Impact Summary

The franchising community comprises 773,600 small franchise establishments across the country. In 2019 alone, these establishments supported nearly 8.4 million direct jobs. Any impact to franchising affects the US economic environment. There is no doubt that the COVID-19 pandemic will inherently hurt the franchising community. This analysis puts into real terms the adverse consequences the Emergency Paid Sick Leave Act would do in terms of business continuity and most importantly—jobs.

The new legislation will quicken the rate of business closures and result in the following:

- Franchise businesses stand to lose **26,500 businesses** due to COVID-19 alone
- The new legislation will result in the number of businesses closures to rise to **33,000**
- Estimated franchise job losses due to new legislation combined with COVID-19: **365,000 jobs** (refer to graph below)

This legislation makes an already difficult situation worse.
Impact to Franchising - By the Numbers

The proposed legislation is meant to provide comprehensive relief to the American economy, its workers, families, and small businesses. Unfortunately our analysis shows that passing of this bill would be ill-timed and exacerbate the challenging COVID-19 landscape for the economy.

OVERALL IMPACT OF THE PROPOSED LEGISLATION ON FRANCHISING:

- It will deepen the impact of the economic downturn caused by COVID-19
- Quicken the rate of business closures over April-June period
- Prematurely increase the potential for unemployment of hundreds of thousands of employees

JOB LOSSES:

- Estimated franchise job losses due to COVID-19: close to 291,000
- Estimated franchise job losses due to new legislation combined with COVID-19: nearly 365,000 jobs
- Estimated incremental job losses because of the proposed Emergency Paid Sick Leave Act: Close to 75,000 jobs lost due to closure of franchised businesses

BUSINESS IMPACT:

- Estimated franchise business closures due to COVID-19: Close to 26,500
- Estimated franchise business closures or non-openings due to the new legislation combined with COVID-19: More than 33,000 franchise businesses
- Adding the legislation increases the business closures by 6,700 franchised businesses

As of March, 2020
Industry Focus: Restaurant

*In the interest of helping employees suffering from COVID-19, the legislation has a major unintended consequence for a substantial number of small businesses significantly impacted by recent and continuing revenue declines.*

The economic impact of COVID-19 is already dramatic, particularly in the hospitality and restaurant industries, which are heavily franchised. Small businesses expand employee counts when revenues are rising and reduce employee counts when revenues are declining. This legislation will cause many small businesses to be forced to close their doors and laying off all employees because the legislation takes away the flexibility to adjust employee numbers in response to the unprecedented drop in retail sales.

Here is an example from actual unit data from the sit-down restaurant industry:

![Graph: Impact on Net Earnings w/ Fixed Labor Costs (Sit-down Restaurant Industry)](image)

By moving a third of monthly expenses in the form of labor costs from variable to fixed with additional costs for employees exposed to the virus can lead to closures with as little as a 10% drop in revenues. A 30% drop in revenues for just a few months will drain cash reserves for tens of thousands franchised businesses. A tax credit that comes at the end of the tax period does nothing for a small business that is losing cash daily.

This legislation effectively forces a small business to maintain employees on payroll and maintain those that are not able to work because they are sick. The consequence of this would lead them to close their business as revenues continue to decline.

A 15% revenue decline is likely to result in a continuing net loss starting in month 2 for a sit-down restaurant business. Above scenario shows that in addition to incurring costs associated to sick employees on a fixed cost basis, businesses are likely to incur incremental costs in replacing the impaired labor force, resulting in continuous cash outflows, leading to business closures.
About FRANdata

FRANdata is a leader in the strategic analysis, forecasting and measuring of the franchise industry. As a franchise-focused advisory firm, our deep industry expertise and breadth of historical and predictive capabilities allows us to effectively measure risk while mapping out sector or geographic level franchise growth. For the past 30 years FRANdata has been a strong advocate for the franchise community and is a proud strategic partner to the International Franchise Association. FRANdata harnesses facts and figures into targeted business development strategies and actionable solutions that transform mediocre outcomes into highly successful business results.

FRANdata is headquartered in Arlington, Va., and is often cited as franchise experts in media publications such as The New York Times, The Wall Street Journal, Forbes Magazine, the Franchise Times, and Nation’s Restaurant News. For more information go to www.frandata.com.