# 2021 Economic Outlook for Franchising

INTERNATIONAL FRANCHISE ASSOCIATION

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## Introduction

*In 2021, Franchising is projected to open more than 26,000 locations, add nearly 800,000 new jobs, and contribute $477 billion to the US GDP.*

Assuming control of the COVID-19 pandemic is forthcoming this year, FRANdata predicts that by year-end, franchising will have recovered to nearly 2019 levels in most metrics: business growth, employment, economic outlook, and contribution to the GDP. FRANdata projects that more than 26,000 new franchised business will open, recovering most of the losses felt in the previous year. Franchises will employ some 8.3 million people, adding nearly 800,000 new jobs. Much of this employment will be in the retail, food and services industries and will be for lower skilled workers, a group that has been inordinately hurt by the economic downturn.

Industry expansion and economic output should reach nearly to pre-pandemic levels by the end of the year, though changes in operations and consumer demand will have an impact on the industry. It is expected that new business openings will shift away from larger employers, such as hotels and sit-down restaurants, and more automation in all businesses, changing the employment landscape. We expect the most growth in the commercial and residential services industry, as well as continued strength with Quick-Service Restaurants (QSRs)

| Franchise Business Economic Outlook: 2017-2021 | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020 (Est.)** | **2021 (Proj.)** |
| Establishments | 748,752 | 760,476 | 773,603 | 753,770 | 780,188 |
| *Percentage change* | | 1.6% | 1.7% | -2.6% | 3.5% |
| Employment | 7,975,179 | 8,207,599 | 8,434,090 | 7,491,456 | 8,252,929 |
| *Percentage change* | | 2.9% | 2.8% | -11.2% | 10.2% |
| Output ($ billions) | $720.4 | $760.3 | $787.5 | $670.0 | $780.0 |
| *Percentage change* | | 5.5% | 3.6% | -14.9% | 16.4% |
| GDP ($ billions) | $427.5 | $452.1 | $473.4 | $446.3 | $477.4 |
| *Percentage change* | | 5.8% | 4.7% | -5.7% | 7.0% |

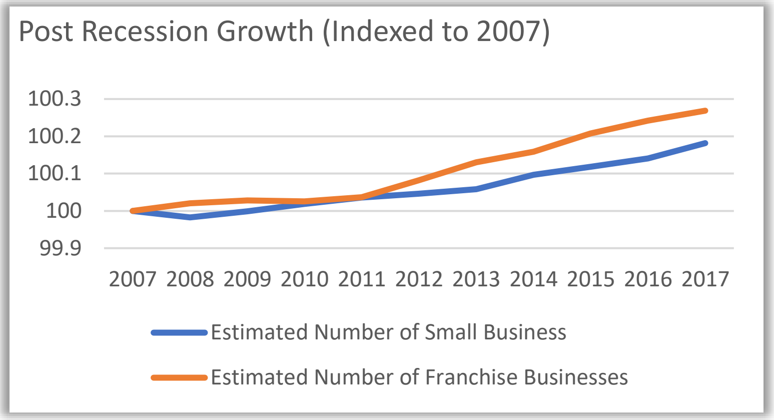
Source: FRANdata

**In past recoveries, franchising has expanded faster than overall GDP. The franchise model's unique structure allows for faster hiring, rapid business openings, and more stable performance than independent businesses.**

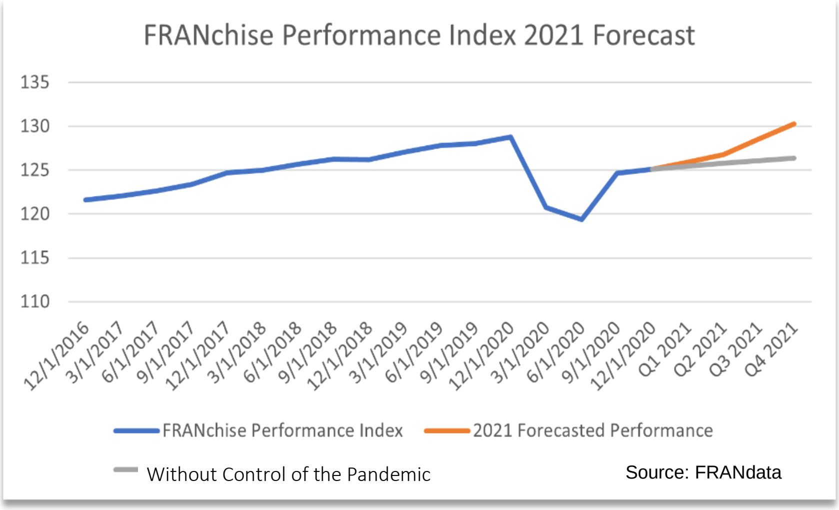
2020 saw the US economy shrink by 3.5%, the worst year since World War II. The economic uptick that occurred in late summer has been all but wiped out by the explosion in COVID cases this winter[1]. Unemployment experienced an all-time high in April of 2020 not seen since the Great Depression. In a mid-year analysis, FRANdata predicted that there would be a large amount of business closure if the government did not provide relief as it did.

This does not mean the picture for 2021 is all bad. Opportunity comes with it. With vaccine rollout, 2021 is positioned for healthy growth with true economic recovery, but the actions taken in the first few months of the year will determine the recovery's strength and reach. Once consumers are able to return to more expensive behavior, pent-up demand and personal savings will propel the improvement, with franchising well poised to lead in that effort.

During the economic recovery, the franchise business model again will be among the leading business and job generators. This has been true following the past four recession cycles, according to FRANdata. The fundamental design of the franchise business model allows for more rapid growth, employment, and reaction to the changing economic realities, compared to that of independent businesses.




Source: FRANdata




[1] Siegel, Rachel & Van Dam, Andrew. "2020 was the worst year for economic growth since the Second World War." Washington Post, 28 Jan. 2021.

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# Franchising's Contribution to the Economic Recovery in 2021

Franchising's proven resilience means 2021 is anticipated to be a very positive growth year for the business model. Historically, many brands have seen significant sales growth, new unit development, and job creation at the start of recoveries. FRANdata forecasts that there will be a net gain of 26,000 franchised small businesses opened in 2021, bringing the total of franchises in the US to 780,188. That is 6,585 units higher than the 2019 pre-COVID level.

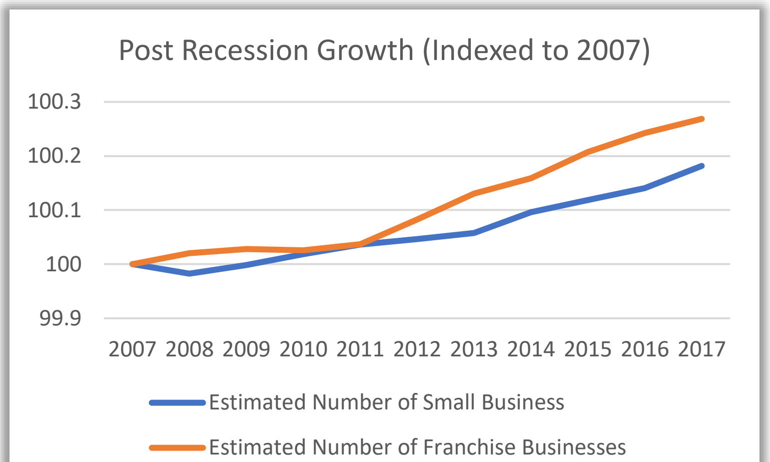

Franchising contribution to the economy is forecast to grow by 7% in 2021. Much like the GDP growth trend, the franchising market experienced a contraction in 2020, with system size declining by an estimated 2.6%. The market is expected to recover in 2021, with total franchise establishments growing at a projected rate of 3.5%.

Almost all businesses experienced an unprecedented and challenging year in 2020, and franchises are no exception. In the second quarter of 2020, the economy contracted by 31.4%. Quarterly GDP had never experienced a drop greater than 10% since record-keeping began in 1947[2]. In April, retail sales declined by 14.7% as non-essential businesses were forced to close. The same month, the unemployment rate skyrocketed to 14.7% as businesses furloughed or laid-off employees. However, the economy partially rebounded in the second half of 2020 when businesses re-opened, and the government loosened its "stay-at-home" orders. Consumer spending increased by 9% in Q3 of 2020; the unemployment rate dropped to 6.7% in December, and retail sales increased by more than 30% in November compared to the lowest level in April. In 2020, under the unfavorable economic condition, franchising lost approximately 20,000 business establishments in 2020, ending the year with an estimated total of 753,770 franchised establishments and shedding over 900,000 jobs (while still supporting 7.5 million workers). Overall, all the franchised businesses contributed $670 billion of economic output into the US economy, and still represented 3% of the total nominal Gross Domestic Product (GDP). Even though the recovery likely slowed in the fourth quarter of 2020 due to the resurgence of COVID-19 cases during the winter months, a broad deployment of vaccines, and expected government stimulus packages should result in the US economy experiencing continued recovery in 2021. According to the most recent forecast

[2] Amadeo, Kimberly. "US Economic Outlook For 2021 and Beyond." The Balance, 29 Oct. 2020.

released at the Federal Open Market Committee (FOMC) meeting on December 16th, 2020, US GDP growth is expected to contract by 2.4% in 2020. A growth rate rebound of 4.2% is expected in 2021, with a slowdown to 3.2% in 2022, and 2.4% in 2023.

FRANdata's estimation in the last six-month COVID-19 Impact Analysis report published in September of 2020 showed that 36,000 franchised business would have not survived without additional government assistance. With the second COVID relief bill passed in December, including another round of PPP loans and additional stimulus check, etc., more franchises are better positioned to continue operating and preparing for the recovery entering into 2021.



Source: FRANdata

| Franchise Business ***Economic Outlook*** 2017-2021 | | | | | |
|---|---|---|---|---|---|
| | **2017** | **2018** | **2019** | **2020 (Est.)** | **2021 (Proj.)** |
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Source: FRANdata

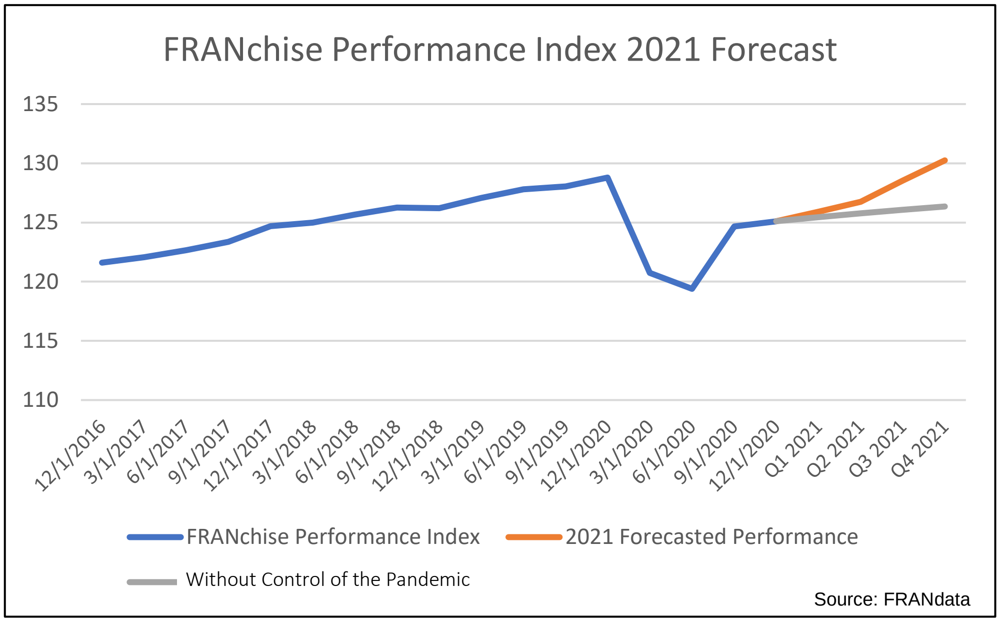
## Franchise Performance Index

2021 could be a transformative year unleashing incredible potential, but for that to happen, three things must occur. First, vaccine rollout must continue and even accelerate. Reaching the goal of 100 million vaccines in the next 100 days would be a huge step toward that goal. Second, schools must re-open as soon as possible. The longer schools are closed the more extensive the economic impact, now and in the future. Third, steps need to be taken to support small business and keep the economy growing, while the first two steps are coming together.

With significant government assistance, FRANdata predicts that nearly all of the economic damage created by the COVID-19 pandemic could be erased, and the US economy could achieve levels of growth not seen in decades. A large, aggressive program would boost consumer confidence, which would, in turn, drive spending.

Congress' limited action could reduce the FPI recovery by more than 3%, which translates to more than 20,000 units that do not open and 800,000 jobs not created.

Currently, American consumers have the highest level of personal savings since the mid-'70s. That spending has the potential to drive GDP growth over 6% per quarter in the second half of 2021. But, if no action is taken, which slows vaccine rollout and keeps school closed, the recovery could be diminished from a V-shaped recovery to a flat recovery. This would slow growth of the recovery by more than 3%, which translates to more than 20,000 units that do not open and 800,000 jobs not created. With strong action, the US economy could enter 2022 in a stronger position than it was at the end of 2019, before COVID when unemployment was at an all-time low.



## Recovery through Establishment Growth

FRANdata estimates that franchise establishments declined by 2.6% in 2020, down to 753,770 franchises in the US because of the pandemic. **In response to the crisis, business owners have been continuously making system-wide business offering adjustments learned from best practice sharing across the franchise business community, which has led to improved existing businesses and the creation of thousands of new franchises.** Therefore, the total number of franchise establishments is forecast to experience a full recovery by the end of 2021, expanding at an accelerated rate of 3.5% to 780,188 nationwide.

Lodging, Full-Service Restaurants and Personal Services sectors suffered most of the business closures in 2020. However, significant growth (8.8%) in the commercial & residential services sector has partially offset the decline, along with growth in the real estate, retail, and business services sectors, through increased rates of 1.6%, 1.2%, and 0.8%, respectively.

**Franchise Establishments *by Industry***

| | 2017 | 2018 | 2019 | 2020 (Est.) | 2021 (Proj.) |
|---|---|---|---|---|---|
| **Business Services** | 108,813 | 108,011 | 106,936 | 107,789 | 110,241 |
| *Percentage change* | | -0.7% | -1.0% | 0.8% | 2.3% |
| **Commercial & Residential Services** | 66,041 | 66,495 | 67,226 | 73,116 | 75,627 |
| *Percentage change* | | 0.7% | 1.1% | 8.8% | 3.4% |
| **Lodging** | 28,374 | 29,116 | 29,706 | 27,136 | 27,931 |
| *Percentage change* | | 2.6% | 2.0% | -8.7% | 2.9% |
| **Personal Services** | 109,898 | 114,058 | 118,825 | 110,050 | 113,907 |
| *Percentage change* | | 3.8% | 4.2% | -7.4% | 3.5% |
| **Quick Service Restaurants** | 192,992 | 194,395 | 196,794 | 183,543 | 191,146 |
| *Percentage change* | | 0.7% | 1.2% | -6.7% | 4.1% |
| **Real Estate** | 63,098 | 64,170 | 65,307 | 66,332 | 68,657 |
| *Percentage change* | | 1.7% | 1.8% | 1.6% | 3.5% |
| **Retail Food, Products & Services** | 146,622 | 151,390 | 155,649 | 157,538 | 162,669 |
| *Percentage change* | | 3.3% | 2.8% | 1.2% | 3.3% |
| **Table/Full Service Restaurants** | 32,914 | 32,843 | 33,160 | 28,266 | 30,010 |
| *Percentage change* | | -0.2% | 1.0% | -14.8% | 6.2% |
| **Total** | **748,752** | **760,476** | **773,603** | **753,770** | **780,188** |
| ***Percentage change*** | | **1.6%** | **1.7%** | **-2.6%** | **3.5%** |

Source: FRANdata

**In 2021, all of the eight business lines we studied are expected to sustain growth.** The commercial and residential services sector is predicted to continue to lead the recovery, expanding at a rate of 3.4%, followed by the restaurant sectors.

Restaurants are likely to recuperate at a faster pace as consumer spending is expected to pick up after the widespread vaccination effort through the second half of 2021.

## Recovery through Job Creation

In 2020, franchise employment declined by 11.2% to 7.5 million and lost approximately 940,000 jobs, as a majority of businesses were not in operation with full employment from limited capacity and revenue deterioration. Job losses were mostly seen in lodging, restaurants, and personal services sectors.

FRANdata anticipates that franchise employment will add approximately 800,000 jobs to the US job market, through the hiring of 8.3 million workers by the end of 2021.

The uplift in franchise employment is projected to be driven by the commercial & residential services and real estate sectors, which have already outperformed other sectors in 2020. Restaurants and lodging sectors will follow conferences and tourism will resume, as people begin to take more business and leisure trips again.  The personal services sector is another segment that will drive job creation as consumers will be looking to spend more money on personal care to pamper themselves. Childcare will likewise jump back, as parents return to their office jobs and send their kids to daycare institutions and schools.

The COVID-19 crisis has exacerbated inequalities across society. Most of the furloughed or laid-off employees were low-skilled and low-wage workers who cannot perform their jobs working from home. Since **hotel and leisure sectors tend to employ lower-paid and therefore lower-skilled workers, franchise rehiring in these sectors will also help minimize economic inequality.**

**Franchise *Employment by Industry***

| | 2017 | 2018 | 2019 | 2020 (Est.) | 2021 (Proj.) |
|---|---|---|---|---|---|
| Business Services | 651,659 | 653,999 | 650,489 | 588,475 | 670,591 |
| *Percentage change* | | 0.4% | -0.5% | -9.5% | 14.0% |
| Commercial & Residential Services | 247,415 | 250,318 | 252,803 | 253,682 | 301,706 |
| *Percentage change* | | 1.2% | 1.0% | 0.3% | 18.9% |
| Lodging | 627,354 | 648,806 | 662,382 | 446,299 | 557,705 |
| *Percentage change* | | 3.4% | 2.1% | -32.6% | 25.0% |
| Personal Services | 490,915 | 519,369 | 547,094 | 475,580 | 524,450 |
| *Percentage change* | | 5.8% | 5.3% | -13.1% | 10.3% |
| Quick Service Restaurants | 3,659,560 | 3,770,426 | 3,880,612 | 3,544,759 | 3,786,002 |
| *Percentage change* | | 3.0% | 2.9% | -8.7% | 6.8% |
| Real Estate | 251,046 | 256,328 | 262,130 | 245,437 | 285,820 |
| *Percentage change* | | 2.1% | 2.3% | -6.4% | 16.5% |
| Retail Food, Products & Services | 977,712 | 1,020,002 | 1,061,686 | 1,014,127 | 1,115,571 |
| *Percentage change* | | 4.3% | 4.1% | -4.5% | 10.0% |
| Table/Full Service Restaurants | 1,069,518 | 1,088,352 | 1,116,894 | 923,097 | 1,011,082 |
| *Percentage change* | | 1.8% | 2.6% | -17.4% | 9.5% |
| **Total** | **7,975,179** | **8,207,599** | **8,434,090** | **7,491,456** | **8,252,929** |
| ***Percentage change*** | | 2.9% | 2.8% | -11.2% | 10.2% |

Source: FRANdata

## Recovery through Output Creation

In 2021, after an improved public health situation and job market, an increasing number of businesses are expected to return to normal sales levels. Total franchise output is projected to grow by 16.4% and contribute a total of $780 billion to the US economy.

Franchise output contributed by all the franchise establishments in 2020 declined by 14.9% because of the pandemic. Lodging and restaurants suffered the most revenue losses because of constrained consumer spending. Based on a study conducted by the National Restaurant Association Research Group in November of 2020, 87% of full-service restaurants (independent, chain, and franchise) reported an average drop of 36% in sales revenue. According to year-end 2020 data from STR, the US hotel industry reported all-time lows in occupancy and revenue per available room (RevPAR). On the other hand, the commercial & residential services sector endured the highest-estimated sales growth rate of 7.7% in 2020, driven by the escalating home construction/renovation activities and increasing new home sales. The retail food, products, & services sector is another sector that has uplifted the output. Based on a study conducted by the Food Industry Association, most food retailers (61%) said the local and national economies positively impacted their businesses.

**Franchise *Economic Output by Industry* ($Billion)**

| | 2017 | 2018 | 2019 | 2020 (Est.) | 2021 (Proj.) |
|---|---|---|---|---|---|
| Business Services | $98.2 | $103.1 | $106.0 | $93.1 | $105.8 |
| *Percentage change* | | 5.0% | 2.8% | -12.2% | 13.7% |
| Commercial & Residential Services | $43.9 | $45.5 | $45.8 | $49.3 | $53.3 |
| *Percentage change* | | 3.6% | 0.7% | 7.7% | 8.0% |
| Lodging | $71.7 | $75.7 | $78.0 | $40.9 | $66.0 |
| *Percentage change* | | 5.6% | 3.0% | -47.5% | 61.2% |
| Personal Services | $35.6 | $37.9 | $39.3 | $26.0 | $35.8 |
| *Percentage change* | | 6.3% | 3.8% | -34.0% | 37.7% |
| Quick Service Restaurants | $240.5 | $256.6 | $267.9 | $241.0 | $265.0 |
| *Percentage change* | | 6.7% | 4.4% | -10.1% | 10.0% |
| Real Estate | $50.9 | $53.4 | $55.3 | $48.4 | $60.8 |
| *Percentage change* | | 4.8% | 3.7% | -12.5% | 25.7% |
| Retail Food, Products & Services | $111.1 | $115.1 | $118.3 | $121.1 | $127.1 |
| *Percentage change* | | 3.7% | 2.8% | 2.3% | 5.0% |
| Table/Full Service Restaurants | $68.5 | $73.0 | $76.5 | $50.3 | $66.3 |
| *Percentage change* | | 6.6% | 4.8% | -34.3% | 31.9% |
| **Total** | **$720.4** | **$760.3** | **$787.5** | **$670.0** | **$780.0** |
| ***Percentage change*** | | 5.5% | 3.6% | -14.9% | 16.4% |

Source: FRANdata

## Business Lines Growth Overview

The pandemic has created winners and losers because of evolving consumer preferences, current economic conditions, and government regulations. Some sectors have benefited from the changes and had relatively better performances, especially in the Business Services, Commercial & Residential Services, Real Estate, and Retail Food, Products, & Services sectors. Still, some sectors suffered from devastating losses, including Lodging, Personal Services, Table/Full-Service Restaurants, and Quick Service Restaurants sectors. **As we enter 2021, franchising recovery in many sectors is still facing major uncertainties, and the recovery of franchising activity is expected to be sector-specific.**

**Franchise *Economic Outlook By Industry*: 2021 Forecast**

| | Establishments | | | | | Employment | | | | | Output ($Billions) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2020 (Est.) | 2021 (Proj.) | 19-20 | 20-21 | 2019 | 2020 (Est.) | 2021 (Proj.) | 19-20 | 20-21 | 2019 | 2020 (Est.) | 2021 (Proj.) | 19-20 | 20-21 |
| Commercial & Residential Services | 67,226 | 73,116 | 75,627 | 8.8% | 3.4% | 252,803 | 253,682 | 301,706 | 0.3% | 18.9% | $45.8 | $49.3 | $53.3 | 7.7% | 8.0% |
| Real Estate | 65,307 | 66,332 | 68,657 | 1.6% | 3.5% | 262,130 | 245,437 | 285,820 | -6.4% | 16.5% | $55.3 | $48.4 | $60.8 | -12.5% | 25.7% |
| Retail Food, Products & Services | 155,649 | 157,538 | 162,669 | 1.2% | 3.3% | 1,061,686 | 1,014,127 | 1,115,571 | -4.5% | 10.0% | $118.3 | $121.1 | $127.1 | 2.3% | 5.0% |
| Business Services | 106,936 | 107,789 | 110,241 | 0.8% | 2.3% | 650,489 | 588,475 | 670,591 | -9.5% | 14.0% | $106.0 | $93.1 | $105.8 | -12.2% | 13.7% |
| Lodging | 29,706 | 27,136 | 27,931 | -8.7% | 2.9% | 662,382 | 446,299 | 557,705 | -32.6% | 25.0% | $78.0 | $40.9 | $66.0 | -47.5% | 61.2% |
| Personal Services | 118,825 | 110,050 | 113,907 | -7.4% | 3.5% | 547,094 | 475,580 | 524,450 | -13.1% | 10.3% | $39.3 | $26.0 | $35.8 | -34.0% | 37.7% |
| Quick Service Restaurants | 196,794 | 183,543 | 191,146 | -6.7% | 4.1% | 3,880,612 | 3,544,759 | 3,786,002 | -8.7% | 6.8% | $267.9 | $241.0 | $265.0 | -10.1% | 10.0% |
| Table/Full Service Restaurants | 33,160 | 28,266 | 30,010 | -14.8% | 6.2% | 1,116,894 | 923,097 | 1,011,082 | -17.4% | 9.5% | $76.5 | $50.3 | $66.3 | -34.3% | 31.9% |
| **Total** | **773,603** | **753,770** | **780,188** | **-2.6%** | **3.5%** | **8,434,090** | **7,491,456** | **8,252,929** | **-11.2%** | **10.2%** | **$787.5** | **$670.0** | **$780.0** | **-14.9%** | **16.4%** |

Source: FRANdata

## Growth Sectors:

### *Commercial & Residential Services*

The Commercial & residential services sector has experienced the most growth after the start of the pandemic and is expected to continue to expand in 2021, driving economic recovery, primarily through soaring residential construction activities. A Consumer Specialists survey of more than 600 homeowners conducted in June revealed that 57 percent of homeowners had undergone a home improvement project from March to May. On average, those homeowners spent $1,750 making home improvements and cited time as the primary reason driving their efforts[3]. National Association of Home Builders' (NABH) Remodeling Market Index's (RMI) reading of 79 for the fourth quarter of 2020 also indicates strong consumer demand for home improvement given the importance of home, resulting in people continuing to invest in the housing market with surges in refinancing opportunities**. FRANdata saw homeowners with increasing needs from home cleaning and sanitation and disinfecting services amidst the pandemic, which have all bolstered franchises in the commercial & residential sector's growth.** For example, Chem-Dry, a carpet and upholstery cleaning franchise, has signed agreements to expand its footprint with 64 new franchises across the nation as of October 2020[4]. Two Maids & A Mop, a residential cleaning franchise achieved a 5.6% increase in system-wide sales in 2020[5].

Overall, franchise establishments in the commercial & residential services sector are expected to grow at a rate of 3.4% in 2021, to approximately 76,000 units**. An estimated 48,000 jobs are going to be added in 2021, supporting a total of 301,706 workers.** Franchise output is anticipated to grow by 8% in 2021, to $53.3 billion.

### *Real Estate*

The franchise real estate sector is projected to undergo continued expansion in 2021 and retain more than 68,600 franchise establishments. **Employment in this sector is forecast to increase by 16.5% to nearly 286,000 workers, through the addition of more than 40,000 new jobs being added to the economy. The output is expected to increase by 25.7% in 2021 to $60.8 billion.**

Real estate is another sector that has sustained growth during the pandemic. Because of low interest rates and people spending most of their time at home during the pandemic, the housing sector has become a highlight of 2020's economy. The NAHB/Wells Fargo Housing Marketing

[3] "Home Improvement Activity Increases During COVID-19." Business Wire, 23 July 2020.
[4] "Chem-Dry Grows Amid Pandemic with Signed Agreements to Open 64 New Franchises Across the Nation." Franchising.com, 23 Oct. 2020.
[5] "Two Maids & A Mop Achieves Significant Milestones in 2020." PR Newswire, 25 Jan. 2021.

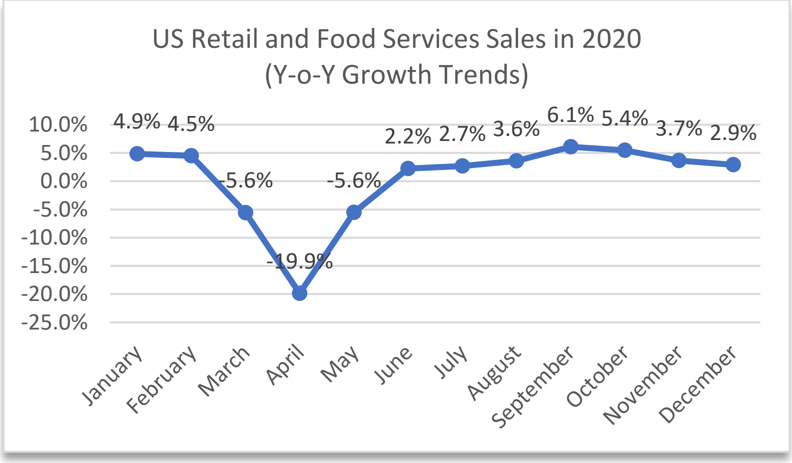
Index (HMI) measure of builder confidence has reached successive all-time highs since August of 2020, and housing's share of GDP has gained ground. The single-family housing construction is now also at its highest level since the Spring of 2007 and is expected to grow steadily over the next two years[6]. The rise of the housing market has strengthened consumer demand for housing inspection services, real estate brokers and property management services, and the like, which has facilitated real estate franchises' expansion.

## *Retail Food, Products, & Services*

**Franchise establishments in the retail food, products & services sector are anticipated to increase by 3.3% in 2021 to 162,669, faster than 2020's estimated growth of 1.2%.**

As the second largest sector in franchising, Retail food sales drive the Retail Food, Products, & Service sector's growth. Franchise establishments in the retail food, products & services sector are anticipated to increase by 3.3% in 2021 to 162,669, faster than 2020's estimated growth of 1.2%. Franchise employment is also projected to increase at a rate of 10%, with the hiring of more than 1.1 million workers, by adding more than 101,000 jobs. FRANdata estimates that franchise output in the segment slightly increased by 2.3% in 2020 and will have a higher growth rate of 5% to $127.1 billion in 2021.

We see a shift from spending in restaurants to spending in grocery stores because of consumer health concerns from dining out, as well as accelerated growth in the automotive sector and health and personal care stores. Home improvement/furnishing and mass merchants also benefited from consumer behavior changes and being categorized as essential services[7]. In the meantime, US online retail sales increased by more than 36% due to the pandemic, accounting for 18.4% of total retail sales, jumping from 13.8% in 2019, so the surge in eCommerce sales in 2020 has hastened




[6] "Housing, Real Estate and Construction." U.S. Chamber of Commerce, 8 Jan. 2021.
[7] "2021 Retail Industry Outlook." Deloitte United States, 14 Jan. 2021.

retail sales recovery. Since June, the aggregated retail and food services sales have also seen a V-shaped recovery growing year-over-year each month. Retail sales were up 2.9% over 2019 levels by December of 2020.

The pace of economic recovery is expected to pick up after the winter months and mid-year 2021. With the vaccine rollouts and additional stimulus checks, many households are anticipated to begin spending on travel and vacations in the summer.

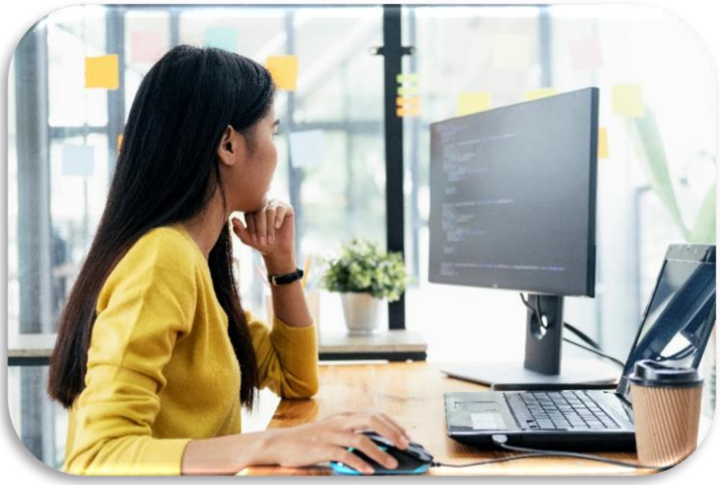
The retail market will continue to rebound in 2021 along with elevated consumer spending. As people are more likely to go out for in-store shopping, the percentage of online retail sales is projected to fall to 16.3% in 2021, and steadily increase, hitting 18.3% again in 2023 and 19.9% by 2025[8]. A report from Colliers International forecasts retail sales to grow by 3.2% in 2021 and will be led by grocery sales, followed by home, electronic, and beauty retail segments. In response to changing consumer behavior, brick & mortar retail businesses are expected to progressively adopt digital solutions to reinforce eCommerce/online retail sales, implement cashier-less checkout, contactless payment, and invest in in-store technology upgrades.

## *Business Services*

Because of the pandemic, 42% of the US labor force now works from home full-time, based on Stanford University data. However, the move to remote work has created challenges for employers operating in the sector with technology, cybersecurity, and data privacy issues, bolstering technology franchisees' growth. For instance, TeamLogicIT, a franchise network of managed IT service providers experienced 16% networkwide sales growth over 2019[9].

While businesses were trying to adapt to the changes and reshape corporate strategies, we saw an increasing need from companies seeking solutions on marketing, public relations, legal and HR matters, etc., which could all benefit franchises in the business services sector. **Fastsigns and The UPS Store are two other great examples of franchises that experienced accelerated growth during the pandemic.**

Even though some companies held back their spending on business services to avoid discretionary costs, the sector is still expected to experience steady growth in 2021. Economic conditions are likely to increase focus on digital transformation.



[8] Borland, Kelsi Maree. "Online Retail Sales Projected to Fall in 2021 As In-Store Sales Rise." GlobeSt, 11 Dec. 2020.
[9] "Leading Technology Franchise Ends the Year with Double-Digit Growth." PRWeb, 16 Dec. 2020.

Franchise business service establishments increased by 0.8% in 2020 and are forecast to continue growing by 2.3% in 2021 to 110,241 locations. Employment in the franchise business services sector declined by 9.5% in 2020 because companies were operating without full employment and below capacity. **Franchise employment in business services is projected to improve by 14.0% in 2021 with up to 670,600 employees. The output is expected to increase by 13.7% in 2021 to $105.8 billion, up from -12.2% in 2020.**

## Recovering Sectors:

### *Lodging*

In 2021, franchised hotel establishments are predicted to increase by 2.9% to approximately 28,000. **Franchise employment in the sector is expected to add up to 111,500 jobs, supporting more than 557,700 workers. The output is anticipated to increase by 61.2% to $66 million, but still below 2019's pre-pandemic level.**

The COVID-19 pandemic has caused drastic disruption to the hospitality industry, and 2020 is officially the worst year on record for US hotels, as the lodging industry reported all-time lows in occupancy and revenue per available room (RevPAR), according to year-end 2020 data from STR. More specifically, occupancy rates dropped by 33.3% to 44%, RevPAR dropped by 47.5% to $45.48. The industry is expected to show nearly zero profit. Based on a survey conducted by American Hotel & Lodging Association, 63% of hotels have less than half of their typical pre-crisis staff working full-time today.

However, the situation is likely to improve in 2021 as the COVID relief package passed in December of 2020 will provide hotels with additional financial support in keeping businesses open and retaining and rehiring employees. As the vaccines continue to rollout, FRANdata expects to see considerable increases in spending on travel that people deferred or are nostalgic for in the second half of 2021. Rescheduled weddings and conferences might also cause travel spending to soar, which will help rejuvenate the lodging industry's recovery in 2021. However, a full US hotel demand recovery to the pre-pandemic levels will not be expected until 2023, based on STR and Tourism Economics' forecast.

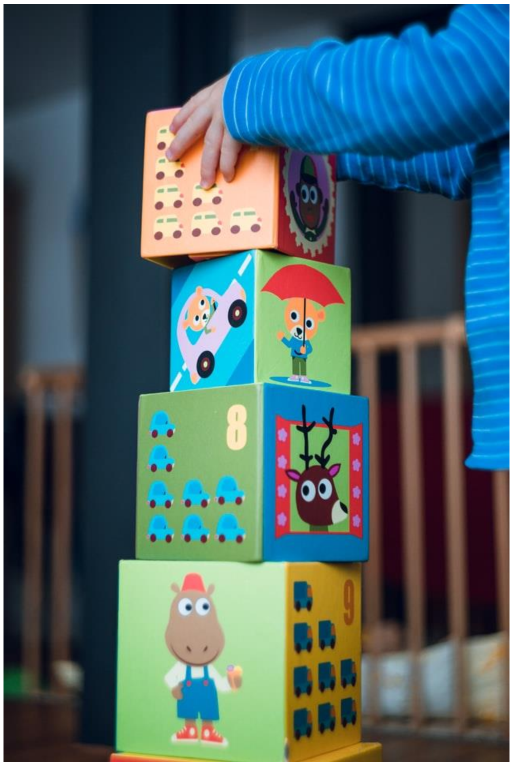
### *Personal Services*

The personal services segment was ranked as one of the fastest-growing sectors in 2019. Unfortunately, the industry experienced destructive damage in 2020 because of fear surrounding COVID-19, lower consumer spending, and a high unemployment rate. Businesses, such as beauty salons, massage and spa studios, gyms, and recreational facilities were forced to close during the economic lockdown as

they were not considered to be essential businesses. A November study by ClubIntel of 2,000 US gym members revealed that 54% of those surveyed either froze or canceled their memberships. However, the situation is likely to meliorate in 2021. The industry saw a shift to virtual workouts with 72% now offering on-demand and Livestream group workouts, up from 25% in 2019, according to fitness research firm ClubIntel. After months of staying at home, people have learned to find the balance between physical and mental well-being, so we expect to see higher consumer demand in 2021 with a blend of digital and physical classes offered by gyms.

The child-related sector is another segment that was hit hard in the pandemic. Because of the high unemployment rate, many parents left the labor force to take care of their kids at home. Parents who are working from home but have concerns about their kids contracting COVID-19 from public daycare institutions have also chosen homeschooling, which hampered the child education sector's recovery and growth. In 2021, as the public health situation continues to improve, more parents are likely to return to work, so the demand for the industry is expected to create a strong recovery.

**FRANdata projects that franchise establishments in the personal services sector will grow by 3.5% in 2021, to a total of 113,907 locations, but still below the pre-pandemic level.** Franchise employment is forecast to add approximately 49,000 jobs, increasing at a rate of 10.3% to more than 524,400 employees working in the sector. Franchised businesses in the segment are expected to contribute a total of $35.8 billion in output to the economy, improving by 37.7% compared to 2020 levels.



## *QSR & Table/Full-Service Restaurants*

The largest sector in franchising, restaurant industries, have faced unprecedented challenges, including dramatic declines in sales, store closures, and nationwide layoffs. However, the Quick Service Restaurant (QSR) industry is faring better than the full-service restaurant industry, as QSR has a history of behaving better in recessions due to people looking to save money from buying low-cost goods.

The good news is that while the majority of the restaurants suffered significant losses in the pandemic, pizza franchises such as Pizza Hut & Domino's with heavy delivery businesses or McDonald's with heavy drive-through business have weathered the storm better than others.

Full-service restaurants, on the other hand, were not as lucky as QSRs, because customers are wary about the virus spreading through indoor dining, and operators struggle with in-restaurant dining restrictions. Sales slightly rebounded in the summer of 2020 as outdoor seating opened up but were limited again because of the cold weather in the winter months that followed, especially throughout the northern states. Other than the aforementioned trends we are seeing in the QSR industry, many full-service restaurants started offering meal kits or groceries online to offset the revenue loss from dine-in services and adapted to the shift in spending from restaurants to groceries.

The COVID-19 pandemic has required restaurants to adapt to changing consumer behavior quickly. We have seen the following trends emerge:

- The rollout of curbside pickup and contactless delivery services.
- Off-premises sales have become mainstream revenue generators, resulting in companies investing more money on technology to improve mobile apps and online ordering systems.
- To regain efficiency with limited staff and supply issues, businesses have simplified the kitchen operation and menu options while meeting changing consumer needs.
- Restaurants have adopted new marketing and messaging strategies to closely communicate with their customers, emphasizing the safety of food delivery and takeout.
- Increasing number of brands have started rolling out ghost kitchens and pickup or express formats.

However, industry experts forecast that 2021 could be a huge year for restaurant franchising. With many businesses having closed in 2020, this gives surviving concepts growth opportunities to open in prime locations with reduced investments and occupancy costs and financial flexibility because of the surplus in commercial real estate and low interest rates[10]. A great example for accelerated franchise system growth amidst the pandemic comes from Tropical Smoothie Cafe, a fast casual concept offering smoothie and sandwiches, as the brand delivered its ninth consecutive year of positive same-store sales, and signed 254 new franchise agreements, and is on track to reaching more than 1,000 operating restaurants in 2021[11].

FRANdata estimates that franchise establishments in the QSR industry declined

[10] Maze, Jonathan. "Why 2021 Could Be a Huge Year for Restaurant Franchising." Restaurant Business, 30 Aug. 2020.
[11] "Tropical Smoothie Cafe® Reports Ninth Consecutive Year Of Same-Store Sales Growth For Record-Breaking Year." PR Newswire, 12 Jan. 2021.

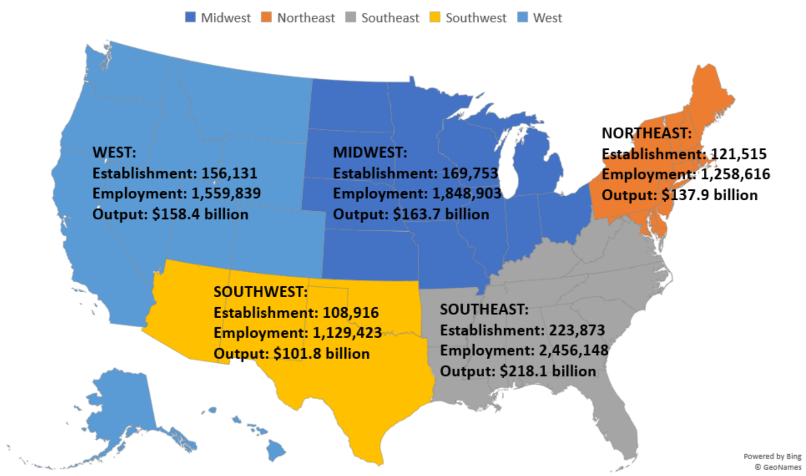
by 6.7% in 2020 and will rebound and grow at a faster rate of 4.1% in 2021 to a total of 191,146 businesses. Franchise employment in 2021 is projected to thrive at 6.8% by adding more than 241,200 jobs to approximately 3.8 million employees working in the sector. 2021 will also see continuing improvement on franchise output, which is expected to expand by 10% to a total of $265 billion.

Franchise establishments in the table/full-service restaurant sector are expected to grow by 6.2% in 2021 to 30,010 locations, supporting more than 1 million workers with an additional 88,000 jobs anticipated to be added in 2021. Franchise output is forecast to improve by 31.9% in 2021, to a total of $66.3 billion.

## COVID-19 Impact to Franchising on the State Level

Franchising plays a vital role at both the national level and the state level. Franchise businesses support state economies through job creation, promotion of output, and GDP contribution.

2021 Franchising Outlook by Region




Based on FRANdata's projections, the Southeast region has the largest number of franchise establisments, and is expected to hire approximately 2.5 million workers in 2021, generating $218.1 billion output to the overall US economy. The Midwest is also forecast to experience extensive franchising acvities in 2021, which will possess almost 170,000 franchises, supporting 1.8 million jobs and contributing $163.7 billion output.

In 2020, states have experienced different level of COVID-19 impacts on franchising because of variations in population density, geographical position, business components, government restrictions, etc., as each state also issued its regulatory mandates based on the severity of COVID-19 and economic conditions, after a national emergency was declared on March 13th, 2020.

FRANdata estimates that the top 10 states and territories impacted the most by the pandemic are New York, Hawaii, Washington, D.C., New Jersey, California, Massachusetts, Illinois, Pennsylvania, Nevada, and Connecticut.

The percentage of small businesses that suffered the most substantial negative effects in these states is higher than the national average, based on the Small Business Pulse Survey, conducted by the US Census Bureau. Eight (New Jersey, Nevada, Hawaii, New York, Connecticut, California, Texas, DC, Illinois) out of these ten states and territories also had a higher-than-national average unemployment rate of 6.7% as of November 2020.

## Highest COVID Impacted States

### *California*

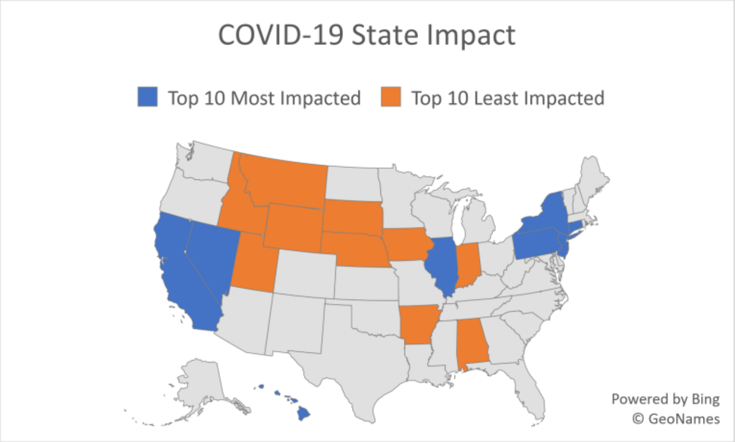
Being one of the states that had the earliest coronavirus outbreaks, California is also the state with the most significant number of COVID-19 cases as of January of 2021. The state has introduced new restrictions in December of 2020 on travel and stay-at-home orders to combat the state's surge in coronavirus cases and prevent hospitals from being overwhelmed[12]. The franchising activity in California is likely to be withheld until the situation improves. The battle of AB5 rule and PRO Act should also be closely monitored in California. It would pose substantial threats to California's franchise business model, and potentially trigger joint employer liability issues between franchisors and franchisees. The state is currently on the way to raising its minimum wage to $15 per hour by 2023, all of which would significantly impact California's franchising activities in the coming years.

### *Nevada*

Nevada ranked as one of the fastest-growing states in 2019, has been severely impacted by the pandemic because of its heavy reliance on the hospitability and leisure industry, which has since collapsed as travel has been restrained. Visitation is now down to levels the state has not seen since 1993. Nevada will remain in financial trouble with a high unemployment rate with concerts and conventions canceled, until COVID-19 restrictions are rolled back, and travelers regain their confidence[13].

### *New York*

New York is another state that might encounter constrained franchise expansion as the state's economy fared the worst amid the pandemic, and New York City is the first metropolitan area that experienced a deadly outbreak from the coronavirus. While the economy is recovering from the economic lockdown, a net 70,000 people left the metropolitan region in 2020, resulting in roughly $34 billion in lost income, according to estimates from Unacast, a location analytics company[14].




[12] Weed, Julie. "California Travel Restrictions: What You Need to Know." The New York Times, 11 Dec. 2020.
[13] Komenda, Ed. "When Will Nevada Tourism Rebound? 'It's Going to Be a While.' Here's What Needs to Happen." Reno Gazette Journal, 15 Dec. 2020.
[14] Marte, Jonnelle. "Fleeing New Yorkers Resulted in an Estimated $34 Billion in Lost Income -Study." Reuters, 15 Dec. 2020.

## Lowest COVID Impacted States

However, not all states have been severely impacted by the economic downturn. FRANdata has identified that Idaho, Utah, South Dakota, Montana, Iowa, Nebraska, Arkansas, Alabama, Wyoming, and Indiana are states that had the lowest economic impact from the pandemic, which are mostly concentrated in the Midwest region. These states saw accelerated consumer spending despite the pandemic and suffered minor losses on jobs and sales, along with lower rates of business closures. As the economy continues to recuperate through the rollout of vaccines, franchising recovery will also be state-specific.

*FRANdata forecasts that the top 10 states that are expected to sustain the highest franchisee business growth in 2021 are Ohio, Florida, Michigan, Colorado, Texas, Georgia, Arizona, Virginia, North Carolina, and Wisconsin.*


This ranking has considered factors such as population growth rate, job growth rate, median household income growth rate, unemployment rate, and future business environment expectations. Based on the Small Business Pulse Survey conducted by the US Census Bureau, a larger percentage of businesses in these states have experienced positive impacts from the pandemic with little to no effect on the business' normal level of operations.

Franchises on the state level are expected to continuously drive state economic recovery in 2021.

Franchise growth in Arizona, Florida, Texas is going to be driven by increasing consumer demand and labor force participation and will benefit from the influx of masses moving to those states.

Franchises on the state level are expected to continuously drive state economic recovery in 2021. Franchise operators should closely monitor state policies and be well prepared to make the best possible solutions in reaction to the regulation changes for the highest potential growth opportunities.

Even though we have kept the franchise business economic outlook positive, assuming a smooth deployment of vaccines, a rebound of the labor market and consumer spending, and government assistance, the recovery is still uncertain. It heavily relies on the path of the COVID-19 pandemic. **Lean operations and keeping a steady hand on the wheel is important now, but those brands and companies who are well prepared to take advantage of the post-COVID-19 resurgence when it comes will benefit from this silver-lining opportunity, and finally move from surviving to thriving in this coronavirus-induced recession.**

# Macroeconomic Issues That Will Affect Franchising in 2021

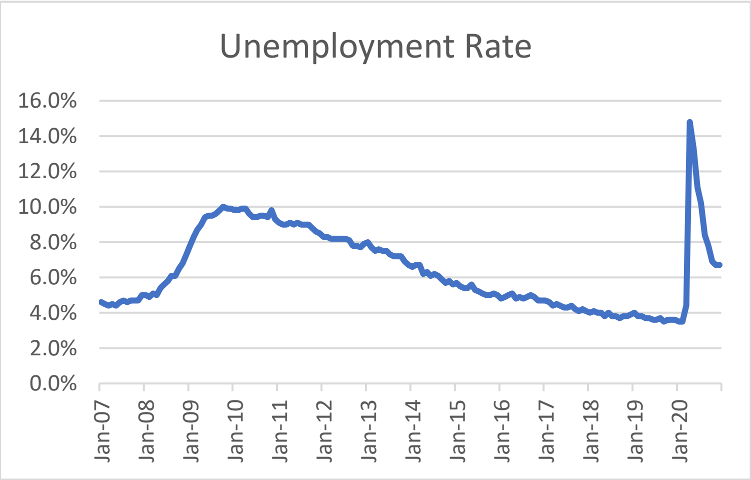
## Unemployment Rate

**Franchising is an important source of low-income employment that does not require a college degree, exactly the sector of the population hardest hit by the recession.** The government-mandated stay-at-home orders due to COVID-19 caused the US job market to suffer devastating losses, reaching record-high unemployment rates. Since its peak in May, unemployment has rebounded to 6.7% in December of 2020. The poor December jobs report tempers these gains.

Employment shed 140,000 non-farm jobs in December of 2020, mirroring the resurgence in COVID-19 cases in the winter season and the second round of government restrictions, which posed a short-term threat to the recovery. The job losses occurred mainly in leisure and hospitality and in private education industries. Luckily, they were partially offset by hiring in professional and business services, retail trade, and construction sectors.

*As of November 2020, franchise jobs have sustained a six-month consecutive gain since June, with an average of 25,200 additions per month.*

The economic recovery in 2021 will largely depend on the course of the pandemic. An employment recovery hinges on access to vaccinations and more federal stimulus[15]. More than 10 million jobs are still missing from the economy compared to pre-pandemic levels, but about half of the 18.2 million jobs lost in the second quarter of 2020 had already returned by the end of 2020. **The economy should create another 3.9 million jobs in 2021, and 3.8 million the following year, eventually restoring most lost jobs by the end of 2022[16]. Fannie Mae projects that US unemployment will decline from an estimated 8.1% in 2020 to 5.7% for 2021, with a further decline to 4.5% in 2022.**




[15]Bartash, Jeffry. "U.S. Loses 140,000 Jobs in December. First Decline in Eight Months Stems from Record Coronavirus Surge." MarketWatch, 8 Jan. 2021.
[16] Sanchez, Mark. "Experts Forecast Sustained Growth for the U.S. Economy in 2021." MiBiz, 20 Dec. 2020.

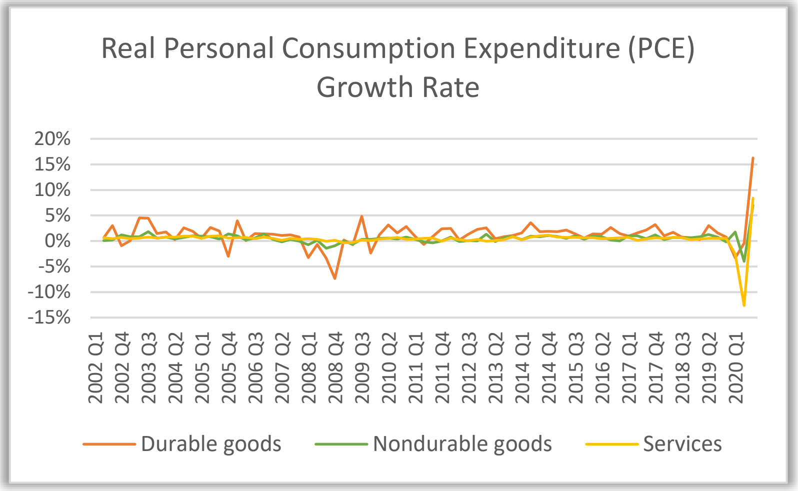
> As the nation's largest job creation and training program, franchisees have helped workers secure jobs in the current economic crisis, prepared them with relevant business skills, and provided them with career progression opportunities, which generate economic stability.

The franchise business model has proven its resilience, leading expansion coming out of past recessions. As low-wage occupations have been impacted more by the pandemic than high-wage positions[17], **franchise employment can also help address the income inequality issue by creating jobs for low-skilled workers, especially in the restaurant hospitality industries.**

Based on the ADP's National Franchise Employment Report, as of November 2020, franchise jobs have sustained a six-month consecutive gain since June, with an average of 25,200 additions per month. At the same time, franchising provides a way for the recently unemployed to invest in themselves and open their own small business, using a proven model and access to unique expertise in the space.

## Consumer Spending & Confidence

Consumer spending is one of the key elements that drive US GDP growth; however, after the pandemic lockdowns in March of 2020, consumer spending saw a sharp decline, along with a severe drop in consumer confidence. While the economy has partially rebounded, a full recovery will largely depend on slowing or stopping the spread of COVID-19. The ability to combat the pandemic will drive the US labor market's condition, which will help rebuild consumer and business confidence[18]. Franchise business, with their lower average price point make them one of the first places consumers will re-engage with the economy when they feel confident about spending. While the pandemic continuously impacts peoples' lives, consumers who still have jobs have largely recovered, which has allowed them to ramp-up spending. Real personal consumer expenditure (PCE) grew by 9.0% in the third quarter compared to the previous quarter, a strong revival after two consecutive quarters of decline, mirroring a drawing down from savings after consumers held back from spending in Q2 of 2020 with the personal saving rate peaking at 33.6% in April[19].

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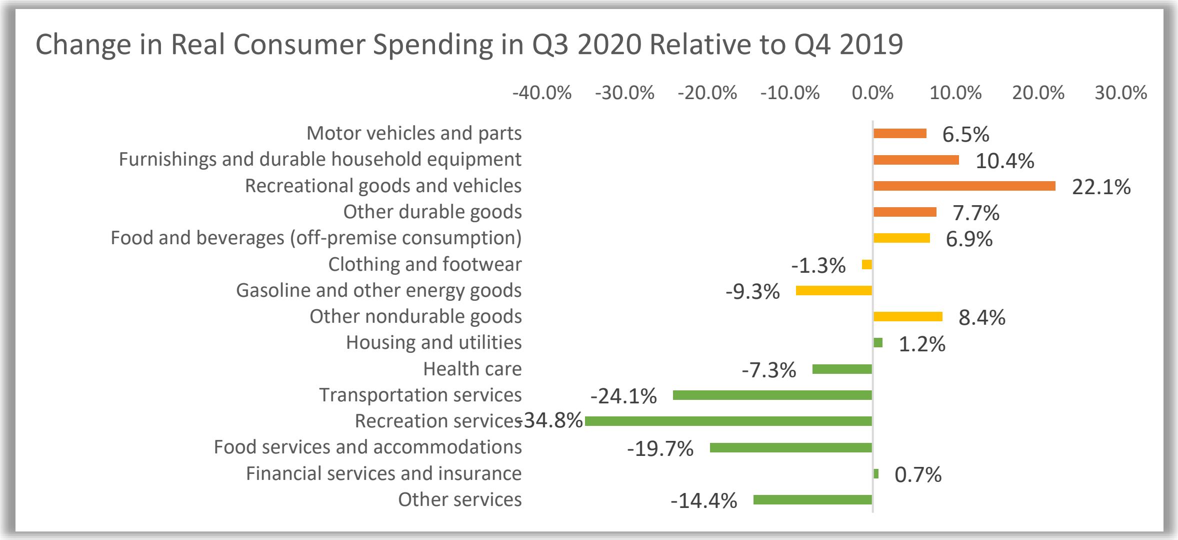
17 "COVID-19's Impact on US Income Inequality: It's Going to Get Worse before It Gets Better." Deloitte Insights.
18 "The Conference Board Economic Forecast for the U.S. Economy." The Conference Board.
19 "COVID-19 Will Weigh on Consumer Spending till Vaccinations Change the Game." Deloitte Insights.

Unlike in the economic crisis of 2008, consumers have continued to spend more money on goods, especially durable goods, during this pandemic.  Most people remain vigilant of the virus and are avoiding spending at places where people congregate. In some cases, spending on most goods is now higher than pre–COVID-19 levels. For instance, consumer spending on motor vehicles is 6.5% higher than the pre-pandemic level, spending on recreational goods and vehicles (appliances, electronics, and books, etc.) is 22.1% higher. On the contrary, money spent on food services and accommodation declined by 19.7% in Q3 of 2020 compared to Q4 of 2019.

*As consumer spending was compressed in 2020, it also negatively impacted franchising sectors that have a higher reliance on consumer spending, such as the personal services sector, quick service restaurants, and table/full-service restaurants sectors. However, for 2021, sectors are expected to continue experiencing a strong recovery.*

However, the trend is likely to change by the second half of 2021 as rising vaccinations are anticipated to lift the public health situation to a return to normalcy. **Consumers are expected to spend more money and time on leisure and entertainment, which will facilitate recession recovery and franchise businesses are some of the first that consumers will engage with**.

Fannie Mae forecasts PCE to rise by 5.2% in 2021 and 2.6% the year after. According to Deloitte's latest US Economic Outlook, PCE on services is expected to increase by 6.9% in 2022, far outpacing spending on durables and nondurables that year[20].




[20] "United States Economic Forecast." Deloitte Insights.

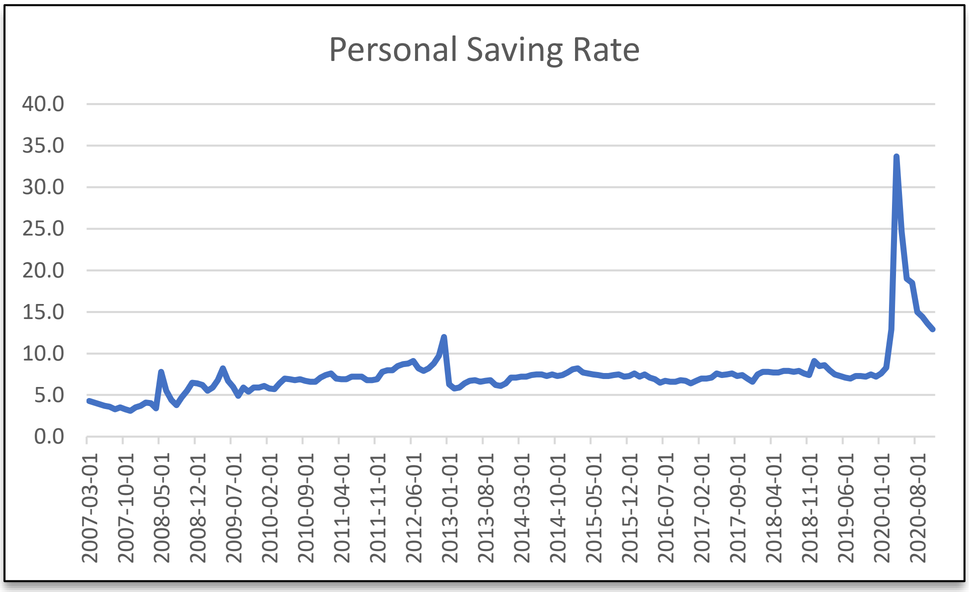
## Record Breaking Personal Saving Rate

Despite increased consumer spending in the second half of 2020, **individuals who could keep their job saved more money than other times in American history.**

Even as savings are down from the peak of this summer, Americans still have more savings than at any point since the '70s. These savings have the potential to be the engine that drives a strong recovery. Once the vaccine is widely distributed, schools can re-open, and people feel confident that it is safe to go out again. **Franchising, with a large concentration in retail and food makes it one of the first places where consumers will engage with the economy.**

This injection of cash has the potential to supercharge the recovery. The important thing is that Congress takes the steps necessary to ensure people feel secure spending that money.

Not only do these savings represent potential spending, but they are also a source of cheap funding for banks to start lending. Interest rates remain at an all-time low, giving companies a source of cheap capital in which to grow.



## Interest Rates and the Lending Environment

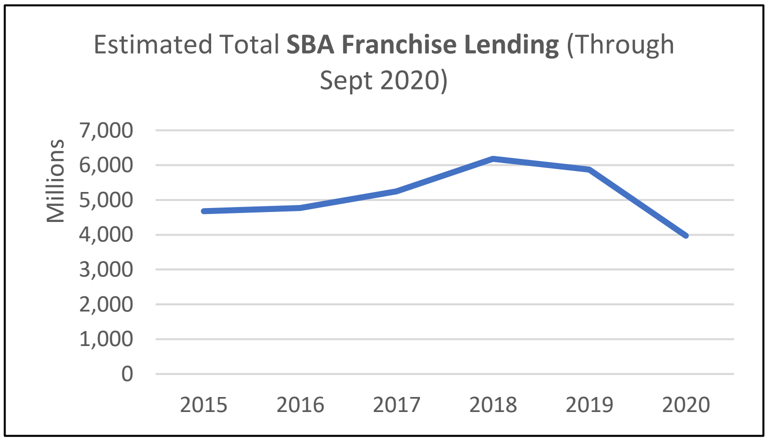
In response to the COVID-19 pandemic, one of the Federal Reserve's priorities was to cut interest rates. Currently, interest rates are at an all-time low and are expected to stay there for the foreseeable future.

These low interest rates have created a source of cheap funds for people and businesses. This pool of funds can be deployed to help recently unemployed people to open their own small business, and franchising is one of the best ways for them to do that. This is where the franchising business model can lead the way toward economic recovery.

*Low interest rates have created a pool of affordable funding that opens the door for the recently unemployed to explore business ownership through franchising. This is where the franchise business model leads the way to economic recovery.*

Although there was a drop in SBA franchise lending of about $580M, the forecast for small business lending for 2021 looks incredibly positive. During the recession, banks adopted a "Do-it-together" mantra when working with struggling small businesses[21]. This open-minded approach likely allowed many companies to stay open, that may have otherwise been closed. It has also placed banks in a stronger position to lend as the recovery picks up speed. With fewer bad loans on the books, banks can more easily extend credit. Also, as stated above, interest rates are at an all-time low, which attracts borrowers. The increase in personal savings provides banks with unbelievably cheap funds to lend against.

Another positive sign for lending is the potential for additional PPP lending, which would allow banks to continue to support struggling borrowers and push off any decision to charge-off a loan. The new administration has also mentioned increasing the SBA guarantee from 85% to 90%, reducing the amount of default risk banks would have to carry.




[21] Fuscaldo, Donna. "The Small Business Financing Trends of 2021." Business News Daily, 28 Dec. 2020.

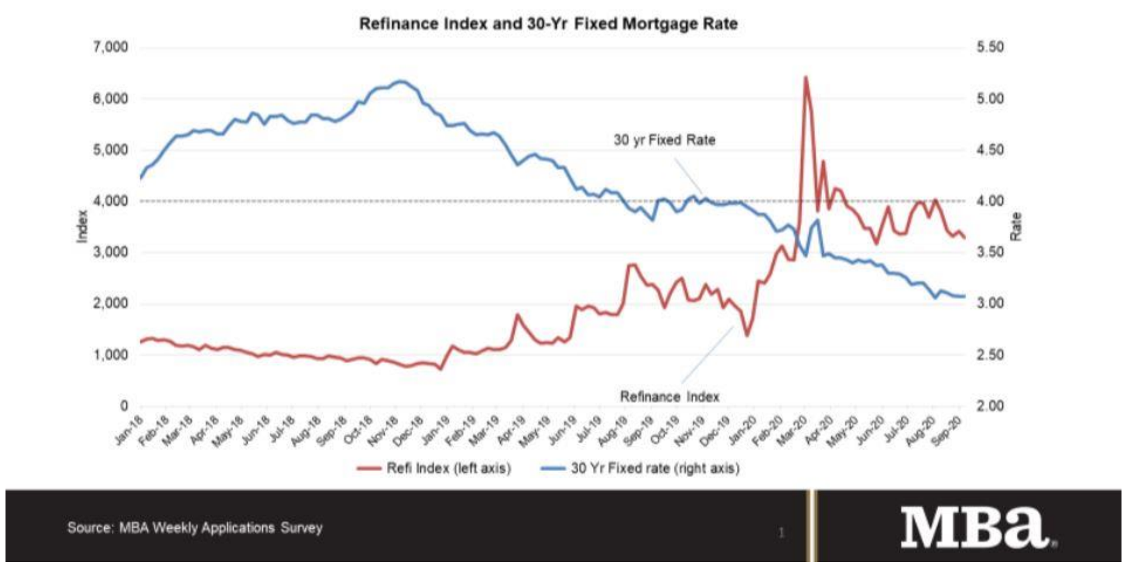
## Mortgage Refinance Activity

One major trend to be aware of from 2020 was the increased refinance activity. There was a large spike in refinance applications and loans throughout 2020. **This increased refinance volume, and the resulting lower mortgage payments mean more money for people to use when they feel it is safe to spend.**

Through three quarters of 2020, American households cashed out, on average, $35 billion in home equity as compared to $23 billion over the same period in 2019. These cash-outs and decreased mortgage payments translate into increased potential spending when the economy recovers[22].

People who refinanced their mortgages in 2020 saw, on average, nearly an 80% decrease in their interest rates (excluding ARM mortgages). A $250,000 mortgage with a 30-year fixed-rate note reduces the monthly payment by almost $100 each month or $1.1k each year.

**Exhibit 1: The Refi Wave**




[22] Fratantoi, Mike. "The 2020 refi wave: Where activity is strongest, where it's not, and what's ahead." Housing Wire, 21 Sept. 2020.

## E-Commerce and Commercial Real Estate

The COVID-19 pandemic has dramatically accelerated the use and acceptance of e-commerce, driving retail purchases away from brick-and-mortar locations towards online transactions. **This movement has significantly impacted demand for commercial real estate.**

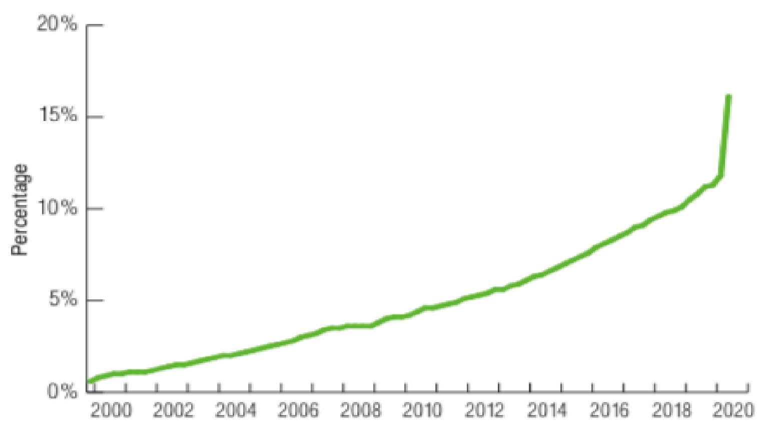
It has forced everyone to rethink their business model and re-examine the necessity of physical locations. The speed at which non-retail businesses return to office space will dramatically impact the recovery of retail, QSR, and sit-down restaurants. If companies decide to forgo traditional office space, there will be a dramatic shift in how retail areas are organized. If this happens, it will take time and probably cause a great deal of pain to property owners. The cadence of the recovery will follow the speed of people's return to office locations as they are vaccinated.

**If businesses continue to let people work remotely, or switch to a 'hotel' model office, it could hurt QSR, sit-down restaurants, and retail locations as there will be less foot traffic to support their businesses.**

According to a Gartner survey, 47% of employers will allow employees to work remotely full-time if they so choose. A PwC survey reports that 78% of CEOs expect remote collaboration *'is here to stay'*. Another survey says that nearly 96% of employees would prefer at least some level of flexibility when working from home and almost 30% said they'd trade pay for the flexibility to work remotely[23].

*The speed at which non-retail businesses return to office space will dramatically impact the recovery of retail, QSR, and sit-down restaurants.*

Exhibit 1-13 **E-Commerce Retail Sales as a Percentage of Total Sales**



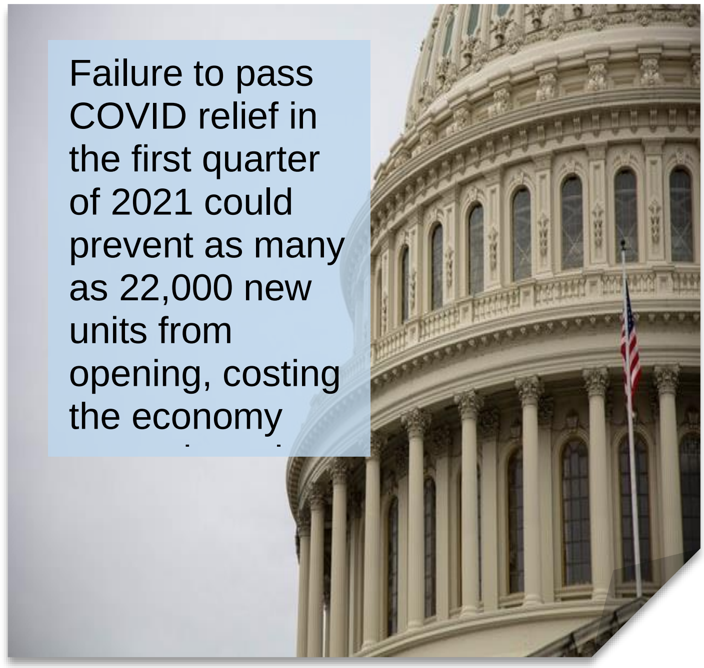

Source: U.S. Census Bureau.

[23] Courtney, Emily. "Remote Work Statistics: Navigating the New Normal." flexjobs.com, 21 Dec. 2020.

# Possible Legislative Impacts

## Government Assistance to Aid Recovery

Legislative actions that happens in the first half of 2021 will determine what the rest of the year will look like. Fast action on COVID-19 relief can jump-start the economy, and failure to act might derail recovery efforts. Congress must act to get vaccines rolled out and schools re-opened.




## COVID-19 Relief

COVID relief is an immediate priority. Janet Yellen, the Treasury Secretary, has said lawmakers need to "act big[24]" on economic relief. President Biden's plan, as currently outlined, calls for $1.9 trillion in spending. This plan would provide $415 billion for vaccine rollout, $1,400 stimulus checks, small business support, rent relief, and more[25].

This spending represents an essential piece of driving a potential recovery, even if not all of it gets passed. The vaccine rollout program's stated goal is to ensure schools can fully re-open in the next 100 days. While this is an ambitious goal, the importance of getting schools open cannot be understated. Without consistent and reliable schools, parents cannot return to work full time, and as long as a large part of the economy cannot re-engage, there cannot be a full recovery. If schools are unable to re-open this fall, it is safe to assume the recovery will also continue to drag out.

It has been estimated that if schools remained closed through the rest of the school year, it would cost the US economy approximately $700 billion in lost revenue and productivity[26].

Working parents represent roughly a third of the US economy. 13% of parents either lost their jobs or had their hours cut due to childcare issues. This problem especially impacted low-income families. Long term, the cost of disruption in children's education could take 40 years to recover from and cost the economy trillions[27].

The other parts of the plan, as outlined, also represent necessary steps to restarting the economy. Currently, US households have the highest level of personal savings in modern history. However, it is unlikely they will spend that money until they feel confident in the economy and safety, and rebuilding that confidence is worth almost any amount of new debt[28].

[24] Stein, Jeff & Werner, Erica. "Janet Yellen to urge lawmakers to 'act big' on economic stimulus relief at Senate confirmation hearing." Washington Post, 19 Jan. 2021.
[25] Clark, Dartunorro & Sotomayor, Marianna, "Biden lays out $1.9 trillion COVID relief package with $1,400 stimulus checks." NBC News, 14 Jan. 2021.
[26] Pandey, Erica & Salmon, Felix. "The Cost of Closed Schools." Axios, 26 Aug. 2020.
[27] Hanushek, Eric & Woessmann, Ludger. "The Economic Impact of Learning Loss." Sep. 2020.
[28] Gale, William & Enda, Grace. "More Economic Relief and Stimulus: Why and How." Brookings Institute, 16 Dec. 2020.

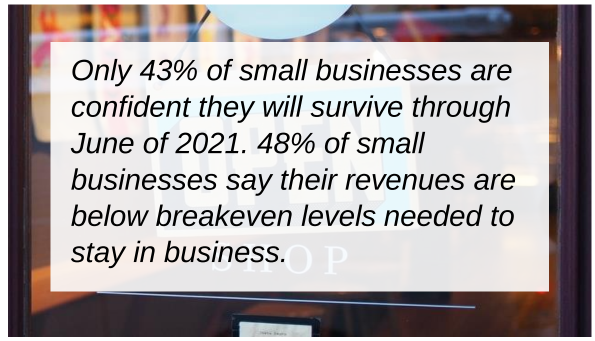
Failure to pass substantial legislation could reduce, delay, or stop the current recovery in its tracks. **Based on FRANdata's estimate, failure to pass COVID-19 relief in the first quarter of 2021 could prevent as many as 22,000 new businesses from opening, costing the economy approximately 230,000 jobs.**

## The Future of the PPP

**Nearly half of all franchise businesses today are one- or two-unit operators, this group includes a substantial number of minority-owned businesses or those that operate in disadvantaged communities.** These units are incredibly important to the recovery but also at the highest risk of closure. One of the most important tools Congress implemented last year was the payroll protection program (PPP). This program was one of the most successful in keeping businesses open, potentially preventing millions of people from filing for unemployment. FRANdata estimates PPP loans saved over 36,000 businesses from closing, preserving almost half-a-million jobs.

The success of PPP loans should put the program at the forefront for more funding. Many small businesses have limped to the end of 2020 and are now facing a tough spring if consumer spending does not recover quickly. Consumer spending cannot truly recover until schools re-open, and a large percentage of the population is vaccinated.

According to a December survey of small business (mostly single unit and sole props) owners conducted by Alignable, a small business support network, only 43% are confident they will survive through June of 2021. Based on this survey, Alignable estimates 48% of small businesses say their revenues are below breakeven levels needed to stay in business. The survey also reports that 44% small business respondents have enough cash to cover three or more months of operations. If the PPP loans are allowed to expire, tens of thousands of the smallest businesses could fail. These units are the floor that many larger businesses grow from.




**In franchising alone, this could represent thousands of closed businesses and hundreds of thousands of lost jobs. If these issues are not addressed quickly, the gains made in the last year could be lost, causing the economy to sink back into recession.**

## Joint Employer

*FRANdata estimates that as many as 40,000 franchise businesses could be negatively impacted or closed by a change to the joint employer rule- this equates to more than 400,000 jobs.*

While Congress could take many important steps to restart the economy, some policies could impede the recovery. On its face, joint employer should not impact franchising since franchisees own their business and are not contractors, but, the way this issue has been approached in the past could jeopardize the franchise model.

A joint employer rule that makes franchisors legally liable for franchisee hires could dramatically, negatively impact franchising. This sort of rule slows franchises' ability to lead the recovery. FRANdata estimates that as many as 40,000 franchise businesses could be negatively impacted or closed by a change to the joint employer rule. This would be more than 400,000 jobs.

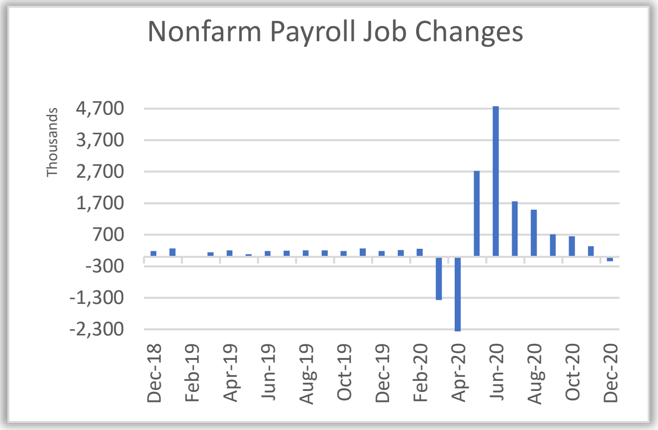
**Any potential legislation or rule changes that make franchisors liable for franchisee employees could be disastrous to the recovery**. Part of franchising's value is its ability to scale and add workers quickly. Changes in joint employer rules could limit this value and slow hiring when America needs it most.

The final potential policy issue that will likely impact 2021 changes to the minimum wage could impact unemployment.

## Minimum Wage Impact on Franchising

While the debate to raise minimum wage is still ongoing, it is important to consider the regional implications of a national minimum wage increase to $15 an hour. A solution that works in urban Chicago might be disastrous in rural Alabama, for instance. In 2021, 25 states will raise their minimum wage[29] to at least $15 an hour, putting the national debate behind the curve.

Washington D.C. has already increased the minimum wage to $15 per hour as of July 1st, 2020, and Seattle increased their minimum wage to $15 as well.




Franchising creates the lower-skilled jobs that are the foundation of coming out of a recession, but a national change to minimum wage might slow employment growth. In low margin sectors, **increased minimum wage will reduce the number of employees hired and drive employers to adopt more automation**. Instead, let states and local governments to determine the best solution for their own markets.

There are concerns that higher minimum wages will hurt employers, especially small business owners who are unable to increase prices to offset higher labor costs. This in turn, would reduce or limit job growth. Some economists feel lifting minimum wage will benefit the economy by easing wage gaps and increasing consumer spending, which is an important part of the recovery[30].


Increasing minimum wage will tighten already razor thin margins in the restaurant and QSR space. These sectors traditionally hire people without college educations, a sector badly hurt by the current recession. Small businesses are also concerned that increased minimum wages place upward pressure on all wages in the system, while further tightening margins. The more expensive labor becomes, the less of it employers will use. Instead, they turn to increased automation to protect margins.

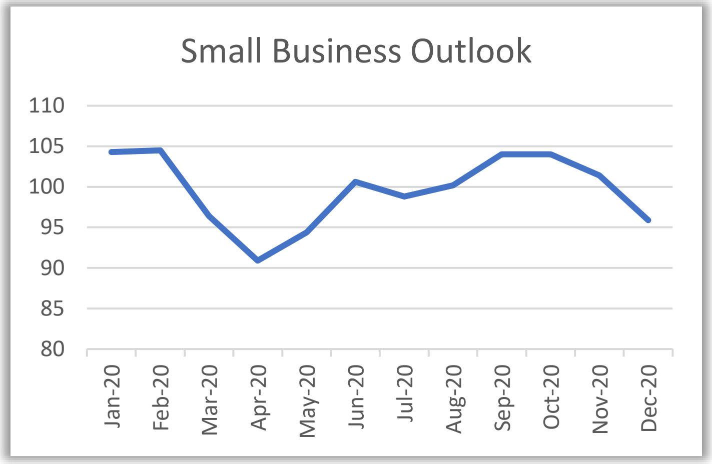
[29] "2021 State Minimum Wage Increases." The National Law Review.

[30] Friedman, Gillian. "Once a Fringe Idea, the $15 Minimum Wage Is Making Big Gains." The New York Times, 31 Dec. 2020.

# Trends

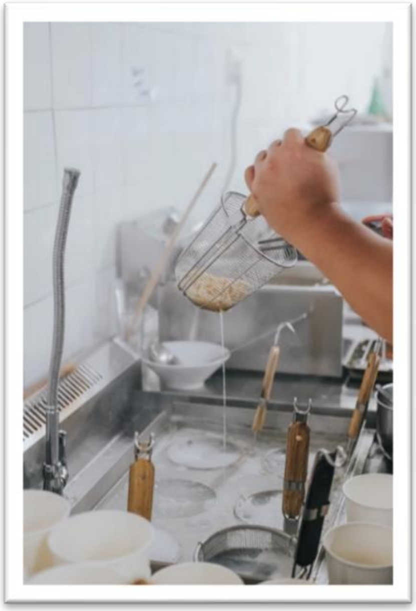
## Small Business Optimism

In December, NFIB's small business optimism index declined by 5.5 percentage points to 95.9[31]. This record stands below the 47-year average of 98 points and the lowest in the last 7 months. 9 of the 10 components that contributed towards this score realized a decline from the November score. 2020 was a brutal year for small business owners, including franchisees, across the board, but things are looking up. According to Capital One and Vistage surveys, small businesses see brighter future possibilities[32]. 83% of the 4,100 SMB owners surveyed believe that their business will do better in 2021 than 2020.  With 93% planning to hire in 2021 relative to the 45% that laid-off employees in 2020[33].



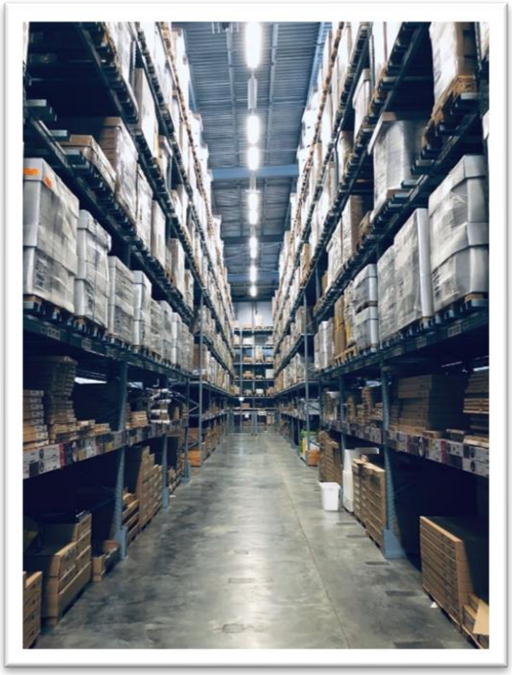

## Ghost Kitchens

And while COVID has created a great deal of challenges, it has also forced innovation to occur. As seen in the emergence of "Ghost Kitchens" which are kitchens with no seating. Popular with QSR concepts, these are designed to work with delivery and drive-through options only and might have more than one restaurant operating out of the kitchen.



[31] "Small Business Economic Trends." NFIB.
[32] "What's Keeping SMBs up at Night as Biden Takes Office?." Business.com.
[33] GGV Capital. "83% Of Small Business Owners Report Optimism For 2021." PR Newswire, 26 Oct. 2020.

## Dark Stores



Another innovation is 'dark stores' -- locations for traditional retail businesses to provide pickup options for customers. Instead of paying a premium to have the item delivered to their home, customers can have it delivered to a dark store where they pick up their purchase and potentially purchase from other stores as well.

All of this upheaval in commercial real estate will drive rents down, creating opportunities. However, it will be essential to understand how demand changes if offices do not return to full capacity.

# Appendix

## 2021 State by State Franchise Economic Outlook

| 2021 State by State Franchise Economic Outlook | Franchise Establishment (in Units) | Franchise Employment | Franchise Output (in Millions) |
|---|---|---|---|
| **ALABAMA** | 12,836 | 132,516 | $10,766 |
| **ALASKA** | 1,290 | 10,412 | $1,143 |
| **ARIZONA** | 18,057 | 192,410 | $18,211 |
| **ARKANSAS** | 7,240 | 73,954 | $5,954 |
| **CALIFORNIA** | 83,349 | 809,096 | $82,302 |
| **COLORADO** | 17,251 | 167,936 | $15,914 |
| **CONNECTICUT** | 7,500 | 88,925 | $10,464 |
| **DELAWARE** | 2,363 | 25,813 | $2,847 |
| **DISTRICT OF COLUMBIA** | 1,398 | 22,274 | $3,378 |
| **FLORIDA** | 58,632 | 646,435 | $60,433 |
| **GEORGIA** | 28,204 | 295,984 | $25,598 |
| **HAWAII** | 3,087 | 51,621 | $6,111 |
| **IDAHO** | 4,206 | 41,042 | $3,133 |
| **ILLINOIS** | 29,659 | 337,495 | $34,819 |
| **INDIANA** | 16,605 | 192,013 | $15,408 |
| **IOWA** | 8,225 | 79,993 | $6,832 |
| **KANSAS** | 8,014 | 79,072 | $6,707 |
| **KENTUCKY** | 10,836 | 125,860 | $9,593 |
| **LOUISIANA** | 11,381 | 116,733 | $10,524 |
| **MAINE** | 2,508 | 24,140 | $2,206 |
| **MARYLAND** | 13,981 | 157,171 | $16,085 |
| **MASSACHUSETTS** | 12,335 | 116,563 | $12,768 |
| **MICHIGAN** | 22,585 | 241,499 | $19,569 |
| **MINNESOTA** | 15,076 | 153,057 | $14,240 |
| **MISSISSIPPI** | 6,636 | 65,655 | $5,394 |
| **MISSOURI** | 15,155 | 161,751 | $14,277 |
| **MONTANA** | 2,956 | 24,398 | $2,043 |
| **NEBRASKA** | 5,762 | 56,726 | $5,151 |
| **NEVADA** | 8,398 | 101,947 | $10,986 |
| **NEW HAMPSHIRE** | 3,253 | 28,710 | $2,937 |
| **NEW JERSEY** | 19,592 | 198,416 | $22,284 |
| **NEW MEXICO** | 4,889 | 55,570 | $4,585 |
| **NEW YORK** | 30,087 | 318,722 | $39,209 |
| **NORTH CAROLINA** | 27,899 | 333,662 | $29,354 |
| **NORTH DAKOTA** | 2,417 | 27,323 | $3,153 |
| **OHIO** | 28,959 | 343,048 | $28,523 |
| **OKLAHOMA** | 9,941 | 95,918 | $8,063 |
| **OREGON** | 9,474 | 86,892 | $8,177 |
| **PENNSYLVANIA** | 26,570 | 272,405 | $26,200 |
| **RHODE ISLAND** | 2,194 | 19,183 | $2,083 |

**2021 State by State Franchise Economic Outlook**

| | Franchise Establishment (in Units) | Franchise Employment | Franchise Output (in Millions) |
|---|---|---|---|
| **SOUTH CAROLINA** | 14,281 | 152,224 | $12,710 |
| **SOUTH DAKOTA** | 2,720 | 23,412 | $1,995 |
| **TENNESSEE** | 18,524 | 215,024 | $19,053 |
| **TEXAS** | 76,029 | 785,524 | $70,970 |
| **UTAH** | 8,053 | 79,135 | $6,754 |
| **VERMONT** | 1,132 | 8,568 | $854 |
| **VIRGINIA** | 22,465 | 242,259 | $22,725 |
| **WASHINGTON** | 16,301 | 155,245 | $16,758 |
| **WEST VIRGINIA** | 3,541 | 33,567 | $2,665 |
| **WISCONSIN** | 14,577 | 153,513 | $13,033 |
| **WYOMING** | 1,766 | 32,114 | $5,080 |