

ECONOMIC IMPACT OF FRANCHISED BUSINESSES

VOLUME 2

EXECUTIVE SUMMARY & HIGHLIGHTS



FRANCHISING... BUILDING LOCAL BUSINESSES, ONE OPPORTUNITY AT A TIME





PRESIDENT'S LETTER

I am very pleased to present you with the Executive Summary of *Volume 2 of the Economic Impact of Franchised Businesses*. This report, which was prepared by PricewaterhouseCoopers, documents the important role the franchising industry continues to play in the U.S. economy.

In February of 2004, the International Franchise Association Educational Foundation released *Volume 1* of the report which documented the economic impact of franchising for the year 2001. This unprecedented study illustrated the enormous role franchising plays in the U.S. economy. *Volume 2* updates the results of that study for the year 2005.

In 2005, more than 900,000 franchised establishments generated over \$880 billion of direct economic output, or over 4.4 percent of the private sector economy in the United States. The franchising industry provided jobs for more than 11 million American workers, or just over 8 percent of all U.S. private sector employment. Including the additional economic activity that occurs outside of franchised businesses because of franchising activities, the overall economic contribution of franchised businesses was \$2.3 trillion in 2005, or 11 percent of the U.S. economy. These economic activities provided more than 20 million jobs for American workers, over 15 percent of all U.S. private sector employment.

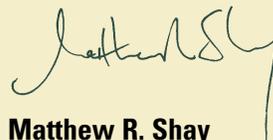
From 2001 to 2005, the franchising sector of the economy grew at a faster pace than many other sectors of the economy. Franchising now provides more jobs than many other sectors of the U.S. economy. For example, franchising provides more jobs than the durable goods manufacturing sector or the financial activities sector of the economy.

The franchising sector expanded by over 18 percent from 2001 to 2005, adding more than 140,000 new establishments, and creating more than 1.2 million new jobs. Direct economic output increased by more than 40 percent from 2001 to 2005, from \$624.6 billion to \$880.9 billion. Including the impact of additional economic activity that occurs outside of franchised businesses because of franchising activities, the franchising industry added nearly 3 million jobs and over \$780 billion of economic output to the U.S. economy.

As you can see in this booklet, in every line of business, and in every state, franchising is a major source of jobs and a critical engine of economic growth. Much more detailed information can be found in the full 600-plus page report, published on the IFA website at www.franchise.org.

The International Franchise Association is proud to represent the thousands of franchisors, franchisees, and suppliers that make up the franchising industry, and that every day are providing the products and services to millions of our loyal customers — from around the corner to around the world.

Sincerely,



Matthew R. Shay

President // International Franchise Association



MATTHEW R. SHAY

EXECUTIVE SUMMARY

WHAT HAPPENS IN FRANCHISED BUSINESSES

Franchised businesses operated 909,253 establishments in the United States in 2005, counting both establishments owned by franchisees and establishments owned by franchisors. These establishments amounted to 3.3 percent of all business establishments in the United States. Franchised businesses provided 11.0 million jobs, met a \$278.6 billion payroll, and produced \$880.9 billion of output.

Franchised businesses accounted for 8.1 percent of all private sector jobs, 5.3 percent of all private-sector payroll, and 4.4 percent of all private sector economic output in 2005.

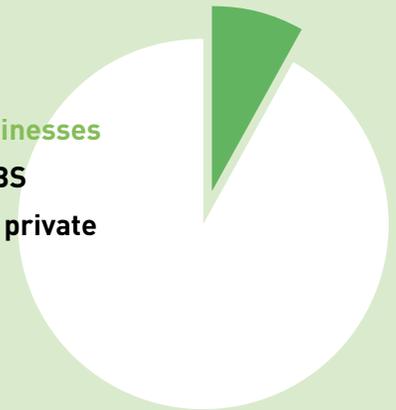
PERCENT OF PRIVATE SECTOR ECONOMY // DIRECT ECONOMIC OUTPUT

Franchised Businesses
\$880.9 BILLION
4.4% of U.S. economic output



PERCENT OF PRIVATE SECTOR ECONOMY // DIRECT EMPLOYMENT

Franchised Businesses
11 MILLION JOBS
8.1% of all U.S. private sector jobs



DIRECT AND TOTAL CONTRIBUTIONS OF FRANCHISED BUSINESSES TO THE U.S. ECONOMY // 2005

	In Franchised Businesses // Direct	Percent of Private Sector Economy // Direct	Because of Franchised Businesses // Total	Percent of Private Sector Economy // Total
JOB	11,029,206	8.1%	20,974,636	15.3%
PAYROLL (\$ billions)	\$278.6	5.3%	\$660.9	12.5%
OUTPUT (\$ billions)	\$880.9	4.4%	\$2,306.8	11.4%
ESTABLISHMENTS	909,253	3.3%	NA	NA

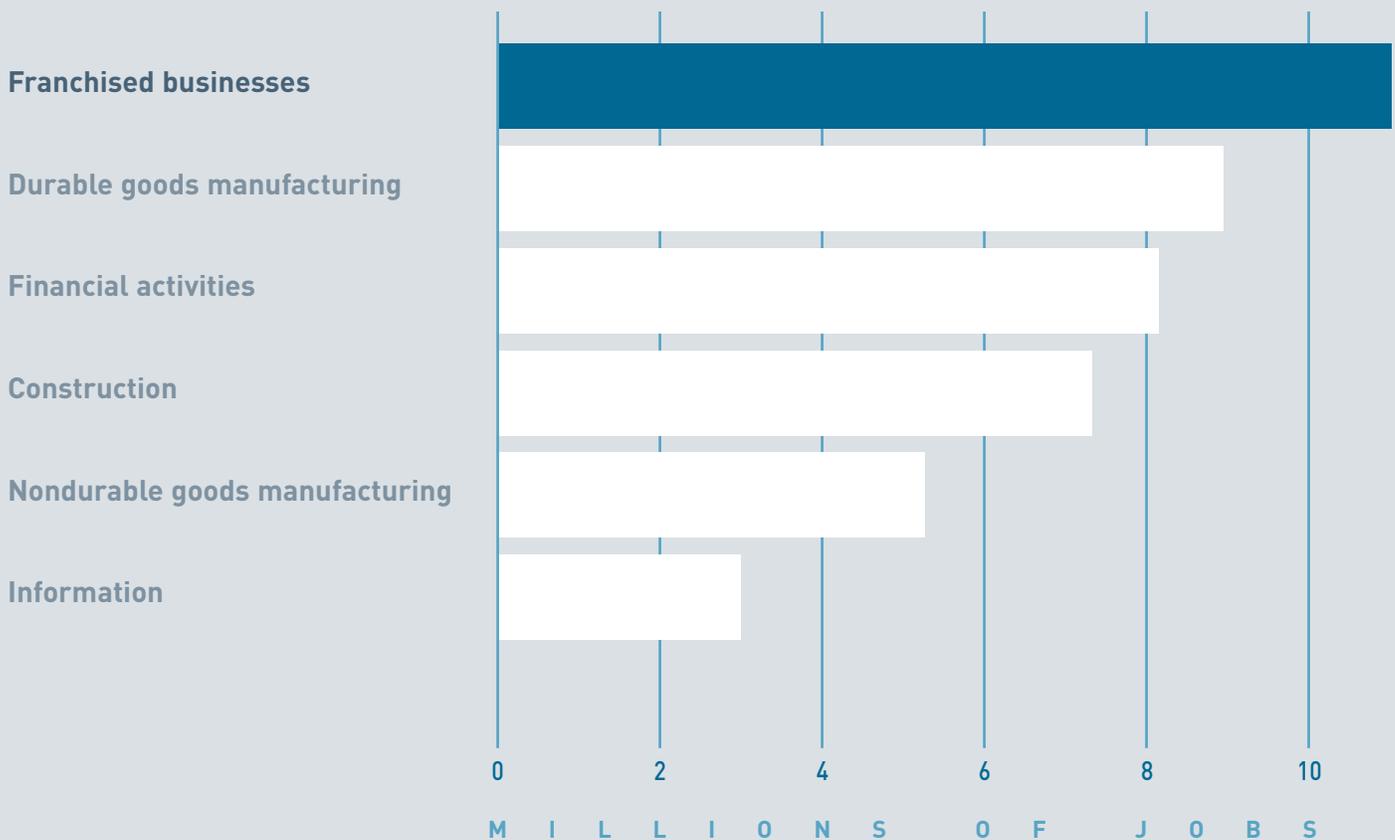
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To indicate economic size in a different way, franchised businesses provided more jobs in 2005 than all manufacturers of durable goods, such as computers, cars, trucks, planes, communications equipment, primary metals, wood products, and instruments.

DIRECT EMPLOYMENT // BY ECONOMIC SECTOR // 2005

Economic Sector	Jobs
Franchised businesses	11,029,000
Durable goods manufacturing	8,955,000
Financial activities	8,153,000
Construction	7,336,000
Nondurable goods manufacturing	5,272,000
Information	3,061,000

DIRECT EMPLOYMENT // BY ECONOMIC SECTOR // 2005



EXECUTIVE SUMMARY

These numbers illustrate significant growth since 2001. Overall, the number of franchised establishments in the U.S. grew at an average annual rate of 4.3 percent between 2001 and 2005. The number of jobs in franchised businesses grew at an average annual rate of 3.0 percent over the same period. Payroll and output of franchised businesses grew at 5.0 percent and 9.0 percent per year, respectively, since 2001.

DIRECT AND TOTAL CONTRIBUTIONS TO THE U.S. ECONOMY // 2001–2005

	IN FRANCHISED BUSINESSES			
	2001	2005	Percent Change 2001 to 2005	Average Annual Growth
JOBS	9,797,117	11,029,206	12.6%	3.0%
PAYROLL (\$ billions)	\$229.1	\$278.6	21.6%	5.0%
OUTPUT (\$ billions)	\$624.6	\$880.9	41.0%	9.0%
ESTABLISHMENTS	767,483	909,253	18.5%	4.3%

	BECAUSE OF FRANCHISED BUSINESSES			
	2001	2005	Percent Change 2001 to 2005	Average Annual Growth
JOBS	18,121,595	20,974,636	15.7%	3.7%
PAYROLL (\$ billions)	\$506.6	\$660.9	30.5%	6.9%
OUTPUT (\$ billions)	\$1,525.3	\$2,306.8	51.2%	10.9%

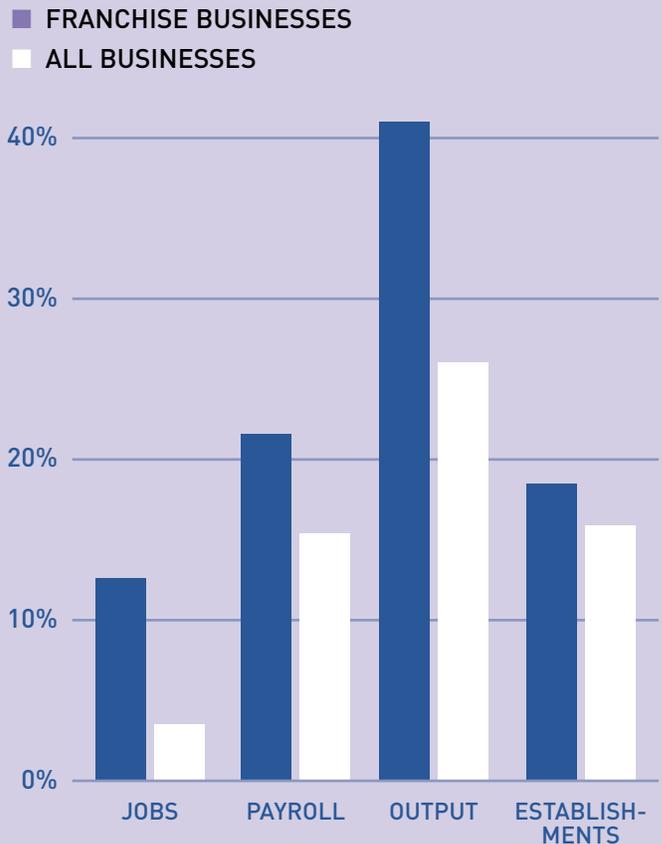
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FRANCHISED BUSINESS GROWTH COMPARED TO ALL BUSINESSES // 2001 – 2005

From 2001 to 2005, the franchising sector expanded at a faster pace than many other sectors of the U.S. economy. Direct economic output of franchised businesses grew by over 41%, from \$625 billion to \$881 billion, while economic output of all businesses grew by 26%, from \$16 trillion to \$20.1 trillion.

Employment generated by franchised businesses grew by 12.6%, from 9.79 million to 11 million, while employment generated by all businesses grew by 3.5%, from 132 million to 136.7 million. Payroll generated by franchised businesses grew 21.6% compared to 15.4% for all businesses. The number of franchised establishments grew by 18.5% compared to 15.9% for establishments created by all businesses.

DIRECT ECONOMIC IMPACT OF FRANCHISED BUSINESSES COMPARED TO ALL BUSINESSES PERCENT CHANGE FROM 2001 TO 2005



DIRECT ECONOMIC IMPACT OF FRANCHISED BUSINESSES COMPARED TO ALL BUSINESSES

// 2001 – 2005

	2001		2005	
	Franchised Businesses	All Businesses	Franchised Businesses	All Businesses
JOBS	9,797,117	132,040,682	11,029,206	136,709,071
PAYROLL (\$ billions)	\$229	\$4,567	\$279	\$5,268
OUTPUT	\$625 billion	\$16 trillion	\$881 billion	\$20.1 trillion
ESTABLISHMENTS	767,483	24,074,800	909,253	27,891,770

EXECUTIVE SUMMARY

WHAT HAPPENS BECAUSE OF FRANCHISED BUSINESSES

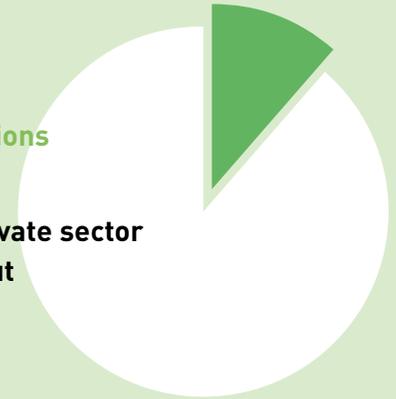
The economic impact of franchising goes beyond activities inside franchised businesses, because their purchases of products and services and the personal purchases of their owners and workers contribute to the growth of non-franchised businesses. As a result of these spillover effects, the total impact of franchising was to provide 21.0 million jobs (15.3 percent of all private-sector jobs) and \$660.9 billion of payroll (12.5 percent of all private-sector payroll) in 2005. Output produced because of franchised businesses grew from \$1.5 trillion in 2001 to more than \$2.3 trillion in 2005; an average growth of 10.9 percent per year. In 2005, output produced because of franchised businesses accounted for 11.4 percent of all private-sector output.

PERCENT OF PRIVATE SECTOR ECONOMY // TOTAL ECONOMIC OUTPUT

Total Contributions

\$2.3 TRILLION

11.4% of all private sector economic output

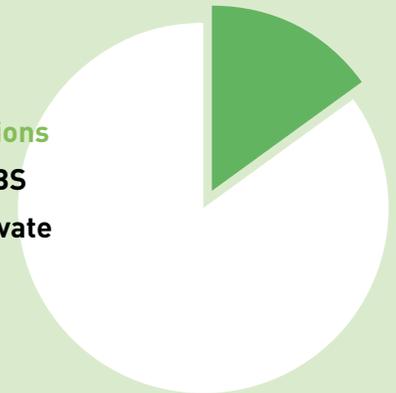


PERCENT OF PRIVATE SECTOR ECONOMY // TOTAL EMPLOYMENT

Total Contributions

21 MILLION JOBS

15.3% of all private sector jobs

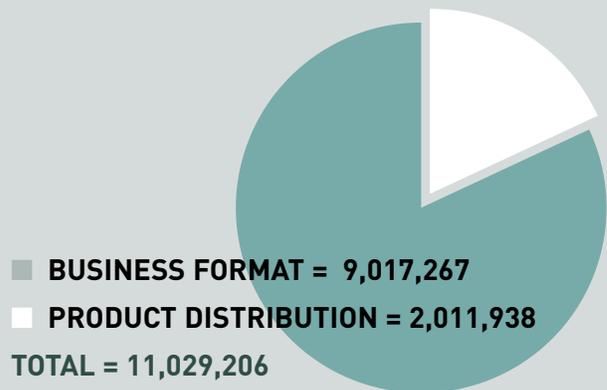


EXECUTIVE SUMMARY

PREVALENCE OF BUSINESS FORMAT FRANCHISING

Business format franchising was more prevalent than product distribution franchising in 2005, accounting for about 5.7 times as many establishments and nearly 4.5 times as many jobs. Business format franchises generated 2.9 times the payroll and nearly 3.1 times as much economic output as product distribution franchises. Franchisees owned most (73 percent) of the establishments that operated under a business format franchise.

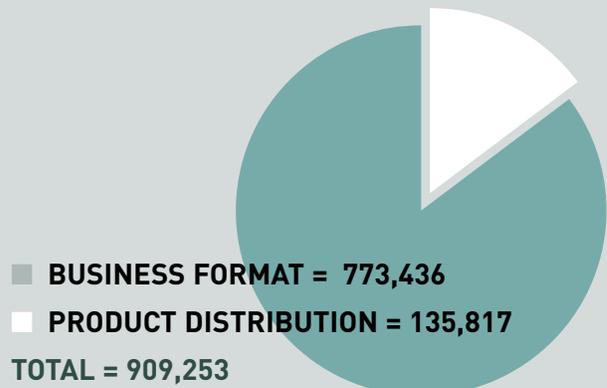
DIRECT IMPACT OF FRANCHISED BUSINESSES JOBS



DIRECT IMPACT OF FRANCHISED BUSINESSES OUTPUT (\$ BILLIONS)



DIRECT IMPACT OF FRANCHISED BUSINESSES ESTABLISHMENTS



EXECUTIVE SUMMARY

Among business format franchises, Business Services had more establishments and generated a greater portion of payrolls than other business categories. Quick service restaurants provided more jobs (35%) and generated more economic output (22.9%) than other business categories. Business Services and Personal Services were next in terms of economic output, with 22.7% and 14.4% respectively.

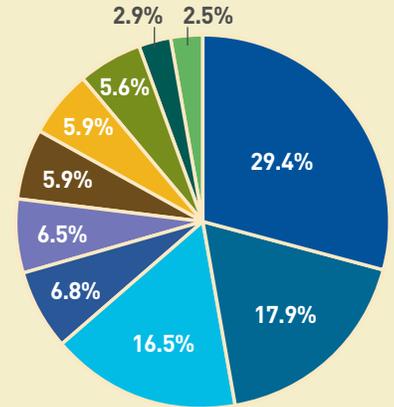
Among product distribution franchises, Automotive and Truck Dealers provided the most jobs and the greatest payroll.

BUSINESS FORMAT FRANCHISES // BY LINE OF BUSINESS

	Payroll	Output	Establishments
BUSINESS SERVICES	29.4%	22.7%	25%
PERSONAL SERVICES	17.9%	14.4%	9.9%
QUICK SERVICE RESTAURANTS	16.5%	22.9%	21.7%
FOOD RETAIL	6.8%	7.1%	7.9%
TABLE/FULL SERVICE RESTAURANTS	6.5%	7.6%	5.5%
LODGING	5.9%	7.2%	3.9%
COMMERCIAL & RESIDENTIAL SERVICES	5.9%	4.9%	7%
RETAIL PRODUCTS & SERVICES	5.6%	5.5%	10.2%
REAL ESTATE	2.9%	4%	4.4%
AUTOMOTIVE	2.5%	3.8%	4.6%

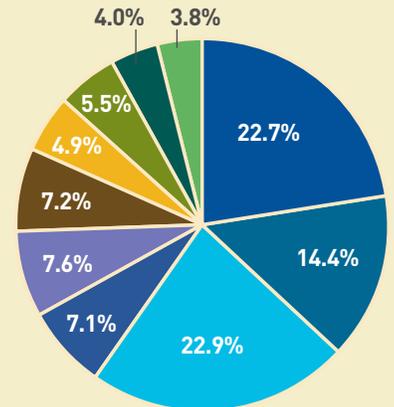
BUSINESS FORMAT FRANCHISES // BY LINE OF BUSINESS

PAYROLL



BUSINESS FORMAT FRANCHISES // BY LINE OF BUSINESS

OUTPUT



BUSINESS FORMAT FRANCHISES // BY LINE OF BUSINESS

ESTABLISHMENTS

