

HIGHLIGHTS of the 2009 Franchise Business Economic Outlook

JANUARY 2009

INTRODUCTION

The *2009 Franchised Business Economic Outlook* is the first-ever report that projects key national-level economic measurements of business format franchises for a single year. 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

The current financial crisis and global recession, the most severe economic downturn since the early 1980's, will negatively impact the franchising industry's growth in 2009. PwC forecasts a decline in the number of establishments, jobs and economic output. (The economic output of a business is the gross value of goods and services it produces.)

- **Establishments.** From 2001 to 2005, the number of business format franchise establishments increased on average by 5.6 percent per year. The growth in number of establishments slowed to 2.1 percent in 2007/2008. PwC estimates a decrease in the number of establishments by 1.2 percent in 2009, for a decline of 10,000 establishments.
- **Jobs.** From 2001 to 2005, business format franchises experienced an annual increase in employment of 3.7 percent. Employment declined slightly in 2007/2008 by 0.2 percent. PwC estimates a further decline in employment of 2.1 percent for 2008/2009, for a net loss of 207,000 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. PwC projects a decline in economic output of 0.5 percent for 2008/2009, for a net loss of \$4.2 billion.

FRANCHISE BUSINESS ECONOMIC OUTLOOK, 2006-2009

	2006	2007	2008	2009	Average annual percent change	
					2007/2008	2008/2009
Establishments	808,275	847,246	864,784	854,511	2.1%	-1.2%
Employment (Thousands)	9,473	9,805	9,785	9,578	-0.2%	-2.1%
Output (Billion of dollars)	\$742.5	\$816.0	\$839.2	\$835.0	2.8%	-0.5%

Source: PricewaterhouseCoopers.

DIFFERENT EFFECTS WITHIN EACH BUSINESS SECTOR

The adverse impact of the recession will have different effects on growth in establishments, employment and economic output within each business sector.

- **Establishments.** PwC forecasts that while most business lines will experience reductions in the number of establishments, the Quick Service Restaurant and table/full service sectors will have small net increases (1.5 percent and 1.3 percent respectively).
- **Jobs.** Sectors that will experience the largest percentage reduction in employment are Automotive, Retail Food, and Retail Products and Services, each estimated to contract employment by 5 percent or more.
- **Output.** Sectors that are projected to see the largest percentage reduction in economic output are Lodging (3.2 percent), Business Services (2.8 percent), and Real Estate (2.1 percent).

FRANCHISE BUSINESS ECONOMIC OUTLOOK BY BUSINESS LINE, 2009

Table E-2: Franchise Business Economic Outlook By Business Lines: 2009

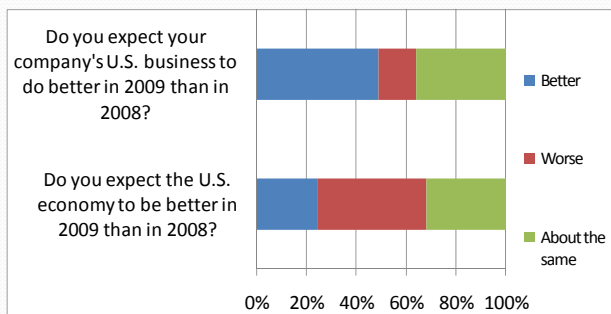
Business Lines	Establishments		Employment (Thousands)		Output (Billions of dollars)	
	Amount	Percent change over prior year	Amount	Percent change over prior year	Amount	Percent change over prior year
Automotive	36,563	-1.5%	178	-5.8%	\$36.0	-0.4%
Commercial and Residential Services	59,461	-3.5%	326	-4.1%	\$42.6	-1.3%
Quick Service Restaurants	182,136	1.5%	3,361	0.4%	\$190.0	2.4%
Table/Full Service Restaurants	46,650	1.3%	1,081	0.2%	\$61.1	2.2%
Retail Food	66,228	-2.0%	829	-5.8%	\$66.7	-0.4%
Lodging	32,202	-2.6%	661	-4.9%	\$63.6	-3.2%
Real Estate	37,735	-3.2%	153	-4.2%	\$24.7	-2.1%
Retail Products and Services	82,681	-2.1%	561	-5.8%	\$49.6	-0.7%
Business Services	217,861	-2.5%	1,365	-3.9%	\$173.1	-2.8%
Personal Services	92,994	-0.2%	1,063	-1.5%	\$127.7	-0.8%
Total	854,511	-1.2%	9,578	-2.1%	\$835.0	-0.5%

Source: PricewaterhouseCoopers.

FRANCHISE BUSINESS LEADER SURVEY

A Franchise Business Leader Survey conducted by the International Franchise Association in November 2008 found that franchise executives see both challenges and opportunities in the year ahead.

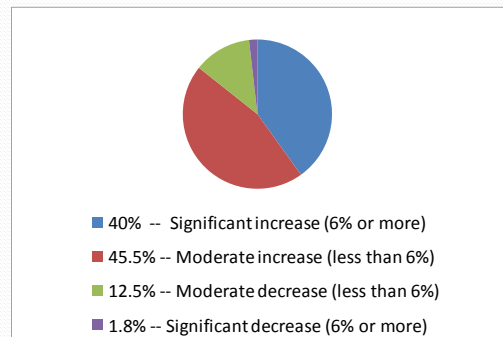
Business leader outlook



Source: IFA Franchise Business Leader Survey, November, 2008

- While only one quarter (24.6 percent) of survey respondents believe that the economy will do better in 2009 than in 2008, nearly half (49.1 percent) believe their own business will do better in 2009 than in 2008.

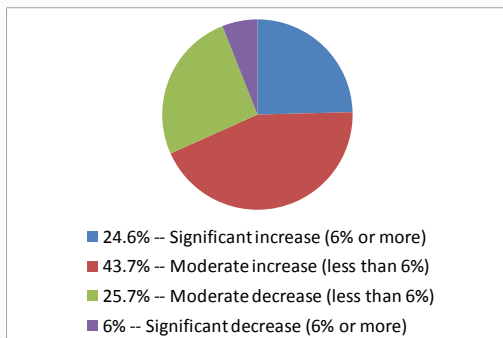
Unit Growth—2009



Source: IFA Franchise Business Leader Survey, November, 2008

- Franchise business leaders did not significantly change their expectations for unit growth. More than 85 percent of the survey respondents expect to see unit growth in 2009.

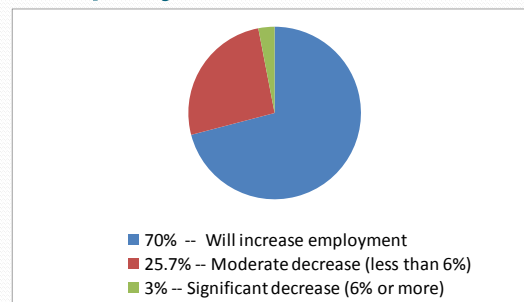
2009 System-wide same store sales



Source: IFA Franchise Business Leader Survey, November, 2008

- Franchise business leaders lowered expectations for growth in system-wide same store sales in 2009.

Employment



Source: IFA Franchise Business Leader Survey, November, 2008

- Just over 70 percent of franchise business leaders surveyed expect to increase employment in 2009, while just under 30 percent expect to decrease employment.