



Franchise Customer Experience Conference

Marketing
Technology
Operations





Outlook for Franchising 2023/2024



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CEO
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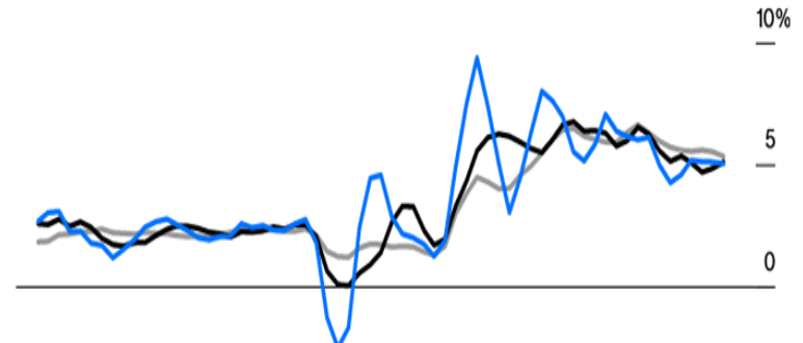
Soft Landing?

- The easy part of the FED's job is behind them
- Will their previous actions be enough to get to 2%?

Moving Sideways

No matter how you slice it, core CPI inflation is trending sideways

— Core CPI - 3m, annualized / 6m, annualized / year-over-year



General Economic Summary

Inflation half-way to goal;
more rate hikes possible,
interest rates remain
elevated



Unemployment:
Returning to pre-
pandemic labor
conditions/no sharp
contraction



Conclusion:



Consumer spending: most
likely stable in aggregate
but must look deeper

**GDP growth weak;
key is to understand
variability across
sectors, geography,
demographics**



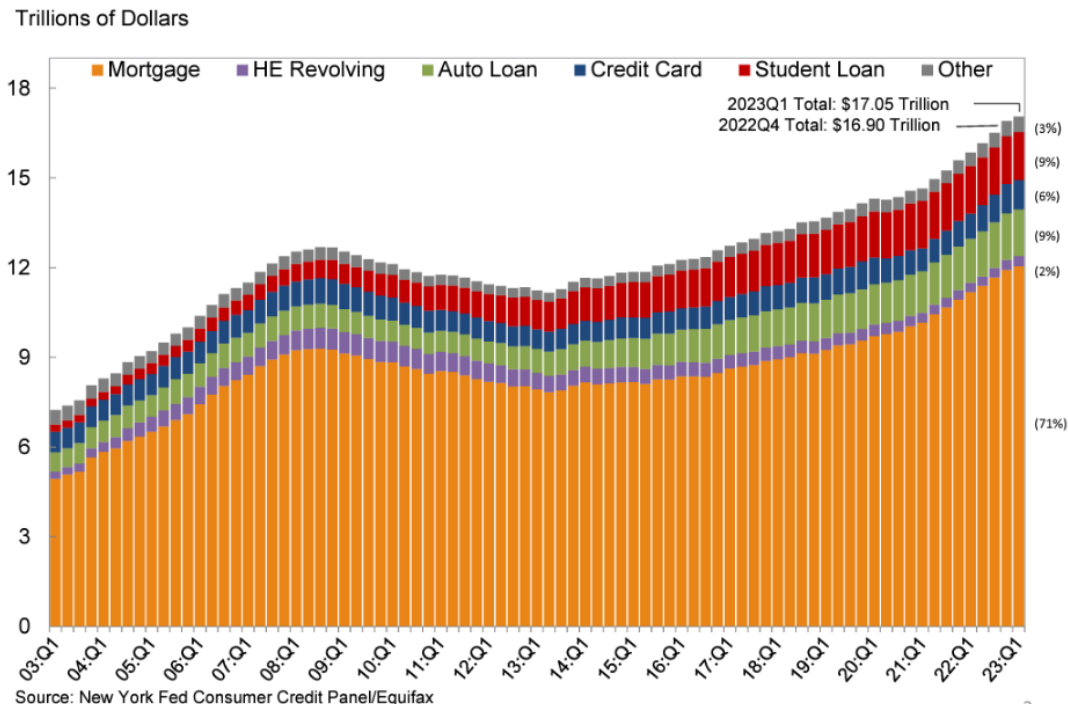
MARKETERS:

ARE CONSUMERS ABLE AND WILLING?

Household Debt by Loan Type

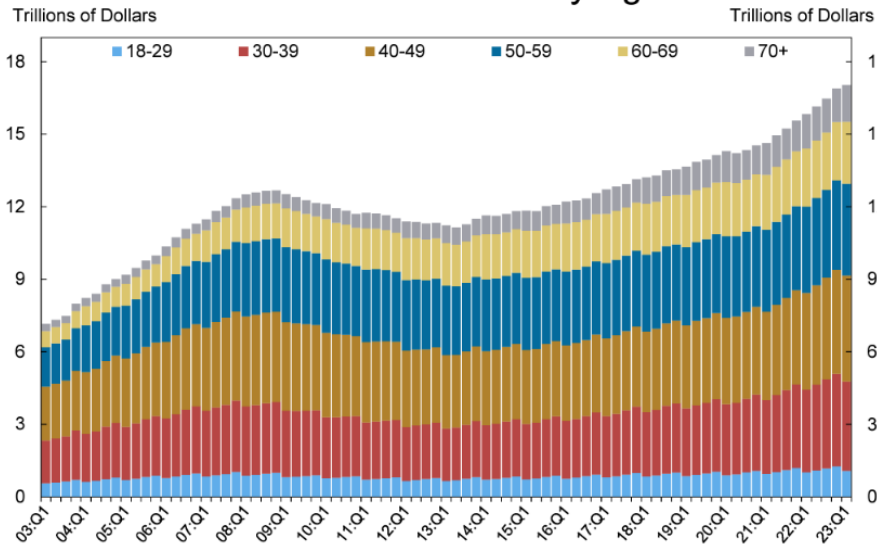
- Household debt rises on higher mortgage, auto, student loan balances
- Total household debt rose by \$148 billion, or 0.9 percent, to \$17.05 trillion in the first quarter of 2023
- Mortgage balances climbed by \$121 billion and stood at \$12.04 trillion at the end of March
- Auto loan and student loan balances also increased to \$1.56 trillion and \$1.60 trillion, respectively, but credit card balances were flat at \$986 billion

Total Debt Balance and its Composition



Total Debt Balance by Age

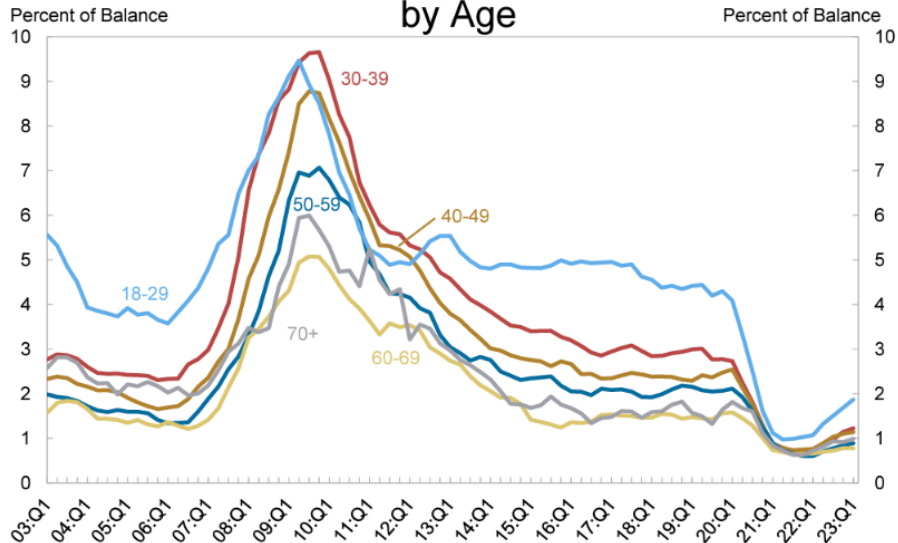
Total Debt Balance by Age



Source: New York Fed Consumer Credit Panel/Equifax

20

Transition into Serious Delinquency (90+) by Age



Source: New York Fed Consumer Credit Panel/Equifax

21

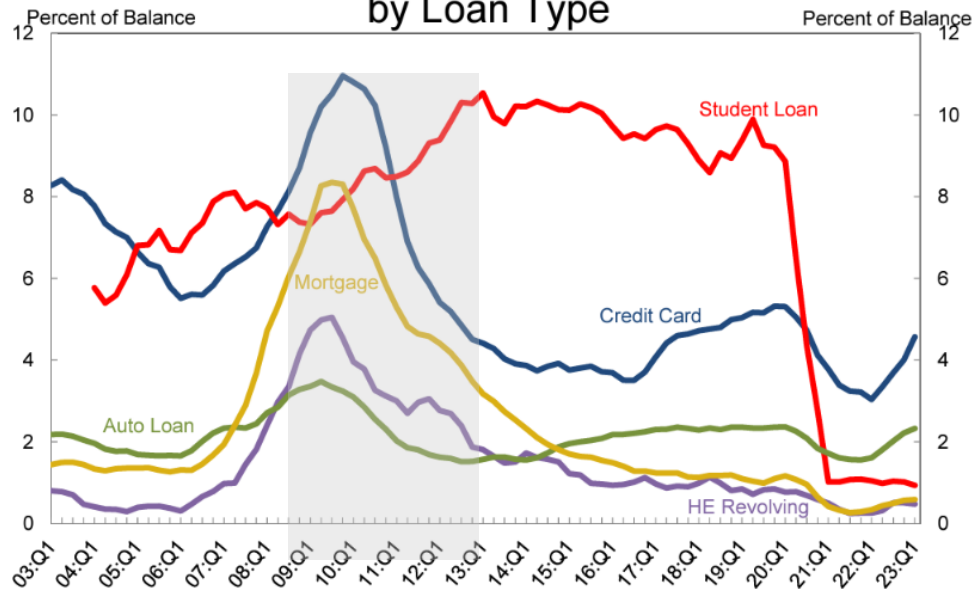
While all age demographics have seen increases in their debt levels, the highest level of increase is seen in the 18-29 age group, followed by the 30-39 age group. Gen Z and later millennials (18-29) carry a higher percentage of delinquent debt than their peers.



Delinquency Rate by Loan Type

- The transition of loan balances into serious delinquency also saw an increase in Q1 2023 for most loan types
- New loan origination down, but total debt rate has increased regardless among Americans
- Delinquency rate rose between 2022-2023 by nearly 2%, indicating American debt fatigue is beginning to drain consumers

Transition into Serious Delinquency (90+)
by Loan Type

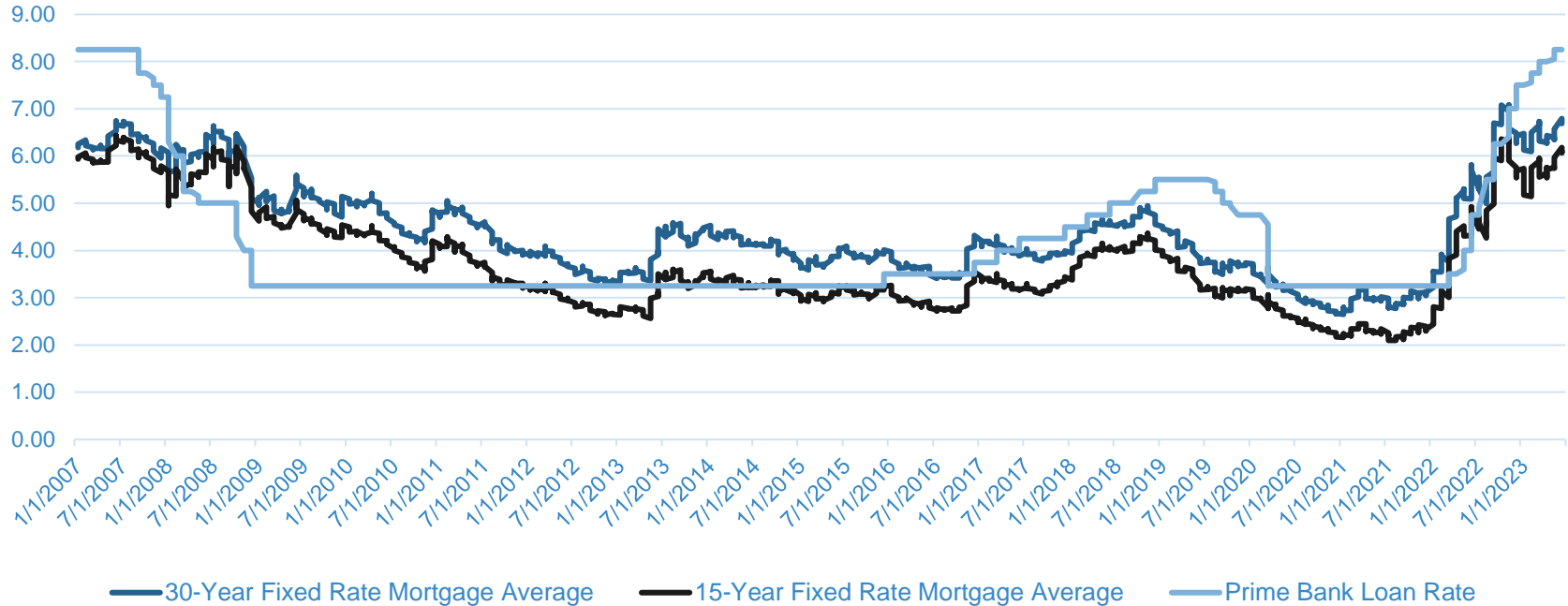


Source: New York Fed Consumer Credit Panel/Equifax

Note: 4 Quarter Moving Sum
Student loan data are not reported prior to 2004 due to uneven reporting

Interest Rates

End of Ultra-Cheap Debt



Ability to spend is being constrained to greater extent than any time since GFC

How many of your customers are in these boxes?



60% of Americans live paycheck to paycheck



Nearly 1/3rd of all Americans have more credit card debt than emergency savings



70% of Americans feel some form of financial stress



Minimum wage has increased in 23 states



Wages are growing, but still at a slower pace in the face of inflation



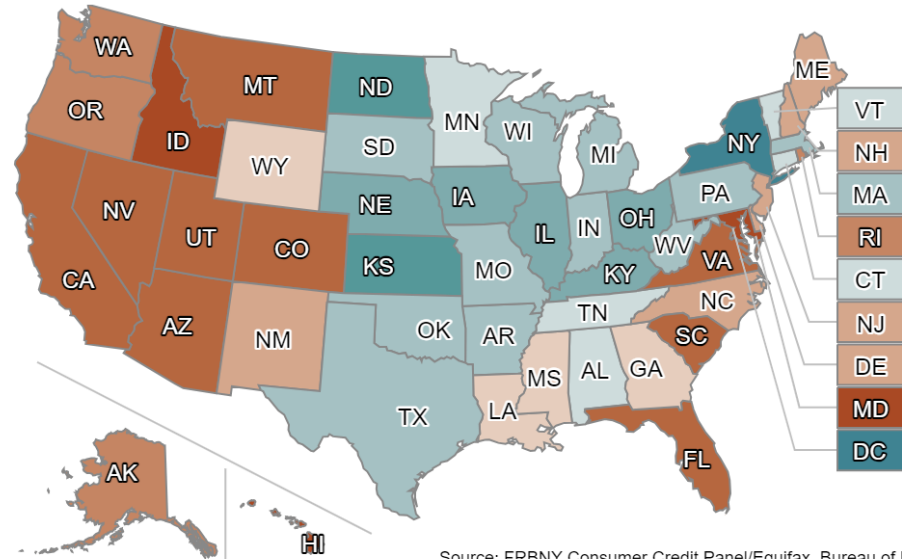
75% of Americans worry about future layoffs, with almost 40% fearing for their own employment

Debt-to-Income Ratio

Household debt-to-income ratio lowest in the mid United States, but highest in ID, FL, and MD

Consumers across the country are in very different financial positions which should influence how you tailor your marketing

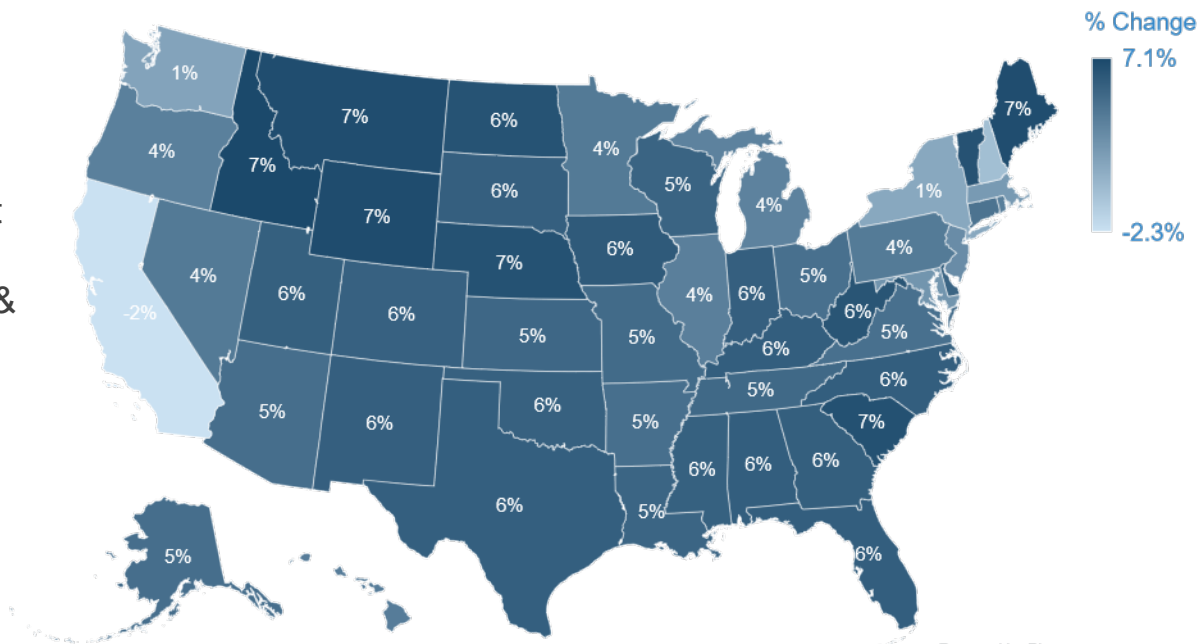
State-Level Debt-to-Income Ratio, 2022



Source: FRBNY Consumer Credit Panel/Equifax, Bureau of Labor Statistics

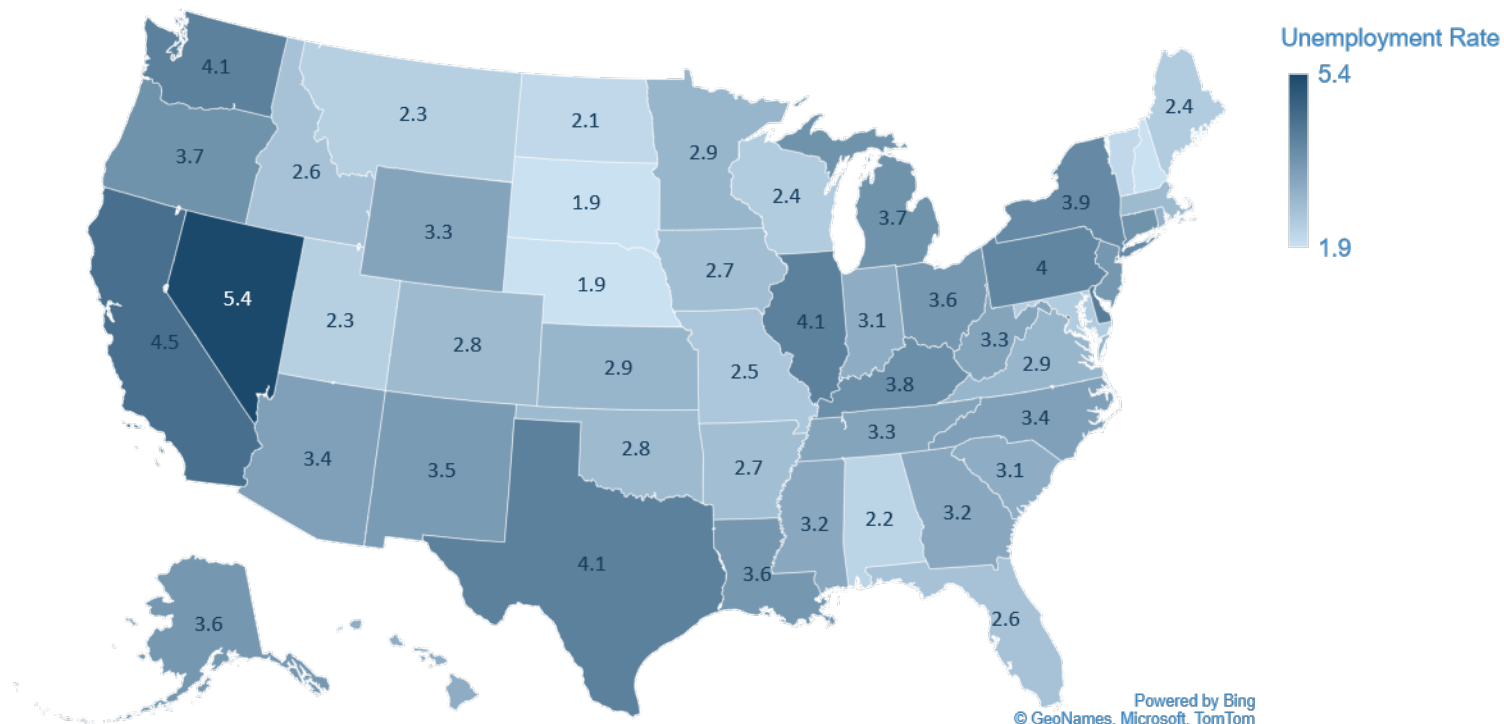
Annual Wage Growth (2021 - 2022)

- Annual wages nationwide increased by an average of 3.4% in 2022, less than the rate of inflation
- Top 5 states with the highest wage growth rates: Idaho, Wyoming, Montana, Maine, & South Carolina
- Bottom 5 states & territories with the lowest wage growth rates: California (negative), New Hampshire (negative), Washington DC, New York, Washington



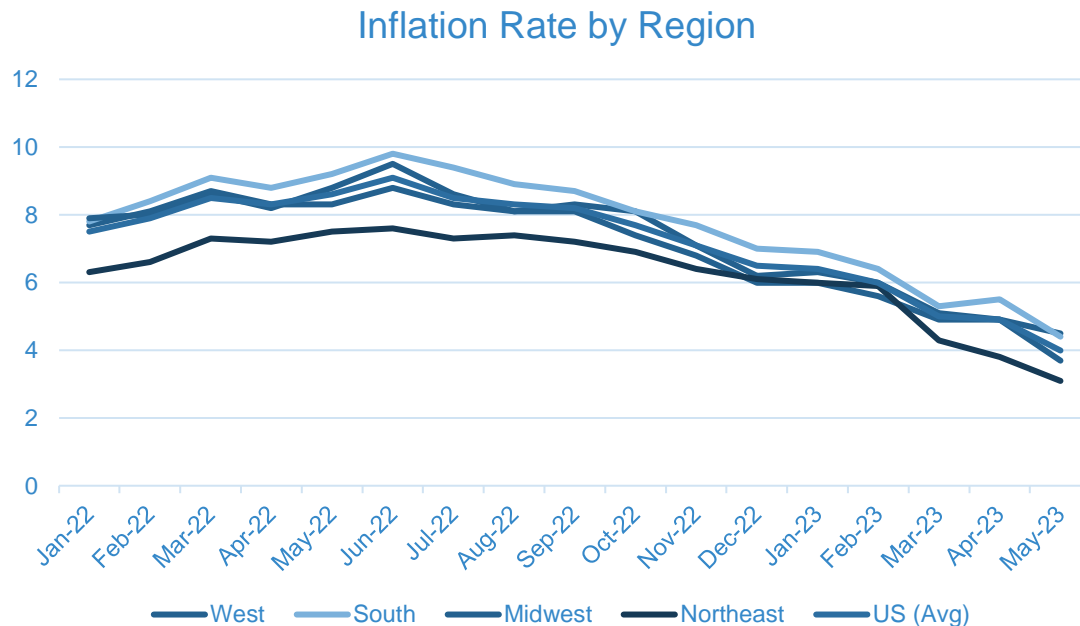
Unemployment Rate

Unemployment Varies by State



Regional Inflation

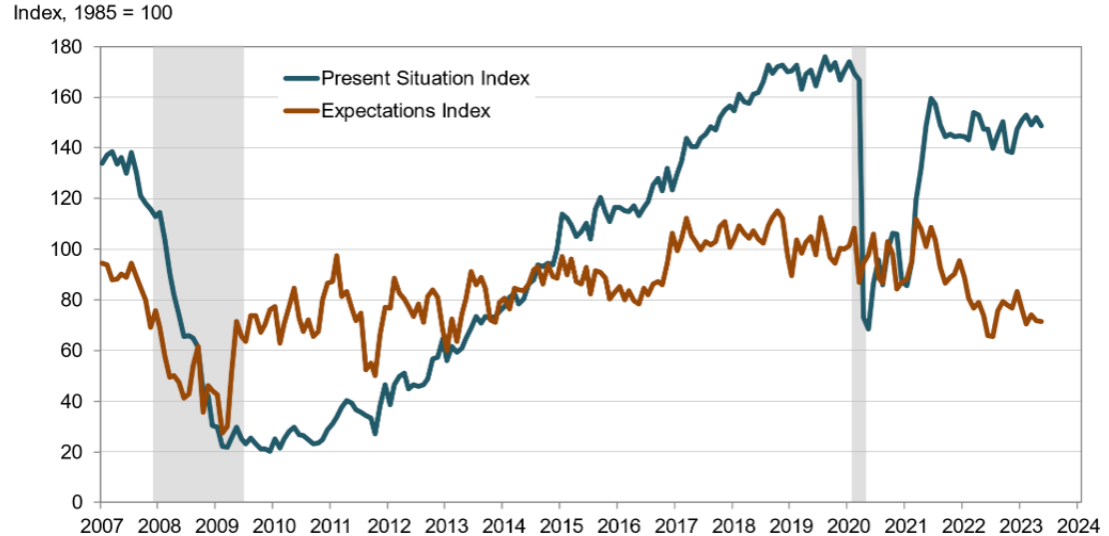
- Northeast consistently lower inflation
- Midwest able to adjust to inflation faster than the Southern or Western regions
- South consistently higher inflation since Jan 2022



Present Situation & Expectations Index

- The **Present Situation Index**—based on consumers' assessment of current business and labor market conditions—decreased to 148.6 from 151.8 in May
- The **Expectations Index**—based on consumers' short-term outlook for income, business, and labor market conditions—decreased slightly to 71.5 from 71.7
- Consumers became more downbeat about future business conditions
- Assessment of current employment conditions saw the most significant deterioration

Present Situation and Expectations Index



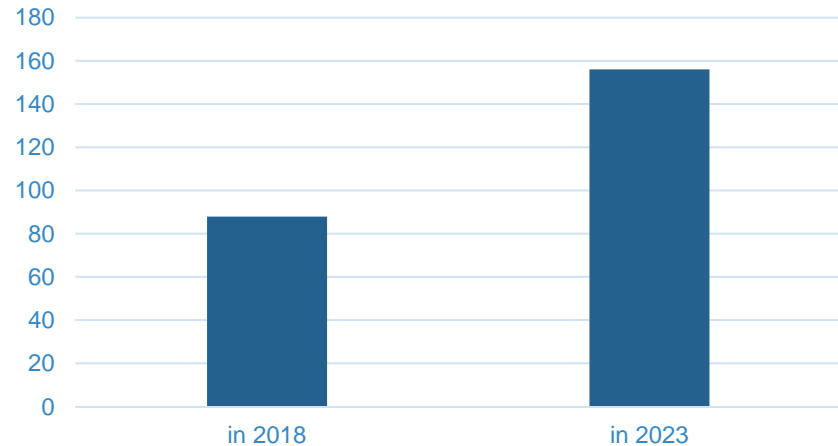
*Shaded areas represent periods of recession.
Sources: The Conference Board; NBER
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New Competitors – Faster to Market

FRANdata identified 446 new franchise brand competitors in past year

- 35% part of a larger franchise portfolio and/or PE investment with more \$ to invest
- More experienced management
- Bringing new operational solutions and technologies

New Brands Identified as Part of a Larger Portfolio or with PE Backing



Source: FRANdata New Concept Report

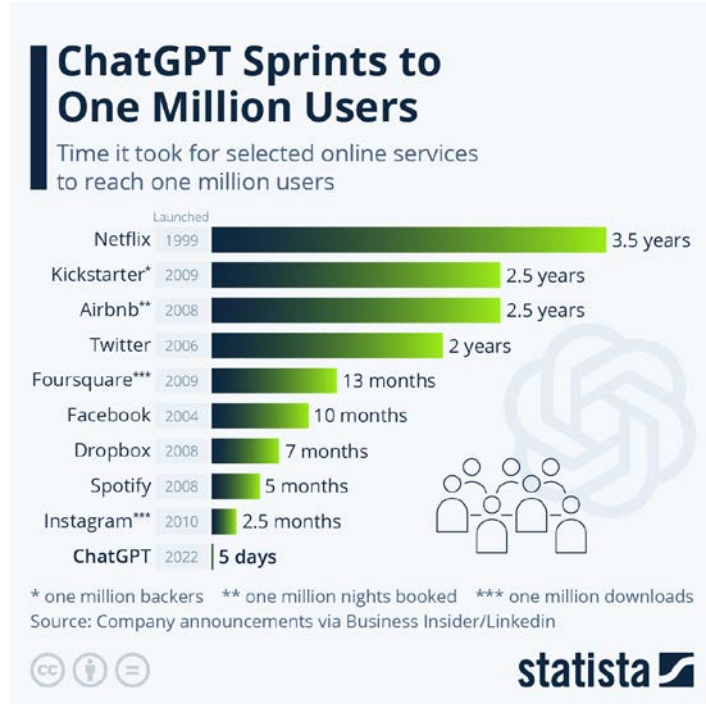




Technology & Franchise Operations



AI ADOPTION

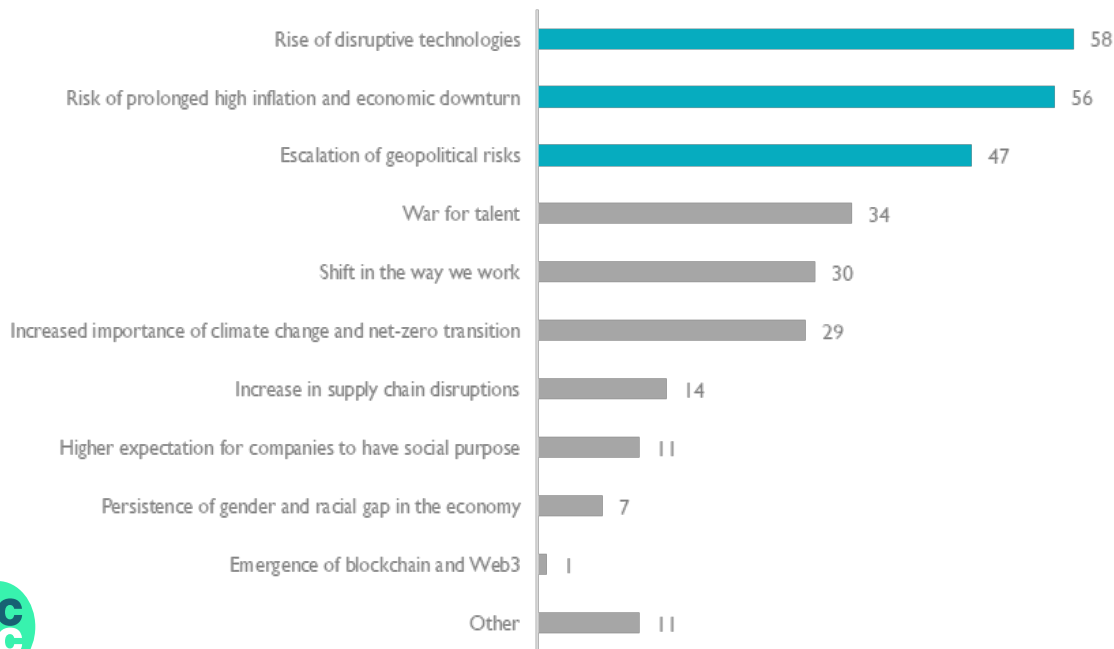


Risks of AI

- Automation-spurred job loss
 - Over half of worker hours worldwide spent on tasks could be automated
- Privacy violations
- Deepfakes
- Algorithmic bias caused by bad data

Businesses Are Spending More on Disruptive Technology

CEOs identify disruptive technology as most important trend in 2023 above inflation and economic slowdown



1. Developing advanced analytics (62%)
2. Enhancing cybersecurity (48%)
3. Automating work (45%)

AI based adoption was **2.5x** higher in 2022 than in 2017 and is expected to increase in 2023 and beyond

How Technology Decisions are Made

Can you rank the importance of key decision makers when it comes to brand-wide technology strategies and funding? (1 - Least Important, 5 - Most Important)

	1	2	3	4	5
Franchisor's technology department	7.7%	11.5%	23.1%	38.5%	19.2%
Franchisor's executive office	7.7%	11.5%	7.7%	23.1%	50.0%
Technology advisory committee	15.4%	19.2%	30.8%	23.1%	11.5%
Marketing advisory committee	19.2%	26.9%	15.4%	19.2%	19.2%
Multi-unit franchisees	11.5%	11.5%	11.5%	30.8%	34.6%
Franchisee advisory board	28.0%	16.0%	20.0%	20.0%	16.0%

Source: FRANdata Technology Report

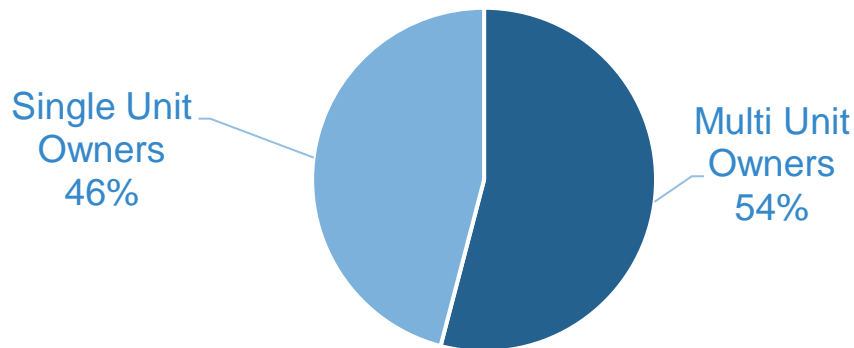


Operational Solutions Increasingly Start With MUOs


Of the approx. 500,000 franchised businesses in the US, **54%** of them are owned by multi-unit franchisees

MUOs are:

- More experienced
- Have more financial backing
- Have more influence on their brands and other franchisees



Top 100 MUO's operate 8% of total businesses

A nighttime photograph of a city highway with light trails from cars. In the background, several skyscrapers are lit up against a dark blue sky. A large, semi-transparent green rectangle is overlaid on the center of the image, containing the text 'Closing Thoughts'. A white curved line is visible on the left side of the green overlay.

Closing Thoughts

Key Takeaways

- **Economy takes a licking, just keeps ticking**
- **Marketing success requires looking beyond aggregate #s across Sectors, Geography, Demographics to understand changing consumer**
- **Near term less price increases and more a battle for market share**
- **Experiment cautiously with AI with lots of best practice research**
- **Suppliers are listening to your MUOs, are you?**

THANK YOU

For more information contact us:
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