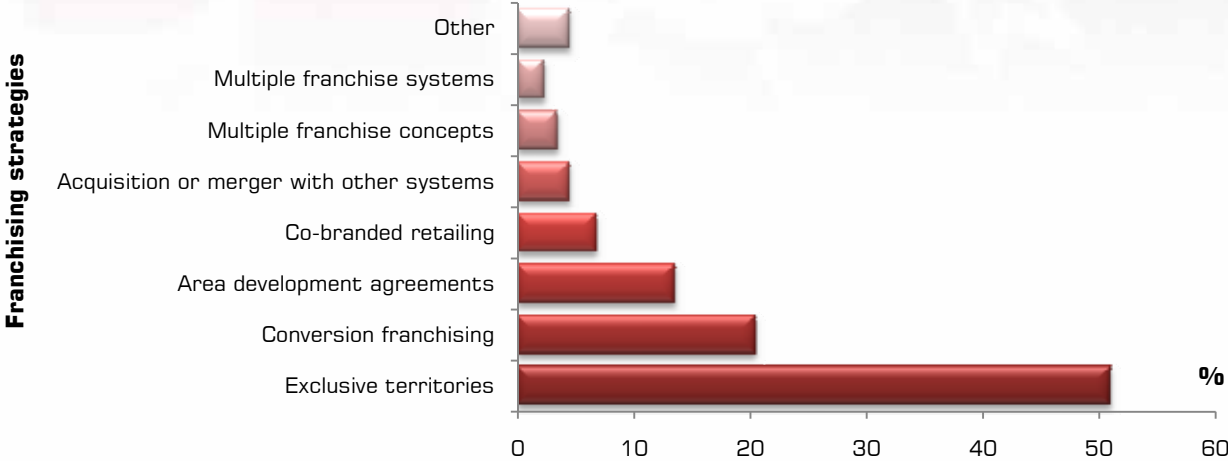
Franchisors utilise a host of sophisticated franchising strategies. The most popular strategy was the granting of exclusive territories (51 percent) which occur most often in the services (27 percent) and retail trade (20 percent) industries. Other commonly used methods include conversion franchising (21 percent) and the granting of area development agreements (14 percent). Less common strategies included co-branded retailing (7 percent), acquisition or merger with other systems (5 percent), multiple franchise concepts (3 percent) and multiple franchise systems (2 percent). In addition, franchisors nominated system-specific strategies including the conversion of competitor franchisees and utilising lease arrangements prior to selling units to franchisees.

C7 Do you use any of the following strategies?

Response (Franchising strategies)	Number of responses	Percent
Exclusive territories	45	51.1
Conversion franchising	18	20.5
Area development agreements	12	13.6
Co-branded retailing	6	6.8
Acquisition or merger with other systems	4	4.5
Multiple franchise concepts	3	3.4
Multiple franchise systems	2	2.3
Other strategy	4	4.5

- Notes: 1) All 88 franchisors provided a response.
2) Multiple responses were recorded for some respondents.

Franchise growth strategies



Master franchising

Key facts

- Less than a quarter of franchisors use master franchising growth strategies.
- Median of one master franchisee.
- Provision of local support for franchisees is main reason for master franchising.

Just under a quarter of franchisors (22 percent) utilised a master franchising growth strategy. Master franchising was most common in administration and support services (42 percent) and was generally used in mature franchise systems with more than 10 years franchising experience (65 percent). Of the franchisors utilising a master franchising strategy, nearly two thirds (65 percent) had between 1 and 2 master franchisees/area developers.

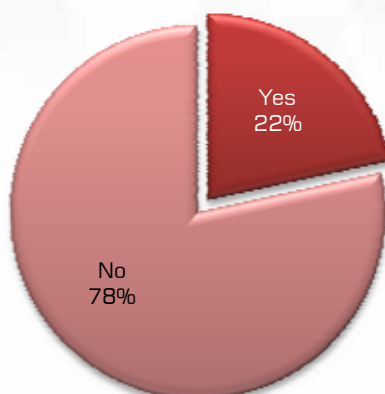
The main reasons for adopting this growth strategy included providing local support to franchisees (82 percent), to stimulate growth in franchise networks (77 percent), and due to the geographic distance of the franchise unit from head office (59 percent). Therefore, issues surrounding franchisee monitoring and support appear to be prominent in the franchisor's decision to grant master franchising and area development agreements. Less important reasons included the minimisation of head office contact with franchisees (18 percent) and the reduction of risk (12 percent).

C8 Do you use master franchising arrangements within New Zealand?

Response (Master franchising)	Number of responses	Percent
Yes	19	21.6
No	69	78.4
Total	88	100.0

Notes: 1) All 88 franchisors provided a response.

Master franchising

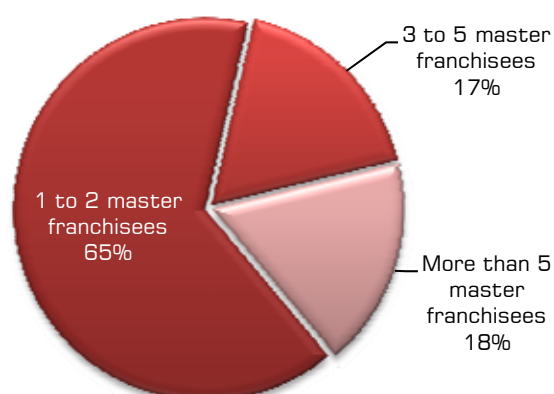


C9 How many master franchisees/area developers are currently operating in New Zealand?

Response (Number of master franchisees)	Number of responses	Percent
1 to 2 master franchisees	11	64.7
3 to 5 master franchisees	3	17.6
More than 5 master franchisees	3	17.7
Total	17	100.0

Note: 1) A total of 17 franchisors provided a response from an expected 19.

Number of master franchisees

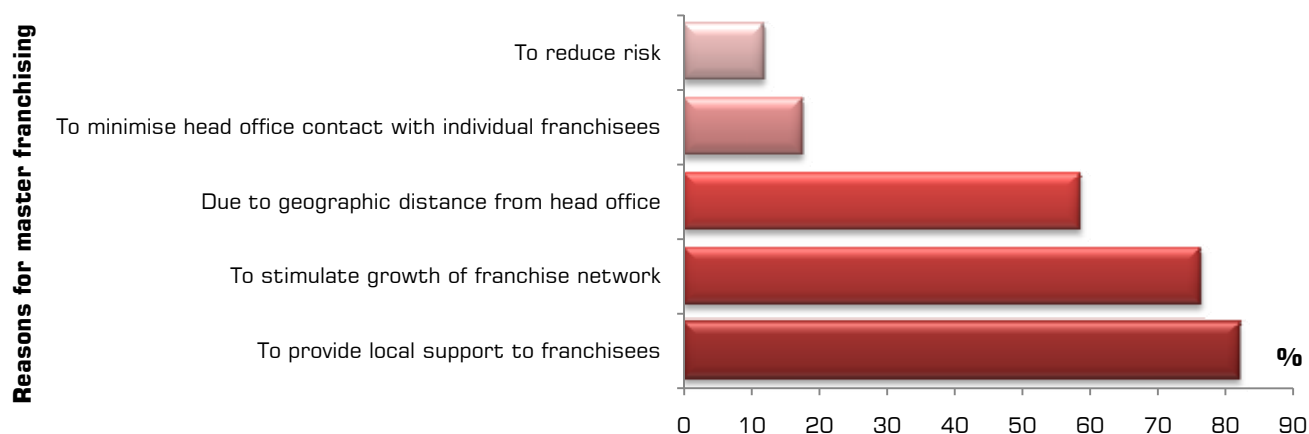


C10 Why do you use a master franchising/area developer arrangements in New Zealand?

Response (Reason for Master franchising)	Number of responses	Percent
To provide local support to franchisees	14	82.4
To stimulate growth of franchise network	13	76.5
Due to geographic distance from head office	10	58.8
To minimise head office contact with individual franchisees	3	17.6
To reduce risk	2	11.8

Notes: 1) A total of 17 franchisors provided a response from an expected 19.
 2) Multiple responses were recorded for some respondents.

Reasons for master franchising



Multiple unit franchising

Key facts

- 59 percent of systems host multiple unit franchisees.
- Multiple unit franchising is most common in the non-retail sector.
- Most franchisors do not believe that multiple unit franchisees hold a privileged power position in their networks.

Over half the franchisors (59 percent) reported that multiple unit franchisees operate within their systems. This high level of acceptance may indicate that franchisors have been utilising this strategy to maintain system growth, in the context of uncertain economic conditions and a tightening pool of potential franchisee candidates, as well as making use of proven operators. Multiple unit ownership was most common within the non-retail sector (65 percent) and within mature franchise networks with more than 10 years of franchising experience (69 percent).

A majority of franchisors (67 percent) reported that they held between 1 and 5 multiple unit franchisees in their system, while 18 percent of systems had between 6 and 10 multi-unit holders. Only 8 percent of respondents reported having between 11 and 20 multi-unit franchisees, while 6 percent of systems held 20 and above.

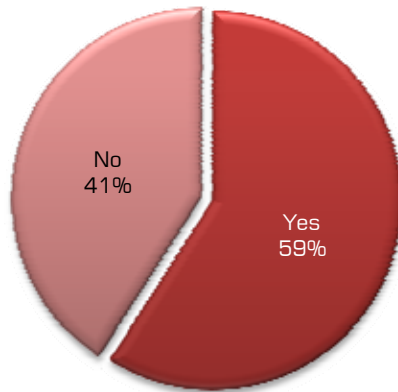
Although some reports suggest that multiple unit franchisees hold a privileged power position within franchise networks, only 8 percent of franchisors agreed with this sentiment. Fully 82 percent of respondents agreed that multiple unit franchisees did not have any additional decision-making power within the network, although 10 percent of franchisors agreed that these franchisees did have more decision-making authority under certain circumstances.

C11 Do any of your franchisees operate more than one unit in your system?

Response (Multiple unit ownership)	Number of responses	Percent
Yes	52	59.1
No	36	40.9
Total	88	100.0

Notes: 1) All 88 franchisors provided a response.

Multple unit franchising

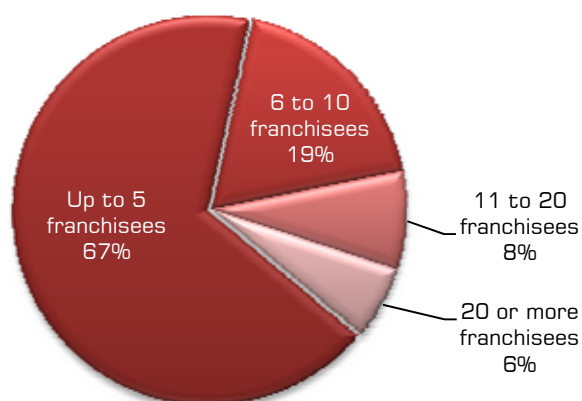


C12 How many of your current franchisees are multiple unit operators?

Response (Number of multi-unit holders)	Number of responses	Percent
Up to 5 franchisees	33	67.3
6 to 10 franchisees	9	18.4
11 to 20 franchisees	4	8.2
20 or more franchisees	3	6.1
Total	49	100.0

- Notes: 1) A total of 49 franchisors provided a response from an expected 52.
 2) The median number of franchisees holding multiple units was 3.
 3) Responses ranged from 1 to 32 multiple unit franchisees.

Number of multiple unit franchisees

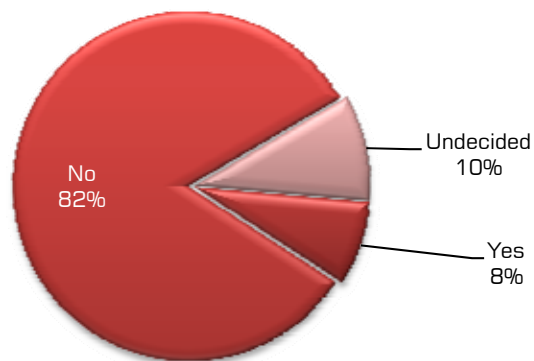


C13 Do your multi unit franchisees have more decision making power than single unit franchisees in the franchisor organisation?

Response (Multiple unit franchisee decision-making power)	Number of responses	Percent
Yes	4	7.8
No	42	82.4
Under certain circumstances	5	9.8
Total	51	100.0

Notes: 1) A total of 51 franchisors provided a response from an expected 52.

Multiple unit franchisee decision-making power



International franchising

Key facts

- 94 percent of franchise systems are home grown.
- 23 percent of franchisors are currently operating overseas.
- Australia is the most popular destination.

A majority of franchise systems (94 percent) were New Zealand based operations, confirming that the majority of franchises are home grown rather than overseas imports. This number has increased from an estimated 74 percent in 2003. Of the franchisors that could franchise their business concepts to overseas markets, 23 percent reported (as opposed to 20 percent in 2003) that they were currently franchising overseas. Only 12 percent of respondents indicated that they were planning to expand internationally in the next 12 months, while 20 percent of franchisors were currently undecided as to whether they would enter overseas markets in the near future.

Australia was by far the most popular initial destination by a majority of franchisors (78 percent), most likely due to cultural similarities and proximity to the home market. Other destinations included the United Arab Emirates, India, Tahiti and South Africa, but these were chosen by a single franchisor in each case.

The most popular destinations selected by franchisors include Australia (favoured by 85 percent of franchisors and accounting for 75 percent of units), United Kingdom (15 percent of franchisors and 7 percent of units), and Europe (excluding the UK) (which accounts for 10 percent of franchisors and 5 percent of units). In comparison, South-East Asian countries have less representation and fewer units suggesting that geographic proximity does not appear to be a major influence of choice of destination.

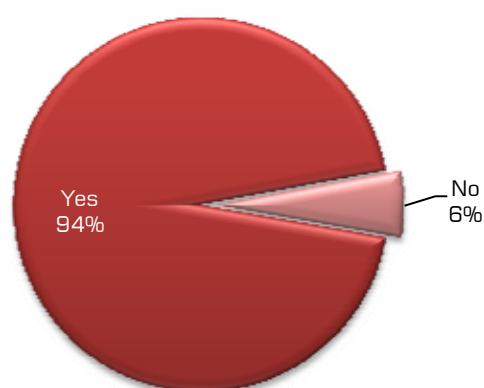
Fully 87 percent of the international franchised and company-owned units were located within English-speaking nations of Australia, United Kingdom, Canada and the United States of America. Only 5 percent of units were held in Europe and 5 percent in South-east Asian regions.

C14 Are you a New Zealand based franchisor?

Response (New Zealand-based franchisor)	Number of responses	Percent
Yes	83	94.3
No	5	5.7
Total	88	100.0

Notes: 1) All 88 franchisors answered this question

New Zealand based franchisors

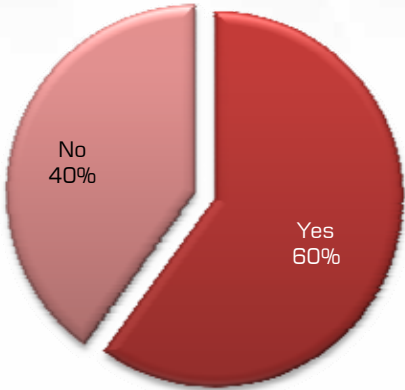


C15 Do you have expansion rights outside New Zealand?

Response (Expansion rights)	Number of responses	Percent
Yes	3	60.0
No	2	40.0
Total	5	100.0

Notes: 1) The expected number of 5 franchisors provided a response.

**International expansion rights
Non- New Zealand franchisors**

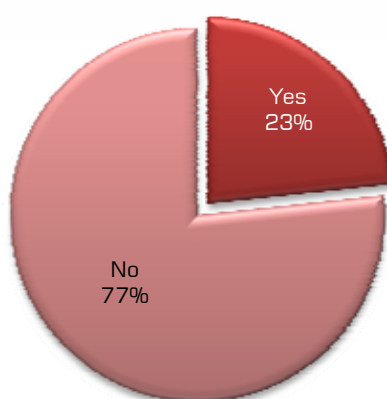


C16 Are you currently franchising overseas?

Response (Currently franchising overseas)	Number of responses	Percent
Yes	20	23.3
No	66	76.7
Total	86	100.0

Notes: 1) The expected total of 86 franchisors provided a response.

Franchising overseas

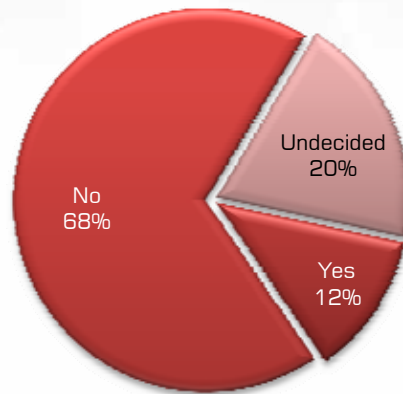


C17 Are you planning to franchise overseas in the next 12 months?

Response (Currently franchising overseas)	Number of responses	Percent
Yes	8	12.1
No	45	68.2
Undecided	13	19.7
Total	66	100.0

Notes: 1) The expected total of 66 franchisors provided a response.

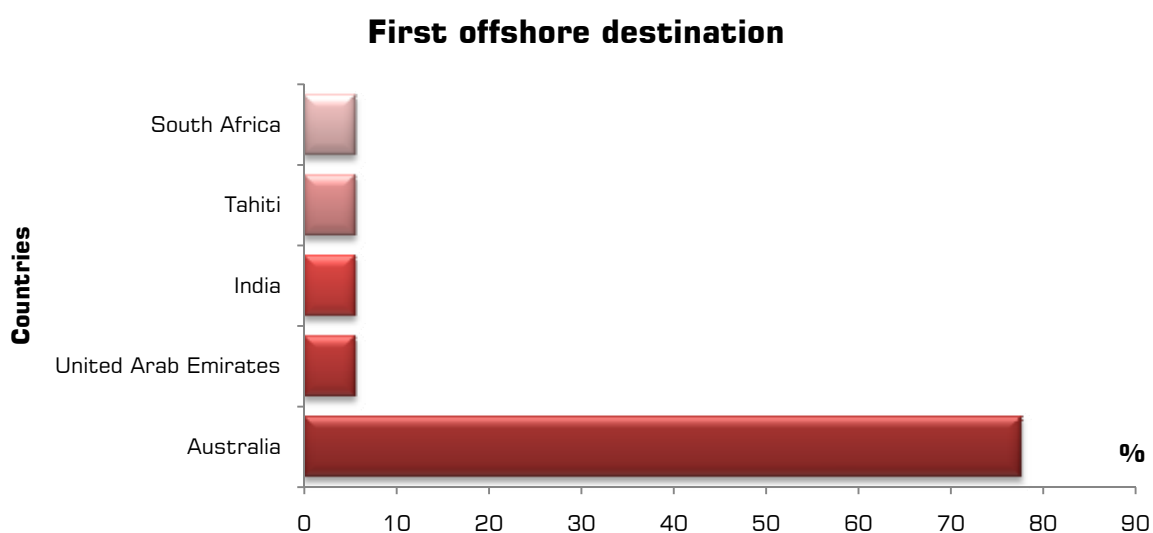
Intention to franchise overseas in next 12 months



C18 What was the first country outside New Zealand in which you franchised?

Response (First offshore destination)	Number of responses	Percent
Australia	14	77.8
United Arab Emirates	1	5.6
India	1	5.6
Tahiti	1	5.6
South Africa	1	5.6
Total	18	100.0

Notes: 1) A total of 18 franchisors provided a response from an expected 20.

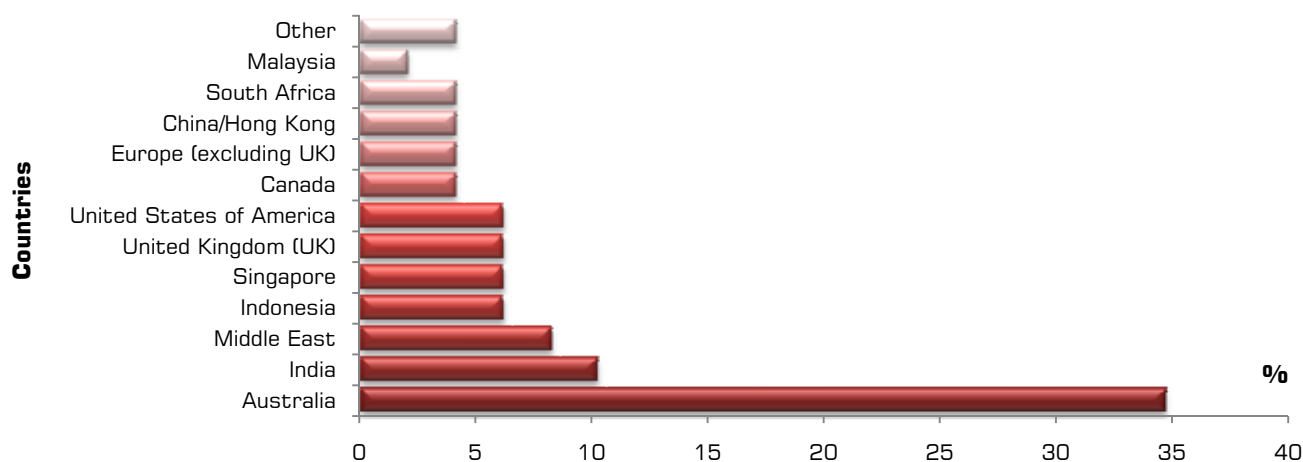


C19 How many units (franchised and company-owned combined) are held in the countries or regions below?

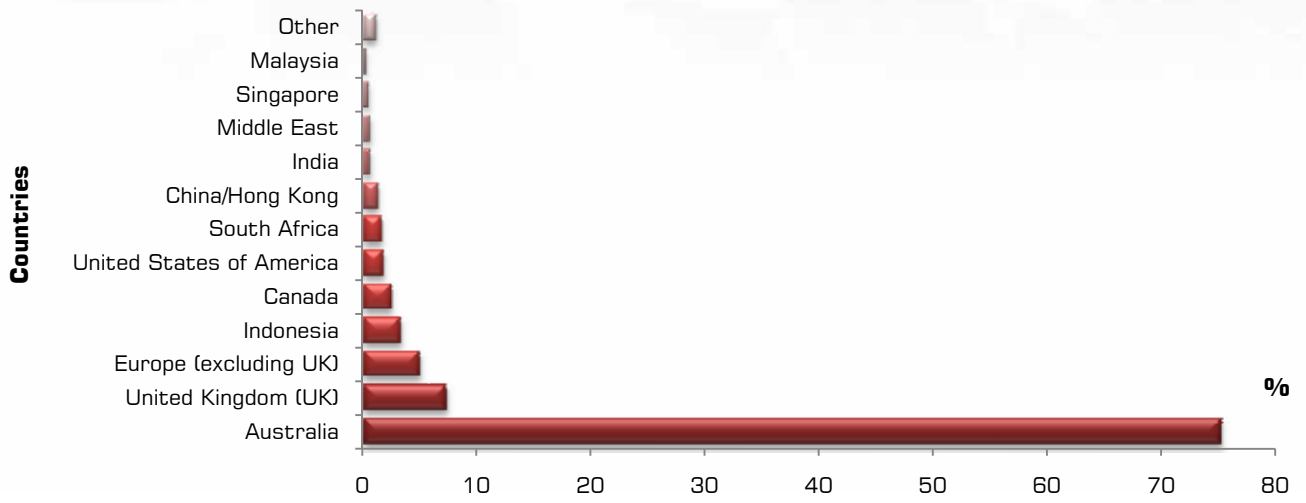
Response (Overseas units)	Franchised and company owned units			
	Number of franchisors	Percent	Total number of units	Percent
Australia	17	85.0	3499	75.3
United Kingdom (UK)	3	15.0	333	7.2
Europe (excluding UK)	2	10.0	225	4.9
Indonesia	3	15.0	148	3.2
Canada	2	10.0	113	2.4
United States of America	3	15.0	80	1.7
South Africa	2	10.0	71	1.5
China/Hong Kong	2	10.0	58	1.2
India	5	25.0	25	0.5
Middle East	4	20.0	25	0.5
Singapore	3	15.0	16	0.4
Malaysia	1	5.0	7	0.2
Other	2	10.0	46	1.0
Total			4646	100.0

Notes: 1) The expected total of 20 franchisors provided a response.
2) Multiple responses were recorded for some respondents.

**Franchising by country
Proportion of franchisors**



Franchising by country Proportion of franchise units



Reason for international expansion

Key facts

- Most common reason for choice of international destination was similarity to local market.
- Franchisors held a median of 13 units prior to overseas expansion.
- System growth was most common reason for expanding overseas.
- Most popular entry mode was through master franchising.
- Most franchisors required between 1 and 10 head office staff to support international operations.
- Most international expansion occurred in the last decade.

The most common reasons for the choice of international destination included similarity to the local market (nominated by all 12 respondents), perceived opportunities overseas, existing contracts in overseas markets and requests by offshore investors. Other reasons nominated by franchisors for country choice included English speaking nations and expanding at the request of current franchisees wanting to relocate to other international markets.

The majority of franchisors (65 percent) have been operating since 2001, suggesting that international expansion is a fairly recent activity in franchise systems in New Zealand. Franchisors held a median of 13 franchised and company-owned units, prior to operating overseas indicating that most systems favour international expansion prior to reaching saturation in the local market. A majority of franchisors (61 percent) held between 1 and 50 units prior to expanding their concepts in overseas locations. However, just over a quarter of systems (28 percent) held no units in New Zealand prior to franchising overseas. This strategy may indicate that franchisors are favouring overseas expansion to stimulate growth in their networks and capitalise on first-mover advantages in new markets.

Reasons for overseas expansion included the desire to grow the size of the organisation (47 percent), to meet requests by overseas investors (26 percent), to overcome constraints imposed in saturated local market (11 percent) and to achieve economies of scale advantages (11 percent).

The most common method of overseas expansion was via master franchising (83 percent) which is consistent with the entry modes chosen by franchisors in similarly mature markets overseas¹⁵. Mostly, this form of entry mode was utilised in the non-retail sector (73 percent). Other franchisors chose 100% company ownership (22 percent), joint venture arrangements (17 percent), the appointment of area developers (11 percent) and wholly-owned subsidiary arrangements (6 percent).

¹⁵ Frazer, L., Weaven, S and Bodey, K. Franchising Australia 2010.

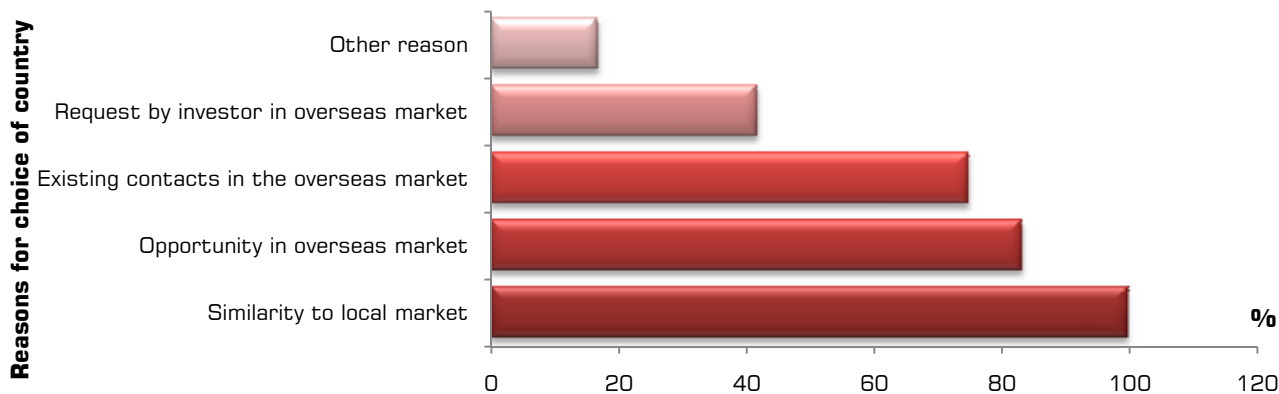
Nearly two thirds of respondents (65 percent) reported that they needed between 1 and 10 full-time staff to manage single and multiple unit franchisees in overseas markets. Although 15 percent did not require any additional investment in Head Office staff, the remaining 85 percent of franchisors favoured increasing staff numbers to support international operations. Just over half the respondents (58 percent) indicated that their current investment was sufficient to cover their marketing expenditure for overseas operations.

C20 Why did you choose to franchise in the above country/countries?

Response (Reason for choice of country)	Number of responses	Percent
Similarity to local market	12	100.0
Opportunity in overseas market	10	83.3
Existing contacts in the overseas market	9	75.0
Request by investor in overseas market	5	41.7
Other reason	2	16.7

- Notes: 1) A total of 12 franchisors provided a response from an expected 20.
 2) Multiple responses were recorded for some respondents.

Reasons for choice of country

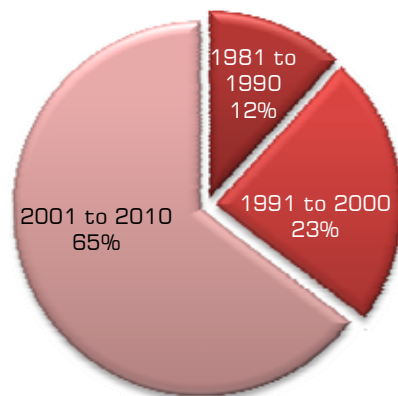


C21 In what year did you commence franchising overseas?

Response (Year)	Number of responses	Percent
Prior to 1981	0	0
1981 to 1990	2	11.8
1991 to 2000	4	23.5
2001 to 2010	11	64.7
Total	17	100.0

- Notes: 1) A total of 17 franchisors provided a response from an expected 20.
 2) Responses ranged from 1985 to 2009.

Year commenced international franchising

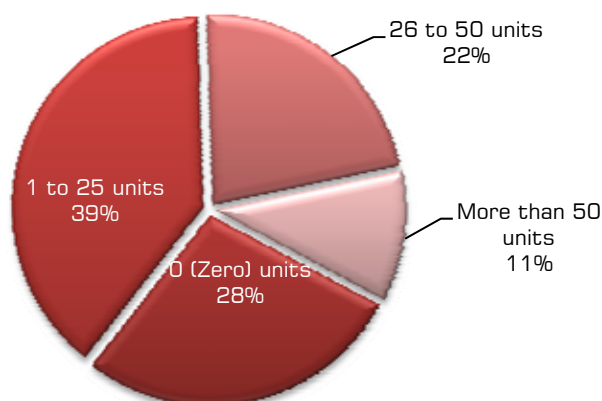


C22 How many units did you open in New Zealand prior to franchising overseas?

Response (Units prior to overseas expansion)	Number of responses	Percent
0 units	5	27.8
1 to 25 units	7	38.9
26 to 50 units	4	22.2
More than 50 units	2	11.1
Total	18	100.0

- Notes: 1) A total of 18 franchisors provided a response from an expected 20.
 2) The median number of units was 13.
 3) Responses ranged from zero to 219 units.

Franchised units prior to international expansion

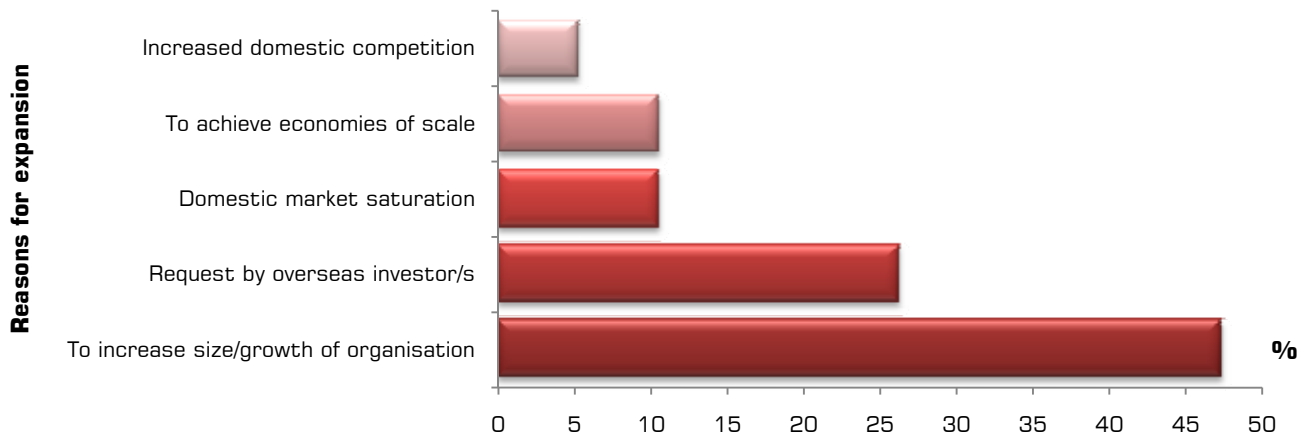


C23 What was the primary reason for franchising overseas?

Response (Reason for expansion overseas)	Number of responses	Percent
To increase size/growth of organisation	9	47.4
Request by overseas investor/s	5	26.3
Domestic market saturation	2	10.5
To achieve economies of scale	2	10.5
Increased domestic competition	1	5.3
Total	19	100.0

Notes: 1) A total of 19 franchisors provided a response from an expected 20.

Reasons for international expansion

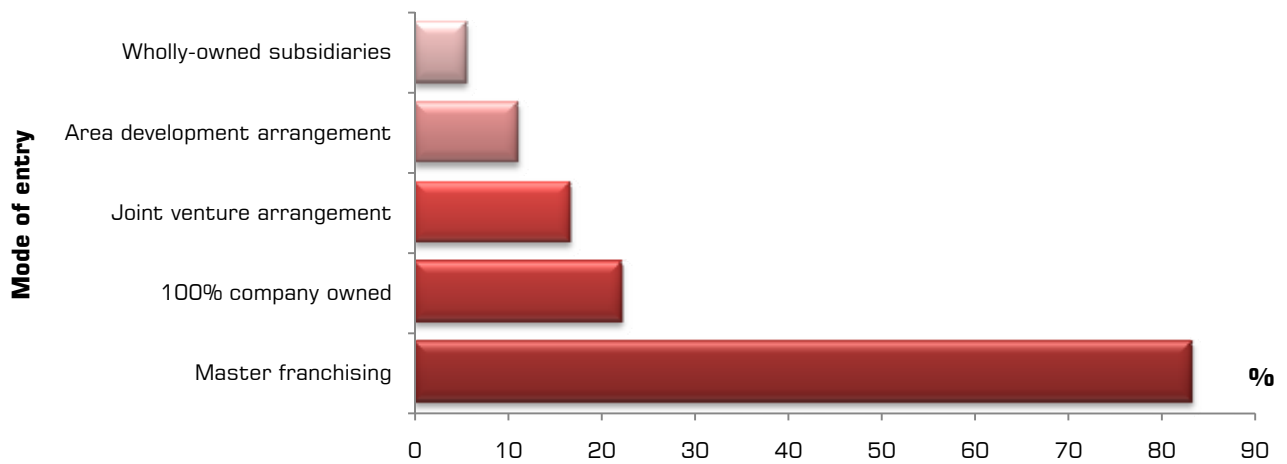


C24 Which method/s of entry did you choose for expansion overseas?

Response (Methods of overseas expansion)	Number of responses	Percent
Master franchising	15	83.3
100% company owned	4	22.2
Joint venture arrangement	3	16.7
Area development arrangement	2	11.1
Wholly-owned subsidiaries	1	5.6

Notes: 1) A total of 18 franchisors provided a response from an expected 20.
 2) Multiple responses were recorded for some respondents.

Methods of international expansion

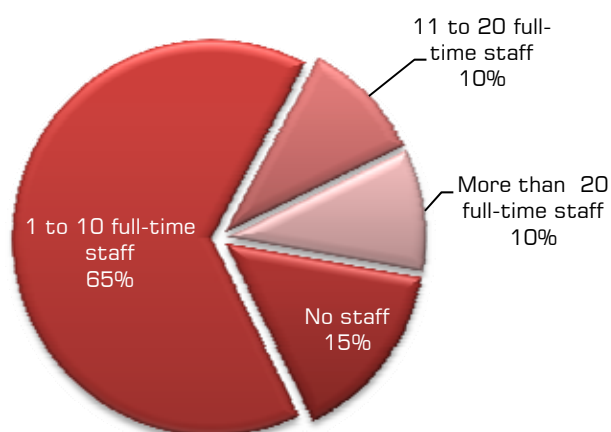


C25 How many full-time equivalent head office staff members are employed to support your overseas franchisees/master franchisees?

Response (Full-time staff for overseas operations)	Number of responses	Percent
No staff	3	15.0
1 to 10 full-time staff	13	65.0
11 to 20 full-time staff	2	10.0
More than 20 full-time staff	2	10.0
Total	20	100.0

- Notes: 1) The expected total of 20 franchisors answered this question.
 2) Franchisors employed a median of 5 full-time staff members.
 3) Responses ranged from zero to 160.

Full-time staff for overseas operations

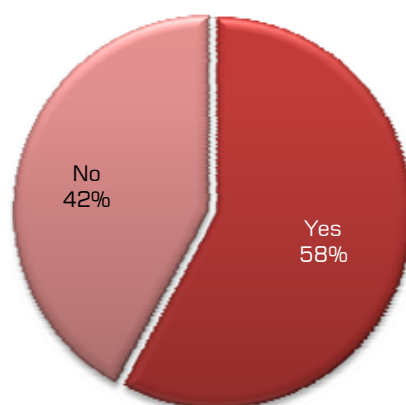


C26 *Is the marketing fund income sufficient to cover the full costs of your marketing expenditure for international operations?*

Response (Marketing fund)	Number of responses	Percent
Yes	11	57.9
No	8	42.1
Total	19	100.0

Notes: 1) A total of 19 franchisors provided a response from an expected 20.

Marketing fund covers costs



Franchise activity levels

Key facts

- The majority of franchisors have experienced increases or no change in gross sales and profitability.
- Franchisees have faced increased competition and declining sales and profitability.

In this section franchisors were asked to comment on activity levels in franchise systems over the preceding 12 months. From this data we can gauge the impact of the recent global financial crisis. Although many respondents indicated there were no changes to research and development investment (60 percent), capital investment (52 percent), staffing levels (48 percent), franchise system promotion (44 percent), competition (44 percent), product and service promotion (43 percent) and franchisee recruitment (42 percent), there were noticeable differences in franchisor assessments of activity levels in their systems. In particular, while approximately half of the respondents noted increases in their gross sales/revenue margins (52 percent) and overall profitability (50 percent), over a quarter of franchisors had noticed declines during the same period. A similar pattern was evident in relation to staffing levels in which 33 percent of franchisors reporting an increasing commitment, and 19 percent reducing staff numbers. In addition, franchisors appear to appreciate the need to invest in promoting their activities to both customers and potential franchisees, with just under half of respondents indicating an increased investment in product and service promotion (49 percent), franchise system promotion (44 percent) and franchisee recruitment activities (48 percent). Importantly, franchisors appear to understand the benefits associated with investing in staff training and education to ensure desired service quality outcomes.

The current period of economic uncertainty appears to have impacted upon franchisee sales and profitability, with 44 percent of franchisors reporting a reduction in product sales of franchisees and 47 percent reporting a fall in franchisee profitability. Similarly, 45 percent of franchisors had reported a reduction in the customer count of franchisees during this period. However, over half of respondent franchisors reported an increase in competition faced by franchisees as a result of tightening markets. Franchisees appear to understand the need to maintain current staffing levels and expenditure on local market initiatives to ensure they remain competitive in the marketplace.

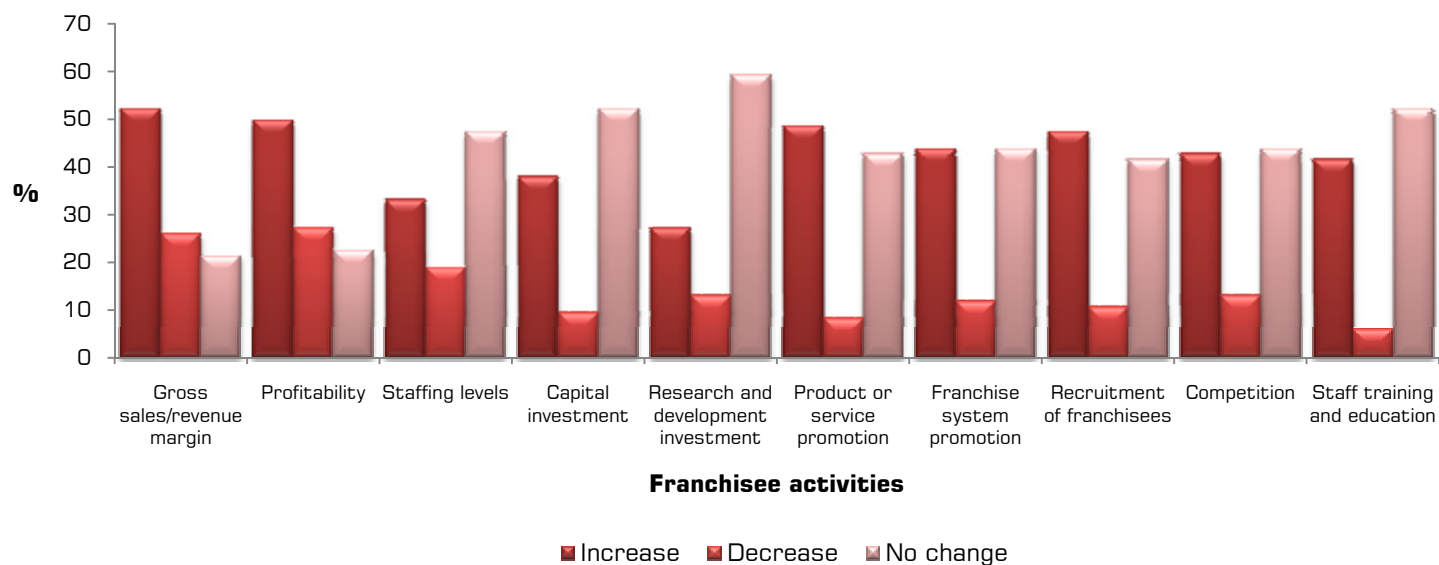
Overall, there is some evidence that the New Zealand franchise sector has been affected by the financial crisis, but it does not appear to be to the same extent as is observable in overseas markets. While decreased activity is observable at the unit level, franchisors appear to be committed to increasing their investment across a range of initiatives to ensure they remain competitive in periods of economic uncertainty and beyond.

C27 Did activity levels in the franchisor business over the past twelve months increase, decrease or remain stable?

Response (Franchisor activity levels in last 12 months)	Increase	Decrease	No change
	Percent	Percent	Percent
Gross sales/revenue margin	52.4	26.2	21.4
Profitability	50.0	27.4	22.6
Staffing levels	33.3	19.0	47.6
Capital investment	38.1	9.5	52.4
Research and development investment	27.4	13.1	59.5
Product or service promotion	48.8	8.3	42.9
Franchise system promotion	44.0	11.9	44.0
Recruitment of franchisees	47.6	10.7	41.7
Competition	42.9	13.1	44.0
Staff training and education	41.7	6.0	52.4
Franchisor borrowing	16.7	20.2	63.1

Notes: 1) A total of 84 franchisors provided a response from an expected 88.

Franchisee activity levels over the last 12 months

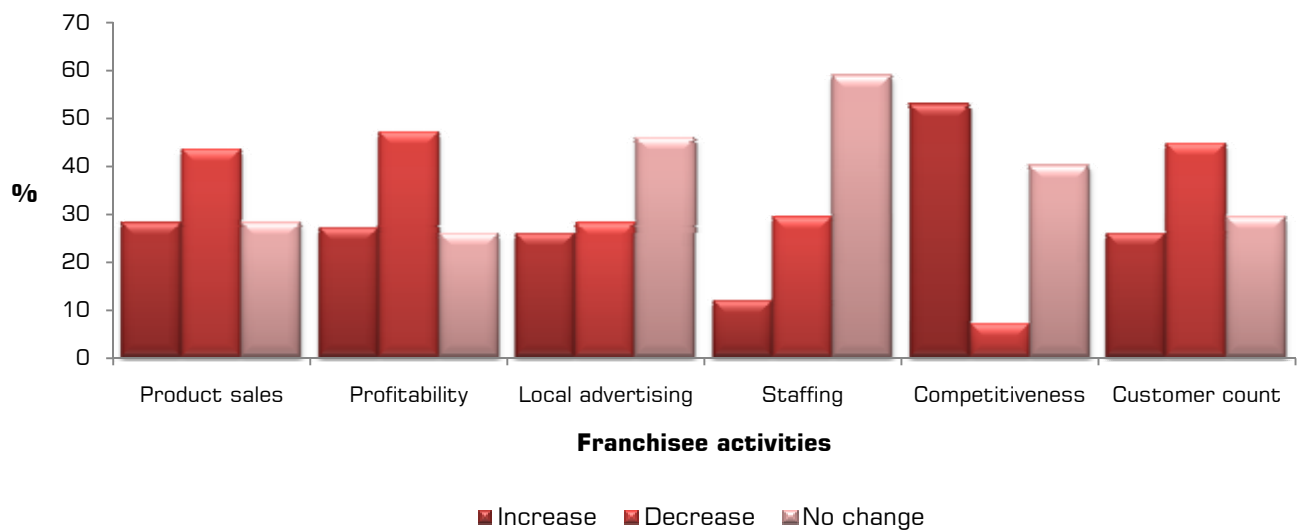


C28 *What effect have the economic conditions in 2009/2010 had on the activity of your individual franchisees?*

Response (Economic impact on franchisee activity over 2009/10 period)	Increase	Decrease	No change
	Percent	Percent	Percent
Product sales	28.2	43.5	28.2
Profitability	27.1	47.1	25.9
Local advertising	25.9	28.2	45.9
Staffing	11.8	29.4	58.8
Competitiveness	52.9	7.1	40.0
Customer count	25.9	44.7	29.4

Note: 1) A total of 85 franchisors provided a response from an expected 88.

Economic impact on franchisee activity over the last 12 months



C29 If applicable, please explain any strategic programmes that you have initiated over the past twelve months to promote franchisee sustainability or profitability?

In this section franchisors were asked to reveal any strategic programmes that they have initiated over the past 12 months to ensure system growth and sustainability. A majority of responses centred upon *cost reduction initiatives* including operations audits at the network and unit level, key performance indicator seminar reviews and training exercises, the introduction of efficiency improvement tools, the introduction of new costing platforms, and supply chain overhauls (often involving re-assessing preferred supplier arrangements). In addition, a number of *promotional initiatives* were mentioned focusing upon the introduction of direct marketing approaches, building transactional websites, shifting marketing investment from regional to local market levels, developing social media promotional tools, re-structuring promotional pricing, introducing loyalty cards, search engine optimisation and providing membership privileges to customers to build their levels of involvement with (and loyalty towards) individual franchisee outlets.

Generally, franchisors appear to maintain or increase their levels of investment in *new research and development initiatives*, with many detailing product modifications or new brand extensions to meet the needs of existing and new consumer markets. In addition, many respondents nominated that they had adopted new customer focus programmes, customer satisfaction and retention initiatives. A number of franchisors revealed that they were currently investigating ways in which to integrate 'green' initiatives in product design, packaging, supply processes and national and local promotional campaigns.

D Franchisor Profile

In this final section of the survey a profile of franchisors is provided. For the purpose of this analysis we identified franchisors who were *founders*, or who started out as *franchisees* in the system, in order to examine their characteristics and motivations for franchising. As the remaining respondents included franchise executives, this group was excluded from the analysis.

Franchise system founders

Key facts

- 45 percent of franchisors were the original founders of the business.
- A further 16 percent of franchisors started out as franchisees in the system.

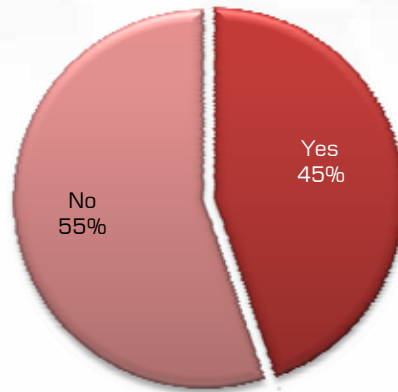
Slightly less than half (45 percent) of franchisor respondents indicated they were the original founders of the business. A further 16 percent had operated as a franchisee of the business prior to acquiring it, indicating that opportunities are available for entrepreneurial franchisees who may desire to capitalise on their experience in the system but few appear to take up this opportunity.

D1 Are you the founder of the original business?

Response (Franchise founder)	Number of responses	Percent
Yes	39	44.8
No	48	55.2
Total	87	100.0

Note: 1) A total of 87 franchisors provided a response from an expected 88.

Franchisor origin



D2 Were you a franchisee of this business before acquiring it?

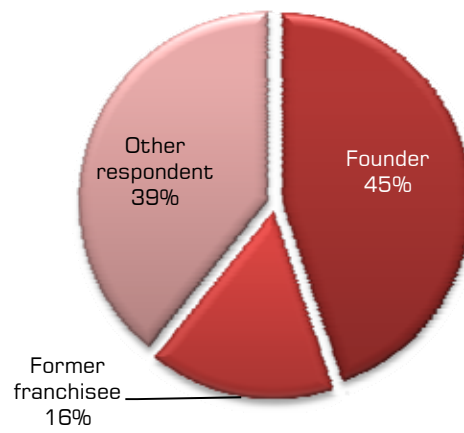
Response (Former franchisee)	Number of responses	Percent
Yes	14	29.2
No	34	70.8
Total	48	100.0

Note: 1) The expected number of 48 franchisors provided a response.

The table below further summarises franchisor origin.

Franchisor origin	Number	Percent
Founder	39	44.8
Former franchisee	14	16.0
Other respondent	34	39.1
Total	87	100.0

Franchisor origin



Franchisor gender, age and ethnicity

Key facts

- Approximately three quarters of franchisors were male, aged 40 to 60 years and of New Zealand European origin.

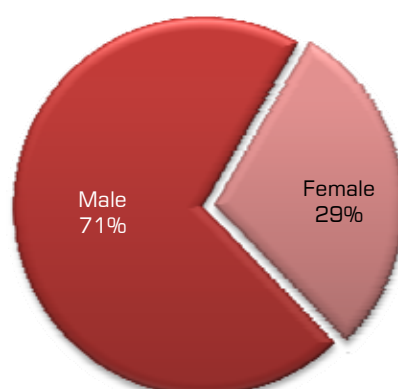
Some 71 percent of franchisors were male, consistent with findings in other advanced franchising sectors such as Australia and the United States. Three quarters (77 percent) stated they were New Zealand Europeans and a further 14 percent were European. Only one franchisor identified as a New Zealand Maori. Most franchisors were currently aged 41 to 50 years (33 percent) or 51 to 60 years (40 percent).

D3 What is your gender?

Response (Gender)	Number of responses	Percent
Male	36	70.6
Female	15	29.4
Total	51	100.0

Note: 1) A total of 51 franchisors provided a response from an expected 53.

Franchisor gender

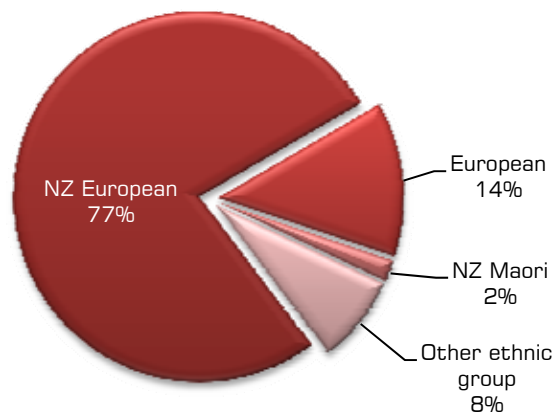


D4 To which ethnic group do you belong?

Response (Ethnic group)	Number of responses	Percent
NZ European	40	76.9
European	7	13.5
NZ Maori	1	1.9
Other ethnic group	4	7.7
Total	52	100.0

Note: 1) A total of 52 franchisors provided a response from an expected 53.

Franchisor ethnicity

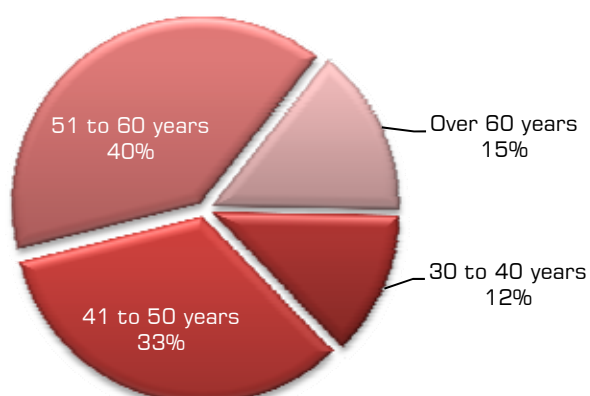


D5 What is your age?

Response (Age)	Number of responses	Percent
30 to 40 years	6	12.5
41 to 50 years	16	33.3
51 to 60 years	19	39.6
Over 60 years	7	14.6
Total	48	100.0

- Notes: 1) A total of 48 franchisors provided a response from an expected 53.
2) The median age was 52 years.
3) Ages ranged from 33 to 70 years.

Franchisor age



Franchisor experience

Key facts

- 70 percent of franchisors had previously started up a business.
- Half were aged below 40 years when they started their current business.

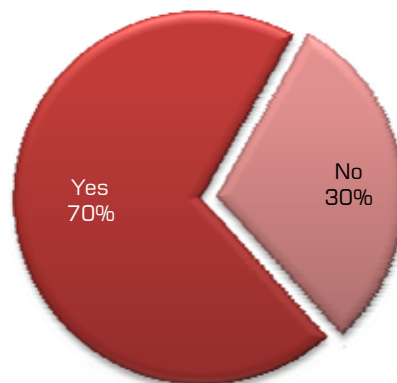
The majority of franchisors (70 percent) had previously started up another business prior to their current franchise, indicating that former business experience may be used as a stepping stone into franchising. Some 40 percent were aged 41 to 50 years when they commenced their current business. However, nearly half the respondents (49 percent) were aged below 40 years, revealing the opportunities available in New Zealand for young entrepreneurs.

D6 *Did you have any experience of your own business start-up prior to your current business?*

Response (Prior business experience)	Number of responses	Percent
Yes	37	69.8
No	16	30.2
Total	53	100.0

Note: 1) The expected total of 53 franchisors provided a response.

Previous business start-up experience

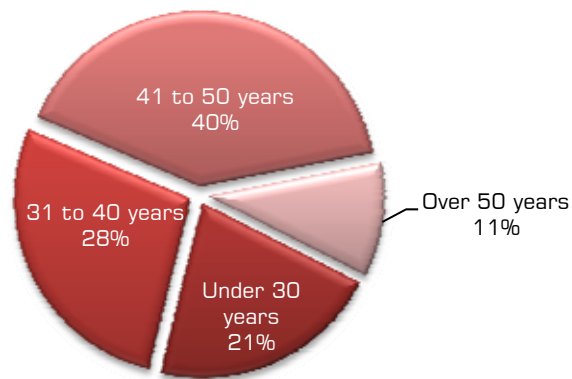


D7 What was your age (in years) when you first started your current business?

Response (Commencement age)	Number of responses	Percent
Under 30 years	10	21.3
31 to 40 years	13	27.7
41 to 50 years	19	40.4
Over 50 years	5	10.6
Total	47	100.0

- Notes: 1) A total of 47 franchisors provided a response from an expected 53.
 2) The median age was 41 years.
 3) Ages ranged from 25 to 58 years.

Franchisor age when starting current business



Motivation and planning

Key facts

- Most important reason for starting a business was to achieve financial security.
- Nearly half the franchisors planned to franchise from the outset.
- Franchising was chosen because franchisees make motivated owner managers.

The most influential motivation expressed by franchisors for starting their business was the desire to obtain financial security (28 percent). Some 22 percent of franchisors indicated that creating a national brand was a major motivation, indicating that recognition was strongly sought. The desire to achieve independence (18 percent) and to seek new challenges (18 percent) were also major drivers. Lifestyle benefits were cited by 14 percent of respondents. In brief, franchisors were attracted by financial and personal achievement rewards associated with franchising rather than lifestyle factors.

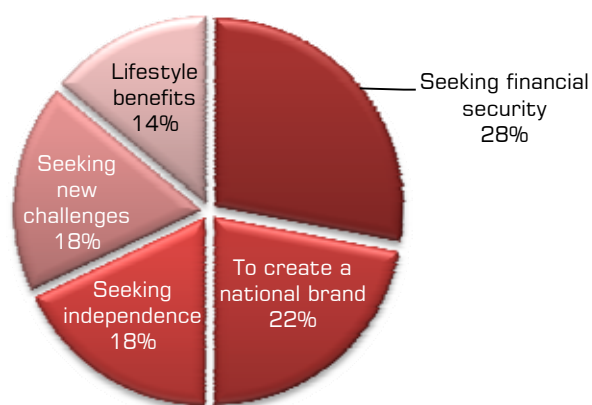
Almost half the franchisors (47 percent) decided to franchise from the outset, but for the remainder, franchising was an unintended outcome. Franchisors clearly ranked the efficiency benefits of franchising above other reasons for choice of the model with 45 percent of respondents indicating that they chose franchising because franchisees were motivated owner managers. In addition, 20 percent pursued franchising in order to obtain rapid market penetration. Thus, franchisors have opted for franchising rather than company ownership of units as a means of stimulating system performance and growth. Other reasons for choosing the franchising model that were less prominent included investment opportunities (10 percent), emulating the success of other franchisors (8 percent), and use of franchisee capital resources to build the network (6 percent).

D8 What was the most important reason for starting your business?

Response (Reason for commencing business)	Number of responses	Percent
Seeking financial security	14	28.0
To create a national brand	11	22.0
Seeking independence	9	18.0
Seeking new challenges	9	18.0
Lifestyle benefits	7	14.0
Total	50	100.0

Note: 1) A total of 50 franchisors provided a response from an expected 53.

Franchisor motivation to start business

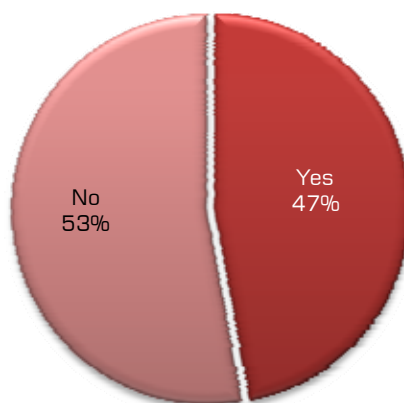


D9 *Did you plan from the outset to franchise the business?*

Response (Intention to franchise from outset)	Number of responses	Percent
Yes	24	47.1
No	27	52.9
Total	51	100.0

Note: 1) A total of 51 franchisors provided a response from an expected 53.

Plan to franchise business from the outset

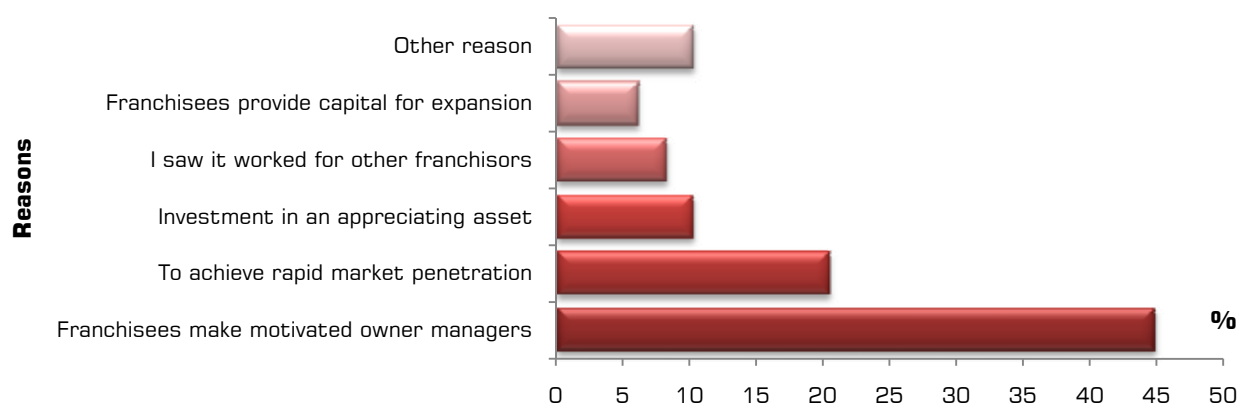


D10 Why did you choose a franchise model?

Response (Choice of franchise model)	Number of responses	Percent
Franchisees make motivated owner managers	22	44.9
To achieve rapid market penetration	10	20.4
Investment in an appreciating asset	5	10.2
I saw it worked for other franchisors	4	8.2
Franchisees provide capital for expansion	3	6.1
Other reason	5	10.2
Total	49	100.0

- Notes: 1) A total of 49 franchisors provided a response from an expected 53.
 2) Other reasons included risk minimisation, suitable model for the product and use as a turnaround strategy.

Reasons for choosing franchise business model



Franchising education

Key facts

- Franchisors expressed strong interest in specific franchising education, particularly for franchisees and employees.

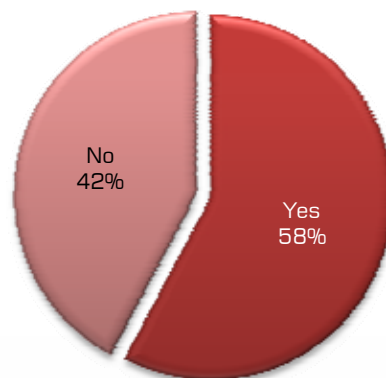
Future education needs for the sector were canvassed in the survey. Some 58 percent of franchisors expressed interest in enrolling in a certificate in franchising. The need for education throughout the network was endorsed with 75 percent of franchisors indicating they would encourage their franchisees and employees to undertake a certificate in franchising. Attitudes about employing graduates with specific franchising qualifications were mixed, with 51 percent of franchisors supporting the notion. Anecdotal evidence suggests that general business management skills, in addition to franchising knowledge, are valued in the sector.

D11 If a certificate in franchising was offered in New Zealand would you be interested in enrolling?

Response (Interest in Certificate in Franchising)	Number of responses	Percent
Yes	48	57.8
No	35	42.2
Total	83	100.0

Note: 1) A total of 83 franchisors provided a response from an expected 88.

Interest in Certificate of Franchising

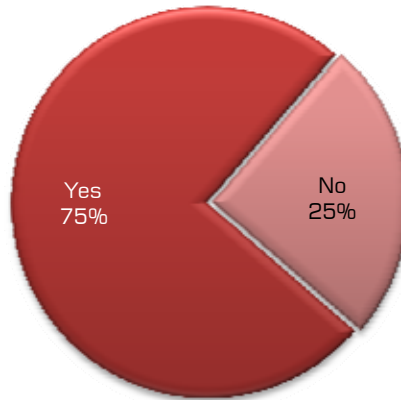


D12 *Would you encourage any of your employees or franchisees to enrol?*

Response (Employee or franchisee encouragement)	Number of responses	Percent
Yes	60	75.0
No	20	25.0
Total	80	100.0

Note: 1) A total of 80 franchisors provided a response from an expected 88.

Facilitate employees or franchisees to enrol

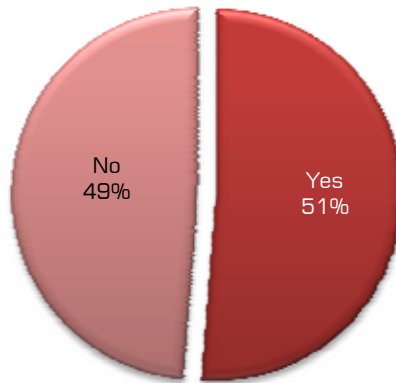


D13 *Would you be interested in employing business graduates with a franchising specialisation in your organisation?*

Response (Interest in business graduates)	Number of responses	Percent
Yes	41	51.3
No	39	48.8
Total	80	100.0

Note: 1) A total of 80 franchisors provided a response from an expected 88.

Interest in business graduates





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