

Six-Month COVID-19 Impact Analysis on Franchising Market

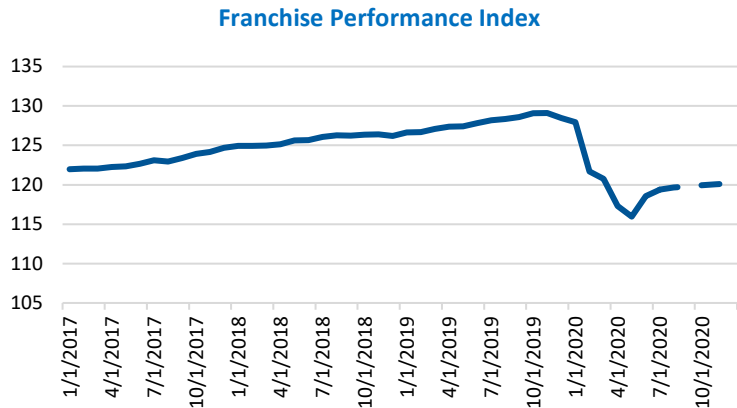
The franchising community comprises 773,600 small franchise establishments across the country and supports nearly 8.4 million direct jobs as of 2019. The COVID-19 pandemic has created economic instability across the country and throughout various industries. Franchises that operate in nearly 300 business lines have also experienced significant impact. As the COVID-19 pandemic continues to evolve and businesses plan for recovery, business continuity, employment, and output put into real terms the adverse consequences of the pandemic for the period between March and August 2020.

Highlights:

- As of the end of August 2020, an estimated 32,700 franchised businesses are closed. It is anticipated that 21,834 of these businesses are only temporarily closed and will re-open, while 10,875 businesses are closed permanently.
- In the next six months, one in 20 small businesses will permanently close based on the Small Business Pulse Survey conducted by the U.S. Census Bureau, which could put another 36,000 franchised units at serious risk of not surviving without additional government assistance.
- 26% of franchises have regained their normal level of operations or were minimally affected by the pandemic as of September 5th.
- Franchised businesses on a per unit basis experienced, on average, 19.3% decline in revenue, totaling \$185.3 billion loss of franchise output (sales).
- As of August 31st, 2020, the franchising market experienced an estimated total loss of 1.4 million jobs due to COVID-19, of which 59.8% were temporary, and 40.2% were permanent.
- Unprecedented unit closures and job losses with the largest coming from the hospitality and restaurant industries, followed by personal services and retail.
- States that were negatively affected by COVID-19 were most concentrated in the Northeast and West Coast, including New York, New Jersey, California and Washington, etc.; states that encountered the least negative impact from COVID were found in the Midwest-to-Western states, such as Idaho, Utah, and Iowa, etc.
- On average, approximately 70% of franchises received PPP loans and 20% of them received EIDL loans from federal government financial assistance.
- Franchised businesses are expected to outperform independently operated local businesses during the pandemic because of the support from the franchisor and benefits and resources received from the community.

Franchise Performance Index

FRANdata's Franchise Performance Index (FPI)¹ forecasts stagnation from September to December if there continues to be a lack of intervention or long-term support. When COVID-19 first broke out in the U.S., the index saw a sharp decline due to the government-imposed stay-at-home orders. After most businesses began to reopen in July, the FPI revamped and showed signs of recovery, but it is still below pre-COVID levels.



Overall Impact on Franchising

In past recessions, the franchise business model has proven to be resilient and a leading expansion method coming out of economic downturns. COVID-19 has posed unprecedented challenges to the franchising community, but franchisors and franchisees have responded quickly and carefully to minimize losses.

From March 2020 to August 2020:

- As of the end of August 2020, an estimated 32,700 franchised businesses are closed. It is anticipated that 21,834 of these businesses are only temporarily closed and will re-open, while 10,875 businesses are closed permanently.
- Estimated franchise job losses due to COVID-19 reached upwards of 1.4 million. Among them, approximately 59.8% (809,000) of job losses were temporary, while 40.2% (544,000) of job losses were permanent.
- Franchised businesses' average unit output (sales) was estimated to drop by 19.3% during the first six months of the pandemic and have since experienced total sales reductions of \$185.3 billion.
- As of August 2020, FRANdata estimated the GDP contribution of the overall franchised businesses to be \$445.1 billion, contracting by 6%, compared to \$473.4 billion total GDP in 2019. However, the GDP contribution to the total US nominal GDP will remain unchanged at 3%.

Impact on Industries

Industry	Franchised Business Establishments (As of Feb 2020)	Estimated Unit Closures (As of Aug 2020)	
		Permanent Closures	Closure Rates
Commercial & Residential Services	239,491	1,516	0.6%
Retail Food, Production & Services	156,016	2,870	1.8%
Hospitality	29,781	591	2.0%
Restaurant	230,515	4,095	1.8%
Personal Services	119,753	1,804	1.5%
Total	775,556	10,875	1.4%

¹ FRANdata created the Franchise Performance Index (FPI), a monthly index of franchise activity, which measures the growth or decline for the franchise business and the general business environment.

With all different industries of franchising being affected by the COVID-19 pandemic, the hospitality and restaurant industries have faced the greatest negative impact, followed by personal services and retail. The commercial and residential services industry has fared better than other industries in the franchising market, especially for the home services sectors, mirroring the increasing needs of cleaning services and surge in construction permit and new home sales.

Hospitality & Restaurant

The last six months have drastically challenged the hospitality and restaurant industries, which are now on the brink of collapse.

Based on the data from the U.S. Census Bureau's Small Business Pulse Survey, more than 40% of businesses in the accommodation and food sector still suffered from revenue losses. In the next six months, 43.5% of businesses in the industry will require additional financial assistance or capital, and 10.6% of operators also anticipate to permanently close the locations, which all suggest the restaurant and hospitality industries' forecasted stagnant growth from now to year end.

As of August 2020, an estimated 2,069 franchised hospitality locations are closed. 71.4% (1,478) of the closures are deemed as temporary, while the other 28.6% (591) are permanent. Based on U.S. Bureau of Labor Statistics, the accommodations sector had an unemployment rate of 35.8% compared to national average of 8.5% as of August 2020. FRANdata estimated that the hospitality industry's franchise employment declined by approximately 215,000 jobs and \$21.5 billion in losses on output.

The restaurant industry experienced the highest number of closed franchise businesses at 14,200, of which 10,100 restaurant closures were temporary, and the remaining 4,100 restaurants were permanent. The industry has also lost approximately 905,400 jobs and \$73.7 billion in sales.

Personal Services

The personal services industry includes diverse services ranging from education, health and fitness, entertainment and recreation, beauty salons, massage and spa, and veterinarians, etc. Because of declining consumer confidence and spending, high unemployment rate, and social distancing practices, most businesses in the personal services industry were forced to temporarily close because of stay-at-home orders from March to May, and the industry has also suffered considerable roadblocks to rehabilitate up to now. For example—the fitness sector—where many states continue to limit capacity and have instituted new requirements. 34% of gymgoers have or plan to cancel their gym memberships after COVID-19 and more than 20 million gym memberships could be cancelled due to COVID-19². Large gym chains have spent their focus on apps for at-home workouts, while many small studios have permanently closed their doors. Gold's Gym filed for chapter 11 bankruptcy in May after missing out on membership dues.

The COVID-19 pandemic has also resulted in momentous changes to the education sector. As a result of stay-at-home policies and social distancing protocols, a significant reduction in demand for services continues to threaten overall performance as many parents choose to keep kids at home and focus on home schooling through online classes. Based on a survey conducted by the National Association for the Education of Young Children, average enrollment was down by 67% and only 18% of the operators expected that they would survive longer than a year without receiving additional public support. 91% of the respondents indicated additional costs incurred for cleaning supplies. The education services sector also experienced an unemployment rate of 10% as of August 2020, higher than the national average.

FRANdata estimates that as of August 2020, 1,804 business locations are permanently closed. The industry's anticipated job losses were approximately 66,000, associated with a \$35.5 billion reduction in total store sales.

² ["Consumer Fitness Survey Finds Post COVID-19, Billions in Spend Will Be Lost or Reallocated in Massive Industry Transformation."](#) Business Wire, 26 May 2020.

	Job Losses	Output Losses (in \$billions)
Commercial & Residential Services	79,428	\$39.2
Retail Food, Production & Services	86,539	\$15.4
Hospitality	215,227	\$21.5
Restaurant	905,400	\$73.7
Personal Services	65,608	\$35.5
Total	1,352,203	\$185.3

Retail:

Consumer behavior has largely changed because of COVID-19, as people have reduced the amount of times they leave their homes, relying more on online shopping and e-commerce. Consumer concerns on economic instability and lower purchasing power from layoffs and furloughs have also limited spending on non-essential merchandise.

However, U.S. retail and food services sales increased from \$412.8 billion in April to \$537.5 billion in August. Employment at general-merchandise retailers and appliance and furniture stores accelerated in August, as businesses reopened and more people left their homes to go shopping³, but mall-based retailers and clothing stores have suffered deeper job losses.

As of August 2020, the franchised retail industry has approximately 6,000 total closed businesses. Among them, 51.7% are expected to be temporary closures, and 48.3% are permanent. Overall, the industry lost 86,500 jobs and a total of \$15.4 billion in sales.

Commercial & Residential Services:

The commercial and residential services industry has largely outperformed other industries in the franchising market, especially the home services sectors. Residential customers have begun home renovation projects while staying at home and cleaning more often to maintain healthy environments; increases in new home sales have also bolstered the industry growth. For example, PuroClean, a restoration and remediation franchise, achieved record growth in 2020 amid the pandemic, signing 31 new franchise agreements since May 1, and opening 21 new franchise locations across the country since January.

The business services and real estate sectors are also categorized under the commercial & residential services industry, so the relatively negative impact on the business services and real estate sectors offsets net gains in the home services sectors, further generating unit closures for the entire industry. The industry incurred nearly 79,400 job losses and \$39.2 billion sales losses.

³ Morath, Eric, and Danny Dougherty. "[Retail Stores Add Jobs as Shoppers Return](#)." The Wall Street Journal, Dow Jones & Company, 5 Sept. 2020.

Impact on States

Franchising plays an important role at both the national level and the state level. Franchise businesses influence state economies through job creation, promotion of output, and GDP contribution. From the beginning of the COVID pandemic to now, state policies and regulations differed, in part, due to their varying population densities, geographical locations, number of COVID cases, and business components, etc.

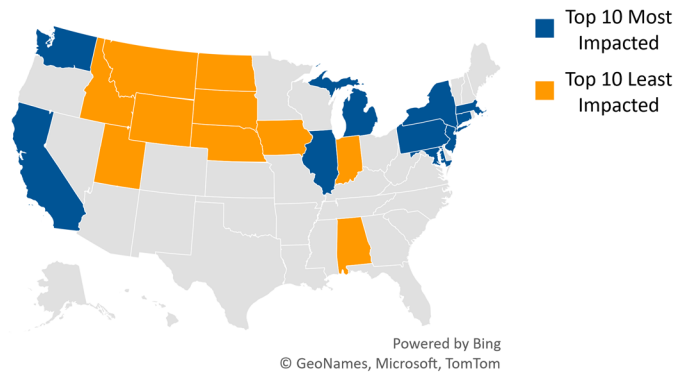
FRANdata has identified the top 10 states with the largest negative COVID impacts, which includes states in the mid-Atlantic region, such as New York, New Jersey, Pennsylvania, and states on the West Coast, such as California and Washington. These states have longer estimates on when they expect businesses to reach stability in the pandemic, based on the Small Business Pulse Survey, conducted by the U.S. Bureau of Census.

Some of the most impacted states had experienced the earliest outbreaks of COVID, which subsequently had the most number of cases up to now and higher than national average unemployment rates. California, Illinois, New York, and New Jersey all had more than 1,000 estimated franchised business closures.

In the next six months, Nevada is anticipated to be another state that will be severely impacted by the pandemic, with an estimated 9.9% permanent business closure rate. Nevada's investments in the hospitality and leisure industry, and its reliance on tourism will have crippling effects on its economy, as travel continues to be limited.

The least 10 impacted states are Idaho, Utah, Iowa, Montana, Nebraska, South Dakota, Alabama, North Dakota, Indiana, and Wyoming, which are concentrated in Midwest-to-Western regions.

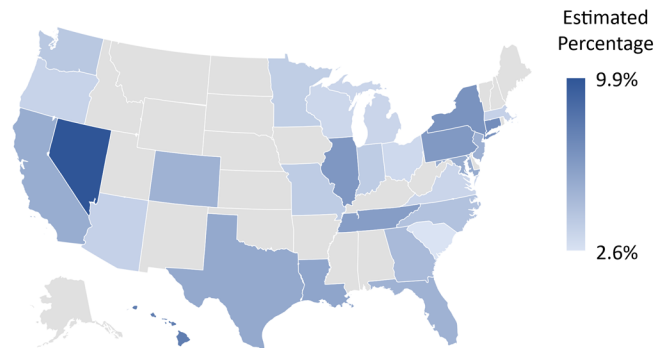
COVID-19 State Impact



Top 10 States with the Most Negative COVID Impact

	Franchised Business Closures	Number of Unemployed ⁴ (As of July 2020)	Output Losses (in \$millions)
New York	1405	53,387	\$9,614.2
New Jersey	1029	28,577	\$5,531.4
Massachusetts	438	19,866	\$3,022.1
California	4556	111,592	\$20,472.7
Illinois	1170	39,985	\$8,289.3
Michigan	632	21,910	\$4,446.7
Pennsylvania	959	39,051	\$6,152.6
Connecticut	358	9,601	\$2,584.6
Washington	564	16,506	\$3,868.0
Maryland	450	12,542	\$3,735.0

% of Businesses that will Permanently Close in the Next Six Months

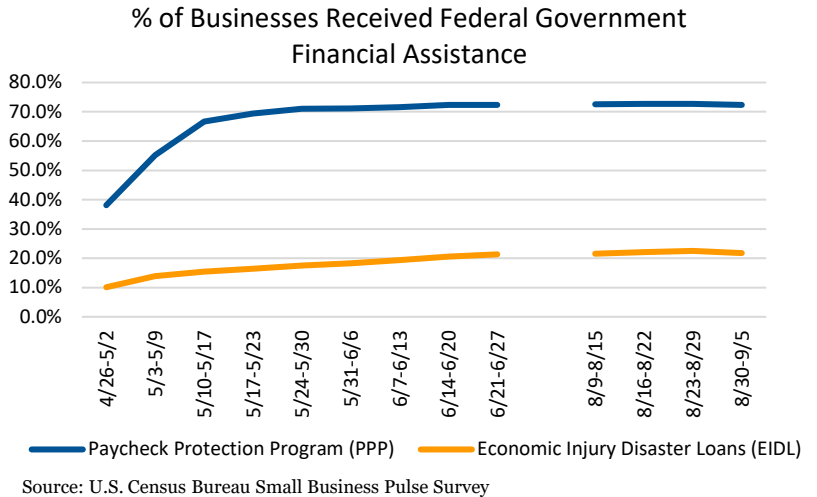


Source: U.S. Census Bureau Small Business Pulse Survey

⁴ Based on July 2020 state unemployment rates from U.S. Bureau of Labor Statistics.

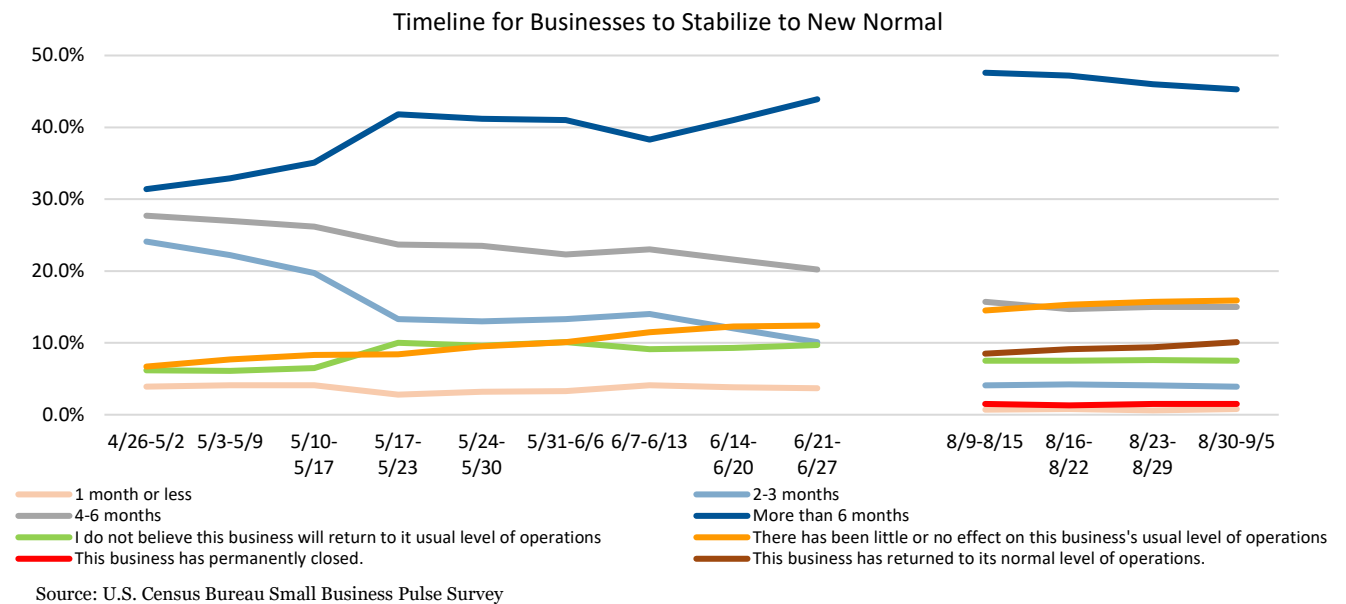
Federal Government Financial Assistance

Based on the U.S. Census Bureau's Small Business Pulse Survey, on average, 70% of small businesses received Paycheck Protection Program (PPP) loans, and 20% received Economic Injury Disaster Loans (EIDL). Most franchised businesses are considered small businesses, as 75% of all franchise owners have fewer than 20 employees, so FRANdata assumes that the percentages of franchised businesses that received PPP & EIDL loans align with the overall small business averages.



While more small business owners run out of federal funding, 23.8% of them are expected to seek further financial assistance or additional capital, especially in the accommodation and food services, educational services, arts and entertainment, and recreational services sector, of which 43.6%, 36.8%, and 33.7% of the owners expressed the urge, respectively.

Future Expectations



The economic downturn caused by the pandemic is likely to last longer than expected without further government support. Based on the most current survey results conducted by the U.S. Census Bureau, only 26% of small businesses indicated that they have regained the normal level of operations or only had little or no effect from the pandemic, and the remaining 74% of businesses have not yet recovered from the losses, with 1.5% of businesses having already ceased operations. In the next six months, 4.8% of small businesses expect to permanently close, which would leave an additional 36,000 franchised businesses at risk. Sectors including accommodation and food

services, arts, entertainment, and recreation, and educational services are anticipated to suffer greater losses with an estimated unit permanent closure rate of 10.7%, 9.4%, and 7%, respectively.

Despite the fact that the unemployment rate is falling, an increasing number of workers are losing their jobs permanently rather than being temporarily laid off or furloughed, based on the results from the Labor Department’s August Survey, which is a sign that the pandemic has created lasting perennial damage. The recovery is expected to be sluggish and vulnerable because of constrained business development activities and is likely to continue before a widely available vaccine and effective treatment plans roll out.

For the franchising market, franchisees are open to broader levels of resources, assistance, and strong levels of support from franchisors. The high unemployment rate will also lead to a large percentage of unemployed workers choosing to invest in franchises. With continuous efforts in developing the system and strengthening the support that franchisees receive in order to survive the crisis and minimize risks, the franchising market is expected to experience a steady and stronger recovery from the pandemic.

Estimated % of Businesses that will Permanently Close in the Next Six Months	
Industry	%
Accommodation and Food Services	10.7%
Arts, Entertainment, and Recreation	9.4%
Educational Services	7.0%
Administrative and Support and Waste Management and Remediation Services	4.7%
Retail Trade	4.6%
Real Estate and Rental and Leasing	4.4%
Professional, Scientific, and Technical Services	4.2%
Construction	3.3%
Average	4.8%

Source: U.S. Census Bureau Small Business Pulse Survey