



NatWest bfa Franchise Survey



2013



providing intelligence

Background to the survey

This document reports the results of the 29th annual survey amongst franchisors and franchisees in the UK, conducted on behalf of the British Franchise Association and sponsored by NatWest.

Primary research was conducted using computer aided telephone interviewing (CATI) between June and July 2013. Interviews were completed with both franchisees and franchisors, speaking to directors and managers of franchise systems in addition to owners / partners of franchise units. This report combines these primary survey results with external industry expert and statistical sources.

Undertaking the survey on an annual basis enables us to identify long-run trends on key measures which form the core tracking element of the study, whilst the additional variable content allows the study to be flexed to maintain relevance and interest for the franchise community taking part.

In 2013 the survey timing has moved from the end of the year prior to the 'reporting' year to mid-year in the year of reporting. The apparent anomaly of 2011 data being reported in 2012 (as in the last report) has, thus, been removed. This allows us to report the present results as being 2013 data, but with it being 18 months since the previous data collection there is the appearance of a one year 'gap' in the data record, with no data point for 2012 (as the data in the 2012 report were collected at end-2011).

Within BDRC Continental, principal authors of this report are Richard Smith and Bethan Cooke, with additional editing, input and review from Dr Crispian Tarrant, Chief Executive of BDRC Group.

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The contribution of franchising to the UK economy

There are **930 franchise systems** in operation in the UK

- This is a net change of plus one system on 2011, and is a figure that is an 11% increase in system numbers since the start of the recent recession in 2008
- **4 in 5** of the franchise systems in the country are now **UK owned and run**
- **1 in 4** of the franchise systems in the UK **export** their business model abroad

The total number of people employed in franchising in the UK is **561,000**, of which just under half are in full time employment

- This represents a 20% increase in franchise employment over the past 5 years
- Over a ¼m full time jobs in franchising in the UK are recorded for the first time ever

The overall contribution of franchising to the UK economy is **£13.7 billion**; which equates to just under one per cent of GDP

This contribution has grown by 20% over the past 5 years, whilst the overall economy has shrunk 2.5% over the same period

The contribution of franchising to the UK economy

Between them, the systems in the UK operate a total estimated at **39,000 franchised units**, which represents:

- A 7% increase over the past 5 years
- With the largest 9 systems operating over 8,500 units between them

There are reckoned to be **22,400 franchisees** in total (as 1 in four run multiple units)

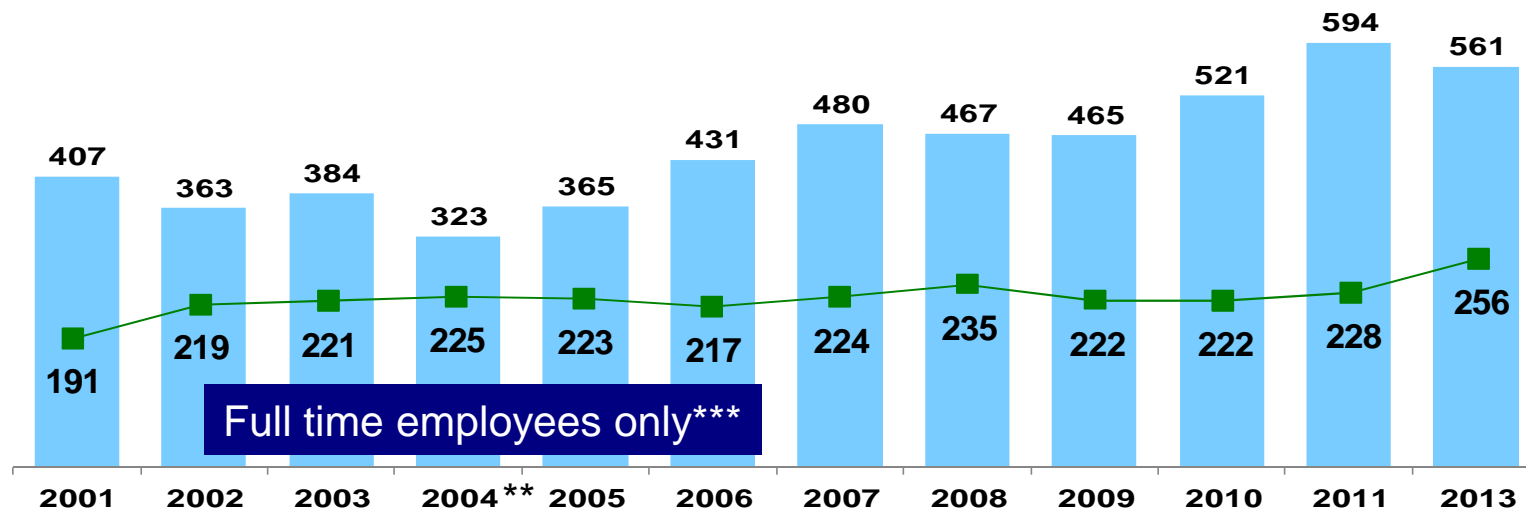
92% of franchised businesses are at least ‘marginally profitable’, with 49% saying they are either quite profitable or very profitable (albeit 8% are currently loss making)

- **88% of franchisors expect improved trading conditions** for their own businesses in the coming year. Although somewhat less bullish, still 54% of franchisees are anticipating the next 12 months to be better

Recruitment is the single biggest on-going challenge for franchisors: on average it takes 250 leads and 25 interviews to sign up each new franchisee – but then the strong financial performance of franchisees in the UK indicates the benefit of the franchise system in filtering out unsuitable applicants

The last 18 months has seen a shift from part time to full time jobs, with over a quarter of a million employed full time in franchising

Total Number Employed in UK Franchising '000's



As the chart illustrates, there is some volatility in the employment estimate as this is based on mean figures calculated from the survey. Nonetheless, the overall trend is upwards, particularly amongst full time employees. The indications this year would suggest fewer part timers and more full timers are being employed.***

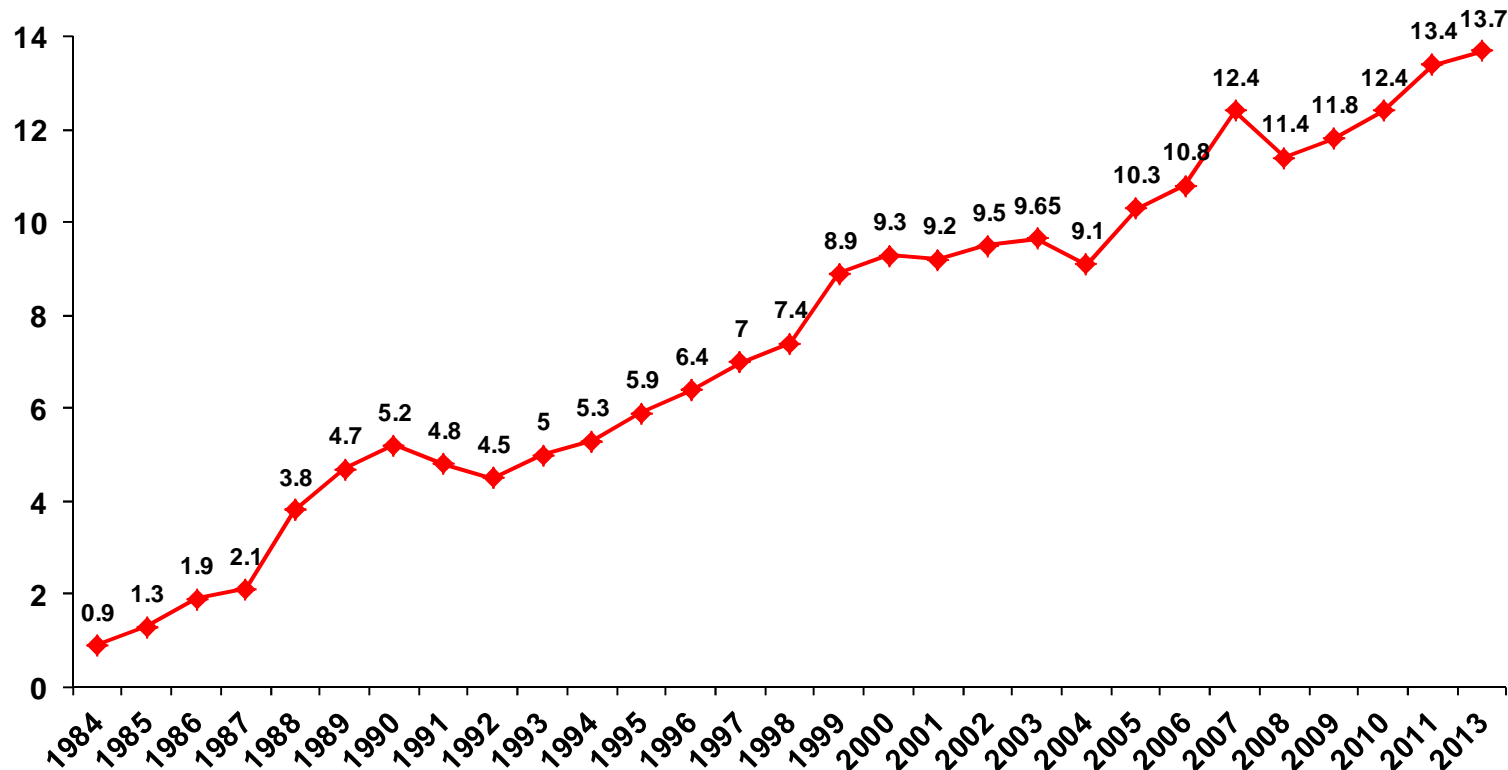
* Figures rounded to nearest thousand

**Zurich withdrawal from franchising

***Three year rolling averages

Franchising's contribution to UK plc is calculated to be £13.7 billion for the last year

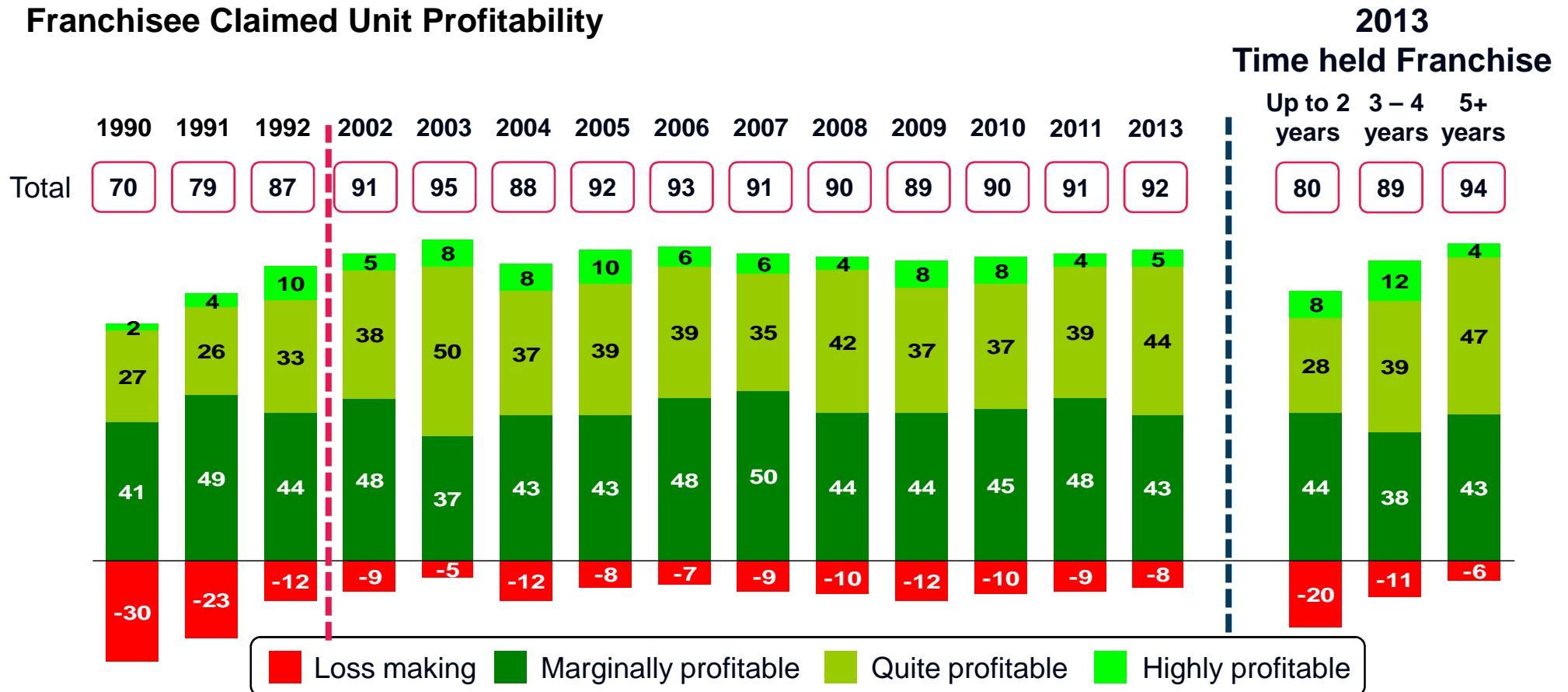
Franchising Industry Turnover (£bn)



The total economic contribution of the franchise industry now stands at approximately £13.7 billion, up just over 2% on last year's figure. Whilst there has been a reduction in the overall number of units, the rise in the mean turnover figure generates an overall uplift in the headline figure, showing that those franchises remaining in the industry are operating more successfully than before.

Over half of franchisees report good profitability

Franchisee Claimed Unit Profitability



A key indicator of the health of the franchise industry is the extent to which each individual franchise unit considers itself to be profitable or not. The current year sees a strengthening of claimed profitability, as the proportion of franchisees considering themselves to be 'quite' or 'highly' profitable increases to a level not seen since 2005. This is a positive sign that the industry is beginning to recover post-recession. That 4 in 5 new franchises are profitable inside two years also is positive.

Franchisee Demographics

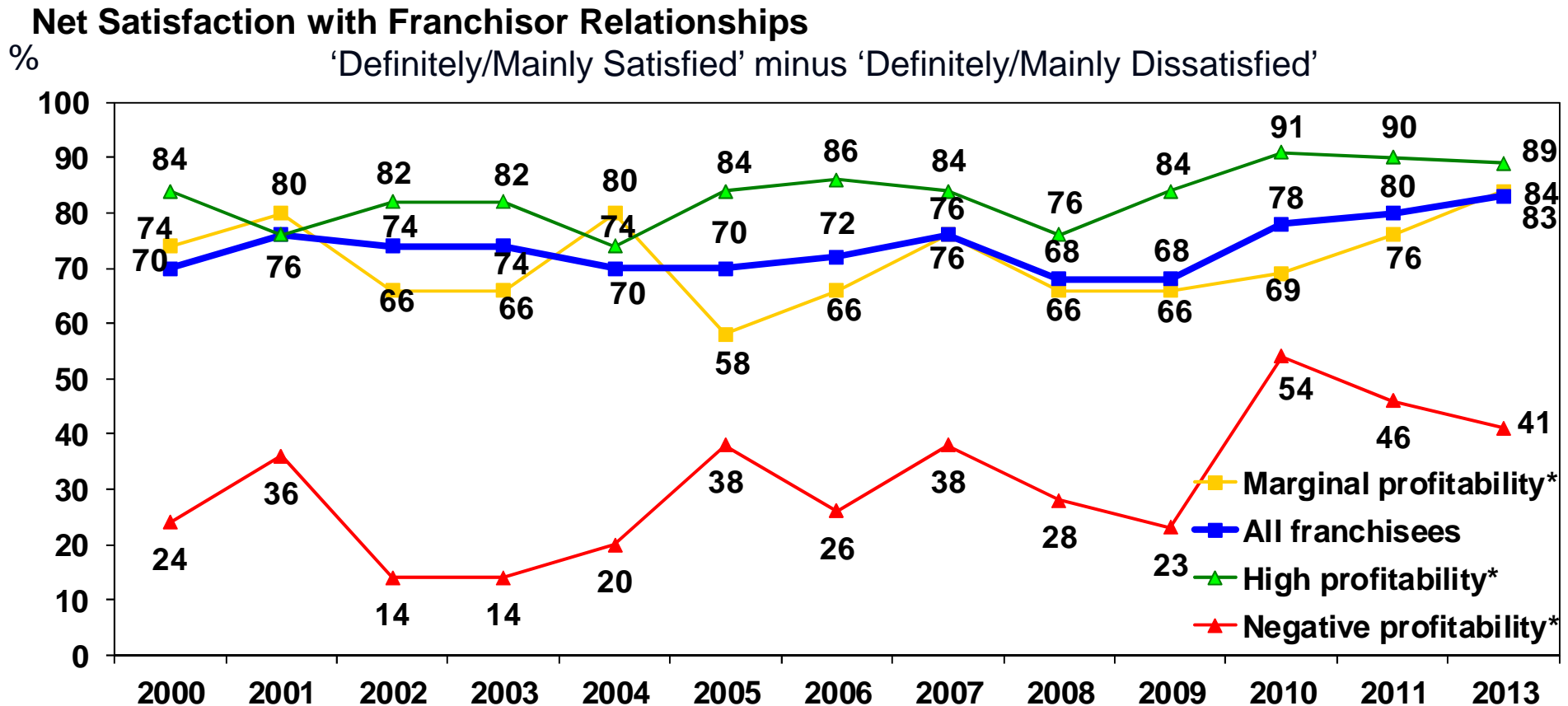
Profile Characteristics of Franchisees

| | All Franchisees | | | New Recruits - all held Franchise 2yrs or less | | |
|---------------------------|-----------------|-----------|-----------|--|-----------|-----------|
| | 2005 | 2011 | 2013 | 2005 | 2011 | 2013 |
| AGE: | % | % | % | % | % | % |
| Up to 30 | 10 | 5 | 7 | 17 | 14 | 22 |
| 31 – 40 | 20 | 15 | 21 | 27 | 31 | 19 |
| 41 – 50 | 32 | 31 | 34 | 35 | 39 | 42 |
| Over 50 | 37 | 49 | 38 | 20 | 19 | 17 |
| Typical (mean) age | 46 | 49 | 47 | 41 | 41 | 41 |
| Male | 80 | 72 | 70 | 84 | 62 | 82 |
| Female | 20 | 28 | 30 | 16 | 38 | 18 |

The proportion of female franchisees has steadily increased over the past 25 years. However there are indications that the proportion of recent female entries has fallen. Next year's data will determine whether this is a 'blip' or a trend.

It's worth noting that on average, franchisees are in their early 40's when they start out and that around one in six new recruits are aged over 50.

Franchisee relationships with franchisors are generally very good



The last few years have certainly presented some tough trading conditions. Within this context it's highly reassuring to see that franchisee-franchisor relationships have, on average, never been better with a net satisfaction figure of +84%. Some of the few struggling to turn a profit are somewhat less satisfied, but even for them the position is much better than it was a decade ago.

Statistical Confidence

Note on Statistical Confidence

Much of this report is based upon the findings of survey research studies, to which statistical confidence limits apply.

Taking the 95% confidence interval the following indicative ranges apply to the survey findings:

Survey Findings At Or About

| | 5% / 95% | 20% / 80% | 50% |
|---------------------------|----------|-----------|-------|
| Franchisor survey (n=150) | +/-2% | +/-3% | +/-4% |
| Franchisee survey (n=330) | +/-3% | +/-5% | +/-6% |

Note that the finite population correction applies to the franchisor sample. Since the sample is a substantial proportion (16%) of the population this enhances our statistical confidence in the survey findings.

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