



IDENTIFYING AND ADDRESSING TODAY'S LABOR TRENDS

A 2023 Study on Labor Trends in Franchising



ABOUT THE INTERNATIONAL FRANCHISE ASSOCIATION

Celebrating over 60 years of excellence, education, and advocacy, the International Franchise Association (IFA) is the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 790,492 franchise establishments that support nearly 8.4 million direct jobs, \$825.4 billion of economic output for the U.S. economy, and almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.



ABOUT FRANdata

FRANdata offers independent, comprehensive market insight focusing on the franchise ecosystem. Our research combines rigorous analysis with industry expertise and astute forecasting. We focus on delivering unparalleled insights and high-level strategic advice to a global franchise client base.

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KEY TAKEAWAYS

- **Labor remains the most important problem** facing franchised businesses today, continuing the trend from 2022.
 - One in four franchise systems are concerned about the quality of labor at their franchised locations, while another 22% are concerned about their unit-level labor costs.
- Franchising remains a source of **job growth**.
 - 45% of franchisors reported unchanged employment numbers while 34% experienced an increase.
 - More than half of all franchisors expect total franchisee-owned business employment to increase.
- 87% of franchisors report that their **franchisees want to hire** but have had difficulty filling open positions.
 - Close to 26% of franchises have openings for skilled workers, another 18% have openings for unskilled workers, and more than 43% have openings for both.
 - 44% franchisors are reporting few quality applicants to fill the open positions.
- **Wage pressure** is considerable but lessening.
 - Nearly 85% of franchised businesses increased wages in the last six months of 2022, and 60% anticipate continued increases in 2023.
 - Over the last 6 months, 43% of franchised businesses reported benefit increases, and 42% anticipate continued increases.

YEAR-OVER-YEAR CHANGES

#1 problem: Availability of Qualified Labor

Availability of qualified labor remains the most important problem facing franchised businesses today, continued from 2022.

87% vs. 88%

Nearly identical to last year, 87% of franchisors report their franchisees have had difficulty filling openings for unskilled labor, skilled labor, or both (88% in 2022).

81% vs. 80%

Over 80% of franchise brands have experienced constrained growth due to labor challenges, a continuation from 2022 (80% in 2022).

44% vs. 41%

More than 40% of respondents report franchisees are having issues sourcing qualified applicants, also in line with the trend from last year (41% in 2022).

19% vs. 42%

In 2023, **only 19% of respondents** indicated a decrease in the average number of employees per franchised location, compared to 42% in 2022.

60% vs. 76%

60% of respondents anticipate future increases in store-level wages into 2023 – as compared to 76% anticipating future increases in 2022.

43% vs. 40%
42% vs. 46%

Over the last 6 months, **43% of franchised businesses reported** benefit increases, and 42% anticipate continued increases, as compared to 2022 where 40% of respondents reported benefit increases, and 46% anticipated future increases in 2022.



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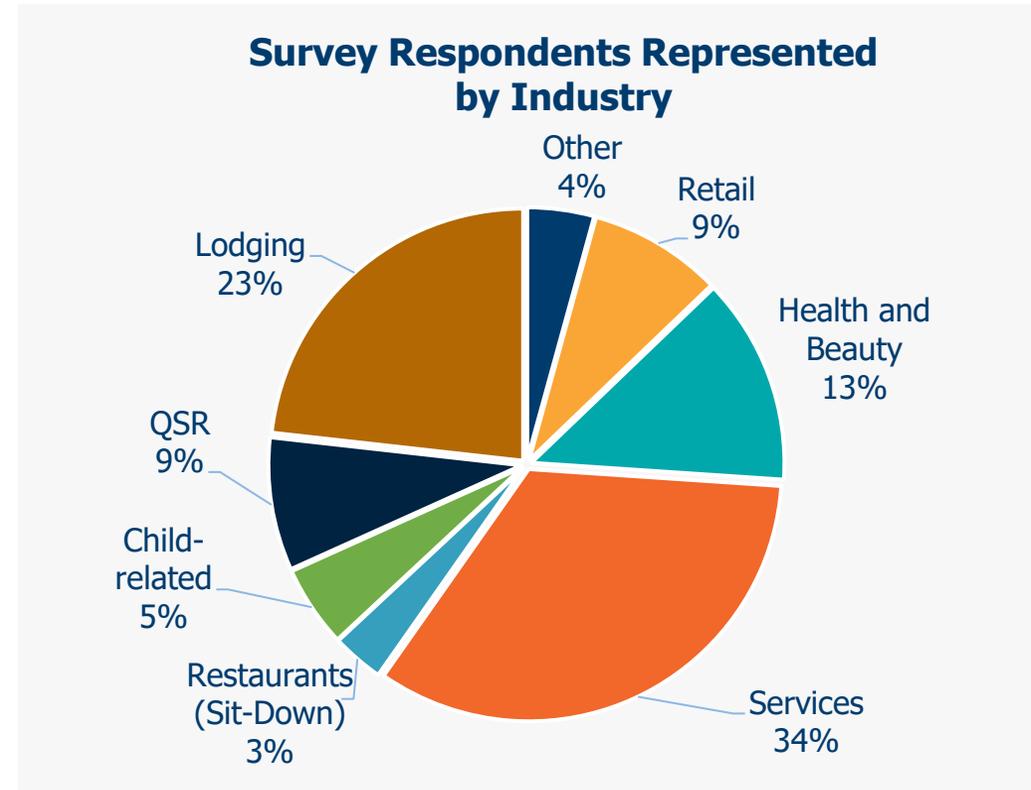
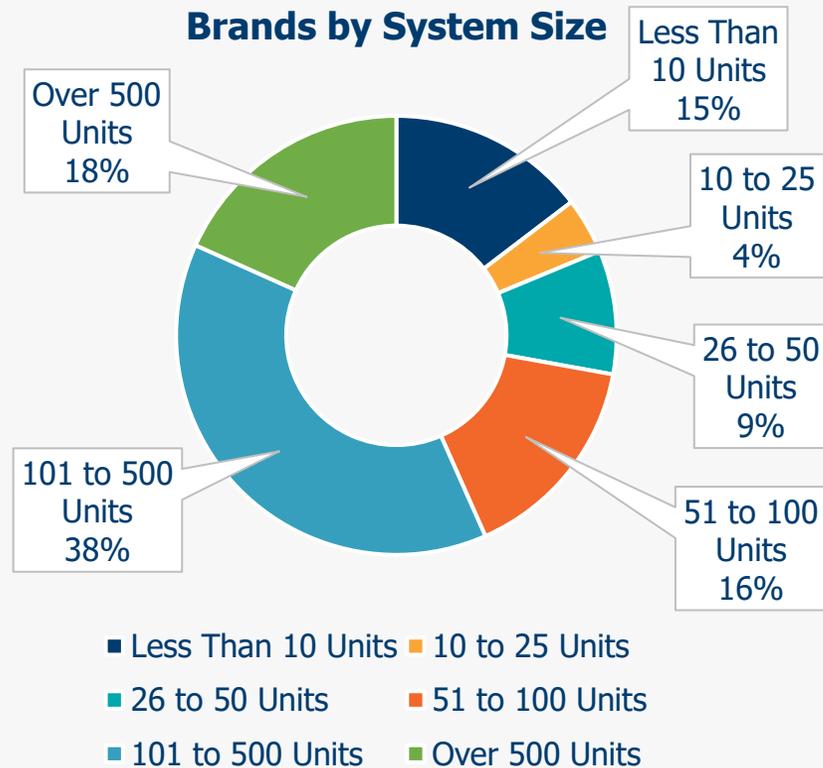
**ABOUT THE
SURVEY**

THE 2ND ANNUAL FRANCHISE LABOR SURVEY

- This study represents the International Franchise Association's **second annual longitudinal study on labor trends in franchising**, conducted by FRANdata.
- The survey was conducted between **December 2022 - January 2023**, with respondents invited to participate to provide a better understanding of labor climate faced by their franchisees.
- The data compares to **labor challenges facing franchised businesses** surveyed during the same period in 2022.
- 169 senior executives representing franchisors and franchise portfolio companies that own **221 brands** responded to the survey. Together their brands represent over **118,000 units** and encompasses nearly **25% of all domestic franchised businesses**.

RESPONDENT ANALYSIS

- The survey represents 169 responses from executives representing 221 brands and over 118,000 units.
- Of these brands, 61.9% are mid- to large-sized companies with more than 50 franchised units.
- The biggest group comes from brands with 101 and 500 franchised units, attributing for 35% of the respondent group.
- The two most represented industries are Lodging (20%) and Maintenance Services (18%).
- There are 22 total industries represented.



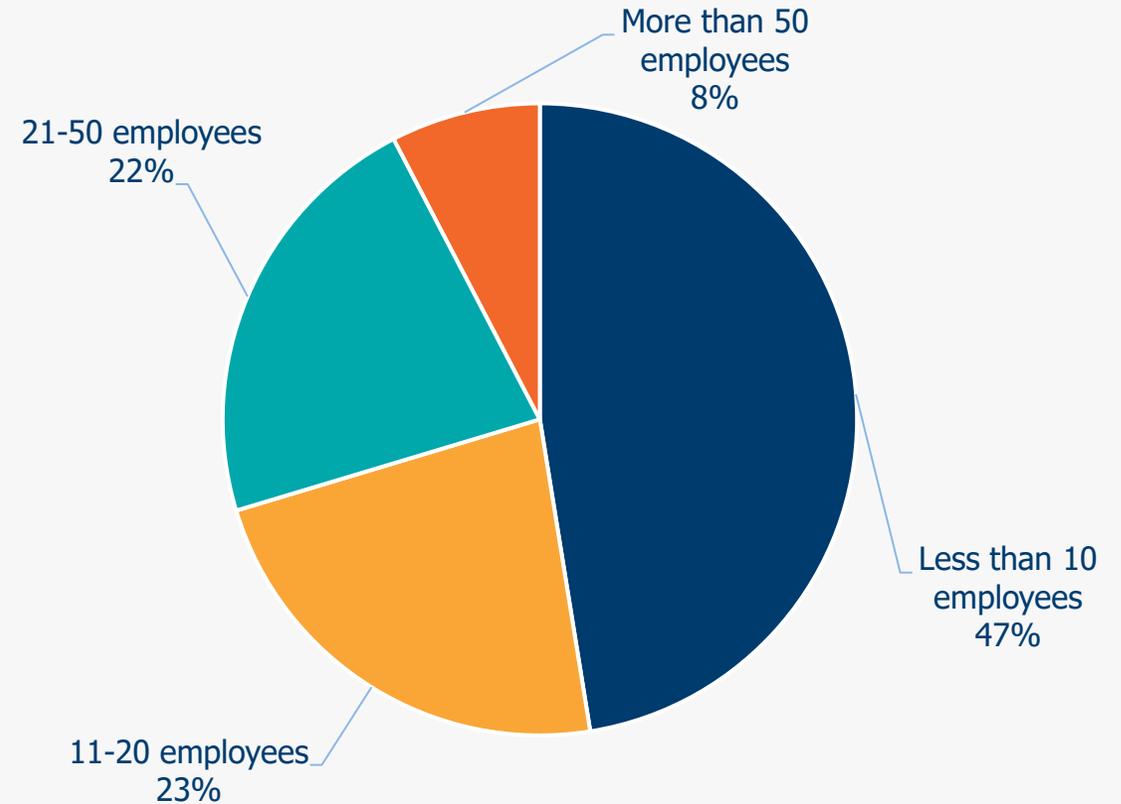
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RESPONDENT PROFILE

- Nearly half (47.5%) of respondents report their franchisees have an average combined staff of both full- and part-time employees of no more than 10 per business.
- The average number of employees per franchised business for the entire set of respondents was 18.4 employees.

**Average Number of Employees
(Both Part- & Full- Time)
per Franchised Location**



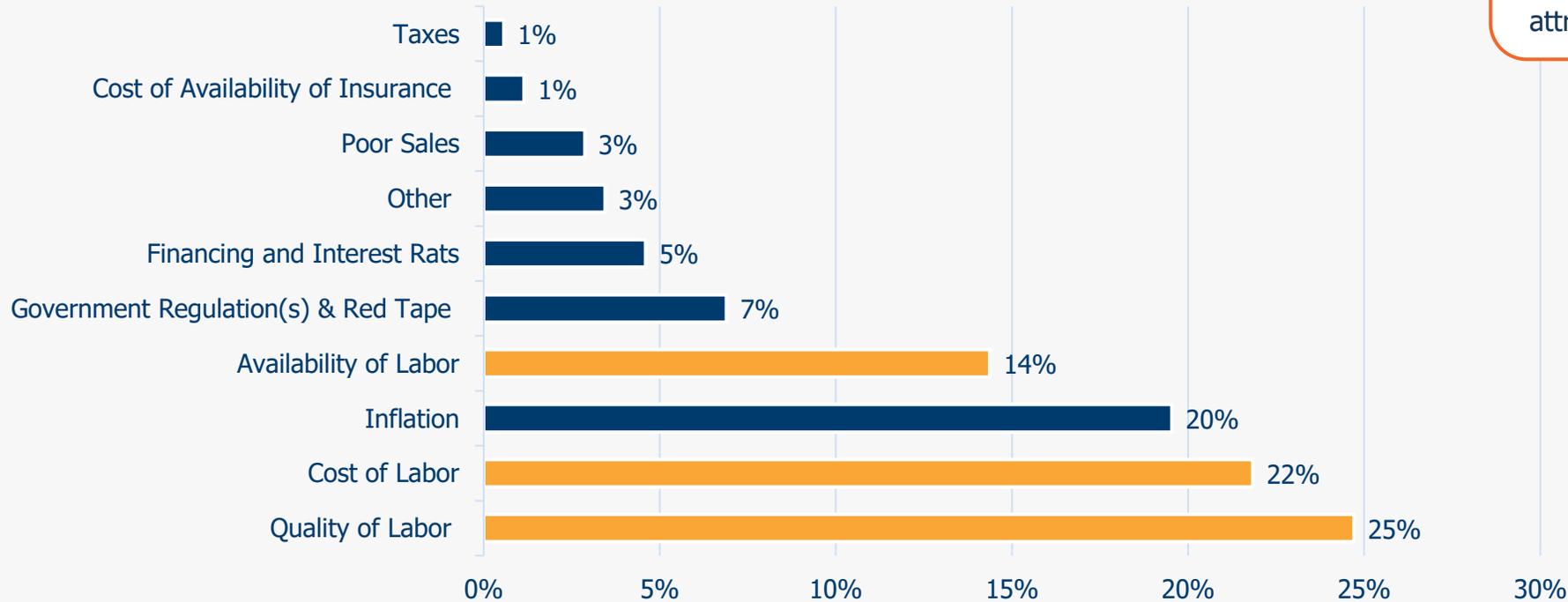


SURVEY RESULTS

SINGLE BIGGEST ISSUE

Labor continues to be the **most important problem** for franchisors moving in to 2023.

What is The Single Most Important Problem Facing Your Franchisees Today?



Our revenues have been severely hampered by lack of labor. For years, our marketing focus has been on consumer traffic, now it is on labor attraction and retention.

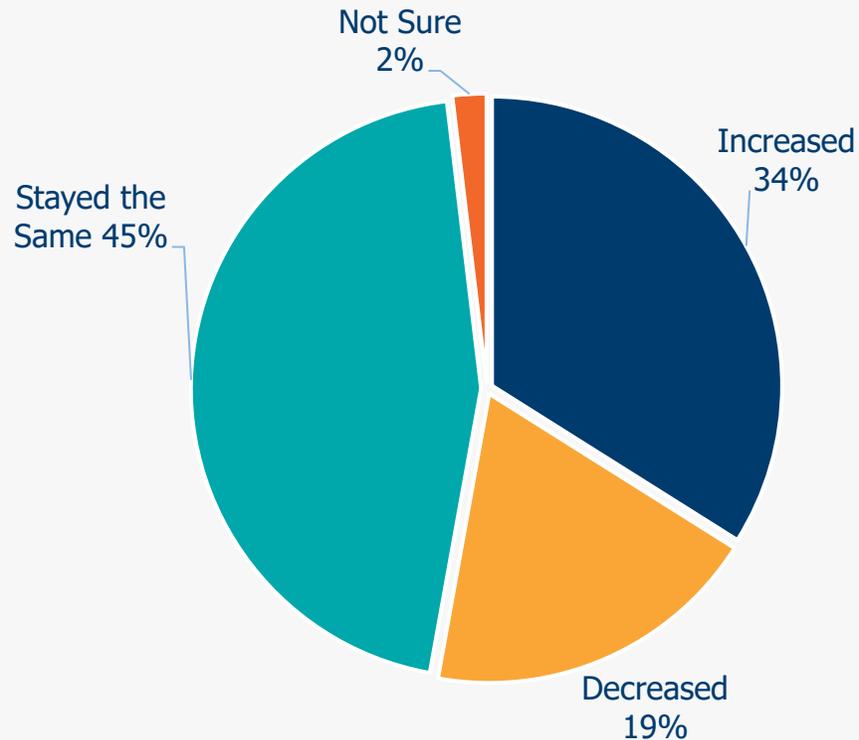


CEO of Health & Beauty Brand

61% of responses indicate cost, quality, or availability of labor as their primary concern.

EMPLOYMENT LEVEL CHANGES

During the last 6 months, how did the average number of employees per franchised location in your system change?



A majority of franchisors reported that the number of employees at their franchise units has either stayed the same or increased in the last 6 months.

- 45% reported employment levels stayed the same.
- 34% reported an increase in employment levels.

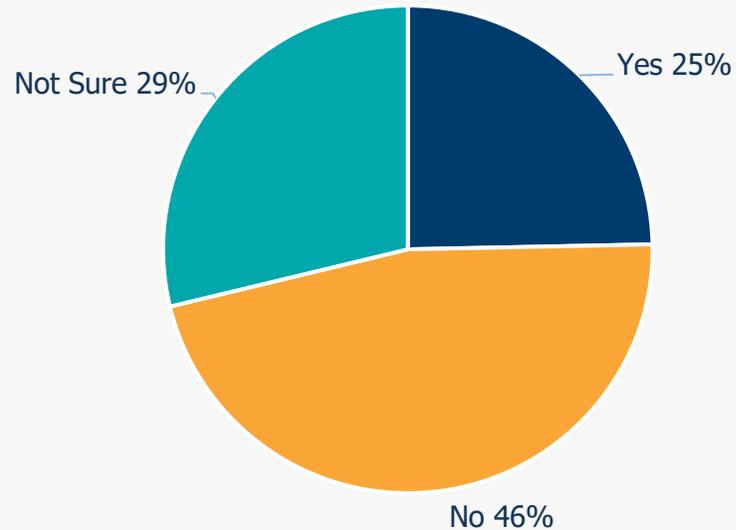
Only 19% of respondents indicated a decrease in employment levels.

- This is compared to 42% who reported decrease in the average number of employees per franchised location in the first half of 2022.

REGIONALITY OF LABOR CONCERNS

Nearly **one in four franchisors** are experiencing labor challenges that are concentrated within certain geographical regions, as compared to nationwide.

Are franchise units in one region experiencing more labor challenges than other regions?



In some cities, there are more applicants, (as compared to) smaller cities. (This allows for) larger labor pool to pick from.



COO at a Home Healthcare Concept

Small tier 2 markets are not having as much trouble as tier 1 markets.



COO at a Recreational Facility Franchise

Sunbelt states have it a bit easier than other regions.



President of a Haircare Brand



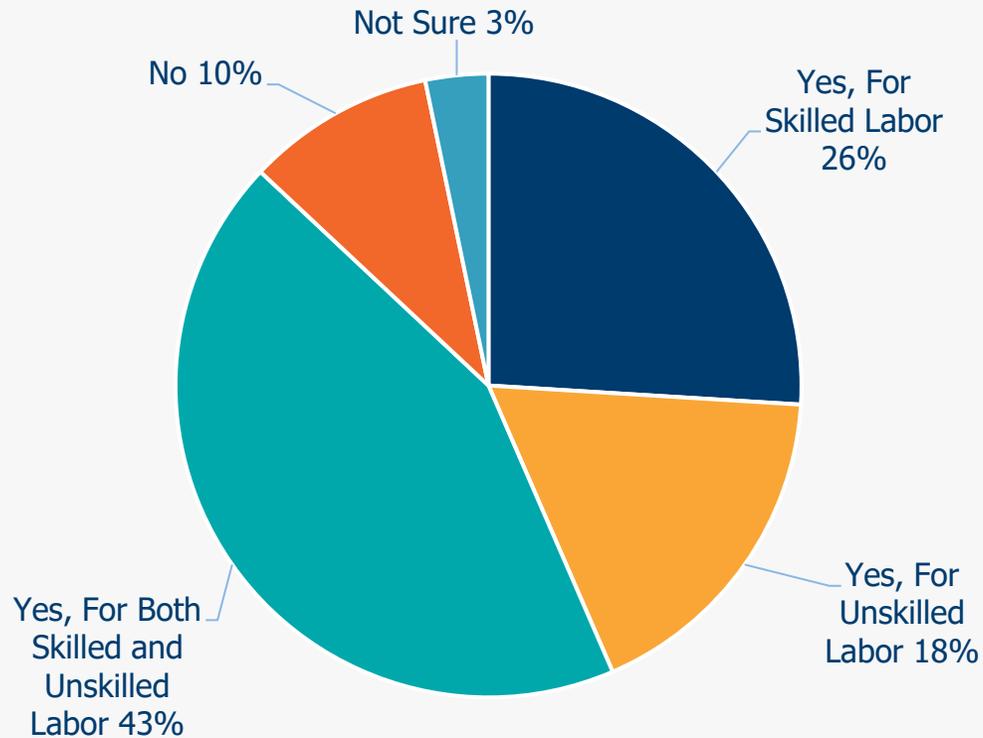
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JOB OPENINGS AND QUALIFIED CANDIDATES

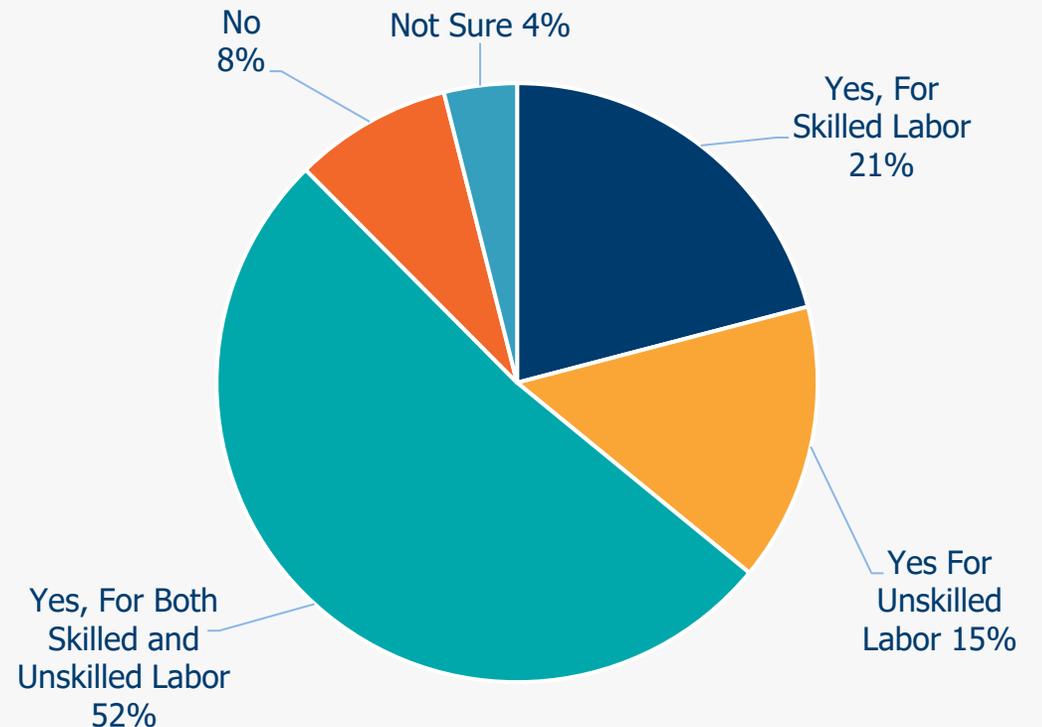
87% of franchisors report their franchisees have had difficulty filling openings for unskilled labor, skilled labor, or both, nearly identical to 2022.

2023: Do your franchisees have job openings that they are not able to fill?



VS.

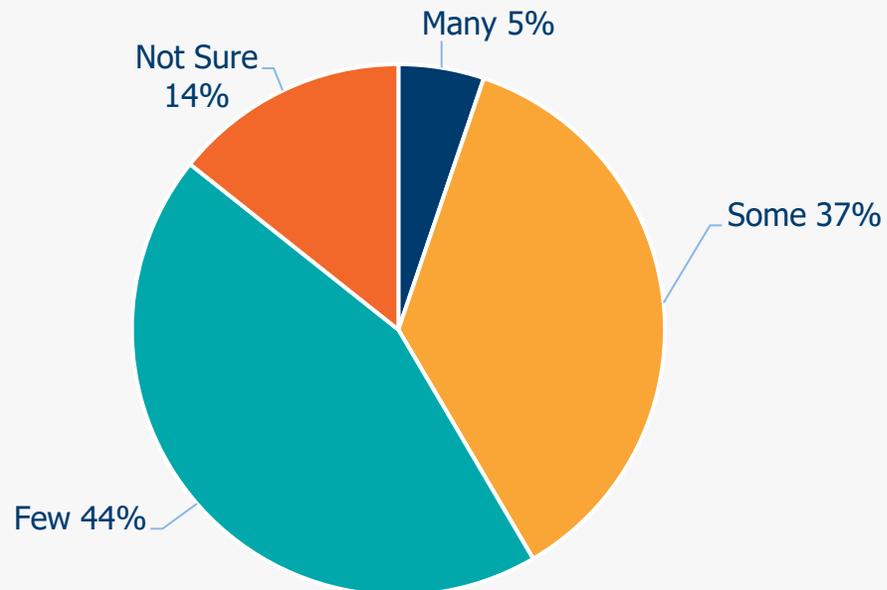
2022: Do your franchisees have job openings that they are not able to fill?



QUALIFIED APPLICANTS

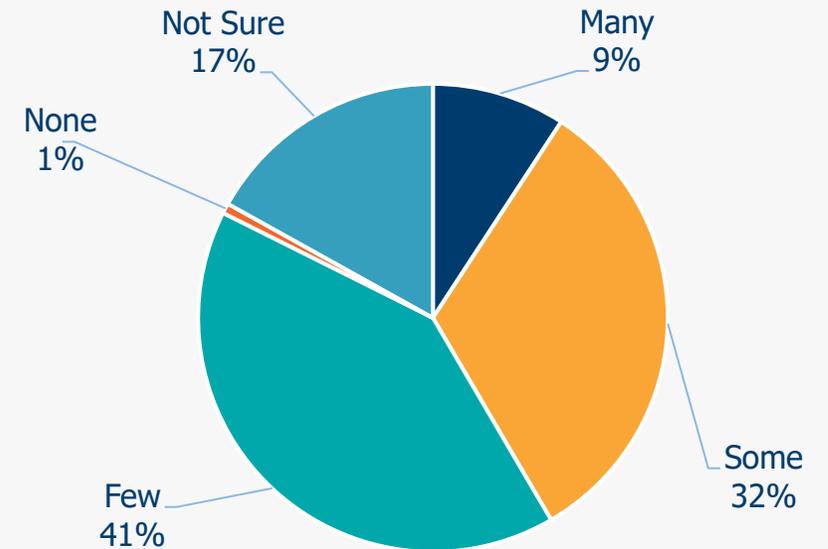
More than **40% of franchisors** report their franchisees are having issues sourcing qualified applicants, in line with the trend from last year.

2023: How many qualified job applicants were there at the average franchised business?



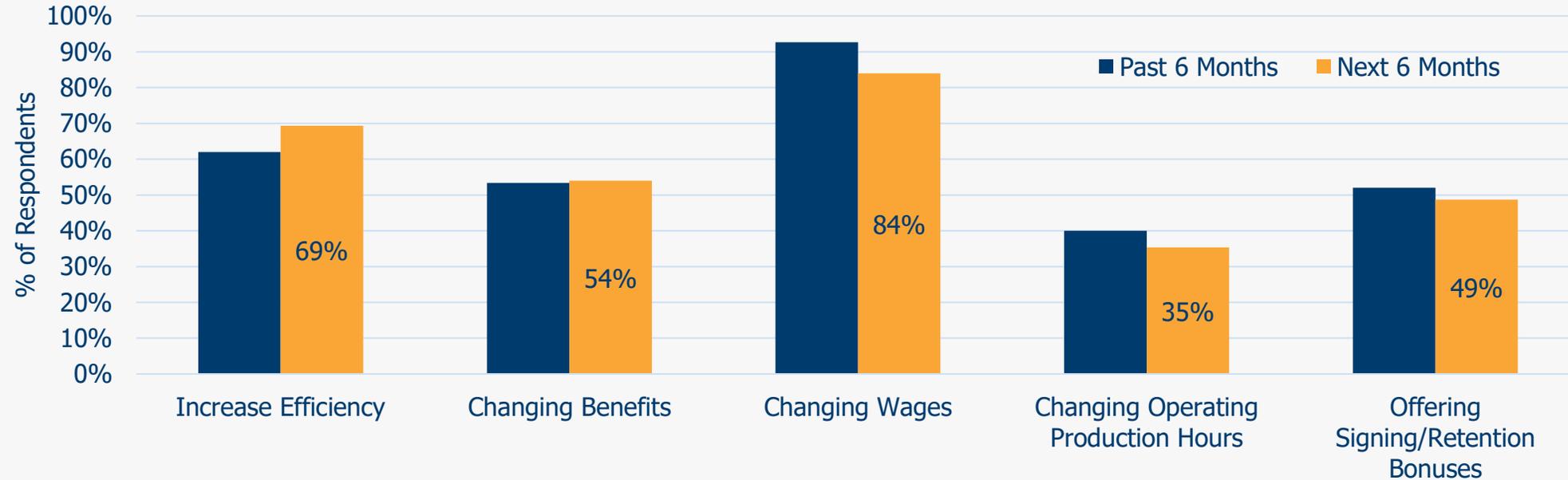
VS.

2022: How many qualified job applicants were there at the average franchised business?



FRANCHISEE APPROACHES TO LABOR CHALLENGES

In what ways do you expect your franchisees to address their labor challenges?



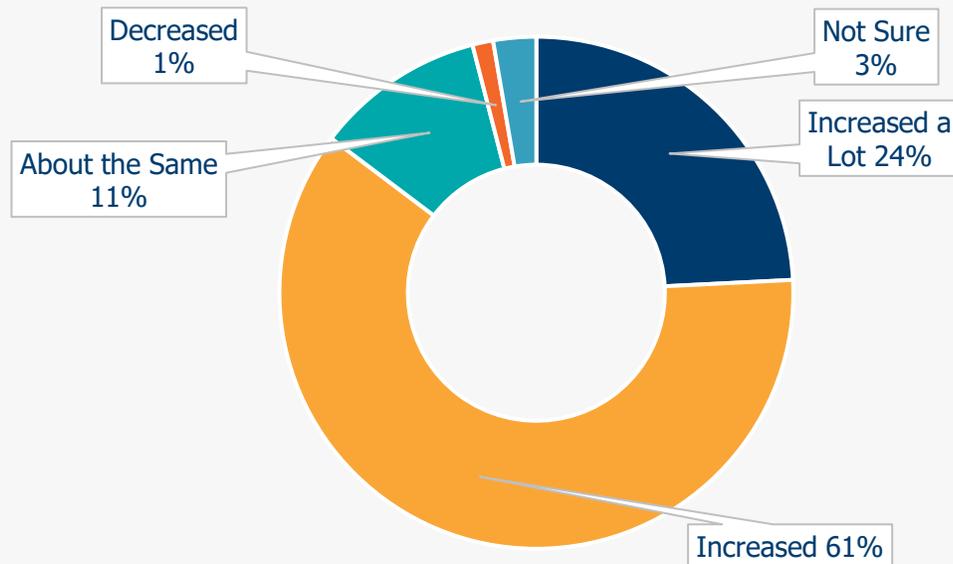
- Responses indicate that approaches and strategies to counter labor challenges adopted by franchisees in the past 6 months are in line with those that franchisees plan to undertake in the next 6 months of 2023.
- Multiple approaches related to employee remuneration are the most commonly applied measures to counteract labor issues at the franchised unit level.

FRANCHISEE EMPLOYEE WAGES

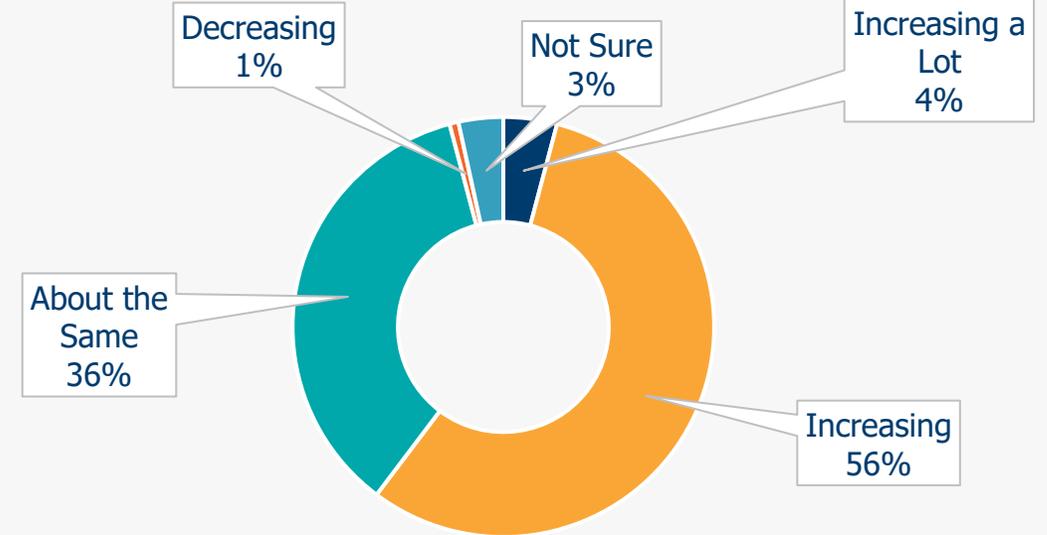
Overall, most companies reported wage increases for employees at franchised businesses in their systems.

- Nearly 85% of respondents reported increases in store-level wages over the past six months; 24% reported significant increases.
- By comparison, in 2022, 76% of respondents anticipated future increases in store-level wages, with 10% predicting significant increases.

2023: Over past 6 months, how did your average franchisee employee wages change?



2023: In next 6 months, how do you anticipate your average franchisee employee wages changing?



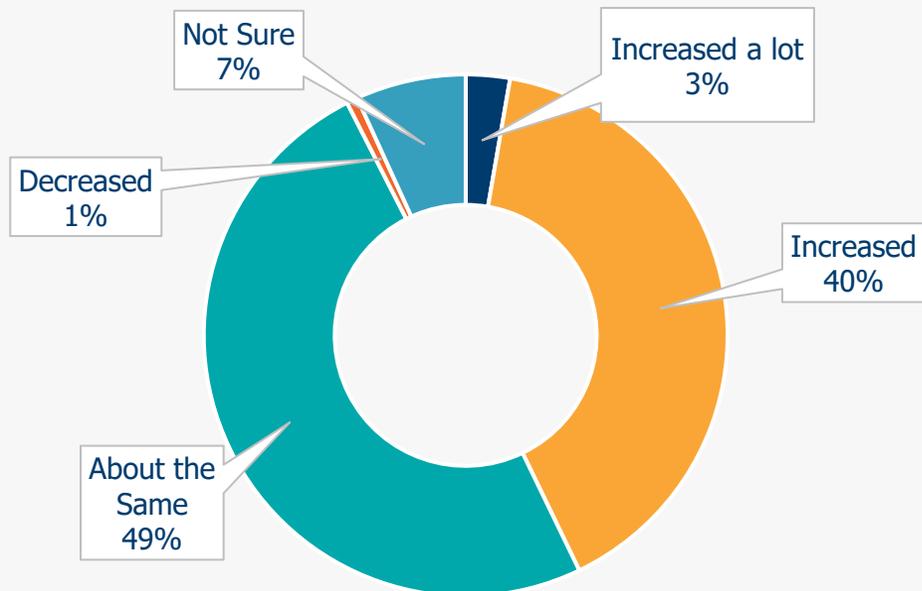
Franchisors also expect future wage increases, **with 60% anticipating additional store-level wage increases in the next six months**, 4% of which are anticipating average wages increasing significantly.

FRANCHISEE EMPLOYEE BENEFITS

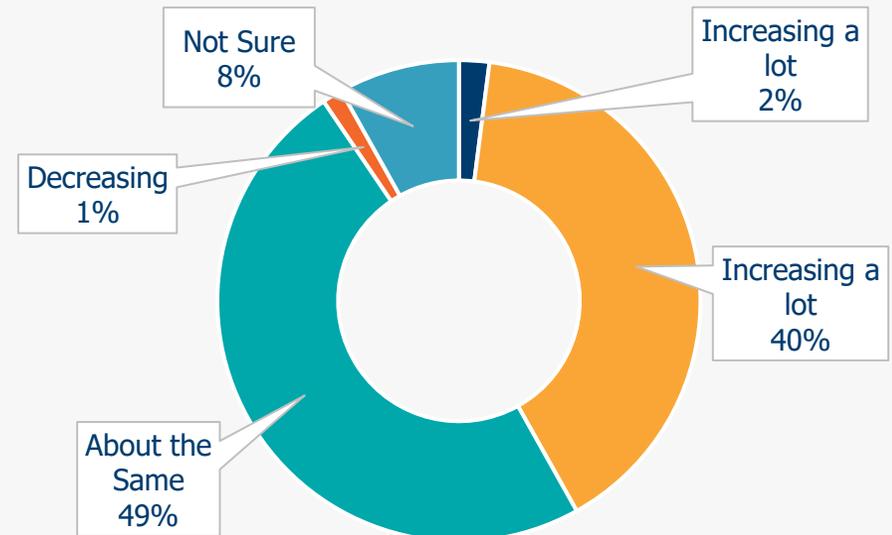
Benefits increased slightly, with only **2%** of respondents indicating sharp increases in employee benefits at franchised businesses.

- **40%** of respondents indicated increases in the last six months, with a similar number anticipated a continuation of these trends.
- Nearly **50%** reported benefits remaining steady in the last six months, with a similar percentage anticipating continuity.

In the past 6 months, how did your average franchisee employee benefit change?



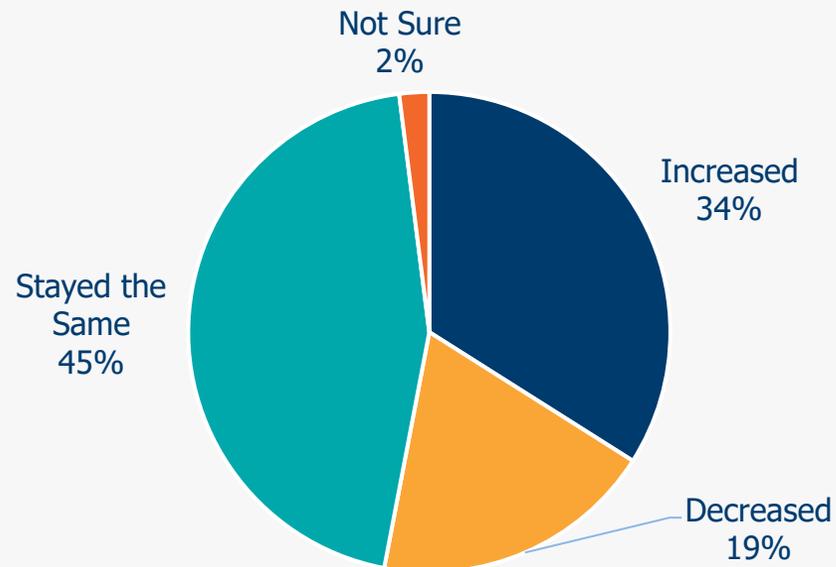
In the next 6 months, how do you anticipate your average franchisee employee benefit changing?



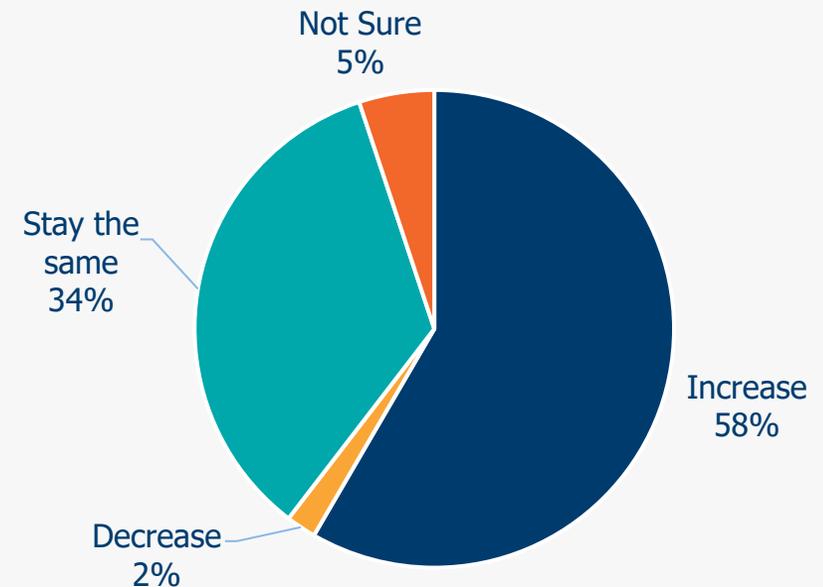
EMPLOYEES PER FRANCHISED BUSINESS

Overall, franchisor executives are expecting that average employment at franchised locations will **increase** over the next six months.

In the past 6 months, how did the average number of employees per franchise location in your system change?

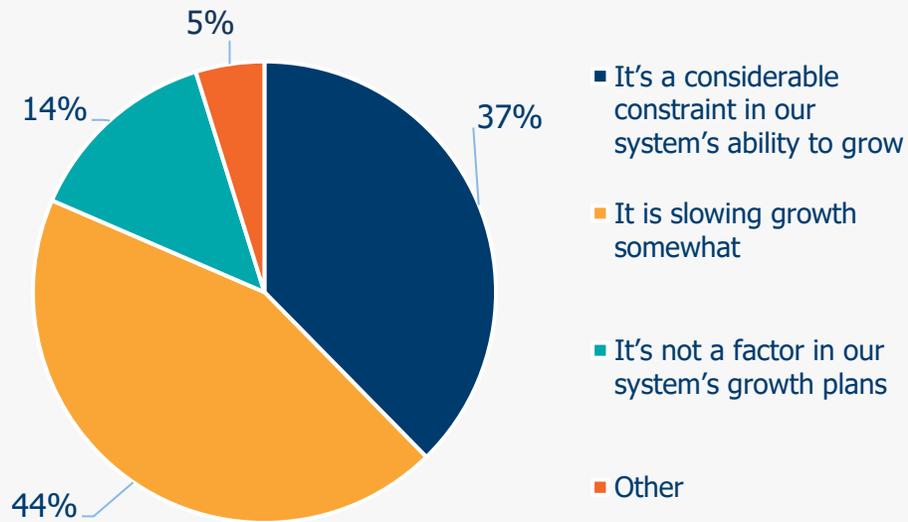


In the next 6 months, how do you expect average franchisee total employment to change?



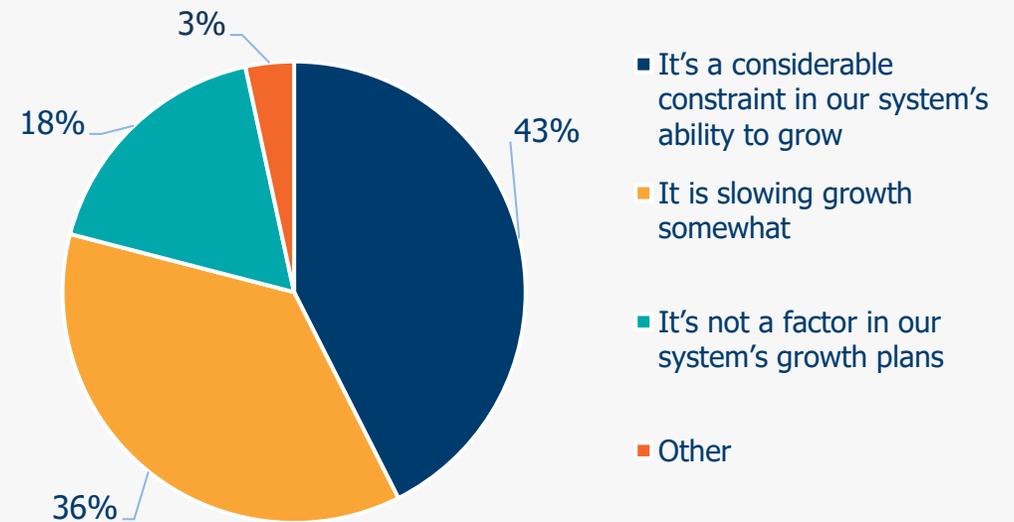
IMPACT OF LABOR CHALLENGES ON FRANCHISE SYSTEM GROWTH

2023: To what extent would you say labor challenges currently affect your new franchise unit growth?



VS.

2022: To what extent would you say labor challenges currently affect your new franchise unit growth?



81% of franchise brands experienced constrained growth due to labor challenges, a continuation from 2022.

- 37% calling them a “considerable” constraint on growth.
- 44% calling them “somewhat” of a constraint.

(It's a) major challenge that is holding back job and small business creation.

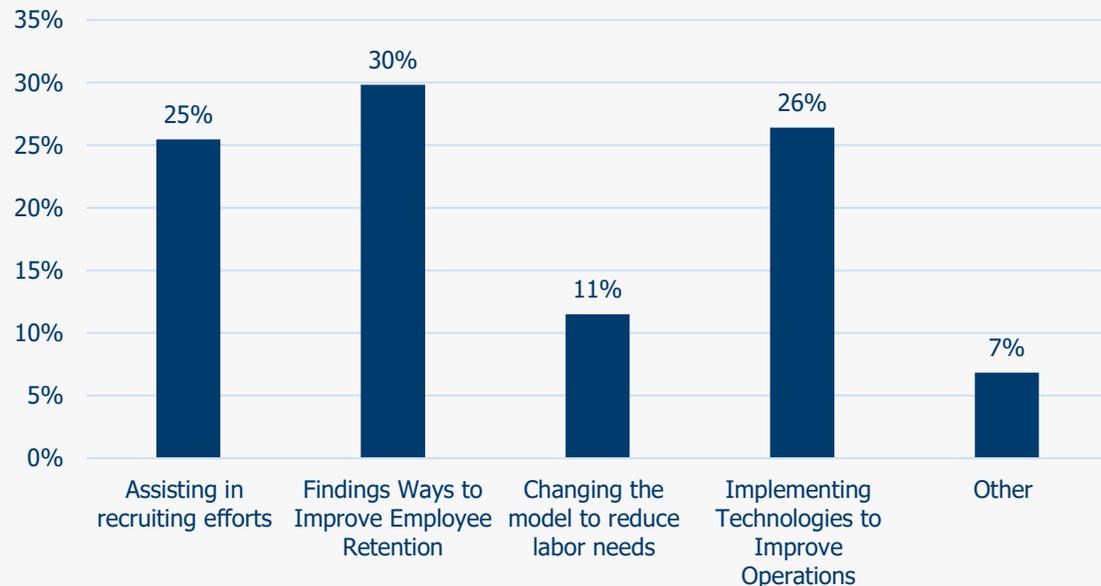
 VP of a Regional QSR Franchise



FRANCHISOR RESPONSE TO LABOR MARKETS

- Nearly one-third of respondents (**30%**) are taking action to improve employee retention. Another **25%** have assisted their franchisees in recruiting efforts.
- **37%** of franchisors are investing in ways to optimize business operations to reduce the impact of labor shortages.

Which of the following actions are you undertaking to address your franchisee labor challenges?



Innovative strategies implemented by franchisors

- Testing AI job boards
- Adding resources to internal recruiting staff to provide more 1:1 consultation to franchisees
- Hiring corporate recruiters to assist franchisees in recruitment
- Creating a "Recruiting Fund" to pool resources for all franchisees
- Additional investments in digital social media advertising to help drive applicants
- Changing the system for posting, applicant processing and automated applicant process
- Giving royalty rebates for hiring of sales staff

**The above is based on additional qualitative feedback provided by respondents as a part of the labor survey*



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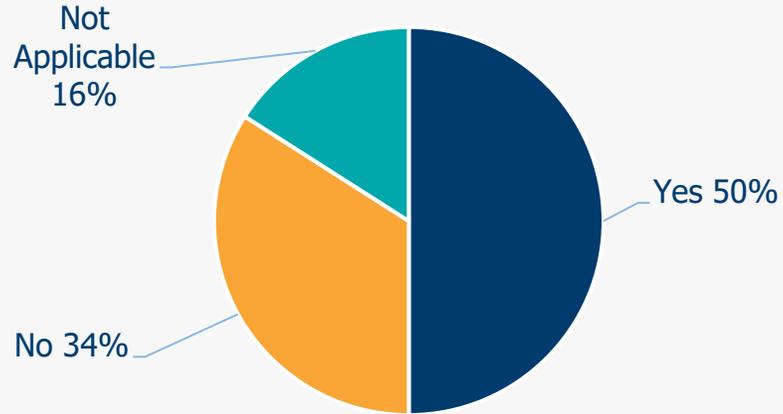
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The image features a dark blue background with a pattern of interlocking gears. Each gear contains a stylized person icon. A hand is shown on the right side, with the index finger touching one of the gears. The overall theme is human-centric technology or industry.

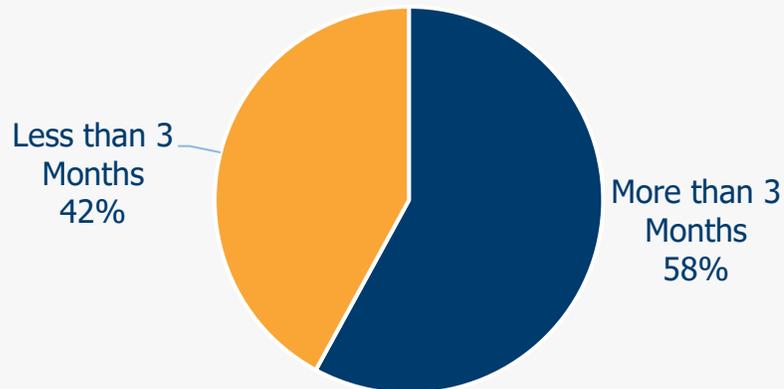
SPECIAL FOCUS

ISSUES WITH STATE REGISTRATIONS

In states that require registration, have you experienced extraordinary delays?



How much longer is the process than previously?



The Federal Trade Commission (FTC) governs all franchises in the U.S., but thirteen states require a franchise disclosure document to be registered with a state government agency before a brand can operate in the state. Franchised businesses are increasingly concerned about registration delays that are forfeiting economic development in registration states.

In which states have these delays significantly impacted your ability to grow?



