

INTERNATIONAL FRANCHISE ASSOCIATION 2021

ECONOMIC OUTLOOK

FOR FRANCHISING

WEBINAR SERIES



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Where Is the Economy Heading?

- Near term GDP boom followed by a return to slow growth
- Quick labor market recovery; Forecasts unemployment rates of under 5% by the end of 2021
 - Economy returning to its pre-pandemic payroll level well ahead of the end of 2022, a view that Treasury Secretary Janet Yellen backed up
- Should start seeing rising inflation rate in a year or two, allowing some pricing flexibility for the first time in years
 - With such accommodative monetary policies across the globe, will continue to be in low interest rate environment for foreseeable future

2020 Franchise Business Growth

- In 2020, reflecting broader trends across the U.S. economy, franchising lost approximately 20,000 business locations, ending the year with an estimated total of 753,770 franchised establishments
- Franchising lost more than 900,000 jobs, but still managed to support more than 7.5 million workers as a majority of businesses operated under reduced employment due to limited capacity and revenue deterioration
- Overall, franchise businesses contributed \$670 billion of economic output into the U.S. economy in 2020, and still represented 3% of the total nominal Gross Domestic Product (GDP)

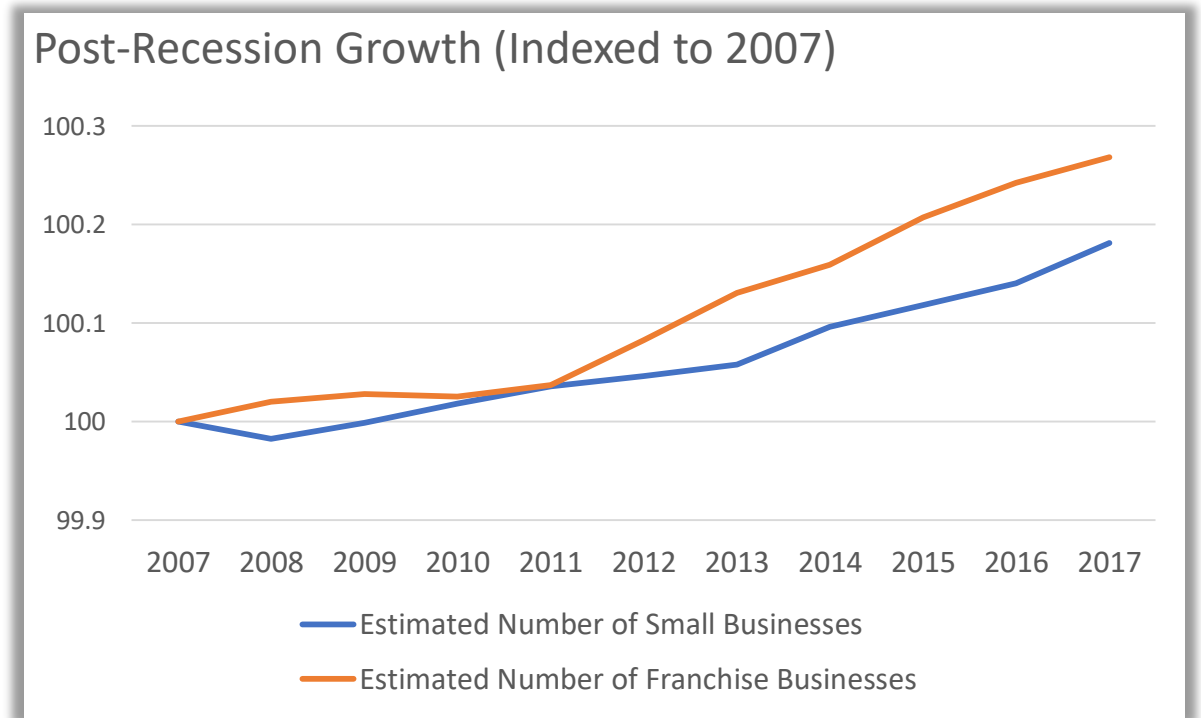
Franchise Business Economic Outlook: 2017-2021					
	2017	2018	2019	2020 (Est.)	2021 (Proj.)
Establishments	748,752	760,476	773,603	753,770	780,188
<i>Percentage change</i>		1.6%	1.7%	-2.6%	3.5%
Employment	7,975,179	8,207,599	8,434,090	7,491,456	8,252,929
<i>Percentage change</i>		2.9%	2.8%	-11.2%	10.2%
Output (\$ billions)	\$720.4	\$760.3	\$787.5	\$670.0	\$780.0
<i>Percentage change</i>		5.5%	3.6%	-14.9%	16.4%
GDP (\$ billions)	\$427.5	\$452.1	\$473.4	\$446.3	\$477.4
<i>Percentage change</i>		5.8%	4.7%	-5.7%	7.0%

2021 Franchise Business Growth

- FRANdata predicts that by year-end, franchising will have recovered to nearly 2019 levels in most metrics: business growth, employment, economic outlook, and contribution to the GDP
 - Total franchised establishments is expected to grow at a rate of 3.5%, experiencing a net gain of 26,000 businesses with a total of 780,188 franchise establishments in 2021, 6,585 units higher than 2019 pre-COVID level
 - Franchise employment is forecast to add approximately 800,000 jobs to the US job market, through the hiring of 8.3 million workers by the end of 2021
 - Much of this employment will be in the retail, food, and services industries and will be for lower-skilled workers, a group that has been disproportionately hurt by the economic downturn
 - Total franchise output is projected to grow by 16.4% and contribute a total of \$780 billion to the US economy
- Franchising is expected to experience the highest upswing of franchise sales since the last recession

Franchising in Recessions/Recoveries

- During the economic recovery, the franchise business model has proven to be resilient, and will be among the leading business and job generators. This has been true following the past four recession cycles, according to FRANdata
- The fundamental design of the franchise business model allows for more rapid growth, employment, and reaction to the changing economic realities, compared to that of independent businesses



Source: FRANdata

Industry Growth Overview

- The recovery of franchising activity is expected to be sector-specific
- It is expected that new business openings will shift away from larger employers, such as hotels and sit-down restaurants, and toward emerging industries, such as commercial and residential services and Quick-Service Restaurants (QSRs)

Franchise *Economic Outlook By Industry*: 2021 Forecast

	Establishments					Employment					Output (\$Billions)				
	2019	2020 (Est.)	2021 (Proj.)	19-20	20-21	2019	2020 (Est.)	2021 (Proj.)	19-20	20-21	2019	2020 (Est.)	2021 (Proj.)	19-20	20-21
Commercial & Residential Services	67,226	73,116	75,627	8.8%	3.4%	252,803	253,682	301,706	0.3%	18.9%	\$45.8	\$49.3	\$53.3	7.7%	8.0%
Real Estate	65,307	66,332	68,657	1.6%	3.5%	262,130	245,437	285,820	-6.4%	16.5%	\$55.3	\$48.4	\$60.8	-12.5%	25.7%
Retail Food, Products & Services	155,649	157,538	162,669	1.2%	3.3%	1,061,686	1,014,127	1,115,571	-4.5%	10.0%	\$118.3	\$121.1	\$127.1	2.3%	5.0%
Business Services	106,936	107,789	110,241	0.8%	2.3%	650,489	588,475	670,591	-9.5%	14.0%	\$106.0	\$93.1	\$105.8	-12.2%	13.7%
Lodging	29,706	27,136	27,931	-8.7%	2.9%	662,382	446,299	557,705	-32.6%	25.0%	\$78.0	\$40.9	\$66.0	-47.5%	61.2%
Personal Services	118,825	110,050	113,907	-7.4%	3.5%	547,094	475,580	524,450	-13.1%	10.3%	\$39.3	\$26.0	\$35.8	-34.0%	37.7%
Quick Service Restaurants	196,794	183,543	191,146	-6.7%	4.1%	3,880,612	3,544,759	3,786,002	-8.7%	6.8%	\$267.9	\$241.0	\$265.0	-10.1%	10.0%
Table/Full Service Restaurants	33,160	28,266	30,010	-14.8%	6.2%	1,116,894	923,097	1,011,082	-17.4%	9.5%	\$76.5	\$50.3	\$66.3	-34.3%	31.9%
Total	773,603	753,770	780,188	-2.6%	3.5%	8,434,090	7,491,456	8,252,929	-11.2%	10.2%	\$787.5	\$670.0	\$780.0	-14.9%	16.4%

Growth Sectors

- Commercial & Residential Services
 - Experienced the most growth since the start of the pandemic
 - Expected to continue to expand in 2021
 - Propelling economic recovery primarily through escalating home construction/renovation activities and increasing new home sales
- Real Estate
 - The rise of the housing market
 - Strengthened consumer demand for housing inspection services, real estate brokers and property management services, etc.
 - Facilitated real estate franchise expansion

Growth Sectors

- Retail Food, Products & Services
 - A shift from spending in restaurants to spending in grocery stores
 - Improved spending on automotive, home improvement/furnishing, and electronic stores, etc.
 - Adoption of digital solutions to reinforce eCommerce retail sales, implementation of cashier-less checkout, and contactless payment
 - In-store sales are projected to increase in 2021
- Business Services
 - The move to remote work has created challenges for employers operating in the sector
 - Driving growth for franchises in technology, cybersecurity, and data privacy
 - More companies seeking solutions on marketing, logistics, public relations, legal and HR matters, etc.
 - Benefiting franchises in the business services sector

Recovering Sectors

With a broad deployment of vaccines, additional government stimulus packages, and pent-up demand and personal savings, all the sectors are expected to sustain strong recovery

- Lodging
 - Expected considerable increases in spending on travel in the second half of 2021
 - Rescheduled weddings and resumed in-person conferences
- Personal Services (beauty salons, massage and spa studios, gyms, recreational facilities, and child-related services, etc.)
 - Forced to close during the economic lockdown
 - Majority of the businesses in the industry are not essential
 - Demand for the industry is expected to quickly rebound
 - Facilitated by improving public health situation, and parents returning to work

Recovering Sectors

- Quick Service Restaurants & Table/Full-Service Restaurants
 - QSR industry is faring better than the full-service restaurant industry
 - Greater opportunity for surviving concepts to develop the site at prime locations because of the surplus in commercial real estate and low interest rates
 - Current trends:
 - Rollout of curbside pickup and contactless delivery services
 - Surge in off-premise sales
 - Upgrading technology to improve online and app ordering system
 - Simplified kitchen operations and menu options
 - Rising ghost kitchens and pickup or express formats
 - Offering of meal kits or groceries online to offset the revenue losses from dine-in services

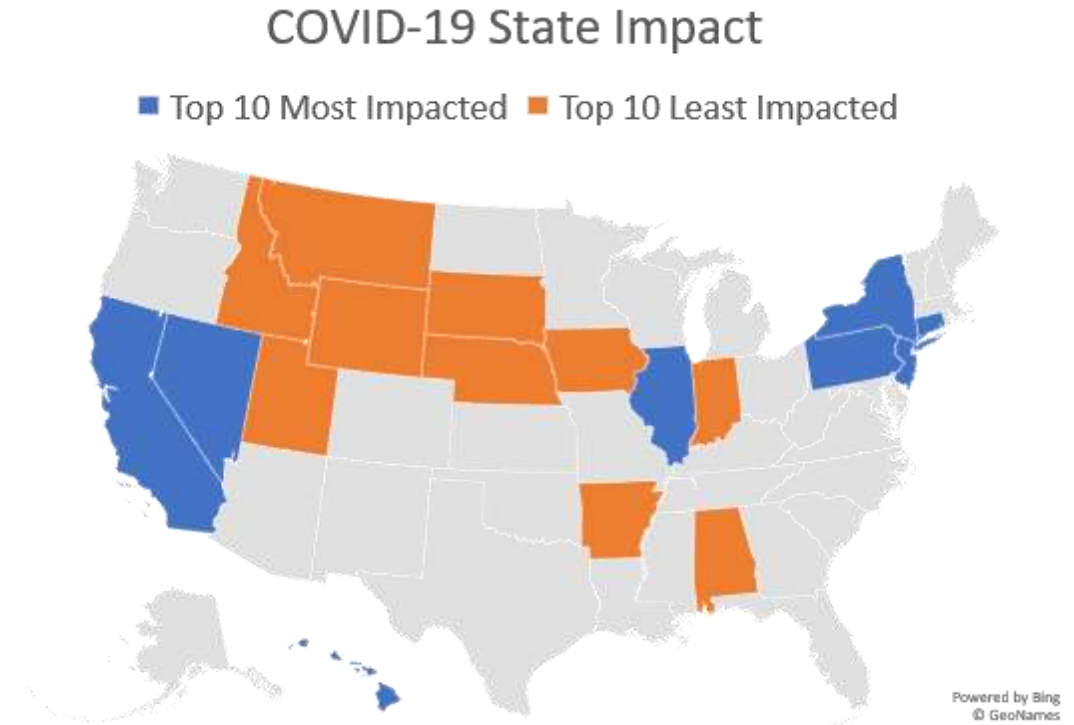
State Franchising Overview

- Based on FRANdata's projections, the Southeast has the largest number of franchise establishments, and is expected to hire approximately 2.5 million workers in 2021, generating \$218.1 billion in output to the US economy
- The Midwest is also forecast to experience extensive franchising activities in 2021, with a total of almost 170,000 franchises supporting 1.8 million jobs and contributing \$163.7 billion in output



COVID-19 State Impact

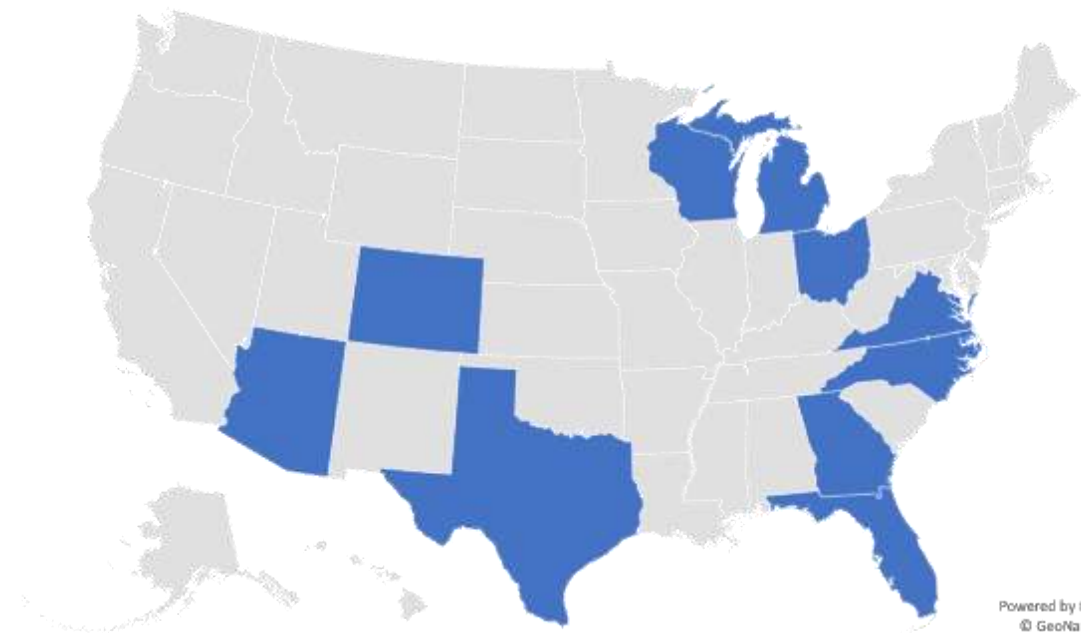
- The 10 most impacted states & territories:
 - New York, Hawaii, Washington, D.C., New Jersey, California, Massachusetts, Illinois, Pennsylvania, Nevada, and Connecticut
- The 10 least impacted states:
 - Idaho, Utah, South Dakota, Montana, Iowa, Nebraska, Arkansas, Alabama, Wyoming, and Indiana
 - These states, which are mostly concentrated in the Midwest region, saw accelerated consumer spending despite the pandemic and suffered minor losses on jobs and sales, along with lower rates of business closures



States With the Highest Expected Growth

- Top 10 states that are expected to sustain the **highest franchise business growth** in 2021: Ohio, Florida, Michigan, Colorado, Texas, Georgia, Arizona, Virginia, North Carolina, and Wisconsin
- This ranking was based on a weighted scale of factors such as population growth, job growth, median household income growth, unemployment, and future business environment expectations

Top 10 States for Franchise Business Growth in 2021



Avoiding Roadblocks to Future Growth

- Permanently changed consumer behavior
- Acceleration of technology adoption
- Increasing minimum wage impact
- AB5 Rule/PRO Act/Joint Employer



Steve White
President & COO
PuroClean, Inc.

Reimagining the Franchisor Forum

We started with Member Value Research Results

Highlights of Member Value Research

Challenges Members Want IFA Support



Advocacy



Best Practices/
Benchmarking



Catered Comms



Peer
Groups/Networking



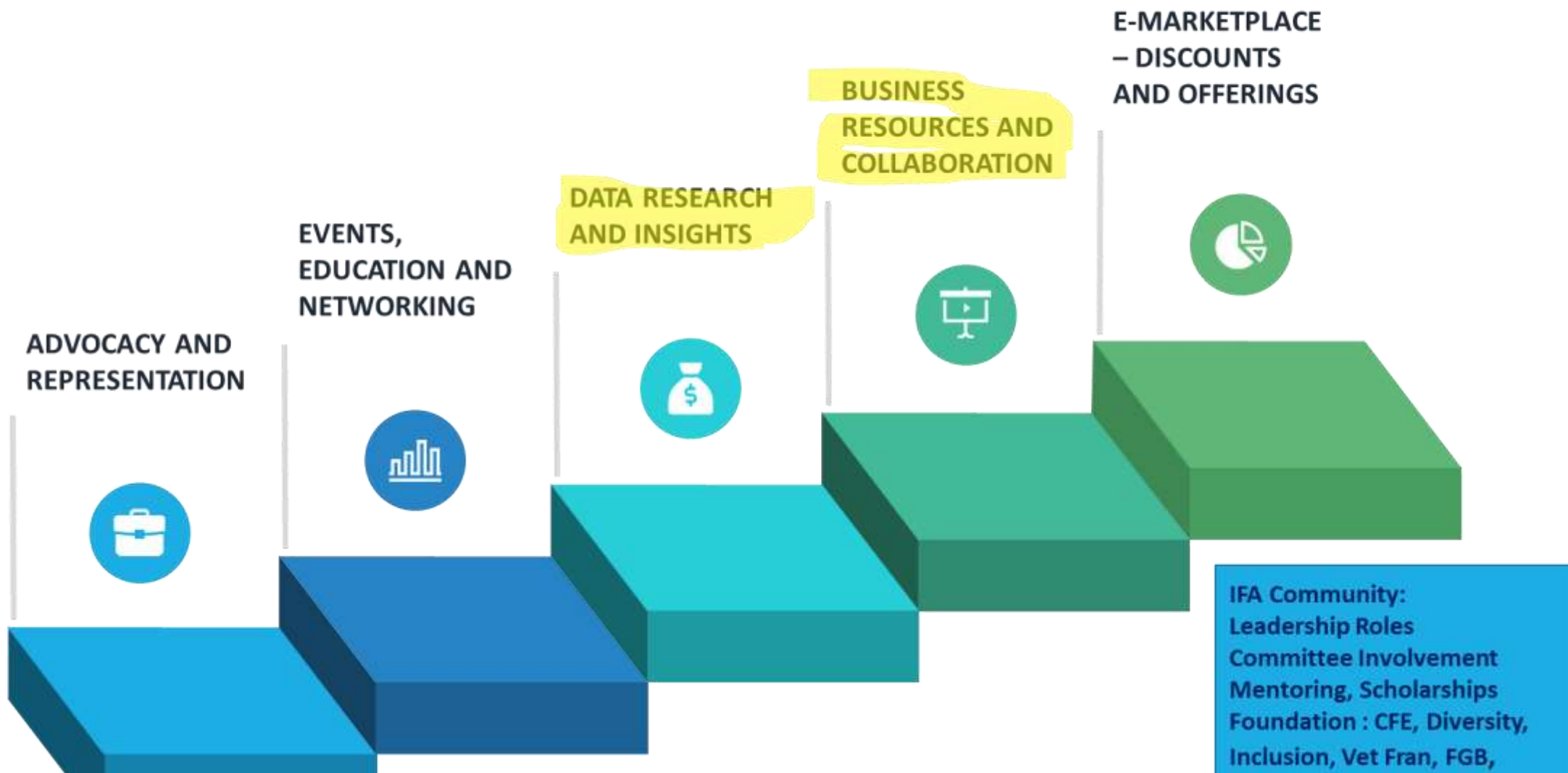
Lead Gen



Promo Programs

- Early in the membership journey, members often seek support and/or connection.
- Once trust and confidence has been established, they seek empowerment through action.
- Engaged and somewhat engaged franchisors overwhelmingly view resources for best practices and training as their primary membership expectation
- Engaged franchisors want more advocacy
- Somewhat engaged want more catered communications, best practices/benchmarking, networking
- Dissatisfied express multiple needs that aren't being met
- Best practices, advocacy, and the annual convention drive the most value

IFA MEMBER VALUE SNAPSHOT: BUILDING VALUE



IFA VALUE PROPOSITION REIMAGINED

THE PREEMINANT VOICE IN FRANCHISING

GOVERNMENT RELATIONS/ADVOCACY

Premier voice in local, state and national advocacy

DATA/RESEARCH/INSIGHTS

Data for benchmarking general business trends, business specific needs by role, industry, lifecycle stage

STANDARDS/ETHICS VOICE AND MEASUREMENT

Industry leading voice around standards, ethics, and the business and model

STANDARDS / RATINGS SYSTEM

'Seal of Approval', vetting system for IFA members, or peer review ratings to give members, buyers and other consumers a point of view (vs sifting through thousands)



EDUCATION: CURRICULUM CERTIFICATION PATHS

Education, webinars, certifications, curriculum by role, or lifecycle stage
Franchising Business Tracks

EVENTS

Hybrid, National and Local Events
Continuously provided throughout year for education, thought leadership, networking, deal making, fundraising and other needs

BEST PRACTICES/BENCHMARKING PEER NETWORKING/MENTORING

Learn best practices and mentor, networking through formal and informal events and engagement

BUSINESS GROWTH & RESOURCES E-MARKETPLACE

Supplier Products & Services, Consulting Services, Affinity Value, Business Resource Needs by Member Segment

FY2021 STRATEGIC PRIORITIES

STABILIZE THE CORE



STABILIZE/GROW MEMBERSHIP

- VALUE PROPOSITION
- MARKETING STRATEGY
- REVISIT EXISTING DUES STRUCTURE
- PROMOTIONAL INCENTIVES,
- PAYMENT PLANS
- NEW MEMBER ACQUISITION STRATEGY
- MEMBERSHIP ENGAGEMENT STRATEGY
- RENEWAL STRATEGY



INCREASE EVENT ATTENDANCE

- MARKETING STRATEGY
- CHANNEL PARTNERS
- ROBUST/NEW CONTENT TRACKS FOR ZEES, ZORS, SUPPLIERS, GR, INTERNTL
- REVISED PRICING STRATEGY
- PROMOTIONAL INCENTIVES
- SPONSORSHIP AND EXHIBITOR OPPS/ ENGAGEMENT
- DATA/ROI TRACKING



CREATE INCREMENTAL VALUE

- START OF 365 ENGAGEMENT CALENDAR - ONGOING EDUCATION / TRAINING / BEST PRACTICES
- EXTEND EVENT VALUE BEYOND EVENTS
- DATA/RESEARCH (RESOURCE DEPENDENT)



DIGITAL ECOSYSTEM/ ONLINE ENGAGEMENT

- VIRITUAL EVENTS PLATFORM
- COMMUNITY MEMBER SITE
- MARKETING AUTOMATION / SEGMENTATION ENGINE
- ONLINE COMMUNITY (RESOURCE DEPENDENT)

Zor Forum Value

Activities:

- Gather information
- Distribute information
- Discuss information
- Build community

Intended Results:

- Increase engagement
- Develop best practices, standards and benchmarks
- Develop relationships
- Improve membership retention

Implementation Ideas

Phase I:

- Begin with basic surveys at convention
- Discuss survey results at convention
- Distribute survey results post convention

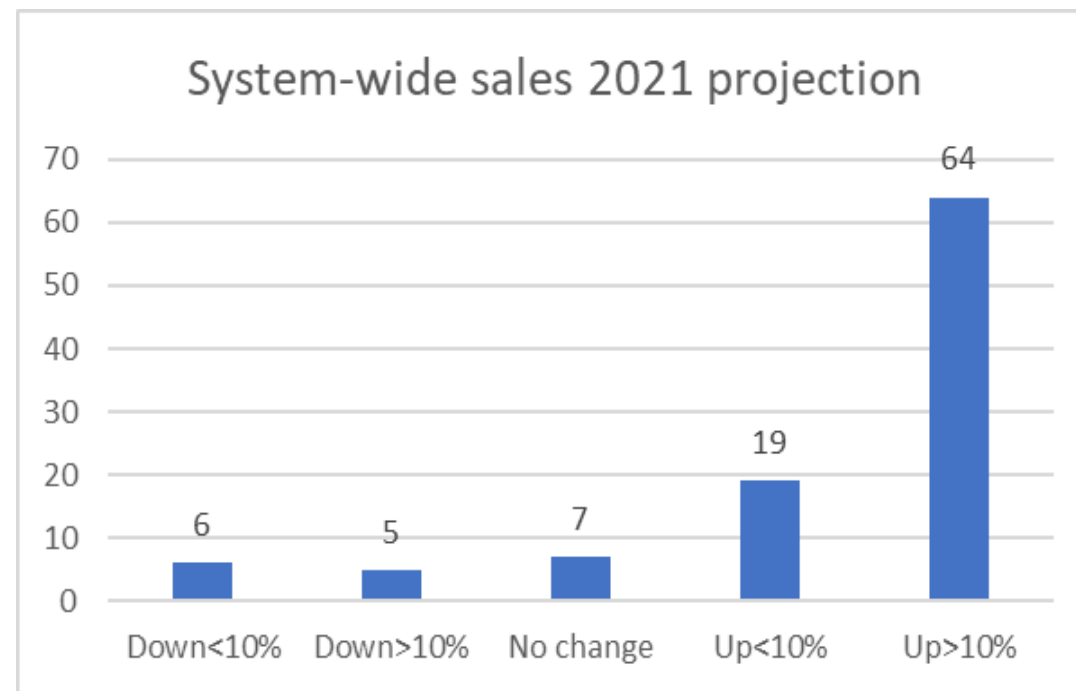
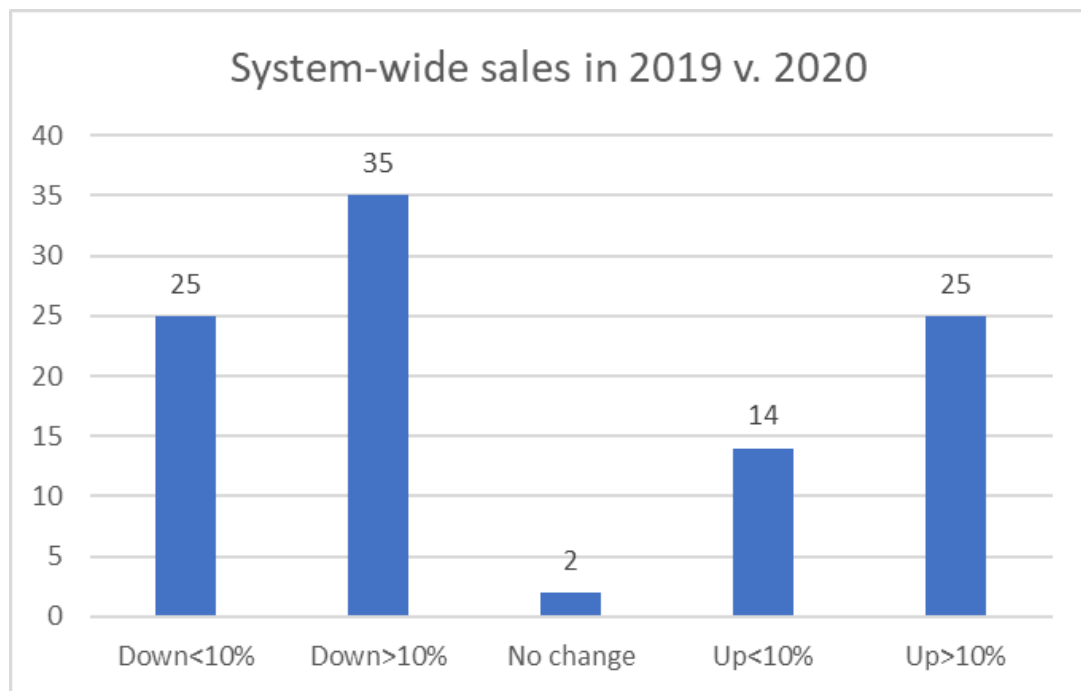
Phase II:

- Increase sophistication of surveys
- Turn survey results into best practices and benchmarks
- Turn discussions into relationships at convention and FAN

Phase III:

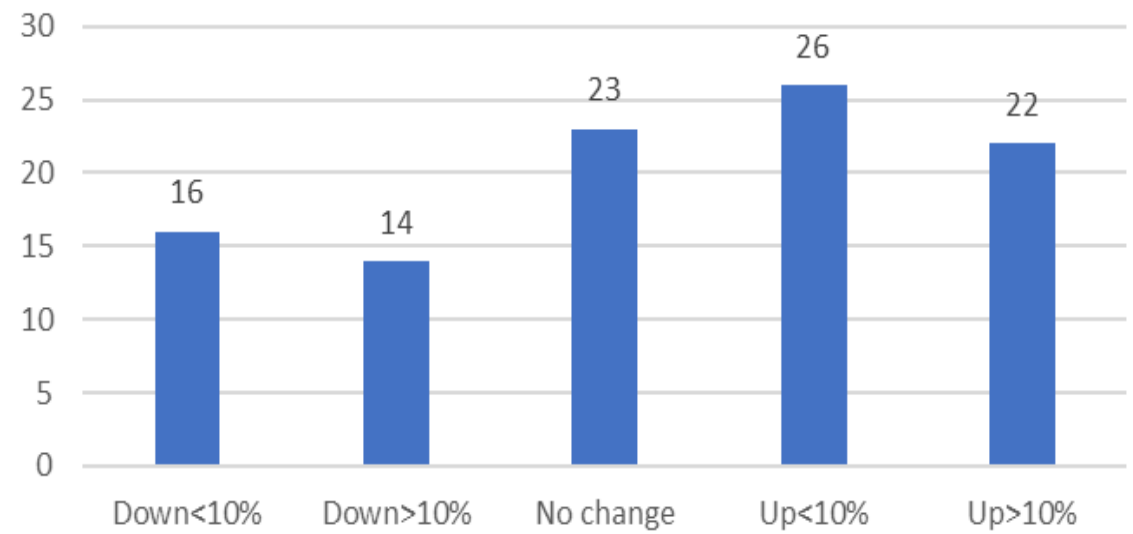
- Establish and maintain key indicator benchmarks
- Turn relationships into mentorships and performance groups
- Become the go to source for what's on the mind of franchisors

Franchisor Forum Polling Results

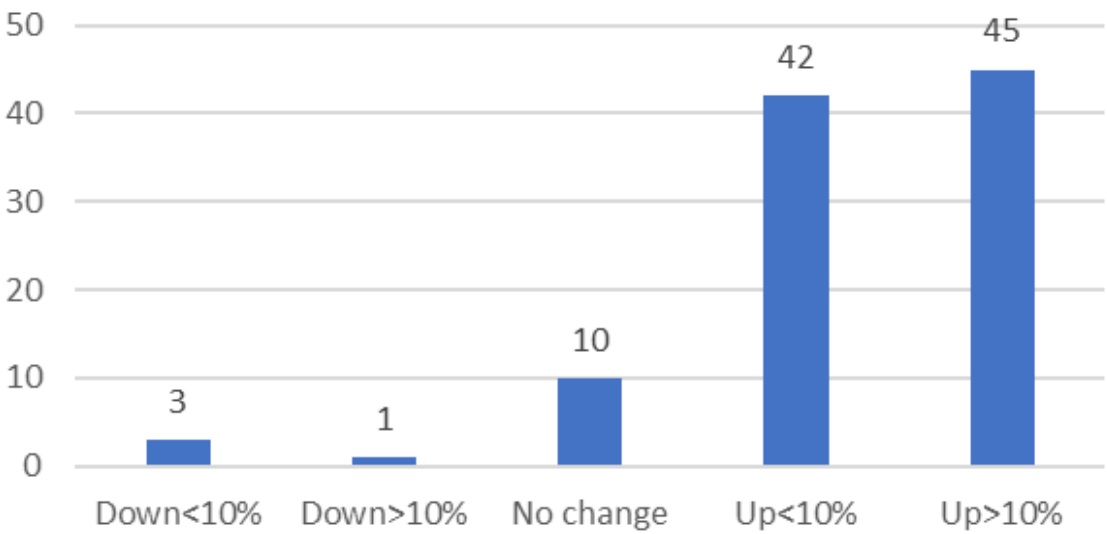


Franchisor Forum Polling Results (Cont.)

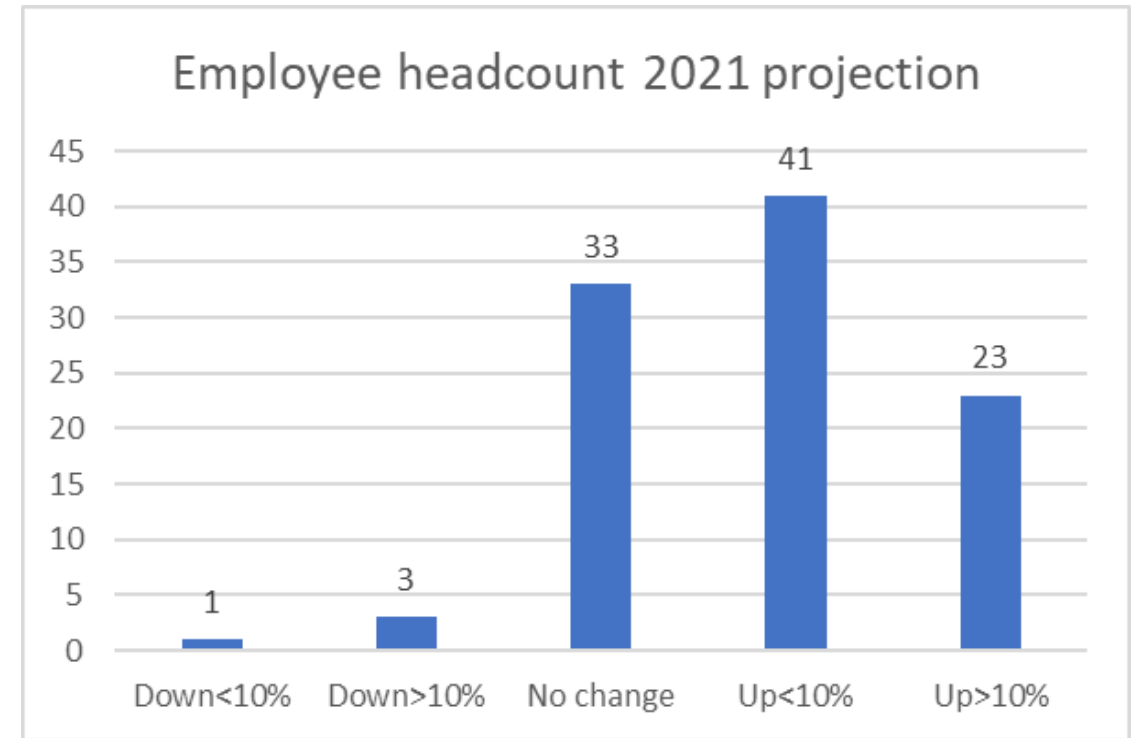
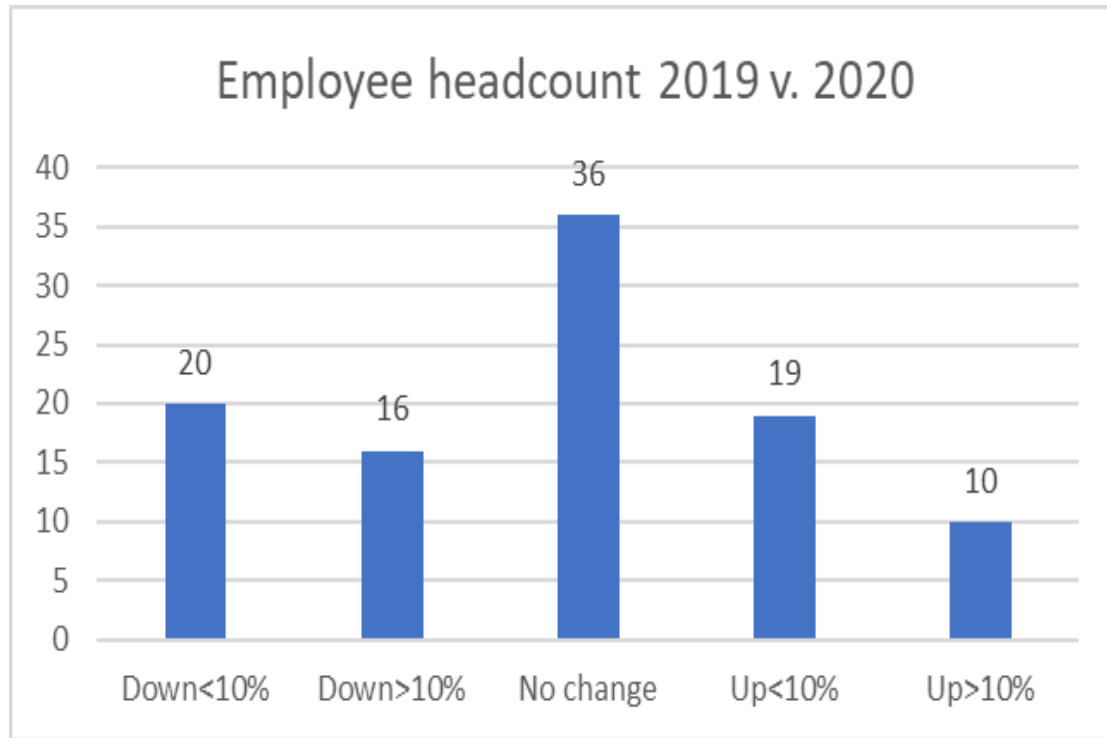
Total unit count 2019 v. 2020



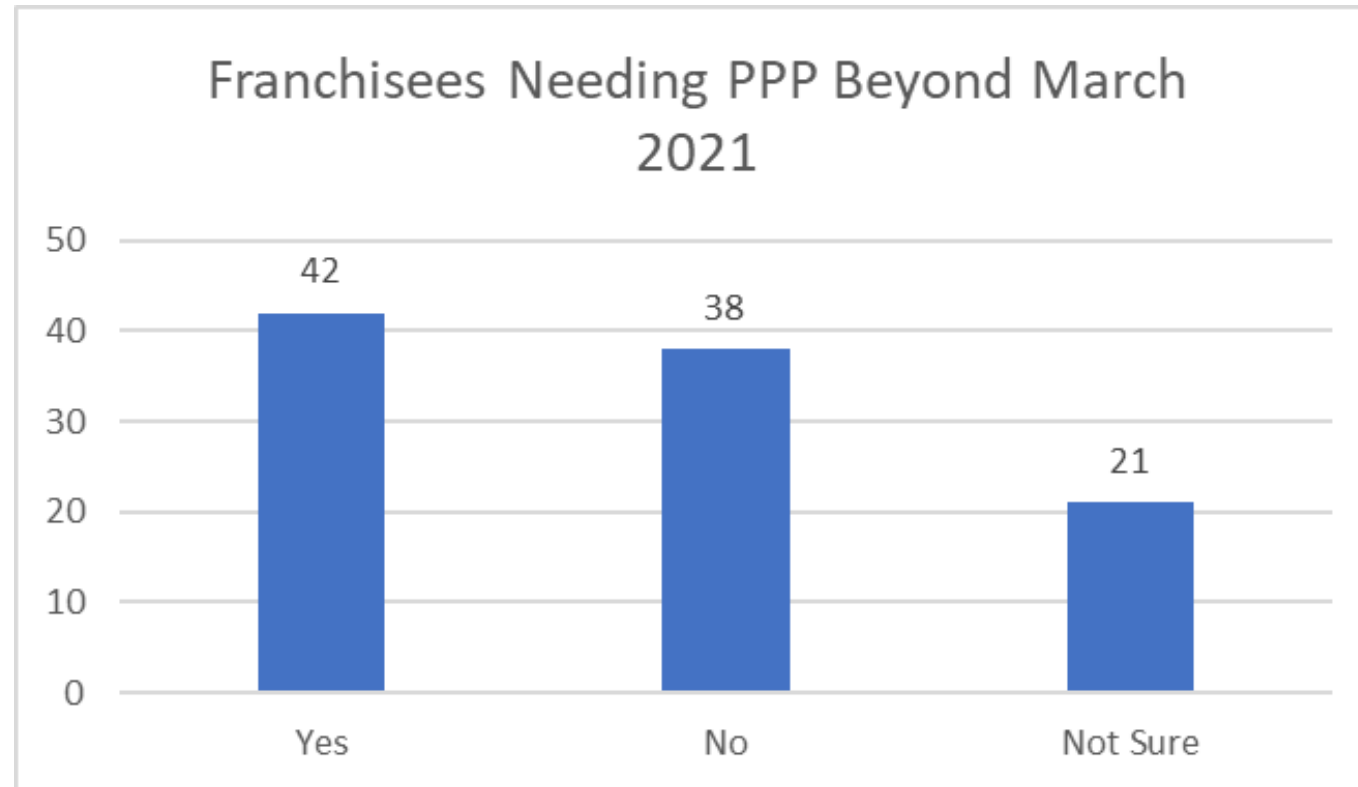
Total unit count 2021 projection



Franchisor Forum Polling Results (Cont.)



Franchisor Forum Polling Results (Cont.)



Questions?

Continue the Conversation in Sector Spotlights!

- **Commercial & Residential Services Sector Spotlight** - March 23 // 2:00-3:00pm ET
- **Retail Food, Products & Services Sector Spotlight** - March 30 // 2:00-3:00pm ET
- **Business Services Sector Spotlight** - April 1 // 2:00-3:00pm ET
- **Lodging Sector Spotlight** - April 6 // 2:00-3:00pm ET
- **Personal Services Sector Spotlight: Health & Beauty** - April 8 // 2:00-3:00pm ET
- **Personal Services Sector Spotlight: Family & Entertainment** - April 13 // 2:00-3:00pm ET
- **Quick Service Restaurant Sector Spotlight** - April 15 // 2:00-3:00pm ET
- **Table/Full-Service Restaurant Sector Spotlight** - April 20 // 2:00-3:00pm ET

community.franchise.org/economic-outlook-webinar-series