



2018 Economic Forecast

BLUEPRINT FOR FRANCHISE GROWTH



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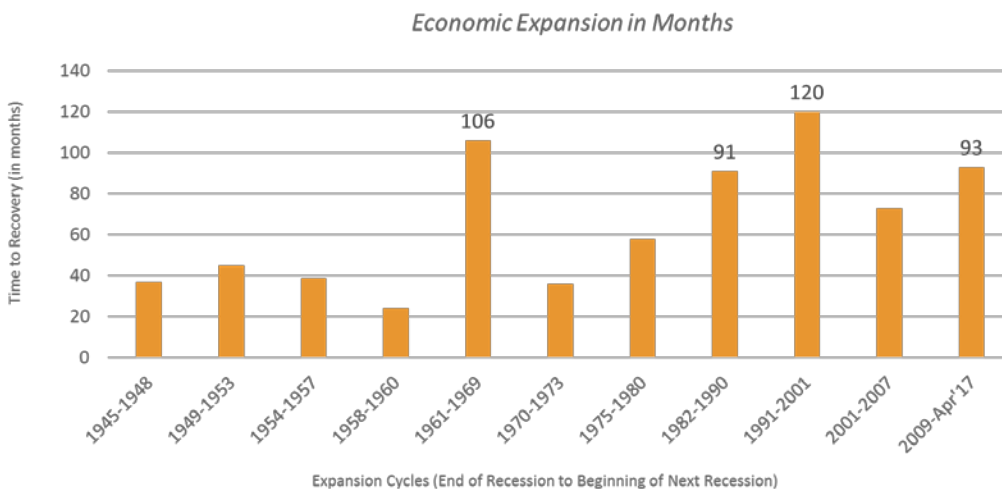
3 Questions to Ask Yourself As You Plan for 2018

- Are your growth plans consistent with an economy in transition?
- Are your operating expenses in balance with your changing system?
- Will your franchisees have access to low cost capital?

AN ECONOMY IN TRANSITION

We are much closer to the end than the beginning of the current economic expansion cycle. It is closing in on the second longest recovery in modern times. There are increasing signs that a recession is likely in the next 24 months. Even if it extends beyond that time frame, this recovery has been weak and is getting weaker.

End of Economic Recovery in Sight?



Typically, franchising tends to lag economic inflection points. Recessions drive people out of their jobs, creating an attractive and expanding pool of prospective franchisees. At this point in the cycle, we are seeing a shrinking pool, exacerbated by the demographic shift of baby boomers into retirement. While the prospect pool is important, so is the sector you are in.

KEY QUESTION: IS IT EXPANDING, ARE YOU TRYING TO TAKE MARKET SHARE AWAY FROM COMPETITORS, OR BOTH?

To further complicate things, we are seeing a clear implication from the rate of change in technology at the unit operating level that extends even to the type of prospective franchisee that is successful today. **Today, product differentiation is merely the price of admission.** If you don't have service differentiation that extends into the technological savvy customer of today, you will fall behind. These implications lead to a different type of successful franchisee as our research overlay of hundreds of thousands of franchisees with data on millions of households is confirming.

Against that backdrop, is your growth plan realistic and properly aimed? Time is not usually on the side of companies who are unable to adjust quickly to changing factors of the market. It is important at this junction to understand what every franchise sector is doing and know the history of brand adjustments for thousands of brands during periods like these.

TURN FRANCHISOR OPERATING EXPENSES INTO AN ADVANTAGE

The franchise business model demands that every franchisor, regardless of the product, service or sector, must fulfill certain functions. The protracted period of painfully slow economic expansion, combined with the absence of inflation, has taken away pricing power. *What we have been left with is a focus on cost cutting, with constant pressure to reduce wherever possible.* When NLRB issues expanded the ever-present vicarious liability issues, many franchisors saw the opportunity to reduce costs by retreating from some of the services previously offered to franchisees.

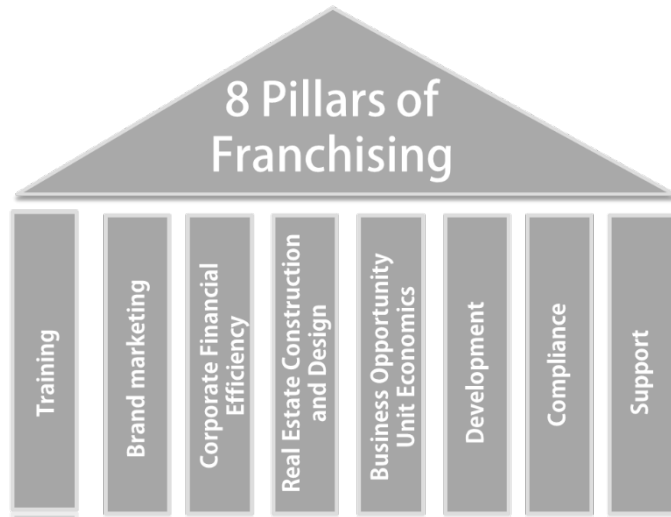
THE PROTRACTED PERIOD OF PAINFULLY SLOW ECONOMIC EXPANSION, COMBINED WITH THE ABSENCE OF INFLATION, HAS TAKEN AWAY PRICING POWER.

Therein lies an opportunity to strengthen your system culture, attract higher quality prospective franchisees, and lower the percentage of underperforming units.

KEY QUESTION: WHAT DOES “BEST” LOOK LIKE?

You have to perform the function. Are you investing the right amount, too little or too much? Since you have to provide the function, why not be the best at it and realize the internal and external marketing benefits? That starts with an understanding of what “best” looks like.

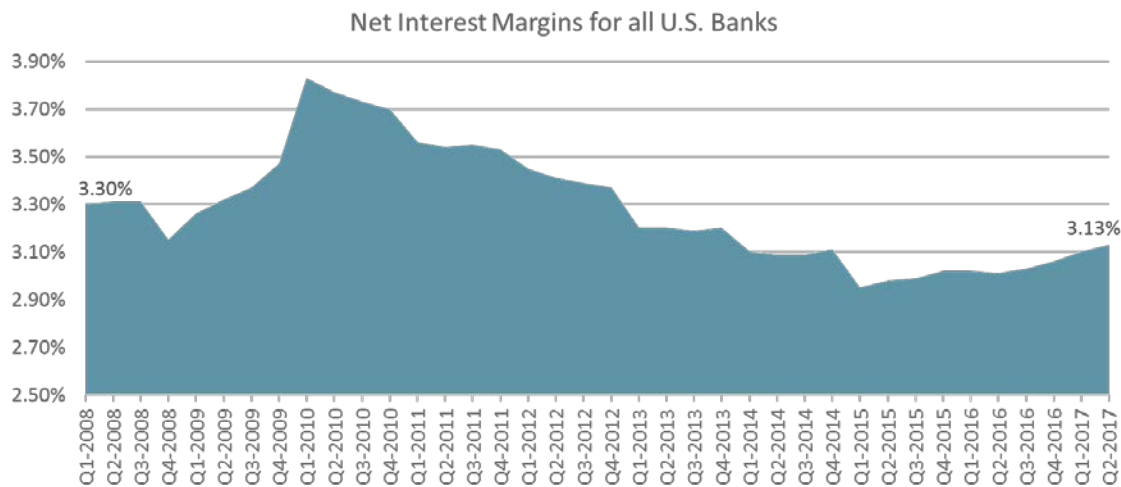
Each function is intended to have positive outcomes. Measuring those outcomes leads to an understanding of what you are spending money on and what you are getting for that investment. Finding a reliable partner is crucial - we can help. FRANdata has all the data and the know-how necessary to deliver best practices on more than 220 industries some spanning 25 years of operations and performance.



ARE YOUR FRANCHISEES GETTING A “FAIR” LOAN DEAL?

The FED’s monetary policy has been good for small business borrowers but bad for banks. Their lending margins have been in decline, leading to one of two outcomes. Some banks moved away from smaller loans because it costs them about the same amount to do a \$3 million loan as it does for a \$300,000

Bank Lending Margins Are Declining



loan so it's simple economics. Other banks, led by platform lenders, started substituting capital for labor in the form of applied technology. In franchising, that evolved into FUND Scores, in concept a standardized scoring model for franchise system credit risk that is similar to FICO Scores for individuals. Almost every brand with enough performance history now has one.

Do you know how lenders view your system? As more banks retreat from the smaller end of the business market, do you know how to improve your FUND Score? What performance markers needs improving? We do.

We help our clients address transparency issues, quantify their implications, and help improve their perception in the credit market. In doing so, you will be doing all you can do to help your franchisees not only have access to capital but get the best loan deals they deserve.

FRANdata's capabilities are unique in the franchise world:

- Custom Research: Addresses questions/needs with timely analysis
- Reports: Data, analysis, trend forecasts
- Complete objectivity: FRANdata receives no advertising or referral fees

FRANdata is the only source of comprehensive information about franchising:

- ❑ Fact-based research and analysis
- ❑ World's largest database of franchise information
- ❑ Tracks and analyzes more than 3,500 brands in 30 sectors and 235 industries
- ❑ Manages Franchise Registry relied upon by more than 8000 lender members in processing their franchise loans

“This has been a productive engagement with FRANdata. Tide Dry Cleaners, and Procter and Gamble as a whole, are very data-driven businesses. FRANdata brought forward quality analysis and perspective in the Franchising and Dry Cleaning arenas. They were able to gather and analyze financial and operational information as well as provide us with helpful insights and metrics that enabled us to focus our strategy.”

— Jeff Wampler, CEO, Tide Dry Cleaners
For more client testimonials go to <http://www.frandata.com/client-stories/>



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