FranchiseFacts

Capturing the franchise experience!

FRANCHISEE SATISFACTION SURVEY

Annual Report 2010

Survey Results and Analysis

January 3, 2011

This report can be obtained, free of charge
as a pdf file, from the FranchiseFacts
web site at www.FranchiseFactsUSA.com

Bound copies of this report can be obtained
by completing the Order Form that is available
on the FranchiseFacts web site at
www.FranchiseFactsUSA.com

Attention Franchise Owners (Franchisees)

The information in this report is based on survey responses from your peers – franchise owners (franchisees) throughout the franchise industry. Please help us to improve on the next version of this report by participating in the 2011 version of this survey at www.FranchiseFactsUSA.com.

Respondents have the option of requesting a copy
of the report in which they participated
at the end of the survey.

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Introduction

Welcome to FranchiseFacts' 2010 Annual Report. This report, based on our National Franchisee Survey, provides our survey findings plus analysis and commentary.

FranchiseFacts is an Internet based information services company in the USA specializing in the franchise industry. Our principals have over thirty years experience in franchising, market research, database management, and information management/reporting.

We survey franchisees throughout the United States and Canada about their level of satisfaction with their businesses and franchisors, and also about their growth and profitability. We conduct analysis of the data, and create reports to serve the information needs of the franchising industry.

FranchiseFacts is founded on the belief that the best source of accurate and reliable information about franchises is franchisees. To this end, we have created the National Franchisee Survey to gather information from franchisees throughout the country.

FranchiseFacts believes that the single biggest source of conflict between franchisees and franchisor is poor communication. Franchisors make decisions they believe are in the best interests of their franchisees. There are times, however, when franchisees have a different opinion. This difference of opinion, when allowed to grow to the point of conflict, can be costly, resulting in poor business decisions and reduced revenues. Resources directed to resolving the conflict are an unnecessary distraction for the franchise. In the extreme, litigation and failed business models can result.

Our reports provide a franchisee perspective that is sometimes lacking at the corporate decision making level. We believe that more effective presentation of this franchisee perspective is key to improved decision making at all levels within the franchise hierarchy.

Our Survey and Reports

The National Franchisee Survey can be found at www.FranchiseFactsUSA.com.

This current report (Franchisee Satisfaction Survey, Annual Report 2010, Survey Results and Analysis) is based on the responses to our 2010 National Franchisee Survey which ran from February through October, 2010. Franchise owners were encouraged to participate in this survey – through the use of social media, e-mail and other electronic communication methods – in return for access to the survey results. This free report is currently available to survey participants and others through our web site. Printed versions of this report are also available. Please refer to the FranchiseFacts web site for more information.

At the time of publication, our 2011 survey period is in process. We encourage all franchise owners to participate in the current survey, accessible through our web site at www.FranchiseFactsUSA.com. It is our policy to make the Annual Report available to all survey participants that request a copy and provide their e-mail address at the end of the survey.

We also provide **Franchise or Association Specific Reports.** These reports, which are similar to this Annual Report, require the participation of franchisees and/or store managers from within your franchise. Each report is limited to a single franchise or association group.

To speak with someone regarding these reports, please contact us via e-mail at FranchiseFacts1@gmail.com or call us at (508) 873-2275.

The History of Franchising

Franchising has existed since the Middle Ages (possibly earlier) and continues to evolve. According to Michael Seid (co-author of Franchising for Dummies), three constants have fueled the growth of franchising - the desire to expand, the lack of expansion capital and the need to overcome distance.

Successful franchises are often those that have focused on these three constants while continuing to adapt to a society that has undergone significant economic and technological change. At times, franchises may be based on factors other than these three constants. These different business models may appear to be successful over short periods of time but frequently fail over the long term. As stated within Mr. Seid's history on the industry, problems with modern franchising began to appear during the late 1960s. As this report was prepared, we have considered that some within the franchising industry may currently be dealing with these same problems. Please keep these points in mind as you review this report.

Before presenting our Annual Report on the franchise industry, portions of Michael Seid's WHERE IT ALL BEGAN, THE EVOLUTION OF FRANCHISING are reproduced here. This article provides you with a solid history of how franchising industry has played a crucial role in the development of this country. The entire article, which we encourage you to read, can be found at www.msaworldwide.com.

WHERE IT ALL BEGAN, THE EVOLUTION OF FRANCHISING

Throughout its long history, there have been three constants that have fueled the growth of franchising; the desire to expand, the lack of expansion capital and the need to overcome distance.

Franchising, as a business concept, was transplanted into the United States from England and Europe where it was used "commercially" in the tavern and brewery industries. Tavern owners, in exchange for financial assistance from the breweries, agreed to sole purchase agreements with the breweries.

The earliest known restaurant chain in the United States was founded in the 1850's by Frederick Henry Harvey, an Englishman who opened his first restaurant in 1852. In 1876, Frederick Harvey opened the first of the Harvey House restaurants in a terminal of the Atchison, Topeka & Santa Fe Railroad. The railroad wanted to open depot restaurants for its passengers and provided Frederick Henry with locations and free transportation of restaurant supplies. By 1887, there was a Harvey House restaurant every hundred miles along the 12,000-mile-long Atchison, Topeka, & Santa Fe line. Frederick Harvey believed strongly in quality control and established regular field visits to his restaurants similar to those used today by franchisors.

Following World War I, the advance of the automobile gave birth to another restaurant innovation, the drive in. In 1919, Roy Allen purchased the formula for his root beer recipe from a pharmacist and, together with Frank Wright, started A&W Root Beer. Needing capital to expand, Allen bought out his partner in 1924 and began franchising the A&W concept. A&W offered car-side service with "tray boys". Later A&W added female "car hops" on roller skates to service its customers.

Using the automobile, curb service, and an innovative hamburger cooked on onions, Billy Ingram and Walter Anderson opened their first White Castle restaurant in 1921 in Wichita, Kansas. White Castle is credited with many innovations in the fast food industry, particularly in their use of advertising and discount marketing, the first take out packaging to keep the food warm and the folded paper napkin. During that same period, Howard Dearing Johnson acquired a pharmacy in Quincy, Massachusetts and began to sell three flavors of ice cream together with a limited menu of cooked items. In 1935 Howard Johnson awarded its first franchise to Reginald Sprague. Over the years the concept increased to an expanded menu and to 28 flavors of ice cream.

Many of the legendary franchised restaurant chains that began franchised operations over the next three decades included Carvel, established in 1934; Kentucky Fried Chicken, established in 1930; Dairy Queen, established in 1940; Dunkin Donuts, established in 1950; Burger King, established in 1954; McDonald's, established in 1955; and The International House of Pancakes, established in 1958.

The earliest non food franchises were relationships in which manufacturers established licensed selling and service locations for their manufactured goods through franchising. This can be seen in the establishment of Singer Sewing Centers and McCormack Harvesting Machine Company in the 1850's and 1860's and the birth of the automotive franchises at the turn of the century by General Motors and Ford. The first franchise for General Motors was issued in 1898 to William E. Metzger of Detroit.

By selecting franchisees, and providing them with exclusive territories, hard goods manufacturers were able to effectively and efficiently bring their products to market.

As the automobile manufacturers solved their distribution problems through franchising and began the changeover from steam engines to internal combustion engines, there became a need to establish locations for these vehicles to obtain fuel. Lacking the capital required to purchase the real estate and establish an adequate distribution system to meet the needs of the growing number of automobiles, over the next 30 years the oil industry began to establish dealerships through franchising.

At the turn of the century, because of the high cost of transporting the finished product and the reusable glass bottles, American soft drink bottling was a localized industry. By shipping syrup concentrate to its franchisees, and requiring the local franchisees to bottle under strict formulas and processes, bottlers were able to control the quality of their product in distant markets, and expand rapidly without the need for the capital which company ownership would have required. Franchisees obtained the rights to exclusive markets and a valuable trade name and the bottlers were able to overcome the transportation issues that had to that time restricted their growth. In 1901 Coca Cola issued its first franchise to the Georgia Coca Cola Bottling Company.

In 1902 Louis Liggett formed a manufacturing cooperative with 40 independent drug stores, each investing $4,000 to start the manufacturing cooperative under the Rexall name. Following the end of World War I, the Rexall cooperative began to franchise independently owned retail outlets under the Rexall trade name, supplying franchisees with branded Rexall products.

One of the great innovations in franchising came in 1909 with the establishment of the Western Auto franchise. Up to that time, product franchisers sought franchisees with industry experience and, except for the supply of branded product, did not provide any significant business related services. While still relying on the markup on product sales to its franchisees rather than royalties on sales, Western Auto provided its franchisees with many of the same services which modern franchisors provide today. These included site selection and development, retail training, merchandising, marketing assistance and other continuing services. Western Auto also sought franchisees without industry experience as many franchisors do today.

Franchising boom in the 50's and 60's achieved almost mystical stature. Franchisors of convenience goods and services grew. Companies like McDonald's, Kentucky Fried Chicken, Laundry and Dry Cleaners, Hotels, Rental Cars, automotive aftermarket and temporary help companies proliferated the market. By 1965 McDonald's had grown to approximately 1000 units in only ten years. Nate Sherman's Midas Muffler during the same period had grown to 400 locations, Kemmons Wilson's Holiday Inn grew to 1000 locations and Jules Lederer's Budget Rent-a-Car opened their 500th franchise.

The growth in franchising did not come without problems. By the latter half of the 1960's the bloom had left the rose. Many franchisors focused more on the sale of franchises than on the operating of their franchise systems. Some franchisors made misrepresentations in attracting franchisees, some based their sales effort on the use of celebrity names and endorsements and failed. Some even sold franchises for concepts that didn't exist.

Out of the problems of the 50's and 60's several states led by California began to enact laws governing the disclosure of information to potential franchisees. These states required franchisor to deliver to a potential franchisee a disclosure document providing information on the opportunity. It was not until the summer of 1979 that the federal government issued the franchise rule from the Federal Trade Commission which established minimum disclosure requirements throughout the United States.

Today the format and content of the disclosure documents are undergoing change to further strengthen disclosure and there are new laws being proposed at the federal and state level to further regulate franchising.

Today, more than 3,000 franchisors and over a half-million franchisees testify to the increasing growth of an industry that has burgeoned forth from roots dating back at least 2,000 years.

(The above portions of WHERE IT ALL BEGAN, THE EVOLUTION OF FRANCHISING have been reprinted here with the permission of the author.)

Report Structure

This report is divided into four sections.

Section 1 Overall Franchisee Satisfaction
This section reports on the overall satisfaction of franchisees participating in the survey. It provides a topline view of franchisee satisfaction with business operations, financial goals and the franchise in general.

Section 2 Franchisee Profile and Business Lifestyle
This section describes the makeup of survey respondents in terms of gender, age, level of education, business experience and other criteria. We then look at the general business lifestyle in terms of hours worked along with the split between traditional and non traditional business hours.

Section 3 Understanding the Franchisor Relationship
This section explores the complex relationship between franchisor and franchisee. We explore the level of franchisee satisfaction with different areas of franchisor support.

Section 4 Business Development and Economic Indicators
This section delves into factors which have an impact on business development. It explores key economic indicators such as profitability, business growth/contraction and future plans.

The first part of each section presents survey results from our National Franchisee Survey. This information is presented in graphical form with limited commentary or analysis.

The second part of each section is Analysis and Commentary. One or more topics are addressed in each section inclusive of graphics and/or numeric tables plus written analysis. Each topic is chosen to present further insights into what we feel are important areas of franchisee operations and the franchisor relationship.

Selected Survey Findings in this Report

Overall Franchisee Satisfaction

- 18% of franchisees are meeting or exceeding their own financial expectations.
- 84% of franchisees anticipate doing something different in five years.
- 85% of franchisees would not invest in their current franchise given what they now know.

Franchisee Profile and Business Lifestyle

- 89% of franchisees cite financial independence as a main reason for franchising.
- Women begin their franchising careers better educated than their male counterparts but with less business experience.
- Women, as a group, are newer to franchising than men. 61% of women owned their business four years or less compared with 31% for their male counterparts. Opening businesses much later in the business cycle, this may explain the lower levels of profitability reported by women.
- 49% of franchisees had industry related experience when they opened their business.
- Approximately 45% of franchisees work 45+ hours per week. 64% report always working on weekends.

Understanding the Franchisor Relationship

- Franchisees feel that their franchisors provide good pre-opening and opening support. Ratings for ongoing support are lower.
- 18% of franchisees feel that their franchisor is concerned with their (local store) profitability.
- 14% of respondents feel they have a good relationship with their franchisor.
- 16% of respondents would recommend their current franchise to a prospective franchisee.

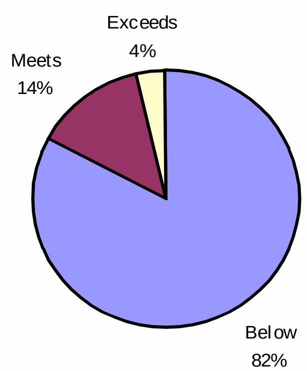
Business Development and Economic Indicators

- 33% of respondents report that their business became profitable in less than three years. Within five years, 45% of respondents report that their business became profitable. Women report that their businesses are taking longer to achieve profitability.
- 28% of franchisees report increased revenues over the past year. 24% report increased profits. 18% report meeting or exceeding their own financial expectations.
- 66% of respondents report that they feel business has declined over the past year. Approximately 25% of respondents report that they feel business has improved during this time.
- 45% of respondents anticipate a decline in business during the upcoming year.
- 50% of respondents anticipate closing existing locations in the future. 7% of respondents have plans to open additional locations.

Section 1 Overall Franchisee Satisfaction

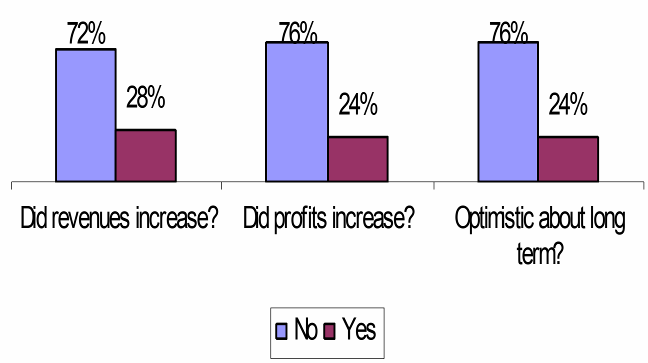
This section reports on the overall satisfaction of franchisees participating in the survey. It provides a topline view of franchisee satisfaction with business operations, financial goals and the franchise in general.

Respondents were asked if their business was meeting their financial expectations.



18% of franchisees were meeting or exceeding their own financial expectations.

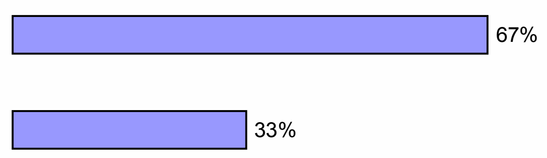
We asked franchisees if their revenues had increased over the prior year, if their profits had increased over the prior year, and if they were optimistic about the long term growth potential of their business.



Revenues and profits are down for a majority of respondents (72% report revenues did not increase, 76% report profits did not increase) over the past year. A minority of respondents (24%) respond as being optimistic about the long term growth potential for their business.

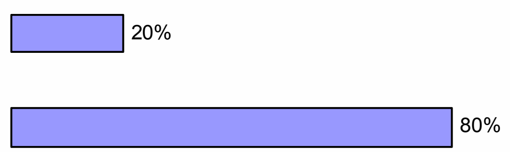
Please refer to Analysis and Commentary – Section 1, and also Section 4, for more information on profitability and how this may impact the franchise industry.

When asked if their business operation is superior to the competition,



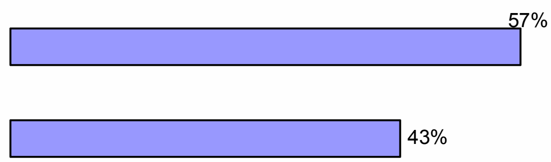
67% agreed with this statement.

When asked if franchise fees paid to their franchisor were fair,



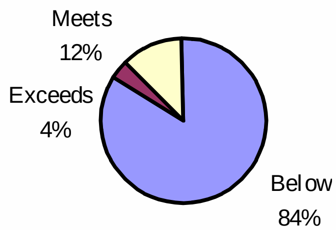
20% agreed with this statement.

When asked if their investment of time and money is greater than expected,



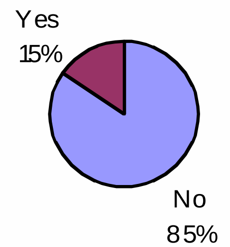
57% agreed with this statement.

From a personal satisfaction perspective,



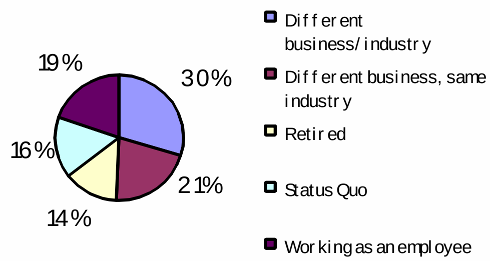
16% were meeting or exceeding their goals.

Knowing what they now know,



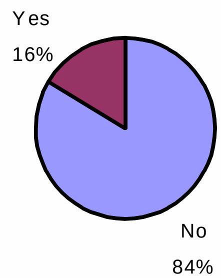
15% of respondents would be likely to invest in their current franchise if given the choice today.

When franchisees "dream" five years into the future,



16% of respondents expect to be with their current franchise.

When asked if they would recommend their current franchise to a prospective franchisee,



16% of respondents would be prepared to provide this recommendation.

Analysis and Commentary – Overall Franchisee Satisfaction

Franchisee Satisfaction Indicators Suggest Contraction in Franchising

If franchisee satisfaction is, as we believe, an important indicator of future actions, the next few years could be challenging for the franchise industry.

Future success for most franchisors is dependent on the renewal of existing franchises and the sale of new franchises. Current franchisees play an important role in this process. In addition to royalties and other payments to the franchisor, franchisees also serve as referral agents that impact on new sales. The thoughts and intentions of current franchisees is crucial intelligence for a franchisor that can aid in building their franchise network. Franchisors can improve their operations and growth by understanding current levels of franchisee satisfaction and its impact.

Franchisees have had an exceptionally difficult year – possibly the worst of their working lives. National Franchisee Survey respondents report that few are meeting their financial goals, seeing increased revenues/profits or would consider recommending their current franchise to a prospective franchisee. The vast majority do not expect to be with their current franchise in five years time. Yet a majority consider their operation to be superior to that of the competition.

The following table shows three leading indicators that are incorporated into our National Franchisee Survey.

Would you recommend your franchise to a prospective franchisee?

		Years in Operation			
		Under 1 year	1 to 4 years	5 to 10 years	10+ years
Yes	16%		20%	11%	17%
No	84%	100%	80%	89%	83%
	100%	100%	100%	100%	100%

Knowing what you now know, would you be likely to invest in your current franchise?

		Years in Operation			
		Under 1 year	1 to 4 years	5 to 10 years	10+ years
Yes	15%		18%	8%	22%
No	85%	100%	82%	92%	78%
	100%	100%	100%	100%	100%

Where do you see yourself in five years?

		Years in Operation			
		Under 1 year	1 to 4 years	5 to 10 years	10+ years
Same business (Status Quo)	16%		17%	11%	20%
Different business, same industry	21%		20%	26%	20%
Different business, different industry	30%	100%	30%	29%	24%
Working as an employee	19%		24%	26%	4%
Retired	14%		9%	9%	32%
	100%	100%	100%	100%	100%

What we see is troubling. By a wide margin, surveyed franchisees report that they would not provide a positive referral to a prospective franchisee. They also report that they would not have invested in their current franchise had they known what they now know. Since overall numbers can hide crucial differences such as those between newer and older franchisees, we also look at these indicators based on years in operation. We find similar results regardless of how long a franchisee has owned the business. This suggests that current concerns have existed for an extended period of time.

When asked about future plans, only 16% of respondents anticipate doing the same thing in five years. While only 14% anticipate retirement, 70% anticipate either owning a different business or being an employee for another business.

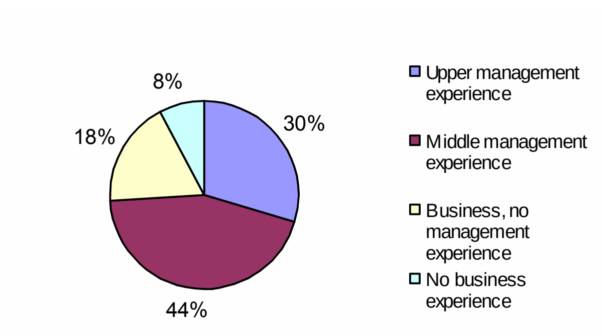
Should these patterns persist, many franchises will encounter significant challenges in the coming years. At the very least, a very large number of new franchisees will be needed to maintain the current infrastructure and revenues of the existing franchise networks. These new franchisees will be harder to find if current franchisees are not prepared to provide positive referrals. Some franchisors may choose to ignore these trends and could very well see a decline in their franchise network.

More enlightened franchisors will look inward to determine if the patterns we have identified are reflected within their network. Should these patterns be confirmed and reversed, short term benefits would likely include a reduction in costly internal litigation. Longer term trends would include a larger and growing franchise network plus a growing dominance within their respective industries.

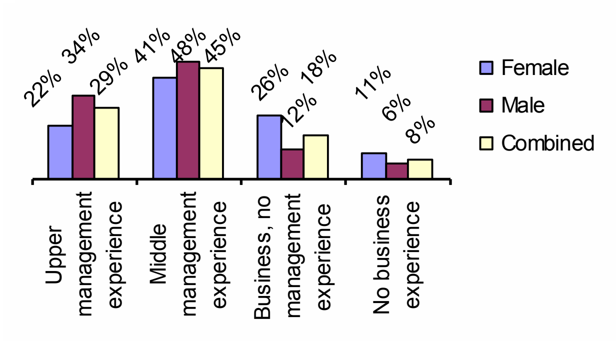
Section 2 Franchisee Profile and Business Lifestyle

This section describes the makeup of survey respondents in terms of gender, age, level of education, business experience and other criteria. We then look at the general business lifestyle in terms of hours worked along with the split between traditional and non traditional business hours.

We asked franchisees to tell us the extent of their business experience prior to opening their franchise.

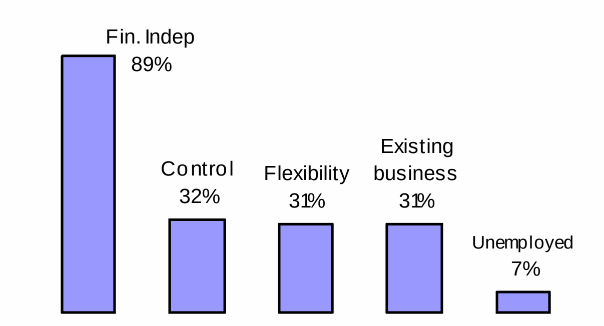


92% of respondents had some level of business experience. 74% had middle or upper level management experience. Only 8% entered franchising without any business experience.



Female respondents tended to have less business experience than their male counterparts when starting their franchised business.

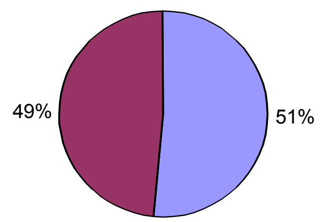
When asked why they first got involved in franchising,



the vast majority of franchisees cited financial independence as the primary reason.

(Totals do not add to 100% - multiple responses allowed.)

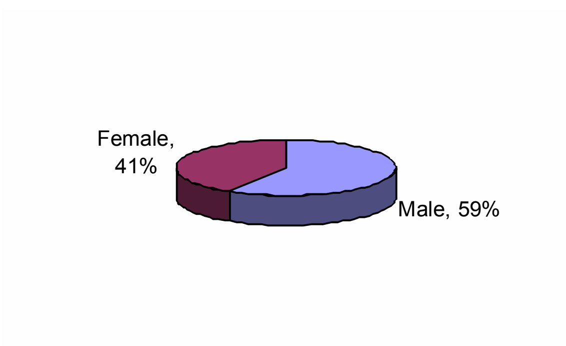
We inquired about franchisees' industry related background prior to opening their current business.



49% reported having related industry experience.

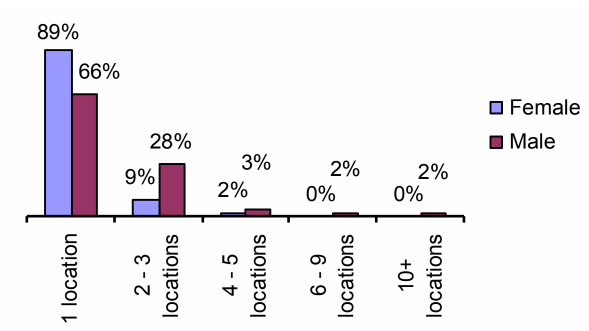
We looked closely at the profile of those who choose to get involved in franchising.

We looked at store ownership by gender.



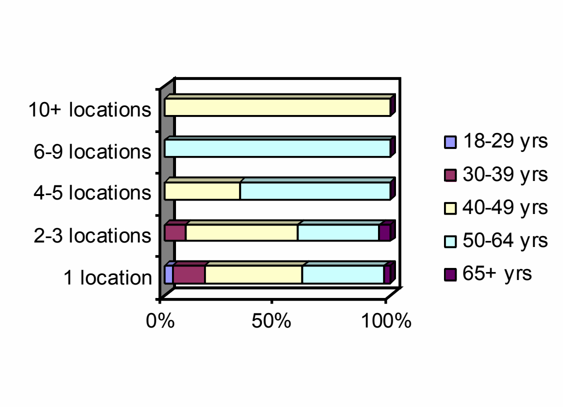
Females appear less likely than their male counterparts to pursue franchising as a business opportunity.

We looked closer at the ownership split between males and females.



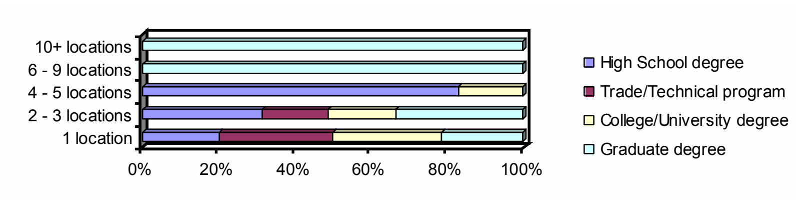
Males have a higher incidence of owning multiple locations.

We looked at store ownership by age.



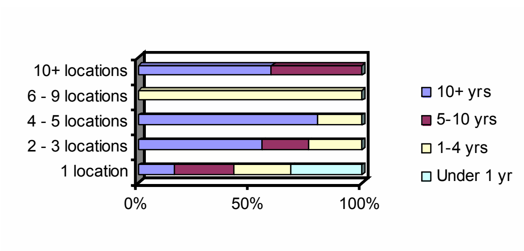
Mutiple store ownership increases with age.

We looked at store ownership by level of education.



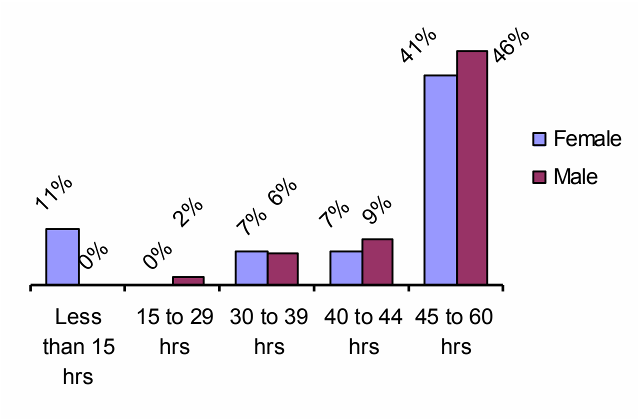
Multiple store ownership is more prevalent among those with lower (high school) and higher (graduate degree) levels of education.

We looked at store ownership by years in business.



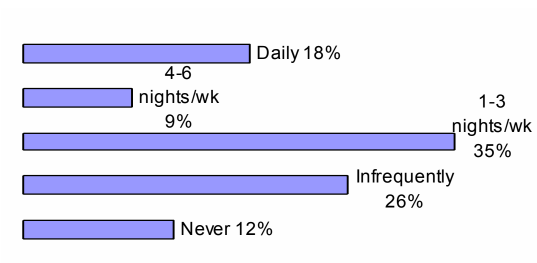
Multiple store ownership is more prevalent among those in the business for 5+ years.

We looked at home many hours the typical franchisee works.

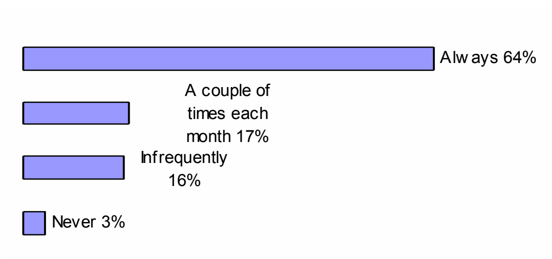


The vast majority of franchisees work 45-60 hours per week. Females more commonly work fewer hours than their male counterparts.

We looked at how often a typical franchisee works non traditional business hours.



Nearly two thirds of franchise owners work evenings at least 1-3 times a week.



64% of franchise owners always work weekends.

Gender Differences in Franchising
(How a weak economy is having a greater impact on female franchisees)

A perusal of the data would suggest that women are less successful in franchising than their male counterparts. A higher proportion of female franchise owners report having college or university degrees than their male counterparts. Women are less likely to have upper or middle management experience, while a higher percentage of female respondents report having no business experience at the time they opened their franchise.

	Women (41% of respondents)	Men (59% of respondents)
Age	40-64 yrs - 82% of female respondents	40-64 yrs - 82% of male respondents
Education	College/University or Higher - 85% High School - 7%	College/University or Higher - 80% High School - 6%
Years to Profitability	Under 3 years - 9% Not yet profitable - 87%	Under 3 years - 50% Not yet profitable - 23%
Prior Business Experience	None - 11% Bus Exp / No Mgmnt Exp - 26% Middle Management - 41% Upper Management - 22%	None - 6% Bus Exp / No Mgmnt Exp - 12% Middle Management - 48% Upper Management - 34%
Years in Operation	1-4 yrs - 61% 5-10 yrs - 24% 10+ yrs -11%	1-4 yrs - 31% 5-10 yrs - 38% 10+ yrs -31%
Hours Worked	Under 40 hrs/week - 18% 45+ hrs/week - 76%	Under 40 hrs/week - 8% 45+ hrs/week - 83%
Meeting Financial Expectations	Meeting/Exceeding Expectations - 9% Below Expectations - 91%	Meeting/Exceeding Expectations - 21% Below Expectations - 79%
Investment of money/time greater than expected	Agree - 57%	Agree - 57%
Optimistic about long term growth of the business	Agree - 11%	Agree - 31%
My operation is superior to the local competition	Agree - 52%	Agree - 78%
Profitability	Unprofitable - 80% $100,000+ in past year - 0%	Unprofitable - 35% $100,000+ in past year - 8%
Local Population	Very Small (under 50k) - 33% Small (50k to 250k) - 37%	Major Metro (500k+) - 35% Large (250k to 500k) - 25% Small (50k to 250k) - 25%
Population Density	Urban - 30% Suburban - 54% Rural - 15%	Urban - 40% Suburban - 48% Rural - 12%

When selecting a location for their business, women are more likely to locate in areas with a smaller population and less likely to locate in urban areas.

Once operating their business, female franchise owners are less likely to work the long hours needed to make their businesses successful. 18% of female respondents report working under 40 hours a week. This compares with 8% for their male counterparts.

In terms of success, women report taking much longer to achieve profitability in their business. While 50% of male respondents report achieving profitability in under three years, only 9% of women report achieving profitability during the same time. In total, 87% of female respondents report that their business is not yet profitable as compared with 37% of male respondents.

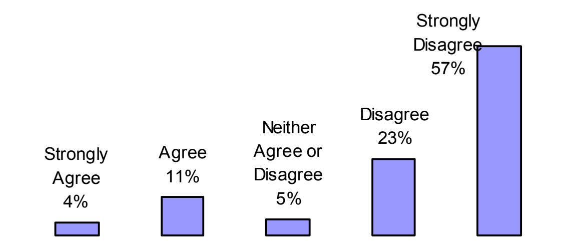
A closer look at this data, however, suggests that these differences have nothing to do with gender. Female respondents are much newer to franchising than their male counterparts. 61% of female respondents have owned their business for less than four years compared with 31% of male respondents. Having opened their franchised businesses much later in the business cycle, female owned businesses appear to have been more susceptible to the downturn in the economy as evidenced by the higher percentage of unprofitable businesses and lower percentage of those meeting their own financial expectations (9% for females, 21% for males.)

In the long run, women may be better tuned to the realities of business than their male counterparts. They seem to have more balance in that they are less likely to be working 50+ hours each week. This may explain why female respondents are more likely to give their local competition credit for running a good operation. While 55% of female respondents report that their operation is superior to the local competition, 78% of male respondents are of the same opinion.

Section 3 Understanding the Franchisor Relationship
This section explores the complex relationship between franchisor and franchisee. We explore the level of franchisee satisfaction with different areas of franchisor support.

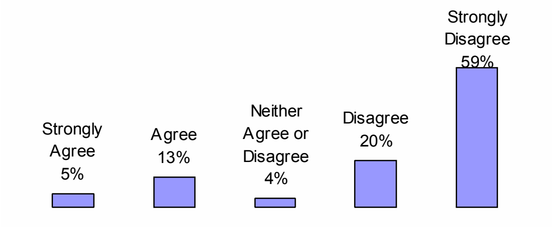
We asked franchise owners about their relationship with their franchisor.

When asked if they felt the franchisor provides a proper level of support,



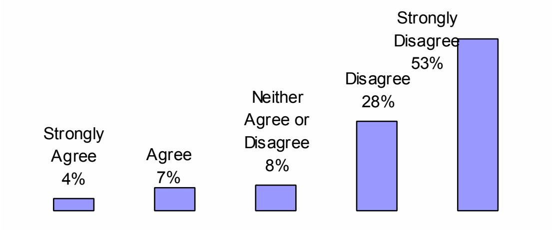
15% agreed.

When asked if they felt that their franchisor understands their day to day issues,



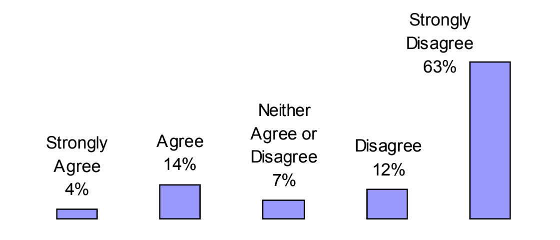
18% agreed.

When asked if their franchisor provides the tools they need to be successful,



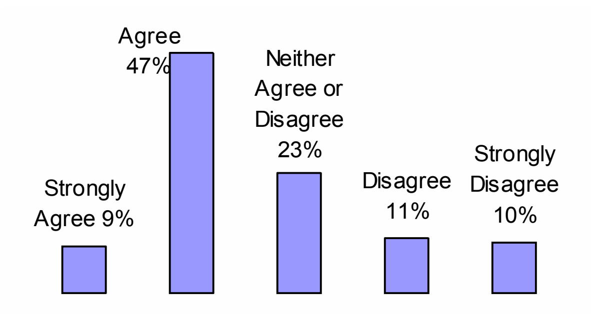
11% agreed.

When asked if they felt their franchisor is concerned with their profitability,

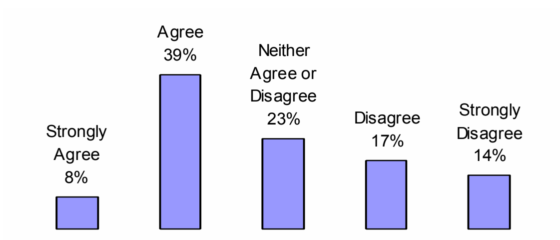


18% agreed.

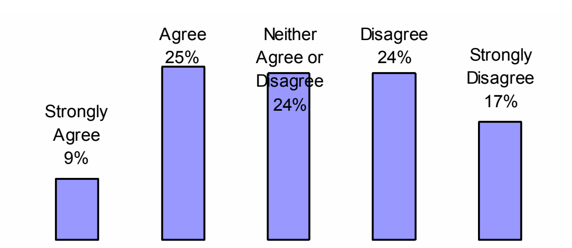
When asked about the tutorials and/or training manuals,



56% responded that these resources were available.

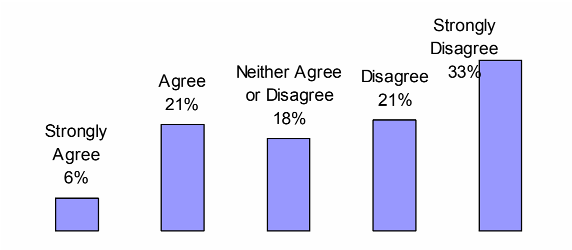


47% felt that they were easily accessible.



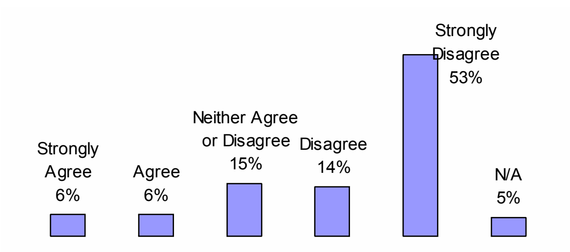
34% agreed that these resources were valuable for their own training or the training of their staff.

When asked if the technology services provided by the franchisor were adequate,



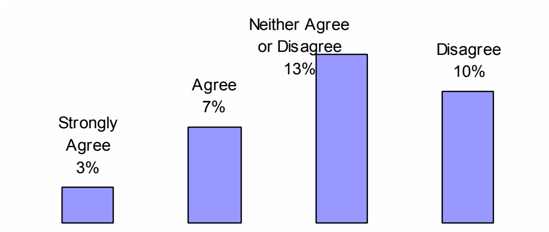
27% agreed.

When asked if the franchise newsletter was a useful informational resource,



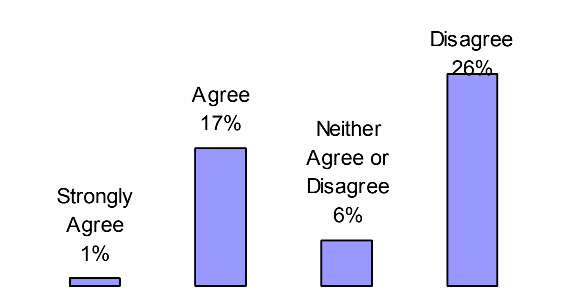
12% agreed.

When asked if the franchisor undertakes programs that drive business to their franchise,



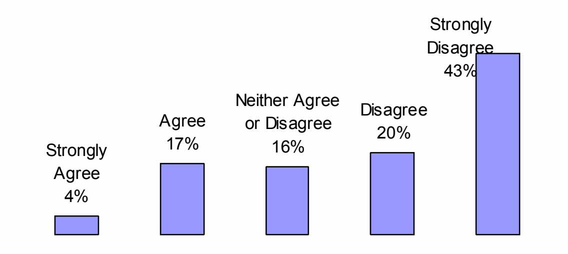
10% agreed.

When asked if the franchisor provides access to valuable vendor programs,



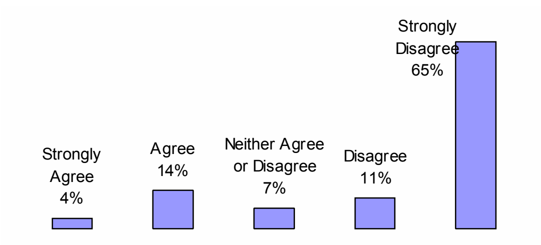
18% agreed.

When the franchisee was asked if they received training that helps them to be successful,



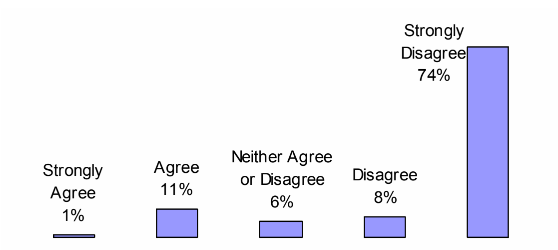
21% agreed.

When asked if the franchisor understands that “I must be successful for them to be successful”,



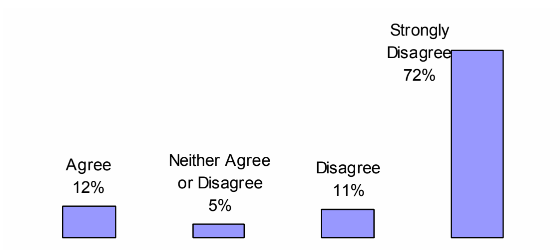
18% agreed.

When asked if they felt that their franchisor is a high quality, reliable and ethical organization,



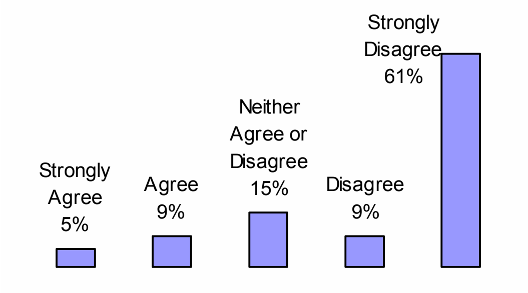
12% agreed.

When asked if the franchisor has been helpful in improving their business,



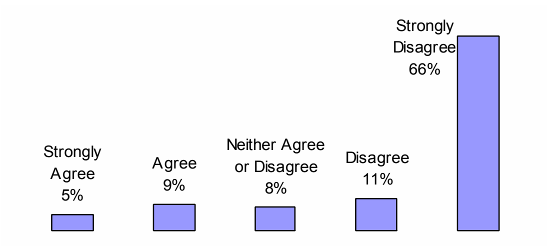
12% agreed.

When asked if they have an excellent relationship with their franchisor,



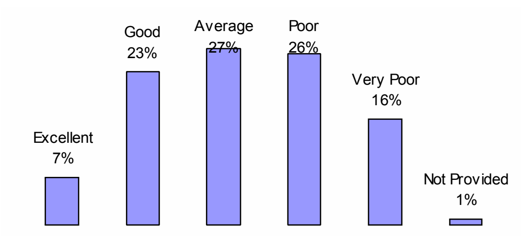
14% agreed.

When asked if they were proud to say that they belong to the franchise,

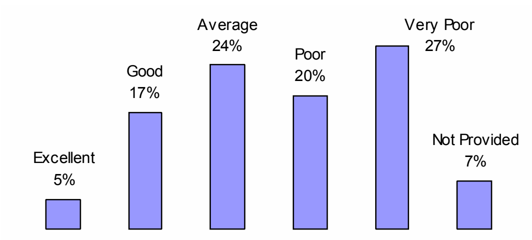


14% agreed.

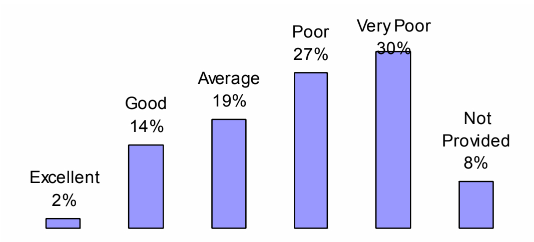
We asked franchisees to rate the quality of each type of service provided by their franchisor.



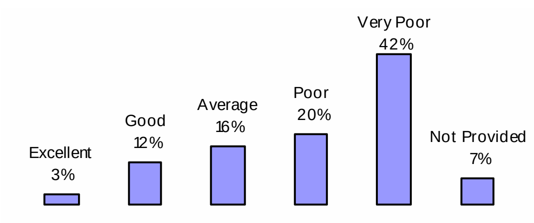
<u>Initial Training</u>
57% consider this training to be average or better.



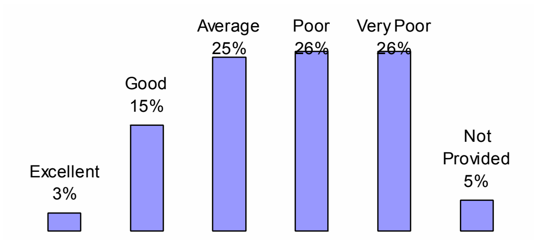
<u>Pre-opening Support</u>
46% consider this to be average or better.
7% report not receiving any pre-opening support.



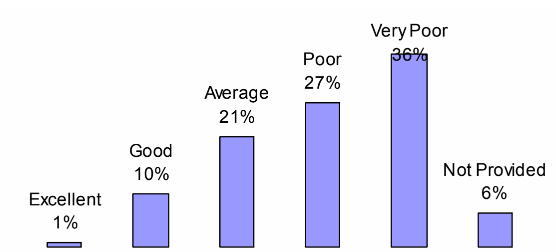
<u>Ongoing Training</u>
35% consider this to be average or better.
8% report not receive any ongoing training.



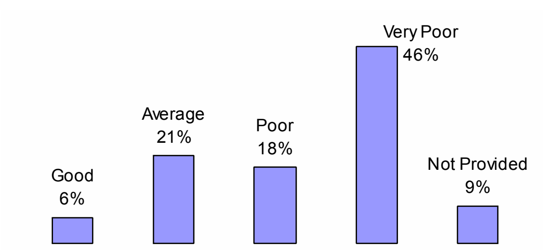
<u>Communication between Franchisees</u>
31% consider this to be average or better.



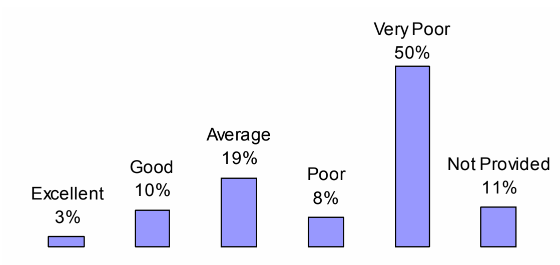
<u>Technical Support</u>
43% consider this to be average or better.
5% report not receiving any technical support.



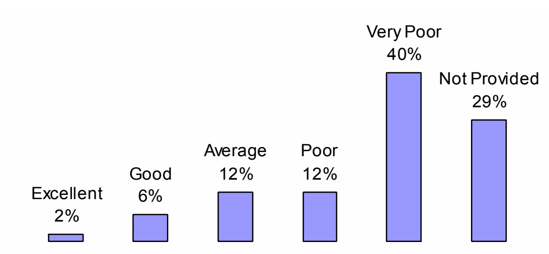
<u>Operational Support</u>
32% consider this to be average or better.
6% report not receiving any operational support.



<u>New Product/Service Introductions</u>
27% consider this to be average or better.
9% report not receiving this type of support from their franchisor.

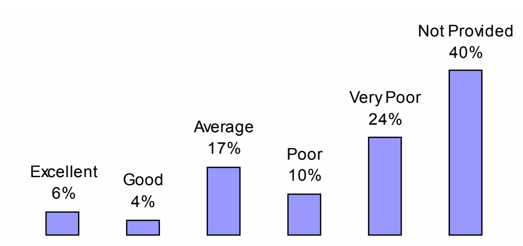


Advertising, Marketing &/or Promotional Material
32% consider this to be average or better.
11% report not receiving advertising, marketing and/or promotional material from their franchisor.

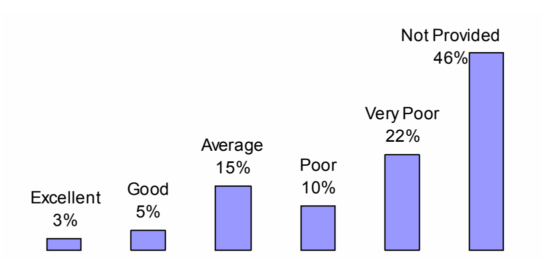


Advertising Co-op
20% consider this to be average or better.
29% report not receiving this type of support from their franchisor.

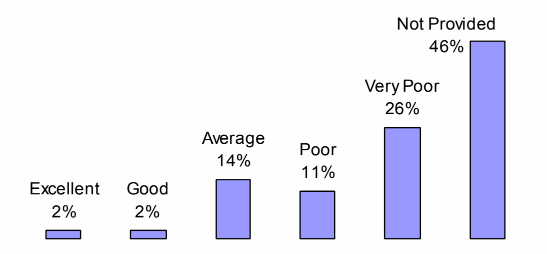
We asked franchisees to rate the quality of advertising provided by their franchisor.



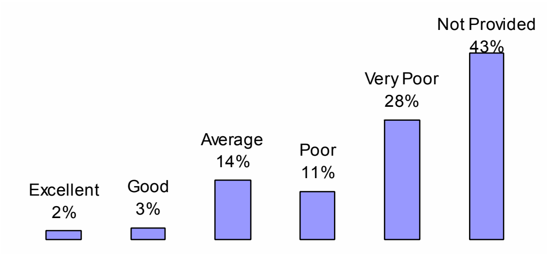
Television
27% consider this to be average or better.
40% report this as not provided.



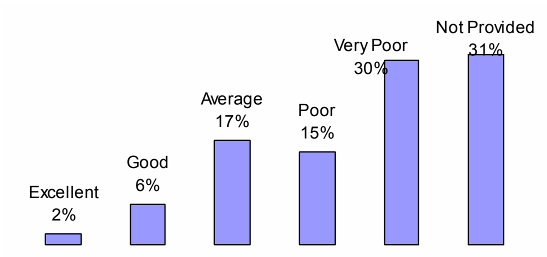
Radio
23% consider this to be average or better.
46% report this as not provided.



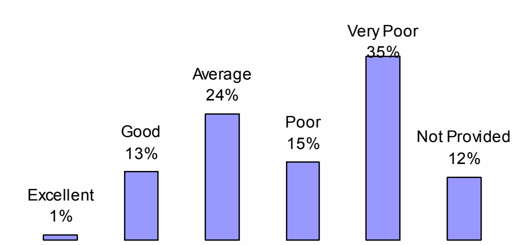
Newspaper
18% consider this to be average or better.
46% report this as not provided.



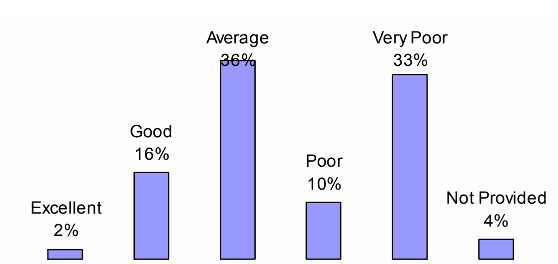
Magazine
19% consider this to be average or better.
43% report this as not provided.



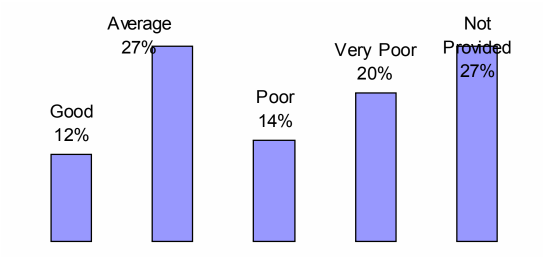
Internet
25% consider this to be average or better.
31% report this as not provided.



Web Site excluding store locator
38% consider this to be average or better.
12% report this as not provided.

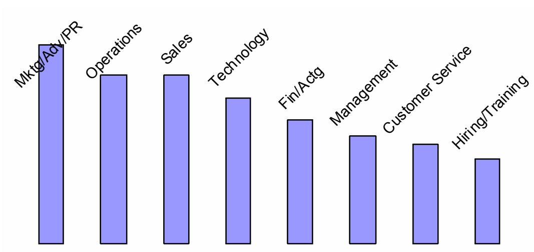


Web Site Store Locator
54% consider this to be average or better.
4% report this as not provided.



Point of Purchase (inside store) Signage
39% consider this to be average or better.
27% report this as not provided.

When asked in which areas the franchisor could improve their support to franchisees,



marketing/advertising/pr was mentioned most often, followed by operations, sales and technology services.

Critical Support Areas for New Franchisees
(Embracing New Franchisees when Unhappy Franchisees Depart)

There is considerable documentation through this report that many franchise owners are unhappy with their current situation and are contemplating changes to their career.

While some of this dissatisfaction can be attributed to a poor business climate, this report documents many areas that are more controllable. For example, many franchisees report dissatisfaction with most aspects of their relationship with their franchisor. Satisfaction ratings rarely exceed 55% and many rating categories receive satisfaction ratings in the teens. The exceptions to this are new store and pre-opening support, both of which are of short duration and received some of the best satisfaction ratings. It appears that many franchisors may be more effective at providing this shorter duration support to newer franchisees than they are at providing ongoing support.

A majority of respondents feel that the services provided by their franchisor are poor, and that the franchisor does not understand what it takes to be successful at the franchisee level. While there may be a valid difference of opinion on what is needed to be successful within a franchise, franchisors should take note that many of these franchisees would not be prepared to provide a positive franchise referral to prospective franchisees. When it comes to business generation through marketing, advertising, the Internet and in store materials, most respondents also gave their franchisor low ratings.

The bottom line is that many current franchisees appear to be contemplating or actively preparing for a career change. Only 16% of respondents anticipate continuing to operate their franchised business five years from now. While some of these individuals may choose to remain in franchising, we anticipate that the franchise industry will need to embark on a major recruitment drive to attract new recruits to the industry.

Regardless of the reason, an infusion of new franchisees will be a necessity simply to maintain the current industry infrastructure and revenues. Anything less will result in a contraction for affected companies within the industry. To prevent such a contraction within a specific franchise, there needs to be a focus on services most important to attracting and supporting newer franchisees.

Support requirements for new franchisees can be quite different than what is required by their more seasoned counterparts. More specifically, newer franchisees tend to require more (initial) training as they learn their new business. New franchisees rely on franchise newsletters (and other communications) to learn about industry best practices. They are learning new, and often proprietary, computer software. And new franchisees are cost conscious after investing significant sums of money to open a new business.

The accompanying table highlights types of ongoing support (as opposed to the shorter duration new franchisee support) from our survey that we feel are most important to the new franchisee.

	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	Strongly Disagree	n/a	
Tutorials and/or training manuals are provided	9%	46%	23%	11%	10%	1%	100%
The franchise newsletter is a useful informational resource	6%	6%	15%	14%	53%	5%	100%
Technology services available to me are adequate	6%	21%	18%	21%	33%	1%	100%
My franchisor provides access to valuable vendor programs	1%	17%	6%	26%	51%	0%	100%
I have received training that helps me to be successful	4%	17%	16%	20%	43%	0%	100%

This table shows that just 55% of respondents report receiving access to training manuals or tutorials. This does not mean that 45% of respondents do not receive training. It does mean that training may be less formal, possibly limited to verbal instruction, and most likely lacking in resources for future reference.

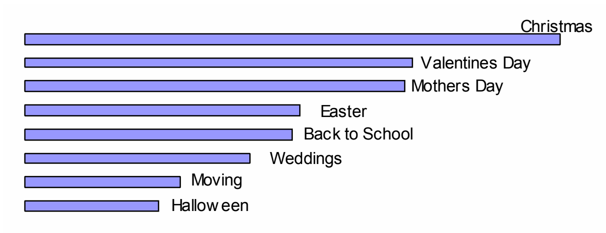
We have found that franchisees are dissatisfied with some types of ongoing support that we feel are most important to the new franchisee. Only 12% of respondents report that their franchise newsletter is a useful informational resource while 53% strongly disagree with the same statement. Overall, 21% of respondents feel that they received any form of training that helped them to be successful. Technology services are considered adequate by 27% of respondents and vendor programs are considered useful by 18% of respondents.

Franchisee support can vary widely among franchisors as can the fees paid by franchisees for this support. Franchisees paying higher fees are more likely to expect a greater level of support. Those who pay lower fees are more likely entitled to and receive lower levels of support. Regardless, lower levels of satisfaction with the support that is being provided is an indicator that some change is warranted.

As franchisors determine their need to recruit new franchisees to replace those leaving their system, it is the above mentioned areas that we feel will need to be addressed to best support these new business owners.

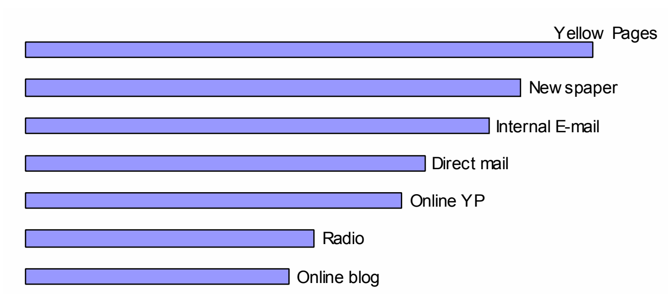
Section 4 Business Development and Economic Indicators
This section delves into factors which have an impact on business development. It explores key economic indicators such as profitability, business growth/contraction and future plans.

When asked which holidays and/or major events have a noticeable positive impact on their business,



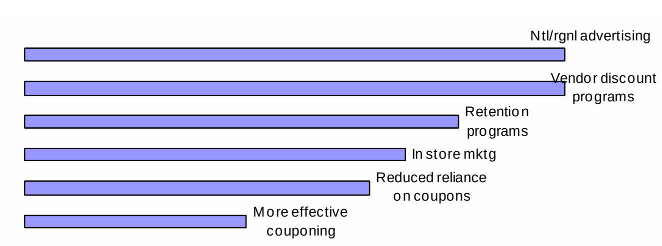
Christmas, Valentine's Day and Mother's Day were the most frequent responses. Notably absent are all major sporting events.

When asked which advertising methods have been used to promote your business over the past 12 months,



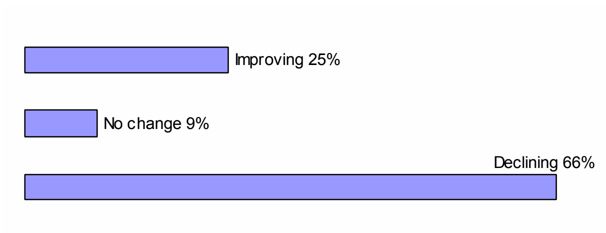
Yellow Pages, newspaper and e-mail to an internal distribution list were the most common responses, followed closely by direct mail and online yellow pages advertising.

When asked which business development services, among those not presently offered by your franchisor, you would like to see being available to you,

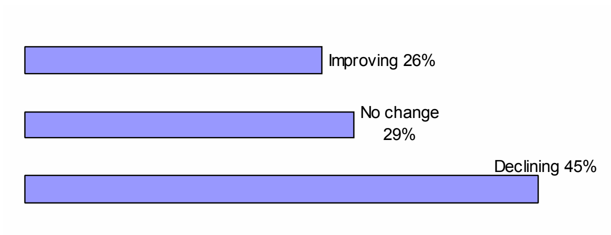


national or regional advertising was the most common response, followed by vendor discount programs and customer retention programs.

When asked to describe the direction of their business over the past year and into the coming year,

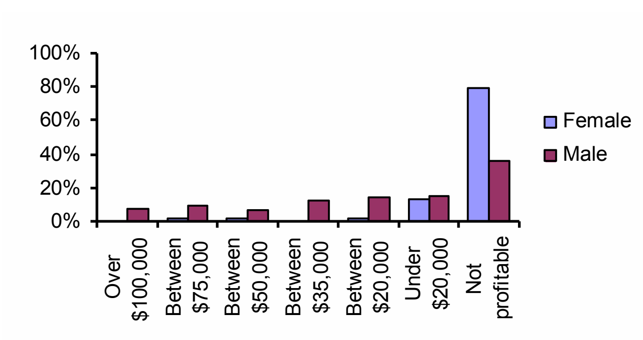


25% reported their business over the past year as improving with another 9% reporting no change in business.



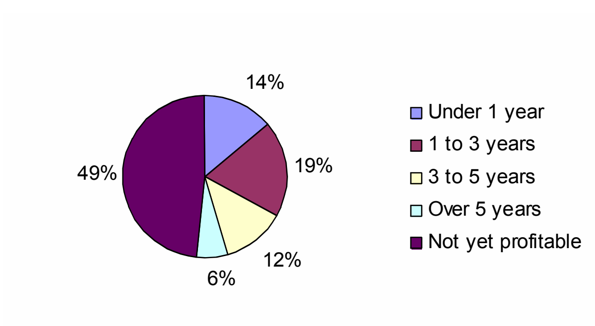
26% anticipate an improvement in business during the coming year while 29% anticipate no change in business.

When asked the profitability of the business during the most recent calendar year,



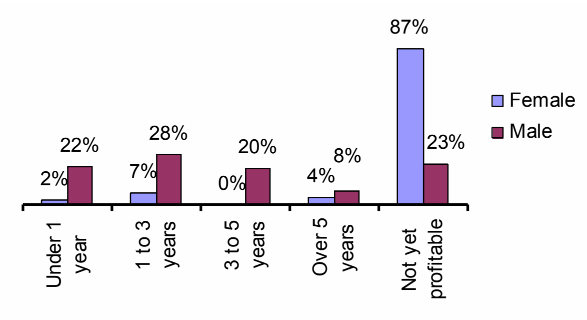
80% of females stated their business was not profitable as opposed to only 35% of males. Overall, males report significantly higher profitability than females.

When asked how many years did it take for the business to become profitable,



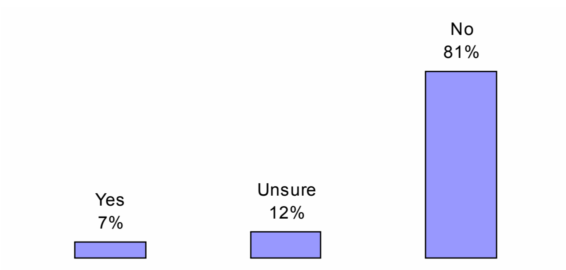
49% responded that their business was not yet profitable. 33% responded that it took less than 3 years to reach profitability. 45% of franchises reached profitability in under five years.

Looking at years to profitability by gender,



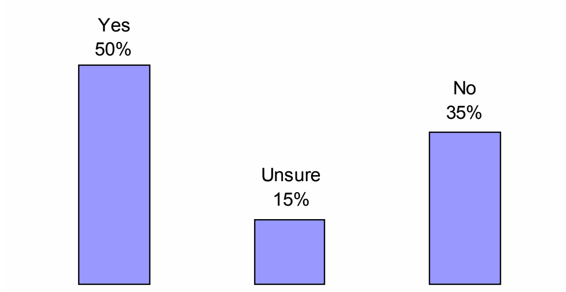
females report taking far longer to reach profitability than their male counterparts.

When asked if they had plans to open additional locations in the future,



7% reported that they planned to do so.

When asked if they anticipated closing any existing locations in the future,



50% reported that they expected to do so.

Analysis and Commentary - Business Development and Economic Indicators

In the longer term, franchisors can only succeed when franchisees are profitable. To better understand the current profit situation among franchisees and its trending, three separate commentaries are provided. Each commentary provides a different perspective on profitability, as we see it, in 2010.

Newer Franchisees Taking Longer to Become Profitable

It is often said that the most important criteria in determining success for a local business is location. What this means, however, has always been subject to interpretation.

A downtown business may have lots of potential customers but also lots of competition, high rent and more staff to service these customers. A rural business may have fewer potential customers, less competition and fewer fixed costs such as rent. Success depends on how a business is able to balance its revenues and expenses to produce the single factor that defines viability – profit. While a successful business involves many qualitative factors not measured in the National Franchisee Survey, we are able to look closer at some demographic information.

Table 1

		Years in Business			
Years to Profitability		Less than 1 year	1 to 4 years	5 to 10 years	10+ years
Less than 1 year	14%		10%	5%	36%
1 to 3 years	19%		22%	16%	20%
3 to 5 years	12%		4%	22%	16%
Over 5 years	6%			8%	16%
Not yet profitable	49%	100%	65%	49%	12%
	100%	100%	100%	100%	100%

Table 2

	Population			
Years to Profitability	Very Small - under 50k	Small - 50k to 249k	Large - 250k to 499k	Major Metro - 500k+
Less than 1 year	12%	3%	24%	19%
1 to 3 years	4%	24%	19%	25%
3 to 5 years	12%	9%	5%	19%
Over 5 years	12%	3%		9%
Not yet profitable	60%	62%	52%	28%
	100%	100%	100%	100%

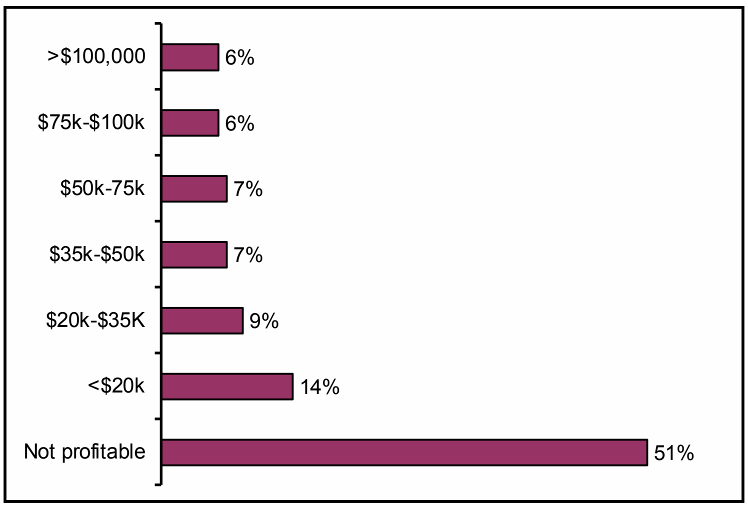
For businesses in operation 10+ years, 36% of respondents state that they reached profitability in less than one year. This is a dramatic contrast to newer franchises who report taking much longer to become profitable. As a basis for comparison, Table 1 includes the percentage of stores not yet profitable based on years in business. As expected, this percentage decreases over time.

Franchises located in population centers of 250,000+ (Table 2) report achieving profitability in a much shorter period than those in smaller population centers. They also report a lower percentage of unprofitable businesses. Frequently, these larger population centers are more costly areas in which to operate and often have more competition. Nevertheless, these operations report a much faster time to profitability.

Despite what can be assumed to be higher operational costs and cash flow requirements, it appears that franchises located in higher population centers took considerably less time to become profitable than those located in smaller population areas.

Franchisee Reported Earnings

Much of the reporting on franchisee profitability seems to be overstated. To cite one example, the USA Franchisee Statistics page on www.franchiseseek.com states that "In 2000 …. over 30% of franchisees earn over $149,000 per year." This profit level of about $149,000 is not inconsistent with what is represented elsewhere on many sites on the Internet.



Such a high figure may be more fiction than fact. In a country where the average income is under $50,000 a year and a true unemployment rate in the 10% to 20% range, this figure just doesn't pass the smell test. It seems overly optimistic to believe that franchised business operations are a safe haven offering a guaranteed substantial income during difficult economic times.

National Franchisee Survey respondents report much lower levels of income. Only 6% of respondents earned more than $100,000 over the past calendar year. 19% reported earning in excess of $50,000 a year

This is quite a contrast to the $149,000 figure cited above. At the other extreme, 51% of respondents reported that their business is not profitable

Profitability of Multi Unit Franchisee Operations

National Franchisee Survey respondents report that their multi unit operations are more profitable than single unit operations. These multi unit operations, however, do have a greater likelihood of incurring business losses.

Not surprisingly, single location operations account for 75% of all respondents with declining percentages for multiple store operations. To better evaluate the profitability of multi store operations, the table below separates single unit franchisees from multi unit franchisees.

It can reasonably be assumed that franchisees who own more units have invested more money in the hope of greater profitability. That is, opening four locations costs more than opening a single location and should result in higher overall profits. However, there is also a high risk of greater financial losses since success is never guaranteed. This is consistent with our findings. A majority of franchisees (80%) with four or more locations reported annual profitability of $75,000+. The remaining 20%, however, were not profitable. There was no middle ground. Respondents report either high profitability or no profitability.

	All Respondents	1Location	2-3 Locations	4+ Locations
		75% of reporting franchisees	20% of reporting franchisees	5% of reporting franchisees
Not profitable	54%	53%	64%	20%
Under $20k	15%	17%	9%	
$20k-$35K	9%	8%	14%	
$35k-$50k	7%	8%	5%	
$50k-75k	5%	6%		
$75k-$100k	6%	6%	5%	20%
$100,000+	5%	1%	5%	60%
	100%	100%	100%	100%

Single location franchisees account for 75% of survey respondents. They report a wider range of incomes with 21% reporting income in the range of $35,000 or higher.

Most surprising are the results from franchisees owning two or three locations. This is the group that reported the largest percent of unprofitable operations.