2022 FRANCHISEE INFLATION SURVEY
Special thanks to our sponsor:

www.franinsurance.com
**Executive Summary**

Like most businesses, the franchise ecosystem has experienced a negative impact of inflation lately. **Approximately 90% of franchisees witnessed a moderate to substantial inflation impact** in their business. Some industries such as lodging, QSR*, and child-related are feeling a greater impact than other industries. Being in a franchise system has helped franchisees by sharing best practices with other franchisees, customer marketing, and resolving supply chain disruptions. Some brands have helped their franchisees in employee recruitment.

*QSR: Quick Service Restaurant*
Respondent Profile

More than 1,000 respondents from varied industries and states

1,004 respondents cumulatively owning more than 4,984 franchise businesses.

26% of respondents are from Texas, Florida, and California.

Top 3 industries are Maintenance Services, Health & Fitness, and Retail Stores.

60% are single-unit franchise owners while 40% of respondents are multi-unit franchisees.

Respondents by Industry

- Maintenance Services: 27%
- Health & Fitness: 20%
- Retail Stores: 15%
- Beauty-Related: 9%
- QSR: 9%
- Child-Related: 5%
- Building & Construction: 3%
- Services-General: 2%
- Others: 11%

Franchise Ownership by Number of Units Owned

- 1 Unit: 60%
- 2-5 Units: 26%
- 5-20 Units: 8%
- More Than 20 Units: 6%

# of Respondents

- 0
- 1-10
- 11-25
- 26-49
- 50+
Impact of Inflation on Franchise Business

<table>
<thead>
<tr>
<th>Impact Level</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Substantial impact</td>
<td>52%</td>
</tr>
<tr>
<td>Moderate impact</td>
<td>39%</td>
</tr>
<tr>
<td>Mild impact</td>
<td>9%</td>
</tr>
<tr>
<td>No impact</td>
<td>1%</td>
</tr>
</tbody>
</table>

“We have experienced a **25% increase** in cost of goods from inflation that has reduced net bottom line by almost **50%**. Inflation has added significantly to the investment to open new stores. That means the **ROI for new stores is way down.**”

Industries where more than **50%** respondents feel a substantial impact of inflation on their business:

- Beauty Related: 51%
- Child Related: 61%
- Baked Goods: 60%
- Maintenance Services: 52%
- QSR: 83%
- Lodging: 90%
Substantial Impact of Inflation

There are 20 states where more than 50% of respondents feel a substantial impact

% of Respondents who feel a substantial impact of inflation on their business

Top 10 states where % of Respondents are Experiencing Substantial Impact:

- MS: 75%
- AZ: 70%
- NV: 67%
- CA: 64%
- IN: 64%
- MN: 62%
- MA: 61%
- WA: 59%
- MI: 57%
- OK: 57%

% of Respondents

- 0
- 25%-40%
- 40%-50%
- 50%-60%
- More than 60%
Impact of Inflation Across Supply Chain and Labor Costs

Fuel prices, labor, and cost of goods/services are top business areas impacted by inflation

<table>
<thead>
<tr>
<th>Areas of Impact</th>
<th>No to little impact</th>
<th>Some Impact</th>
<th>Large Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rising fuel prices (gasoline, diesel, fuel oil, etc.)</td>
<td>8%</td>
<td>22%</td>
<td>70%</td>
</tr>
<tr>
<td>Labor-related increases</td>
<td>9%</td>
<td>20%</td>
<td>70%</td>
</tr>
<tr>
<td>Increasing cost and scarcity of inventory, supplies, and materials</td>
<td>12%</td>
<td>28%</td>
<td>59%</td>
</tr>
<tr>
<td>Increasing utility costs (heating, cooling, electricity)</td>
<td>25%</td>
<td>43%</td>
<td>32%</td>
</tr>
<tr>
<td>Increasing rent</td>
<td>59%</td>
<td>27%</td>
<td>14%</td>
</tr>
</tbody>
</table>

"Fuel costs and labor costs [are] far exceeding any reasonable expectation."

"I run my business from my house so there’s no increase in rent or little increase in utilities. Everything else has nearly doubled, fuel, supplies and labor."

"All of our costs are rising; however, the inability to get products or the fact that we must source new suppliers is very time-consuming and expensive."

"Our loan rates are significantly impacted on property we own. Our transportation/travel cost are up more than 50%. Most every cost we have in the business is up significantly."

"Maintenance Services Franchise Owner"

"Child-related Franchise Owner"

"Pet Related Product/Services Franchise Owner"
Impact of Inflation Across Supply Chain and Labor Costs

Impact severity varies across industry, with rising fuel prices and labor costs having the largest effect on franchisees.

**FUEL**

92% of franchisees said rising fuel prices had some to large impact on their business.

Top 5 industries with some or large impact on fuel cost:
- Maintenance Services: 91%
- QSR: 69%
- Retail Stores: 67%
- Health & Fitness: 58%
- Child-Related: 54%

**LABOR**

91% of franchisees said increasing labor cost had some to large impact on their business.

Top 5 industries with some or large impact on labor cost:
- Child-Related: 98%
- QSR: 88%
- Beauty-Related: 83%
- Maintenance Services: 79%
- Health & Fitness: 59%

**INVENTORY**

88% of franchisees said an increase in cost of inventory had some to large impact on their business.

Top 5 industries with some or large impact on inventory cost:
- QSR: 90%
- Retail Stores: 75%
- Child-Related: 67%
- Beauty-Related: 63%
- Maintenance Services: 50%
## Methods to Absorb Cost Increases

Single-unit franchisees less likely to raise their prices

### Methods to absorb increase in cost

<table>
<thead>
<tr>
<th>Method</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increasing prices of your goods and services</td>
<td>80%</td>
</tr>
<tr>
<td>Lowering business earnings</td>
<td>64%</td>
</tr>
<tr>
<td>Reducing employee related costs (compensation, etc.)</td>
<td>25%</td>
</tr>
<tr>
<td>Switching to lower cost materials or goods</td>
<td>19%</td>
</tr>
<tr>
<td>Utilizing higher lending to help finance higher costs</td>
<td>10%</td>
</tr>
<tr>
<td>Reducing quantity of materials or goods used</td>
<td>9%</td>
</tr>
<tr>
<td>Increasing use of energy efficient products</td>
<td>9%</td>
</tr>
<tr>
<td>Other - Please Specify</td>
<td>9%</td>
</tr>
</tbody>
</table>

### % of franchisees by number of units owned who increased prices

- More than 20: 94%
- 5-20: 91%
- 2-5: 84%
- 1: 77%

### % of franchisees by number of units owned who witnessed lower earnings

- More than 20: 60%
- 5-20: 73%
- 2-5: 66%
- 1: 62%
Methods to Absorb Cost Increases

QSR, Retail Stores, & Beauty-Related are top three industries to raise prices

Top 5 industries that raised prices of good and services

<table>
<thead>
<tr>
<th>Industry</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>QSR</td>
<td>98%</td>
</tr>
<tr>
<td>Retail Stores</td>
<td>96%</td>
</tr>
<tr>
<td>Beauty-Related</td>
<td>88%</td>
</tr>
<tr>
<td>Child-Related</td>
<td>87%</td>
</tr>
<tr>
<td>Maintenance Services</td>
<td>73%</td>
</tr>
</tbody>
</table>

“By the time we increase prices, [costs] have increased.”

“For the most part, we’ve had to increase pay/salaries, charge higher prices and adjust 2 and 3 times during the year.”

“[We are] not raising prices at the same rate as inflation to prevent losing customers thus decreasing revenue.”
Methods to Absorb Cost Increases
Franchisees in Child-Related, Beauty, & QSR brands reported lower earnings

Top 5 industries that reported lowered earnings

- **Child-Related**: 80%
- **Beauty-Related**: 74%
- **QSR**: 72%
- **Maintenance Services**: 69%
- **Health & Fitness**: 61%

"Added extra day of service to cover fixed costs since profits are down"
- Maintenance service Franchise Owner

"Asking for deferment on SBA and other business loans"
- Health & Fitness Franchise Owner

"Attaining operating efficiencies in every business line item"
- Health & Fitness Franchise Owner

"I ended up scaling business back to control costs. We will do less but get back in the black."
- Maintenance Services Franchise Owner

"Reducing inventory variety in order to stock more of our highest demand items"
- Maintenance services Franchise Owner
Support from Franchise System

47% of franchisees feel being part of franchise system has helped

► 47% of franchisees experienced support from their franchise system (either from franchisor, fellow franchisees, or both).

► 69% of franchisees from the Retail Stores industry felt supported from their franchise system. 54% of the franchisees from the Child-Related industry felt supported from their franchise system.

► 43% of single unit franchisees feel support from their franchise system, while 54% of multi-unit franchisees feel support from their franchise system.
Franchise System Advantages

Shared best practices is one of the biggest advantages of the franchise system.

<table>
<thead>
<tr>
<th>Best Franchise Tools to Deal with Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared best practices</td>
</tr>
<tr>
<td>Customer marketing</td>
</tr>
<tr>
<td>Buying supplies</td>
</tr>
<tr>
<td>Solving supply chain disruptions</td>
</tr>
<tr>
<td>Employee recruitment</td>
</tr>
<tr>
<td>Customer retention</td>
</tr>
<tr>
<td>Finding alternative input sources</td>
</tr>
<tr>
<td>Employee retention</td>
</tr>
<tr>
<td>Other - Please Specify</td>
</tr>
</tbody>
</table>

- 68% of franchisees feel that sharing of best practices with fellow franchisees is the most important advantage of being part of franchise system.
- Other major advantages of being part of franchise system are customer marketing, buying supplies, and resolving supply chain issues.

"Using the power in numbers to negotiate pricing. Finding other vendors for assistance."

Retail Stores Franchise Owner

"Franchise systems are more efficient reducing our overall costs."

Pet Related Product/Services Franchise Owner

"I love my franchise system, but honestly the support I see firsthand is from my direct team/office, some close franchisees, and local business partnerships where we share what's happening in our market."

Health & Fitness Franchise Owner

"I was able to reach out to another franchisee for material when I was unable to find any anywhere in the US."

Building & Construction Franchise Owner
How your Brand has Helped

Information sharing, employee recruitment, and addressing supply chain issues

**Actions your brand has taken**

<table>
<thead>
<tr>
<th>Action</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information sharing across system</td>
<td>55%</td>
</tr>
<tr>
<td>Help with employee recruitment</td>
<td>30%</td>
</tr>
<tr>
<td>Addressing supply chain disruptions</td>
<td>28%</td>
</tr>
<tr>
<td>Increased/improved advertising</td>
<td>26%</td>
</tr>
<tr>
<td>Help with employee retention</td>
<td>19%</td>
</tr>
<tr>
<td>Flexibility in sourcing</td>
<td>13%</td>
</tr>
<tr>
<td>More aggressive purchases of inputs</td>
<td>9%</td>
</tr>
<tr>
<td>Reducing quantity inputs</td>
<td>5%</td>
</tr>
<tr>
<td>Access to better financing</td>
<td>5%</td>
</tr>
<tr>
<td>Other - Please Specify</td>
<td>14%</td>
</tr>
</tbody>
</table>

"Gave us a royalty holiday"

"Increased spend in technology to limit labor costs"

"Acting as advisors and a clearinghouse for best practice ideas"

"Helping us get better access to financing"
Future Expectations

60% of franchisees expect increases in cost to get worse in near future

Franchisees’ Future Expectation of Cost Increase

<table>
<thead>
<tr>
<th>Expectation</th>
<th>% of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Get Worse</td>
<td>60%</td>
</tr>
<tr>
<td>Stay the same</td>
<td>21%</td>
</tr>
<tr>
<td>Uncertain</td>
<td>13%</td>
</tr>
<tr>
<td>Get Better</td>
<td>6%</td>
</tr>
</tbody>
</table>

% of respondents from each state who expect cost inflation to get worse in 2023

Respondents who expect cost inflation to get worse

- Child Related: 78%
- QSR: 67%
- Maintenance Services: 61%
Impact of Labor Challenges on Growth

92% of franchisees with 11+ units say growth is constrained by labor issues

**Impact of Labor Challenges on Business Growth**

- It is a considerable constraint in our ability to grow: 59%
- It is slowing growth somewhat: 26%
- It’s not a factor in our growth plans: 13%
- Other - Please Specify: 2%

**% of Franchisees Impacted by Labor Challenges**

<table>
<thead>
<tr>
<th># of Units Owned</th>
<th>% of Franchisees Impacted</th>
</tr>
</thead>
<tbody>
<tr>
<td>20+</td>
<td>93%</td>
</tr>
<tr>
<td>5-20</td>
<td>83%</td>
</tr>
<tr>
<td>2-5</td>
<td>88%</td>
</tr>
<tr>
<td>1</td>
<td>82%</td>
</tr>
</tbody>
</table>

“We almost went out of business due to lack of labor and employees in addition to the new normal for employee compensation. We had to dramatically raise our prices to be able to pay our employees.”
THANK YOU