



HIGHLIGHTS of the 2010 Franchise Business Economic Outlook

DECEMBER 2009

INTRODUCTION

The *2010 Franchised Business Economic Outlook* projects key national-level economic measurements of business format franchises. The report was prepared by PricewaterhouseCoopers (PwC) for the International Franchise Association's (IFA) Educational Foundation and presents PwC's forecast for establishments, employment and economic output for 10 business lines in which franchising is prevalent:

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

The report does not include estimates for product distribution franchises such as automotive and truck dealers, gasoline service stations, and beverage bottling.

HIGHLIGHTS OF THE REPORT

As the U.S. economy starts to recover, franchised small businesses continue to struggle due to low consumer confidence, high unemployment rates and tight credit markets. The *2010 Franchise Business Economic Outlook*, prepared by PricewaterhouseCoopers LLP for the IFA Educational Foundation, forecasts a slow recovery with marginal increases in the number of establishments, employment and economic output, the gross value of goods and services a business produces.

- **Establishments.** From 2001 to 2005, the number of business format franchise establishments increased on average by 5.6 percent per year. PwC estimates that the growth in the number of establishments from 2008/2009 was virtually flat (-0.1 percent). The forecast for 2010 is 2.0 percent, for a net increase in number of establishments of 17,801 units.
- **Jobs.** From 2001 to 2005, business format franchises experienced an average annual increase in employment of 3.7 percent. In 2009, employment decreased 4.1 percent for a net loss of 409,000 jobs. In 2010, PwC predicts employment will increase 0.4 percent for a net increase of 36,000 jobs.
- **Output.** From 2001 to 2005, business format franchises experienced an annual average growth of 9.7 percent in economic output. Growth slowed in 2007/2008 to a 2.8 percent increase in economic output. In 2009, economic output declined 0.7 percent for a net loss of \$5.7 billion. In 2010, PwC estimates that output will increase 2.8 percent for a net gain of \$23.6 billion.

FRANCHISE BUSINESS ECONOMIC OUTLOOK, 2007-2010

	2007	2008	2009	2010	Average annual percent change	
					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 (Billion of dollars)	\$802.9	\$850.4	\$844.7	\$868.3	-0.7%	2.8%

Source: PricewaterhouseCoopers.

DIFFERENT EFFECTS WITHIN EACH BUSINESS SECTOR

- **Output.** All 10 franchise business lines examined in the report are expected to see increases in the amount of economic output with Personal Services (4.4 percent), Quick Service Restaurants (3.2 percent) and Businesses Services (2.6 percent) forecast to see the largest percentage increases.
- **Jobs.** Lodging (-2.4 percent) and Commercial and Residential Services (-0.9 percent) are two sectors expected to see declines in employment. The largest percentage increases in jobs are expected in Real Estate (1.3 percent), Quick Service Restaurants (0.8 percent), Retail Food (0.7 percent) and Personal Services (0.7 percent).
- **Establishments.** Lodging (-0.8 percent) is the only sector expected to experience a decline in the number of establishments. The sectors predicted to experience the largest percentage increases in the number establishments include Quick Service Restaurants (3.1 percent), Real Estate (3.0 percent), Retail Food (2.4 percent) and Retail Products and Services (2.3 percent).

FRANCHISE BUSINESS ECONOMIC OUTLOOK BY BUSINESS LINE, 2010

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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>	1.8%	<u>1,101</u>	0.7%	<u>\$132.8</u>	4.4%
Total	901,093	2.0%	9,558	0.4%	\$868.3	2.8%

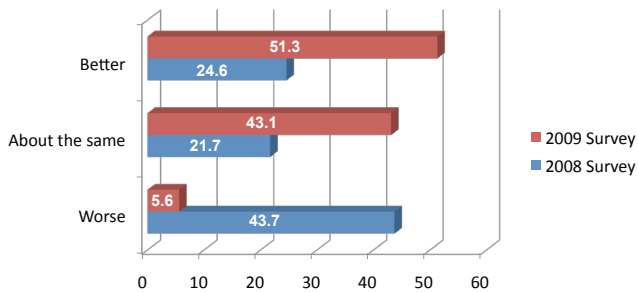
Source: PricewaterhouseCoopers.

FRANCHISE BUSINESS LEADER SURVEY

A Franchise Business Leader Survey conducted by the International Franchise Association in November 2009 found that franchise executives are more optimistic about the year ahead.

Business leader outlook

Outlook for U.S. Economy

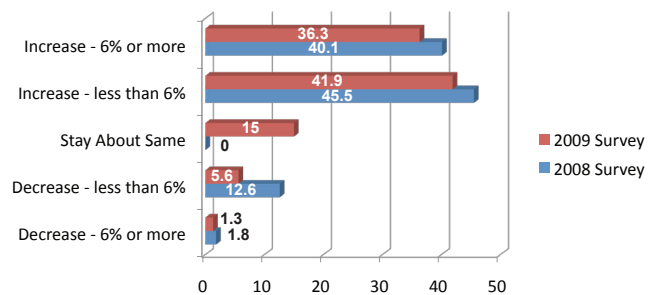


Source: IFA Franchise Business Leader Survey, November 2009

- More than half (51.3%) of survey respondents say the U.S. economy will be better in 2010, compared to only one quarter (24.6%) of survey respondents from the November, 2008 survey.

Unit growth 2010

Franchise Unit Outlook

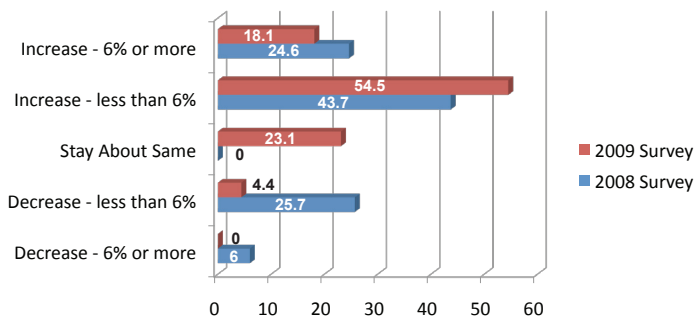


Source: IFA Franchise Business Leader Survey, November 2009

- Franchise business leaders are less optimistic about their ability to develop new units in 2010 than they were a year ago - 78% expect unit increases compared to 86% in the November, 2008 survey.

2010 system-wide same store sales

U.S. Same Store Sales Outlook

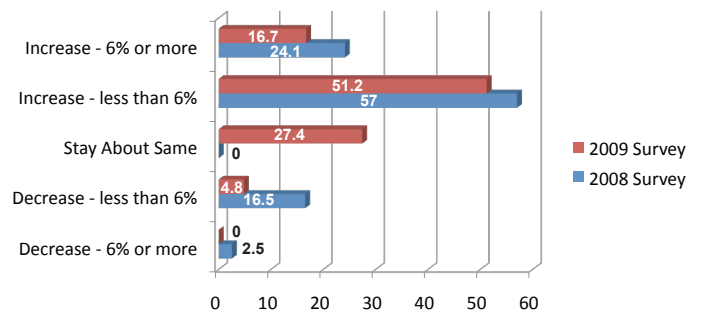


Source: IFA Franchise Business Leader Survey, November 2009

- Nearly three-quarters (72.5%) of survey respondents expect same store sales to increase in 2010. Less than five percent expect any decreases in 2010, compared to almost one third (31.7%) of survey respondents in the November, 2008 survey.

Employment

U.S. Employment Outlook



Source: IFA Franchise Business Leader Survey, November 2009

- Half of the franchise business leaders surveyed expect employment levels to stay about the same, while 45% say they plan to increase employment.