

**2010 Franchise Business Economic Outlook**

**Prepared for**

**The International Franchise Association  
Educational Foundation**

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## 2010 FRANCHISE BUSINESS ECONOMIC OUTLOOK

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## 2010 FRANCHISE BUSINESS ECONOMIC OUTLOOK

### EXECUTIVE SUMMARY

This report provides PricewaterhouseCoopers' second annual franchise business economic outlook, a forecast of franchising activity for 10 business format lines for 2010.<sup>1</sup> The forecast of franchising activity builds on previous studies by PricewaterhouseCoopers (PwC) that measure the economic impact of franchising in the United States.<sup>2</sup> This report was commissioned by the International Franchise Association Educational Foundation.

#### Franchising activities to expand gradually in the coming year

PwC estimates that the current recession, which has resulted in the largest economy-wide decline in output since the end of World War II, has halted the growth in the number of business format franchise establishments in 2009. After growing by more than 40 percent between 2001 and 2008, the number of business format franchise establishments is estimated to have declined by 0.1 percent between 2008 and 2009 (see **Table E-1**). In a macroeconomic environment in which the economic recovery slowly takes hold in 2010, PwC forecasts that the number of business format franchises will expand from 883,292 in 2009 to 901,093 in 2010 (an increase of 2.0 percent).

Business format franchises are estimated to have experienced a significant decline in employment in 2009 (4.1 percent), but PwC forecasts job growth of 0.4 percent in 2010. Business format franchise output grew by 5.9 percent in 2008 before an estimated decline of 0.7 percent to \$844.7 billion in 2009. PwC forecasts modest output growth of 2.8 percent in 2010--an increase of \$23.6 billion over 2009.

**Table E-1 - Franchise Business Economic Outlook, 2007-2010**

	Estimates			Forecast 2010	Annual percent change	
	2007	2008	2009		2008- 2009	2009- 2010
Establishments	847,244	883,984	883,292	901,093	-0.1%	2.0%
Employment (Thousands)	9,859	9,931	9,522	9,558	-4.1%	0.4%
Output (Billions of dollars)	\$802.9	\$850.4	\$844.7	\$868.3	-0.7%	2.8%

Source: PricewaterhouseCoopers.

<sup>1</sup> This economic outlook report does not include estimates for product distribution franchises, such as automotive and truck dealers, gasoline service stations, and beverage bottlers.

<sup>2</sup> PricewaterhouseCoopers LLP, *Economic Impact of Franchised Businesses* (February 24, 2004) and *Economic Impact of Franchised Businesses, Volume II: Results for 2005* (January 29, 2008).

The economic recovery will have different effects on growth in the number of establishments, employment, and output within each franchise business line in 2010 (see **Table E-2**).

- **Establishments.** With the exception of Lodging, the number of establishments in each business format franchise line is estimated to increase in 2010. The largest gains are expected in Quick Service Restaurants and Real Estate.
- **Employment.** Most franchise business lines are projected to experience modest employment growth in 2010, with the largest increase occurring in Real Estate. Commercial and Residential Services and Lodging are both projected to experience further declines in employment, of 0.9 percent and 2.4 percent, respectively, in 2010.
- **Output.** Output is forecast to increase in all 10 franchise lines of business in 2010. The three franchise business lines projected to see the largest percentage increases are Personal Services, Quick Service Restaurants, and Business Services. The smallest growth in output is forecast in Real Estate.

**Table E-2 - Franchise Business Economic Outlook by Business Line, 2010**

Business Lines	Establishments		Employment (Thousands)		Output (Billions of dollars)	
	Amount	Percent change over prior year	Amount	Percent change over prior year	Amount	Percent change over prior year
Automotive	38,340	1.8%	182	0.4%	\$36.4	2.2%
Commercial and Residential Services	57,007	0.3%	230	-0.9%	\$38.2	1.5%
Quick Service Restaurants	192,827	3.1%	3,343	0.8%	\$203.6	3.2%
Table/Full Service Restaurants	48,609	2.1%	1,066	0.4%	\$64.0	2.3%
Retail Food	70,722	2.4%	853	0.7%	\$67.5	2.3%
Lodging	31,827	-0.8%	627	-2.4%	\$62.7	1.8%
Real Estate	41,630	3.0%	160	1.3%	\$22.8	1.4%
Retail Products and Services	88,312	2.3%	577	0.6%	\$50.5	2.5%
Business Services	231,669	1.7%	1,420	0.1%	\$189.6	2.6%
Personal Services	<u>100,151</u>	<u>1.8%</u>	<u>1,101</u>	<u>0.7%</u>	<u>\$132.8</u>	<u>4.4%</u>
<b>Total</b>	<b>901,093</b>	<b>2.0%</b>	<b>9,558</b>	<b>0.4%</b>	<b>\$868.3</b>	<b>2.8%</b>

Numbers may not add up to totals because of rounding.

Source: PricewaterhouseCoopers.

## FRANCHISE BUSINESS ECONOMIC OUTLOOK

### I. INTRODUCTION

This report presents the second annual franchise business economic outlook by PricewaterhouseCoopers ("PwC") for the International Franchise Association Educational Foundation.

The following section of the report presents PwC's economic outlook for franchising at the national level for 10 business lines:

- Automotive
- Commercial and Residential Services
- Quick Service Restaurants
- Table/Full Service Restaurants
- Retail Food
- Lodging
- Real Estate
- Retail Products and Services
- Business Services
- Personal Services

For each of the 10 business lines, the projections include forecasts for 2010 (and estimates for 2007-2009) of:

- Franchise establishments<sup>3</sup>
- Franchise employment<sup>4</sup>
- Franchise output<sup>5</sup>

Section III describes information used in preparing the economic outlook, including the latest Inforum macroeconomic forecast and data on franchising establishments collected by FRANdata.<sup>6</sup>

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<sup>3</sup> An establishment is a single physical location at which business is conducted or services or industrial operations are performed. A business may consist of more than one establishment. An establishment may be owned by the franchisor or the franchisee.

<sup>4</sup> Positions filled by part-time and full-time employees or by self-employed individuals.

<sup>5</sup> Output is the gross value of goods and services produced, a concept that is comparable to "sales" for most industries. In government input-output accounts, the output of goods-producing industries is measured by the value of shipments. For most other industries, output is measured by receipts or revenues from goods and services sold. A special case is the output of the wholesale and retail industries, which is measured generally as the difference between receipts or revenues and the cost of goods sold--this difference is referred to as "margin."

<sup>6</sup> Inforum, established in 1967, is an economic education and research organization housed at the University of Maryland that specializes in the development and use of Interindustry-Macroeconomic (IM) models that combine input-output structure with econometric equations in a dynamic and detailed framework. FRANdata, founded in 1989, is a research and information services firm specializing in franchising industry data.

## II. OUTLOOK FOR FRANCHISED BUSINESSES

### A. Overall Outlook

PwC forecasts modest growth in the number of establishments, employment, and output for business format franchises in 2010, reversing a recession-induced decline experienced in 2009.

PwC estimates that the number of business format franchise establishments grew to 883,984 units in 2008 before declining to 883,292 units in 2009. Following this 0.1 percent decline in 2009, PwC estimates that the number of business format franchise establishments will increase by 2.0 percent in 2010 to 901,093 units (an increase of 17,800 units). Employment in business format franchises is estimated to have peaked in 2008 at 9.9 million. In 2009, business format franchises are estimated to have posted a significant drop in employment (4.1 percent), a reduction of 409,000 jobs. PwC forecasts that franchise employment will grow modestly (0.4 percent) in 2010, increasing the total number of jobs by 36,000; however, employment is forecast to remain 373,000 jobs below the 2008 level.

Economic output generated by business format franchises grew 5.9 percent in 2008 before declining by an estimated 0.7 percent in 2009. PwC forecasts business format franchising output will grow by 2.8 percent (\$23.6 billion) in 2010 (see **Table II-1**, below).

**Table II-1 - Franchise Business Economic Outlook, 2007-2010**

	<u>Estimates</u>			<u>Forecast</u>	<u>Annual percent change</u>	
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2008-2009</b>	<b>2009-2010</b>
Establishments	847,244	883,984	883,292	901,093	-0.1%	2.0%
Employment (Thousands)	9,859	9,931	9,522	9,558	-4.1%	0.4%
Output (Billions of dollars)	\$802.9	\$850.4	\$844.7	\$868.3	-0.7%	2.8%

Source: PricewaterhouseCoopers.

## B. Outlook by Business Line

### Establishments by business line: 2007-2010

**Table II-2** shows projected franchise establishment units for the 10 business format franchise lines over the 2007-2010 period. PwC estimates that nine of the 10 franchise business lines experienced growth in establishments between 2007 and 2008, with only Real Estate declining. Between 2008 and 2009, PwC estimates a slight overall decline in the number of establishments, with positive growth in establishments for only Quick Service Restaurants, Table/Full Service Restaurants, Real Estate, and Personal Services. For 2010, the number of establishments is forecast to increase in all business format franchise business lines except for Lodging.

The largest percentage increases in the number of establishments in 2010 are projected in Quick Service Restaurants (3.1 percent), Real Estate (3.0 percent), and Retail Food (2.4 percent).

Overall, the number of establishments in business format franchises is projected to increase by 2.0 percent in 2010.

**Table II-2 - Franchise Establishments by Business Lines, 2007-2010**

Business Lines	Estimates			Forecast	Annual percent change	
	2007	2008	2009	2010	2008-2009	2009-2010
Automotive	35,695	38,074	37,646	38,340	-1.1%	1.8%
Commercial and Residential Services	60,270	61,950	56,836	57,007	-8.3%	0.3%
Quick Service Restaurants	177,498	183,135	187,068	192,827	2.1%	3.1%
Table/Full Service Restaurants	45,836	47,013	47,592	48,609	1.2%	2.1%
Retail Food	65,377	70,011	69,093	70,722	-1.3%	2.4%
Lodging	31,003	33,133	32,076	31,827	-3.2%	-0.8%
Real Estate	40,577	39,933	40,426	41,630	1.2%	3.0%
Retail Products and Services	82,105	87,133	86,315	88,312	-0.9%	2.3%
Business Services	219,636	228,761	227,813	231,669	-0.4%	1.7%
Personal Services	<u>89,247</u>	<u>94,840</u>	<u>98,427</u>	<u>100,151</u>	<u>3.8%</u>	<u>1.8%</u>
<b>Total</b>	<b>847,244</b>	<b>883,984</b>	<b>883,292</b>	<b>901,093</b>	<b>-0.1%</b>	<b>2.0%</b>

Numbers may not add up to totals because of rounding.

Source: PricewaterhouseCoopers.



**Employment by business line: 2007-2010**

Table II-3 shows the projected franchise employment for the 10 business format franchise lines over the 2007-2010 period. PwC estimates that six of the 10 business format franchise business lines experienced increases in employment in 2008. The recession caused a reduction in employment in 2009 for all business format franchises, with the largest decline in Commercial and Residential Services. All franchises, except for those in the Commercial and Residential Services and Lodging business lines, are projected to experience modest increases in employment in 2010.

The largest percentage increases in employment in 2010 are expected for franchises in Real Estate (1.3 percent). In no other industry is the increase in the number of full-time and part-time jobs expected to increase by as much as 1 percent. Franchises in Commercial and Residential Services and Lodging are projected to experience declines in employment of 0.9 percent and 2.4 percent respectively.

Overall, PwC's revised estimates indicate a reduction in employment in business format franchises of 4.1 percent in 2009, followed by an increase of 0.4 percent in 2010.

**Table II-3 - Franchise Employment by Business Lines, 2007-2010**  
[Thousands]

Business Lines	Estimates			Forecast	Annual percent change	
	2007	2008	2009	2010	2008-2009	2009-2010
Automotive	192	193	181	182	-6.3%	0.4%
Commercial and Residential Services	313	296	232	230	-21.6%	-0.9%
Quick Service Restaurants	3,397	3,382	3,316	3,343	-2.0%	0.8%
Table/Full Service Restaurants	1,102	1,090	1,061	1,066	-2.7%	0.4%
Retail Food	888	904	847	853	-6.3%	0.7%
Lodging	668	699	643	627	-8.1%	-2.4%
Real Estate	164	164	158	160	-3.9%	1.3%
Retail Products and Services	602	611	573	577	-6.1%	0.6%
Business Services	1,479	1,495	1,419	1,420	-5.1%	0.1%
Personal Services	<u>1,055</u>	<u>1,097</u>	<u>1,093</u>	<u>1,101</u>	<u>-0.4%</u>	<u>0.7%</u>
<b>Total</b>	<b>9,859</b>	<b>9,931</b>	<b>9,522</b>	<b>9,558</b>	<b>-4.1%</b>	<b>0.4%</b>

Numbers may not add up to totals because of rounding.

Source: PricewaterhouseCoopers.

**Output by business line: 2007-2010**

**Table II-4** shows the projected franchise output for the 10 business format franchise lines over the 2007-2010 period. PwC's revised estimates find that nine out of 10 business lines experienced growth in output in 2008. The only exception is Real Estate, which experienced a 1.8 percent decline in output in 2008. In contrast, all but three business lines experienced reductions in output in 2009, with the largest percentage decreases in output occurring in Commercial and Residential Services, Lodging, and Real Estate.

For 2010, PwC projects growth in output for all 10 business format lines. The three business lines with the largest projected percentage increases in output in 2010 are Personal Services, Quick Service Restaurants, and Business Services.

Overall, annual output by business format franchises is projected to increase by 2.8 percent in 2010, following a decline of 0.7 percent in 2009.

**Table II-4 - Franchise Output by Business Lines, 2007-2010**  
[Billions of dollars]

Business Lines	Estimates			Forecast	Annual percent change	
	2007	2008	2009	2010	2008-2009	2009-2010
Automotive	\$33.3	\$35.8	\$35.7	\$36.4	-0.3%	2.2%
Commercial and Residential Services	\$41.5	\$42.6	\$37.6	\$38.2	-11.6%	1.5%
Quick Service Restaurants	\$181.7	\$191.7	\$197.3	\$203.6	2.9%	3.2%
Table/Full Service Restaurants	\$58.9	\$61.8	\$62.6	\$64.0	1.2%	2.3%
Retail Food	\$61.7	\$66.2	\$66.0	\$67.5	-0.2%	2.3%
Lodging	\$61.4	\$65.7	\$61.6	\$62.7	-6.3%	1.8%
Real Estate	\$23.5	\$23.1	\$22.5	\$22.8	-2.2%	1.4%
Retail Products and Services	\$46.4	\$49.4	\$49.3	\$50.5	-0.2%	2.5%
Business Services	\$175.7	\$187.3	\$184.9	\$189.6	-1.3%	2.6%
Personal Services	\$118.7	\$126.9	\$127.2	\$132.8	0.3%	4.4%
<b>Total</b>	<b>\$802.9</b>	<b>\$850.4</b>	<b>\$844.7</b>	<b>\$868.3</b>	<b>-0.7%</b>	<b>2.8%</b>

Numbers may not add up to totals because of rounding.

Source: PricewaterhouseCoopers.

### **III. BACKGROUND DATA**

PwC's franchise business economic outlook is developed based on: (1) the latest macroeconomic and industry forecast prepared by Inforum; (2) franchise establishment data provided by FRANdata; and (3) PwC's analysis of historical relationships between franchised businesses and the rest of the U.S. economy.

#### **A. Macroeconomic Outlook**

The U.S. economy is currently coming out of its worst recession since the end of World War II. On an annual basis, every demand component of GDP except for the federal government is estimated to have declined in 2009. In its latest economic outlook released on December 3, 2009, Inforum sees momentum building for growth in 2010. In 2010, all components of GDP are forecast to rise except for nonresidential structures. Consumers are not expected to lead growth given high unemployment rates and still sluggish income growth. Home prices are expected to turn slowly upward, but homeowners will not return to using home equity to fund consumption. Real private consumption spending is forecast to grow by 2.2 percent in 2010. The unemployment rate has risen sharply from 5.6 percent in 2008 to an estimated annual average of 9.3 percent in 2009 and is expected to rise further in 2010. The forecast of slow growth in employment is expected to restrain the overall economic outlook for 2010.

Inforum expects federal spending to continue growing, but there will be a noticeable slowing of defense spending. State and local governments also are hit hard by the recession and face greatly increased budgetary pressures to curtail spending and investment. On monetary policy, the Federal Reserve has signaled its intention to keep interest rates low for an extended period into 2010.

Internationally, recovery is expected in the coming year in most major economies in the Inforum international system, which will in turn aid the U.S. economic recovery in 2010.

Overall, Inforum expects U.S. real GDP to grow by 2.8 percent in 2010 after contracting by 2.5 percent in 2009 (see **Table III-1**).

#### **B. Franchise Establishment Counts**

Macroeconomic models such as the Inforum models do not typically provide estimates on the number of business establishments. To calibrate the franchise unit estimates for this report, PwC has used historical franchise establishment data collected by FRANdata. FRANdata maintains an extensive database of information about the companies that franchise, the brands they manage, and the franchisees who invest in those brands. The principal source of this information is the Franchise Disclosure Documents (FDDs), formerly known as Uniform Franchise Offering Circulars (UFOCs).

Franchisors are required under Federal and State regulations to provide FDDs to prospective franchisees prior to the sale of a franchise. Certain states require FDDs to be filed and approved by state regulators before the franchisor is allowed to sell franchises within the state. These disclosures provide prospective franchisees with information describing various aspects of the franchise program. The FDD also provides a set of the franchisor's audited financial statements and a copy of each form or contract a prospective franchisee is expected to sign in order to buy a franchise. The 23 sections of the disclosure cover such things as franchisee's initial investment, initial franchise fees and other costs, the franchisor's litigation history, restrictions on and obligations of the franchisee and franchisor, financing arrangements, earnings claims, and a list of existing franchised locations.

Table III-1 – Inforum Macroeconomic Outlook, 2008-2010

	<u>Actual</u> 2008	<u>Estimate</u> 2009	<u>Forecast</u> 2010
<b>Gross Domestic Product, by Final Demand Category</b>			
Nominal GDP (Billions of dollars)	14,440.4	14,221.8	14,762.3
Nominal GDP (Percentage change)	2.6	-1.5	3.8
Real GDP (Percentage change)	0.4	-2.5	2.8
Real Personal Consumption Expenditure (Pct change)	-0.2	-0.6	2.2
Real Gross Private Fixed Investment (Percentage change)	-7.2	-23.3	10.2
Nonresidential Structures (Percentage change)	10.3	-18.0	-9.8
Equipment Investment (Percentage change)	-2.6	-14.5	0.2
Residential Investment (Percentage change)	-22.9	-20.2	13.8
Real Net Exports (Percentage change)	-23.7	-24.8	6.4
Exports (Percentage change)	5.4	-11.3	3.5
Imports (Percentage change)	-3.2	-14.4	4.1
Real Government Expenditures (Percentage change)	3.1	1.6	1.4
<b>Price Indicators</b>			
GDP Price Index (Percentage change)	2.1	1.0	0.9
PCE Price Index (Percentage change)	3.3	0.9	1.4
<b>Employment</b>			
Total Employment (Millions)	150.3	143.3	143.9
Total Employment (Percentage change)	0.1	-4.7	0.4
Unemployment Rate (Percent)	5.6	9.3	10.2
<b>Interest Rates</b>			
Three-Month Treasury Bill Rate (Percent)	1.4	0.2	0.5
Ten-Year Treasury Note Rate (Percent)	3.7	3.3	3.9
<b>Personal Income and Savings</b>			
Personal Income (Percentage change)	2.9	-1.3	2.7
Personal Savings Rate (Percent)	2.7	1.9	2.0

Percentage changes are year-over-year.

Source: Inforum, December 3, 2009

## APPENDIX

### Composition of Franchise Business Lines

This report covers the following 10 lines of business format franchising.

1. **Automotive**  
Includes motor vehicle parts and supply stores, tire dealers, automotive equipment rental and leasing, and automotive repair and maintenance
2. **Commercial and Residential Services**  
Includes building, developing, and general contracting; heavy construction; special trade contractors; facilities support services; services to buildings and dwellings; and waste management and remediation services
3. **Quick Service Restaurants**  
Includes limited-service eating places, cafeterias, fast-food restaurants, beverage bars, ice cream parlors, pizza delivery establishments, carryout sandwich shops, and carryout service shops with on-premises baking of donuts, cookies, and bagels
4. **Table/Full Service Restaurants**
5. **Retail Food**  
Includes food and beverage stores, convenience stores, food service contractors, caterers, and retail bakeries
6. **Lodging**  
Includes hotels, motels, and other accommodations
7. **Real Estate**  
Includes lessors of buildings, self-storage units, and other real estate; real estate agents and brokers; and property management and other related activities
8. **Retail Products and Services**  
Includes furniture and home furnishings stores, electronics and appliance stores, building material and garden equipment and supplies dealers, health and personal care stores, clothing and general merchandise stores, florists and gift stores, consumer goods rentals, photographic services, and book and music stores
9. **Business Services**  
Includes printing, business transportation, warehousing and storage, data processing services, insurance agencies and brokerages, office administrative services, employment services, investigation and security services, tax preparation and payroll services, and heavy equipment leasing
10. **Personal Services**  
Includes educational services, health care, entertainment and recreation, personal and laundry services, veterinary services, loan brokers, credit intermediation and related activities, and personal transportation