
Franchise Business Economic Outlook: 2011

*Franchise Business
Economic Outlook: 2011*

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Foundation



Franchise Business Economic Outlook: 2011

Table of Contents

EXECUTIVE SUMMARY	3
I. INTRODUCTION	7
II. OUTLOOK FOR FRANCHISED BUSINESSES	8
III. BACKGROUND DATA	14
APPENDIX	
1. COMPOSITION OF FRANCHISE BUSINESS LINES	16
2. COMPARABILITY WITH PREVIOUS FORECASTS	17

Franchise Business Economic Outlook: 2011

EXECUTIVE SUMMARY

This report is the International Franchise Association Educational Foundation's 2011 edition of the annual *Franchise Business Economic Outlook*, prepared by PwC.

This year's *Outlook* reflects a new base year (2007), the latest year for which comprehensive estimates of franchise business activity are available from the U.S. Census Bureau. The U.S. Census Bureau's *2007 Economic Census Franchise Report* contains statistics on the number of businesses with paid employees engaged in franchising and annual sales, employment, and payroll for these businesses. PwC has supplemented these data with estimates of franchising activities in additional industries not covered in the Census report and in businesses without paid employees (primarily self-employed individuals operating small unincorporated businesses). Estimates of franchising activity in this report supersede previous editions.

This report provides a forecast of franchise activity in 10 franchise business format business lines. It does not include estimates for product distribution franchises, such as automotive and truck dealers, gasoline service stations without convenience stores, and beverage bottlers.

Franchising to see stronger growth in the coming year

The economic recovery in the United States is widely expected to take hold in 2011 following the end of the recent recession. One of the important reasons is the recently enacted \$858 billion tax and unemployment benefits package including extension of the 2001/2003 tax cuts and the temporary 2-percentage point payroll tax rate cut. These measures are expected to provide an additional boost to an economy recovering slowly from the recent recession and also reduce the level of economic uncertainty that is commonly believed to have held back business and consumer spending even after the recession had officially ended more than a year ago. Many forecasters now expect U.S. real GDP to grow by 3.0 percent or higher in 2011 following estimated growth of 2.8 percent in 2010.

In such an improved macroeconomic environment, franchising is poised for stronger growth in 2011. PwC forecasts that the number of business format franchises will expand from an estimated 765,723 in 2010 to 784,802 in 2011 (an increase of 2.5 percent), following only slight growth in franchised establishments in 2010 (see **Table E-1**).

PwC forecasts franchising job growth of 194,000 employees, or 2.5 percent in 2011. PwC forecasts franchising nominal output growth of 4.7 percent in 2011--an increase of \$33.3 billion over 2010.

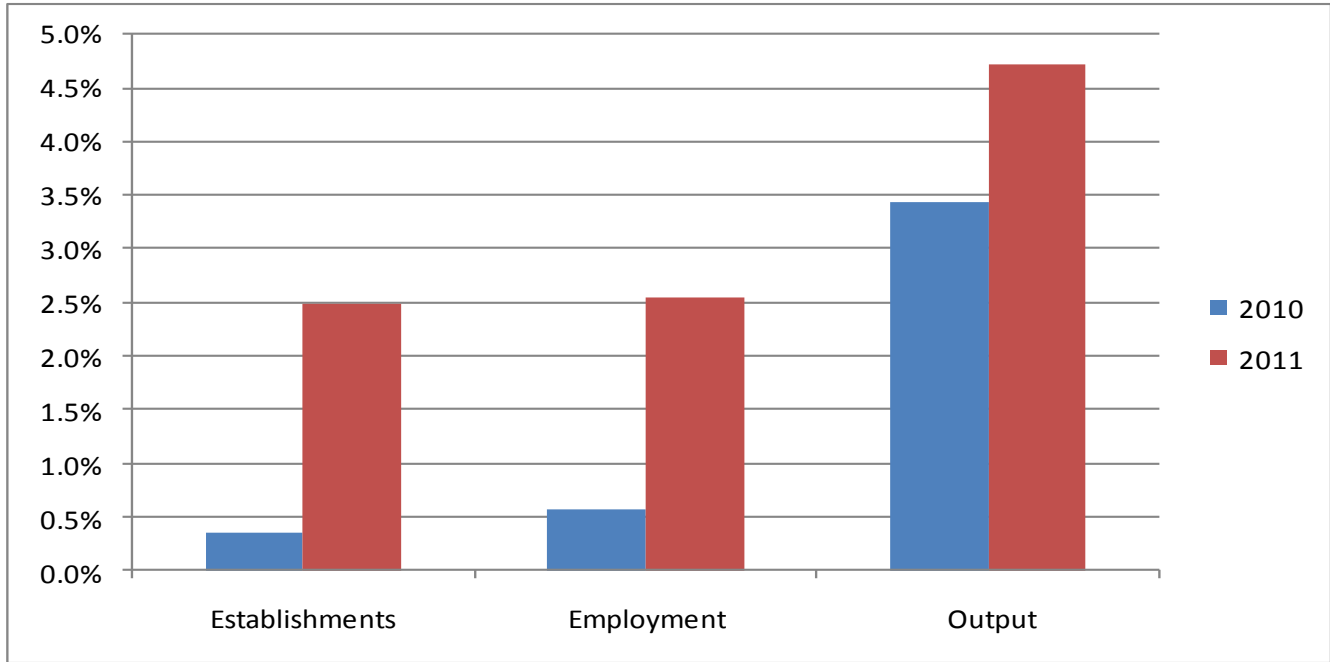
Table E-1 - Franchise Business Economic Outlook: 2011

	Estimates				Forecast	Annual Percent Change	
	2007	2008	2009	2010	2011	2009-2010	2010-2011
Establishments	788,285	791,560	763,094	765,723	784,802	0.3%	2.5%
Employment ('000)	7,760	7,792	7,572	7,614	7,808	0.6%	2.5%
Output (\$Billions)	\$654.2	\$680.7	\$683.2	\$706.6	\$739.9	3.4%	4.7%

Source: PwC.

Growth in franchise establishments and employment was very sluggish in 2010. Economic output by franchised businesses increased in 2010 after being relatively flat in 2009 (see **Figure E-1**). In 2011, PwC projects faster growth in establishments, employment and economic output in nearly all franchised business lines.

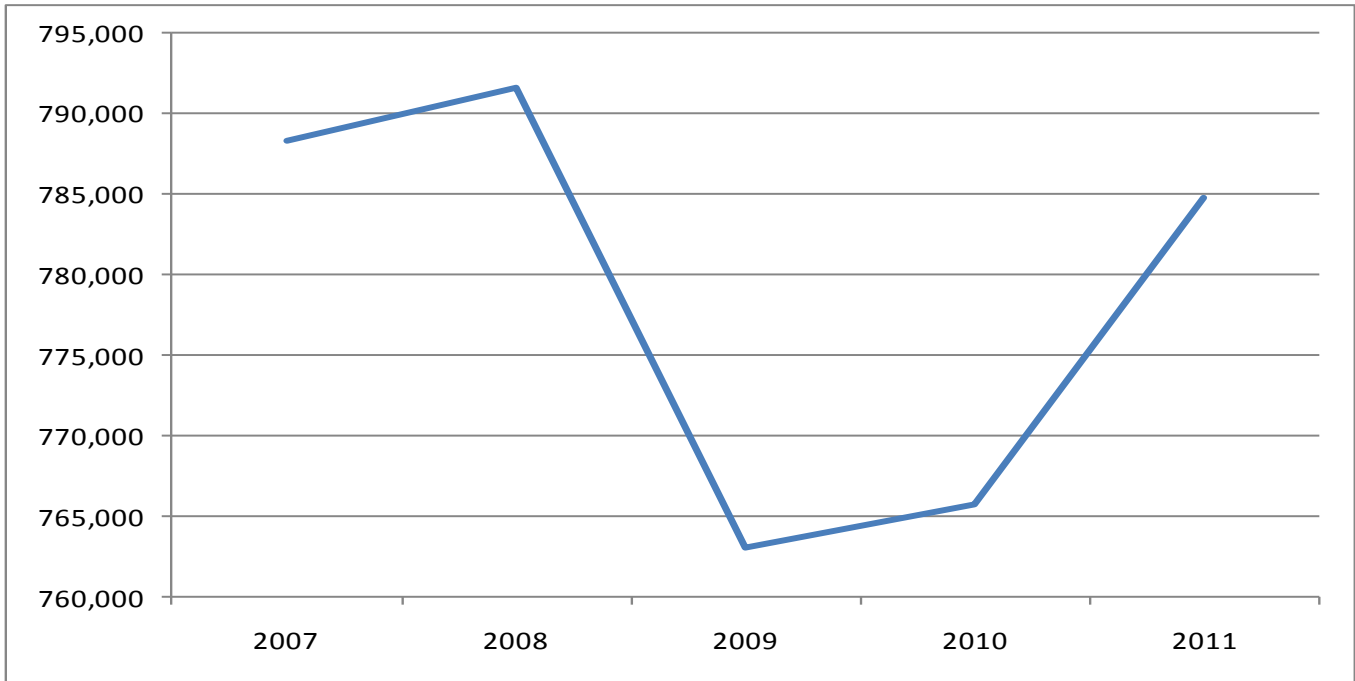
Figure E-1 – Franchise Business Growth in 2010 and 2011: A Comparison



Source: PwC.

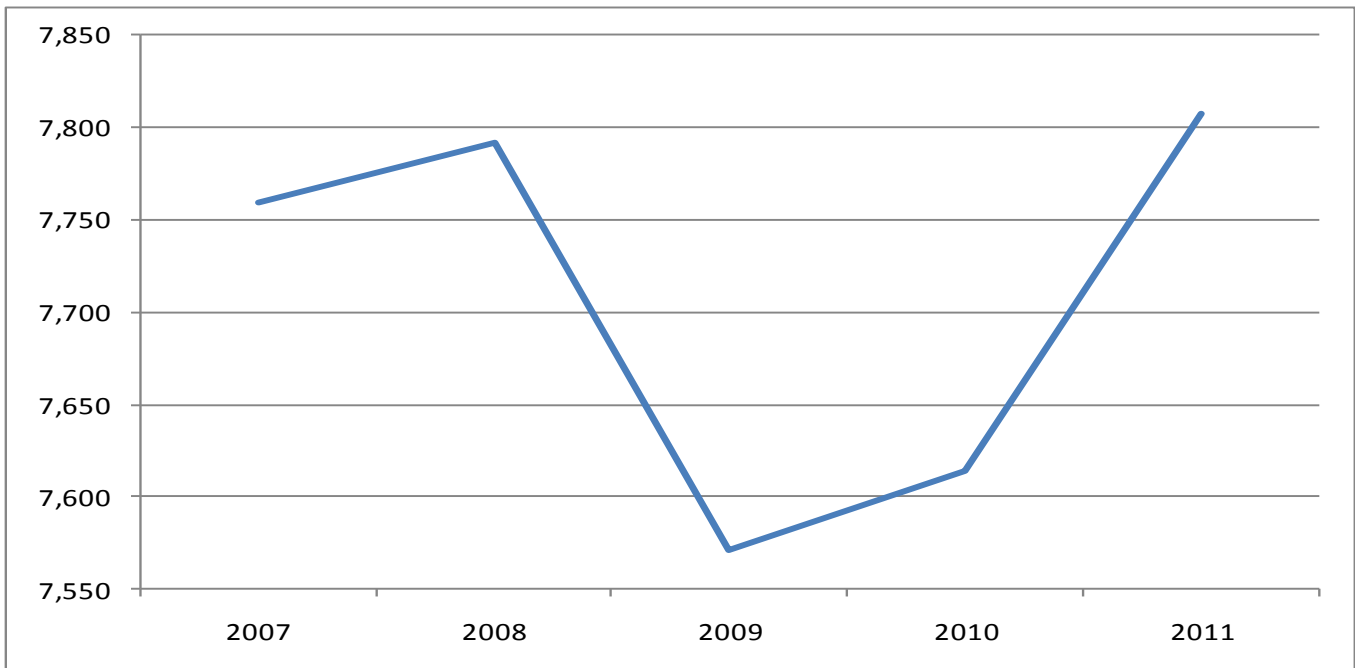
In the early part of the recession which began in December 2007, the number of franchised businesses grew slowly, before contracting significantly between 2008 and 2009 (see **Figure E-2**). As the recession officially came to an end in June 2009, the number of franchised businesses remained relatively flat through 2010. PwC’s current outlook projects a rebound in establishment growth in 2011. A similar growth pattern is projected for franchised employment over the same period (see **Figure E-3**).

Figure E-2 - Franchise Business Establishments: 2007-2011



Source: PwC.

**Figure E-3 - Franchise Business Employment: 2007-2011
(Full- and Part-Time Jobs in Thousands)**



Source: PwC.

The accelerating economic recovery expected in 2011 is projected to have different effects on growth in the number of establishments, employment, and output within each business format franchise business line (see **Table E-2**).

- **Establishments.** With the exception of Business Services, the number of establishments in each business format franchise line is estimated to increase in 2011. The largest gains are expected in Lodging, Automotive, and Retail Products and Services.
- **Employment.** All franchise business lines except for Business Services are projected to experience employment growth in 2011 ranging from 1.1 percent to 4.4 percent, with the largest increases occurring in Lodging, Automotive, and Retail Products and Services. The Business Services line is projected to experience a modest decline in employment of 0.2 percent in 2011.
- **Output.** Output is forecast to increase in all 10 franchise lines of business in 2011. The three franchise business lines projected to see the largest percentage increases are Automotive, Commercial and Residential Services, and Personal Services.

Table E-2 - Franchise Business Economic Outlook by Business Line, 2011

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	31,659	3.9%	185	3.9%	\$39.7	7.2%
Commercial and Residential Services	70,129	3.7%	281	3.7%	\$45.8	6.9%
Quick Service Restaurants	152,665	2.6%	2,982	2.6%	\$194.0	4.9%
Table/Full Service Restaurants	33,471	2.3%	1,003	2.3%	\$55.7	4.6%
Retail Food	60,841	3.2%	484	3.2%	\$38.2	6.2%
Lodging	26,011	4.4%	711	4.4%	\$70.8	4.0%
Real Estate	86,825	1.1%	341	1.1%	\$51.2	0.1%
Retail Products and Services	99,592	3.9%	402	3.9%	\$29.5	5.7%
Business Services	92,714	-0.2%	819	-0.2%	\$128.7	3.5%
Personal Services	130,895	2.5%	602	2.5%	\$86.2	6.5%
Total	784,802	2.5%	7,808	2.5%	\$739.9	4.7%

Numbers may not add up to totals because of rounding.

Source: PwC.

Franchise Business Economic Outlook: 2011

I. INTRODUCTION

This report is the International Franchise Association Educational Foundation's 2011 edition of the annual *Franchise Business Economic Outlook*, prepared by PwC.

The following section of the report presents PwC's economic outlook for franchising at the national level for 10 business lines: ¹

1. Automotive
2. Commercial and Residential Services
3. Quick Service Restaurants
4. Table/Full Service Restaurants
5. Retail Food
6. Lodging
7. Real Estate
8. Retail Products and Services
9. Business Services
10. Personal Services

For each of the 10 business format lines, the projections include forecasts for 2011 and estimates for 2007-2010 of:

- Franchise establishments ²
- Franchise employment ³
- Franchise nominal output ⁴

Section III describes information used in preparing the economic outlook, including the latest Inforum macroeconomic forecast. ⁵

¹ This economic outlook report does not include estimates for product distribution franchises, such as automotive and truck dealers, gasoline service stations without convenience stores, and beverage bottlers.

² 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.

³ Positions filled by part-time and full-time employees or by self-employed individuals.

⁴ Nominal 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."

⁵ 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.

II. OUTLOOK FOR FRANCHISED BUSINESSES

A. Overall Outlook

For 2011, PwC forecasts growth in the number of establishments, employment, and output for most business format business lines.

PwC estimates that the number of business format franchise establishments grew to 791,560 units in 2008 before declining to 763,094 units in 2009. In 2010, the number of business format franchise establishments is estimated to have grown by 0.3 percent to 765,723. With the economic recovery widely expected to gain momentum in 2011, PwC projects the number of business format franchise establishments to grow by 2.5 percent to 784,802 units in 2011 (an increase of 19,079 units). Employment in business format franchises is estimated to have reached 7.8 million in 2008 before falling by 2.8 percent to 7.6 million in 2009, a reduction of about 220,000 jobs. In 2010, business format franchises are estimated to have added 42,000 jobs. PwC forecasts that business format franchise employment will grow at a 2.5 percent rate in 2011, increasing the total number of franchise jobs by 194,000.

Economic output generated by business format franchises is estimated to have grown by 3.4 percent in 2010. PwC forecasts business format franchising output will grow by 4.7 percent (\$33.3 billion) in 2011 (see **Table II-1**, below).

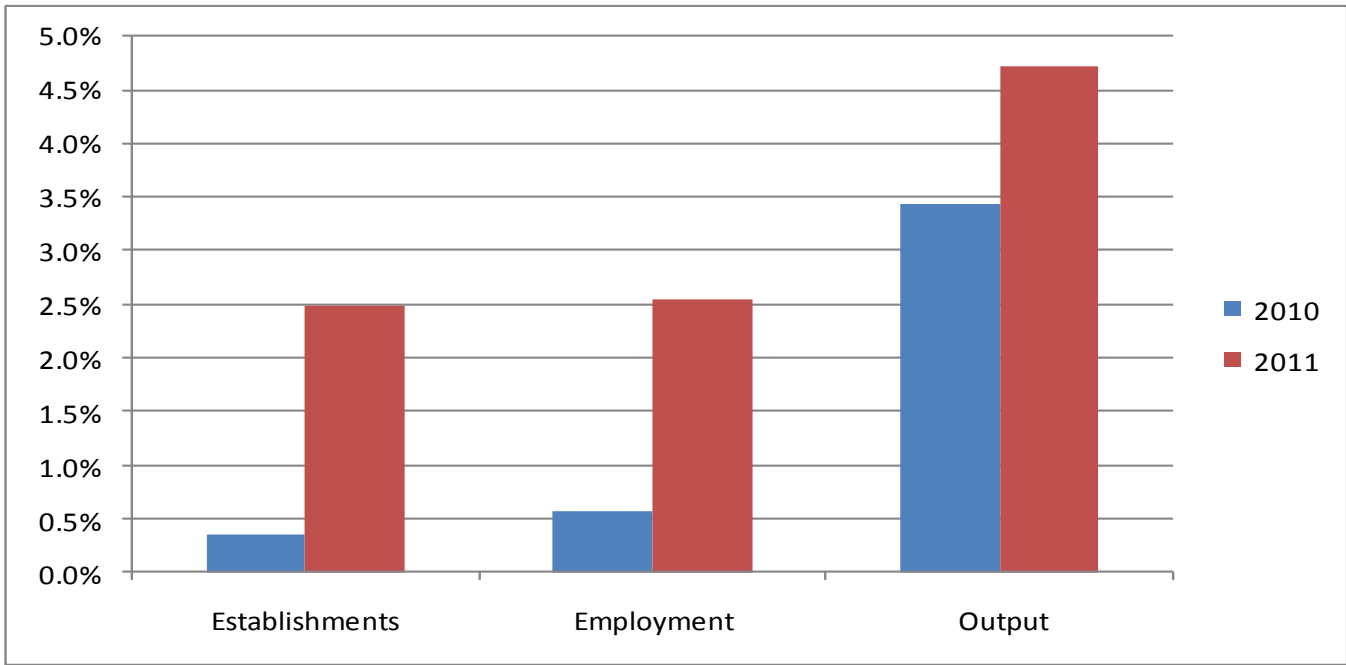
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Employment ('000)	7,760	7,792	7,572	7,614	7,808	0.6%	2.5%
Output (\$Billions)	\$654.2	\$680.7	\$683.2	\$706.6	\$739.9	3.4%	4.7%

Source: PwC.

Growth in franchise establishment and employment was very sluggish in 2010. Economic output by franchised businesses increased in 2010 after being relatively flat in 2009 (see **Figure II-1**). In 2011, PwC projects faster growth in nearly all franchised business lines for establishments, employment and economic output.

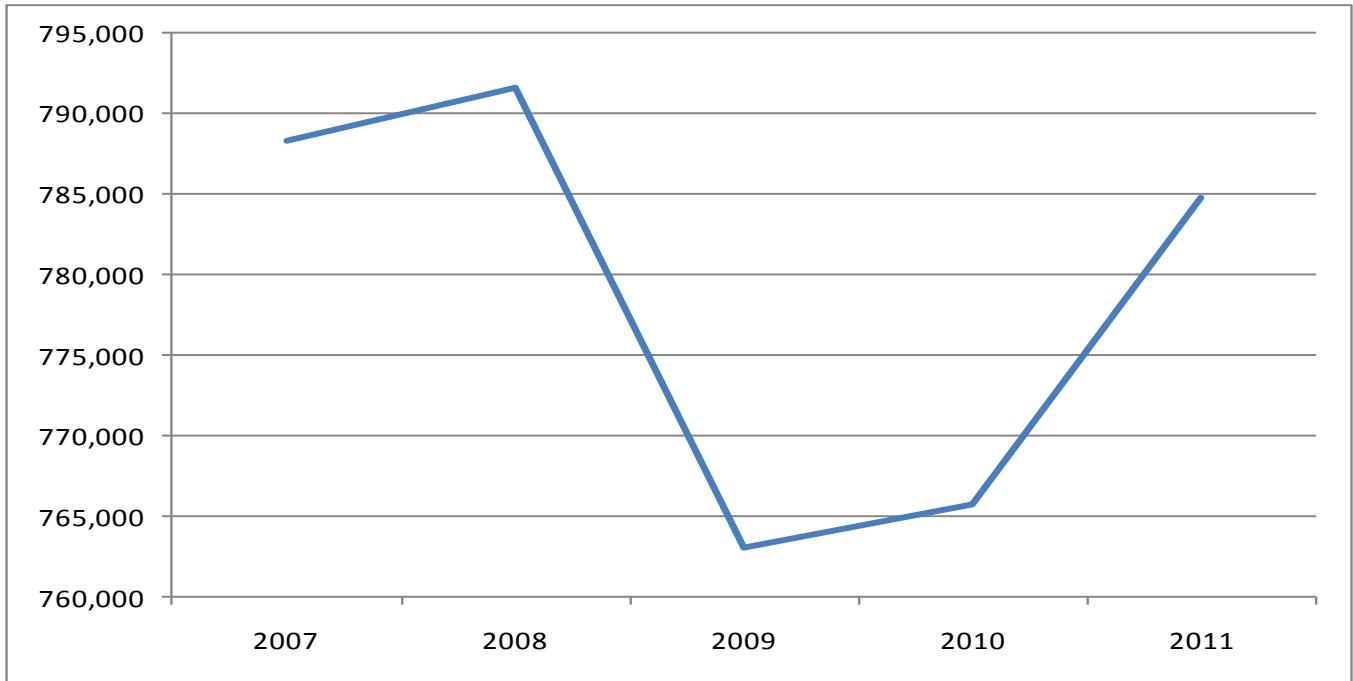
Figure II-1 – Franchise Business Growth in 2010 and 2011: A Comparison



Source: PwC.

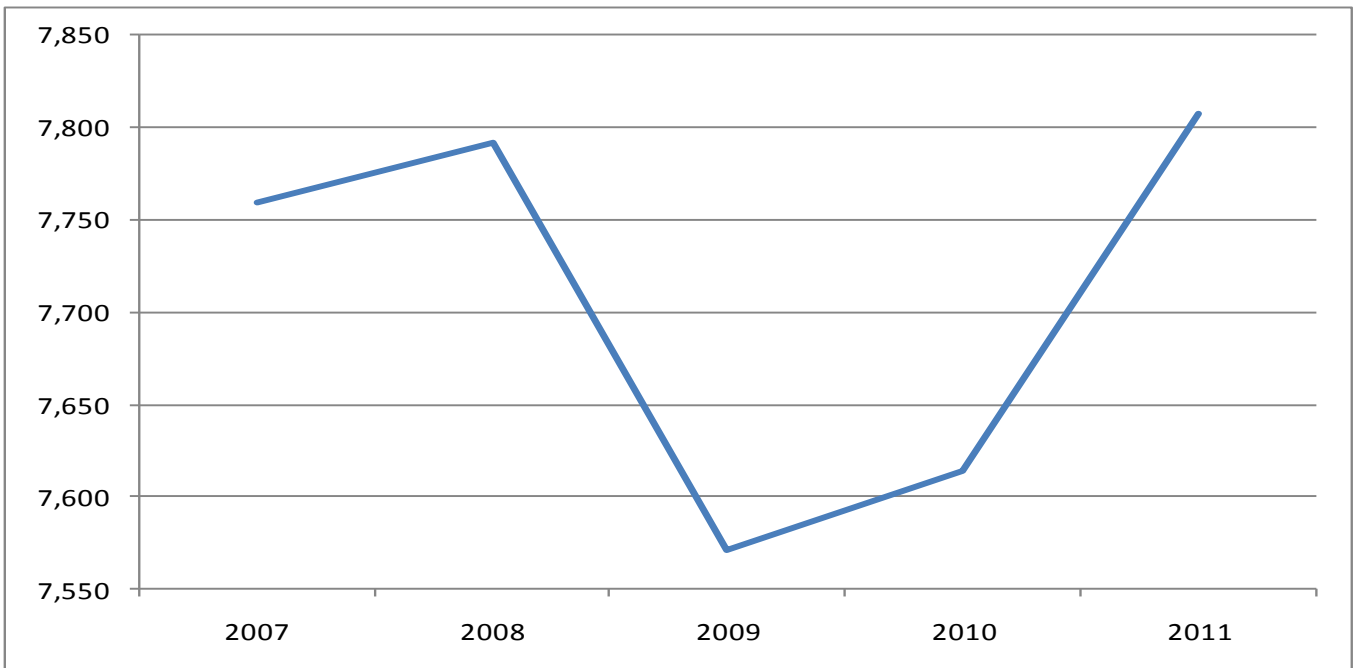
In the early part of the recession which began in December 2007, the number of franchised businesses grew slowly, before contracting significantly between 2008 and 2009 (see **Figure II-2**). As the recession came to an end in June 2009, the number of franchised businesses remained relatively flat between 2009 and 2010. PwC’s current outlook projects a rebound in establishment growth in 2011. A similar pattern is found for franchised employment over the same period (see **Figure II-3**).

Figure II-2 - Franchise Business Establishments: 2007-2011



Source: PwC.

**Figure II-3 - Franchise Business Employment: 2007-2011
(Full- and Part-Time Jobs in Thousands)**



Source: PwC.

B. Outlook by Business Line

Establishments by business line: 2007-2011

Table II-2 shows estimated and projected franchise establishment units for the 10 business format franchise lines over the 2007-2011 period. PwC estimates that eight of the 10 franchise business lines experienced growth in establishments between 2007 and 2008, with only Real Estate and Business Services declining. Between 2008 and 2009, PwC estimates an across-the-board decline in the number of establishments in every business format line. In 2010, six of the 10 business format lines are estimated to have increased unit counts, with Commercial and Residential Services, Real Estate, Business Services, and Personal Services still declining. For 2011, PwC projects that all business format franchise lines except for Business Services will increase overall unit counts.

The largest percentage increases in the number of establishments in 2011 are projected in Lodging (4.4 percent), Automotive (3.9 percent), Retail Products and Services (3.9 percent), and Commercial and Residential Services (3.7 percent).

Overall, the number of establishments in business format franchises is projected to increase by 2.5 percent in 2011 after posting growth of 0.3 percent in 2010.

Table II-2 - Franchise Establishments by Business Line, 2007-2011

	Estimates				Forecast	Annual Percent Change	
	2007	2008	2009	2010	2011	2009-2010	2010-2011
Automotive	31,478	31,826	30,176	30,465	31,659	1.0%	3.9%
Commercial and Residential Services	69,920	70,579	67,689	67,622	70,129	-0.1%	3.7%
Quick Service Restaurants	147,211	148,774	147,235	148,730	152,665	1.0%	2.6%
Table/Full Service Restaurants	33,010	33,079	32,525	32,703	33,471	0.5%	2.3%
Retail Food	58,400	59,657	57,862	58,957	60,841	1.9%	3.2%
Lodging	24,608	25,315	24,378	24,916	26,011	2.2%	4.4%
Real Estate	94,319	92,129	86,065	85,862	86,825	-0.2%	1.1%
Retail Products and Services	90,896	94,304	93,339	95,890	99,592	2.7%	3.9%
Business Services	109,100	102,619	95,587	92,937	92,714	-2.8%	-0.2%
Personal Services	129,343	133,278	128,238	127,641	130,895	-0.5%	2.5%
Total	788,285	791,560	763,094	765,723	784,802	0.3%	2.5%

Source: PwC.

Employment by business line: 2007-2011

Table II-3 shows the projected franchise employment for the 10 business format franchise lines over the 2007-2011 period. PwC estimates that eight of the 10 business format franchise business lines experienced increases in employment in 2008, with only Real Estate and Business Services declining. The recession caused a reduction in employment in 2009 for all business format franchise lines, with the largest declines in Real Estate and Business Services. In 2010, six of the 10 business format lines are estimated to have increased employment, while Commercial and Residential Services, Real Estate, Business Services, and Personal Services are estimated to have experienced a further reduction in employment. All franchises except for Business Services are projected to add jobs in 2011 ranging from 1.1 percent to 4.4 percent.

The largest percentage increases in employment in 2011 are expected for franchises in Lodging (4.4 percent), Automotive (3.9 percent), and Retail Products and Services (3.9 percent). Franchises in Business Services are projected to experience a modest decline in employment of 0.2 percent in 2011.

Overall, PwC projects an increase of 2.5 percent in employment in business format franchises in 2011, following an increase of 0.6 percent in 2010.

Table II-3 - Franchise Employment by Business Line, 2007-2011 (thousands)

	Estimates				Forecast	Annual Percent Change	
	2007	2008	2009	2010	2011	2009-2010	2010-2011
Automotive	183	186	176	178	185	1.0%	3.9%
Commercial and Residential Services	280	282	271	271	281	-0.1%	3.7%
Quick Service Restaurants	2,875	2,906	2,876	2,905	2,982	1.0%	2.6%
Table/Full Service Restaurants	989	991	974	980	1,003	0.5%	2.3%
Retail Food	464	474	460	469	484	1.9%	3.2%
Lodging	673	692	667	682	711	2.2%	4.4%
Real Estate	370	362	338	337	341	-0.2%	1.1%
Retail Products and Services	367	380	376	387	402	2.7%	3.9%
Business Services	964	906	844	821	819	-2.8%	-0.2%
Personal Services	594	612	589	587	602	-0.5%	2.5%
Total	7,760	7,792	7,572	7,614	7,808	0.6%	2.5%

Numbers may not add up to totals because of rounding.

Source: PwC.

Output by business line: 2007-2011

Table II-4 shows the projected franchise output for the 10 business format franchise lines over the 2007-2011 period. PwC estimates that all business lines experienced growth in output in 2008, except Real Estate, which experienced a 6.6 percent decline in output. In 2009, Lodging and Business Services, along with Real Estate experienced reductions in output, while all other business format lines posted positive growth. For 2010, PwC estimates that all business format franchise lines except Real Estate increased their economic output.

PwC projects growth in output for all business format lines in 2011. The three business lines with the largest projected percentage increases in output in 2011 are Automotive, Commercial and Residential Services, and Personal Services.

Overall, annual economic output by business format franchises is projected to increase by 4.7 percent in 2011, compared to an overall growth rate of 3.4 percent in 2010.

Table II-4 - Franchise Output by Business Line, 2007-2011 (billions of dollars)

	Estimates				Forecast	Annual Percent Change	
	2007	2008	2009	2010	2011	2009-2010	2010-2011
Automotive	\$30.4	\$33.8	\$35.2	\$37.1	\$39.7	5.3%	7.2%
Commercial and Residential Services	\$35.5	\$38.2	\$41.4	\$42.8	\$45.8	3.6%	6.9%
Quick Service Restaurants	\$163.9	\$174.8	\$180.5	\$185.0	\$194.0	2.5%	4.9%
Table/Full Service Restaurants	\$48.2	\$50.9	\$52.2	\$53.3	\$55.7	2.0%	4.6%
Retail Food	\$31.2	\$34.0	\$34.8	\$36.0	\$38.2	3.3%	6.2%
Lodging	\$64.8	\$67.5	\$63.0	\$68.0	\$70.8	8.0%	4.0%
Real Estate	\$60.1	\$56.1	\$52.3	\$51.1	\$51.2	-2.2%	0.1%
Retail Products and Services	\$24.4	\$25.6	\$27.4	\$28.0	\$29.5	2.2%	5.7%
Business Services	\$125.0	\$127.2	\$119.6	\$124.4	\$128.7	4.1%	3.5%
Personal Services	\$70.8	\$72.6	\$76.8	\$80.9	\$86.2	5.3%	6.5%
Total	\$654.2	\$680.7	\$683.2	\$706.6	\$739.9	3.4%	4.7%

Numbers may not add up to totals because of rounding.

Source: PwC.

III. BACKGROUND DATA

The PwC report is based on: (1) the latest macroeconomic and industry forecast prepared by Inforum and (2) PwC's analysis of historical relationships between franchised businesses and the rest of the U.S. economy.

A. Macroeconomic Outlook

The U.S. economy returned to growth in 2010 following the official end of the recession in the prior year.⁶ While the economic recovery was unsteady in 2010, every demand component of GDP is estimated to have posted positive growth for the year.

In its latest economic outlook released on December 14, 2010, Inforum forecasts stronger economic growth in 2011 relative to 2010, and stronger growth than forecast earlier in the year. One of the important reasons for the improved outlook is the recently enacted \$858 billion tax and unemployment benefits package including extension of the 2001/2003 tax cuts and the temporary 2-percentage point payroll tax rate cut. These measures are expected to provide an additional boost to an economy recovering slowly from the recent recession and also reduce the level of economic uncertainty that is commonly believed to have held back business and consumer spending even after the recession had officially ended more than a year ago.

Like most forecasters, prior to the enactment of the latest tax and spending legislation, Inforum had anticipated an extension of most of the expiring 2001/2003 tax cuts and partial extension of unemployment insurance in its prior forecast. The final tax and spending package contained additional stimulus (such as the one-year payroll tax cut and business investment incentives) that has led many forecasters to revise upward projections of real economic growth for 2011 by 0.5 to 1.0 percent. As a result, Inforum projects that real personal consumption expenditure will rise by about 3 percent in 2011, nearly doubling the actual growth rate for 2010. Inforum expects net job creation of at least 200,000 per month in 2011, reducing the average 2011 unemployment rate to 9.1 percent from a high of 9.8 percent in November 2010. For equipment investment, one of the bright spots in the sluggish economy in 2010, Inforum expects another year of double-digit growth in 2011. Inforum expects 9 to 11 percent expansion in both the real non-residential and residential construction sectors after three consecutive years of contraction.

Inforum expects government consumption and investment to slow sharply over the next two years and through the next decade. State and local governments hit hard by the recession are reducing spending and federal government stimulus spending is winding down. Inforum expects short-term interest rates to rise from 0.2 percent in 2010 to 0.4 percent in 2011, still at historic lows. The long-term 10-year rate is expected to remain flat at 3.2 percent in 2011.

Internationally, Inforum expects a sustained weakening in the U.S. dollar. All major currencies are expected to gain relative to the dollar through the next decade. This will contribute to the growth of U.S. exports, which expanded by 11.3 percent in 2010. Inforum is projecting growth of 10.2 percent in 2011.

Overall, Inforum expects U.S. real GDP to grow by 3.0 percent in 2011 following estimated growth of 2.8 percent in 2010 (see **Table III-1**).

⁶ The National Bureau of Economic Research (NBER) business cycle panel determined that the recession that began in December 2007 ended in June 2009.

Table III-1 - Inforum Macroeconomic Outlook, 2009-2011

	Actual	Estimate	Forecast
	2009	2010	2011
Gross Domestic Product, by Final Demand Category			
Nominal GDP (Billions of dollars)	\$14,119	\$14,604	\$15,205
Nominal GDP (Percentage change)	-1.7	3.4	4.1
Real GDP (Percentage change)	-2.6	2.8	3.0
Real Personal Consumption Expenditure (Pct change)	-1.2	1.7	2.9
Real Gross Private Fixed Investment (Percentage change)	-18.3	4.3	12.0
Non-residential Structures (Percentage change)	-20.4	-13.4	9.1
Equipment Investment (Percentage change)	-15.3	13.8	13.2
Residential Investment (Percentage change)	-22.9	-2.1	11.2
Real Net Exports (Percentage change)	-28.0	18.6	5.6
Exports (Percentage change)	-9.5	11.3	10.2
Imports (Percentage change)	-13.8	12.7	9.3
Real Government Expenditures (Percentage change)	1.6	1.0	0.4
Price Indicators			
GDP Price Index (Percentage change)	0.9	0.6	1.0
PCE Price Index (Percentage change)	0.2	1.6	1.0
Employment			
Total Employment (Millions)	142.2	141.3	143.7
Total Employment (Percentage change)	-4.5	-0.6	1.7
Unemployment Rate (Percent)	9.3	9.6	9.1
Interest Rates			
Three-Month Treasury Bill Rate (Percent)	0.2	0.2	0.4
Ten-Year Treasury Note Rate (Percent)	3.3	3.2	3.2
Personal Income and Savings			
Personal Income (Percentage change)	-1.7	3.0	4.1
Personal Savings Rate (Percent)	6.1	6.1	5.7

Percentage changes are year-over-year.

Source: Inforum.

APPENDIX 1

Composition of Franchise Business Lines

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, retail bakeries, and beer, wine, and liquor stores, as well as gas stations with convenience stores
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

APPENDIX 2

Comparability with Previous Forecasts

This year's *Outlook* builds on a new base year (2007), the latest year for which comprehensive estimates of franchise business activity are available from the U.S. Census Bureau. This is also the first year for which these Census data were collected. The U.S. Census Bureau's *2007 Economic Census Franchise Report* contains statistics on the number of businesses with paid employees engaged in franchising and annual sales, employment, and payroll for these businesses. PwC has supplemented these data with estimates of franchising activities in additional industries not covered in the Census report and in businesses without paid employees (so-called "nonemployers," which primarily consist of self-employed individuals operating small unincorporated businesses and other independent contractors).

Previous versions of the *Franchise Business Economic Outlook* relied on base-year estimates of franchised economic activity in 2001 and 2005 reported in Volume 1 and Volume 2 of the *The Economic Impact of Franchised Businesses*.⁷ Those reports used data from *County Business Patterns* and *Nonemployer Statistics* for all businesses and data on franchised businesses from Dun & Bradstreet to estimate the economic activity of franchised businesses. With the release of the *2007 Economic Census Franchise Report*, PwC has revised its methodology for estimating economic activity of franchised businesses. Estimates of franchising activity in this report supersede previous editions of the *Franchise Business Economic Outlook*.

⁷ PwC, *Economic Impact of Franchised Businesses* (February 24, 2004) and *Economic Impact of Franchised Businesses, Volume II: Results for 2005* (January 29, 2008).

