2024 ANNUAL **FRANCHISOR SURVEY**

Sponsored by:

PAYCHEX®

HR | Payroll | Benefits | Insurance

IFA® INTERNATIONAL FRANCHISE ASSOCIATION

FRANdata Franchise Business Intelligence

Thank You to our Sponsor

PAYCHEX®

HR | Payroll | Benefits | Insurance

Paychex is a preferred provider of the IFA. As a leading provider of integrated human capital management solutions for payroll, human resources, benefits, and insurance services, Paychex helps simplify the intricacies of business including franchises.

- Industry expertise since 1971
- ~740,000 business clients in the U.S. and Europe
- Pays 1 in 12 U.S. private sector employees
- A top HR outsourcer — serving 2.2M worksite employees through our HR outsourcing solutions

Executive Summary (1/2)

Labor pressures remain significant but are easing in 2024

#1 Business Challenge

34% of businesses cite the cost and quality of labor as the #1 business challenge, but eased from 2023.

Unfulfilled job openings

80% of respondents reported that their franchises have unfulfilled job vacancies.

Qualified applicants

Businesses saw a slight increase in qualified applicants, with 54% of respondents reporting some to many qualified applicants in 2023 vs. only 42% the previous year.

Wage growth

While 81% of respondents increased wages in past 6 months, only 61% are planning to increase in next 6 months, indicating cooling job market.

Executive Summary (2/2)

Emerging issues: Demand slowdown, finance cost, margin compression

Inflation concerns

Inflation, the third leading business challenge, dropped in rank, with only 9% of respondents citing it as their primary concern, down from 20% the previous year.

Price increases

As inflation softening and weakening consumer demand take effect, franchises are experiencing a slowdown in their ability to increase prices to offset costs.

Emerging concerns

The emerging challenges for franchises in 2024 include the cost of financing and consumer demand, which were inconsequential last year.

Investment focus

Wage inflation surpassing businesses' price-raising capacity has led to margin compression, prompting increased investments in technology, marketing, and training.

About the International Franchise Association

Celebrating over 60 years of excellence, education, and advocacy, the International Franchise Association (IFA) is the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 806,270 franchise establishments that support nearly 8.7 million direct jobs, $858.5 billion of economic output for the U.S. economy, and almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.

About FRANdata

FRANdata helps businesses to grow smartly in franchising by offering independent, comprehensive market insight focusing on the franchise ecosystem. FRANdata research combines rigorous analysis with industry expertise and astute forecasting. FRANdata focus on delivering unparalleled insights and high-level strategic advice to a global franchise client base.

Paul Wilbur
COO
pwilbur@frandata.com

Christina Niu
Director of Research
cniu@frandata.com

Alka Sinha
Research Manager
alka.s@frandata.com.au

> *There is no such thing as a normal period of history. Normality is a fiction of economic textbooks.”*
>
> —JOAN ROBINSON

2024 Annual Franchisor Survey

The past four years presented unprecedented challenges for businesses, ranging from pandemic-induced lockdowns in 2020 to the highest inflation since 1981 in 2022 and the lowest unemployment rate in half a century in 2022. Businesses faced hiring and retention challenges, and 2023 saw the highest and most persistent interest rate hikes since 2000.

Beyond the economic landscape, 2023 marked a significant uptake in generative AI tools, with billions of users incorporating AI into their workflows. Franchising, too, experienced a substantial embrace of AI, utilizing it for tasks ranging from forecasting consumer demand and inventory management to AI-driven staff scheduling, chatbots, marketing communications, and customer feedback collection. AI played a pivotal role in addressing labor challenges, enhancing customer service, outreach, and operational efficiency.

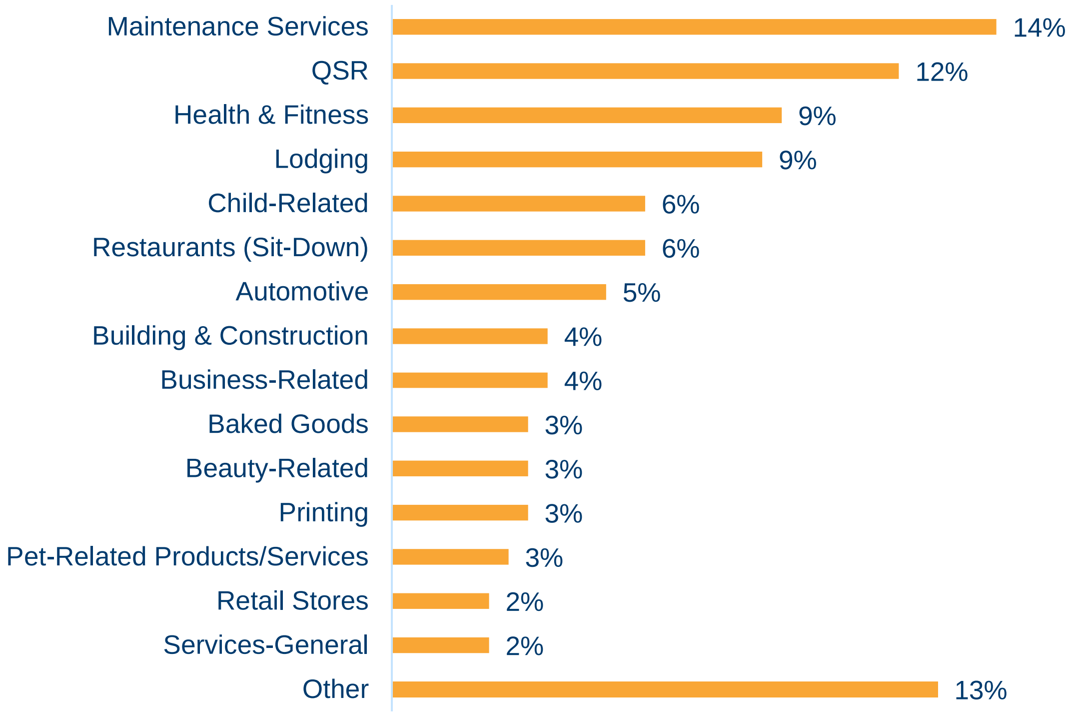
The report highlights the ongoing labor challenges encountered by franchise businesses. Concerns of inflation has faded for the businesses, but the cost of borrowing and the slowdown in consumer demand has started to challenge franchises. Significantly, there is a notable increase in budget allocations for technology, innovation, and marketing as well as training and development, crucial for the success of franchise systems.

As new joint employment standards loom, franchisors are highly concerned if they have to increase control or reduce support to their franchisees.

The survey reflects a diverse respondent pool, encompassing 215 brands from 26 different industries with franchise units ranging from less than 10 to over 12,000. Executives from private family-owned systems to platform companies and publicly listed firms contribute to the varied perspectives presented in this report.

ABOUT THE SURVEY

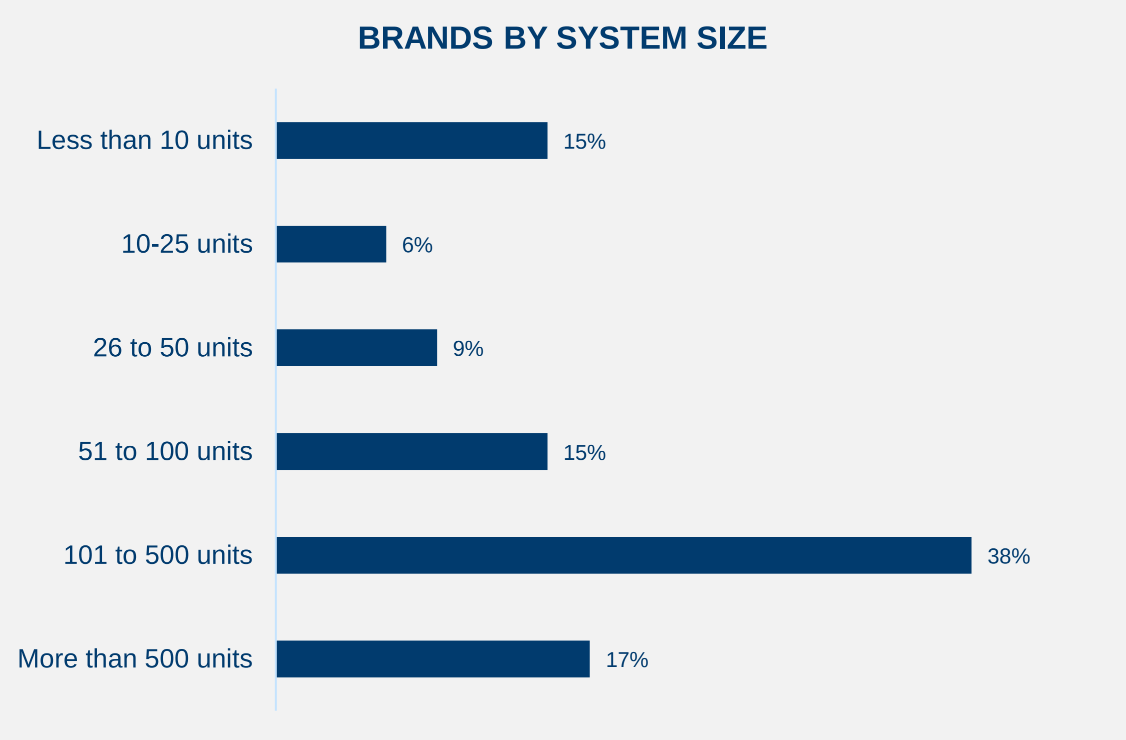
INDUSTRY PROFILE OF RESPONDENTS

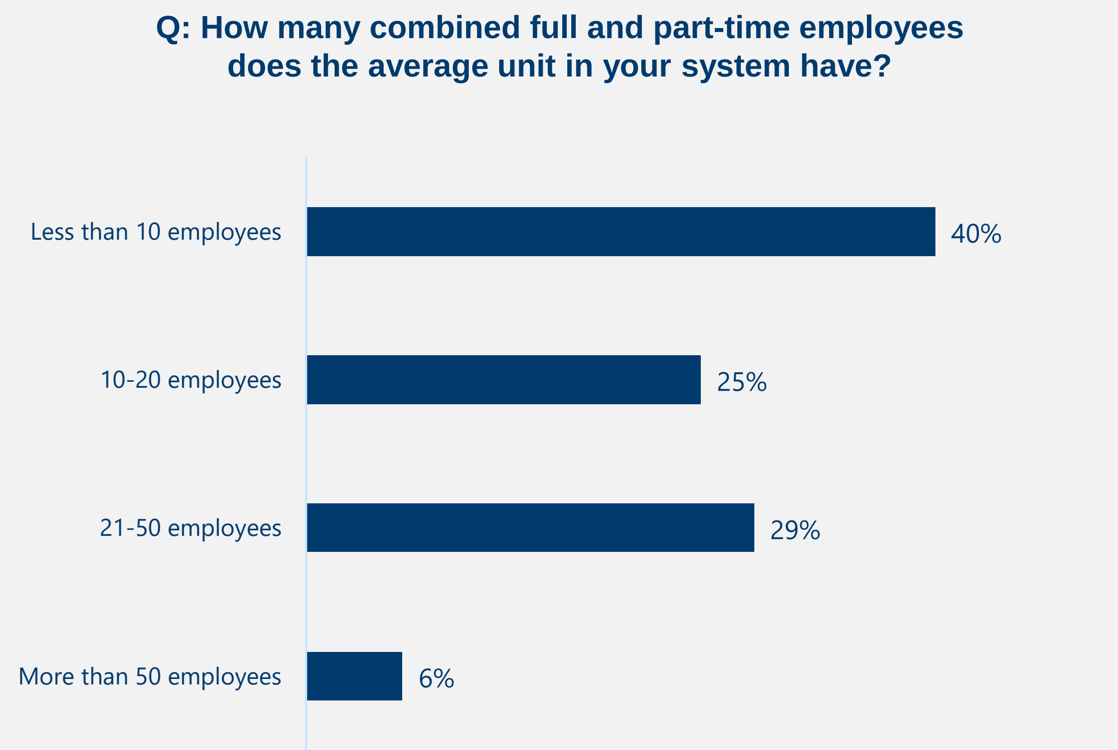


Respondent's Profile

215 brands representing 26 industries and more than 112,700 franchise units responded to the survey and provided insights about their expectations in 2024.

40% of the respondents report their franchisees have an average staff (full-time and part-time employees) of less than 10 employees.



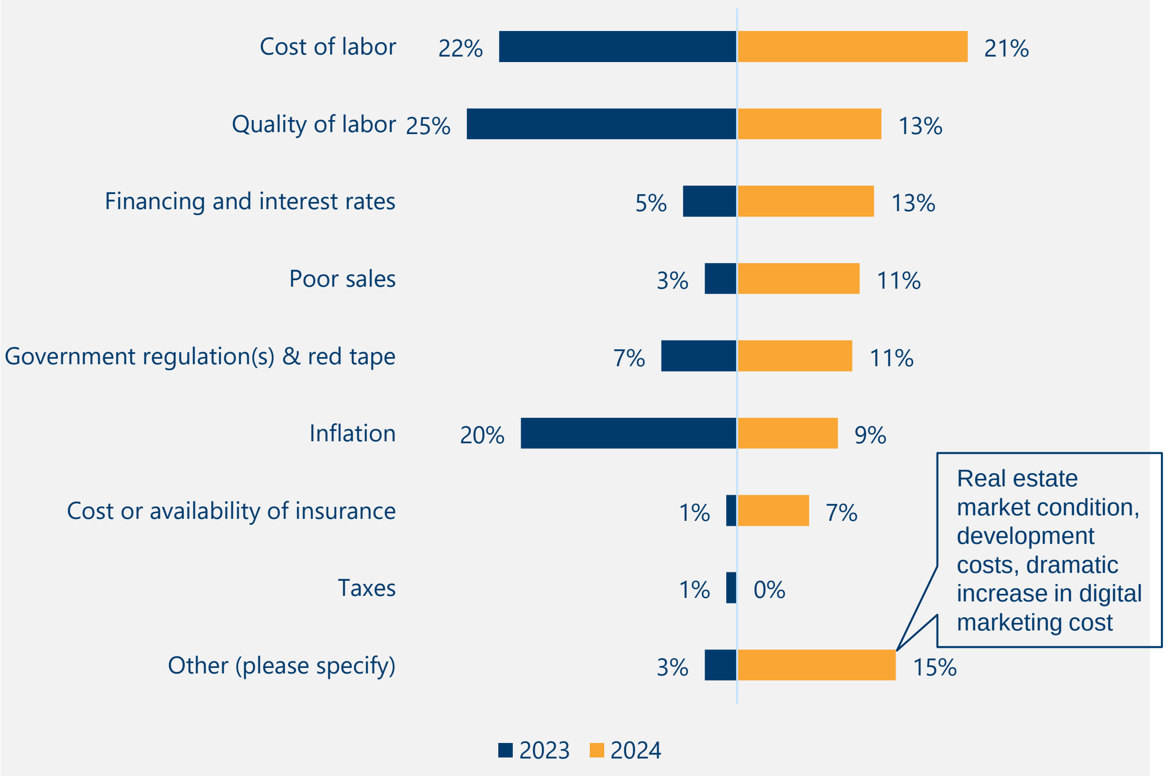


SURVEY RESULTS

Franchise businesses continue to struggle with labor challenges

Labor continues to be a significant challenge, while high interest rates and sales slowdowns have emerged as key concerns in 2024. Inflation, which was the third major concern in 2023, has dropped in ranking.

Q: What is the single most important problem facing your franchisees today?



Apart from cost and quality of labor, the availability of labor and high turnover were major labor issues.

34%

QSRs, retail stores, sit-down restaurants, and automotive are the industries that witnessed the most negative effects of high interest rates.

13%

Despite buoyant consumer spending in 2023, certain franchises are now witnessing signs of a demand slowdown, pointing to sales as a predominant challenge for 2024. Demand slowdown is more prominent in non-food industry such as building & construction (38%), business related (25%), real estate (25%), health & fitness (25%).

11%

Inflation dropped from 6.5% in 2022 to 3.3% in 2023, moving from the third biggest challenge last year to the third-from-last this year.

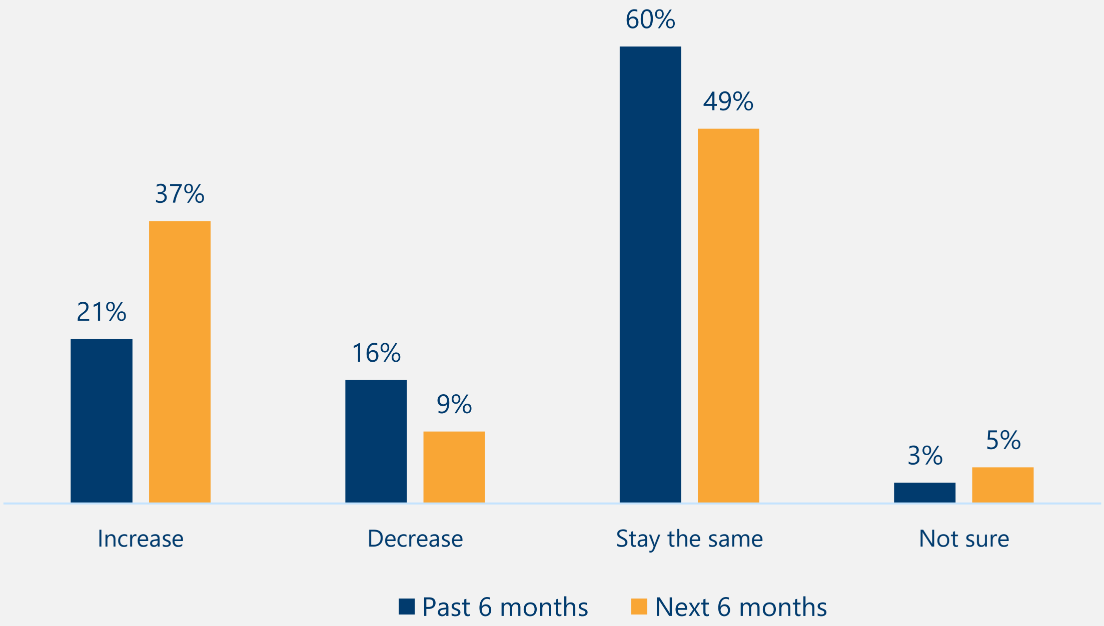
9%

Franchise businesses expect average employment to remain same

Average employment in franchise businesses is expected to remain unchanged, signaling an anticipation of a business environment and economic trends similar to 2023.

Q: In the past 6 months, how did the average number of employees per franchise unit in your system change?

Q: In the next 6 months, how do you expect average franchisee total employment to change?



All respondents who anticipate a decrease in average employment within their system are focusing on increasing operational efficiency to reduce labor requirement.

100%

79% of the respondents that anticipate a decrease in average employment within their system are implementing technology to improve efficiency.

79%

64% of the respondents that expect a decline in average employment within their franchise system are from the food industry. 67% of the child-related respondents and 63% of maintenance services are anticipating an increase in average employment.

64%

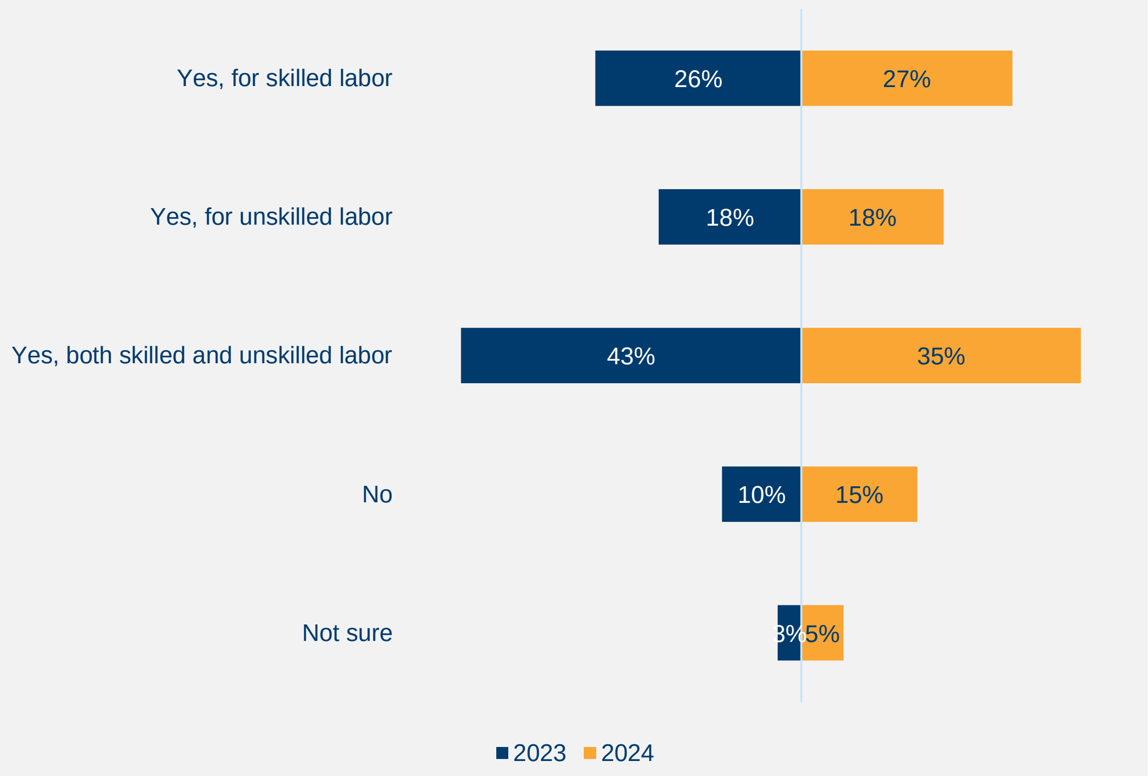
85% of the respondents who expect average employment to increase are planning to change wages in next 6 months. 90% of the respondents who expect average employment to increase have unfulfilled job vacancies in their franchise businesses.

85%

80% of franchise businesses report unfilled job openings

As talent acquisition becomes more challenging, franchise businesses are expected to shift toward employee retention efforts and invest in technology to automate certain roles.

Q: Do your franchisees have job openings that they are not able to fill right now?



100% of the respondents from the automotive sector reported having unfulfilled job positions for skilled workers.

100%

94% of the respondents from maintenance services have unfulfilled job openings for both skilled and unskilled labor..

94%

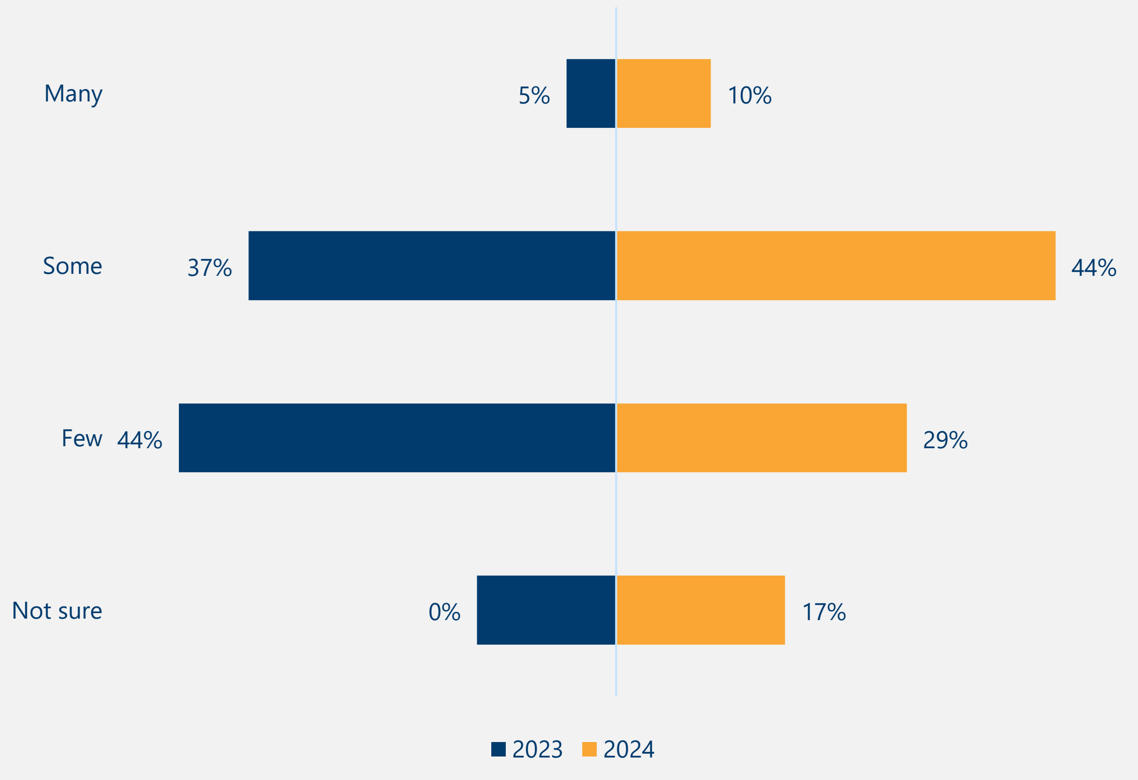
100% of sit-down restaurants and 79% of QSRs have unfulfilled job vacancies. For sit-down restaurants, the tilt is toward skilled worker while for QSR, it is unskilled labor.

100%

Qualified applicants increased in 2023 indicating easing labor market

Despite a tight labor market, qualified applicants for job vacancies increased slightly in 2023, indicating hiring challenges beyond simple supply and demand dynamics.

Q: In the past 6 months, how many qualified applicants were there for franchisee job openings at the average franchise unit?



IFA INTERNATIONAL FRANCHISE ASSOCIATION

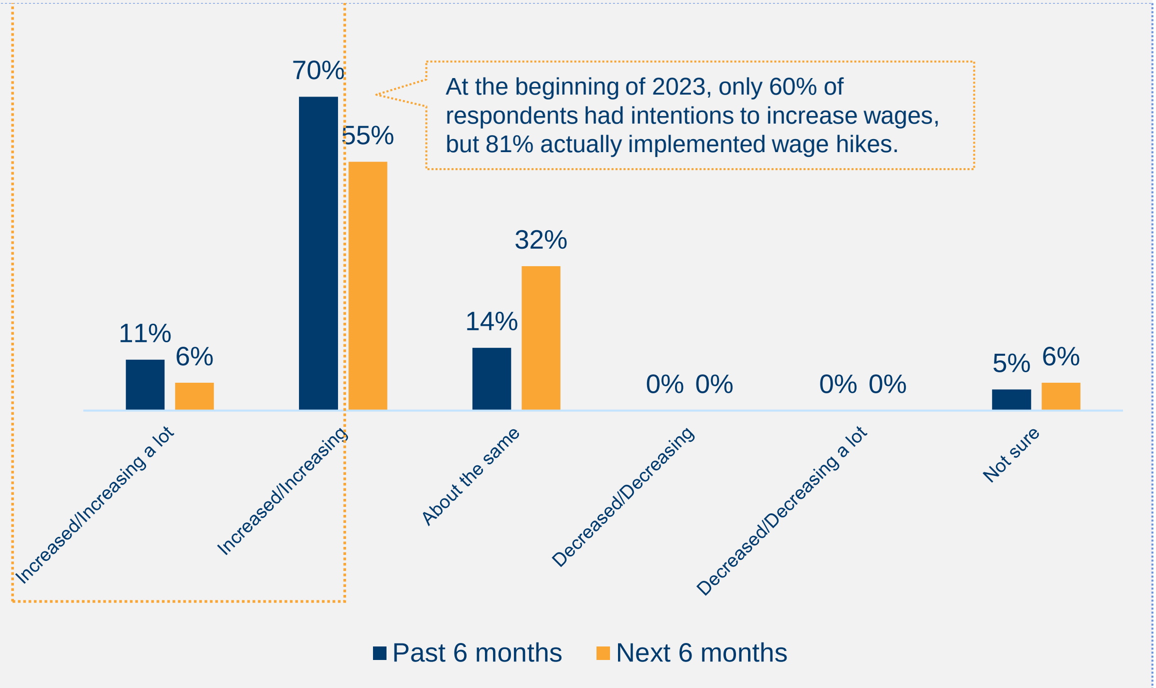
FRANdata Franchise Business Intelligence

Wage growth in 2023 was higher than anticipated by franchises

81% of surveyed franchise businesses increased wages in the past 6 months and 61% of the businesses are planning wage increases in 2024 indicating a cooling labor market.

Q: In the past 6 months, how did your average franchisee employee wages change?

Q: In the next 6 months, how do you anticipate your average franchisee employee wages changing?



Over the past 6 months, 27% of sit-down restaurants have significantly increased their wages, marking the highest percentage compared to any other industry.

27%

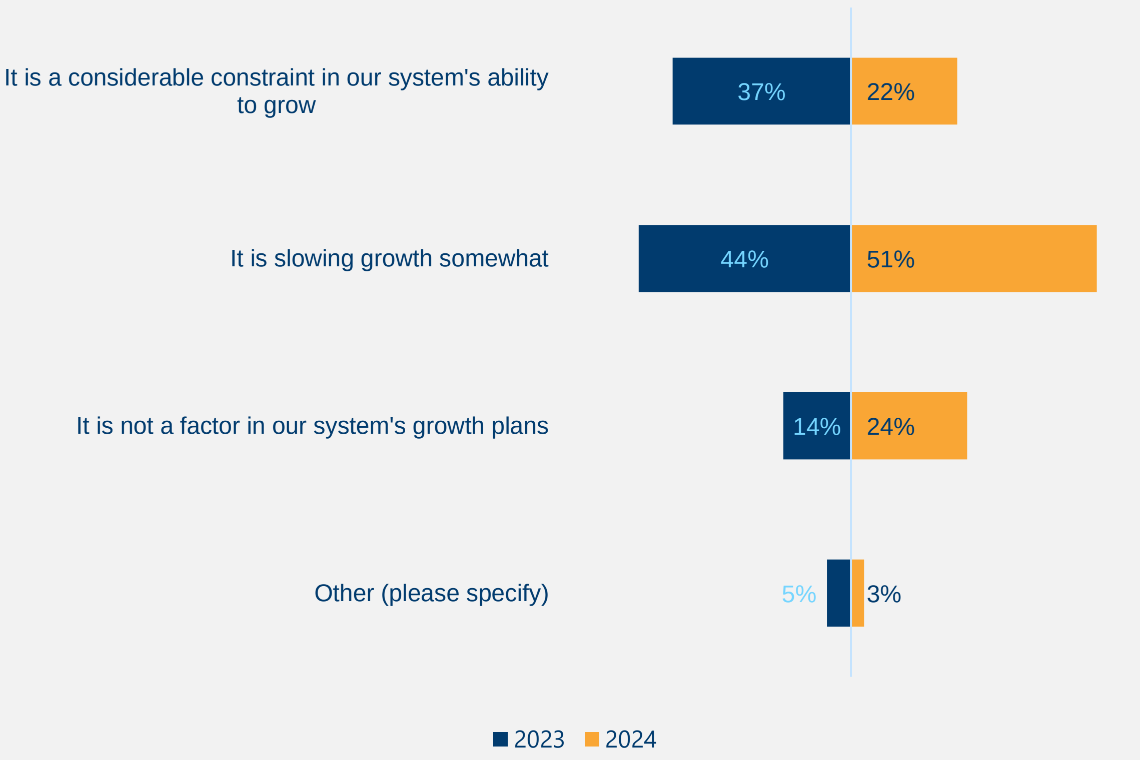
The majority (67%) of respondents intending to significantly raise wages belong to the Quick Service Restaurant (QSR) sector.

67%

Although easing, labor continues to challenge growth of franchises

In 2023, the labor market started strong but later showed signs of a slowdown. This shift in growth impact mirrored prevailing market trends and a moderated influence.

Q: To what extent would you say labor challenges currently affect your new franchise unit growth?



39% of respondents from the Health & Fitness industry reported considerable constraint in their ability to grow.

39%

The other top two industries that reported to have considerable impacts of labor challenges on growth are Maintenance Services (38%) and Beauty-Related (33%).

38%

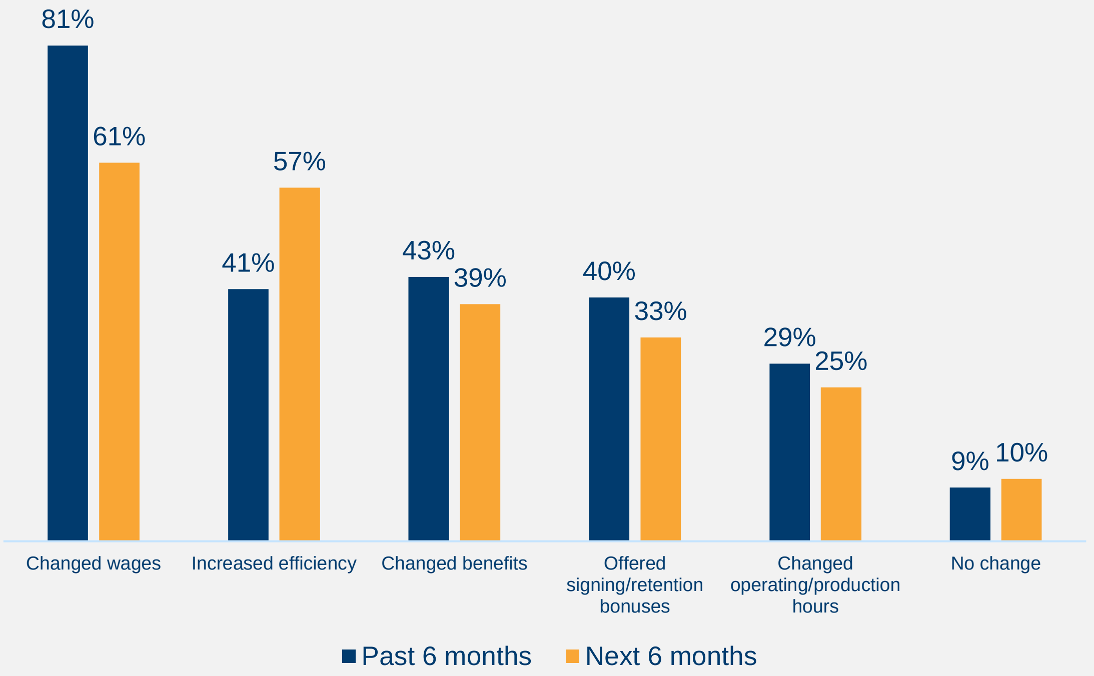
INTERNATIONAL FRANCHISE ASSOCIATION

Franchise Business Intelligence

Operational efficiencies will be the key focus for franchisees in 2024

In 2024, franchise businesses aim to address labor challenges by prioritizing efficiency through technology, rather than relying on increased wages and benefits.

Q: In what ways have your franchisees attempted to address their labor challenges in the past 6 months? Please select all that apply.
Q: In the next 6 months, in what ways do you expect your franchisees to address their labor challenges? Please select all that apply.



70% of the respondents from food sector,s led by sit-down restaurants and QSRs, indicated their focus on increasing efficiency in next 6 months..

70%

91% of child-related respondents increased wages to tackle labor challenges, and all respondents in automotive and baked goods sectors also raised wages..

91%

Technology is the top priority for franchisors in 2024

From digital marketing to Generative AI, franchisors are leveraging technology to grow revenues and cut costs.

"AI labor analysis and scheduling tools. "

—COO of QSR Franchise

"Developing tools **enabling less skilled workers to take on additional responsibilities.**"

—CEO of Child-related Franchise

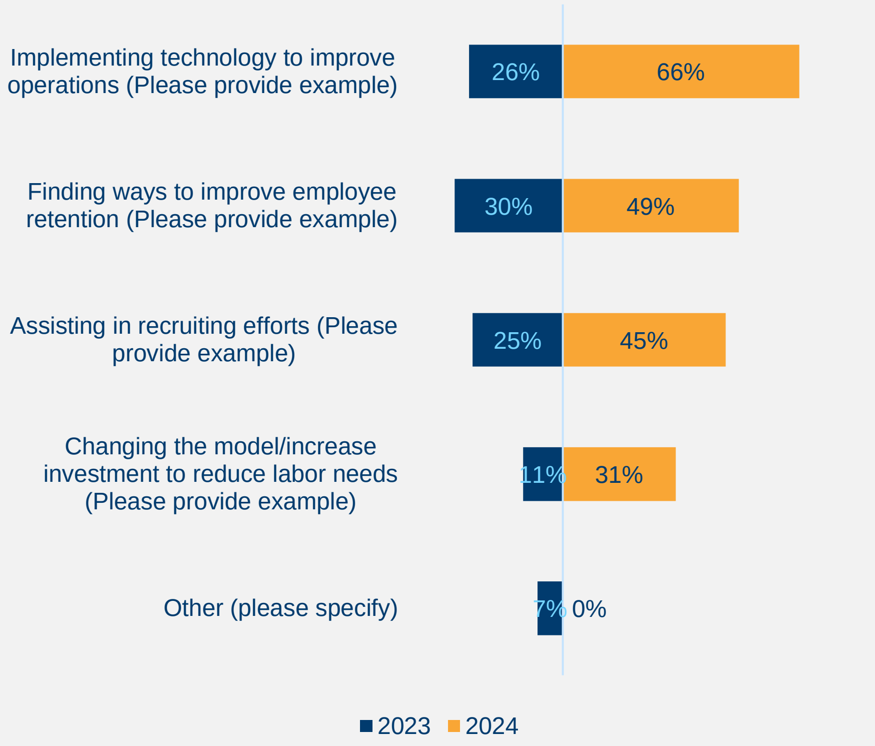
"Use of software for **repetitive admin tasks to eliminate** need for a staff position."

—CEO & President of Maintenance Service Franchise

"**Automated Marketing Tools** & Revamping Dispatch software."

—Senior Manager, Business Development of Service Industry Franchise

Q: Which of the following are you undertaking in order to address your franchisee's labor challenges? Please select all that apply and please give some specific examples when possible.



80% of the respondents from Baked Goods and Business-Related industries are implementing technology to improve operations.

80%

73% of respondents from sit-down restaurants and 61% of respondents from Health and Fitness also indicated their plans to implement technology to improve operations.

73%

Technology priorities for franchisors will be geared more towards improving operations and reducing costs such as AI to automate repetitive tasks. Use of technology that enhances revenue, such as digital marketing to acquire new customers, will also play a pivotal role.

IFA INTERNATIONAL FRANCHISE ASSOCIATION

FRANdata Franchise Business Intelligence

Many franchises have witnessed margin squeeze as wage increase outpaced product/service prices

"**Labor costs rising is fundamentally changing the unit level economics of our franchisees**. In some states it makes no economic sense to open locations as after a certainly hourly rate threshold, the business model doesn't work."

CEO of QSR Franchise

"Our labor has increased on average by 71% since 2019. When coupled with the cost of capital right now along with inflation, our **owners are experiencing serious margin compression. Candidates that would qualify for single unit development in 2021 are out of the game** entirely today. **Well qualified multi-unit candidates are experiencing significant increases in scrutiny by lenders. This was also impacted by the elimination of the SBA Registry** - Banks are left without 3rd party guidance."

Chief Financing Officer of Retail Store Franchise

"**Cost of labor continues to rise**, but after years of inflation, what **customers are willing to pay has started to go flat or even decline**, **squeezing the margins** of our franchisees."

CEO and President of Maintenance Service Franchise

"We believe that **labor will continue to be a challenge due to industry we operate in**."

Director of Franchise Development of Child-related Franchise

"**Wage inflation has outstripped our ability to raise prices**. Our margins are down considerably."

CEO of Building and Construction Franchise

"**The cost of capital and availability of financing are far more challenging for our franchisees in 2023/24.** Labor challenges were more of a 2021 / 22 problem. Although wages are up, the increases in wages to present levels were fully impacted by the end of 2022. **We experienced marginal increases** in 2023, over that higher base set in 21/22."

CFO of Services Industry Franchise

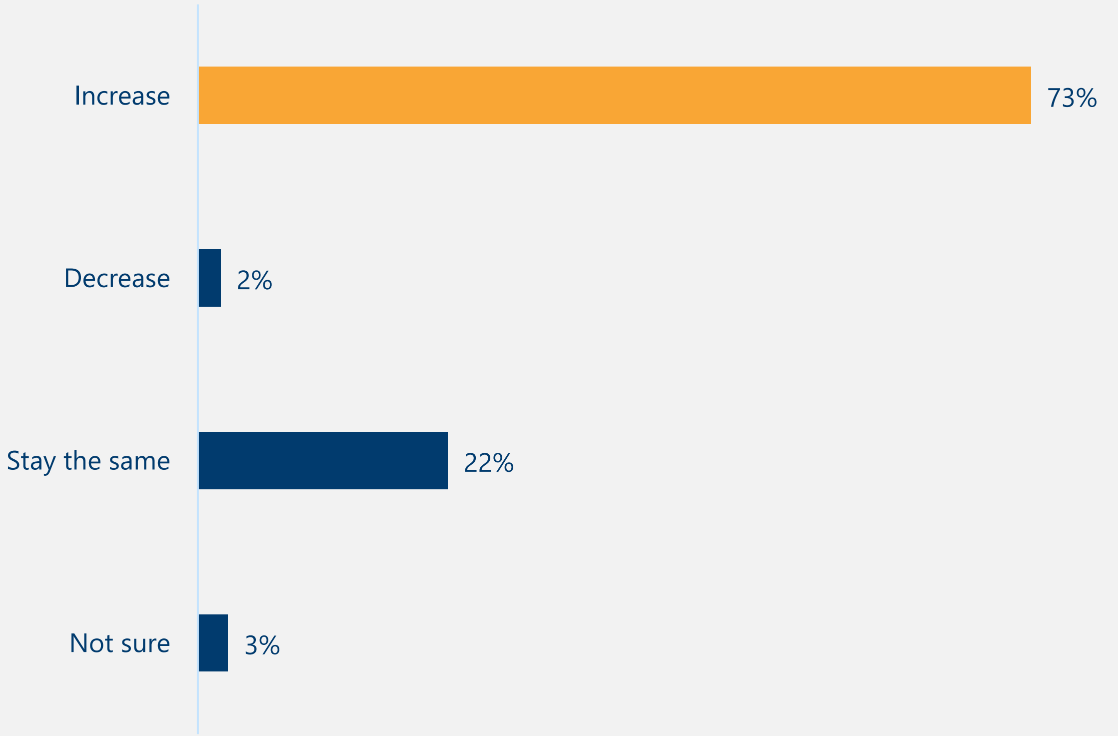
IFA INTERNATIONAL FRANCHISE ASSOCIATION

FRANdata Franchise Business Intelligence

Franchisors increase investment in technology for long-term advantage

As pandemic, inflation, and labor challenges diminish, franchisors are strategically shifting their focus to create a competitive advantage through technology.

Q: Looking ahead to the next 6 months, how do you expect your capital allocation to technology and innovation in your franchise system to change?



83% of the respondents from the beauty-related industry and pet-related industry are planning to increase capital allocation in technology and innovation.

83%

82% of respondents from sit-down restaurants and 81% of respondents from maintenance services are increasing capital allocation to technology and innovation.

82%

Other industries that plan to boost their capital allocation to technology and innovation include QSR (81%) and Health and Fitness (78%).

67%

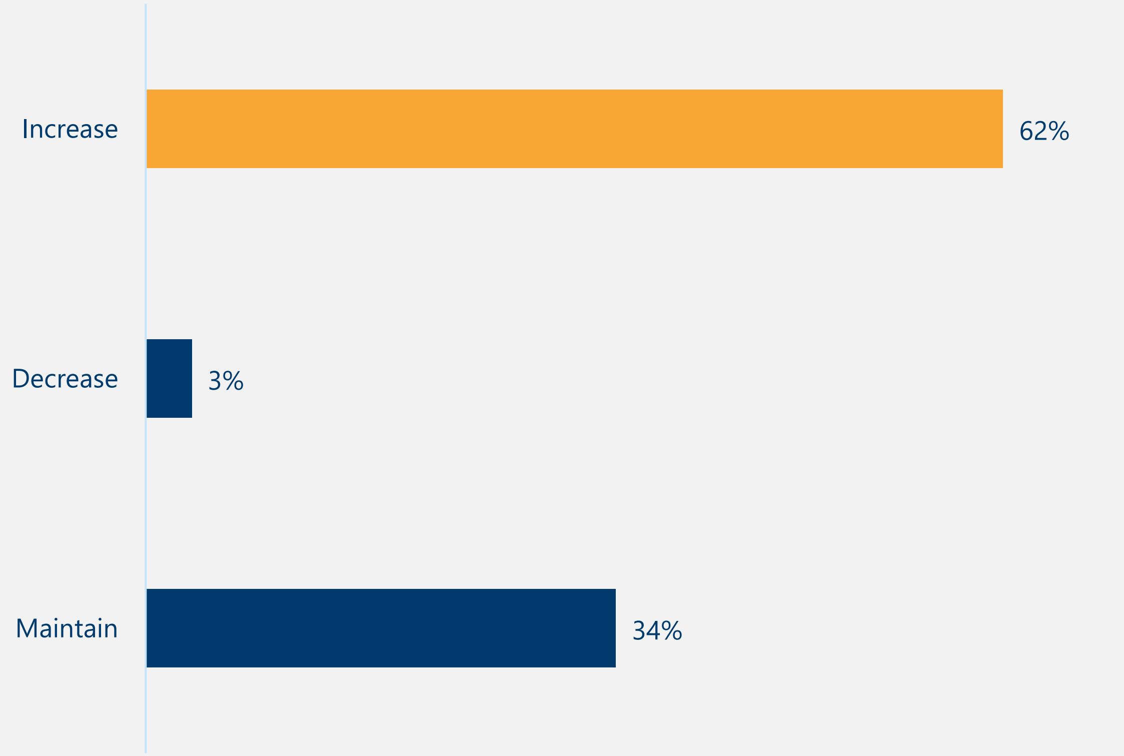
IFA INTERNATIONAL FRANCHISE ASSOCIATION

FRANdata Franchise Business Intelligence

Franchise businesses are expected to increase their marketing spend

Amidst the expectation of slowdown in consumer spending in 2024, franchises are increasing their marketing spend for better customer acquisition and market share.

Q: Are you planning to increase, decrease, or maintain your current marketing spend in the upcoming year?



82% of respondents, grappling with the significant challenge of poor sales, are planning an increase in their marketing budget for the year 2024.

82%

83% of the respondents from the beauty-related industry, the highest percentage among all industries, are planning an increase in their marketing budget in 2024.

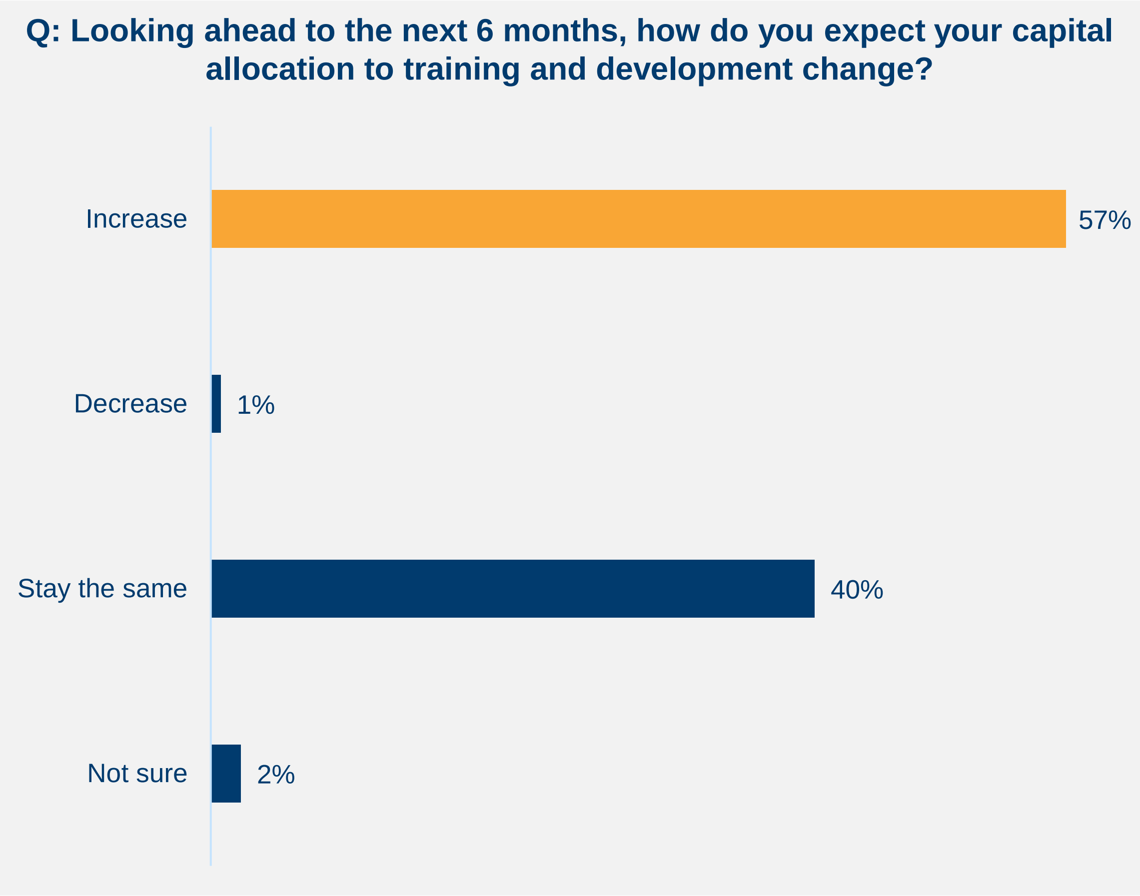
83%

Other industries that are increasing their marketing spend are business-related (80%), sit-down restaurants (73%) and maintenance services (69%).

100%

Training and development remains a key priority for franchise businesses

57% of franchises plan to increase investment in training, highlighting their commitment to operational efficiency and adapting to new technologies.



82% of respondents from the sit-down restaurants sector are planning to increase capital allocation in training and development.

82%

69% of respondents from maintenance services and 67% of respondents from health & fitness are increasing capital allocation to training and development.

69%

Other industries that plan to boost their capital allocation to training and development include pet-related (67%) and child-related (64%).

67%

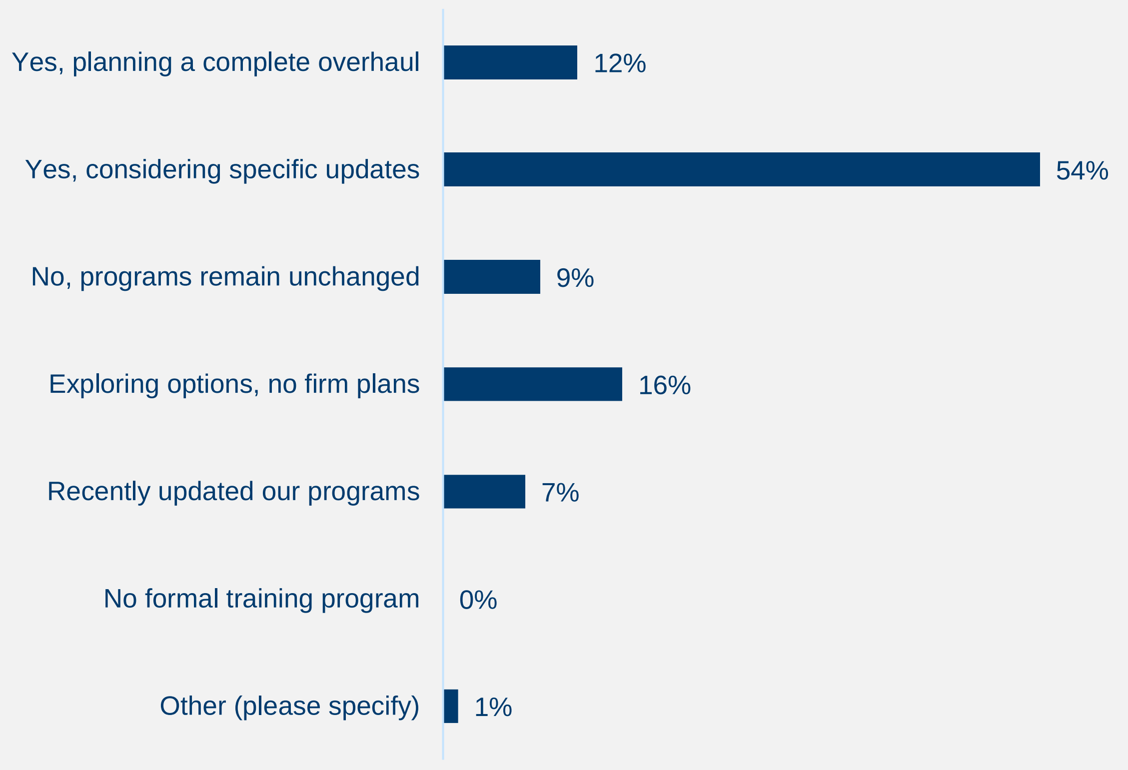
IFA INTERNATIONAL FRANCHISE ASSOCIATION

FRANdata Franchise Business Intelligence

Most franchises are changing training programs in 2024

Franchisors continue to invest in better training programs to equip their franchisees with a competitive edge, operational efficiency and a proven system of success.

Q: Are you planning on any significant changes to training and development programs within your franchise system?



83% of respondents from beauty-related, 80% from baked goods, 76% from QSR, and 75% of maintenance services are planning complete overhaul or specific updates.

83%

Franchisors continue to update their training programs to ensure their franchise business model aligns with today's market trends for competitive advantage.

> We **consistently develop new training and refine** what we have.

President & CEO of Retail Stores Franchise

> We already have a significant platform, and **our plan is to continue to stay ahead and offer more development to our team** members in addition to what they can gain from our L and D system.

President of Maintenance Services Franchise

Joint Employer: Significant concerns for franchisor/franchisee relationship

Franchisors are highly concerned if the relationship with franchisees will change due to joint employer standard.

Q: How concerned would you be if the new joint employer standard compels you to take the following action?

Level of concern	Minimal concern	Some concern	High level of concern	Not applicable
Take more control of franchisees' day-to-day operations	6%	12%	74%	8%
Reduce operations and compliance support (via the provision of services such as training and development, HR services, technical guidance, etc.)	8%	19%	67%	5%

THANK YOU