

# Franchising Expansion Fueled by Industry Entrepreneurs

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FRANdata



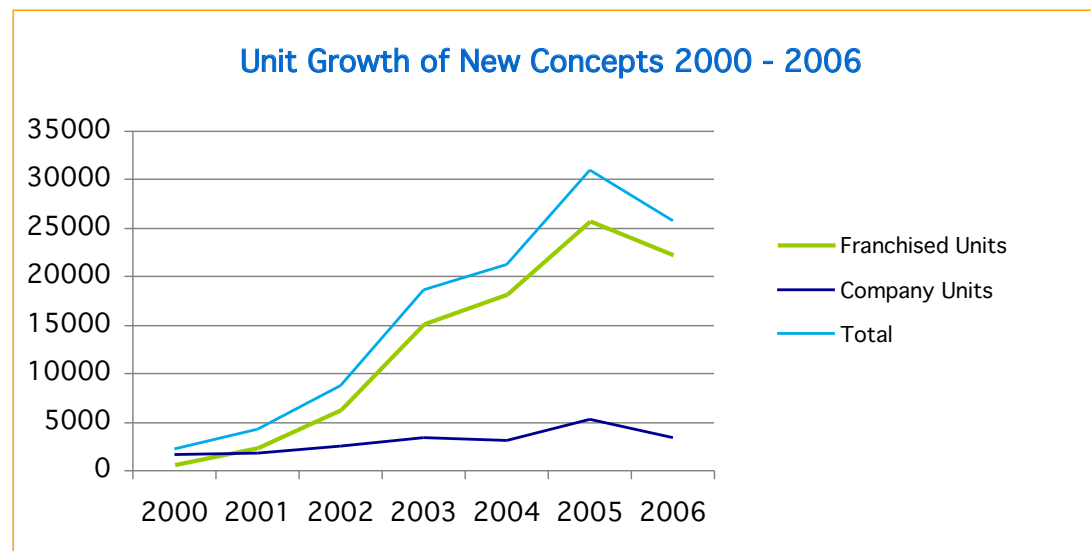
Franchising has been on a fast growth trajectory since 2000. Much of that growth has come from established franchise systems continuing to expand their presence across the United States. Some of that growth also has been fueled by entrepreneurs who are using the franchise business model to expand their brand presence for the first time.

A more recent development is established small businesses which “buy into” franchises to complement their existing line of services. The trend to become a franchisee has become more evident among seasonally-operating companies. Landscape business owners have found that adding on franchised services such as assembling outside Christmas decorations enables them to increase revenues. In addition, this helps them win additional clients for their core business. While there are many reasons companies start franchising, the desire for fast growth and market expansion is a leading factor.

Brands that began franchising between 2000 and 2006, added more than 22,000 franchise units and 3,400 company units to the franchising sector of the U.S. economy. These new franchisors accounted for slightly more than 10 percent of all the franchise units started during that period.

## Graph 1: Unit Growth of New Concepts 2000-2006

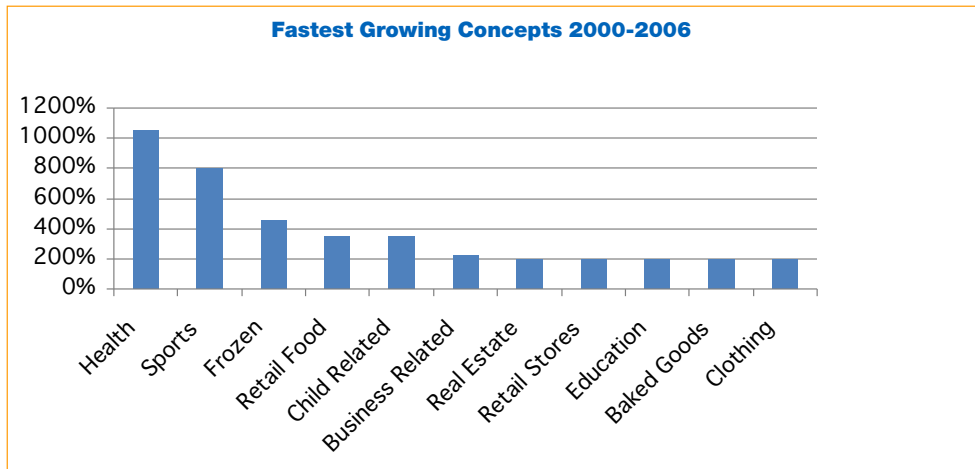
Unit growth from concepts started in 2000 or later was most pronounced in the health, sports, frozen dessert, retail food and child-related industry sectors.



**Graph 2: Fastest Growing Concepts 2000-2006**

A lot of new concepts were responsible for the accelerated growth in the franchising sector between 2000 and 2006. Nearly 1,100 companies signaled their plans to start franchising by doing the necessary regulatory filings between 2000 and 2006. Most of these companies eventually engaged in active franchising.

Industries with the highest number of new concepts were fast food, sit-in restaurants, maintenance, business related and retail food. New concepts in fast food almost doubled in number and grew at an annual average of 37 percent. The restaurant segment also increased its number of concepts at an annual average of 37 percent.

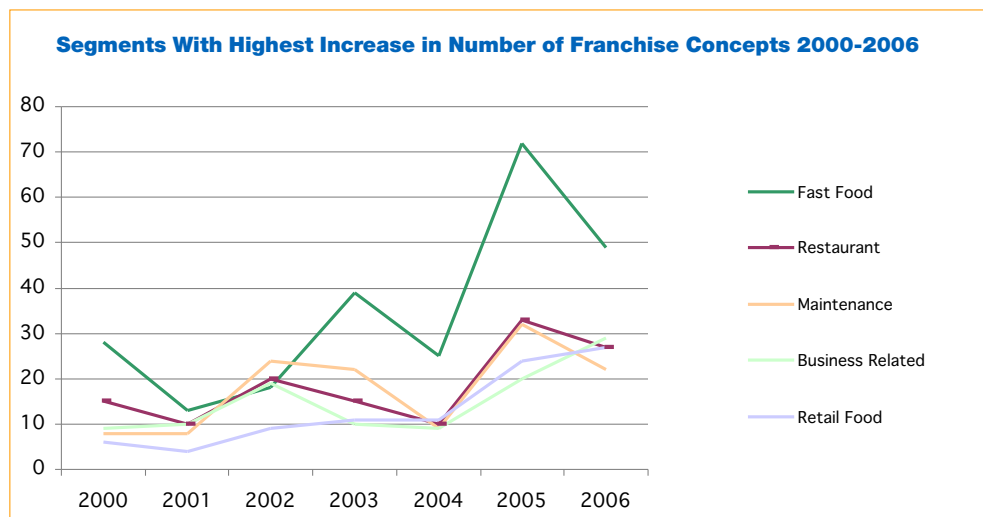


**Graph 3: Segments With Highest Increase in Number of Franchise Concepts 2000-2006**

Companies leading the growth in franchising represent everything from older, established concepts to new, start-up brands. In recent years, there has been a trend for start-up franchise companies to have more capital than start-ups in previous times. For example, between 2000 and 2005, the average capital for a new franchise brand doubled from just under \$25,000 to \$50,000 (both figures in 2005 dollars).

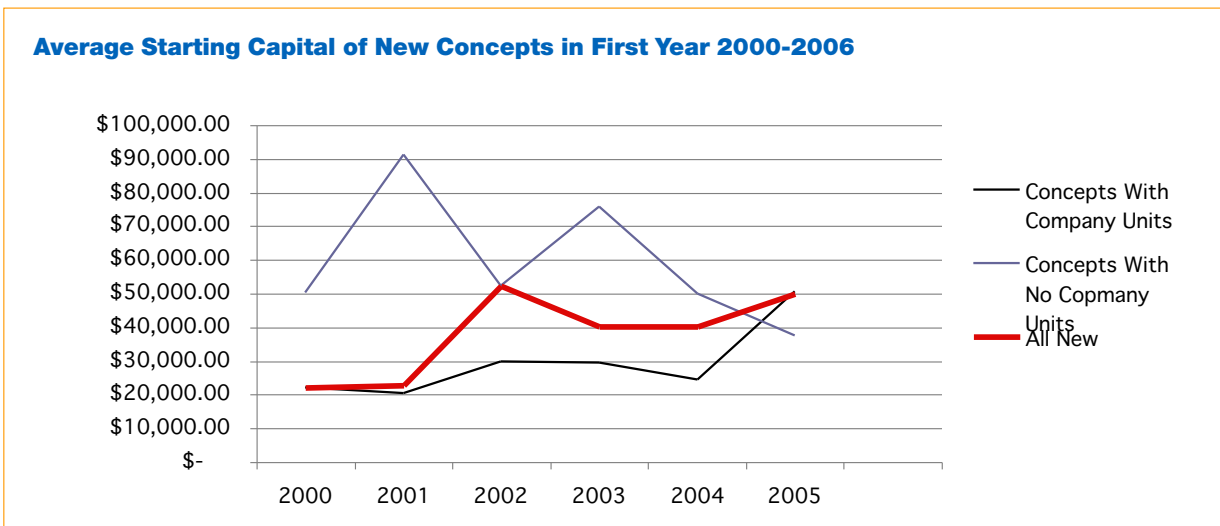
Between 2000 and 2003, start-up franchisors with no company units had a median capital much higher than that of companies that started franchising with company units. For example, in 2000, companies that started franchising with no company units had an average capital of about \$50,000, more than double the median capital for franchisors with company units. In 2001, it was just over \$90,000 for franchises with no company units versus about \$20,000 for franchisors with company units.

However, between 2003 and 2005, this trend was reversed. Median capital for both franchisors with and without company units was about \$78,000 in 2003/2004. From 2004 onwards, median capital for franchisors with company units adjusted more towards overall median capital levels; franchisors with no company units saw their median capital decreasing. This trend continued through 2006.

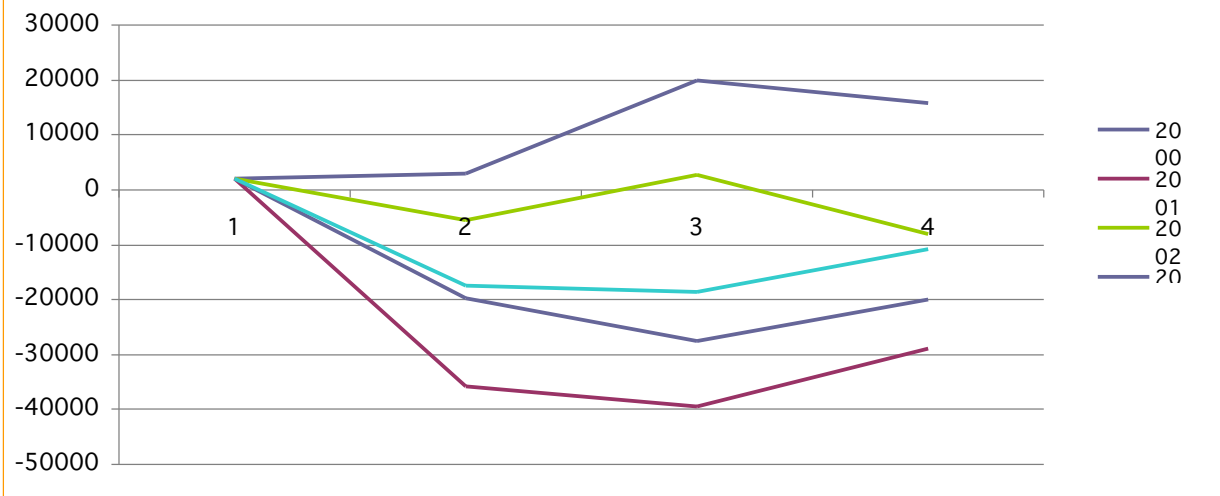


**Graph 4: Average Starting Capital of New Concepts in First Year 2000-2006**

Another measure of relative strength is the franchisor's average net income during its first three years of franchising. Generally, the following graph shows that franchise companies spend whatever they make (and a little more) on operations and development over the first three years, something that one would expect as they try to establish their brands in franchising. Companies that started franchising in 2001 had the hardest time making money, which is not surprising from a historical perspective.



**Graph 5: Average First Year Net Income for Concepts Founded 2000-2004**



Darrell Johnson is president of FRANdata Corp., the leading source for information, research and analysis regarding the business of franchising. It has the world's largest library and databases of franchise data. FRANdata provides objective and unbiased services. He can be reached at 703-740-4700.

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The International Franchise Association's Educational Foundation and research firm FRANdata Corp. is producing a Profiling of Franchising Series 2007. Previous research includes the Profiles of Franchising 2006, a six-part series, and A Study of Franchise Loan Performance in the SBA Loan Guaranty Programs.

The IFA Educational Foundation gratefully acknowledges the efforts of FRANdata to provide this important research.



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*These reports and other research—including the Economic Impact of Franchised Businesses conducted in 2004 for the foundation by PricewaterhouseCoopers—are available on the IFA Web site, [www.franchise.org](http://www.franchise.org).*