

**FranchiseBusiness****REVIEW**<sup>™</sup>  
Driving Better Results.

THIRD QUARTER RESULTS – 2009

# Franchise Economic Impact Study

# Recovery? Yes... but Not for All

I sit here typing this just 15 days before we ring in a new year and say our final goodbyes to 2009. Simply put, the past year has been a disaster for the U.S. economy as a whole and thousands of small and large businesses across the country. For those still standing, signs of a recovery are slowly (very slowly) starting to appear. According to economists, the recession ended several months ago. It's now time to pick ourselves up, dust off, and look ahead to a brighter 2010.

For this economic impact report, we surveyed 113 franchise companies about their third quarter performance and there are many things to be encouraged about what we learned. **Here are a few key highlights:**

- Franchise sales have increased every quarter during 2009 and new franchise unit growth is expected to be up 29.2% over 2008 sales performance.
- Positive growth is industry specific. The Health and Beauty segment (which includes senior care and hair care) is significantly out-pacing almost all other segments. Sports and Recreation and Business Services came in a close second and third.
- Positive growth is also NOT widespread. 47% of survey respondents reported flat or negative growth for Q3. A few leading brands in each sector are responsible for a disproportionate amount of the growth that we are seeing overall.
- New franchise development of retail and food franchise concepts remain flat.
- Higher investment franchise sales are improving, with concepts over \$200K showing a 141% improvement over Q2 and concepts over \$300K showing a 60% increase over the past quarter. Still, 51% of all franchises sold in Q3 had a sticker price under \$100K.
- Unit performance year-over-year (same store sales) is down, but only slightly. The majority of systems report modest losses of gross revenue of less than 10%.
- Corporate unit development will more than double this year, for those brands that operate both franchised and corporate-owned units.

Overall, looking ahead to Q4 results and 2010 performance, things are definitely a little brighter. That said, the slow recovery that we are now in will be driven by the top 20% of franchise brands that are doing things right. For the majority of franchise systems, 2010 will continue to be a struggle with flat or negative growth, increasing cut-backs, and unit closures.

Until next quarter... best of success!

Happy Holidays and Happy Franchising,

Eric Stites, President  
Franchise Business Review

## “The Recession is Over! \*

\* Good luck surviving the recovery”

-Newsweek Cover, Aug 2009

“Older franchise units saw a decrease in revenues 11-20%. The credit market has had a drastic effect on new franchise sales.”

-CEO, Service Franchise

“Our franchise outlets have benefitted by being part of a franchise system. While gross sales in our industry have declined 15%, our franchise outlet gross sales have declined only 8%.”

-CEO, Automotive Franchise

“Gross revenues are down 20-30%. Lack of money sources available is the key issue.”

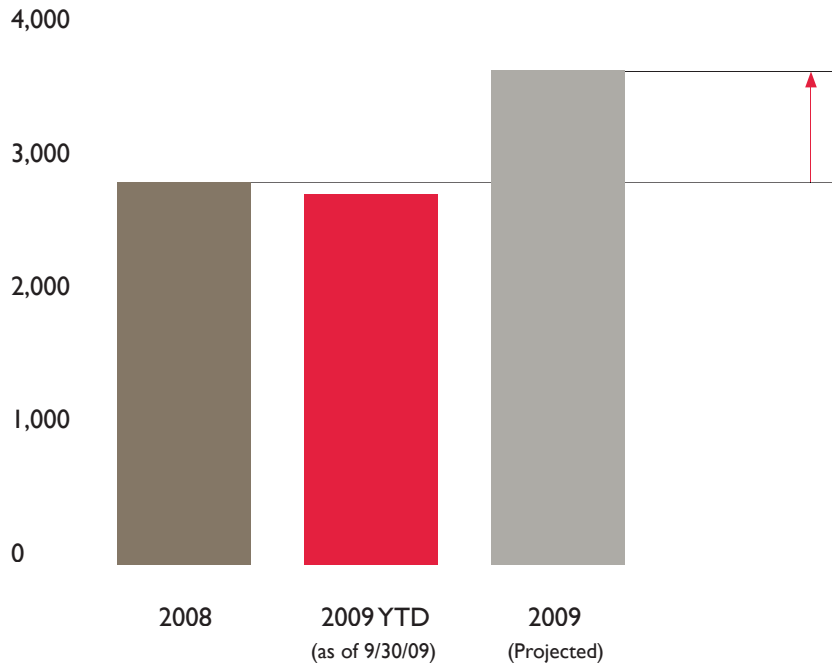
-CEO, Real Estate Franchise

Roughly 25% of units are up 10 to 20%, roughly 20% are down 30 to 70%, the rest are down modestly. This economy is all about your geographic situation, so a chain located in South Florida, Southern California, Arizona, Nevada, Wisconsin and Michigan is likely reeling, while chains located in Utah, for example, might be up.

-CEO, Pizza Franchise

## 2009 Franchise Unit Growth

### New Units Opened

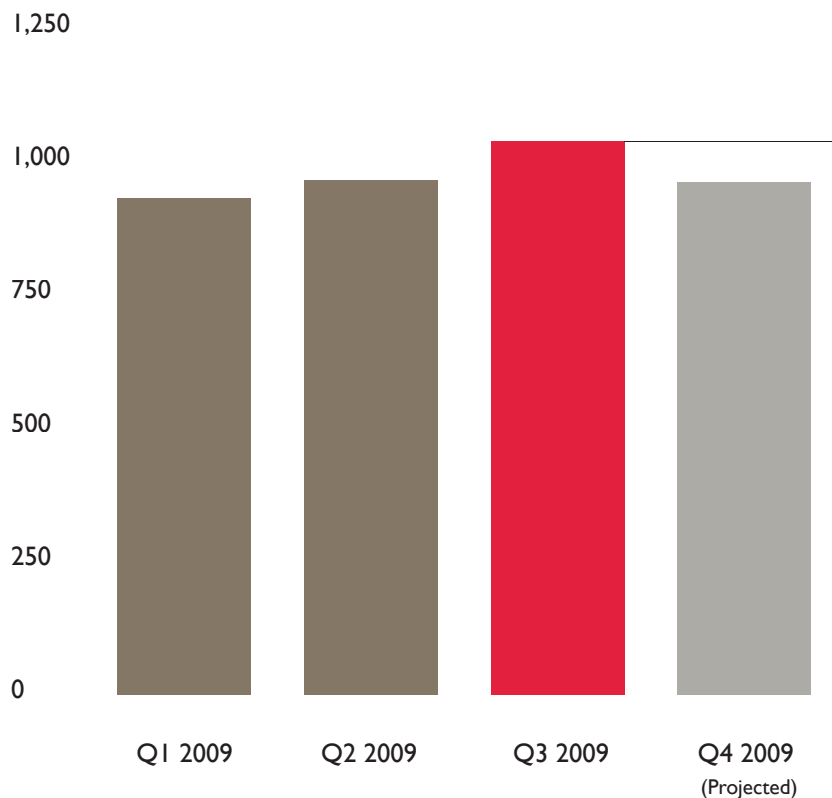


Franchise unit growth is expected to be **Up 29.2%** by year's end.

With new unit franchise growth YTD just 90 units shy of 2008 totals, many systems will experience a nice growth bump in 2009. And while units sales have been increasing each quarter, 1,140 units have been shuttered YTD. This number is projected to exceed 1,500 units by year end - and while significant, this number represents less than 3% of the over 53,705 units represented by this survey.

## 2009 Franchise Sales Growth by Quarter

### New Units Sold

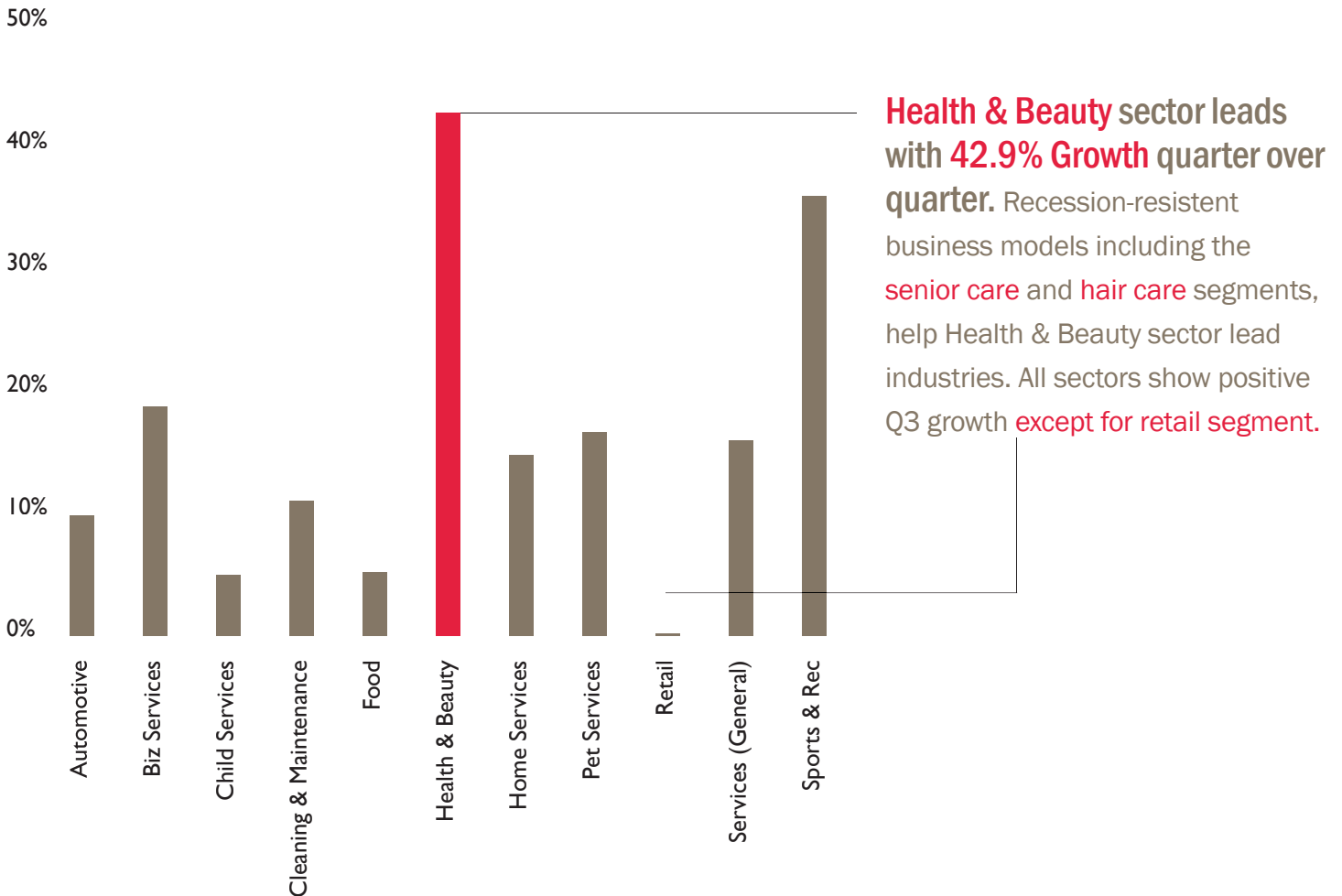


Q3 sales **Up 7.6%** over Q2 and **Up 11.5%** over Q1. New unit sales projected to be **Up 36.3%** for the year, over 2008.

Still, **43.2%** of systems surveyed are reporting **flat or negative unit growth** for 2009 YTD. Big growth is being realized by only a few - typically the leaders in each sector - with some industry sectors significantly outpacing the competition's recovery.

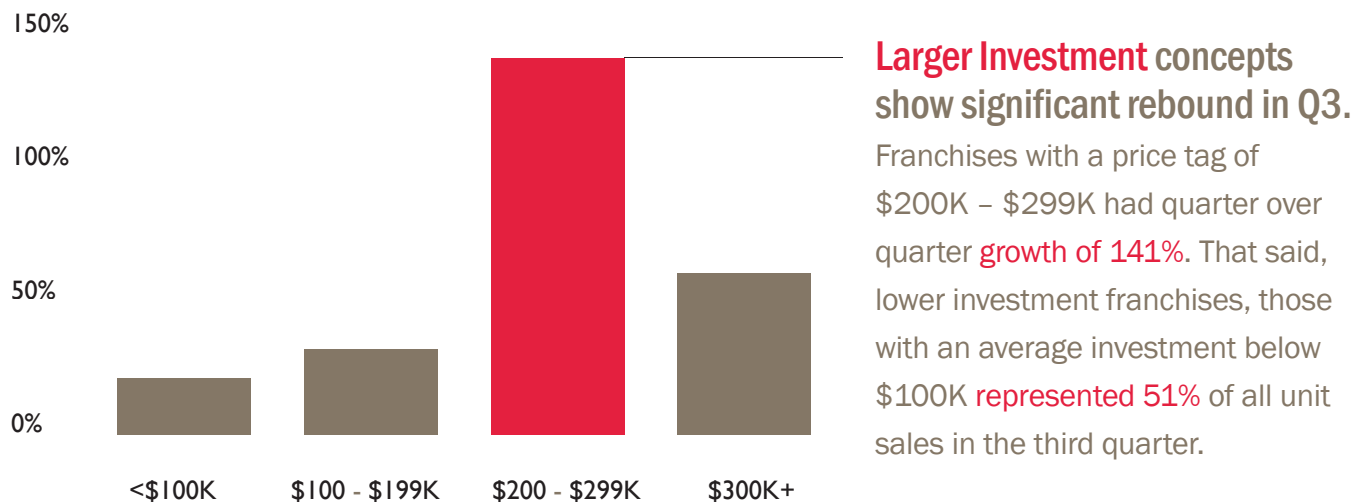
## Q3 Franchise Sales Growth by Industry

Percent Change in Units Sold, Q3 Over Q2



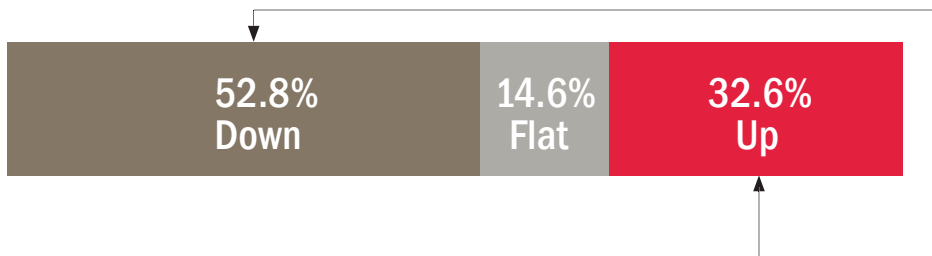
## Q3 Franchise Sales Growth by Investment Level

Percent Change in Units Sold, Q3 Over Q2



## Franchise Unit Performance

### Gross Revenue Up or Down, Year Over Year

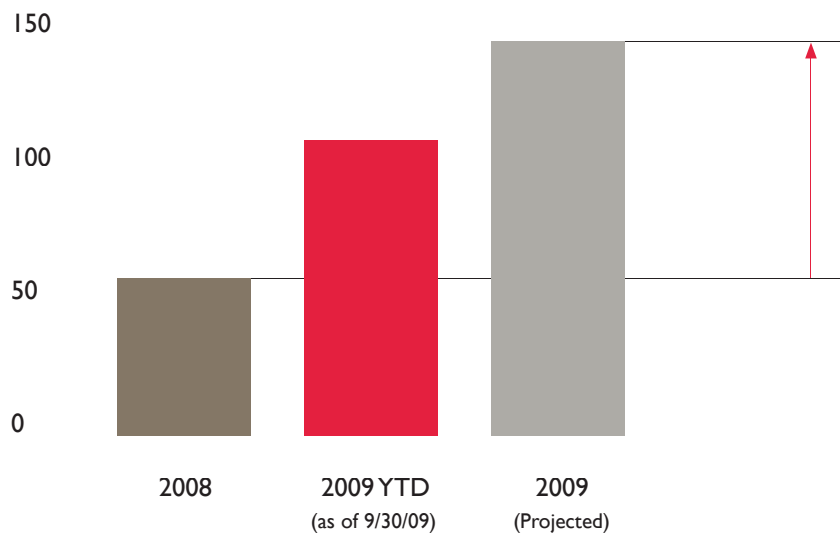


### Unit Performance is Down, but...

Yes... **52.8%** of those surveyed said gross revenues at the unit level were down, but **32.6%** of those said unit performance was only off 1 - 10%. On the flip side, another **32.6%** of respondents said sales are up over last year, **10.1%** of respondents that stated that unit revenues are **up over 20% year over year**.

## 2009 Corporate-Owned Unit Growth

### New Units Opened



### Corporate Unit Growth **Up 251%**

While **only 20%** of the franchise companies surveyed had 5 or more corporate-owned units in 2008, corporate unit development YTD is **up 188%** through September and is expected to **exceed a 250%** increase for the 2009.

**About this Report** - The information provided in this report is based on a survey of 113 franchise companies completed by Franchise Business Review in November 2009. The 113 companies represent a total of 53,705 individual franchise locations (units) and 1,621 corporate-owned locations. While this sample size is relatively small, the group was extremely representative of the franchise sector as a whole, spanning 11 different primary industries and investment ranges from as low as \$38,500 to over \$1 million. For questions or additional information on the franchise sector, please contact Franchise Business Review at 866.397.6680 or info@FranchiseBusinessReview.com