



ANNUAL FRANCHISEE SURVEY 2023

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Executive Summary

The 2023 IFA/FRANData franchisee inflation report reveals year-over-year insights into the economic landscape and the effects of inflationary pressures on franchised businesses. On the macroeconomic level in 2023, the all price index demonstrated a 3.7% increase, marking a significant contrast to the previous year when it escalated by more than 8.0%. Food inflation in August 2023 was 4.3% while energy inflation was -3.6%. While these figures suggest a degree of inflation normalization, the impact on businesses remains substantial, and rising costs have continued to cause challenges for various sectors.

Key takeaways include:

- ▶ **86% of franchisees reported feeling the effects of increasing costs on their operations**, a marginal decline from the prior year.
- ▶ **3 out of the top 5 industries experiencing the greatest impact from inflation were from the food category.**
- ▶ Of all concerns, **labor remains the most significant problem**, while fuel price pressure has abated and the cost of inventory has worsened.
- ▶ A considerable **83% of franchisees made the strategic move to raise their prices** to counteract the effects of inflation. This step underscores the necessity for businesses to adapt to the evolving economic environment.
- ▶ The percentage of franchisees expressing pessimism regarding future inflation remains elevated, with **51% expecting inflation to get worse.**

In the face of these challenges, **the sharing of best practices and the supportive network of fellow franchisees have proven to be significant advantages of being part of a franchise system.** As cited by franchisees, this collaborative approach has enabled them to navigate the pressures of inflation more effectively, helping facilitate more informed decision-making and innovative solutions to address inflation.

**Note: In some graphs, rounding percentages may result in the total sum being slightly greater or less than 100%.*

Executive Summary

Respondent's Profile



~1,300 respondents from 22 industries



Representing more than 136 brands



Owning ~7k units nationwide

Dealing with Inflation



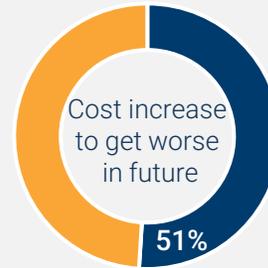
Franchisees are raising prices as a result of cost increases and experiencing lowered business earnings



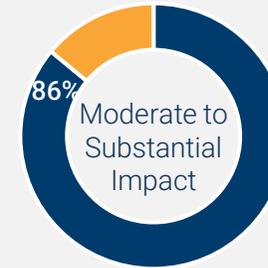
9 out of 10 business units raised their prices to combat cost increase

Current Challenge & Future Expectation

51% of franchisees feel inflation will get worse in 2024. Coupled with inflation, the availability and retention of employees pose the most substantial challenges.



Impact of Inflation



Rising labor cost, insurance and inventory cost are major sources of impact

Franchise System Support



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



Franchisees also acknowledge support through increased and improved customer marketing by the brand

Respondent's Profile



1,297 respondents cumulatively owning more than 6,639 franchise businesses.



27% of respondents are from Texas, Florida, and California.

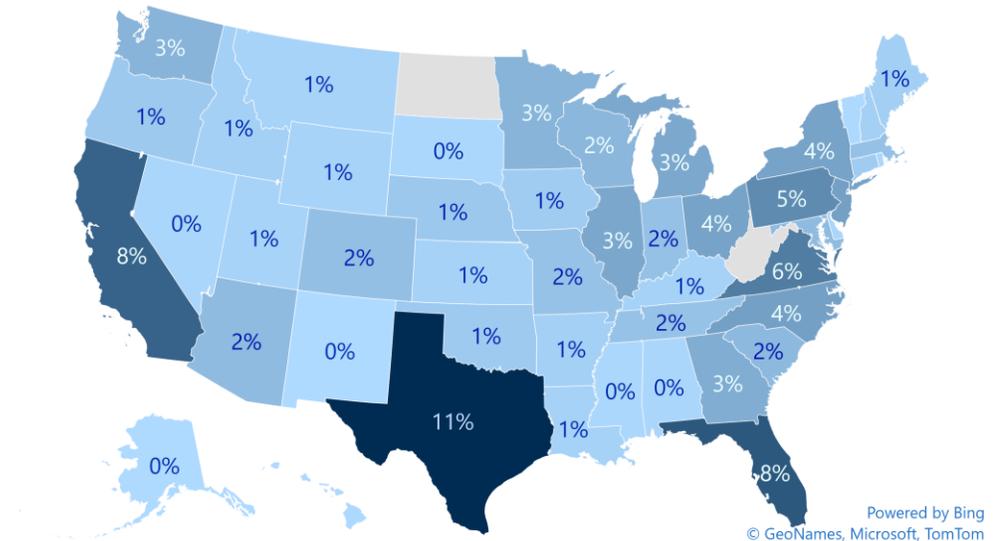


Top 3 industries are Maintenance Services, Health & Fitness, and Beauty-Related.

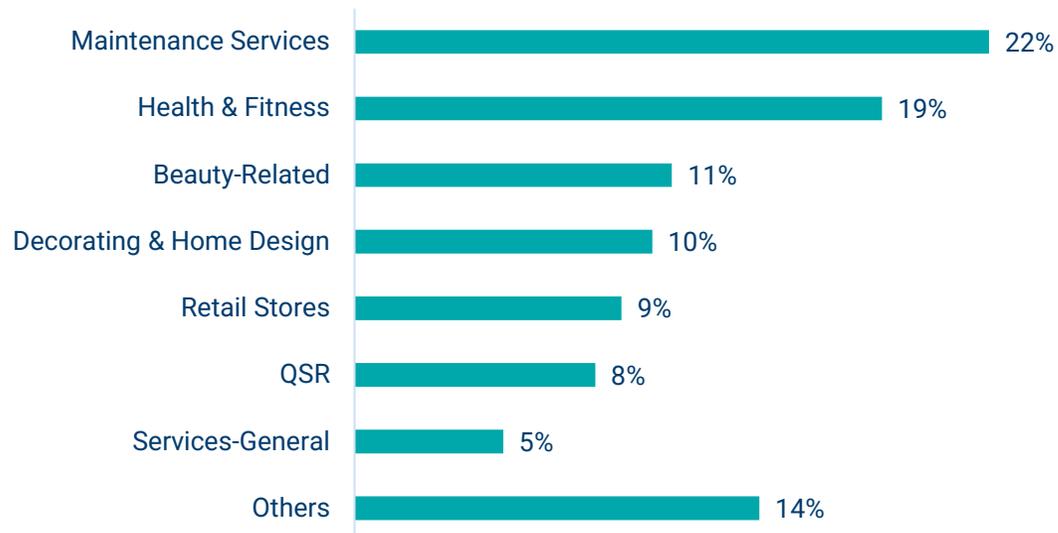


55% are single-unit franchise owners while 45% of respondents are multi-unit franchisees.

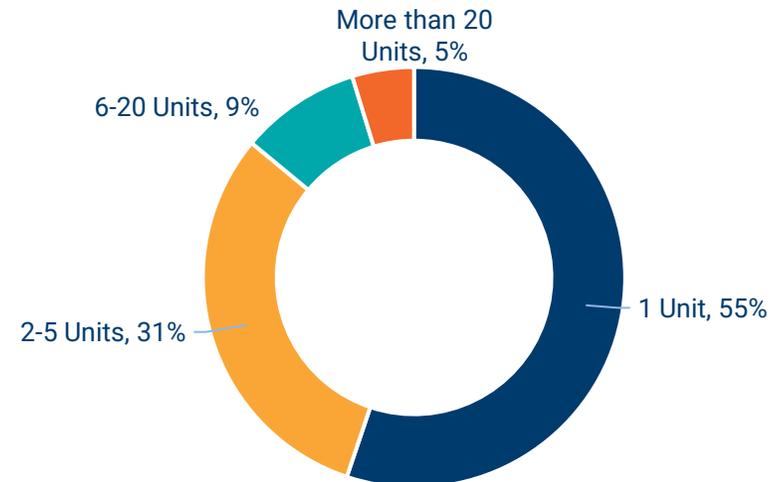
Respondents by State



Respondents by Industry



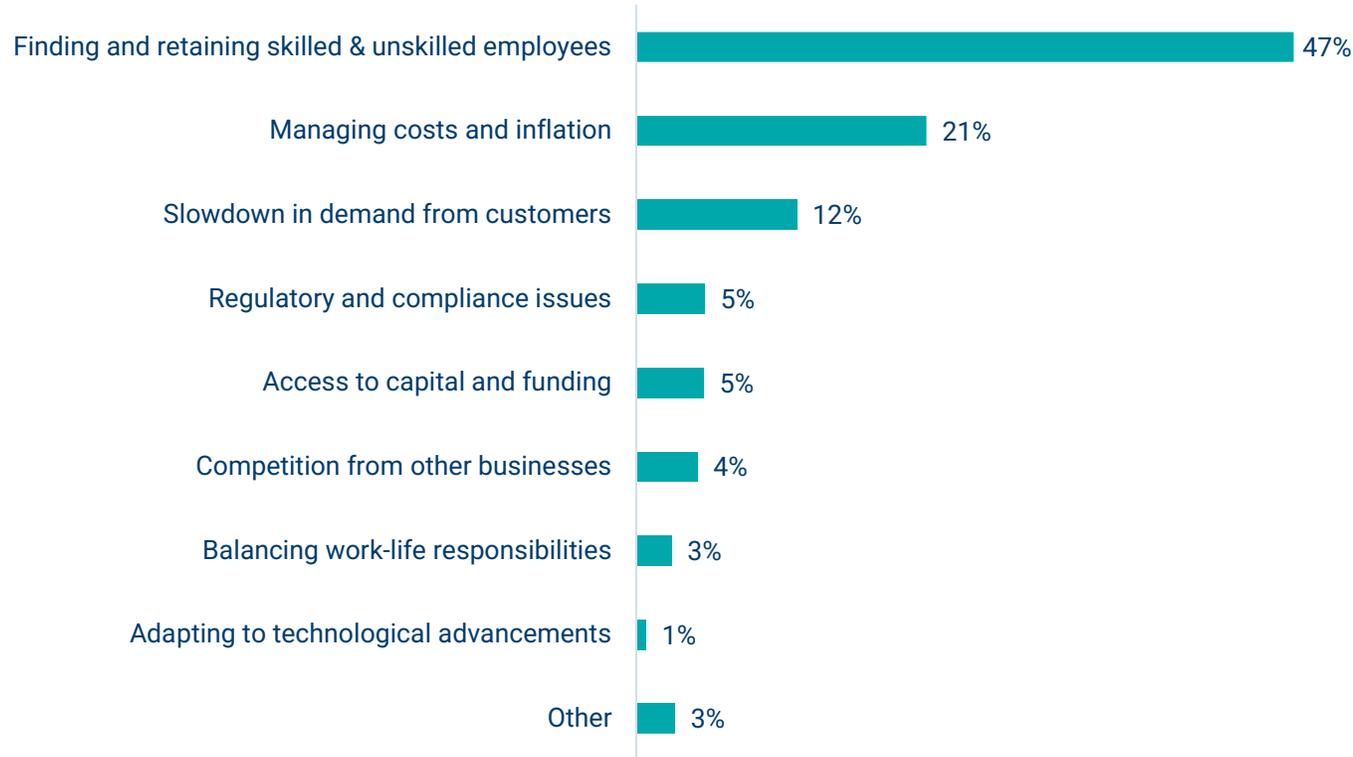
Franchise Ownership by Number of Units Owned



Most Significant Business Challenge

Labor issues remain the most significant concern for franchised businesses, followed by inflation

Most Significant Challenges Facing Businesses



Dealing with state and federal requirements, cost of operation for a small business, and finding and retaining skilled & unskilled employees are the biggest challenges.



Maintenance Services Franchise owner from North Carolina

Overall cost to build new locations

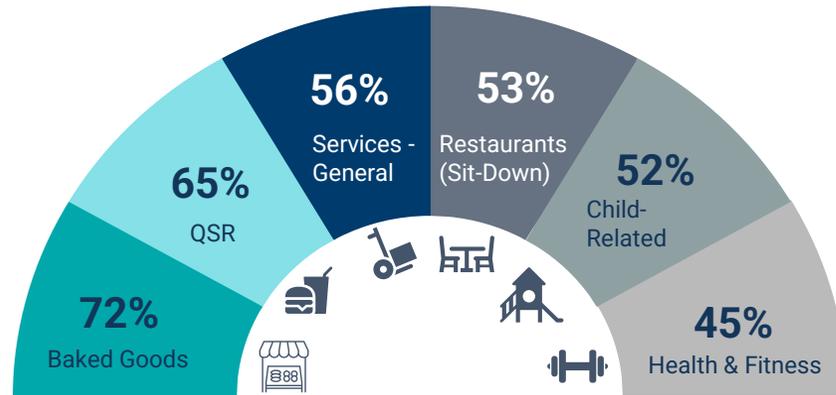


Beauty Related Franchise owner from Tennessee

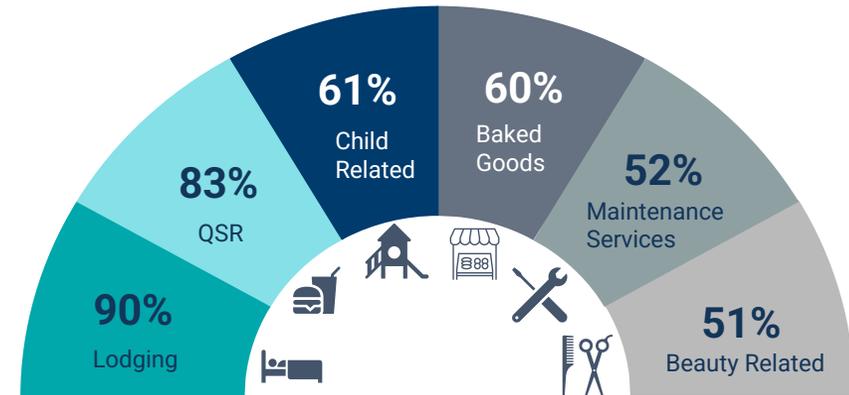
Impact of Inflation

86% of franchisees are experiencing a moderate to substantial impact of inflation; **Food industry** is feeling greatest impact

2023 TOP INDUSTRIES EXPERIENCING SUBSTANTIAL IMPACT OF INFLATION



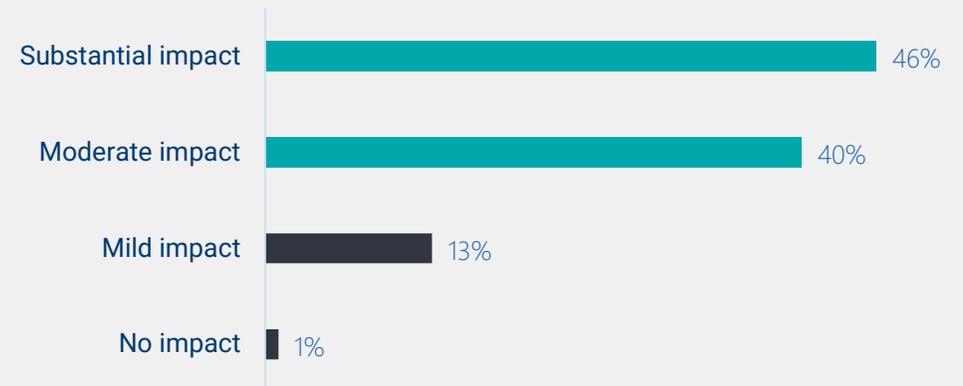
2022 TOP INDUSTRIES EXPERIENCING SUBSTANTIAL IMPACT OF INFLATION



INFLATION IMPACT

Moderate to significant impact of inflation on franchisees' businesses *decreased from 90% in 2022 to 86% in 2023.*

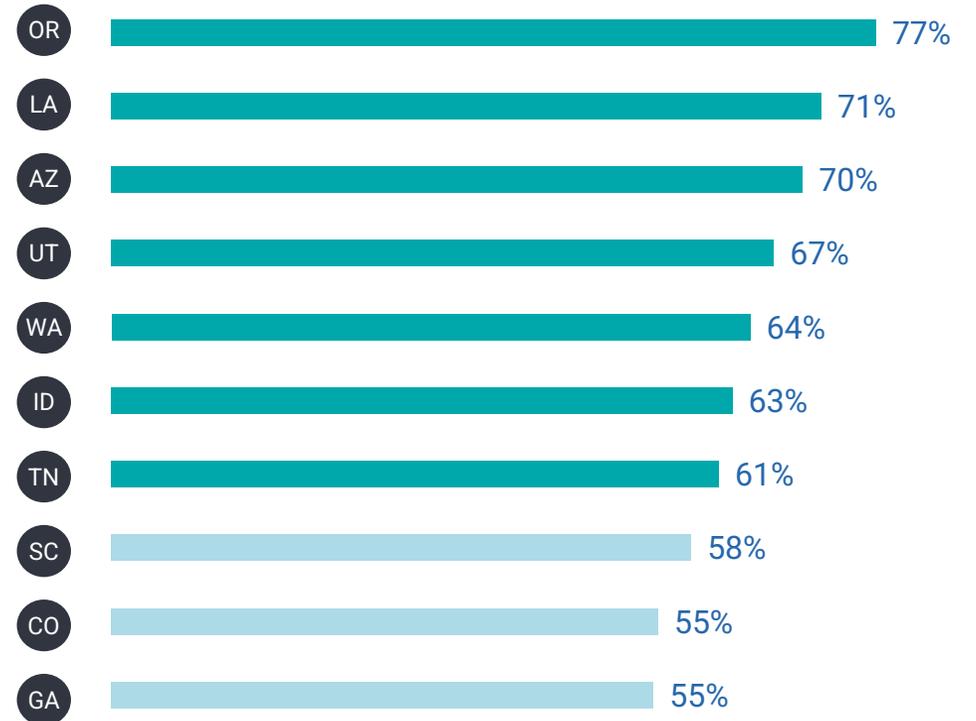
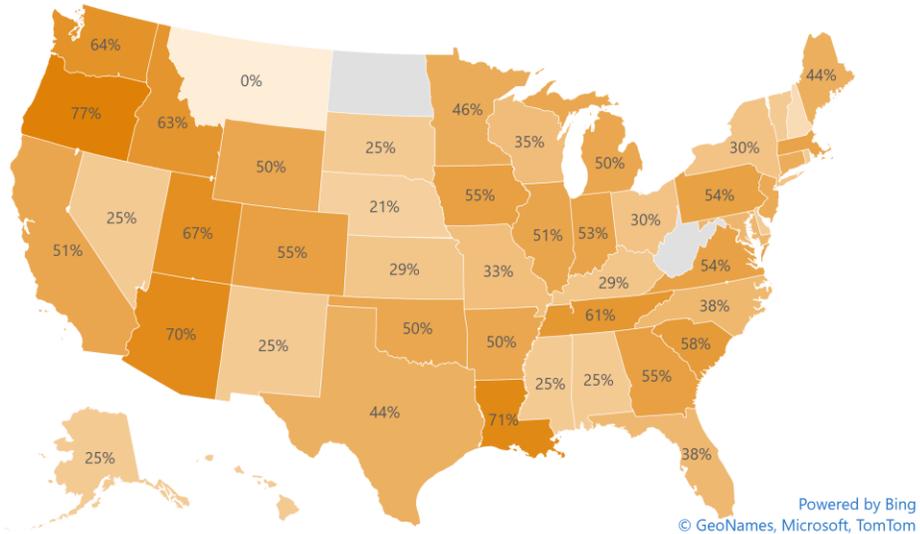
86%



Impact of Inflation

There are **21 states** where more than **50%** of respondents feel a substantial impact of inflation

Respondents who feel substantial impact of inflation



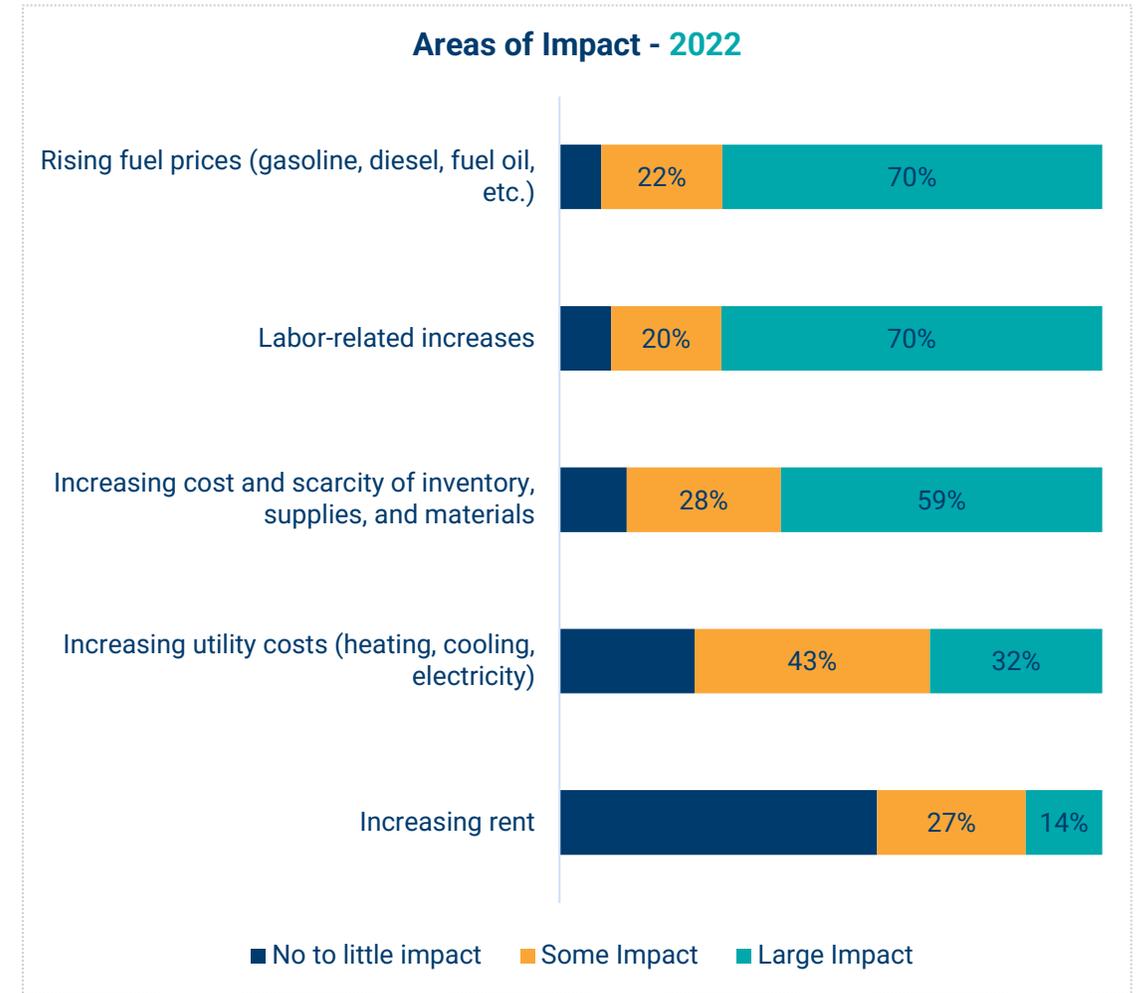
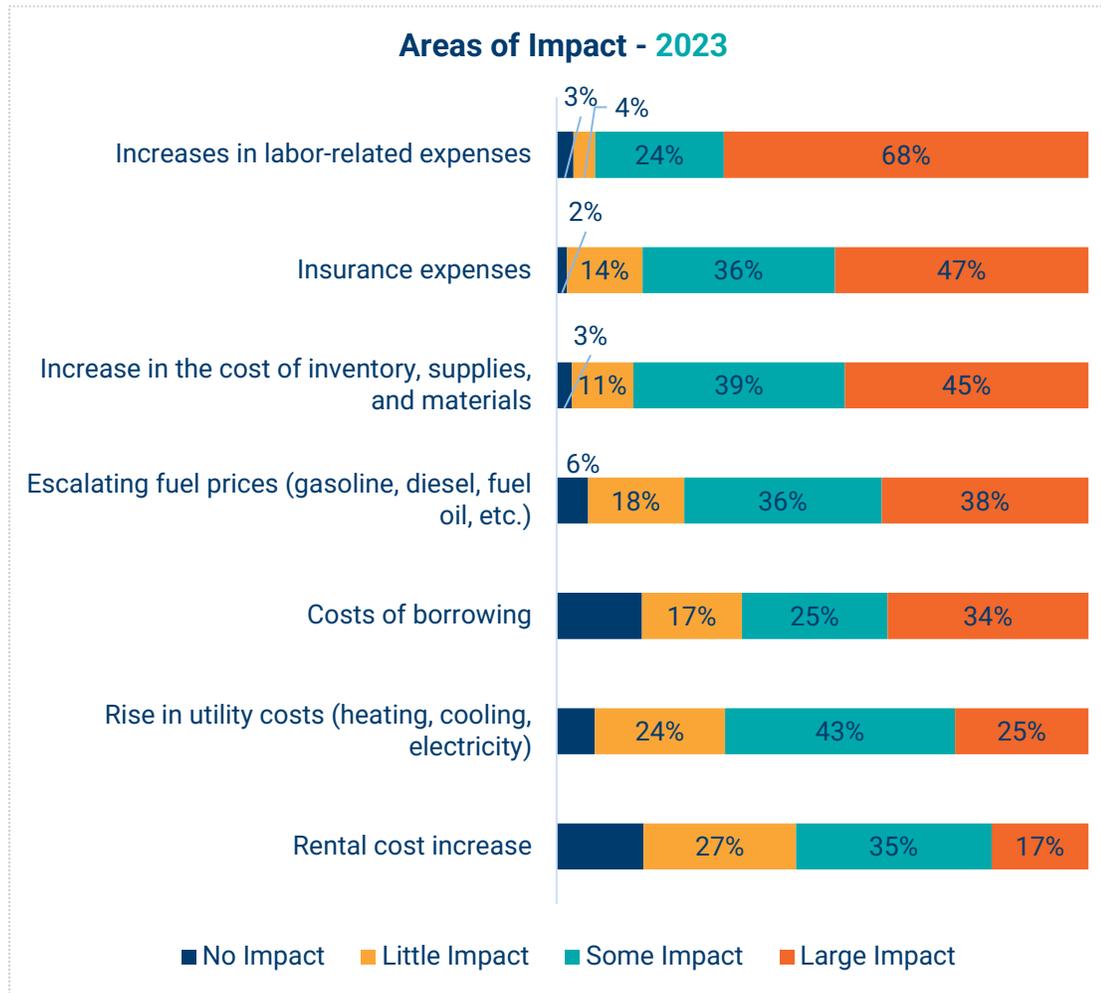
Top 3 states where % of respondents reported significant increase/decrease in impact of inflation in 2023

TOP 3 STATES WHERE SIGNIFICANT IMPACT OF INFLATION INCREASED		
STATE	2023	2022
OREGON	77%	43%
LOUISIANA	71%	35%
UTAH	67%	50%

TOP 3 STATES WHERE SIGNIFICANT IMPACT OF INFLATION DECREASED		
STATE	2023	2022
MONTANA	0%	25%
WISCONSIN	35%	56%
NEW HAMPSHIRE	13%	33%

Impact of Inflation on Business Area

Labor remains the top challenge while fuel cost pressure eased



Top Three Cost Centers By Industry

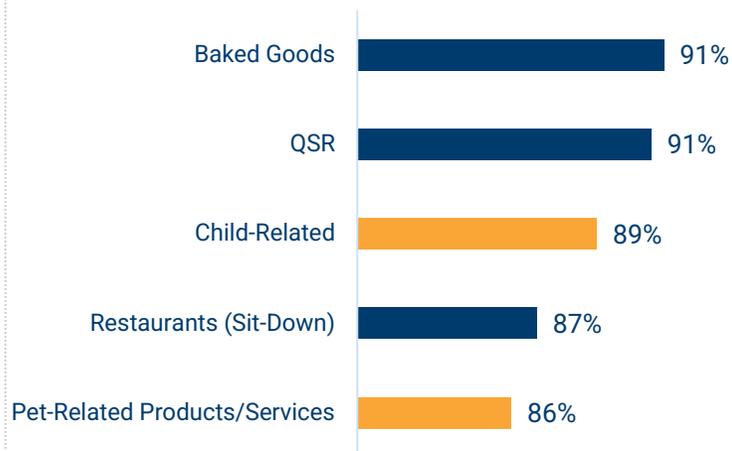
Labor-related costs, insurance costs, and cost of inventory are the top three most impacted areas by inflation

Labor-Related

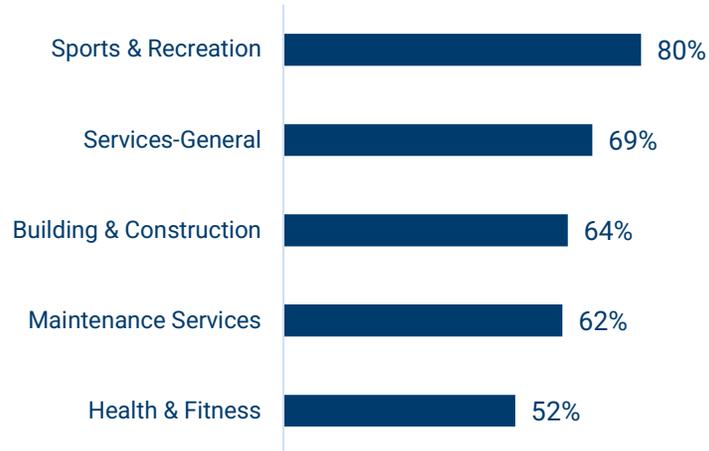
- ▶ 92% of franchisees said the increase in labor-related expenses had some to a large impact on their business.
- ▶ 3 out of 5 of the most impacted industries from labor-related expenses are in the **food industry**.



Increase in Labor Expenses



Increase in Insurance Expenses



Insurance-Related

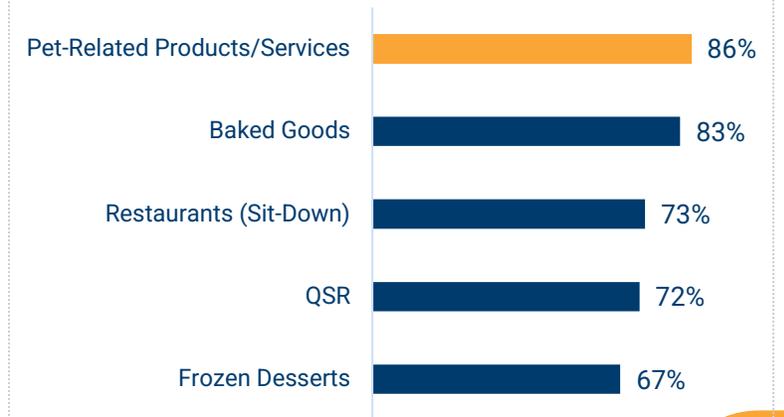
- ▶ After labor-related cost increases, the most significant area of impact for franchised businesses is increased insurance costs. 83% of franchisees reported that they had **some to a large impact** of rising insurance costs on their business.
- ▶ **Sports & Recreation is the top impacted industry** with 80% of franchisees reporting a **large impact of rising insurance costs**.

COGS-Related

- ▶ 85% of franchisees said an increase in the cost of inventory, supplies, and materials had some to a large impact on their business.
- ▶ 4 out of 5 of the most impacted industries that witnessed large impact of COGS-related expense increases **are from the food industry**.

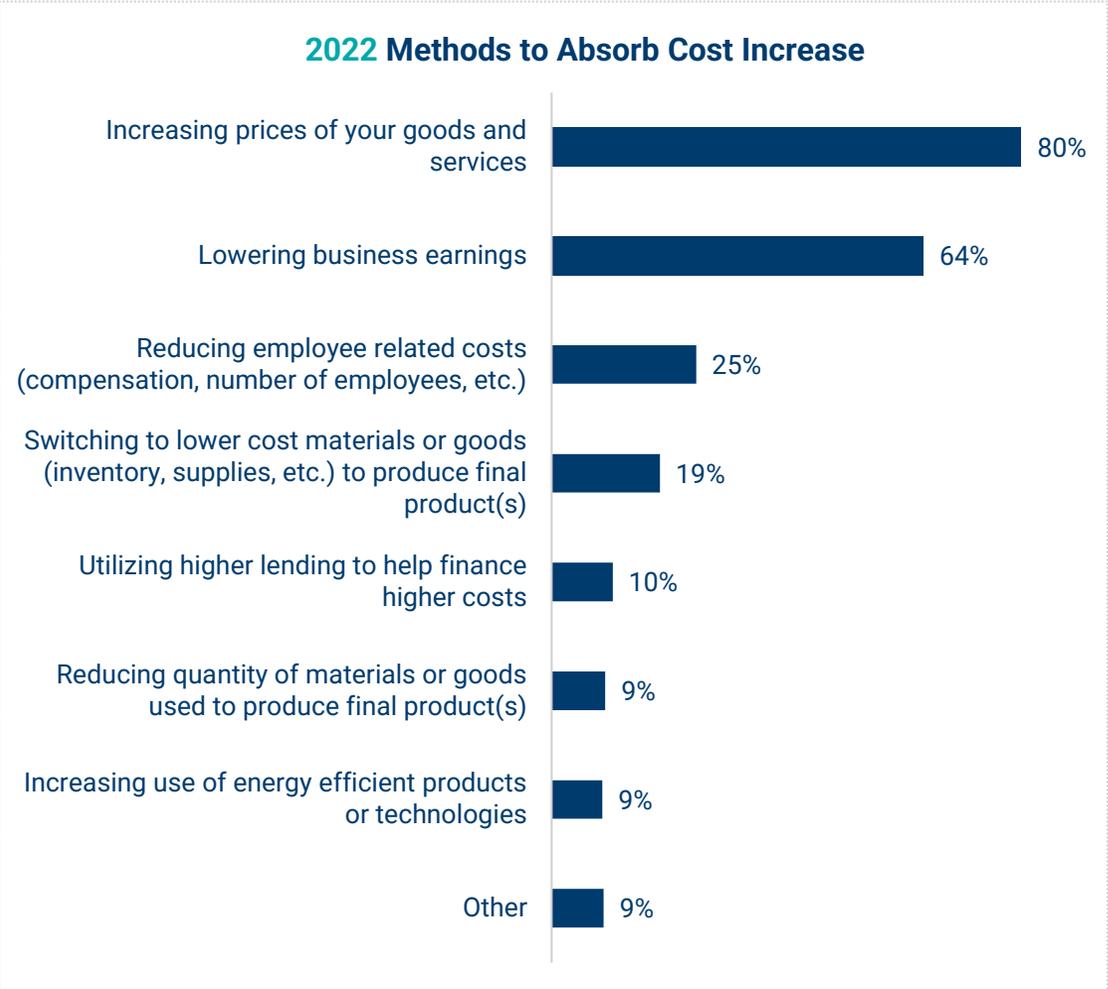
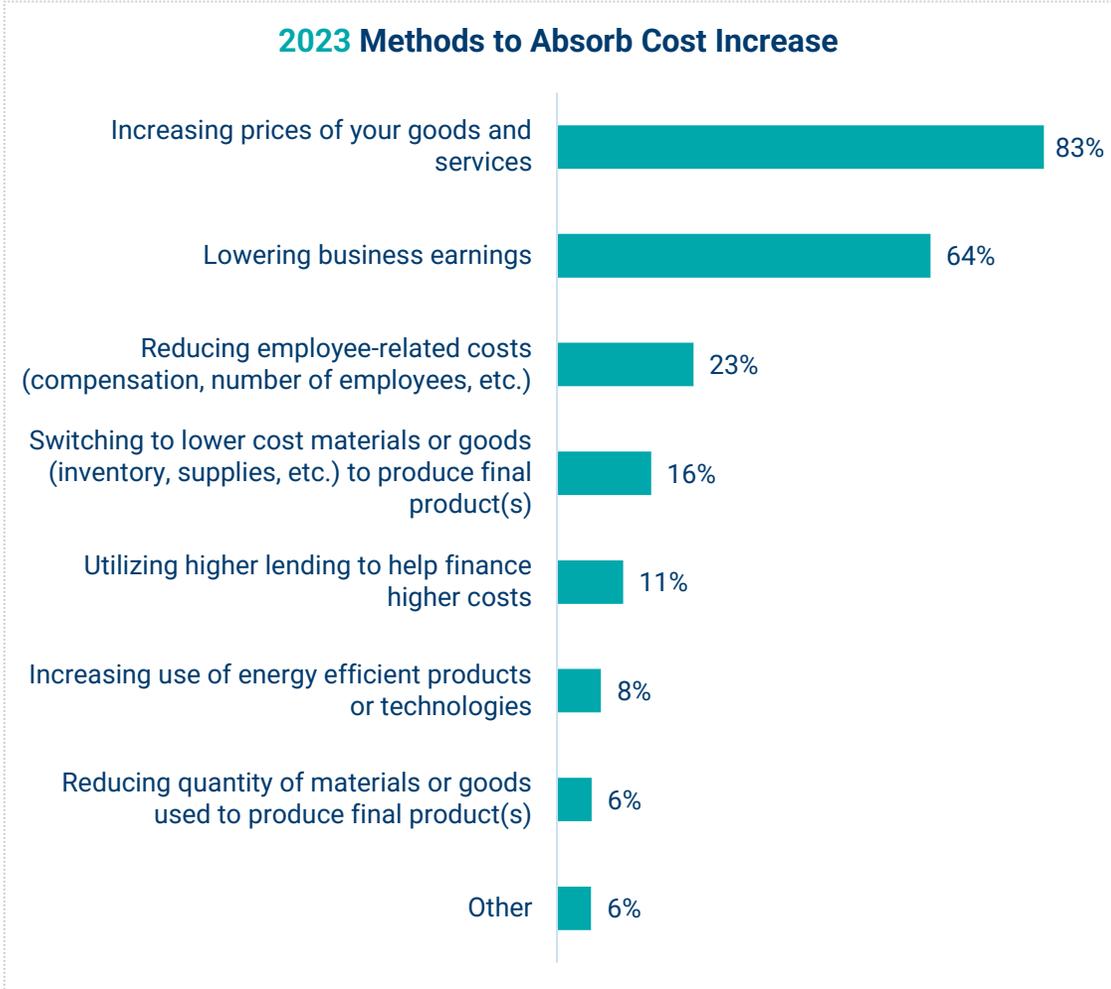


Increase in Cost of Inventory, Supplies, & Materials



Methods to Absorb Cost Increase

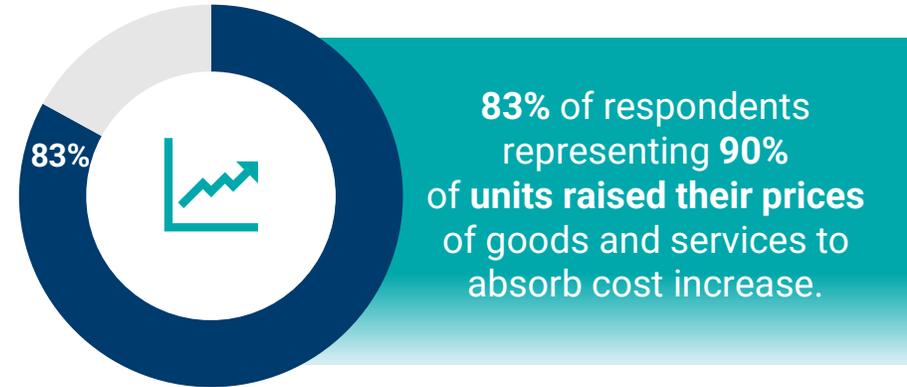
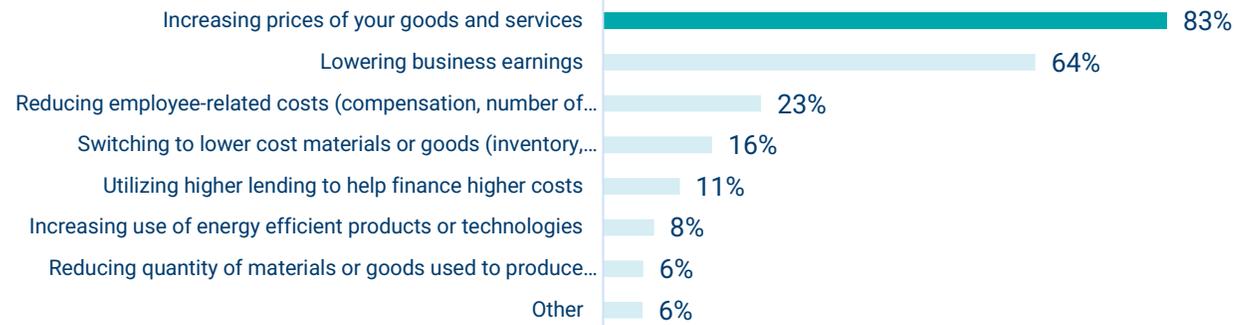
Like last year, businesses are **increasing prices** of goods and services and observing **lower earnings** due to inflation



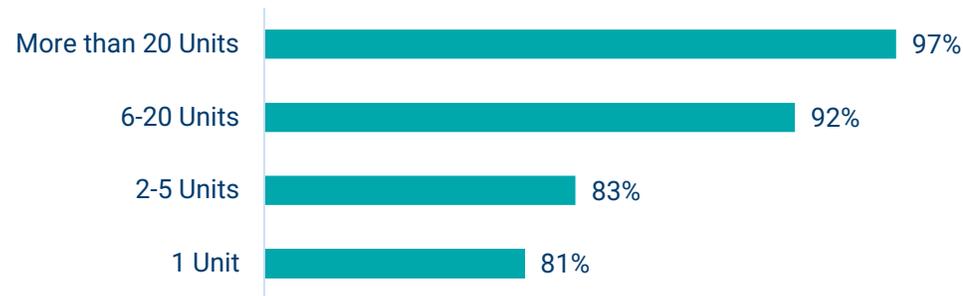
Methods to Absorb Cost Increase

As with the previous year, a higher percentage of multi-unit franchisees compared to single-unit franchisees raised prices to absorb inflation effect

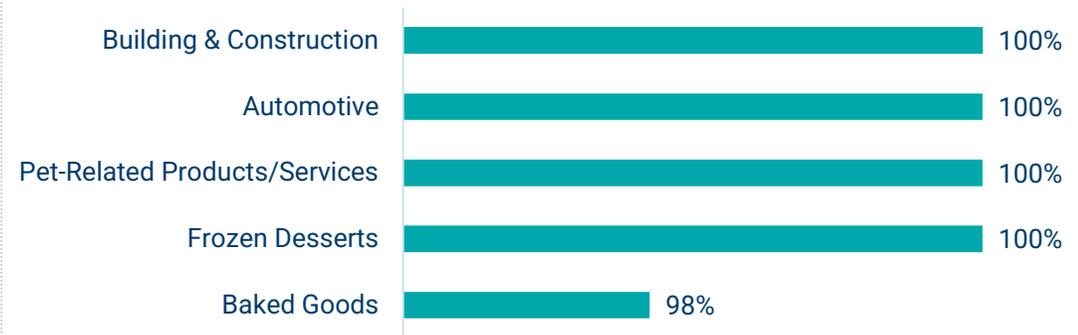
2023 Methods to Absorb Cost Increase



% of franchisees by number of units owned who increased prices

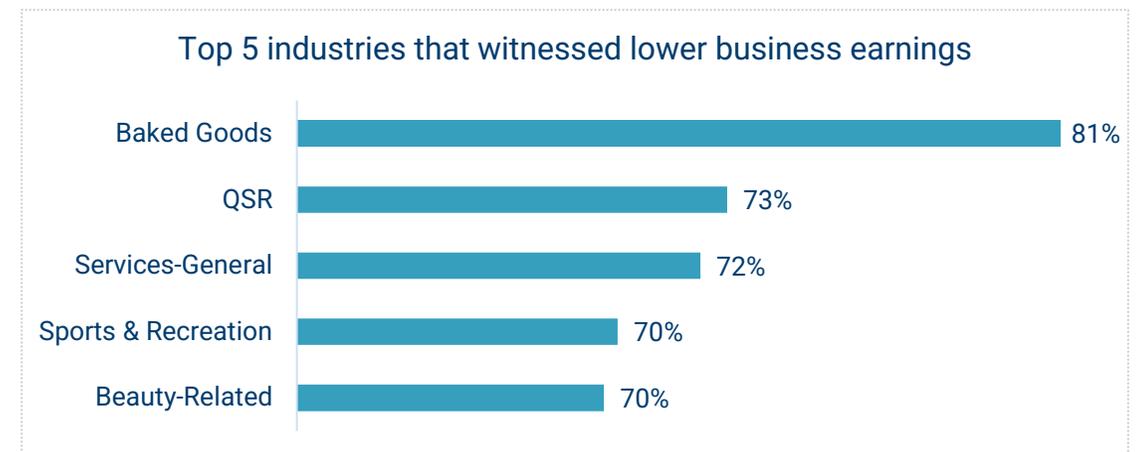
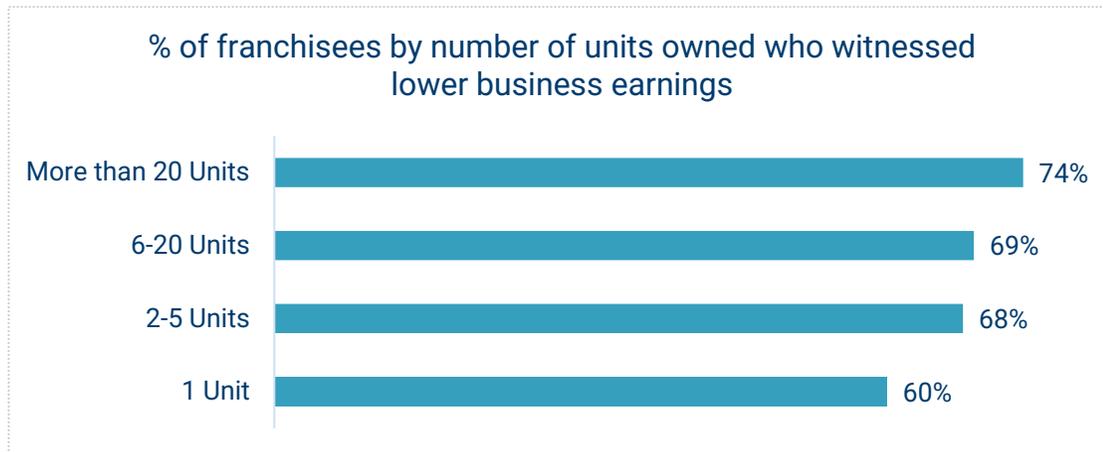
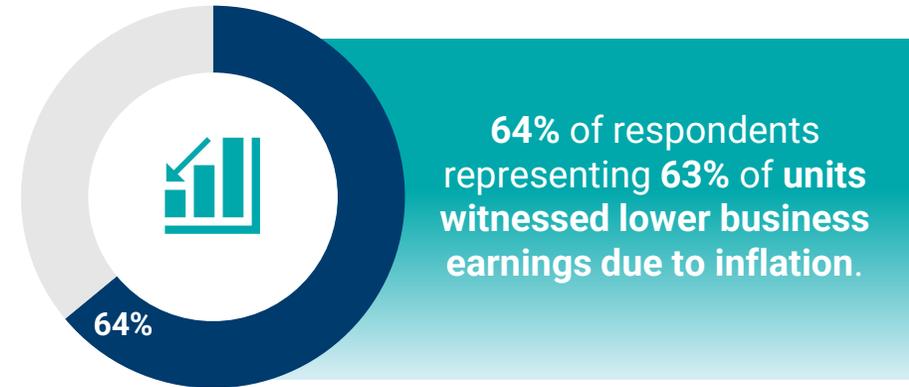
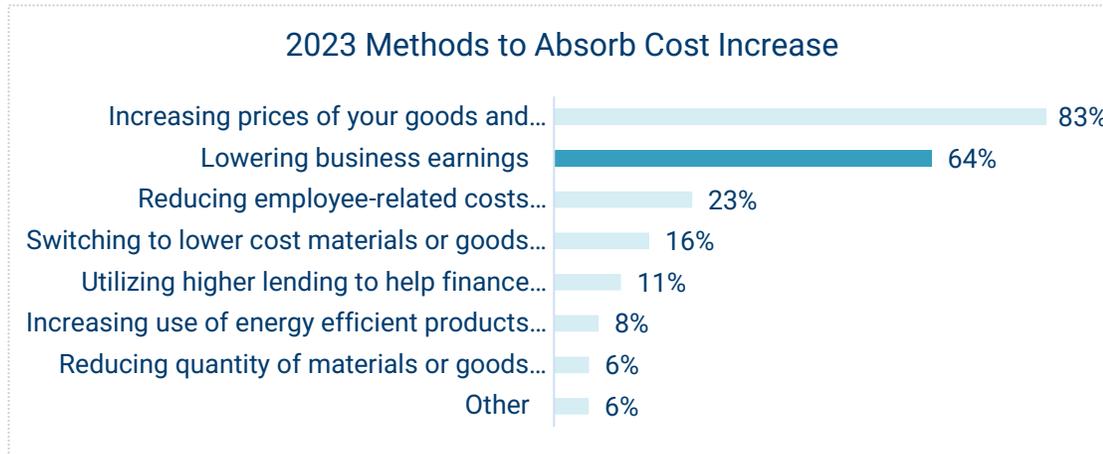


Top 5 industries that raised prices of good and services



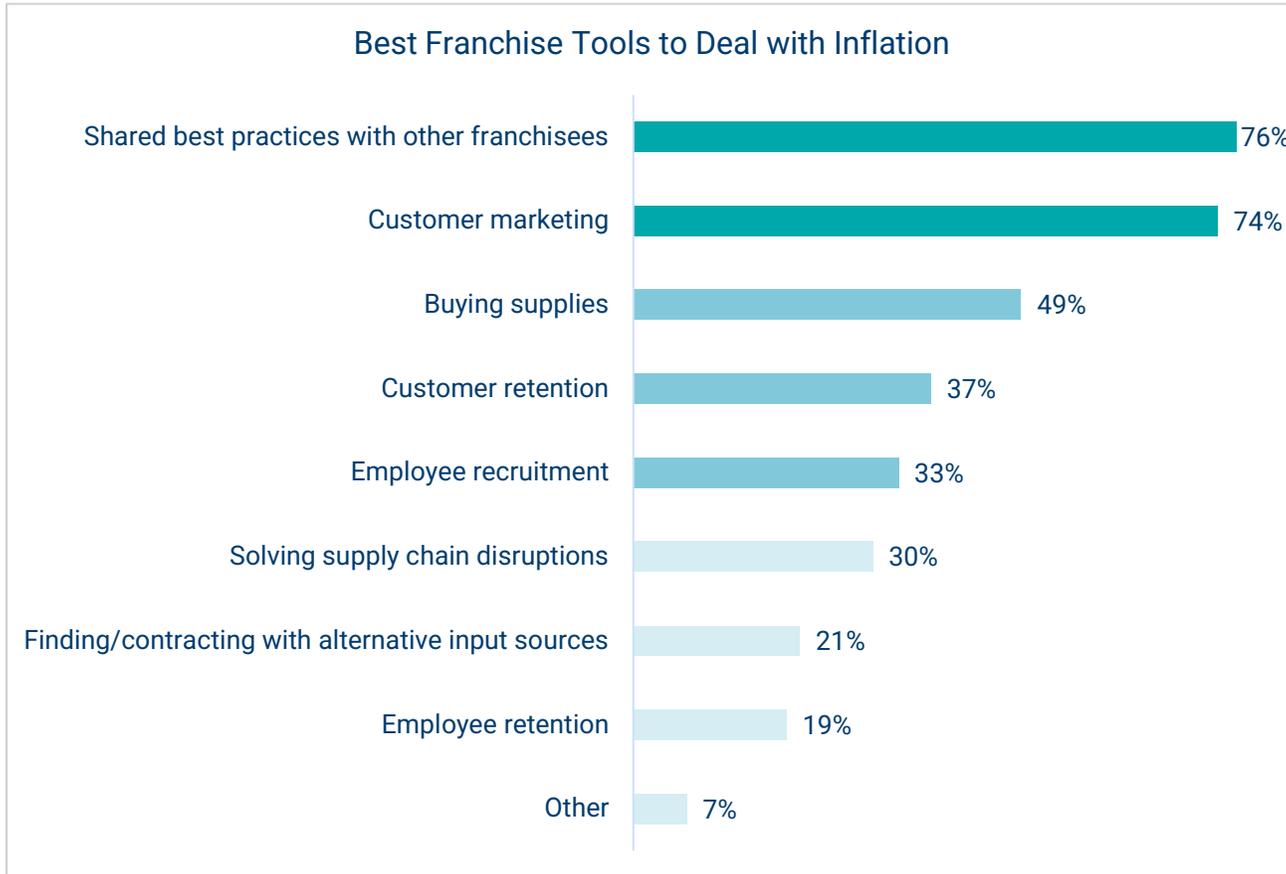
Methods to Absorb Cost Increase

Consistent with last year's trend, **64%** of franchisees are observing **reduced business earnings** attributable to inflation



Franchise System Advantages

Similar to last year, franchise business owners have benefitted the most through their **franchise network** and strong **customer marketing** to deal with inflationary pressures



Technology support & updates



Health & Fitness Franchise owner from Wyoming

Someone has always been in your shoes and can help.



Health & Fitness Franchise owner from Virginia

Brand recognition and reputation, and operation support and systems



Maintenance Service Franchise owner from North Carolina

Support with business practices to allow us to free up time/resources to focus on other aspects



Child-Related Franchise owner from Illinois

Encouragement and support from corporate and other owners

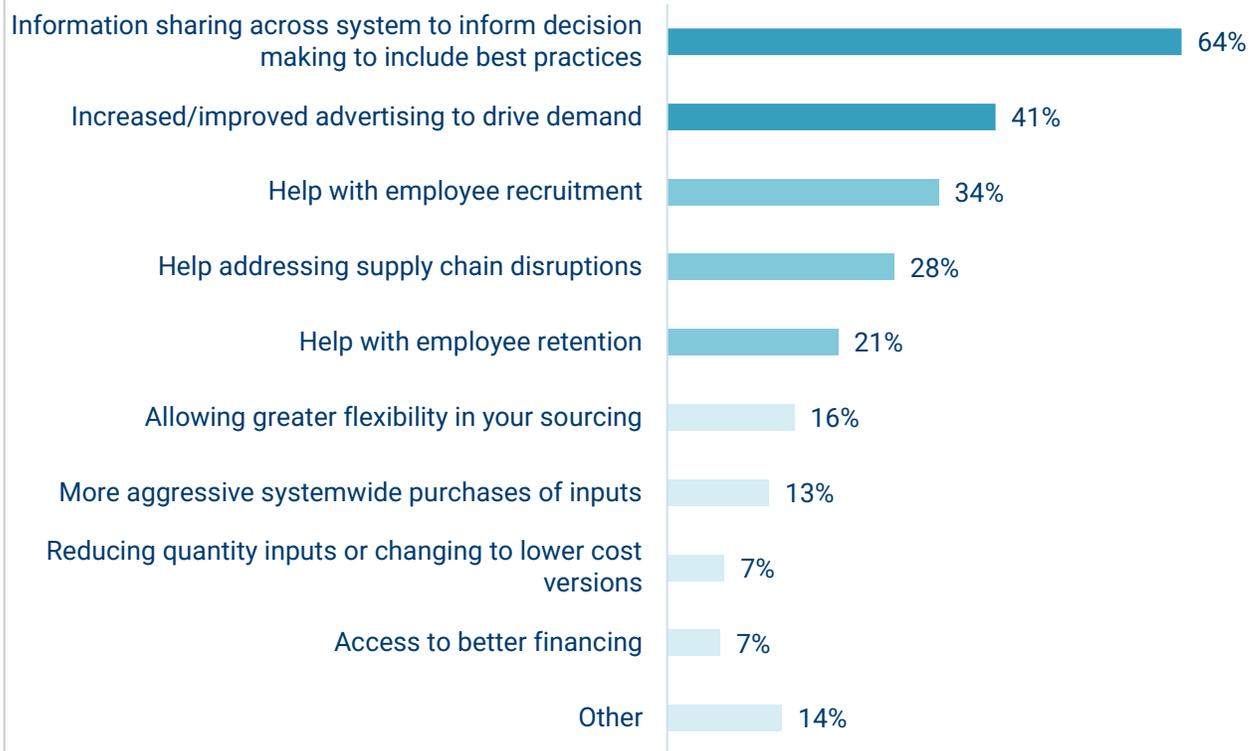


Health & Fitness Franchise owner from Texas

Brand Initiatives That Helped

Continuing from last year, key brand support includes improved information sharing, enhanced advertising, and employee recruitment support

2023 Actions Franchise Brands Have Taken



They helped with lead generation



Business Related Franchise owner from Texas

Eased upgrade requirements



Beauty-Related Franchise owner from Iowa

Reduce royalty minimums



Maintenance Service Franchise owner

Offered rebate upon certain conditions being met



Beauty-Related Franchise owner from Colorado

Reduced royalty for a period of time



Maintenance Service Franchise owner from Pennsylvania

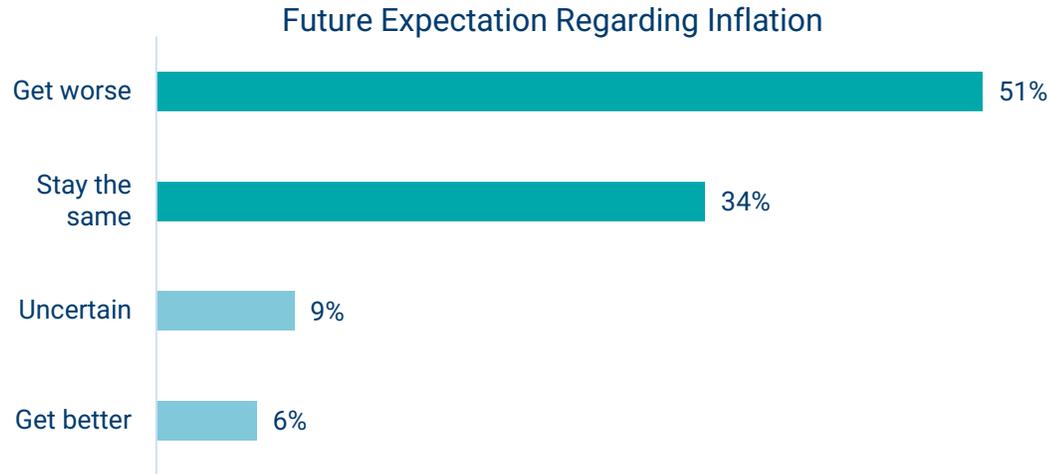
Helped with raising prices



Maintenance Service Franchise owner from North Carolina

Future Expectations

The percentage of franchisees expressing pessimism regarding future inflation remains elevated, with **51%** expecting inflation to get worse

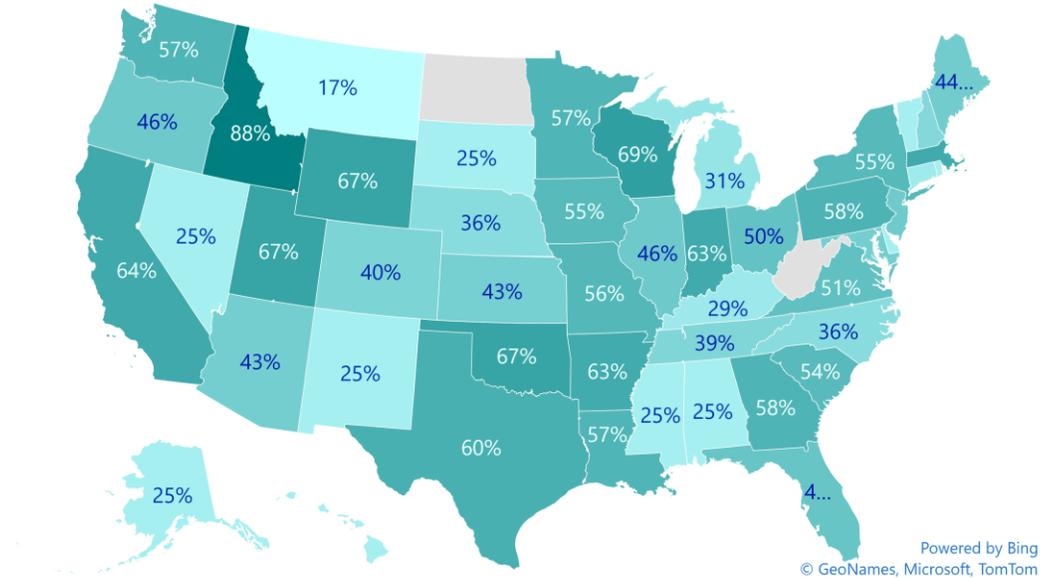


Expectation of Future Cost Increase

Compared to 60% in last year, **51% of franchisees expect inflation to get worse in future**

51%

% of respondents from each state who expect cost inflation to get worse in 2024



Respondents who expect cost inflation to get worse



Sports & Recreation

70%



Business Related

67%



Automotive

63%



THANK YOU