



ANNUAL FRANCHISEE SURVEY 2024

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EXECUTIVE SUMMARY

The 2024 IFA/FRANdata Franchisee Survey Report provides a detailed analysis of the economic conditions on franchised businesses. While recent data show moderating inflation, the Report showed these businesses have faced significant challenges over the past year due to persistently high operating costs and a slowdown in consumer spending. The Report also shares some franchise sentiments on disclosure and tax policy.

Key takeaways include:

- ▶ **87%** of franchisees are experiencing a moderate to substantial impact from inflationary pressures, consistent with the previous year.
- ▶ The biggest challenges facing franchisees today are managing costs and inflation and slowing customer demand. As a consequence of these factors, 80% of franchisees **experienced lower business earnings** in the past year.
 - **Labor concerns** have eased (47% of respondents cited labor as a significant challenge in 2023 vs. 26% in 2024) but the cost of retaining labor remains high, especially in employee health care.
 - Rising expenses for **insurance, inventory, supplies, and marketing** have driven cost increases.
 - The **food industry** has been the hardest hit by inflation, followed by **personal services** and **commercial/residential services**.
- ▶ While increasing prices is the most common approach to managing rising costs, franchisees have adopted innovative strategies, such as implementing new technology to enhance operational efficiency.
- ▶ In the face of these challenges, sharing best practices within the franchise network and customer marketing provides remain valuable to franchisees in coping with inflation – as compared to not being part of a franchise system.

**Note: In some charts, the total may be slightly greater or less than 100% due to the rounding of percentages.*

EXECUTIVE SUMMARY

Profile of Respondents



1,407 respondents from 26 industries



Representing 290 brands

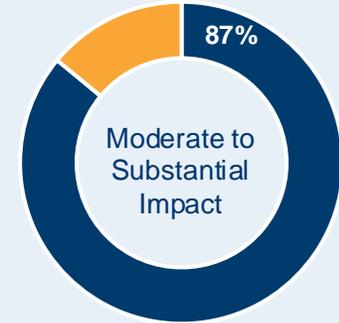


Owning 8k+ units nationwide

Impact of Inflation



Rising labor cost, insurance and marketing costs are major sources of impact.



Franchise System Support



Sharing best practices with fellow franchisees is the most valued part of being in a franchise system.



Increased and improved customer marketing support is also recognized by franchisees.

Dealing with Inflation



Franchisees are raising prices due to cost increases and experiencing lowered business earnings.

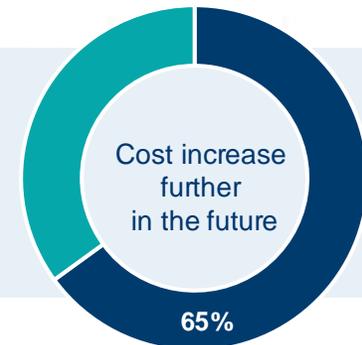
86% / 80%

86% of franchisees raised their prices to combat cost increases, while 80% of franchisees experienced lower earnings.

Current Challenge & Future Expectation

Employee recruitment and retention issues have eased, but high operating costs and declining consumer spending remain significant challenges.

65% of franchisees believe costs will further increase in 2025.



PROFILE OF RESPONDENTS



1,407 respondents collectively own more than 8,200 franchise businesses.



24% of respondents are from Texas, Florida, and California.

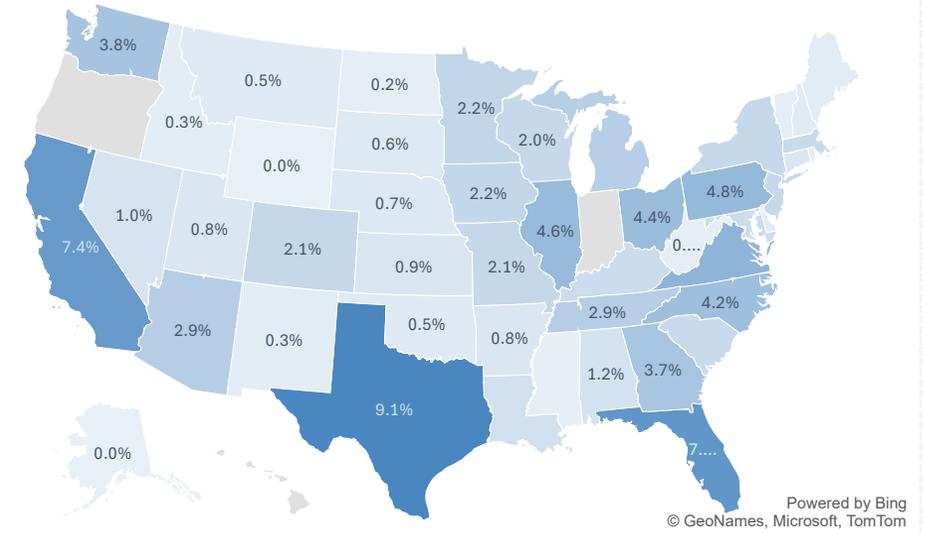


Top 3 industries are Health & Fitness, Decorating & Home Design, and Beauty-Related.

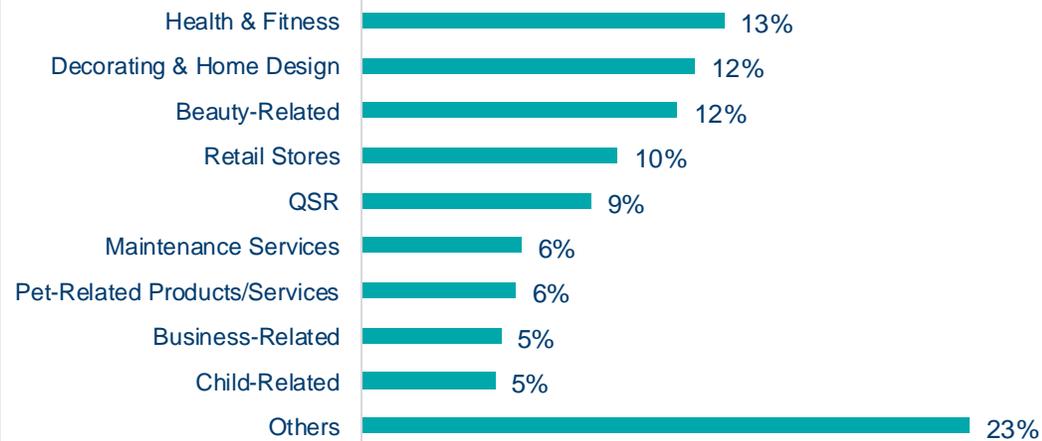


57% are single-unit franchise owners while 43% of respondents are multi-unit franchisees.

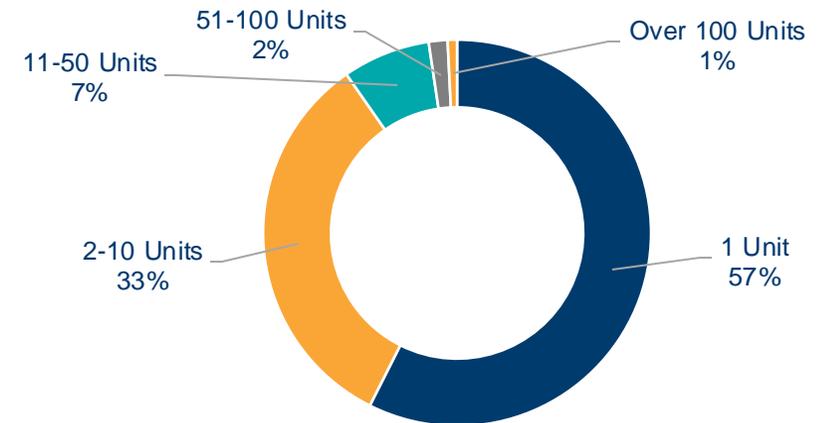
Respondents by State



Respondents by Industry



Franchise Ownership by Number of Units Owned



MOST SIGNIFICANT BUSINESS CHALLENGE

Employee recruitment and retention issues have eased, but **high operating costs and declining consumer spending remain significant challenges**

Most Significant Business Challenge

■ 2024 ■ 2023



- ▶ While recruitment and retention issues have eased, franchisees are concerned about high health care costs, besides increased minimum wages.
- ▶ The percentage of franchisees experiencing a slowdown in customer demand increased 10% from last year.

We have been paying 100% of the health insurance premiums for our employees, but for the first time we will have to start charging them. We are losing money this year and will also have to lay off people.

Building & Construction Brand Franchisee

Wages have almost doubled in the last 6 years since we opened - but the rates we can charge have only gone up 30-50%. Wages are our biggest expense. We hire lower skilled workers to compensate, but they are less reliable and often jump between jobs.

Health & Fitness Brand Franchisee

Customer counts continue to drop.

QSR Brand Franchisee

Significant decrease in customer traffic in my hair salons. Inflation/recession is influencing buyer decisions.

Beauty-Related Brand Franchisee

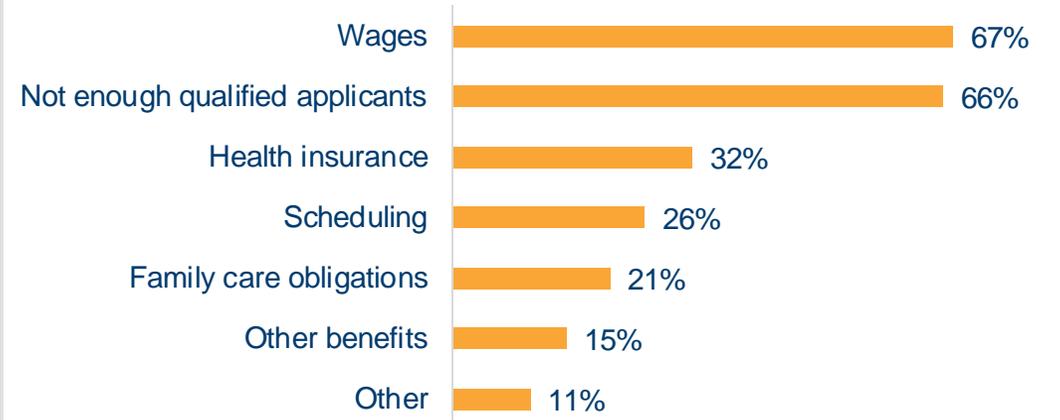
LABOR CHALLENGES

Sixty-eight percent (68%) of franchisees faced labor difficulties over the past year

Labor-Related Challenges

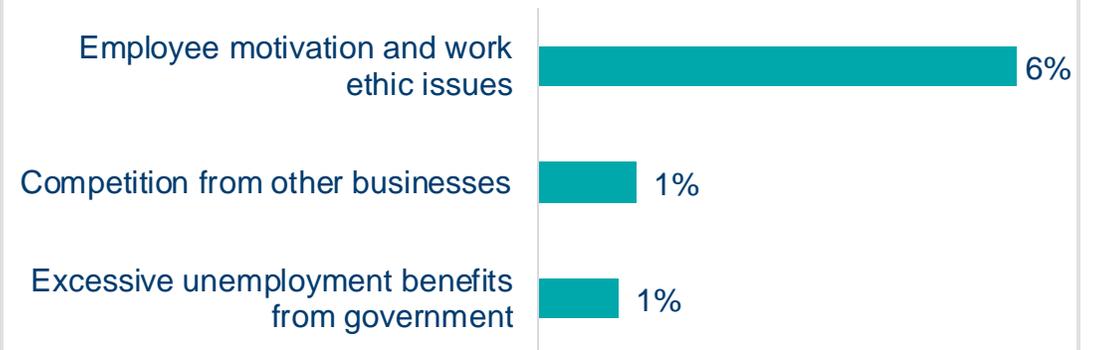


Factors Contributing to Labor Challenges



- ▶ **As franchisees expand the number of businesses they operate, they are more likely to encounter labor-related challenges.** On average, franchisees without labor issues manage two units, while those facing both hiring or retention problems manage 10 units.
- ▶ Increases in wages, a shortage of qualified applicants, and health insurance costs are major factors contributing to labor challenges.

Top 3 Other Responses (% of 959 Responses)

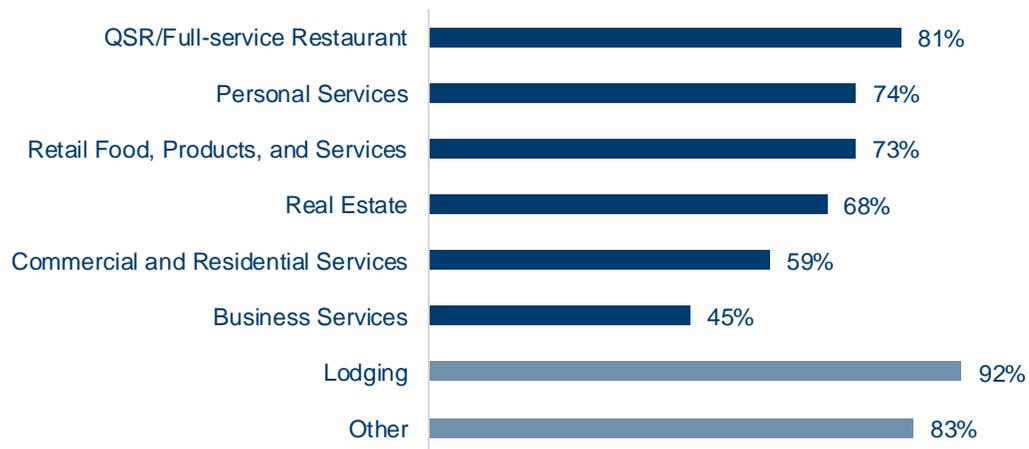


LABOR CHALLENGES BY BUSINESS LINE

Eighty-one percent (81%) of QSR/full-service restaurant franchisees reported experiencing labor challenges in the past year

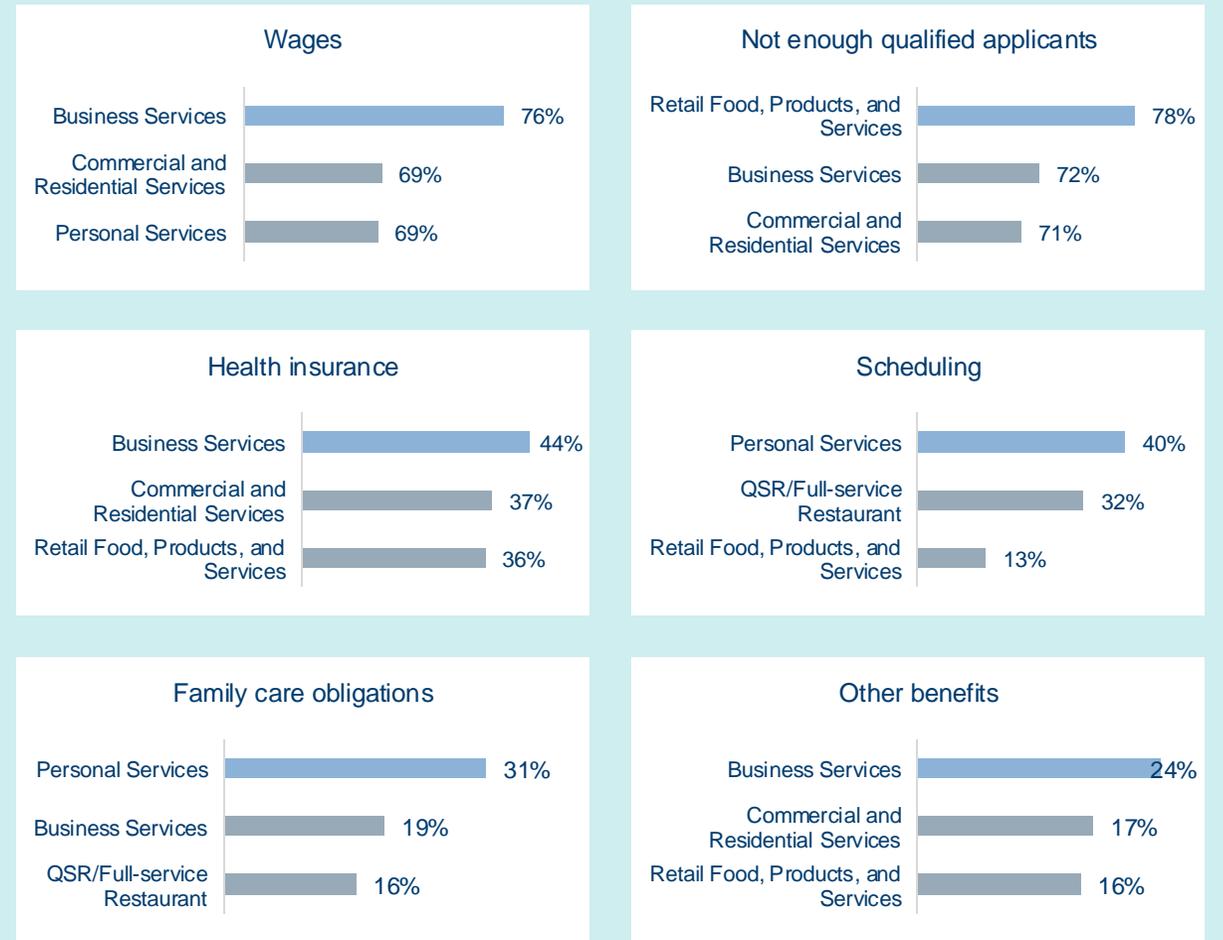
- ▶ Labor issues vary by business lines, with **business services** experiencing the most challenges with wages and benefits; **personal services** experiencing the most challenges with scheduling and family caregiving responsibilities; and **retail** experiencing the most challenges with finding enough qualified applicants.

Labor Challenge by Business Line



*"Lodging" and "Other" have less than 20 respondents; "Other" includes franchisees that own multiple brands in different business lines.

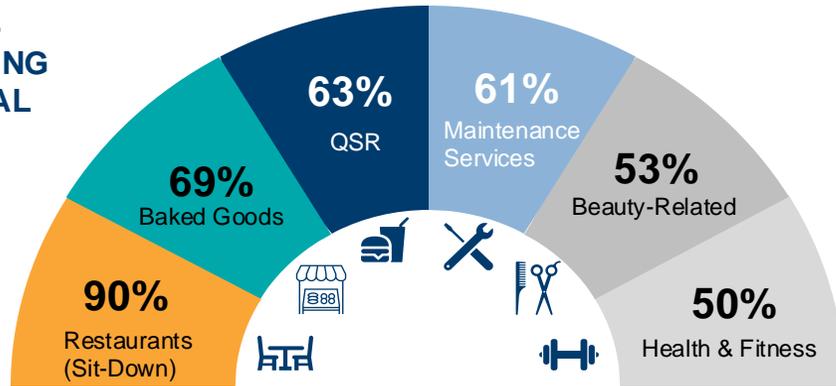
Top 3 Business Lines by Labor Challenge Category



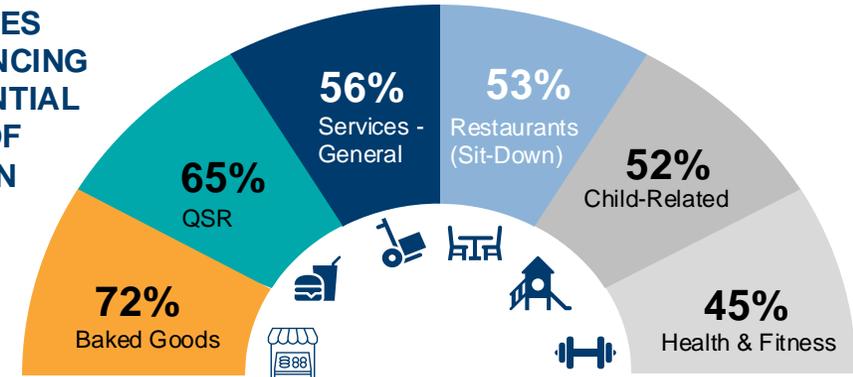
IMPACT OF INFLATION

Eighty-seven percent (87%) of franchisees are experiencing a moderate to substantial impact from inflation; Food, maintenance services, and personal services industries have felt the greatest impact in 2024

2024 TOP INDUSTRIES EXPERIENCING SUBSTANTIAL IMPACT OF INFLATION



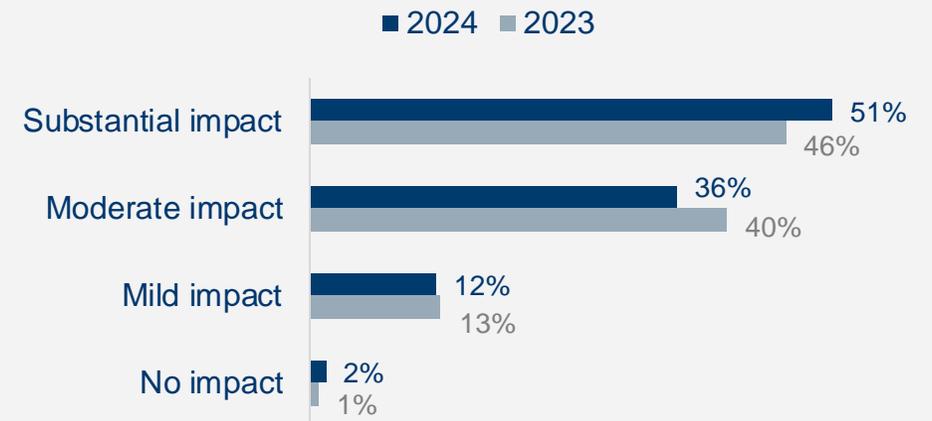
2023 TOP INDUSTRIES EXPERIENCING SUBSTANTIAL IMPACT OF INFLATION



INFLATION IMPACT

The impact of moderate to significant inflation on franchisees' businesses remained nearly unchanged, at 86% in the 2023 survey and 87% in the 2024 survey.

87%

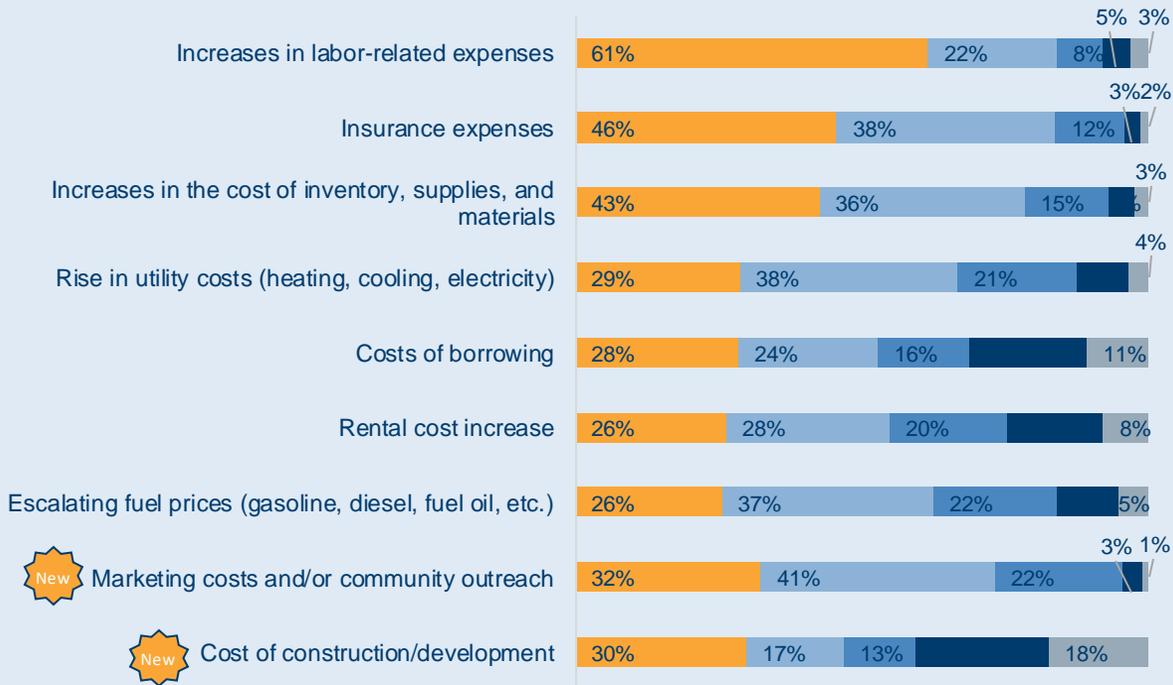


IMPACT OF VARIOUS ISSUES ON FRANCHISE BUSINESSES

The biggest impact of increased expenses on franchisees' businesses continues to be **increases in labor, insurance and inventory costs**

2024 Areas of Impact

■ Large Impact
 ■ Some Impact
 ■ Little Impact
 ■ No Impact
 ■ Not Applicable



Changes from 2023 to 2024 of Large Impact %

-7%

-1%

-2%

+4%

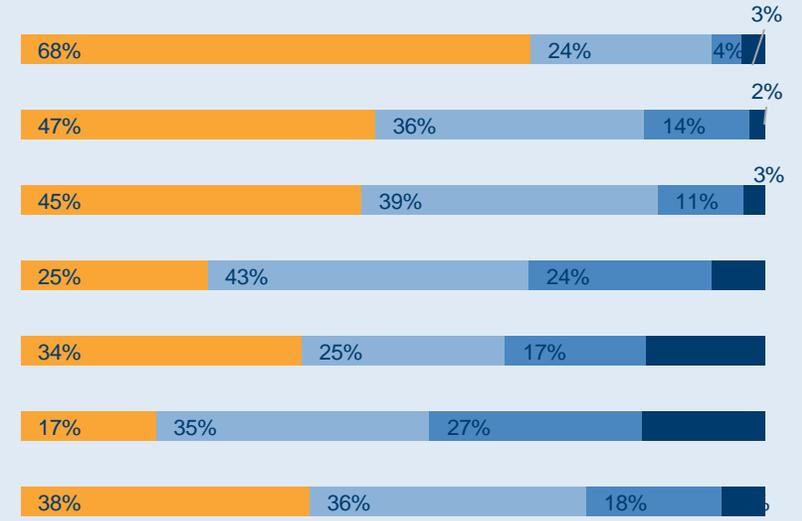
-6%

+9%

-12%

2023 Areas of Impact

■ Large Impact
 ■ Some Impact
 ■ Little Impact
 ■ No Impact



COST INCREASES BY INDUSTRY

Industries most impacted by cost increases are **personal services, commercial/residential services, retail, and QSR**

Labor Costs

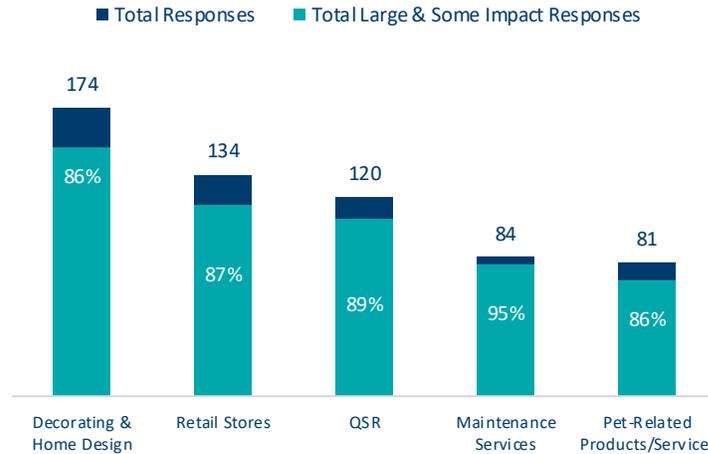
- ▶ **84%** of franchisees said that increases in labor-related expenses had some to large impact on their business, **down from 92% in 2023**.
- ▶ **2 out of 5** of the sectors most affected by increased labor costs are in the **personal services industry**.



Top 5 Industries Most Affected by Increased Labor Costs



Top 5 Industries Most Affected by Increased Insurance Costs



Insurance Costs

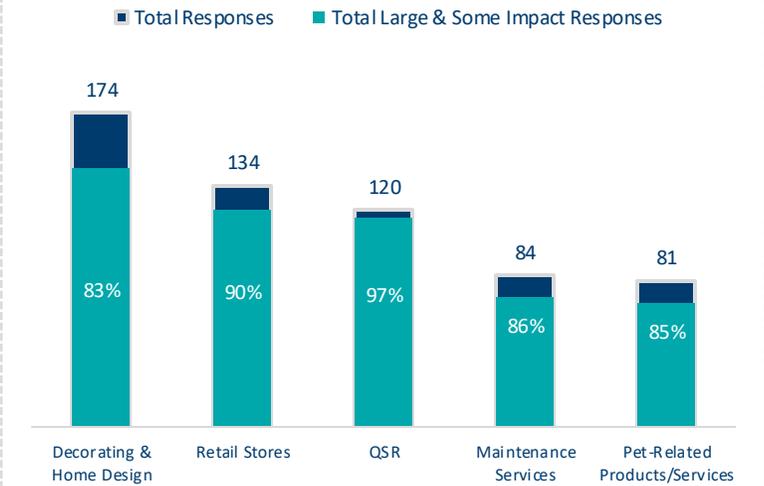
- ▶ **84%** of franchisees said rising insurance costs had some to large impact on their business, **up 1% from 83% in 2023**.
- ▶ **2 out of 5** of the sectors most affected by increased insurance-related costs are in the **commercial and residential services industry**.

COGS

- ▶ **78%** of franchisees said an increase in the cost of inventory, supplies, and materials had some to a large impact on their business, **down from 85% in 2023**.
- ▶ **2 out of 5** of the sectors most affected by increased COGS are in the **commercial and residential services industry**.



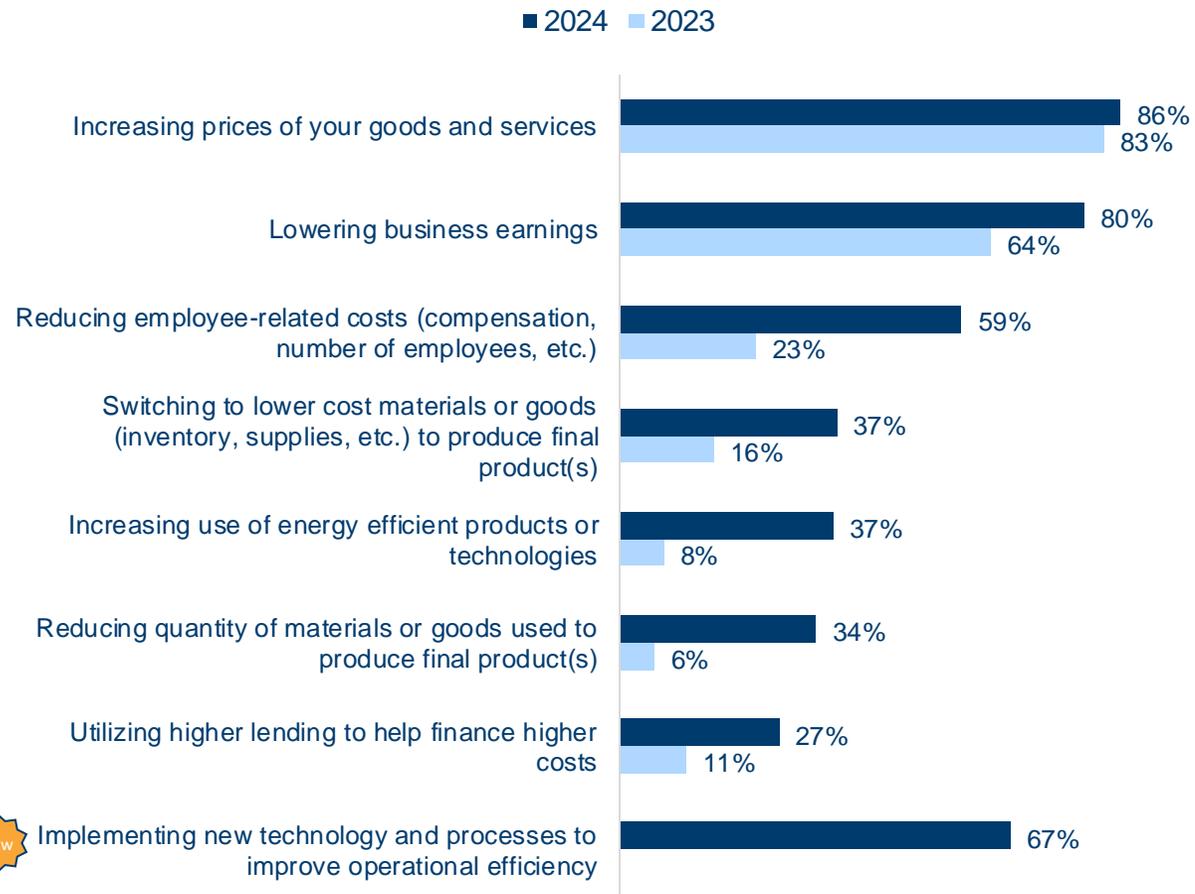
Top 5 Industries Most Affected by Increased COGS



STRATEGIES FOR MANAGING COST INCREASES

Franchisees employed various strategies to manage cost increases; while raising prices is the most common approach, **80% of franchisees experienced lower business earnings in the past year**

Strategies for Managing Cost Increases



- ▶ More franchisees have implemented strategies to manage higher operating costs over the past year.
- ▶ Increasing prices is still the most common way to cover costs, **but franchisees are cautious about how much they raise prices to remain competitive in the market due to declining customer spending.**
- ▶ Franchisees have enhanced their ability to manage labor costs by **increasing the use of part-time employees and streamlining overall staffing levels.**

Losing customers because I inflated our bills to offset our rising costs has hurt our business.

 Maintenance Service Brand Franchisee

As costs rise, customer incomes remain stagnant, so price increases are likely to result in a reduced customer base.

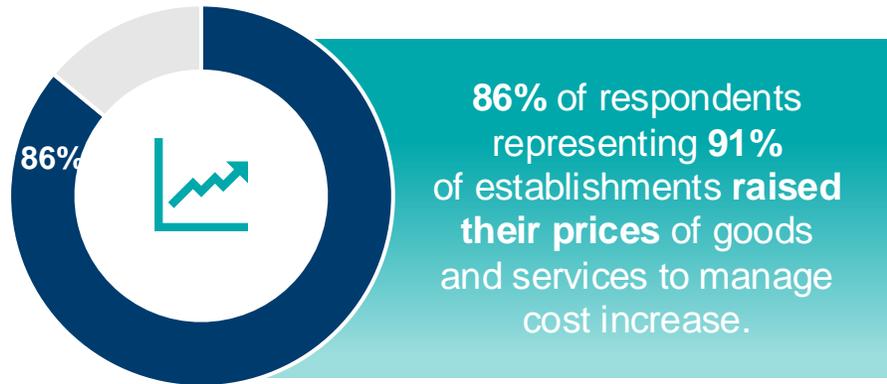
 Beauty-related Brand Franchisee

Starting January 1, 2025, a new state mandate will require small businesses with 5 or more employees to offer retirement options. While I'm willing to provide a 3% match, the fees for setting up these accounts make running the business more difficult.

 Child-related Brand Franchisee

STRATEGIES FOR MANAGING COST INCREASES

Similar to the 2023 survey results, the number of franchisees who have raised their prices to manage cost increases has stayed substantial

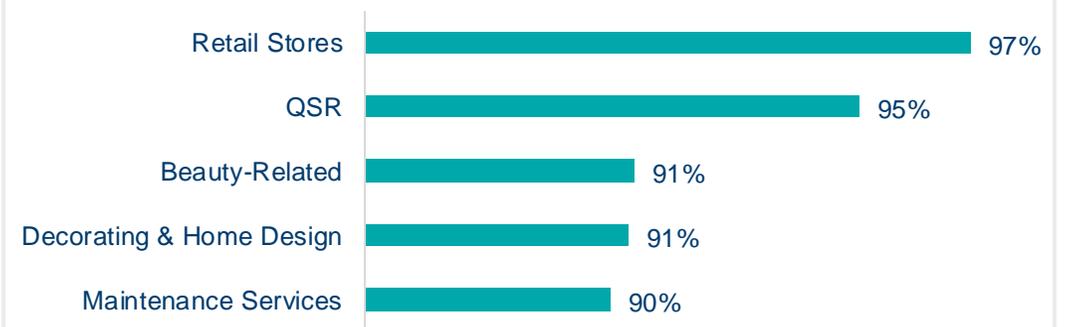


- ▶ Larger franchisees saw a higher tendency to increase prices than smaller operators.
- ▶ The retail sector has the highest percentage of franchisees raising prices to mitigate the effects of rising costs.

Percentage of Franchisees Raising Prices by Business Size



Top 5 Industries Increasing Prices for Goods and Services



STRATEGIES FOR MANAGING COST INCREASES

More franchisees (80%) have reported lower business earnings attributable to cost increases

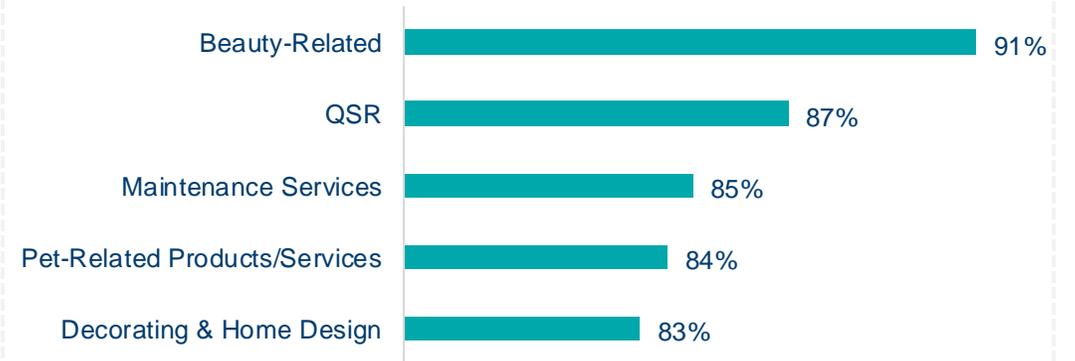


- ▶ More larger franchisees have experienced reduced business earnings due to cost increases than smaller franchisees.
- ▶ Industries with the highest number of franchisees reporting decreased profitability include personal services and commercial & residential services.

Percentage of Franchisees Reducing Business Earnings by Business Size



Top 5 Industries Witnessed Lower Business Earnings



FRANCHISE SYSTEM TOOLS AND ADVANTAGES AGAINST INFLATION

The ability to **share best practices and provide customer marketing** is most valued by franchisees as part of the franchise system in responding to inflationary pressures

Best Franchise Tools to Deal with Inflation

■ 2024 ■ 2023 ■ 2022



- ▶ Franchisors continue to provide strong support in sharing best practices, marketing, buying supplies, and customer retention.
- ▶ The decrease in the level of support for the labor market and the supply chain compared to previous years indicates improvements in both areas.

Franchisees should have a price advantage in sourcing, but the same items/services are cheaper elsewhere.

 Maintenance Service Brand Franchisee

Our business is helped by the quality and quantity of information we receive on industry trends and best practices.

 Health & Fitness Brand Franchisee

Technology support and innovation provided by our system are among the advantages that help in the current economic environment.

 Business-related Brand Franchisee

The best part of being in a franchise is the name recognition and marketing. Often times, we are less competitive because of the high cost of being in a franchise.

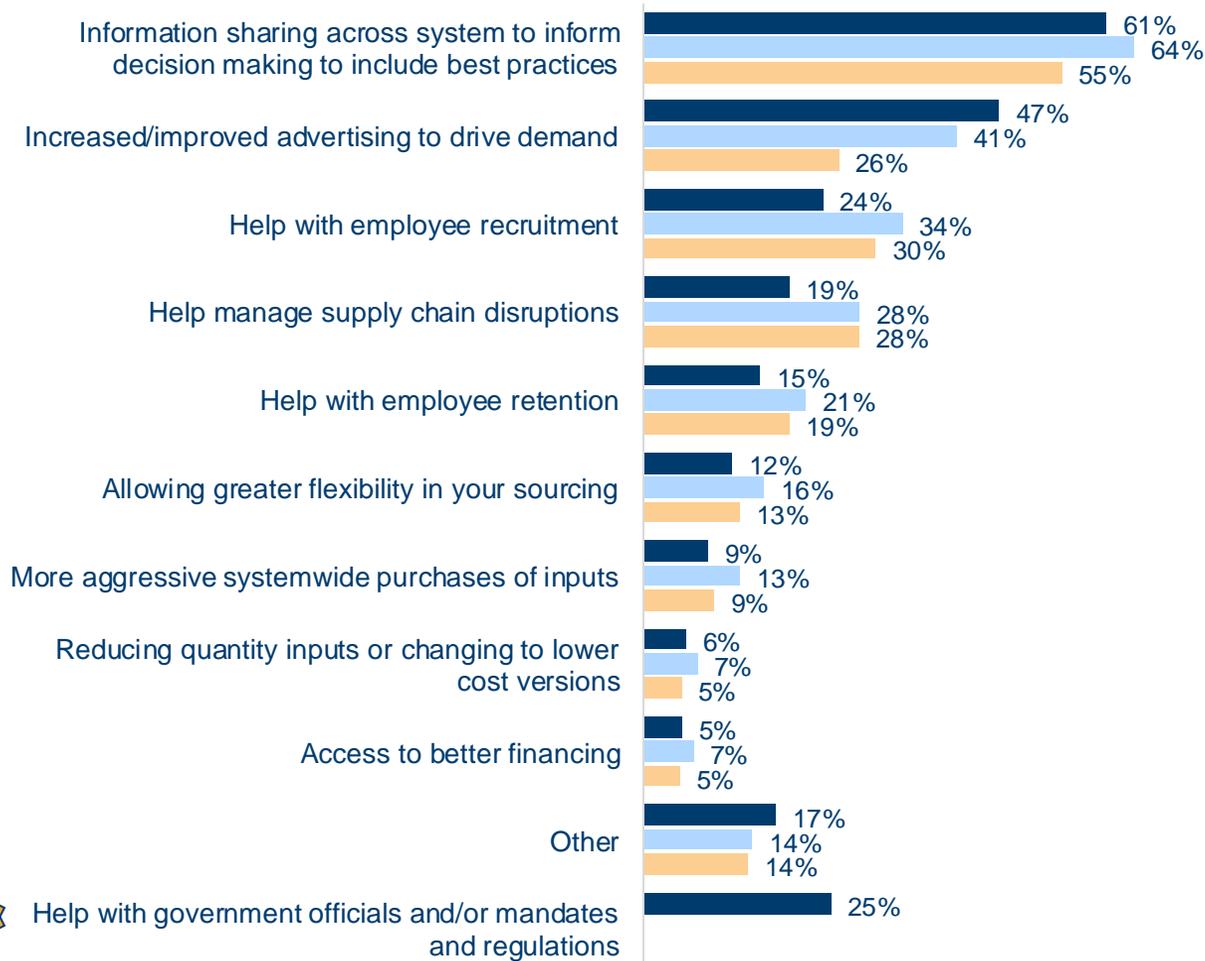
 Decorating & Home Design Brand Franchisee

FRANCHISOR SUPPORT FOR ECONOMIC CHALLENGES

To address economic challenges, more brands are **prioritizing marketing to drive consumer demand** in 2024

Franchisor Support in Addressing Economic Challenges

■ 2024 ■ 2023 ■ 2022



Help with government officials and/or mandates and regulations

- ▶ While employee recruitment and retention and supply chain challenges remain in the top five, the significant drop in percentages suggests that both issues have been mitigated.
- ▶ Personal service, commercial and residential service, and QSR/full-service restaurant franchisees expect more help from franchisors in the current period.

For recruiting or retention, our franchisors help us with quality information on trends, while we continue to bear the cost of labor. For legal, our franchise purchases a subscription to a leading legal service that we all have access to.

Health & Fitness Brands Franchisee

Our franchisor offers ongoing owner training in person with peers. Great learning experiences.

Maintenance Services Brand Franchisee

Our franchisor maintains high quality branding.

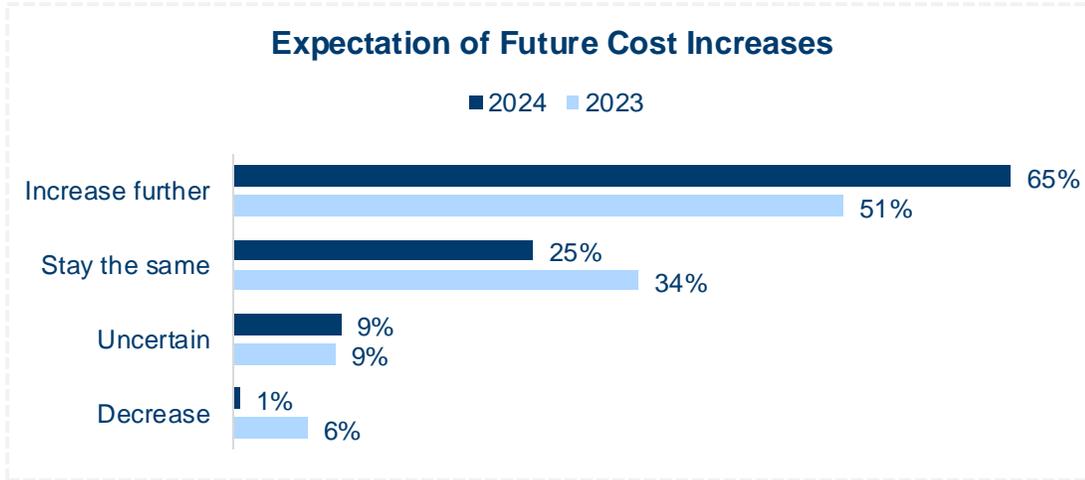
Business-related Brand Franchisee

The other franchisees are the biggest help.

Child-related Brand Franchisee

FUTURE EXPECTATIONS

The percentage of franchisees **expecting further cost increases** remains high, rising from 51% in 2023 to **65%** this year

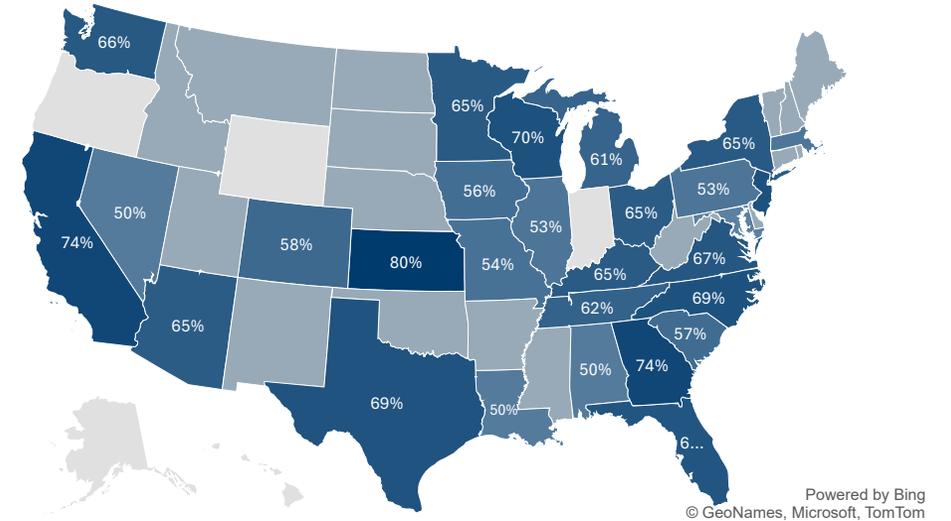


Expectation of Future Cost Increases

Compared to 51% in last year, 65% of franchisees expect costs to further increase in the future. Though inflation has moderated, more franchisees are concerned about price increases due to the current high price levels and slowdown in consumer spending.

65%

% of Respondents Anticipating Further Cost Increases in 2025



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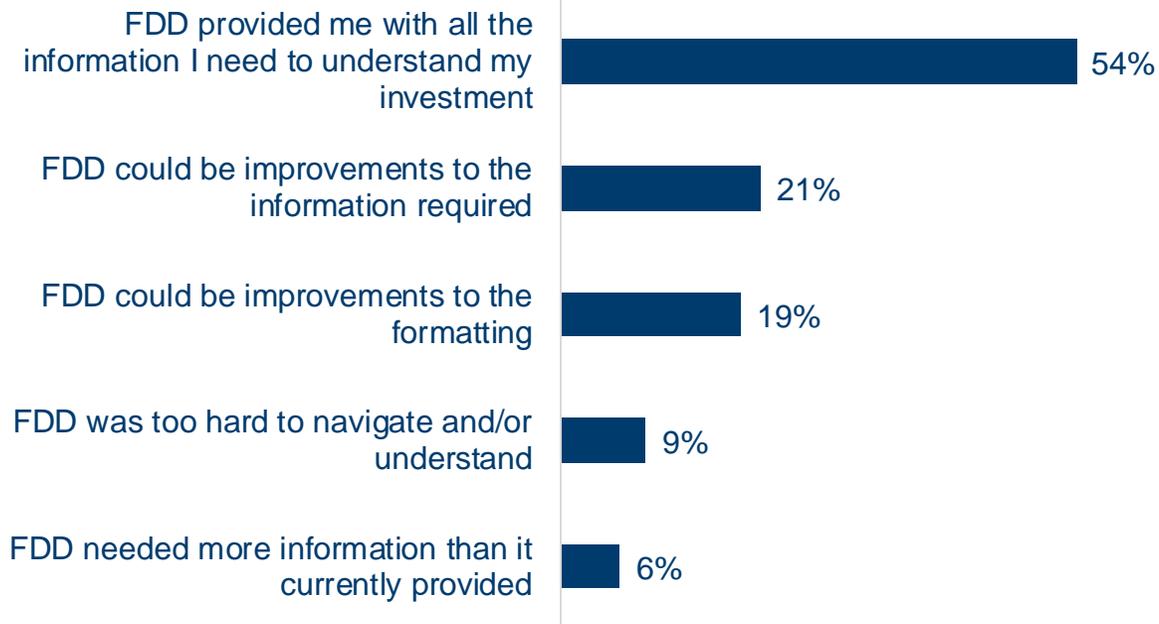
% of respondents who expect costs to increase further:



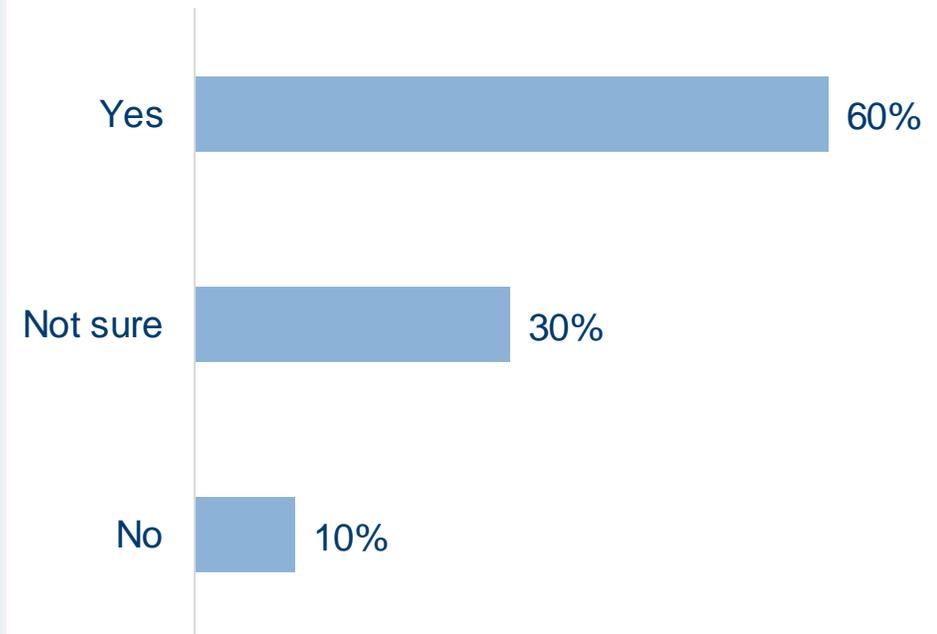
PERSPECTIVES ON FRANCHISOR DISCLOSURE DOCUMENT

The FTC Franchise Rule requires franchise brands to disclose information to prospective franchisees. **Fifty-four percent** of franchisees believe the Franchise Disclosure Document (FDD) provides adequate information; **60%** support a change to the FDD format to make it more accessible and easier to understand

Opinions on FDD Information



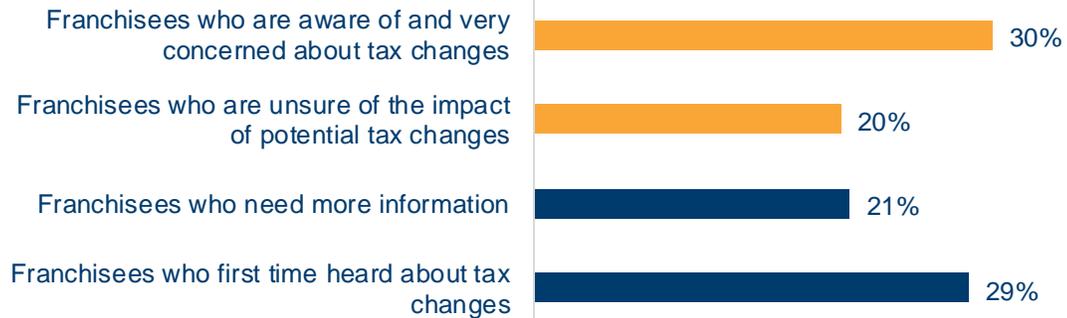
Support for Changing the FDD Format



PERSPECTIVES ON TCJA

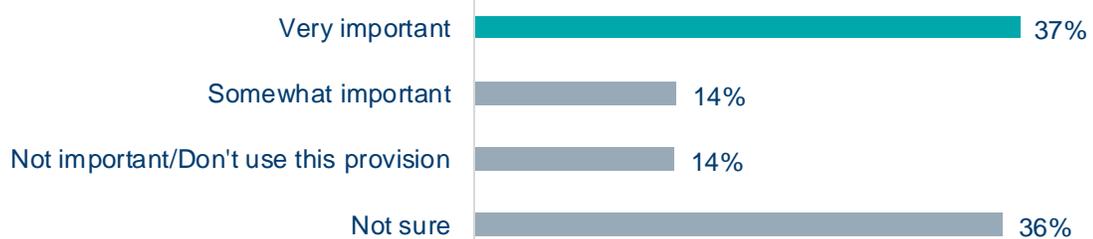
Most provisions of the Tax Cuts and Jobs Act of 2017 expire at the end of 2025. **Fifty percent of franchisees recognized the impact of the TCJA on their businesses**, with varying levels of awareness and concern about the potential tax changes.

Awareness of Potential Tax Changes

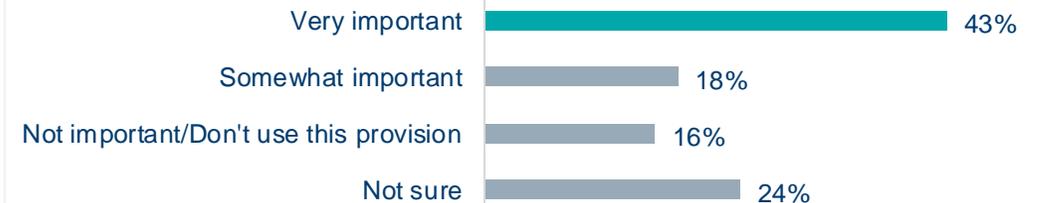


► Provisions such as the 20% pass-through deduction and 100% bonus depreciation for capital investments have been the most beneficial to franchisees' businesses.

Importance of the 20% Pass-Through Deduction



Importance of 100% Bonus Depreciation for Capital Investments



PERSPECTIVES ON TCJA

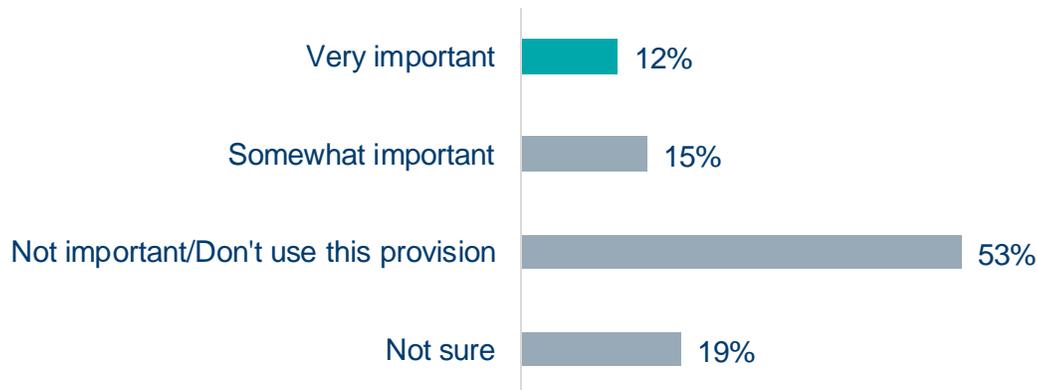
Twenty percent (20%) of franchisees reported that the uncertainty surrounding the expiration of the TCJA has affected their business planning

Significance of the Lower Limitation on Interest Deductibility

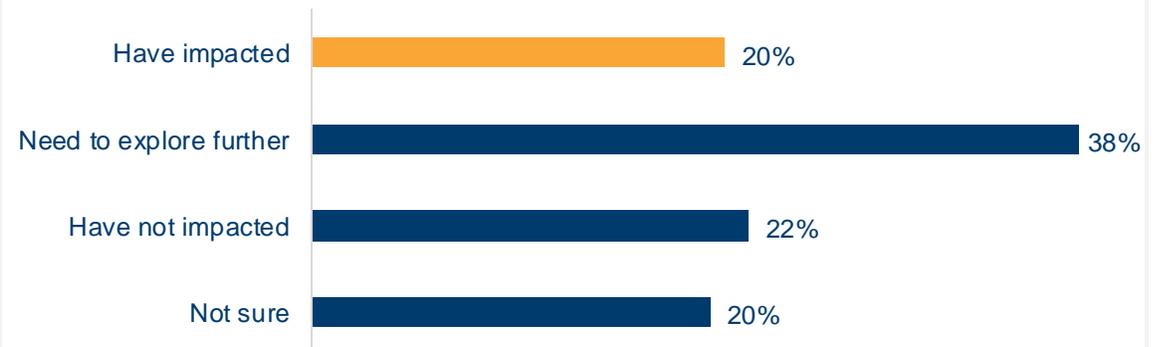


- ▶ More franchisees are unsure of the benefits of the lower limit on interest deductibility to their businesses.
- ▶ Provisions such as the Work Opportunity Tax Credit have been less beneficial to franchisees' businesses.

Importance of the Work Opportunity Tax Credit



Impact of TCJA Expiration Uncertainty on Franchisee Business Planning



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