Franchise Executives View Year Ahead With Equal Dose of Optimism And Concern

One-half of franchisors say the outlook for the U.S. economy will be better in 2011.

BY JOHN R. REYNOLDS, CFE

Franchise executives were slightly more optimistic about the year ahead mixed with major concerns about access to credit, lack-luster same store sales, government regulations, competition, taxes, health care, and labor issues such as “card check,” according to a new survey. The third annual Franchise Business Leader Survey, conducted in mid-November, gauges the views of International Franchise Association members about current economic conditions affecting their business and their outlook for the coming year.

As one executive put it, “Things are tough but manageable. We are seeing some improvements on the horizon.” Another executive explained, “We are doing all we can, but at some point the government has got to come back to reality with a more stable tax, regulatory and business environment.” Another executive expressed similar frustration, “We’re business owners, not miracle workers. We can’t grow our businesses and create more jobs without access to credit.”

In this year’s survey, one-half of franchisors say the outlook for the U.S. economy will be “better” in 2011, but 47 percent say it will be “about the same” and only 3 percent say it will be “worse.” Two years ago, 44 percent of franchisors expected the economy to be “worse” in 2009 than in 2008. Franchisees surveyed were slightly less optimistic than franchisors about the economy for the coming year. More than 40 percent of franchisees surveyed say the U.S. economy will be “better” in 2011, one-half say the economy will be “about the same” and 7 percent say the economy will be “worse.”

Both franchisors and franchisees say the tight credit market has severely limited their ability to expand their business.

Nearly one-third of franchisors report that more than one-half of their franchise prospects and current franchisees were unable to get financing in the past 12 months. Only 8 percent say that their prospects and franchisees have had “no problems with financing.”

Two-thirds of franchisors report that they have seen “no improvement in credit access in recent months”. Forty-two percent of franchisors report that lack of credit has “significantly impacted ability to expand,” 45 percent say it has “moderately impacted ability to expand” and only 12 percent say it has had “no impact.”

Access to Credit

OUTLOOK FOR U.S. ECONOMY 2011 – FRANCHISORS

Thirty percent of franchisees report that lack of credit has had a “significant impact on ability to expand business”, and 25 percent report it has had a “moderate impact”. Eighteen
percent report it had “no impact” and that they were able to obtain financing. Twenty-seven percent say their business did not require any financing.

Franchisors surveyed were slightly more positive than franchisees about access to credit in recent months. Forty-two percent of franchisees say they have experienced “no improvement” in access to credit in recent months, 28 percent report “moderate improvement” and only 1 percent report “significant improvement.”

Many franchise executives report that they are taking direct steps to help both current franchisees and prospects meet their lending needs. Many franchisors are offering some type of in-house financing—from financing the franchise fee, to financing build-outs, fixtures, displays and POS systems, to longer-term payment plans and reduced fees. Some franchisors are providing corporate debt guarantees and limited loan guarantees to qualified candidates. Many franchisors say they are providing assistance to franchise prospects with preparing bank credit reports and business plans.

Issues of Greatest Concern

Both franchisors and franchisees identified a number of issues of “greatest concern” with only slight differences in the ranking of importance among the issues.

Among franchisors the top issues are:
- Financing/Access to Credit—30 percent
- Franchise Sales/Development—22 percent
- Competition—19 percent
- Same Store Sales—16 percent
- Health Care—13 percent

Among franchisees, the top issues are:
- Same Store Sales—24 percent
- Government Regulations—17 percent
- Competition—15 percent
- Financing/Access to Credit—12 percent
- Taxes—12 percent
- Health Care—11 percent
- Labor Issues/Card Check—9 percent

Overall Outlook for 2011

Franchisors report that the overall business conditions for their business at the present time are improved over one year ago. More than one-half (51 percent) report that business conditions are “very good” to “somewhat good” compared to only 37 percent in 2009 and 39 percent in 2008. Just over one-quarter (26 percent) of franchisors say that business conditions are “somewhat poor” to “very poor” compared to 35 percent in 2009 and 40 percent in 2008.

Eighty-one percent of franchisors expect same store sales to increase in 2011, with 22 percent expecting an increase of six percent or more. In the 2009 and 2008 surveys, 73 percent said they expected an increase in same store sales for 2010 and 69 percent said they expected an increase in same store sales for 2009. Only 5 percent of franchisors say they expect a decrease in same store sales in 2011, compared to two years ago when 32 percent said they expected a decrease in 2009.

Franchisors’ outlook for unit growth has become more conservative in recent years due to the lingering impact of the recession and tight credit market. Just over half (53 percent) of respondents expect to increase the number of franchise units in 2011, compared to more optimistic outlooks in 2009 and 2008. In 2009, 78 percent of franchisors said they expected to increase the number of units. In 2008, 86 percent said they expected to increase the number of units. Only two percent of franchisors report that they foresee a decrease in the number of units in 2011, compared to 6 percent in 2010 and 15 percent in 2009. This may indicate that franchise systems have seen most of the restructuring of their networks in the aftermath of the recession.

Similar to their outlook on employment, franchisors have become more conservative about plans to increase employment. More than half (53 percent) say they plan to increase employment in 2011, compared to 68 percent in 2010 and 81 percent in 2009. Nearly half (45 percent) of franchisors say they expect employment to “stay about the same” in 2011, compared to 27 percent in 2010 and none in 2009. Only two percent of franchisors say they expect to see employment decrease in 2011, compared to five percent in 2010 and 20 percent in 2009.

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These survey results may also indicate that franchise systems have done most of their belt tightening and reductions in employment due to the recession.

Forty percent of franchisees expect to see improvement in business conditions for their business over the next 12 months. Thirty-nine percent say conditions will be “about average” and 21 percent say they expect conditions to be “somewhat poor” to “very poor.”

Nearly one-third (32 percent) of franchisees say they expect to increase business and add units in the next 12 months. Fifty-nine percent say they expect their business to “stay about the same” and nine percent say they expect their business to “decrease moderately to significantly.”

Franchisees are more positive in their outlook for increasing same store sales in 2011. Nearly three-quarters (74 percent) say they expect “moderate to significant” increases in same store sales. Seventeen percent say they expect same store sales to “stay about the same” and 9 percent say they expect same store sales to decrease “moderately to significantly.”

Franchisees are more positive in their outlook for increasing same store sales in 2011.

Franchisees are also more positive in their outlook on employment for 2011. Forty-five percent say they expect employment “moderately to significantly.” Forty-five percent also say they expect employment to remain “about the same” and 9 percent say they expect to decrease employment “moderately to significantly.”

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