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# ***The Economic Impact of Veteran-Owned Franchises***

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*The Economic Impact of  
Veteran-Owned  
Franchises*

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Prepared for

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## ***The Economic Impact of Veteran-Owned Franchises***

### ***EXECUTIVE SUMMARY***

PwC was engaged by the International Franchise Association Educational Foundation (IFA-EF) to quantify the economic impact of veteran-owned franchises in the United States. Based on data from the U.S. Census Bureau's 2007 *Survey of Business Owners* ("SBO"), PwC has measured this economic impact in terms of U.S. employment, labor income, and gross domestic product ("GDP") for 2007. For this report, veteran-owned businesses are defined to be businesses that were in 2007 at least 50 percent owned by veterans of any branch of the U.S. military, including the Coast Guard.

This report includes the direct, indirect, and induced economic impact of veteran-owned U.S. franchises. The direct impact is measured in terms of the jobs, labor income, and GDP *within* veteran-owned franchises. The indirect impact is measured in terms of the jobs, labor income, and GDP occurring throughout the supply chain of veteran-owned franchises. The induced impact is measured in terms of the jobs, labor income, and GDP resulting from household spending of income earned either directly or indirectly from veteran-owned franchises. In aggregate, these impacts provide a measure of the total U.S. economic impact of veteran-owned franchised businesses.

#### ***Direct Economic Impact***

PwC estimates that there were 66,275 veteran-owned franchised businesses in the United States in 2007. Veteran-owned franchises account for 13.4 percent of all franchised businesses. These firms provided nearly 815,000 full-time and part-time jobs and paid out \$24.2 billion in labor income (including wages and salaries, benefits, and proprietors' income). Veteran-owned franchises had annual business receipts of \$139.3 billion and directly accounted for \$41.6 billion of GDP in 2007.

**Table E-1.—Direct National Economic Impact of Veteran-Owned Franchises, 2007**

	<b>Direct National Impact</b>	<b>Percent of U.S. Nonfarm Private Sector</b>
Number of Firms <sup>(1)</sup>	66,275	0.2%
Receipts (\$ billions)	\$139.3	0.5%
Employment (Jobs) <sup>(2)</sup>	814,600	0.5%
Labor Income (\$ billions) <sup>(3)</sup>	\$24.2	0.3%
GDP (\$ billions)	\$41.6	0.4%

Source: PwC calculations based on data from the 2007 Survey of Business Ownership and the IMPLAN modeling system (2007 database).

<sup>(1)</sup> A firm is a business organization or entity consisting of one or more domestic establishments (locations) under common ownership or control. All establishments are included as part of the owning or controlling firm.

<sup>(2)</sup> Employment is defined as the number of payroll and self-employed jobs, including part-time jobs.

<sup>(3)</sup> Labor income is defined as wages and salaries and benefits as well as proprietors' income.

***Total Economic Impact***

Including the direct, indirect, and induced impacts, veteran-owned franchises supported more than 1.5 million full-time and part-time jobs in 2007, or about 1.0 percent of all nonfarm private sector jobs in the U.S. economy (see **Table E-2**). Veteran-owned franchises directly or indirectly provided \$59.1 billion in labor income and generated \$100.7 billion in GDP in 2007, or about 0.8 percent of the total national nonfarm private sector GDP.

**Table E-2.—Total National Economic Impact of Veteran-Owned Franchises, 2007**

	<b>Total National Impact</b>	<b>Percent of U.S. Nonfarm Private Sector</b>
Employment (Jobs) <sup>(1)</sup>	1,533,400	1.0%
Labor Income (\$ billions) <sup>(2)</sup>	\$59.1	0.8%
GDP (\$ billions)	\$100.7	0.8%

Source: PwC calculations based on data from the 2007 Survey of Business Ownership and the IMPLAN modeling system (2007 database).

<sup>(1)</sup> Employment is defined as the number of direct, indirect, and induced payroll and self-employed jobs, including part-time jobs.

<sup>(2)</sup> Labor income is defined as wages and salaries and benefits as well as proprietors' income.

# ***The Economic Impact of Veteran-Owned Franchises***

## ***I. INTRODUCTION***

The *Survey of Business Owners* ("SBO"), conducted every five years by the U.S. Census Bureau, provides comprehensive data on the economic and demographic characteristics of more than 27 million U.S. businesses and their owners. Included in the survey are all nonfarm businesses filing an income tax return as sole proprietors, partnerships, and corporations that had annual business receipts of at least \$1,000. Among other characteristics, businesses are classified by the gender, ethnicity, race, and veteran status of their majority owners as well as by industry. The 2007 SBO, the most current release of the SBO, also provides cross tabulations of veteran ownership by "franchise status" (i.e., whether or not a business operates in franchise format).

Section II of this report provides summary data from the 2007 SBO to address two related questions. First, we provide data on the prevalence of veteran ownership among franchised and non-franchised businesses in order to shed light on the question – "What percent of franchised businesses are owned by veterans of the U.S. military?" Next we look at the question – "What percent of veteran-owned businesses are franchised?"

Section III presents the total economic impact of veteran-owned franchises in the United States. The *direct impact* of veteran-owned franchises is measured as the jobs, labor income, and GDP within these businesses. The *total* economic impact of veteran-owned franchises also includes the *indirect* and *induced* impacts. The indirect impact is measured as the jobs, labor income, and GDP that result because of veteran-owned franchises' purchases of goods and services from other businesses. The induced impact is measured in terms of the jobs, labor income, and GDP resulting from household spending of income earned either directly or indirectly from veteran-owned franchises.

### ***Business Ownership***

SBO asked businesses to provide gender, ethnicity, race, and veteran status for up to four persons owning the largest percentage(s) of the business in 2007.<sup>1,2</sup> Veteran-ownership status in the SBO was classified by the following categories:

1. Veteran-owned businesses – Those businesses for which 51 percent or more of the stock or equity is owned by veterans of any branch of the U.S. military, including the U.S. Coast Guard.
2. 50 percent veteran-owned businesses – Those businesses which are equally owned by veterans and nonveterans.
3. Not veteran-owned businesses – Those businesses where less than 50 percent of the stock or equity is owned by military veterans.
4. Indeterminate veteran status – Businesses for which the ownership percentages of the four individuals with the largest ownership shares summed to less than 50 percent or for which no single person owned at least 10 percent of the business.

For purposes of this report, a veteran-owned franchise is defined to be a franchised business that is at least 50 percent owned by veterans of the U.S. military. A nonveteran-owned

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<sup>1</sup> This information is requested only for owners with 10-percent or greater ownership shares in the business.

<sup>2</sup> Survey respondents are asked to round all ownership percentages to the nearest percentage point.

business is defined to be a business that is less than 50 percent owned by veterans or for which the veteran status is indeterminate.

Unlike the *2007 Economic Census*, the SBO does not impute franchise status for businesses that did not answer the franchise inquiry on the form, although they do impute ownership characteristics (such as veteran status). As such, the counts and data reported by Census will tend to understate the number of veteran-owned franchises. In order to develop a more complete picture of economic activity among veteran-owned franchises, PwC estimated the number of franchises among businesses that did not respond to the franchise inquiry. It was assumed that these businesses were franchised at the same rate as businesses that responded to the question. The estimation methodology is described in more detail in **Appendix A**.

## II. Veteran Ownership in Franchised and Non-Franchised Businesses

As described in the introduction, this section tabulates data from the 2007 SBO to determine (1) the prevalence of veteran ownership among franchised and non-franchised businesses and (2) the prevalence of franchising among veteran-owned businesses. For purposes of this section, we rely on the publicly released SBO data and do not attempt to impute franchise status for businesses that did not answer the franchise inquiry on the survey questionnaire.

### A. Prevalence of Veteran Ownership Among Franchised Businesses

**Table 1**, below, answers the question – "What percent of franchised businesses are owned by veterans of the U.S. military?" In 2007, among responding firms, 13.4 percent of franchised businesses were at least 50 percent owned by a veteran of the U.S. military in 2007. This was slightly less than the 14.2 percent veteran ownership share for non-franchised businesses.

**Table 1.—Veteran Ownership in Franchised and Non-Franchised Businesses, 2007**

Business Group	Veteran Ownership Share <sup>(1)</sup>			
	50 Percent or Greater	Less than 50 Percent	Veteran Status Indeterminate <sup>(2)</sup>	Total
All Responding Firms:				
Franchised	13.4%	80.4%	6.2%	100.0%
Nonfranchised	14.2%	80.7%	5.2%	100.0%
Firms with Paid Employees:				
Franchised	12.7%	77.6%	9.6%	100.0%
Nonfranchised	13.2%	74.6%	12.2%	100.0%
Firms without Paid Employees:				
Franchised	14.2%	83.8%	2.0%	100.0%
Nonfranchised	14.6%	83.1%	2.4%	100.0%

Source: PwC calculations based on data from the 2007 Survey of Business Owners.

Details may not sum to totals due to rounding.

<sup>(1)</sup> All ownership percentages are rounded by respondents to the nearest percentage point.

<sup>(2)</sup> Includes publicly held and other firms for which no single person owned 10 percent of more of the rights, claims, interests, or stock in the business in 2007, or for which the ownership shares of the four owners with the largest ownership shares do not sum to 50 percent or more.

**B. Prevalence of Franchises Among Veteran-Owned Businesses**

**Table 2** answers the question – "What percent of veteran-owned businesses are franchised?" In 2007 2.0 percent of businesses that were 50 percent or more owned by veterans of the U.S. military were franchised in 2007.

Separately considering businesses with and without paid employees, franchise ratios were generally higher among businesses with paid employees. For example, among firms that were 50 percent or more owned by veterans, 3.9 percent of firms with paid employees were franchised in 2007 compared to 1.3 percent of firms without paid employees.

**Table 2.—Percentage of Franchised Businesses by Veteran Ownership Status, 2007**

<b>Business Group</b>	<b>All Firms</b>	<b>Firms with Paid Employees</b>	<b>Firms without Paid Employees</b>
Veteran Ownership Share <sup>(1)</sup> :			
50 percent or greater	2.0%	3.9%	1.3%
Less than 50 percent	2.1%	4.2%	1.4%
Indeterminate <sup>(2)</sup>	2.5%	3.2%	1.1%

Source: PwC calculations based on data from the 2007 Survey of Business Owners.

<sup>(1)</sup> All ownership percentages are rounded by respondents to the nearest percentage point.

<sup>(2)</sup> Includes publicly held and other firms for which no single person owned 10 percent or more of the rights, claims, interests, or stock in the business in 2007, or for which the ownership shares of the four owners with the largest ownership shares do not sum to 50 percent or more.



### **III. The Economic Impact of Veteran-Owned Franchises**

This section presents the impact of veteran-owned franchises on the U.S. economy. A veteran-owned franchise is defined as a franchise that is 50 percent or more owned by veterans of any branch of the U.S. military, including the U.S. Coast Guard. The total economic impact includes the **direct impact** (the jobs, labor income and GDP occurring in veteran-owned franchises), the **indirect impact** (the jobs, labor income and GDP occurring throughout the supply chain of veteran-owned franchises), and the **induced impact** (the jobs, labor income and GDP resulting from household spending of income earned either directly or indirectly from veteran-owned franchises and their suppliers).

#### **A. Direct Economic Impact**

According to the publicly released SBO data, 41,317 veteran-owned firms indicated that they operated as a franchise in 2007, representing 2.0 percent of the veteran-owned businesses that responded to the franchise inquiry on the survey. Another 1,619,840 veteran-owned businesses either did not answer the franchise inquiry on the survey questionnaire or did not respond to the survey. Because SBO does not impute franchise status for nonrespondents, the counts and data presented in the public release data understate the true size of veteran-owned franchises.

PwC has estimated the number of veteran-owned franchises and associated employment among the non-responding firms by assuming that nonrespondents were franchised at the same rate as firms that responded to the franchise inquiry. Separate estimates were made for businesses with and without paid employees (see **Appendix A** for a complete description of the estimation methodology).

As shown in **Table 3**, below, PwC estimates that there were 66,275 veteran-owned franchised firms in the United States in 2007. These firms provided nearly 815,000 full-time and part-time jobs and paid out \$24.2 billion in labor income (including wages and salaries, benefits, and proprietors' income). Veteran-owned franchises had annual business receipts of \$139.3 billion and generated GDP of \$41.6 billion.

**Table 3.—Direct National Impact of Veteran-Owned Franchises, 2007**

	<b>Direct National Impact</b>	<b>Percent of U.S. Nonfarm Private Sector</b>
Number of Firms <sup>(1)</sup>	66,275	0.2%
Receipts (\$ billions)	\$139.3	0.5%
Employment (Jobs) <sup>(2)</sup>	814,600	0.5%
Labor Income (\$ billions) <sup>(3)</sup>	\$24.2	0.3%
GDP (\$ billions)	\$41.6	0.4%

Source: PwC calculations based on data from the 2007 Survey of Business Ownership and the IMPLAN modeling system (2007 database).

<sup>(1)</sup> A firm is a business organization or entity consisting of one or more domestic establishments (locations) under common ownership or control. All establishments are included as part of the owning or controlling firm.

<sup>(2)</sup> Employment is defined as the number of payroll and self-employed jobs, including part-time jobs.

<sup>(3)</sup> Labor income is defined as wages and salaries and benefits as well as proprietors' income.

As shown in **Table 4**, on average, each veteran-owned franchise directly provided about 12 jobs, had annual sales of \$2.1 million, paid out labor income of \$0.4 million, and contributed \$0.7 million to GDP in 2007.

**Table 4.—Direct National Impact per Veteran-Owned Franchise Firm, 2007**

	<b>Direct Impact per Veteran-Owned Franchise Firm<sup>(1)</sup></b>
Receipts	\$2,102,066
Employment (Jobs) <sup>(2)</sup>	12
Labor Income <sup>(3)</sup>	\$365,571
GDP	\$627,716

Source: PwC calculations based on data from the 2007 Survey of Business Ownership and the IMPLAN modeling system (2007 database).

<sup>(1)</sup> A firm is a business organization or entity consisting of one or more domestic establishments (locations) under common ownership or control. All establishments are included as part of the owning or controlling firm.

<sup>(2)</sup> Employment is defined as the number of payroll and self-employed jobs, including part-time jobs.

<sup>(3)</sup> Labor income is defined as wages and salaries and benefits as well as proprietors' income.

Franchises exist in many different industries. **Table 5**, on the next page, provides the direct national economic impact of veteran-owned franchises by major industrial sector. As shown in the table, the greatest number of veteran-owned franchised firms can be found in the Retail Trade (13,843 firms), Real Estate and Rental and Leasing (10,228 firms), and Accommodation and Food Services (8,391 firms) industries. While Retail Trade and Accommodations and Food Services account for about one-third of all veteran-owned franchised firms, these two industries account for 599,900 full-time and part-time jobs, or about 74 percent of all jobs in veteran-owned franchises. These two industries had annual sales of \$117.2 billion and directly accounted for \$14.1 billion of labor income and \$21.7 billion of GDP.

**Table 6** shows the national economic impact per veteran-owned franchise by industry.

**Table 5.—Direct Economic Impact of Veteran-Owned Franchised Businesses by Industry, 2007**

<b>NAICS Code</b>	<b>Industry Sector</b>	<b>Number of Firms<sup>(1)</sup></b>	<b>Receipts (\$ millions)</b>	<b>Employment (Jobs)<sup>(2)</sup></b>	<b>Labor Income (\$ millions)<sup>(3)</sup></b>	<b>GDP (\$ millions)</b>
23	Construction	2,966	\$1,422	10,700	\$543	\$653
42	Wholesale trade	2,005	\$10,268	22,900	\$1,643	\$2,780
44-45	Retail trade	13,843	\$101,700	218,800	\$6,293	\$10,159
48-49	Transportation and warehousing	2,045	\$532	6,500	\$334	\$451
51	Information	253	\$86	800	\$70	\$138
52	Finance and insurance	4,603	\$646	17,800	\$1,500	\$2,365
53	Real estate and rental and leasing	10,228	\$3,342	32,300	\$909	\$7,196
54	Professional, scientific, and technical services	4,507	\$633	16,800	\$1,232	\$1,446
55	Management of companies and enterprises	365	\$209	5,900	\$637	\$792
56	Administrative and support and waste	5,660	\$1,914	42,000	\$1,331	\$1,656
61	Educational services	1,117	\$162	5,000	\$156	\$169
62	Health care and social assistance	1,989	\$538	17,600	\$823	\$954
71	Arts, entertainment, and recreation	2,086	\$708	10,500	\$274	\$402
72	Accommodation and food services	8,391	\$15,492	381,100	\$7,836	\$11,589
81	Other services (except public administration)	6,217	\$1,663	25,900	\$647	\$851
	<b>Total for all sectors</b>	<b>66,275</b>	<b>\$139,314</b>	<b>814,600</b>	<b>\$24,228</b>	<b>\$41,602</b>

Source: PwC calculations based on data from the 2007 Survey of Business Ownership and the IMPLAN modeling system (2007 database).

Notes: NAICS sectors 11 (Agriculture, forestry, fishing, and hunting), 21 (Mining), 22 (Utilities), and 31-33 (Manufacturing) are omitted from the table. These industries are unlikely to have significant franchise activities and were excluded from the analysis. Details may not sum to totals due to rounding.

<sup>(1)</sup> A firm is a business organization or entity consisting of one or more domestic establishments (locations) under common ownership or control. All establishments are included as part of the owning or controlling firm.

<sup>(2)</sup> Employment is defined as the number of payroll and self-employed jobs, including part-time jobs.

<sup>(3)</sup> Labor income is defined as wages and salaries and benefits as well as proprietors' income.

**Table 6.—Direct Economic Impact per Veteran-Owned Franchise Firm<sup>(1)</sup>, by Industry, 2007**

<b>NAICS Code</b>	<b>Industry Sector</b>	<b>Receipts</b>	<b>Employment (Jobs)<sup>(2)</sup></b>	<b>Labor Income<sup>(3)</sup></b>	<b>GDP</b>
23	Construction	\$479,514	4	\$183,146	\$220,324
42	Wholesale trade	\$5,121,234	11	\$819,431	\$1,386,663
44-45	Retail trade	\$7,346,641	16	\$454,630	\$733,874
48-49	Transportation and warehousing	\$259,980	3	\$163,115	\$220,484
51	Information	\$339,443	3	\$277,312	\$546,719
52	Finance and insurance	\$140,285	4	\$325,924	\$513,806
53	Real estate and rental and leasing	\$326,759	3	\$88,892	\$703,584
54	Professional, scientific, and technical services	\$140,498	4	\$273,315	\$320,910
55	Management of companies and enterprises	\$571,431	16	\$1,746,247	\$2,169,726
56	Administrative and support and waste	\$338,184	7	\$235,196	\$292,548
61	Educational services	\$144,649	4	\$139,633	\$151,656
62	Health care and social assistance	\$270,725	9	\$413,575	\$479,563
71	Arts, entertainment, and recreation	\$339,629	5	\$131,131	\$192,603
72	Accommodation and food services	\$1,846,261	45	\$933,851	\$1,381,100
81	Other services (except public administration)	\$267,464	4	\$104,065	\$136,830
	<b>Total for all sectors</b>	<b>\$2,102,066</b>	<b>12</b>	<b>\$365,571</b>	<b>\$627,716</b>

Source: PwC calculations based on data from the 2007 Survey of Business Ownership and the IMPLAN modeling system (2007 database).

Notes: NAICS sectors 11 (Agriculture, forestry, fishing, and hunting), 21 (Mining), 22 (Utilities), and 31-33 (Manufacturing) are omitted from the table. These industries are unlikely to have significant franchise activities and were excluded from the analysis. Details may not sum to totals due to rounding.

<sup>(1)</sup> A firm is a business organization or entity consisting of one or more domestic establishments (locations) under common ownership or control. All establishments are included as part of the owning or controlling firm.

<sup>(2)</sup> Employment is defined as the number of payroll and self-employed jobs, including part-time jobs.

<sup>(3)</sup> Labor income is defined as wages and salaries and benefits as well as proprietors' income.

**B. Total Economic Impacts**

As discussed above, the total economic impacts we have measured include the direct, indirect, and induced impacts. PwC used the IMPLAN modeling system to estimate the indirect and induced impacts associated with veteran-owned franchises. The results are presented in **Table 7**.

Including direct, indirect, and induced effects, veteran-owned franchises supported more than 1.5 million jobs in 2007, or about 1.0 percent of all nonfarm private sector jobs in the United States. The associated labor income from the total jobs directly or indirectly supported by veteran-owned franchises totaled more than \$59 billion. We estimate that the operations of veteran-owned franchises directly or indirectly generated nearly \$101 billion of GDP, or about 0.8 percent of the total national nonfarm private sector GDP in 2007.

**Table 7.—Total National Economic Impact of Veteran-Owned Franchises, 2007**

	<b>Total National Impact</b>	<b>Percent of U.S. Nonfarm Private Sector</b>
Employment (Jobs) <sup>(1)</sup>	1,533,400	1.0%
Labor Income (\$ billions) <sup>(2)</sup>	\$59.1	0.8%
GDP (\$ billions)	\$100.7	0.8%

Source: PwC calculations based on data from the 2007 Survey of Business Ownership and the IMPLAN modeling system (2007 database).

<sup>(1)</sup> Employment is defined as the number of direct, indirect, and induced payroll and self-employed jobs, including part-time jobs.

<sup>(2)</sup> Labor income is defined as wages and salaries and benefits as well as proprietors' income.

As shown in **Table 8**, below, each veteran-owned franchise directly and indirectly supported about 23 full-time and part-time jobs in 2007. These jobs include the direct jobs in veteran-owned franchises along with the indirect and induced jobs in the rest of the U.S. economy. In 2007, each veteran-owned franchise directly and indirectly generated \$0.9 million in labor income and \$1.5 million of GDP.

**Table 8.—Total National Impact per Veteran-Owned Franchise Firm, 2007**

	<b>Total Impact per Veteran-Owned Franchise Firm<sup>(1)</sup></b>
Employment (Jobs) <sup>(2)</sup>	23
Labor Income <sup>(3)</sup>	\$891,783
GDP	\$1,519,988

Source: PwC calculations based on data from the 2007 Survey of Business Ownership and the IMPLAN modeling system (2007 database).

<sup>(1)</sup> A firm is a business organization or entity consisting of one or more domestic establishments (locations) under common ownership or control. All establishments are included as part of the owning or controlling firm.

<sup>(2)</sup> Employment is defined as the number of direct, indirect, and induced payroll and self-employed jobs, including part-time jobs.

<sup>(3)</sup> Labor income is defined as wages and salaries and benefits as well as proprietors' income.

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## ***APPENDIX – Data Sources and Methodology***

This appendix describes the methodology used to derive the results presented in section III of this report. It first discusses the data sources used to develop estimates of the direct impact of veteran-owned franchises. It then describes the development of the indirect and induced impact estimates.

### **I. Estimates of Direct Economic Impact**

The primary data source for this study was the *Characteristics of Businesses* report of the *2007 Survey of Business Owners* ("SBO"), released by the U.S. Census Bureau in June 2011.<sup>3</sup> That report combines information on the owners of more than 27 million businesses with economic data from the *2007 Economic Census*. The data were provided separately for businesses with and without paid employees.

PwC extracted information on veteran-owned businesses from SBO by industry and type of business, including data on firm counts and business receipts in businesses with and without paid employees and employment in employer firms. Industry definitions are based on the *2007 North American Industry Classification System* ("NAICS") and all data were obtained at the 2-digit sector level. Responding firms were classified by franchise status and data were provided separately for firms that operated as a franchise and firms that did not operate as a franchise, as well as for firms that did not respond to the franchise inquiry and firms that did not respond to the survey.

Because franchise status was not imputed for nonrespondents in the SBO, PwC has estimated the number of veteran-owned franchised firms and the employment in these non-responding firms by assuming that nonrespondents were franchised at the same rate as firms that responded to the franchise inquiry. The following is a summary of the methodology as applied to the count of employer firms. An analogous approach was used for the count of nonemployers, receipts for employers and nonemployers, and employment at employer firms. Because the franchise ratios differ considerably by veteran-ownership groups, all calculations were done separately for 51 percent or more veteran-owned firms and 50 percent veteran-owned firms in order to improve the accuracy of the results.

According to the SBO data, there were 491,349 employer firms which were 51 percent or more owned by veterans of the U.S. military in 2007. Of these firms, 349,747 both responded to the survey and answered the franchise inquiry. 11,923, or approximately 3.4 percent, of the responding firms indicated that they operated as a franchise in 2007. Applying 3.4 percent to the 141,602 employer firms that either did not answer the franchise inquiry or did not respond to the survey, we estimate that there were an additional 4,827 franchised employer firms which were 51 percent or more owned by veterans.

Results for 51 percent or more veteran-owned firms and 50 percent veteran-owned firms were combined to determine the additional number of franchises among veteran-owned employer firms. Because firms may have establishments in multiple industries, a single firm may be classified in more than one industry. To avoid an "overcount" of firms that could occur by summing firm counts across industries, we performed all calculations on the summary totals of firms provided by Census and then allocated across the various industries based on their share of the total across all industries.

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<sup>3</sup> The *Characteristics of Businesses* report is composed of a number of different datasets. All data used in this report came from the dataset *SBO700CSCB22: Firms That Operated as Franchises by Industry: 2007*.

As discussed above, a similar approach was used to estimate the count of veteran-owned nonemployer franchises, as well as receipts for veteran-owned employers and nonemployers, and employment at veteran-owned employer franchises. Because nonemployer businesses can be operated as sole proprietorships, partnerships, or corporations, the number of employee/owners per firm may exceed one. PwC used data from the Bureau of Economic Analysis' REIS database to estimate the number of employee/owners per nonemployer by industry for 2007. Across all industries the number of employee/owners per nonemployer averaged 1.6.

The SBO survey questionnaire did not provide a definition of "franchise," so respondents used their own understanding of franchises to answer the question. This could lead to some misclassification. To address this issue, PwC used information from *The Economic Impact of Franchised Businesses: Volume 3, Results for 2007* to evaluate and adjust the results.<sup>4</sup> In particular, all franchise estimates for NAICS sectors 11 (Agriculture, forestry, fishing, and hunting), 21 (Mining), 22 (Utilities), and 31-33 (Manufacturing) were set equal to zero. These industries are unlikely to have significant franchise operations.

The end result of the above calculations was an estimate of the number of veteran-owned franchises by industry as well as the number of jobs (full-time plus part-time) and business receipts associated with these firms.<sup>5</sup> Estimates of the direct labor income (including proprietors' income) and direct GDP of veteran-owned franchises were obtained using the IMPLAN modeling system (discussed below).

## II. Estimates of Indirect and Induced Economic Impacts

Estimates of indirect and induced economic impacts associated with veteran-owned franchises were derived based on the IMPLAN model for the United States for 2007.<sup>6</sup> The input to the model was direct jobs in veteran-owned franchises by industry, as estimated above.

The IMPLAN model is built around an "input-output" table that relates the purchases that each industry has made from other industries to the value of the output of each industry. To meet the demand for goods and services from an industry, purchases are made in other industries according to the patterns recorded in the input-output table. These purchases in turn spark still more purchases by the industry's suppliers, and so on. Additionally, employees and business owners make personal purchases out of the additional income that is generated by this process, sending more new demands through the economy. Multipliers describe these iterations. The Type I multiplier measures the direct and indirect effects of a change in economic activity. It captures the inter-industry effects only, i.e., industries buying from local industries. The Type II (Social Accounting Matrix or SAM) multiplier captures the direct and indirect effects and, in addition, it also reflects induced effects (i.e., changes in spending from households as income increases or decreases due to the changes in production). The indirect and induced impacts associated with veteran-owned franchises were calculated through the multiplier process built into the model.<sup>7</sup>

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<sup>4</sup> PwC, *The Economic Impact of Franchised Businesses: Volume 3, Results for 2007*, February 2011.

<sup>5</sup> While the SBO data used in the current report were collected and tabulated at the firm level, data in *The Economic Impact of Franchised Businesses: Volume 3, Results for 2007* were reported at the establishment level. Firms may encompass multiple establishments. As such, data in the two reports are not directly comparable.

<sup>6</sup> The IMPLAN model is provided by the Minnesota IMPLAN Group.

<sup>7</sup> Because the IMPLAN model is used for total impact analysis (as opposed to marginal impact analysis) in this study, necessary adjustments are made to the initial indirect and induced impacts to prevent double-counting. For example, indirect and induced effects on other veteran-owned franchises were removed.



