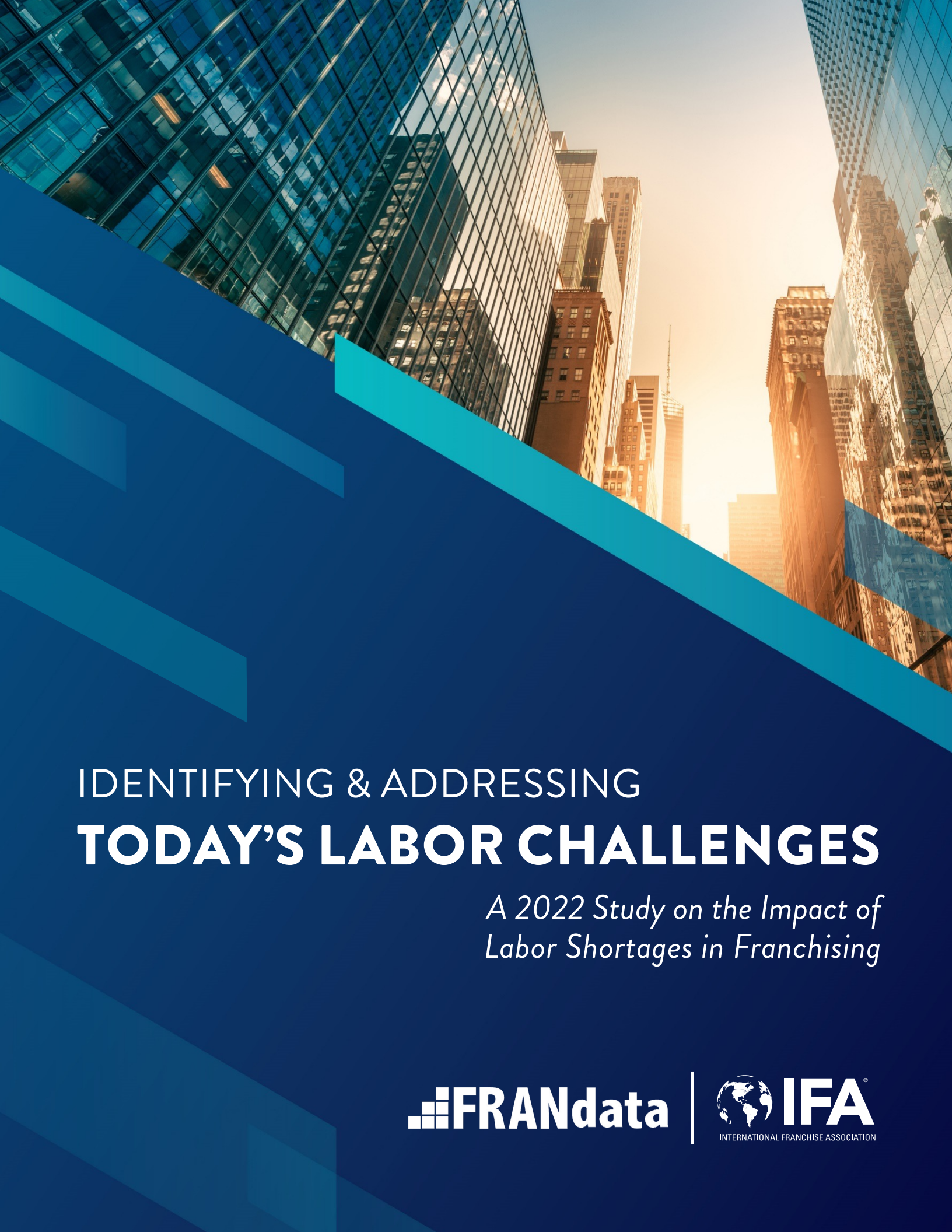




IDENTIFYING & ADDRESSING **TODAY'S LABOR CHALLENGES**

*A 2022 Study on the Impact of
Labor Shortages in Franchising*

 **FRANdata**



IFA[®]

INTERNATIONAL FRANCHISE ASSOCIATION

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About FRANdata

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

About the International Franchise Association

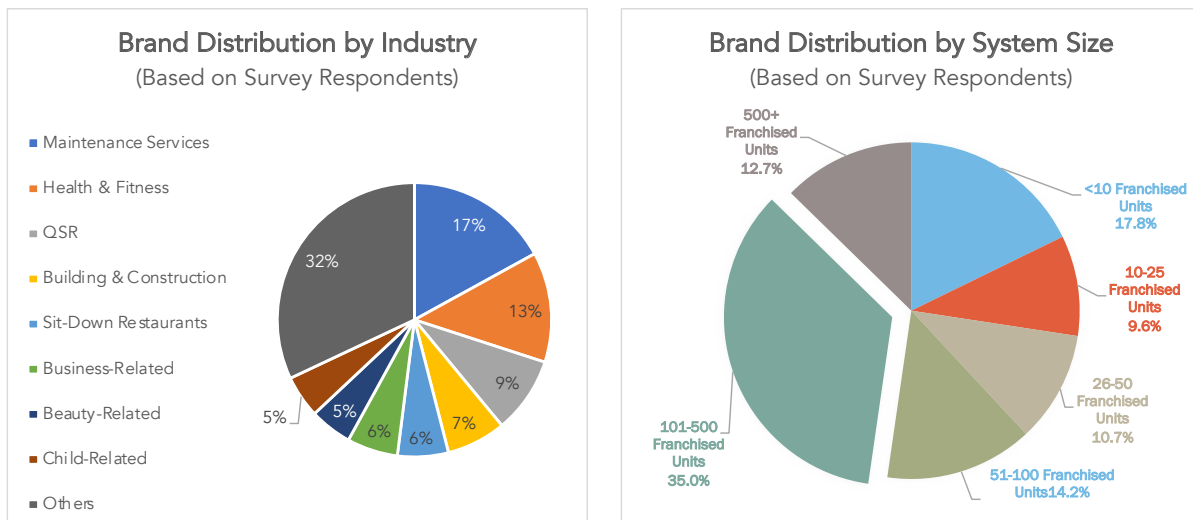
Celebrating over 60 years of excellence, education, and advocacy, the International Franchise Association (IFA) is the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 775,000 franchise establishments that support nearly 8.2 million direct jobs, \$787.7 billion of economic output for the U.S. economy, and almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.

INTRODUCTION

The International Franchise Association (IFA) and FRANdata present this inaugural survey of franchisor executives reporting their experiences with current labor markets. This report details how the franchise community is coping with an historically tight labor market.

Launched in January 2022, the franchisor labor survey sought to develop an understanding of current labor challenges across the franchise industry, and to analyze how both franchisors and franchisees have navigated the labor market during the economic recovery. We received a total of 207 survey responses from senior executives representing 197 brands, approximately 85,300 franchised units and 4,700 company-owned units.

The survey respondents represent myriad industry sectors that comprise the franchise business model, with the largest representation from the maintenance services industry, followed by the health and fitness sector and quick service restaurant brands. Over half the brands represented in the survey are mid- to large-sized companies with more than 50 franchised units, with over 35% of responses coming from brands with 101-500 franchised units.



KEY TAKEAWAYS

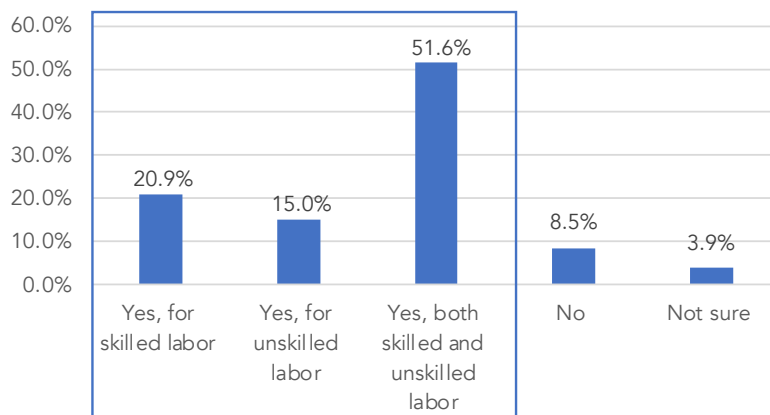
- Quality of labor is the most important problem facing franchise businesses today
- Four out of five franchise systems have experienced labor shortages
- The average number of employees per unit has decreased over the past six months
- 63% of franchisors expect total employment at franchisee-owned businesses to increase
- 65% reported employee wages have increased over the past six months
- 66% anticipate wage increases over the next six months

IMPACT OF LABOR SHORTAGES ON FRANCHISING

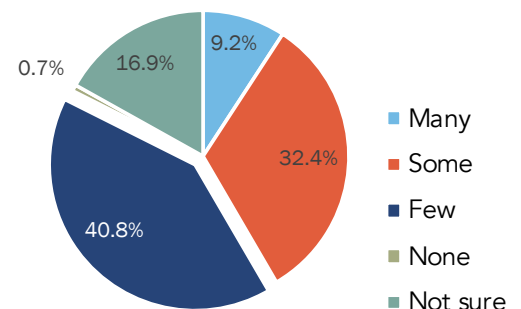
Nearly all respondents (87.6%) reported franchisees are having trouble finding skilled workers, unskilled workers, or both. Close to 21% of franchise brands have openings for skilled workers, another 15% have openings for unskilled workers and more than 50% have openings for both. By comparison, the National Federation of Independent Business (NFIB) February 2022 Jobs Report¹ shows that, seasonally adjusted, 48% of small business owners reported having job openings they could not fill. NFIB further notes that 37% of small business owners have openings for skilled workers, and 25% have openings for unskilled labor.

The shortage across the labor force for both unskilled and skilled positions is compounded by a lack of applicants for available openings. More than two-thirds of franchise brands have reported that their franchisee-owned businesses received few, some or no qualified applicants for open positions over the past six months. Similarly, according to the NFIB report, 57% of independent business owners reported few or no qualified applicants for their open positions.

Do your franchisees have job openings that they are not able to fill right now?



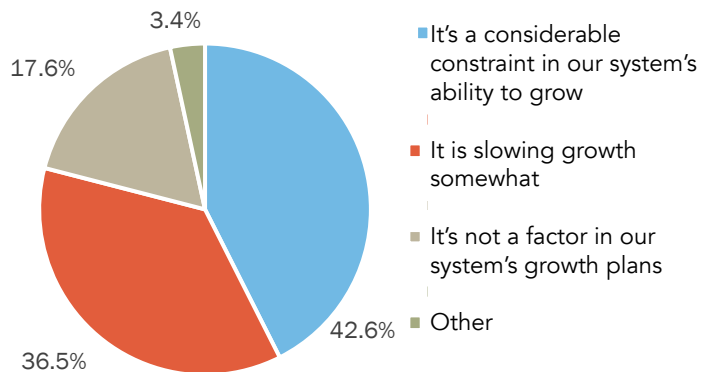
In the past 6 months how many qualified applicants were there for franchisee job openings at the average franchise unit?



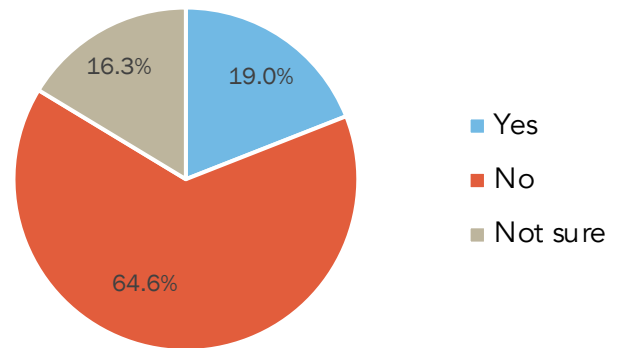
Survey results show that 70% of the franchise brands experienced constrained growth due to labor challenges, with 43% calling them a “considerable” constraint on growth and 37% calling them “somewhat” of a constraint. Additionally, the survey confirms that labor challenges are experienced by franchise businesses nationwide, rather than being concentrated within certain geographical regions.

¹ [NFIB Small Business February 2022 Jobs Report](#)

Impact of Labor Challenges on New Franchise Unit Growth

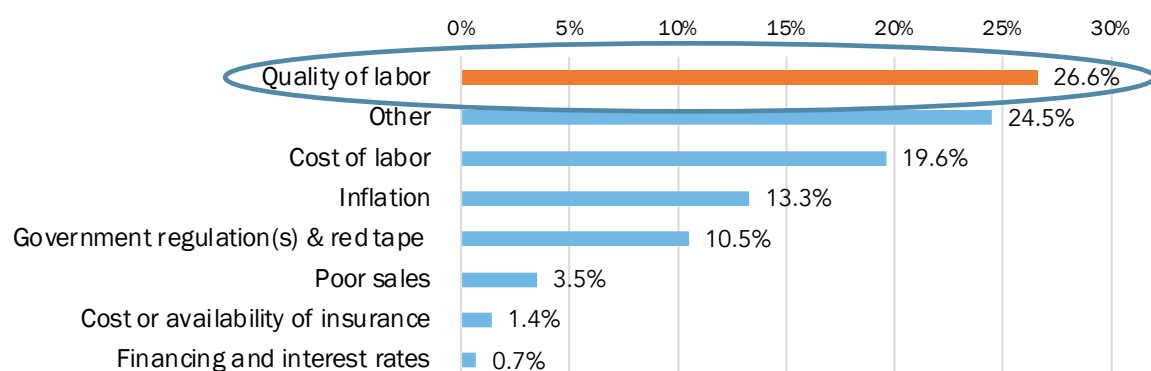


Are franchise units in one region experiencing more labor challenges than other regions?



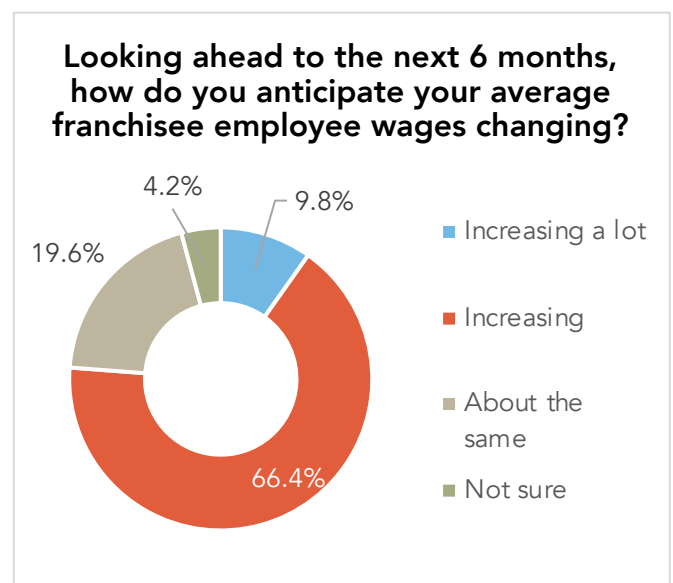
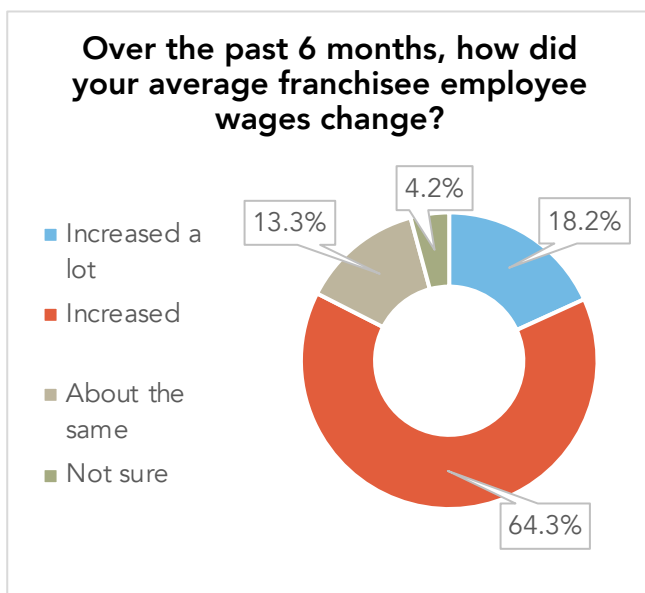
Over 42% of franchisor respondents reported that the average number of employees per franchise unit has decreased in the past six months. By comparison, the NFIB February 2022 Jobs Report² found that small businesses also continued to struggle to increase their workforce, with 22% of owners reporting that labor quality was their top business concern, followed by inflation. The effects of the labor shortage are being felt across franchising, with more than one-quarter—26.6%—of franchisors reporting that labor quality was the most important problem facing their business.

What is the single most important problem facing your business today?



² [NFIB Small Business February 2022 Jobs Report](#)

Overall, most franchisor executives have reported wage increases for their franchisee employees. More than 64% of survey respondents saw an increase in store-level wages over the past six months, with an additional 18% experiencing significant increases. Franchisors are also expecting wage increases going forward, with 66.4% anticipating additional increases in average employee wages in the next six months and an additional 9.8% anticipating average wages increasing significantly. By comparison, the NFIB Jobs Report for February 2022 found that, seasonally adjusted, a net 45% of small business owners raised compensation in March 2022, and net 26% plan to raise compensation in the next three months.

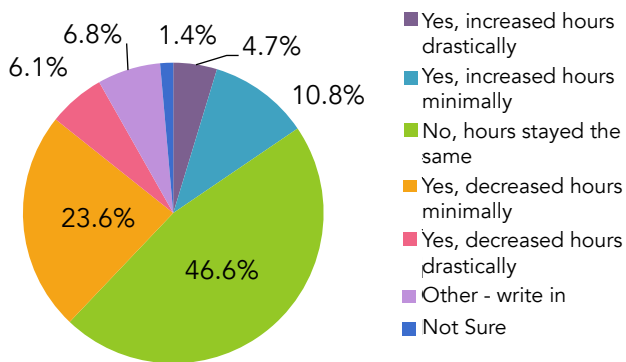


A Q3 2021 CNBC Momentive survey found that small business owners have offered additional benefits, including enhanced medical benefits (8%), educational benefits (7%) and child-care or elder-care benefits (5%)³ during this period. Franchisees, who are local business owners themselves, have adopted a similar approach. Sixty-three percent of franchisor executives reported that their franchisees have implemented sign-on bonuses and/or retention bonuses in the past six months to recruit or retain existing employees. This trend is expected to continue for the rest of 2022, with 49.3% expecting a slight or significant increase in average franchisee employee benefits in the next six months.

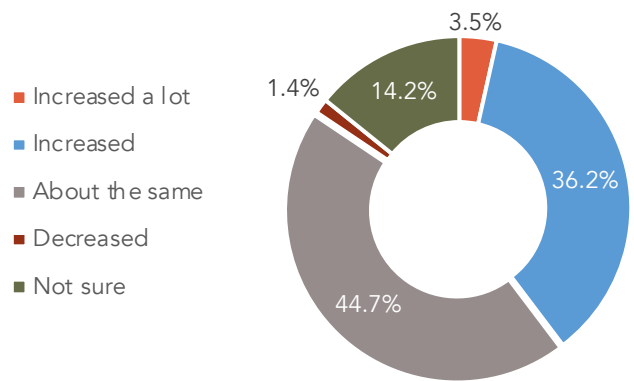
³ [CNBC News, August 2021](#)

As consumer spending continues to improve across the U.S. economy, the majority of brands have maintained or increased their store operating or production hours over the past six months, rather than shortening hours to adjust to higher labor costs. Going forward, 66.2% of brands stated that they have no plans to change their existing production or operating hours over the next six months.

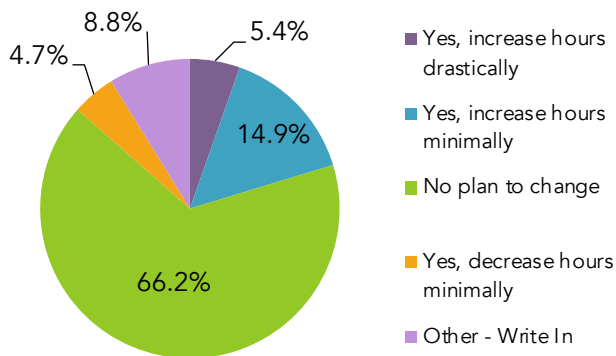
Over the past 6 months have your franchisees changed operating or production hours?



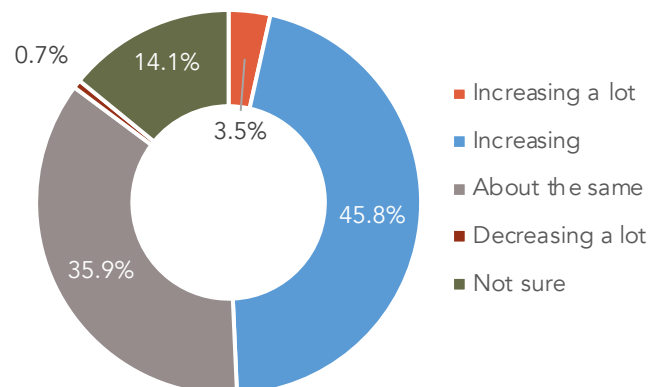
Over the past 6 months, how did your average franchisee employee benefit change?



Looking ahead to the next 6 months, are your franchisees planning to change operating or production hours?



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



FRANCHISING RESPONSE TO LABOR MARKETS

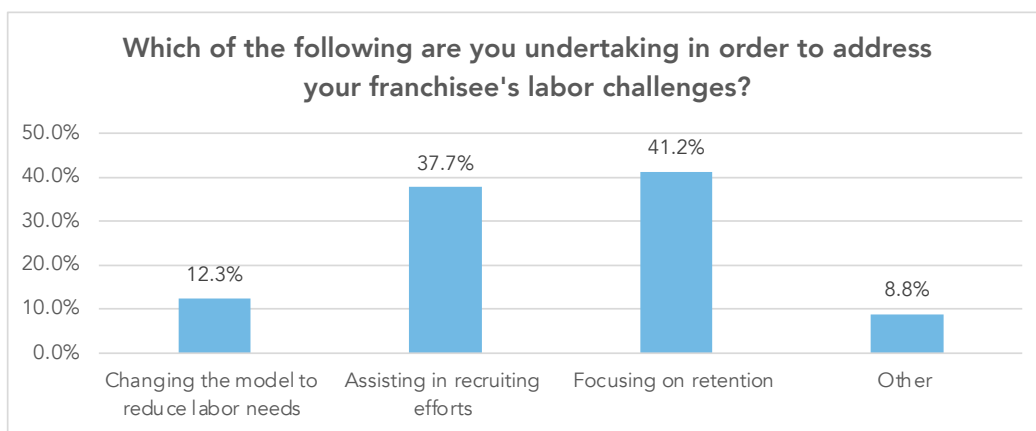
Franchising is resilient and strong, as shown in the efforts made to adapt to current labor challenges. Most of the respondents (41.2%) are taking action to improve employee retention; another 37.7% have assisted their franchisees in recruiting efforts. 12.3% have said that they are changing their model to reduce labor needs. As one franchisor executive aptly described, "I think water will always find its level. With all the uncertainties in the world, we are prepared for this to be the 'new norm'."

Since the onset of the labor shortage, the franchise industry has been hard at work, with franchisors providing their franchisee partners with robust new support and resources to address these challenges.

Franchisors have sought to solve the post-pandemic labor crunch in real time, exemplifying the power of business model and the benefits of a national brand. Franchisors have increased leadership training and goal-setting skills and created unique funds dedicated to recruitment, and some have shifted a portion of expenses from marketing to store-level recruiting for their franchisees. They have also sought to establish a robust online presence, boost online access to management tools, and use technology to their advantage to ease the need for greater labor.

In addition, some franchisors have added a dedicated internal recruiter to coach franchisees through their hiring challenges, and others are restructuring their strategy to focus on helping franchisees deploy a more streamlined hiring effort using larger recruitment firms.

This year, 2022, is projected to be a strong year for franchising, with IFA/FRANData forecasting that franchising will end the year with more than 792,000 establishments, adding a net 17,000 new locations and contributing 3% to the U.S. Gross Domestic Product (GDP). These timely actions taken by franchisors will likely show the resilience of the franchise business model and a strong labor market as the economy continues to emerge from the pandemic.



Innovative strategies implemented by franchisors*:

- Establishing training recognition programs with levels of achievement
- Help with creating job descriptions and hiring content to attract better talent
- Better communication within unit and across multi-unit teams
- Emphasize brand as well as local unit education around company culture
- Reduce labor need and gain more efficiency with technology
- Support franchisees in creation of a National Hiring Campaign

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