



**GLOBAL
INSIGHT**



The Franchise Business Economic Outlook: 2012

Prepared for:

The International Franchise Association Educational Foundation

By:

IHS Global Insight

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EXECUTIVE SUMMARY

This report presents estimates and forecasts of the franchise sector of the US economy prepared for the International Franchise Association Educational Foundation by IHS Global Insight. Over the past three years, businesses operated as franchises have suffered disproportionately from some of the underlying factors that have been a drag on the economy. Since a high proportion of franchise businesses serve consumer markets, the weak rebound of consumer spending following the recession has hampered growth in the franchise sector. Most franchise-operated businesses are small businesses, and tightening of credit standards for small businesses has restrained their expansion. We see indications of some acceleration in the number of franchise businesses in 2012, though, accompanied by continued modest growth of employment and output.

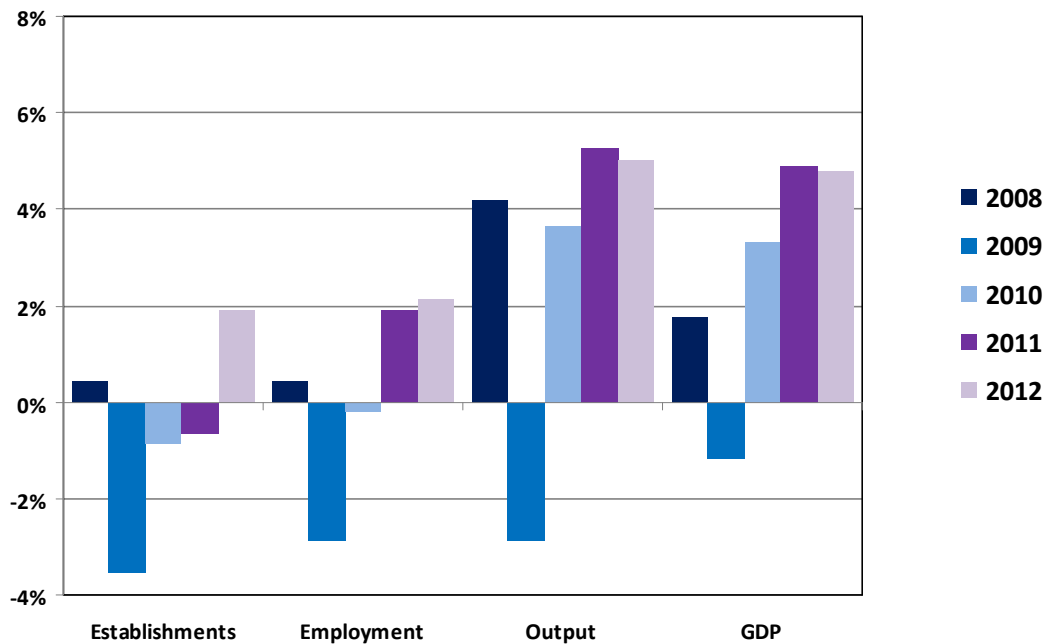
- After three consecutive years of decline, we project the number of franchise establishments in the United States will increase by 1.9% in 2012.
- Employment growth in franchise establishments rebounded in 2011 to post a gain of 1.9%, more than keeping pace with employment growth economy-wide. We see this trend continuing in 2012, with franchise business employment increasing 2.1%.
- We estimate that output (sales) of franchise businesses increased by 5.3% in nominal dollar terms in 2011. We expect growth of 5.0% in 2012.

Franchise Business Economic Outlook

	Estimates					Forecast
	2007	2008	2009	2010	2011	2012
Establishments	770,835	774,016	746,646	740,335	735,571	749,499
<i>Percent change</i>		0.4%	-3.5%	-0.8%	-0.6%	1.9%
Employment ('000)	7,994	8,028	7,800	7,786	7,934	8,102
<i>Percent change</i>		0.4%	-2.8%	-0.2%	1.9%	2.1%
Output (\$Billions)	675	703	683	708	745	782
<i>Percent change</i>		4.2%	-2.8%	3.6%	5.3%	5.0%
GDP (\$Billions)	403	410	405	418	439	460
<i>Percent change</i>		1.8%	-1.2%	3.3%	4.9%	4.8%

This report presents for the first time estimates of the contribution to US gross domestic product (GDP) by the franchise sector. We estimate that franchise businesses accounts for 3.0% of GDP in nominal dollars. Growth of GDP originating in the franchise sector in 2012 will be similar to sales growth.

Franchise Business Growth by Activity, 2008-12



Our forecast of continued modest growth in employment and output in the franchise sector in 2012 is consistent with IHS Global Insight's overall macroeconomic outlook. Despite recent improvement in some economic indicators, IHS Global Insight's US Economic Team expects growth to slow again in the first half of 2012 as a result of domestic headwinds resulting from high household and public debt, as well as slower economic growth abroad.

- US real GDP will increase 1.8% in 2012, with minimal acceleration from the 1.7% growth expected in 2011.
- Consumer spending will also hold steady at 2.2% growth.
- Recovery in the housing sector will continue to be delayed since the inventory of unsold foreclosed homes remains high, and house prices still have further to fall.

Our analysis is based on a grouping of franchise businesses in 10 broad business lines. The growth outlook differs significantly among the groups, but consumer-related sectors tend to lead owing to steady growth of consumer spending:

- Personal-services businesses will rank first in franchise output growth at 6.2%, improving their relative position among the 10 industry groups.
- Retail products and services will benefit from continued consumer spending, and will rank second in franchise output growth at 6.1%.

- Real estate ranks in the third place; however, the industry is starting from a low very base, and will not reach 2007 or 2008 output levels, with just 5.8% growth in 2012.

Franchise Business Economic Outlook: 2012

	Establishments		Employment		Output (\$Billions)	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
		Over Previous Year		Over Previous Year		Over Previous Year
Automotive	30,376	1.4%	182,099	2.6%	38.23	3.9%
Business Services	92,349	2.6%	912,780	3.6%	145.11	5.5%
Commercial & Residential Services	60,989	1.2%	351,422	1.5%	50.99	5.7%
Lodging	25,584	3.1%	696,701	1.4%	76.00	4.8%
Personal Services	108,410	2.7%	649,207	2.2%	87.75	6.2%
Quick Service Restaurants	151,347	2.6%	3,009,865	2.0%	201.16	4.4%
Real Estate	86,631	1.9%	299,384	2.5%	47.00	5.8%
Retail Food	61,144	0.9%	485,344	2.4%	38.01	3.7%
Retail Products & Services	96,574	0.1%	486,236	1.7%	39.24	6.1%
Table/Full Service Restaurants	36,095	2.1%	1,028,955	1.8%	58.70	4.2%
TOTAL	749,499	1.9%	8,101,993	2.1%	782	5.0%

INTRODUCTION

This report is the International Franchise Association Educational Foundation's 2012 edition of the annual Franchise Business Economic Outlook, prepared by IHS Global Insight.

The following section presents a summary of IHS Global Insight's current forecast for the US economy in 2012, with attention to economic indicators that relate to sectors of the economy where there is a significant concentration of franchising.

We then present an overview of our estimates and forecasts of franchising for 10 business lines: ¹

1. Automotive
2. Business Services
3. Commercial and Residential Services
4. Lodging
5. Personal Services
6. Quick Service Restaurants
7. Table/Full Service Restaurants
8. Real Estate
9. Retail Food
10. Retail Products and Services

For each of the 10 business format lines, the projections include estimates for 2007–11 and forecasts for 2012 of:

- Franchise establishments²
- Franchise employment³
- Franchise nominal output⁴

¹ This report does not include estimates for product-distribution franchises, such as automotive and truck dealers, gasoline service stations without convenience stores, and beverage bottlers.

² An establishment is a single physical location at which business is conducted or services or industrial operations are performed. A business may consist of more than one establishment. An establishment may be owned by the franchisor or the franchisee.

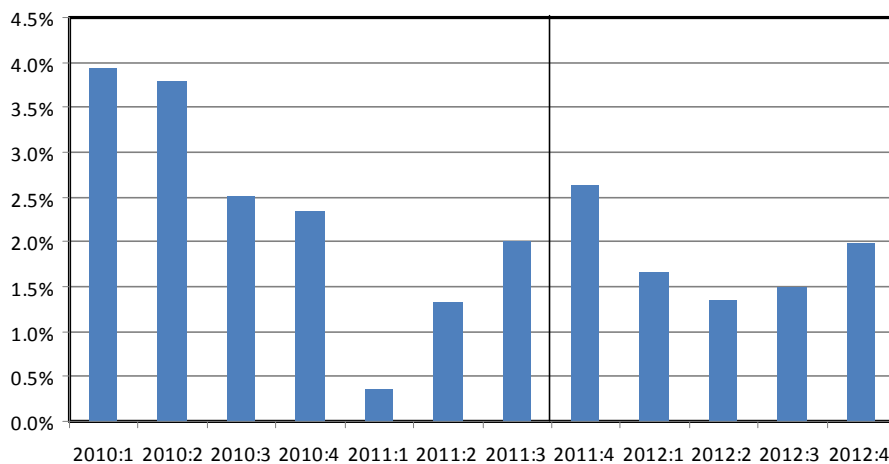
³ Positions filled by part-time and full-time employees or by self-employed individuals.

⁴ Nominal output is the gross value of goods and services produced, a concept that is comparable with "sales" for most industries. In government input-output accounts, the output of goods-producing industries is measured by the value of shipments. For most other industries, output is measured by receipts or revenues from goods and services sold. A special case is the output of the wholesale and retail industries, which is measured generally as the difference between receipts or revenues and the cost of goods sold—this difference is referred to as "margin."

THE ECONOMIC OUTLOOK

After a slowdown in the first half of 2011, with real GDP growth averaging below 1%, the pace of the US economy has picked up, despite shock waves from the domestic debt-ceiling crisis in the summer and the Eurozone sovereign-debt crisis. Preliminary figures put growth in the third quarter at 2.0%, and we expect acceleration to 2.6% in the fourth quarter. The bad news in the third-quarter data was that real personal disposable income fell 1.7%, its biggest drop in two years. Consumer spending accelerated, but only because the saving rate dropped by a full percentage point, which is not a solid foundation for growth. We expect growth to slip below 2% again in the first half of 2012. For the full year, real GDP growth, at 1.8%, will look much like 2011. Recession risks remain high. Domestic risks have eased a little, but the threat from the Eurozone is great.

Real GDP Growth
(Percent change, Annual rate)



There was a bit of good news in the government's latest (November 2011) employment report, with the economy adding 120,000 jobs and the unemployment rate falling to 8.6%. Yet, average monthly job creation for the year to date has been only 132,000, insufficient to lower the unemployment rate quickly. We expect the pace of hiring to accelerate only slightly in 2012, with total nonfarm employment growth of only 1.1%. Weak employment growth—together with only modest gains in wages and salaries—will continue to restrain the growth of real disposable income.

Consumer spending has been doing better than sentiment readings would suggest. As long-delayed replacements for many consumer items become increasingly urgent, pent-up demand is boosting spending among the portion of the workforce (the majority) that is employed. Consumers face too many negatives, however, to allow a robust spending recovery: a weak labor market, high debt burdens, house prices that have not yet hit bottom, price increases that have outpaced wage growth, and a lack

of confidence in the government's ability to improve the situation. Overall, we expect consumer spending growth of 2.2% in 2012, near the 2.3% gain in 2011.

The Economic Outlook for 2012

(Annual percent change)	2010	2011	2012
Real Gross Domestic Product	3.0	1.7	1.8
Total Nonfarm Employment	-0.7	1.0	1.1
Accommodations and Food Services	-0.4	1.8	2.1
Personal Services	0.0	1.5	0.7
Real Disposable Income	1.8	1.0	1.6
Real Personal Consumption	2.0	2.3	2.2
Food Services	2.5	3.6	2.2
Accommodations	6.9	5.4	1.3
Personal Services	0.0	0.2	1.7
Retail Sales (nominal dollars)	6.4	7.6	4.5
Existing Home Sales	-4.5	1.0	2.5
Com'l & Indus. Loans Outstanding, Com'l.Bank:	-13.8	5.2	7.6

IHS Global Insight monitors and forecasts consumer spending in some categories where there is a concentration of franchise businesses. Spending on food services and lodging, which recorded above-average growth rates in 2011, will slow to be more in line with the increase in overall consumer spending in 2012. Spending on miscellaneous personal services will continue to lag behind overall consumer-spending growth.

Pent-up demand for housing is building as young adults remain at home, which at some point will spark a major revival in housing activity. Nonetheless, a revival in household formation is dependent on stronger job growth. We expect a modest improvement in housing starts during 2012, but this will be concentrated in the multifamily segment, since pent-up demand is already helping the rental market. The pace of existing home sales will not accelerate significantly, and the outlook for limited gains in housing-market activity will restrain the growth of franchise businesses in the real estate sector.

OUTLOOK FOR FRANCHISED BUSINESS

Outlook Summary

The impact of uncertainty in the global economy and slow growth in the United States is evident in the performance of many industrial sectors. A high level of risk continues to impact business formation and employment growth in many industries. Businesses are striving to keep up with the pace of demand by increasing their output, but remain cautious about expanding their labor force. Although the economy added jobs in 2011, total employment is still well below the 2007 peak numbers. The same story is true for establishment formation, which continued the decline started three years ago.

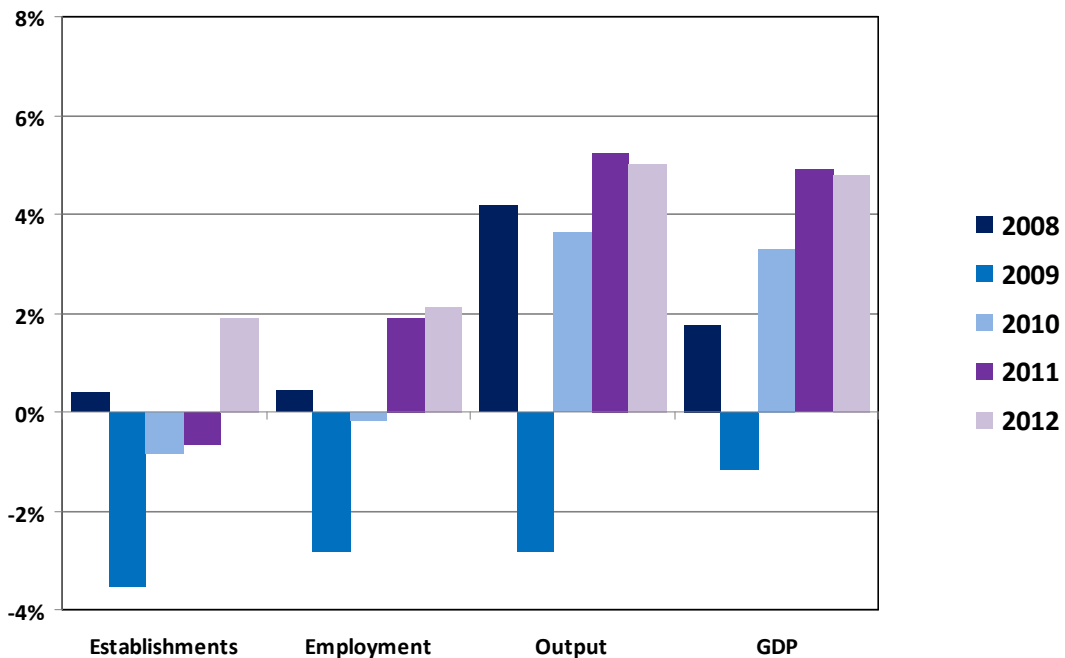
IHS Global Insight envisions modest growth of business formation in 2012. The stronger second-half growth in 2011 is expected to continue in certain industrial sectors during 2012. The number of franchise business establishments is expected to increase 1.9% during 2012, but the overall pace of employment growth will remain modest.

Franchise Business Economic Outlook

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The following graph clearly exhibits how the franchise economy (and the US economy in general) follows the path of growth and recovery after an economic slowdown. While output (sales) bounces back quickly, businesses will continue to control costs and avoid risks for an extended period after a recession. Since most franchise businesses are service- and trade-oriented entities, given our forecast of consumer-spending growth that continues to be sub-par for an economic recovery, we expect only modest growth in franchise business formation and employment in 2012.

Franchise Business Growth by Activity, 2008-12

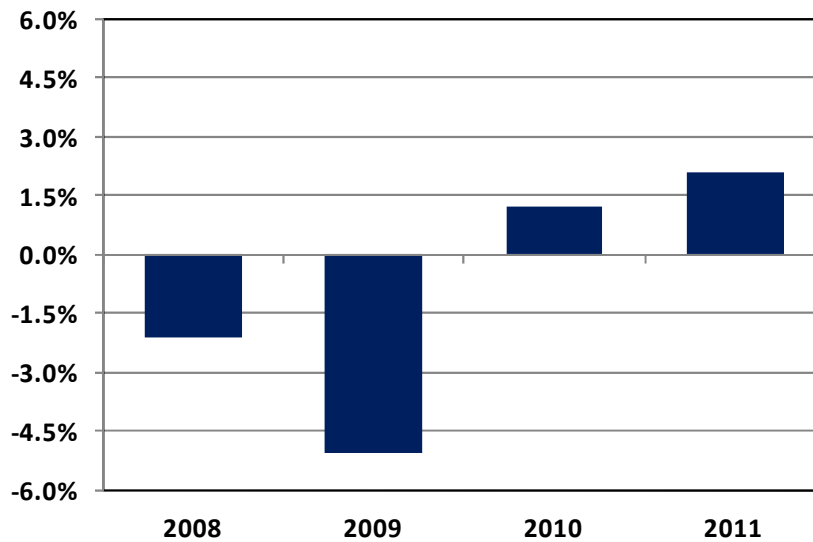


To present the franchise sector in the larger context of the US economy, it is helpful to review IHS Global Insight's outlook for total employment and output in the industrial sectors where there is a large concentration of franchise activity. Key drivers of the franchise economy drawn from our US industry forecast are summarized below.

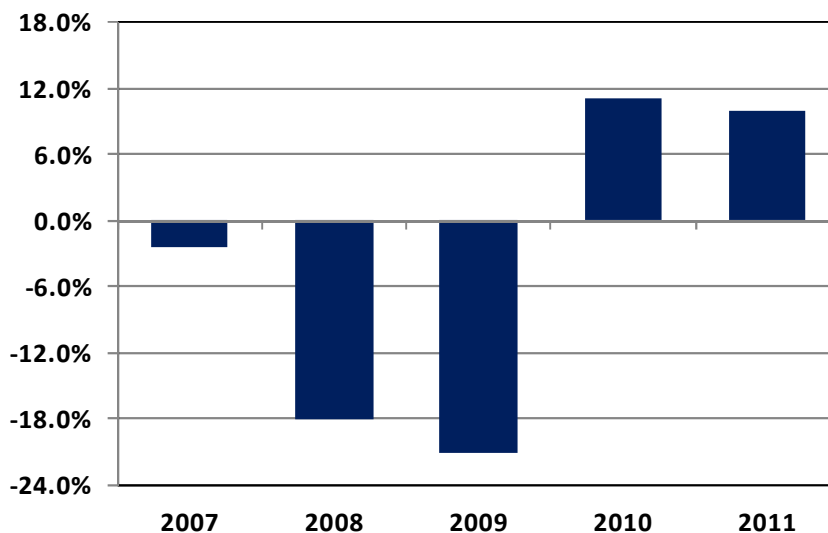
Automotive: Even the very modest gains we anticipate in employment and income will allow light-vehicle sales to gain additional ground in 2012. Sales averaged roughly 16 million units for a string of years prior to the recession, before collapsing to 10.4 million in 2009, and replacement pressures are mounting. Sales are expected to rise from an estimated 12.7 million units in 2011 to 13.3 million in 2012. Increased driving activity should bolster activity in the auto parts and supply arena.

Commercial and Residential Services: There is a chance of a quick turnaround in this market. Vacancy rates in retail, industrial, and commercial buildings remain at lofty levels. Investments are geared to improving productivity and efficiency, though, not expanding bricks-and-mortar facilities. Employment opportunities among special-trade contractors will thus remain sluggish throughout 2012. Building services and waste management should remain relatively stable, however, but with minimal growth in new business.

Growth in Motor Vehicle Repair Spending



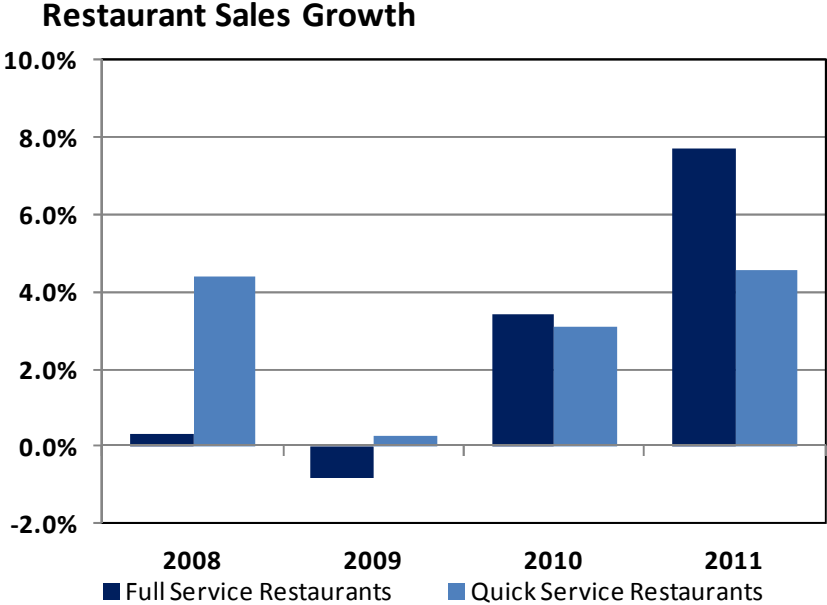
Light Vehicles Sales Growth



Quick Service Restaurants: Higher food prices helped push up nominal sales in 2011. With employment and income improving slowly through 2012, we would expect Quick Service Restaurants to more than hold their own when compared to the rest of the market. In general, consumers are continuing to migrate toward lower prices, a trend that will not reverse until the economy returns to firmer footing.

Table/Full Service Restaurants: With employment and income improving, albeit slowly, sales gains will continue in 2012. Higher input prices helped push up nominal sales in 2011. We expect cost pressures to

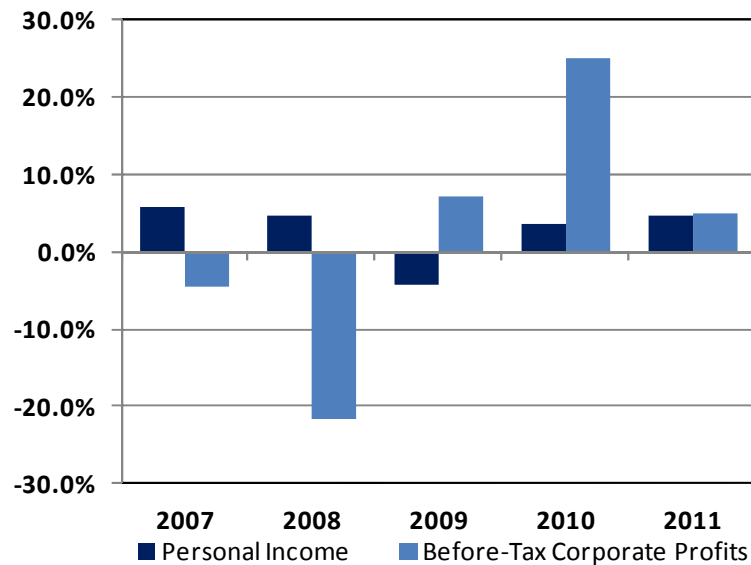
be much tamer in 2012. Within the market, we would assume the more price-attractive players will show somewhat stronger sales growth than their higher-priced competition, since consumers continue to look for bargains in the current economic environment.



Retail Food: Spending on food and beverages is relatively inelastic. During tough economic times, consumers adjust their product mix in favor of lower-priced sales items and store brands and increase their use of coupons. Traditional food and beverage stores and grocery chains will continue to face stiff competition from Wal-Mart, Target, and other general merchandise stores that have become big sellers of food and beverage products. Price competition will remain intense in 2012, even as employment and income gain ground. Lower-priced store brands will remain attractive to consumers who, during the depths of the recession, found them not only cheaper than national brands, but also equal in taste and quality. Lower input costs will keep a lid on food prices, which may induce some consumers to move their product purchases back toward their pre-recession mix. Bottom line: food and beverage retailers can expect modest sales growth in 2012.

Lodging: With employment and income gaining ground in 2012, we expect continued modest gains in consumer travel and spending on lodging. Relatively high gasoline prices and airfares, however, will take a toll on vacation activities. Business travel snapped back as the economy came out of the recession, though, as corporate profits rebounded and sales opportunities improved. Corporate America is flush with cash as 2011 draws to a close, but the profits outlook is no longer as strong. Still, the lodging industry can expect to see additional sales gains tied to increases in business travel during the course of 2012.

Personal Income & Profits Growth



Real Estate: We are in the very early stages of a recovery in real estate. The residential market is continuing to bounce along the bottom, but there are some faint signs of life in the multi-unit segment. New and existing single-family sales are not expected to show meaningful improvement until 2013. On the non-residential side, vacancy rates for retail, commercial, and industrial properties remain high, but have been falling. There are some signs of life on the new construction front as well. The percentage gains we anticipate in 2012 will look impressive, but will leave the industry well below its pre-recession level.

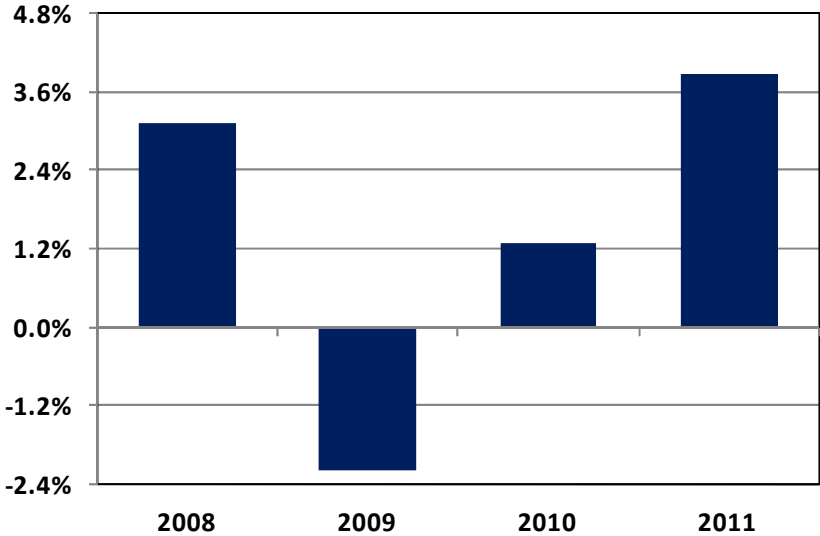
Retail Products and Services: Consumer spending picked up in late in 2011, and we expect additional gains in 2012. Employment and income gains in 2012 are not expected to be sufficient to generate real strength in retailing activity, though, and we are likely to see something of a hangover early in 2012 if the 2011 Christmas selling season continues apace. Within the retail sector, warehouse clubs and big-box stores such as Wal-Mart, Target, Costco, and others are expected to show the strongest growth, followed by dollar stores and other discounters. Department stores will lag behind these leaders in the general merchandise arena.

Business Services: Following a sharp drop in 2009, business-services spending rebounded in 2010–11 in the face of expanding sales activity and an improving profits climate. In 2012, if, as we expect, the growth in corporate profits shows a modest increase along with rising final demand, business spending on services of all stripes will be affected. Small businesses, however, which are continuing to report confidence levels in recession territory, are expected to tread softly when it comes to boosting outlays on services. There is every reason to expect further growth in business services in 2012.

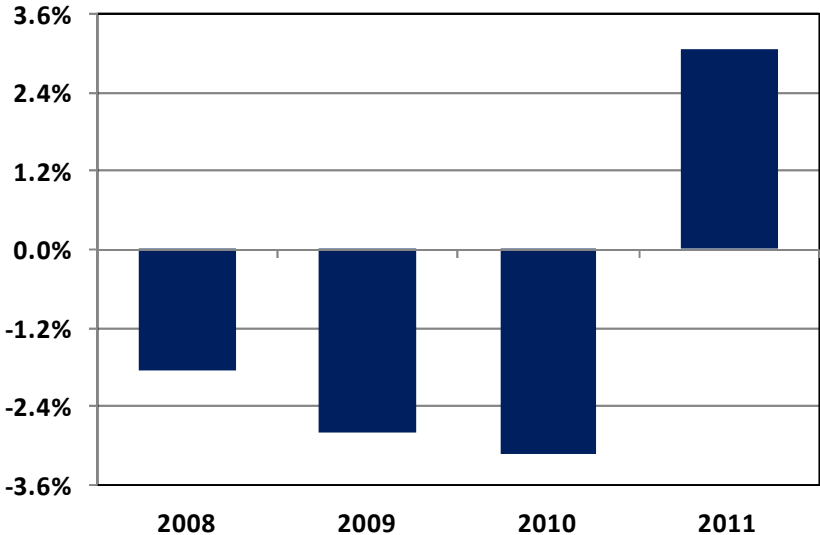
Personal Services: With employment and income gains likely to be modest in 2012, consumer confidence will not return to the pre-recession level. The long-term unemployed are already largely out

of the market when it comes to spending on services. As the number of employed improves and bad news about the economy subsides somewhat, the existing employed and newly employed will begin to step up their services spending. Personal-services spending growth is likely to be roughly in line with its 2011 pace.

Growth in Personal Care Service Spending



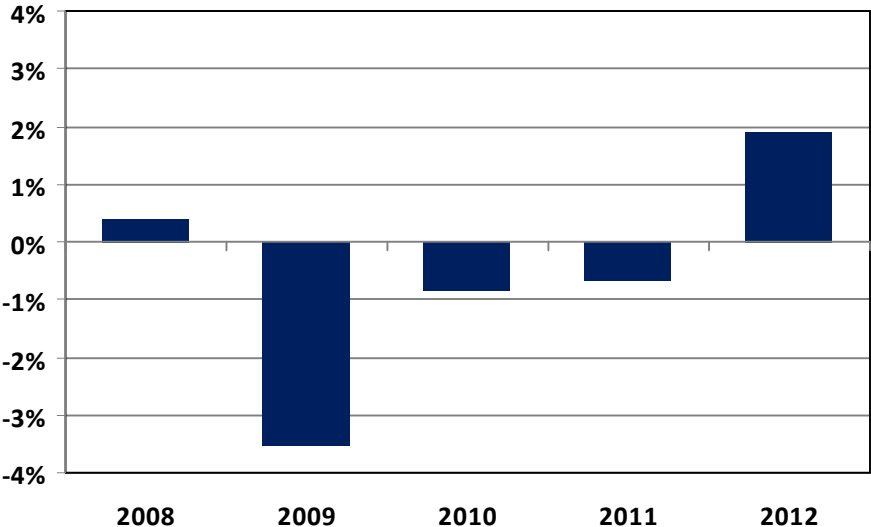
Growth in Laundry & Dry Cleaning Spending



Establishments by Business Line: 2007–12

The total number of franchise establishments across the 10 business-format franchise lines is expected to increase 1.9% in 2012. This increase will be slightly below the growth of total (non-franchise as well as franchise) establishments in 2012 (1.9%, versus 2.2%, respectively), and it will be nearly 1.0 percentage point below total business formation in the US economy. The recent IFA Franchise Business Leader Survey reports that over 80% of franchisors say that limitations on access to credit continue to have a negative impact on their ability to expand. Nevertheless, the expected gain is welcome news following three consecutive years of decline from 2009 to 2011.

Franchise Business Establishments Growth



Overall US economic growth is being led by an expansion in businesses in the Information and Professional Services sectors, with Leisure and Hospitality also experiencing solid growth.

Most of the 10 business-format franchise lines experienced declines in the number of establishments during the 2009–11 period. Furthermore, however, in 2009, we estimate that the industry total of establishments declined in each of the 10 industries where franchise businesses are concentrated. Business Services and Real Estate led the way, each falling more than 6.5% in 2009.

The decline in 2010 was more muted, and the total for the 10 franchise industries declined by 0.8%. In 2010, only one of the 10 franchise business lines experienced growth in establishments. Table/Full Service Restaurants inched forward at 0.2%. All other business lines slowed somewhat, led by a 2.5% drop in Real Estate establishments.

In 2011, we estimate that 3 of the 10 business-format franchise lines saw an expansion of business establishments. Automotive, Business Services and Retail Food all saw moderate gains of close to 1%, whereas Commercial & Residential Services and Lodging each saw declines of more than 2%.

All 10 business-format lines are expected to grow modestly in 2012. Lodging will be the growth leader, expanding more than 3%, while Business and Personal Services are expected to grow more than 2.5%.

Franchise Establishments by Business Line, 2007-12

	Estimates				Forecast	
	2007	2008	2009	2010	2011	2012
Automotive	31,307	31,653	30,012	29,687	29,955	30,376
<i>Percent change</i>		1.1%	-5.2%	-1.1%	0.9%	1.4%
Business Services	102,370	96,289	89,691	89,147	90,035	92,349
<i>Percent change</i>		-5.9%	-6.9%	-0.6%	1.0%	2.6%
Commercial & Residential Services	64,715	65,325	62,650	61,509	60,241	60,989
<i>Percent change</i>		0.9%	-4.1%	-1.8%	-2.1%	1.2%
Lodging	25,830	26,572	25,588	25,410	24,817	25,584
<i>Percent change</i>		2.9%	-3.7%	-0.7%	-2.3%	3.1%
Personal Services	107,428	110,696	106,510	106,100	105,545	108,410
<i>Percent change</i>		3.0%	-3.8%	-0.4%	-0.5%	2.7%
Quick Service Restaurants	150,291	151,887	150,316	149,547	147,549	151,347
<i>Percent change</i>		1.1%	-1.0%	-0.5%	-1.3%	2.6%
Real Estate	96,848	94,599	88,372	86,153	84,977	86,631
<i>Percent change</i>		-2.3%	-6.6%	-2.5%	-1.4%	1.9%
Retail Food	60,935	62,247	60,374	60,173	60,583	61,144
<i>Percent change</i>		2.2%	-3.0%	-0.3%	0.7%	0.9%
Retail Products & Services	94,966	98,527	97,519	96,921	96,504	96,574
<i>Percent change</i>		3.7%	-1.0%	-0.6%	-0.4%	0.1%
Table/Full Service Restaurants	36,145	36,221	35,614	35,688	35,365	36,095
<i>Percent change</i>		0.2%	-1.7%	0.2%	-0.9%	2.1%
Total	770,835	774,016	746,646	740,335	735,571	749,499

Employment by Business Line: 2007-12

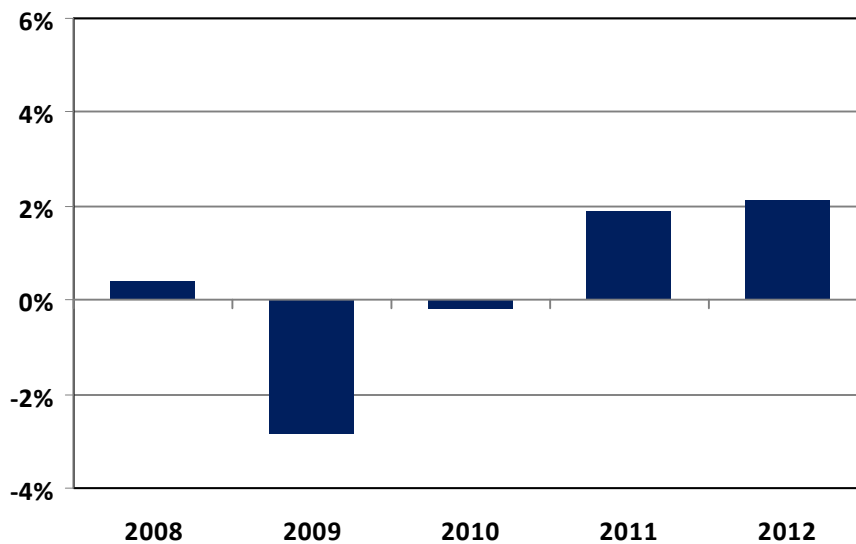
In conjunction with the decline in the number of franchise establishments in 2009, all 10 business-format franchise lines experienced a reduction in employment. Nearly 230,000 jobs were lost (a 2.8% decline) by the franchise sector, compared with a 4.5% drop for the overall US economy in 2009. The Business Services group experienced the largest decline, losing more than 65,000 jobs (6.8%). Real Estate and Automotive also saw substantial jobs losses.

Four of 10 business-format lines rebounded to post small gains in employment in 2010. Retail Products & Services showed the largest employment growth, advancing 1.4% for the year. Business Services and Real Estate continued to record the largest employment losses.

Franchise employment growth will closely track overall employment growth by industry in 2011 and 2012. We expect total US employment in the 10 industries where franchises are concentrated to grow 1.8% in 2011 and 2.3% in 2012, while franchise employment will grow by 1.9% and 2.1%, respectively.

Quick Service and Table/Full Service restaurants will surpass all other business format lines in growth in 2011. Both segments are expected to increase employment at more than 2.3% for 2011. Business Services will be the growth leader in 2012, expanding at 3.6%, while employment will grow more than 2.5% in both Real Estate and Automotive.

Franchise Business Employment Growth



Franchise Employment by Business Line, 2007-12

	Estimates				Forecast	
	2007	2008	2009	2010	2011	2012
Automotive	181,845	184,826	174,889	173,546	177,550	182,099
<i>Percent change</i>		1.6%	-5.4%	-0.8%	2.3%	2.6%
Business Services	1,016,222	955,080	889,721	874,087	880,685	912,780
<i>Percent change</i>		-6.0%	-6.8%	-1.8%	0.8%	3.6%
Commercial & Residential Services	354,940	357,475	343,531	340,882	346,072	351,422
<i>Percent change</i>		0.7%	-3.9%	-0.8%	1.5%	1.5%
Lodging	677,744	696,878	671,702	674,953	687,216	696,701
<i>Percent change</i>		2.8%	-3.6%	0.5%	1.8%	1.4%
Personal Services	623,315	642,204	618,069	622,864	635,367	649,207
<i>Percent change</i>		3.0%	-3.8%	0.8%	2.0%	2.2%
Quick Service Restaurants	2,888,554	2,919,701	2,887,550	2,882,638	2,951,847	3,009,865
<i>Percent change</i>		1.1%	-1.1%	-0.2%	2.4%	2.0%
Real Estate	323,974	316,969	295,954	290,329	291,987	299,384
<i>Percent change</i>		-2.2%	-6.6%	-1.9%	0.6%	2.5%
Retail Food	472,945	483,138	468,868	468,172	473,930	485,344
<i>Percent change</i>		2.2%	-3.0%	-0.1%	1.2%	2.4%
Retail Products & Services	452,929	468,973	464,036	470,742	478,304	486,236
<i>Percent change</i>		3.5%	-1.1%	1.4%	1.6%	1.7%
Table/Full Service Restaurants	1,001,184	1,003,208	985,999	988,044	1,010,906	1,028,955
<i>Percent change</i>		0.2%	-1.7%	0.2%	2.3%	1.8%
Total	7,993,651	8,028,452	7,800,319	7,786,257	7,933,864	8,101,993

Output by Business Line: 2007–12

Although the number of franchise establishments and franchise employment was still flat to declining in 2010, we estimate that nominal dollar output (sales) increased in 9 of the 10 franchise segments as existing businesses tried to do more with less staffing. We expect that all 10 franchise segments will post output gains in 2011, led by Automotive and Retail Products & Services.

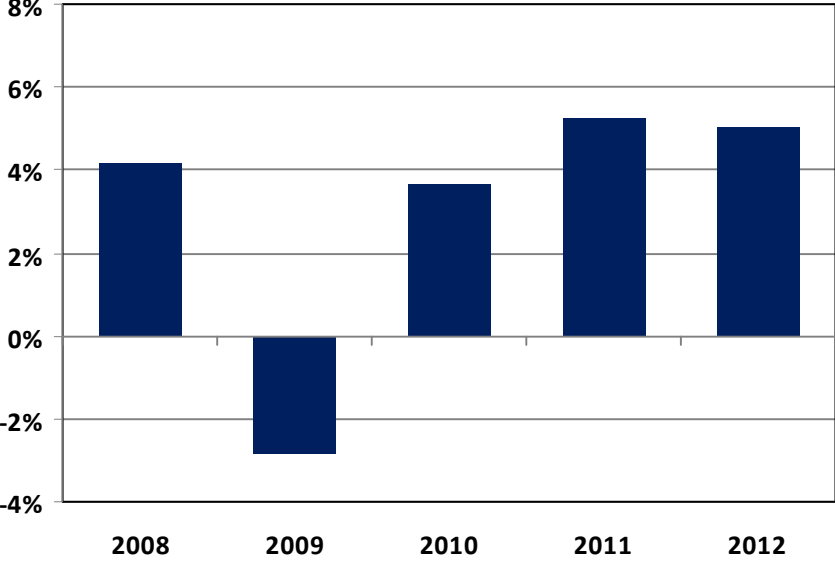
In 2012, the outlook for Business Services, Personal Services, and Retail Products & Services is for continued growth. While a food commodity price cycle put pressure on the restaurant and retail food franchise segments in 2011, these will continue with a positive growth trend into 2012.

Personal Services leads all franchise-segment growth rates at 6.2%, followed by Retail Products & Services at 6.1%. Accounting for improved albeit modest growth in consumer disposable income in 2012, Quick Serve Restaurants, Table/Full Service Restaurants, and Retail Food will follow these consumer-driven segments.

As the real estate market starts its slow climb from the abyss, the Business Services, Commercial & Residential, and Real Estate franchise segments will continue to see growth in 2012 (5.5%, 5.7%, and

5.8%, respectively), although these gains may be regionally isolated, since many housing markets continue to stumble along the bottom.

Franchise Business Output Growth



Franchise Output by Business Line, 2007-12

(in \$Billions)	Estimates				Forecast	
	2007	2008	2009	2010	2011	2012
Automotive	30.21	33.59	31.16	33.67	36.80	38.23
<i>Percent change</i>		<i>11.2%</i>	<i>-7.2%</i>	<i>8.0%</i>	<i>9.3%</i>	<i>3.9%</i>
Business Services	131.77	134.09	128.62	132.52	137.60	145.11
<i>Percent change</i>		<i>1.8%</i>	<i>-4.1%</i>	<i>3.0%</i>	<i>3.8%</i>	<i>5.5%</i>
Commercial & Residential Services	45.00	48.42	46.32	46.59	48.24	50.99
<i>Percent change</i>		<i>7.6%</i>	<i>-4.3%</i>	<i>0.6%</i>	<i>3.5%</i>	<i>5.7%</i>
Lodging	65.26	67.98	62.79	67.49	72.50	76.00
<i>Percent change</i>		<i>4.2%</i>	<i>-7.6%</i>	<i>7.5%</i>	<i>7.4%</i>	<i>4.8%</i>
Personal Services	74.29	76.18	74.43	77.85	82.62	87.75
<i>Percent change</i>		<i>2.5%</i>	<i>-2.3%</i>	<i>4.6%</i>	<i>6.1%</i>	<i>6.2%</i>
Quick Service Restaurants	164.67	175.62	178.80	184.38	192.68	201.16
<i>Percent change</i>		<i>6.7%</i>	<i>1.8%</i>	<i>3.1%</i>	<i>4.5%</i>	<i>4.4%</i>
Real Estate	52.62	49.12	44.83	42.65	44.43	47.00
<i>Percent change</i>		<i>-6.7%</i>	<i>-8.7%</i>	<i>-4.9%</i>	<i>4.2%</i>	<i>5.8%</i>
Retail Food	31.80	34.66	31.92	34.28	36.65	38.01
<i>Percent change</i>		<i>9.0%</i>	<i>-7.9%</i>	<i>7.4%</i>	<i>6.9%</i>	<i>3.7%</i>
Retail Products & Services	30.11	31.59	31.89	34.33	36.99	39.24
<i>Percent change</i>		<i>4.9%</i>	<i>1.0%</i>	<i>7.6%</i>	<i>7.8%</i>	<i>6.1%</i>
Table/Full Service Restaurants	48.79	51.53	52.06	53.90	56.34	58.70
<i>Percent change</i>		<i>5.6%</i>	<i>1.0%</i>	<i>3.5%</i>	<i>4.5%</i>	<i>4.2%</i>
Total	674.54	702.78	682.83	707.67	744.85	782.19

Franchise Businesses Contribution to GDP

By analyzing the components of value added in each of the industries where franchise businesses are concentrated and calculating the relationship between gross output (sales) and value added in these industries, IHS Global Insight developed estimates of the contribution to US GDP by the franchise sector as a whole. We estimate that franchise businesses account for approximately 3% of US GDP, or a total of \$439 billion. Based on our employment and output forecasts for franchising in 2012, we project that nominal GDP of the franchise sector will increase by 4.8% to \$457 billion in 2012.

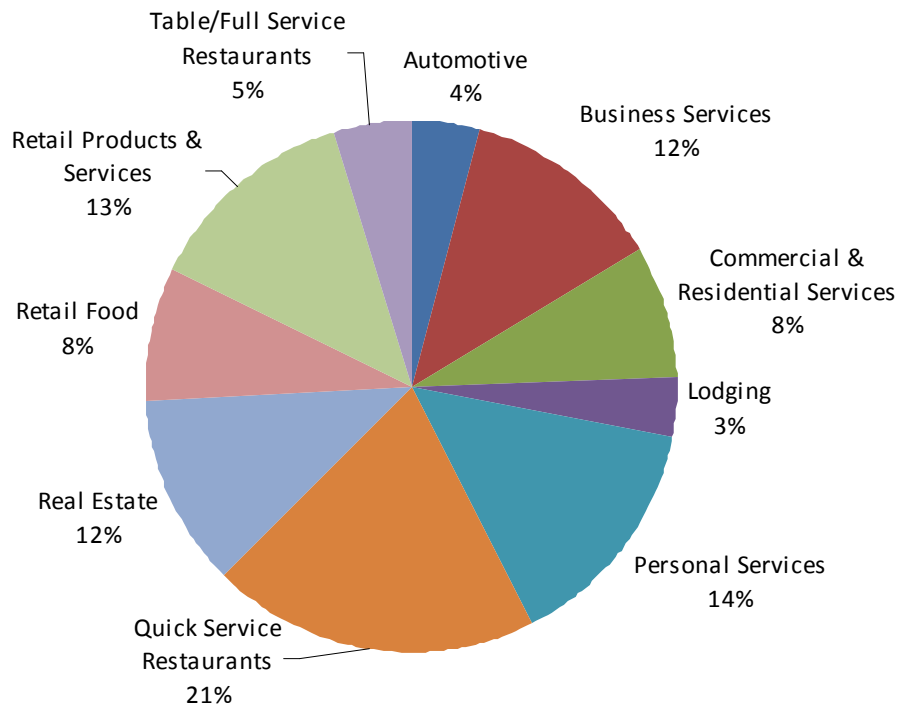
Distribution by Sector

This section focuses on the distribution of the 10 franchise business lines in terms of number of establishments, employment, and output, based on our forecast for 2012. The Quick Service Restaurants business line is the largest category, with 20% of all franchise establishments, and accounts for 37% of franchise employment. This business line also is forecast to contribute 26% of total output in 2012. Second in size in terms of the number of establishments is the Personal Services line, with 15% of the

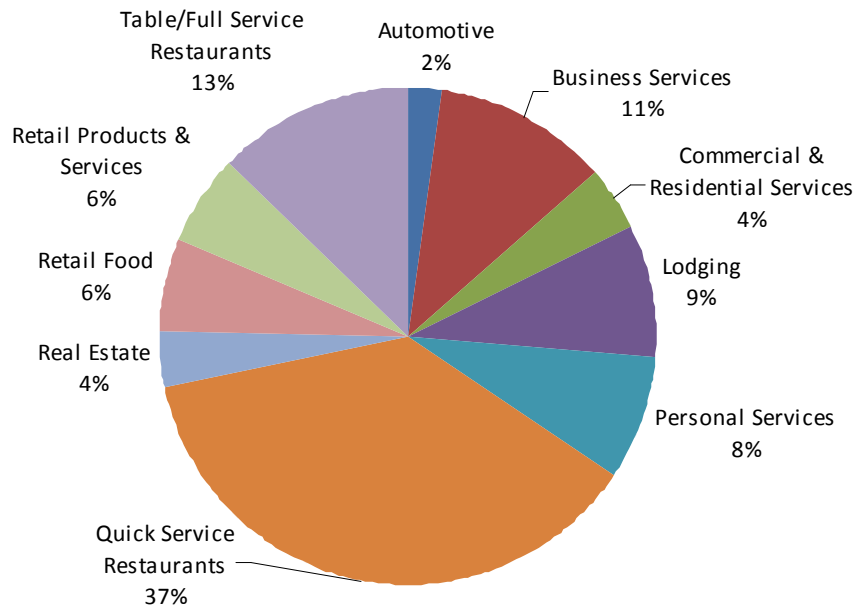
total. These are generally smaller businesses, though; the Personal Services group will account for only 8% of franchise employment and 11% of output.

The Table/Full Service Restaurants group occupies the second-largest share of employment, accounting for 13% of the total. The Business Services segment, which has higher ratios of output per establishment and per employee, is the second-largest contributor to the value of output in the franchise sector, with 19% of the total.

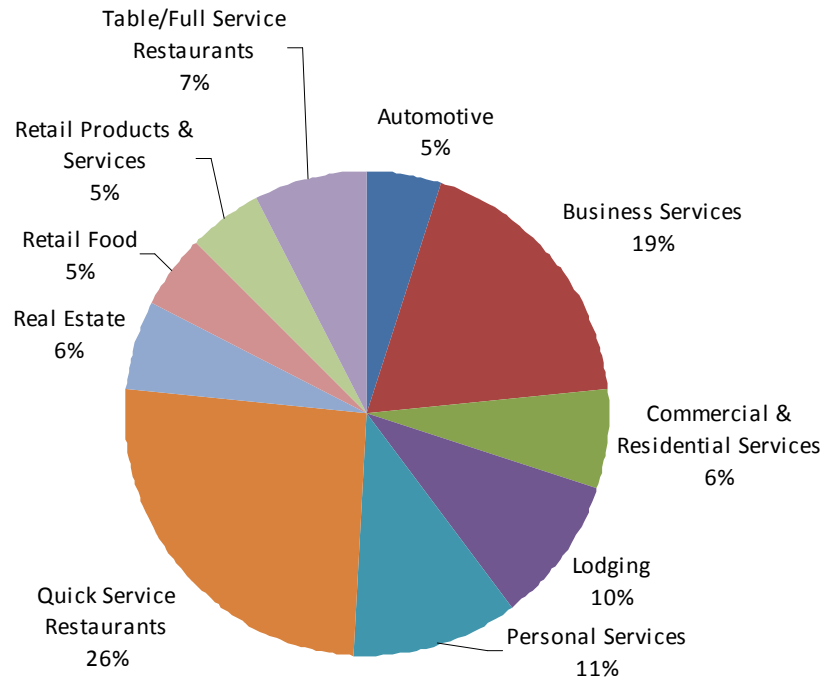
Establishments Distribution by Sector 2012



Employment Distribution by Sector 2012



Output Distribution by Sector 2012



Output per Employee

On average, output per employee in franchise businesses is estimated to be \$93,882 per worker in 2011 and forecast to grow to \$96,543 in 2012. This output-per-worker ratio varies within the 10 franchise business lines from a low of \$55,730 (Table/Full Service Restaurants) to a high of \$207,281 (Automotive) in 2011.

The average output per worker in the franchise sector has grown since 2007, and is estimated to rise through 2012, increasing at a compound annual growth rate of 1.9% over the five-year period. In 2009, the average productivity remained flat amidst the global recession, but then rose by nearly 4% in 2010. Automotive and Retail Food segment productivities grew the fastest in 2010 as the US economy recovered. Only the Real Estate segment saw a decline in output per worker in 2010.

The productivity pattern of franchise businesses during and after the recession is consistent with other US industries, where revenues initially fell at a greater rate than worker lay-offs, and later rose at a faster pace because employers started to rehire the workers only slowly.

The Automotive and Business Services are the fastest-growing segments, with expected compound annual productivity gains of 4.8% and 4.2%, respectively, during the period 2007–12. The Real Estate sector has recovered the slowest, but is projected to achieve annual productivity gains of 3.6% and 3.2% in 2011 and 2012, respectively, but even with this positive growth, the Real Estate sector will not reach the 2007 levels.

Franchise Output per Worker by Business Line, 2007-12

(Dollars per worker)	Estimates					Forecast
	2007	2008	2009	2010	2011	2012
Automotive	166,120	181,720	178,197	194,022	207,281	209,965
<i>Percent change</i>		9.4%	-1.9%	8.9%	6.8%	1.3%
Business Services	129,668	140,397	144,562	151,610	156,245	158,972
<i>Percent change</i>		8.3%	3.0%	4.9%	3.1%	1.7%
Commercial & Residential Services	126,786	135,461	134,835	136,667	139,390	145,092
<i>Percent change</i>		6.8%	-0.5%	1.4%	2.0%	4.1%
Lodging	96,285	97,543	93,478	99,998	105,493	109,086
<i>Percent change</i>		1.3%	-4.2%	7.0%	5.5%	3.4%
Personal Services	119,192	118,627	120,430	124,994	130,036	135,161
<i>Percent change</i>		-0.5%	1.5%	3.8%	4.0%	3.9%
Quick Service Restaurants	57,009	60,151	61,921	63,964	65,274	66,832
<i>Percent change</i>		5.5%	2.9%	3.3%	2.0%	2.4%
Real Estate	162,432	154,972	151,469	146,908	152,156	156,989
<i>Percent change</i>		-4.6%	-2.3%	-3.0%	3.6%	3.2%
Retail Food	67,241	71,730	68,074	73,214	77,335	78,322
<i>Percent change</i>		6.7%	-5.1%	7.5%	5.6%	1.3%
Retail Products & Services	66,485	67,368	68,733	72,920	77,333	80,698
<i>Percent change</i>		1.3%	2.0%	6.1%	6.1%	4.4%
Table/Full Service Restaurants	48,736	51,362	52,797	54,555	55,730	57,052
<i>Percent change</i>		5.4%	2.8%	3.3%	2.2%	2.4%
Total	84,384	87,536	87,538	90,887	93,882	96,543

APPENDIX

Composition of Franchise Business Lines

- 1. Automotive:** Includes motor-vehicle parts and supply stores, tire dealers, automotive equipment rental and leasing, and automotive repair and maintenance.
- 2. Commercial and Residential Services:** Includes building, developing, and general contracting; heavy construction; special trade contractors; facilities support services; services to buildings and dwellings; and waste management and remediation services.
- 3. Quick Service Restaurants:** Includes limited-service eating places, cafeterias, fast-food restaurants, beverage bars, ice cream parlors, pizza-delivery establishments, carryout sandwich shops, and carryout service shops with on-premises baking of donuts, cookies, and bagels.
- 4. Table/Full Service Restaurants:** Establishments primarily engaged in providing food services to patrons who order and are served while seated (i.e., waiter/waitress services) and pay after eating
- 5. Retail Food:** Includes food and beverage stores; convenience stores; food-service contractors; caterers; retail bakeries; and beer, wine, and liquor stores; as well as gas stations with convenience stores.
- 6. Lodging:** Includes hotels, motels, and other accommodations.
- 7. Real Estate:** Includes lessors of buildings, self-storage units, and other real estate; real estate agents and brokers; and property management and other related activities.
- 8. Retail Products and Services:** Includes furniture and home furnishings stores, electronics and appliance stores, building-material and garden-equipment and supplies dealers, health and personal-care stores, clothing and general merchandise stores, florists and gift stores, consumer-goods rentals, photographic services, and book and music stores.
- 9. Business Services:** Includes printing, business transportation, warehousing and storage, data-processing services, insurance agencies and brokerages, office administrative services, employment services, investigation and security services, tax-preparation and payroll services, and heavy equipment leasing.
- 10. Personal Services:** Includes educational services, health care, entertainment and recreation, personal and laundry services, veterinary services, loan brokers, credit intermediation and related activities, and personal transportation.

Methodology

The statistics in this report were derived from various published sources as well as IHS Global Insight propriety databases. The primary source for the report was the *2007 Economic Census Franchise Report*. This report provides US estimates of establishments, employment, and annual payroll and output from business with paid employees by detailed sector for 2007. Data were aggregated to the 10 Business Format Lines.

The *2007 Economic Census* only covers businesses with paid employees; the data were integrated with other data sources to include franchise businesses without paid employees. Other data sources were

- The *2007 Survey of Business Owners* – The US Census publishes the *2007 Survey of Business Owners* (SBO). From this data source we were able to determine the number of franchised businesses for businesses without paid employees.
- *2007 Nonemployer Statistics* – The US Census publishes the *2007 Nonemployer Statistics* (NES). NES includes the number establishments and total annual receipts by industry of businesses without paid employees that are subject to federal income tax. Most often, nonemployers are self-employed individuals. IHS Global Insight determined the total number of businesses without paid employees and combined it with the SBO data to derive franchise businesses without paid employees and the number of independent contractors working out of franchised establishments owned by others.
- *IHS Global Insight's Business Market Insights* (BMI) – BMI is built from the *Economic Census County Business Patterns*. BMI contains information on establishments, employees, and sales at the country level at six-digit North American Industry Classification System (NAICS). The data were integrated with SBO to determine the number of businesses with paid employees in NAICS 55. This industry was left out of the *2007 Economic Census Franchise Report*.

IHS Global Insight built econometric models to create forecast for establishments, employment, and output for each of the Business Format Lines for 2012. Included in the models were both macroeconomic (credit availability) and industry-specific variables using a nested modeling approach (i.e., franchise establishment formation led to employment requirements, which further led to output forecasts).