

National Survey of Franchisees 2015

Results for California

An Analysis of California Survey Results

FRANCHISE**GRADE**COM

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Introduction

The National Survey of Franchisees is a survey of franchisees located across the continental United States and within the state of California. FranchiseGrade.com was approached by Change to Win, a federation of North American labor unions including the Service Employees International Union, the Teamsters and the United Food and Commercial Workers (UFCW), to develop and conduct a survey of franchisees, and various dimensions related to their satisfaction.

Some of the topics covered in the survey include satisfaction, level of work and business experience, degree of investment due diligence, types of financing and assets pledged, relationship with franchisor, and economic success.

The collection period for the survey was February 16, to March 16, 2015.

The survey sample is drawn from FranchiseGrade.com's comprehensive frame of Franchisees. The Frame of Franchisees is a list of 282,809 unique franchisees nationally, and 39,681 in California. This survey frame defined the population to be surveyed. The target population for the survey was franchisees that have been a franchisee for one year or more.

FranchiseGrade.com's survey frame is based on public and proprietary information. The public information used to compile the survey frame includes 2,419 franchise disclosure document (FDD) filings gathered from registration states and other sources. The U.S. Small Business Administration Franchise Registry, the International Franchise Association, and a variety of lead generation websites were used to confirm the completeness of the list of franchise systems and FDDs from which franchisee contact information had been gathered. In addition to this information being used to triangulate and validate the list of franchise systems and franchisees locations and names, FranchiseGrade.com's substantial internal listings are used to validate the population of franchisees.

Questionnaire Design

Discussions were held between FranchiseGrade.com and Change to Win (CTW) in order to develop the questionnaire. Where possible, standard questions that have been previously validated by FranchiseGrade.com were used as well as questions that are common to survey sampling.

Sampling

This is a sample survey with a cross-sectional design. Using FranchiseGrade.com's survey frame of franchisees, respondents were randomly selected from the frame and invited to participate in the survey. Probability sampling was used for the identification of the sample. This involves the selection of units from the population of franchisees based on the principle of randomization. Probability sampling implies that each sampled unit's inclusion probability can be calculated.

For the National survey, the probability sample design used was stratified simple random sampling. The strata were defined based on two geographic regions: (1) United States (for the continental states--Alaska and Hawaii are not included in the sample), and (2) California.

Within each geographic strata simple random sampling was used. The simple random sampling selection method ensures each franchisee within the population stratum has an equal chance of being selected; thus, each unit in the sample has the same inclusion probability equal to n/N , where n is the sample size and N is the number of units in the population.

The total full response sample size for the National survey is $n=1,122$; with 633 from U.S. all states without California, and 489 from California.

Survey Collection

A self-enumeration method was used for data collection. The survey was completed electronically. Respondents followed a unique web-link to their survey; they then completed the questionnaire without the assistance of an interviewer. This method was appropriate given the care put into developing a well-structured questionnaire. Ease of use was enhanced by including, with the questionnaire, clear instructions for the participant.

Weighting

For the National survey, a weight that adjusts for the probability of selection was used for the analysis. The inverse of the probability of selection is the weight used for each respondent's record. The weights are based on franchisee population control totals from the survey frame. The National control total is $N=282,809$ and the California total is $N=39,681$.

Similar to other sample surveys, this survey has some item non-response. Item non-response occurs when participants do not provide responses to all of the questions in the survey. For the national survey, only 10.6% of the observations had one or more missing values ($133/1255=.10597$), with 1122 participants providing full responses.

To assess the potential bias of the sub-sample with non-response we investigated whether there was any significant difference between the estimates generated for the full response participants and the estimates generated for those with some item non-response. The results indicated that out of 228 tests there were only 3 significant differences (1.3%) and in these cases the differences were mainly driven by low frequency in the category of the variable estimates being tested. The tests used to obtain these results include Pearson chi(2) tests, paired t-tests for proportions, and a bootstrap analysis to account for potential sample variability.

Given the broad similarity between those with full responses and those with some item non-response, the results indicate that the missing records are missing at random. Thus, imputation methods were not used to permit the inclusion of all the records collected; this was done to preserve the relationships between the actual responses and avoid any potential distortion in the underlying relationships that may result from imputation of non-response items. The results presented in this report include only the full response records ($n=1122$). The weights used for the analysis were adjusted for non-response.

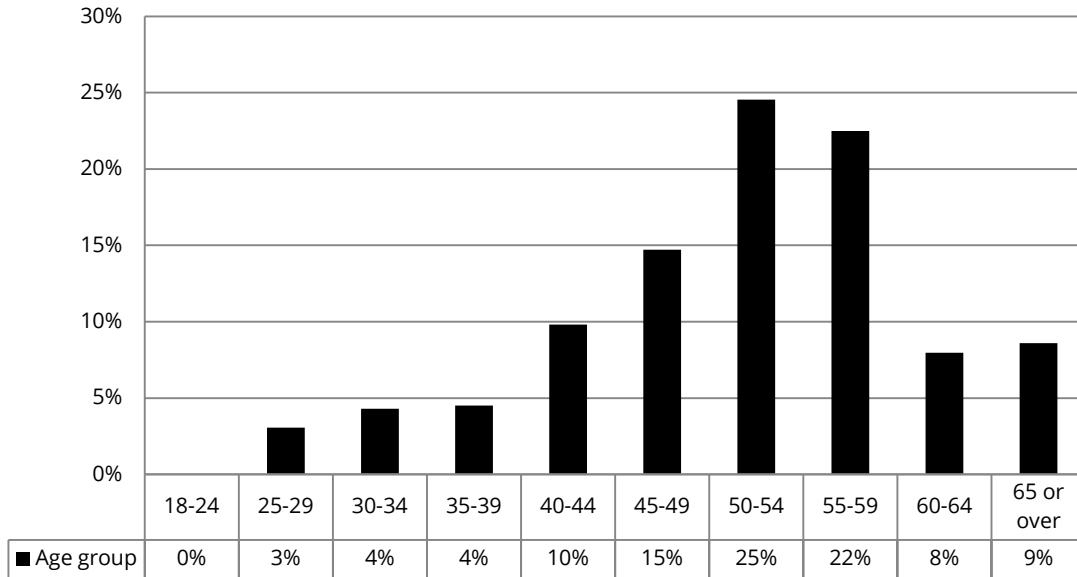
Precision

For the full response sample of $n=1122$, the margin of error is plus or minus 2.98 percentage points at the 95 percent confidence level. For a sample of about 600 surveys, the error due to sampling is plus or minus 4 percentage points at the 95 percent confidence level (i.e. 19 times out of 20). This assumes that the true proportion of the population (of interest) is equal to 50%. The sampling error associated with contingency analysis is higher. The data records received from the survey participants were reviewed to ensure the validity and completeness of the questionnaires.

Survey Results

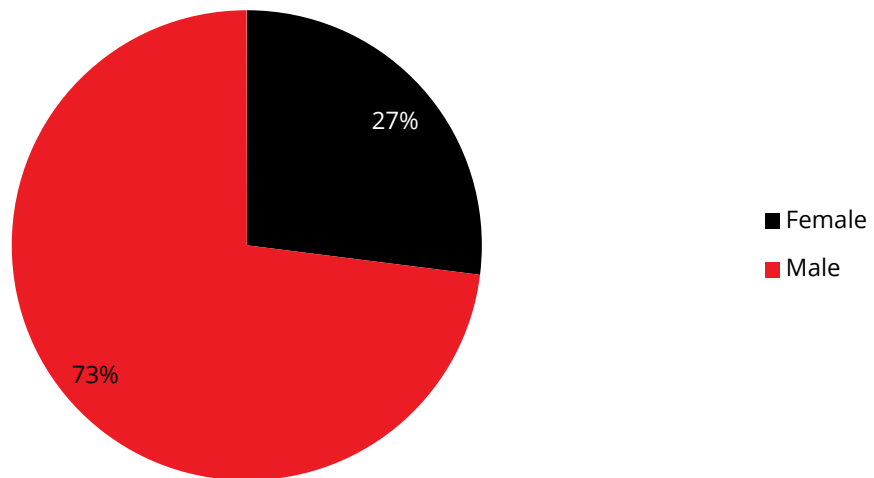
Demographics

What age group do you fit in?



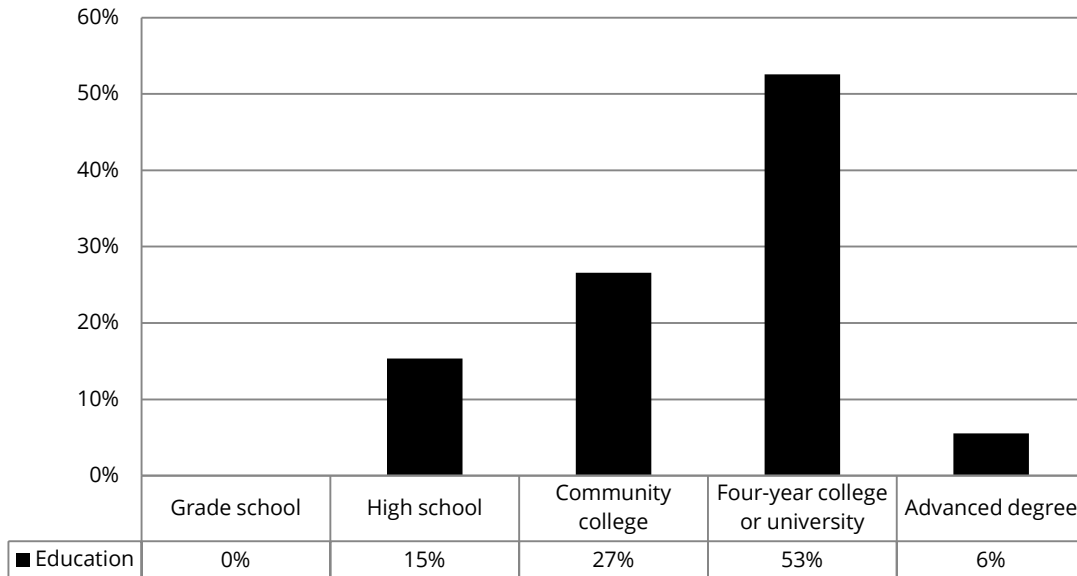
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

What is your gender?



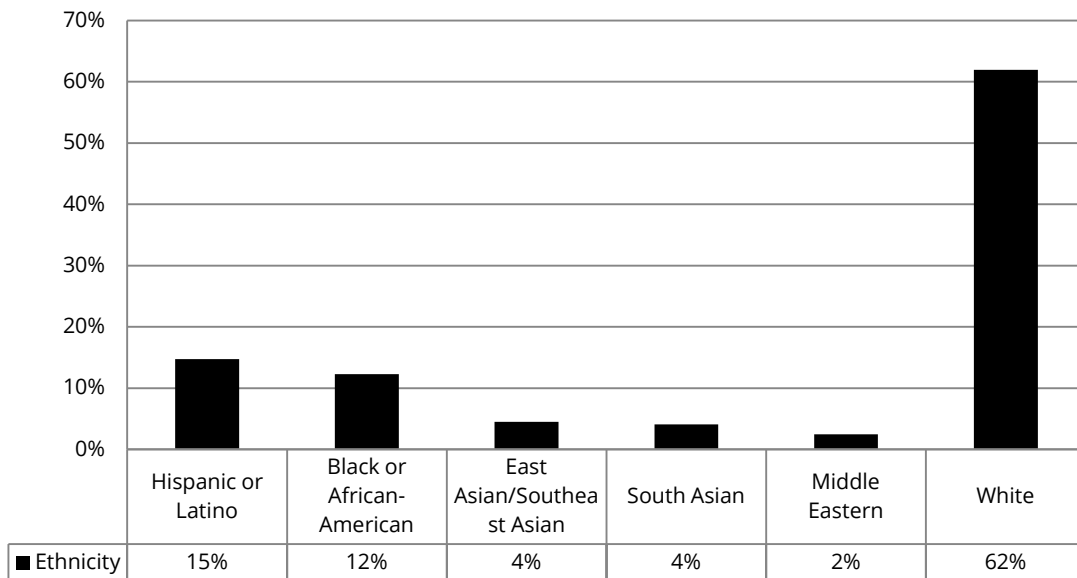
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

What is the highest level of education you have completed?



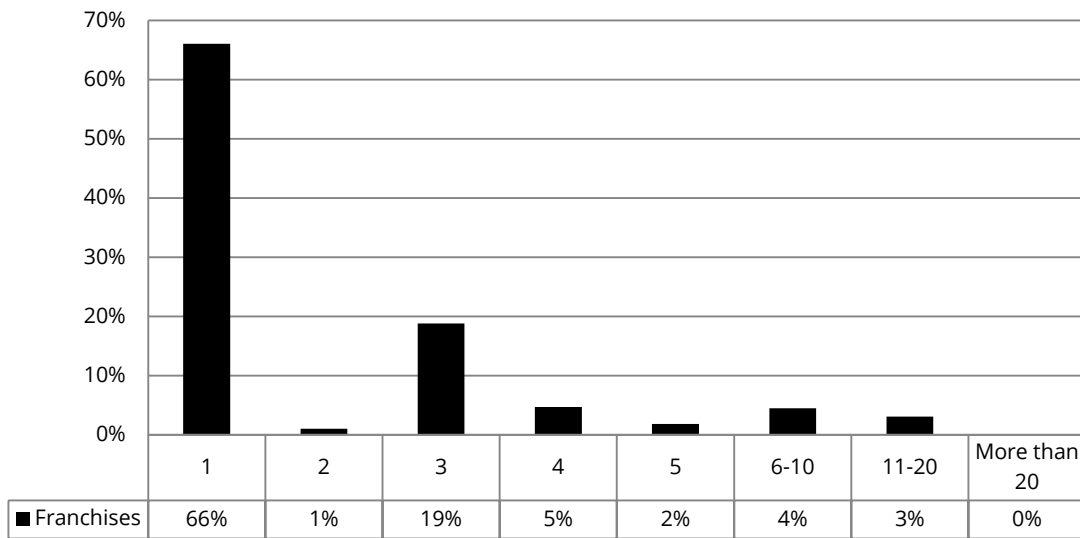
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

What is the main ethnic group or race you identify as?



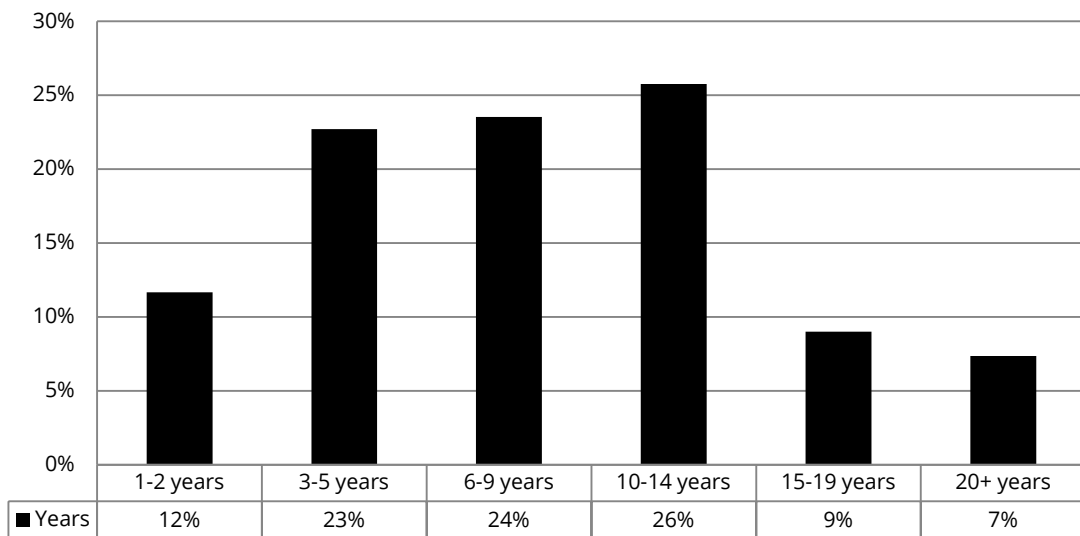
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

How many franchises, stores, locations or territories do you own of this franchise?



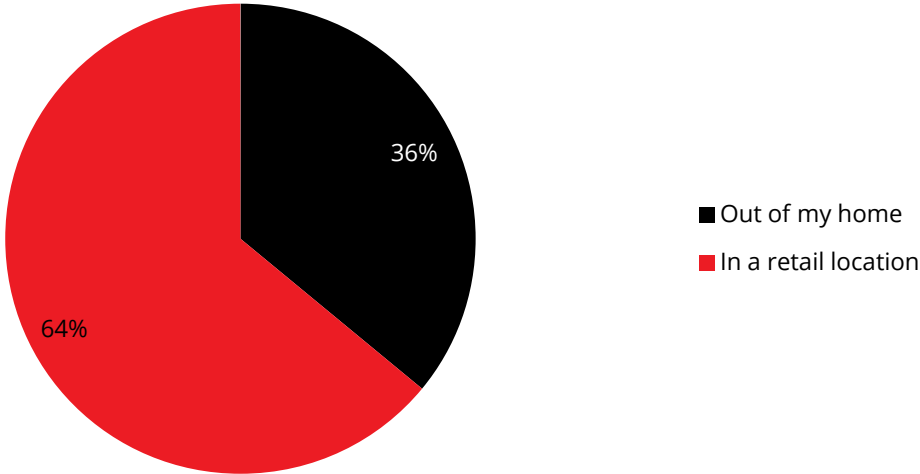
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

How long have you been a franchisee in this franchise system?



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

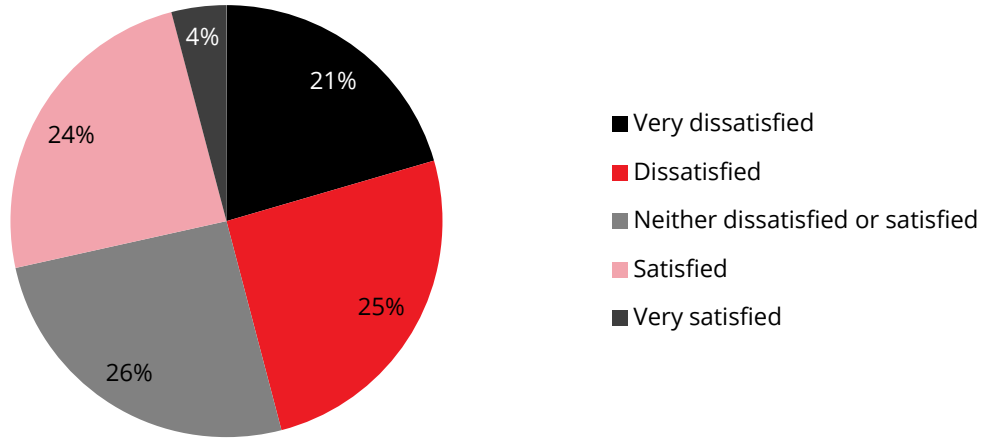
Where do you operate your franchise?



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

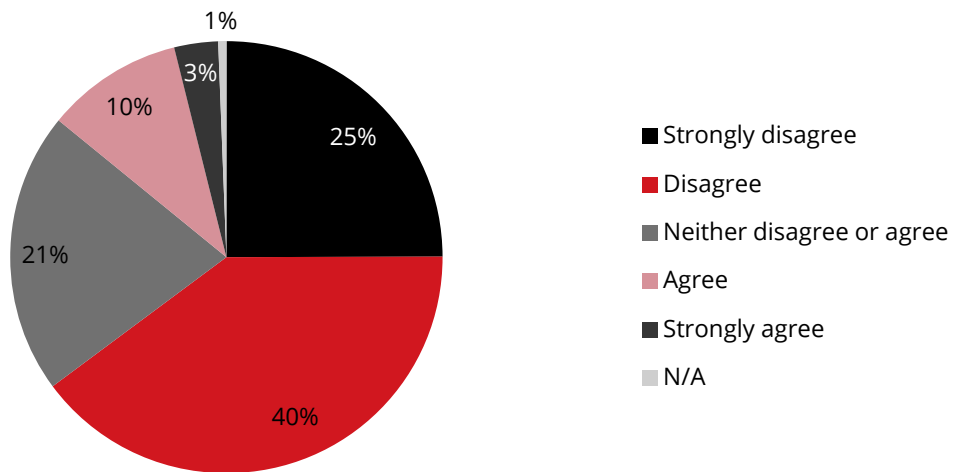
Satisfaction

Overall, how satisfied are you as a franchisee in your system?



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

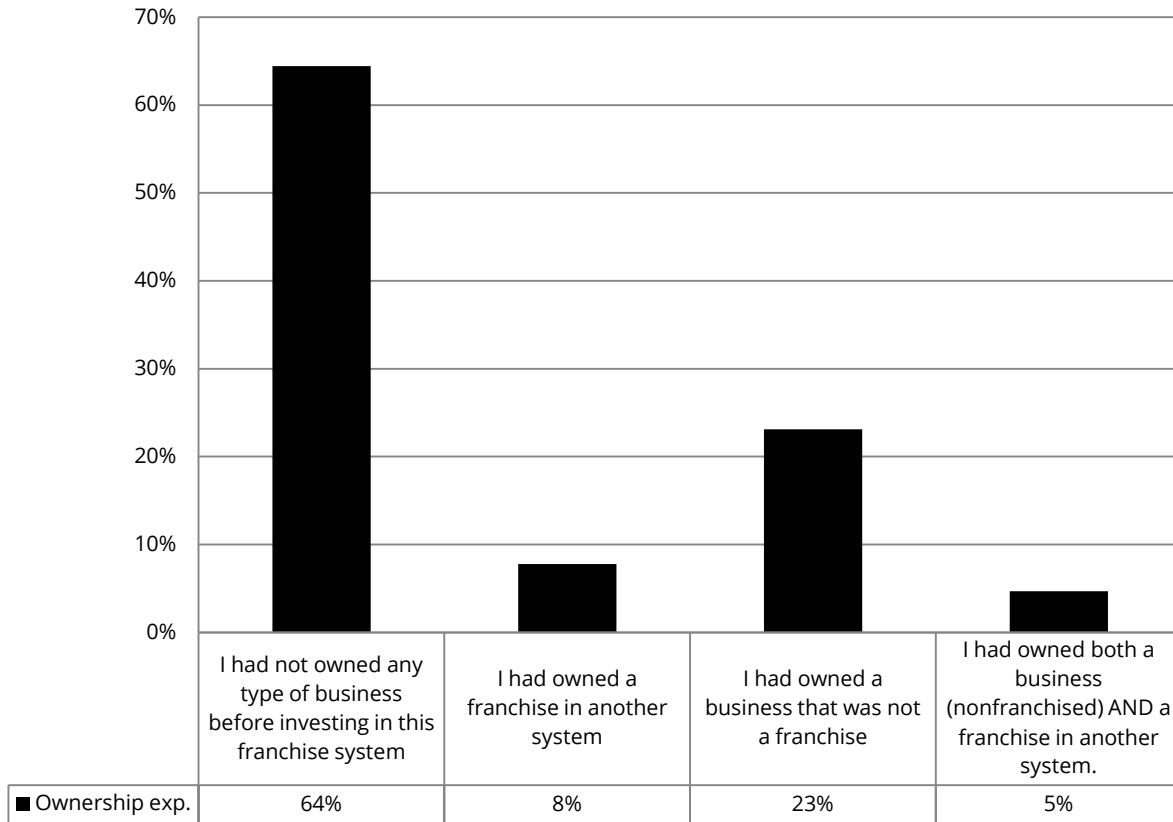
I would recommend investing in my franchise system to friends and family.



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

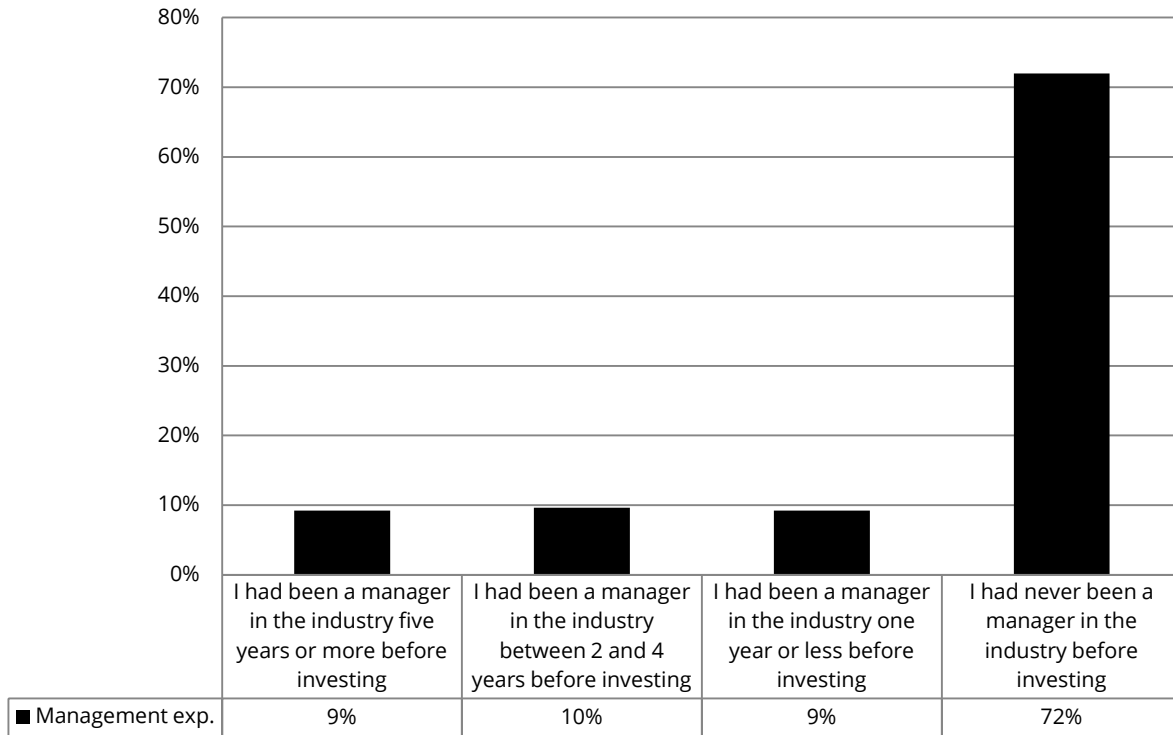
Level Of Work And Business Experience

What was your business experience before first investing in this franchise system?



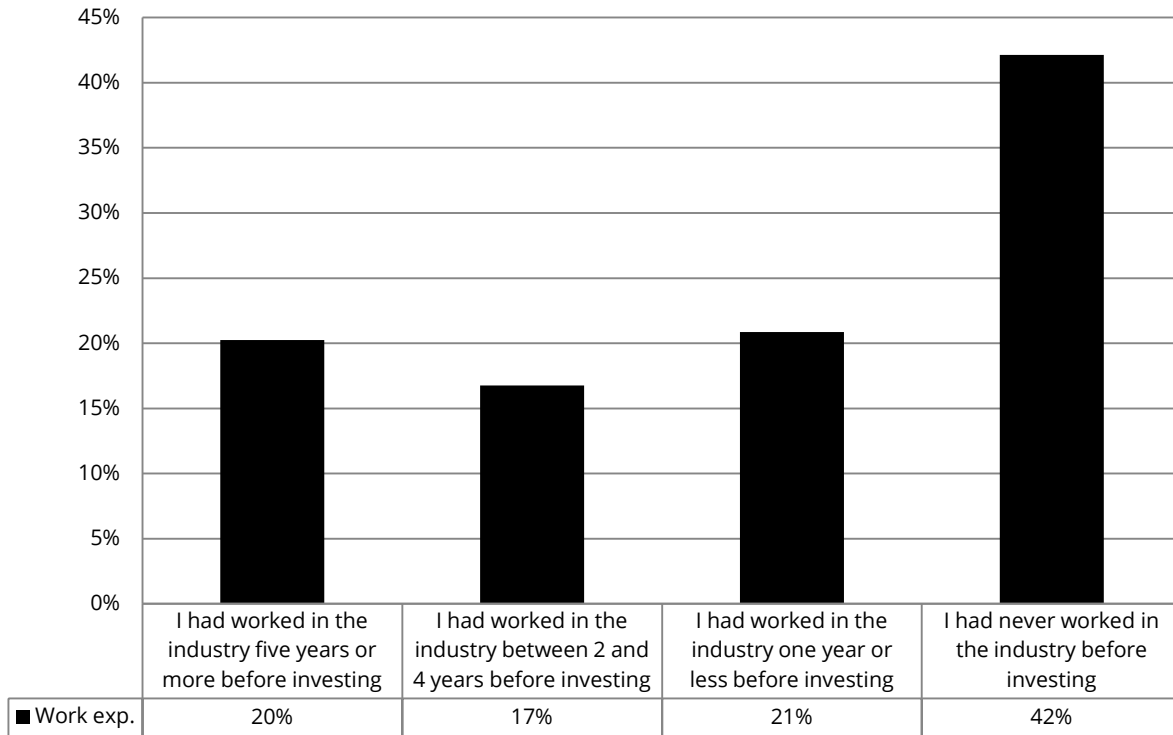
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

What was your work experience as a management employee in the sector your franchise system operates in (for example, restaurants, retail, tax preparation, etc.) before investing in your franchise?



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

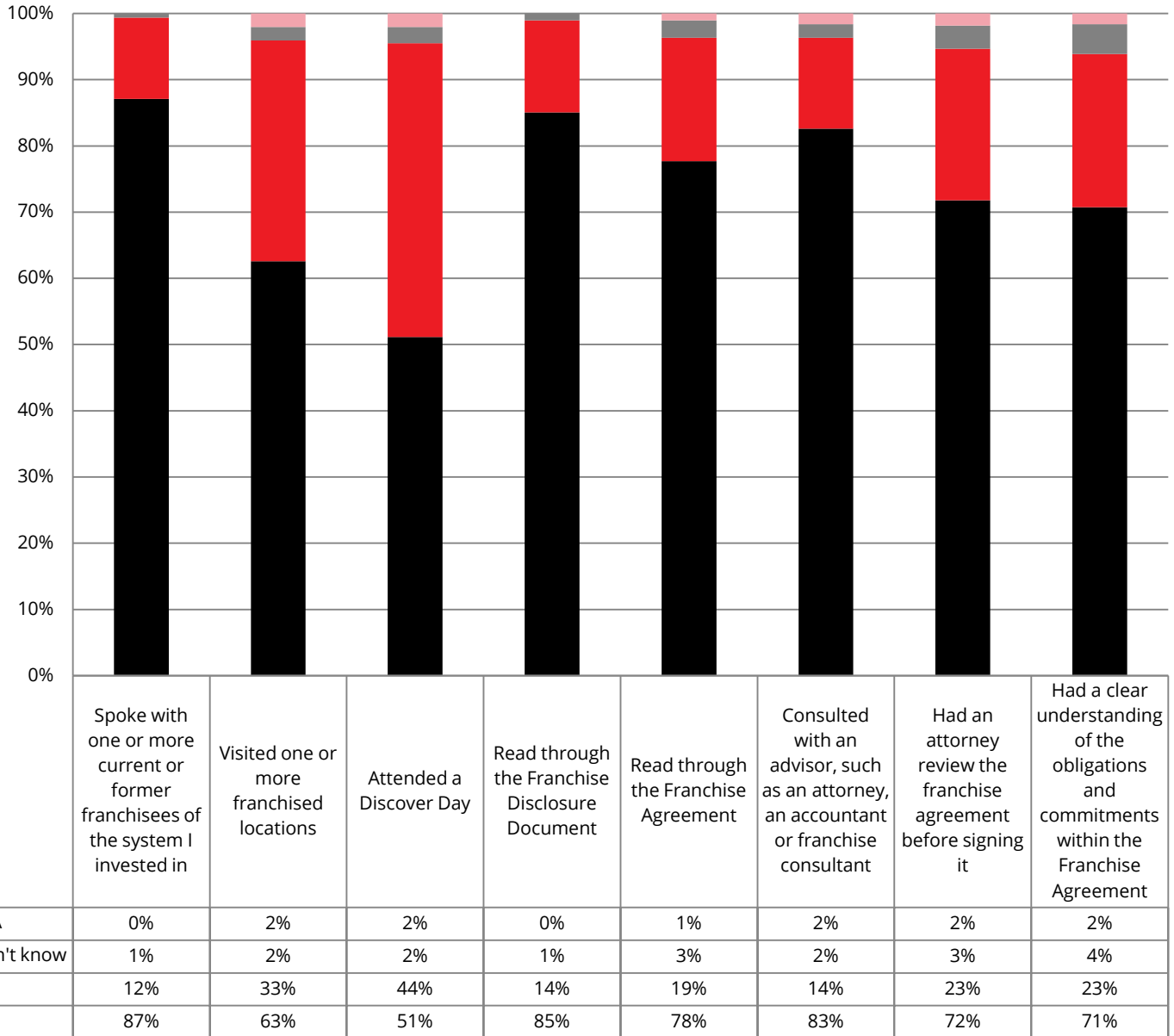
What was your work experience as a non-management employee in the sector your franchise system operates in (for example, restaurants, retail, tax preparation, etc.) before investing in your franchise?



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

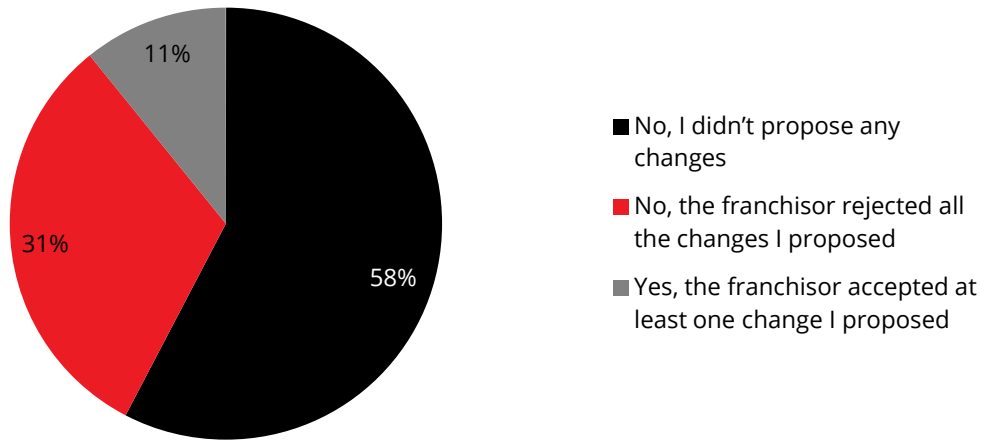
Degree Of Investment Due Diligence

Before you invested into your franchise system did you do any of the following?:



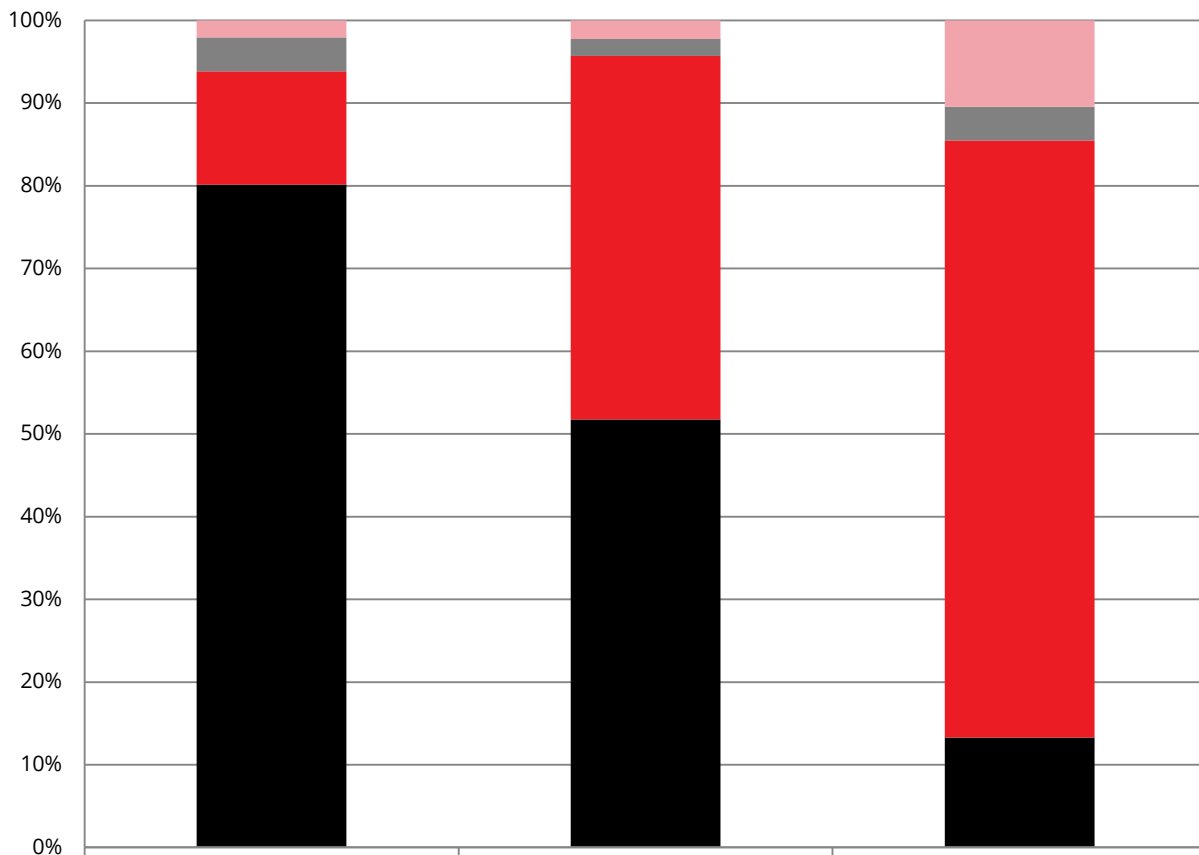
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

Did your franchisor accept any changes to the franchise agreement that you or your advisor proposed?



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

Please answer the following questions about the time before you first invested in your franchise system.

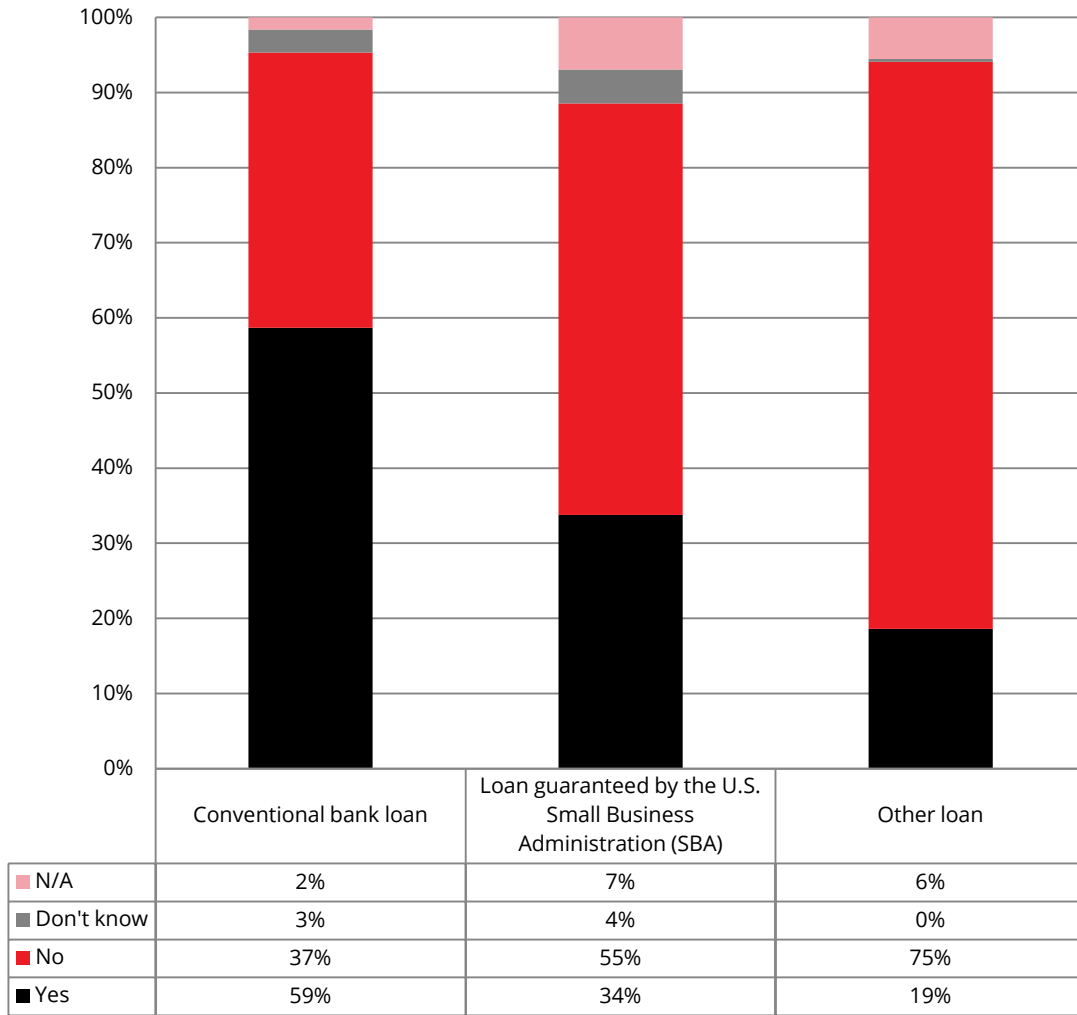


	Did a franchisor sales person or representative make revenue projections, profit projections or other financial projections not included in the franchise disclosure document?	Did a franchisor sales person or representative inform you that capital investments, such as equipment purchases or renovations, would be required during the course of your franchise agreement?	Did a franchisor sales person or representative provide a clear estimate of how much you would be required to spend on equipment, remodeling or other major investments in an average year?
■ N/A	2%	2%	10%
■ Don't know	4%	2%	4%
■ No	14%	44%	72%
■ Yes	80%	52%	13%

Source: FranchiseGrade.com, National Survey of Franchisees, 2015

Types Of Financing And Assets Pledged

Please indicate the kinds of loans you have used to finance your franchised business

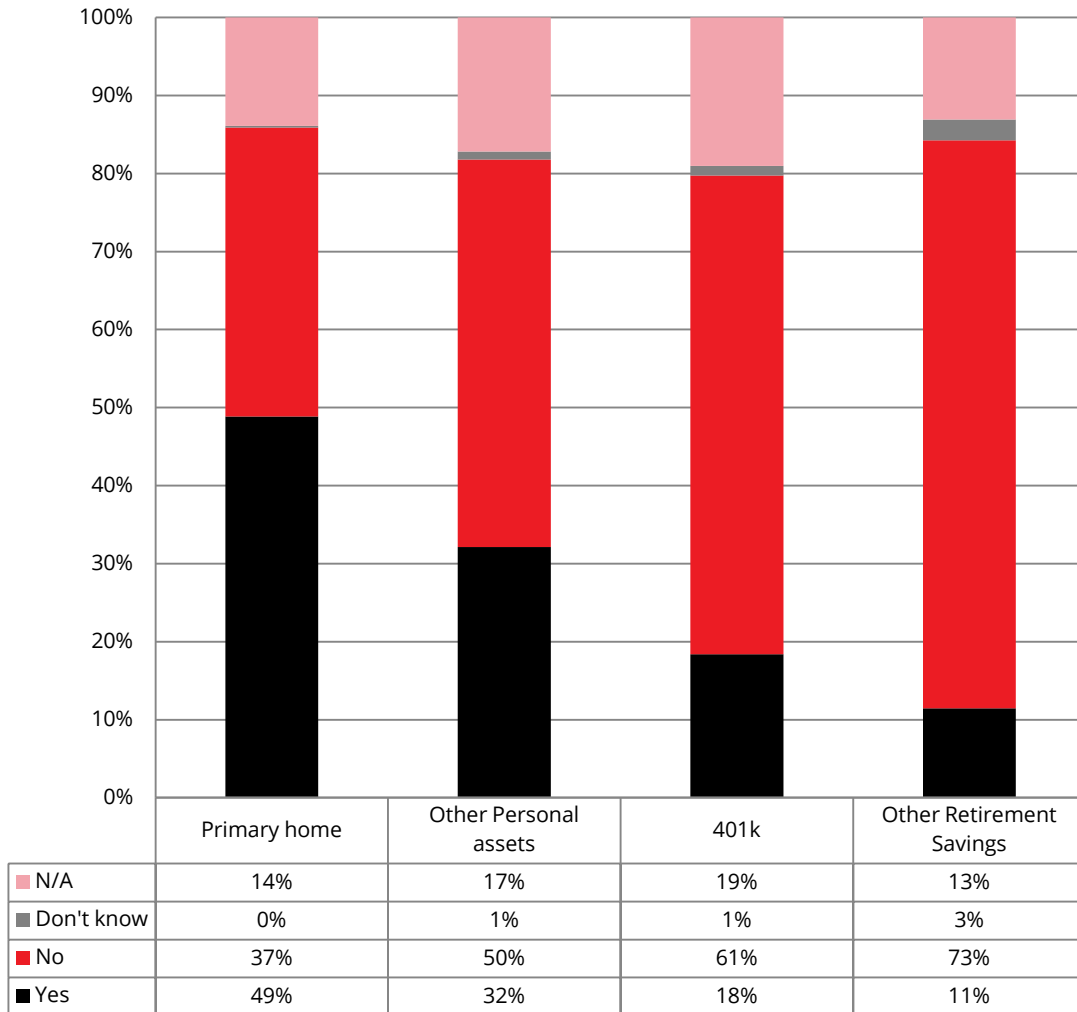


Source: FranchiseGrade.com, National Survey of Franchisees, 2015

74% of all respondents indicated that they used at least one type of loan to finance their franchised business.¹

¹ Aggregation requested by client.

Please indicate what types of assets you used or pledged to purchase your franchise.

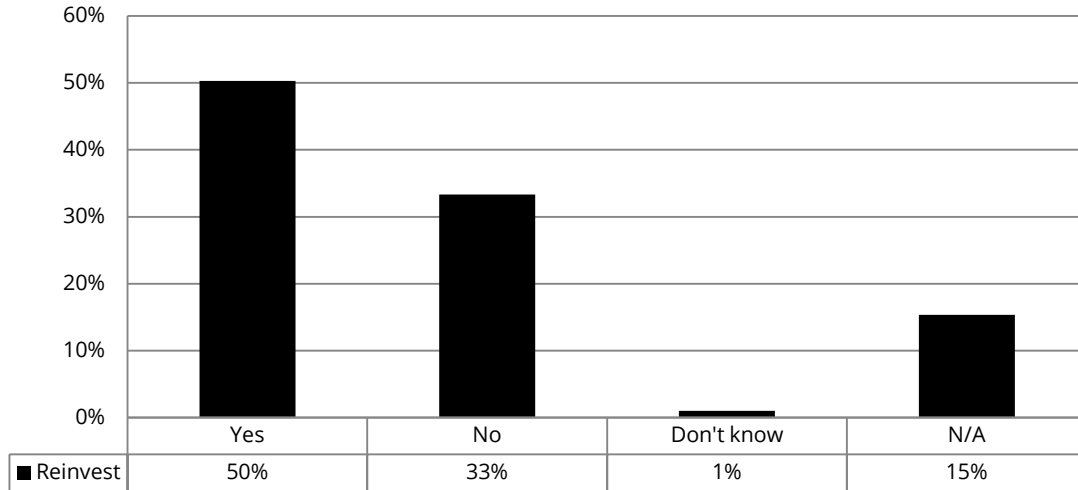


Source: FranchiseGrade.com, National Survey of Franchisees, 2015

75% of respondents indicated they used or pledged at least one asset to purchase their franchise.²

² Aggregation requested by client.

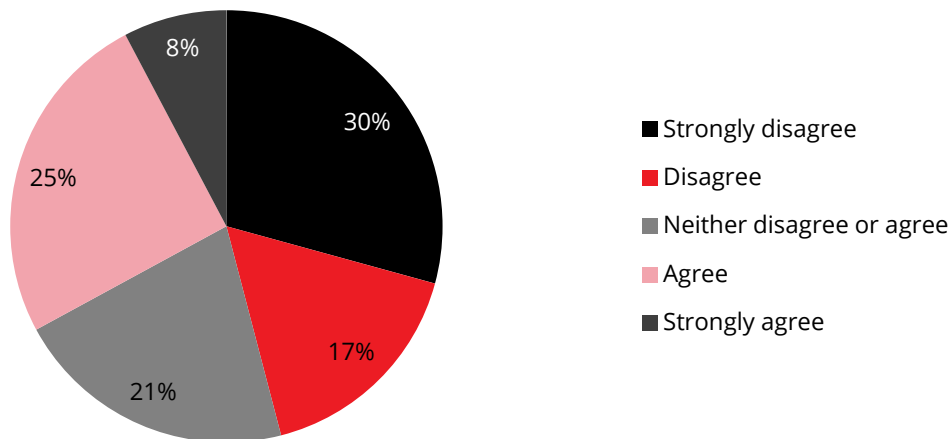
I have been required to make major investments into equipment, facility renovations, or other capital investments in my business.



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

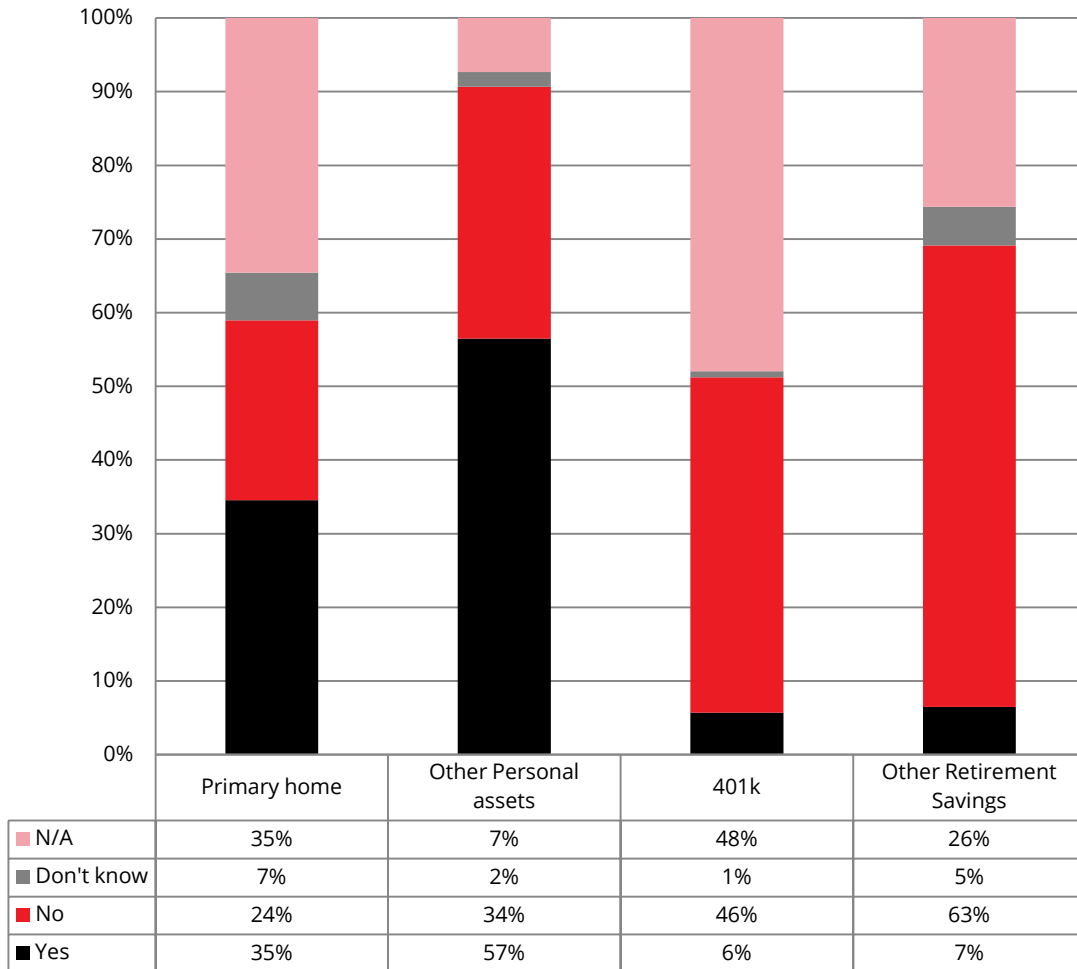
The following two questions are based on the 50% of respondents who answered Yes to the question "I have been required to make major investments into equipment, facility renovations, or other capital investments in my business."

Major investments I was required to make have improved my business results.



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

Please indicate what types of assets you used or pledged to obtain additional financing if needed for renovations, equipment purchases, working capital or other purposes.



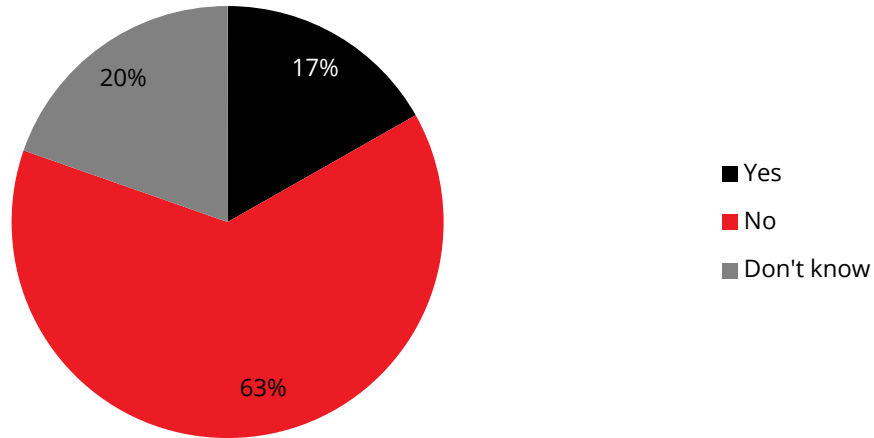
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

71% of respondents indicated that they used or pledged at least one form of asset above to obtain additional financing for renovations, equipment purchases, working capital or other purposes.³

³ Aggregation requested by client.

Relationship With Franchisor

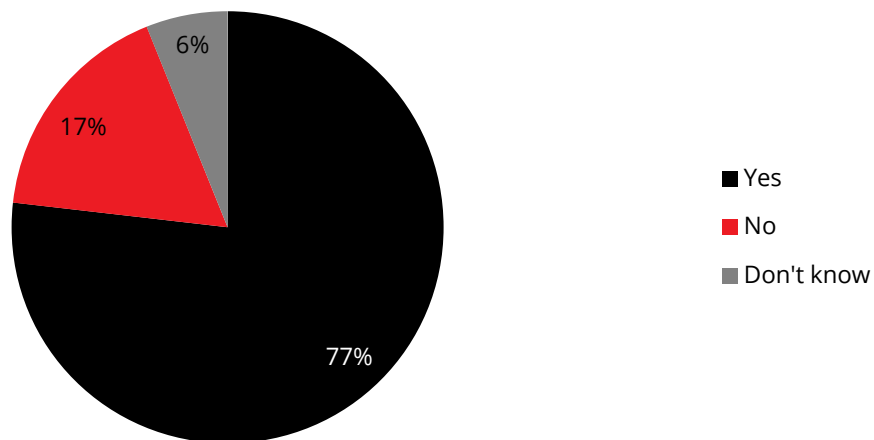
Does your franchise system have an independent franchisee association?



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

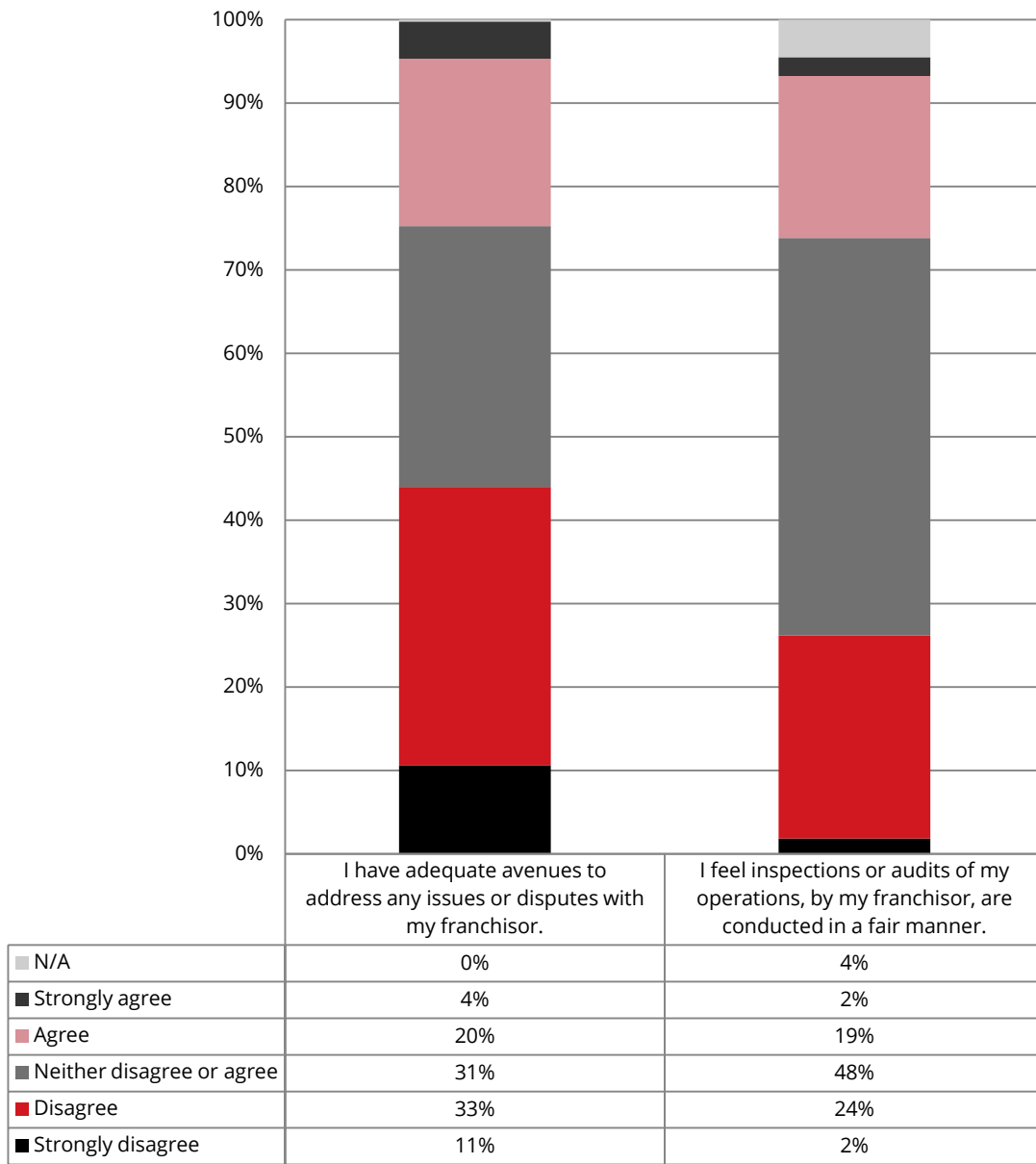
The following question is based on the 17% of respondents who answered Yes to the question "Does your franchise system have an independent franchisee association?"

Are you a member of your independent franchisee association?



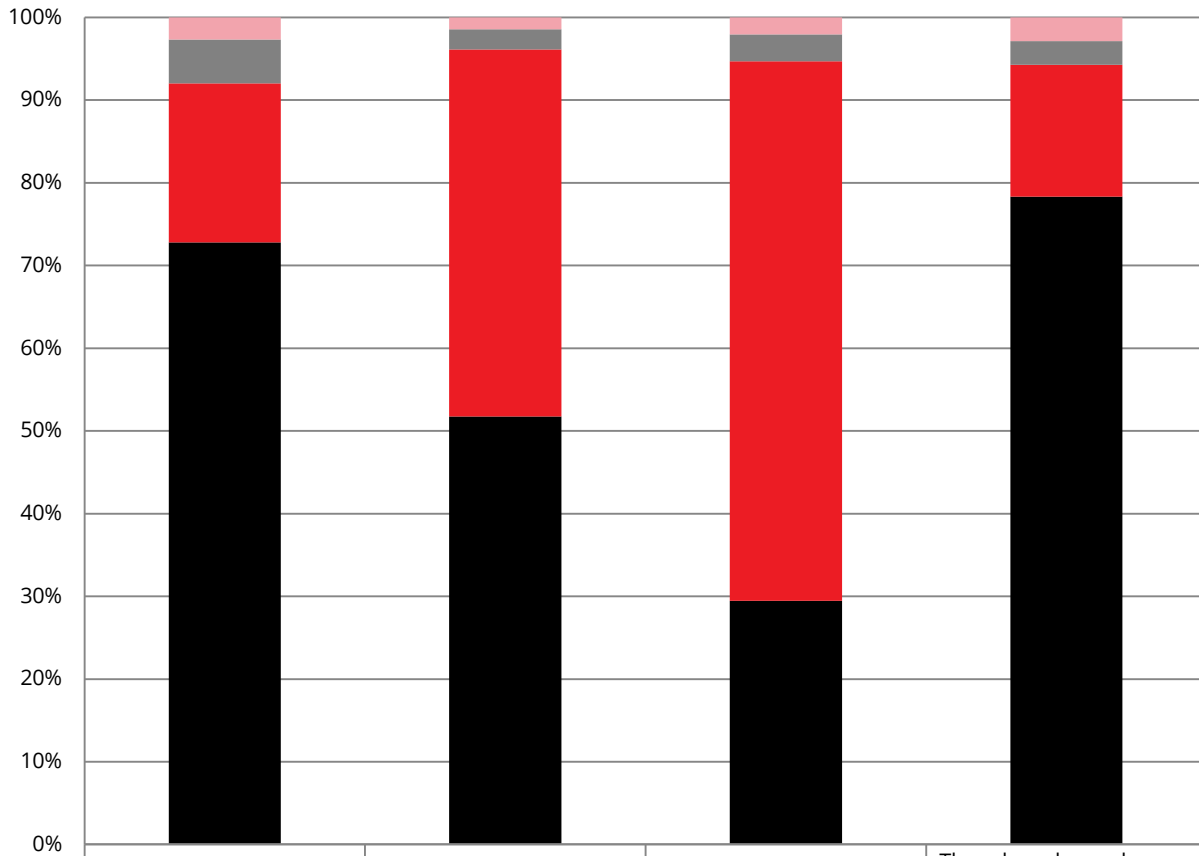
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

Please read each statement below and select the option that best represents your opinion.



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

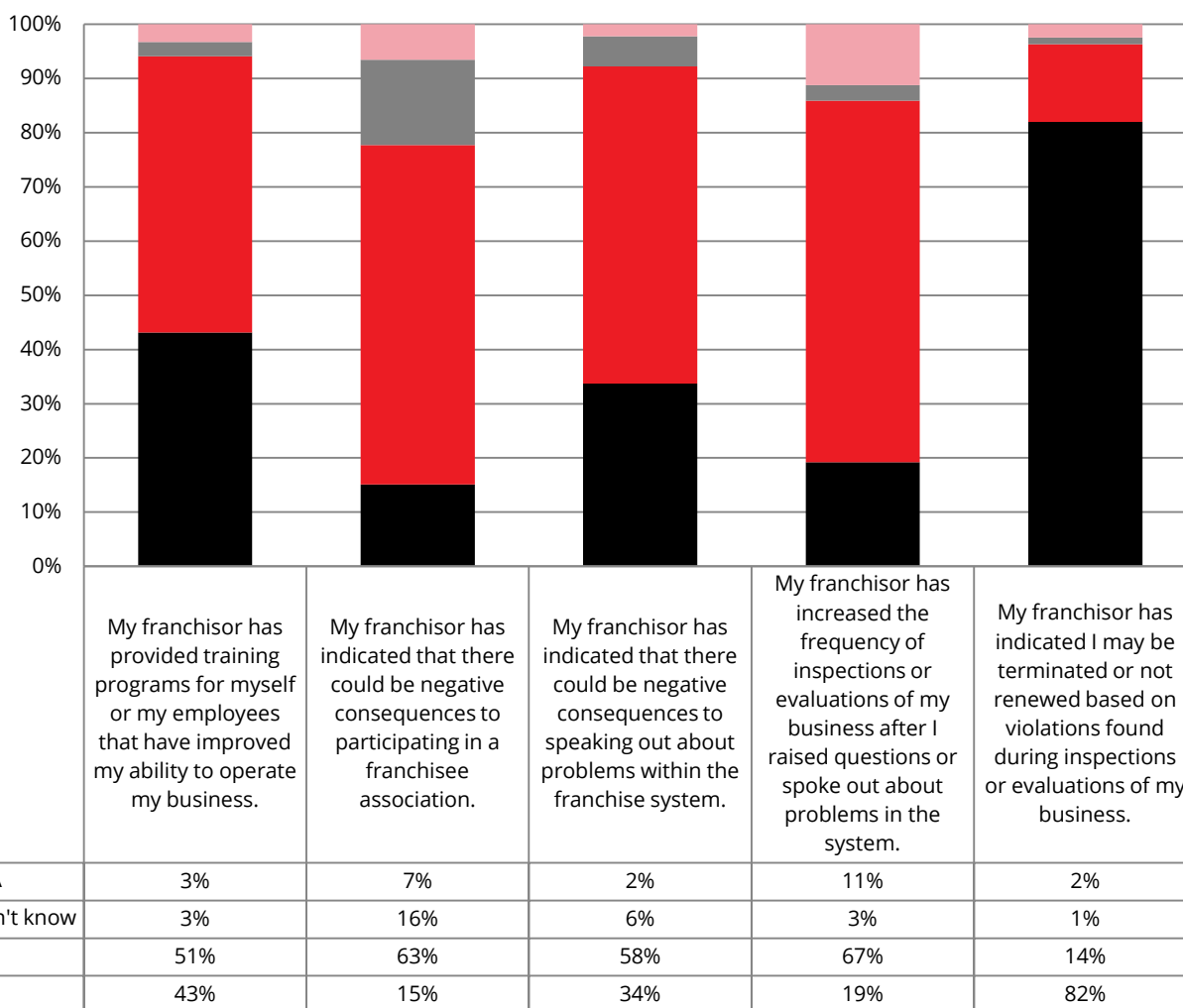
Please read each statement and select the option that best represents your experience.



	There has been an increase in mandatory fees or charges that have been added after I signed the original Franchise Agreement.	My franchisor has offered support services to help me improve the operations of my business.	My franchisor has introduced new or improved services or technologies that have saved my business money.	There have been changes in operating manuals or procedures that have increased operating costs within my business without an offsetting increase in revenues.
■ N/A	3%	1%	2%	3%
■ Don't know	5%	2%	3%	3%
■ No	19%	44%	65%	16%
■ Yes	73%	52%	29%	78%

Source: FranchiseGrade.com, National Survey of Franchisees, 2015

Please read each statement and select the option that best represents your experience.

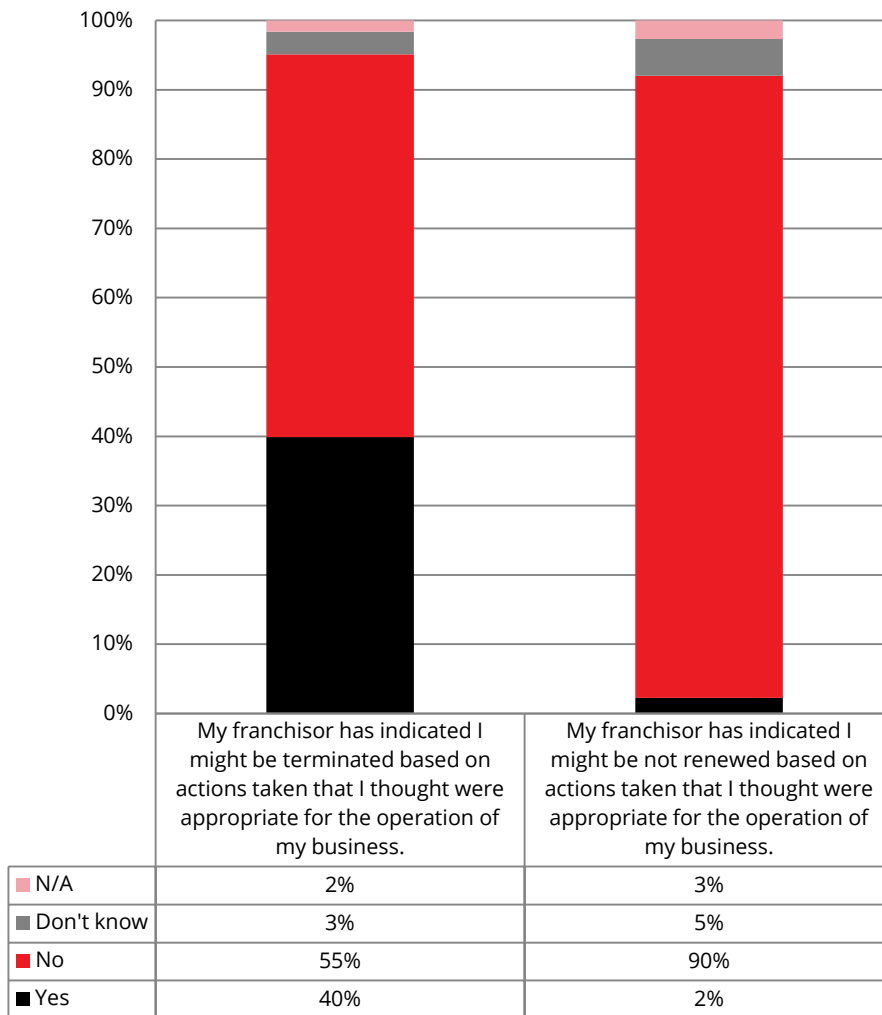


Source: FranchiseGrade.com, National Survey of Franchisees, 2015

52% of respondents answered Yes to at least one of "My franchisor has indicated that there could be negative consequences to participating in a franchisee association", "My franchisor has indicated that there could be negative consequences to speaking out about problems within the franchise system", or "My franchisor has increased the frequency of inspections or evaluations of my business after I raised questions or spoke out about problems in the system."⁴

⁴ Aggregation requested by client.

Please read each statement and select the option that best represents your experience.

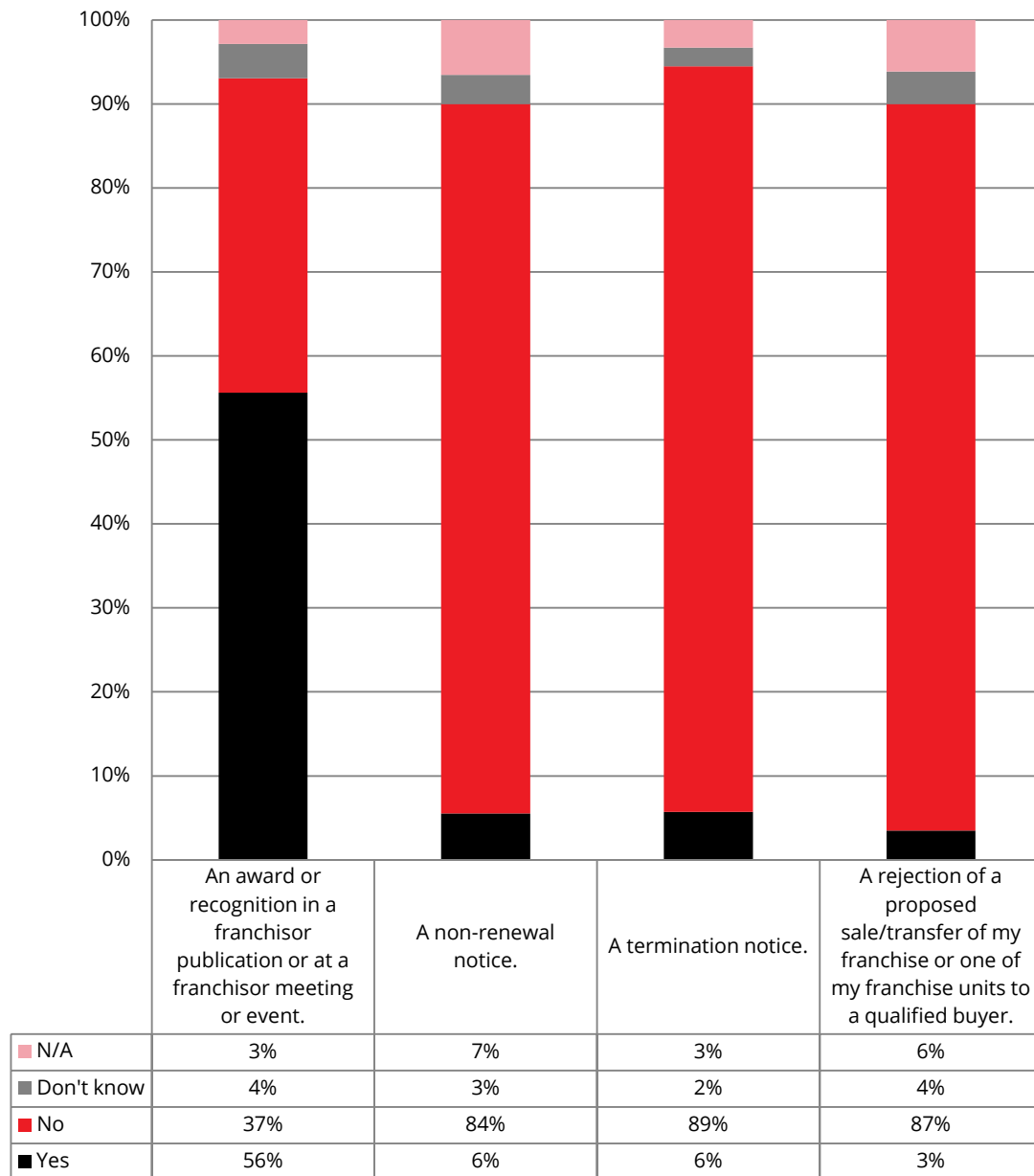


Source: FranchiseGrade.com, National Survey of Franchisees, 2015

40% of respondents answered Yes to at least one of "My franchisor has indicated I might be terminated based on actions taken that I thought were appropriate for the operation of my business.", or "My franchisor has indicated I might be not renewed based on actions taken that I thought were appropriate for the operation of my business."⁵

⁵ Aggregation requested by client

Have you received the following from your franchisor:



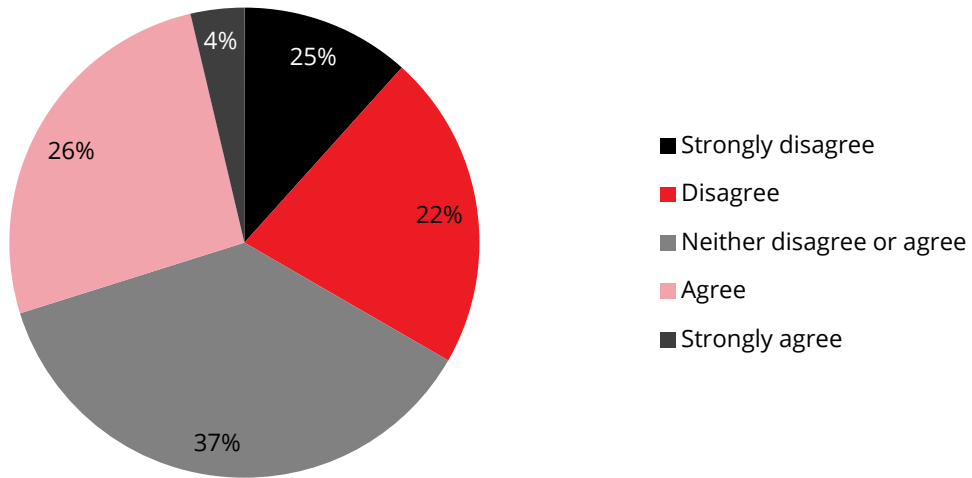
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

13% of respondents answered Yes to at least one of "A non-renewal notice.", "A termination notice." or "A rejection of a proposed sale/transfer of my franchise or one of my franchised units to a qualified buyer."⁶

⁶ Aggregation requested by client.

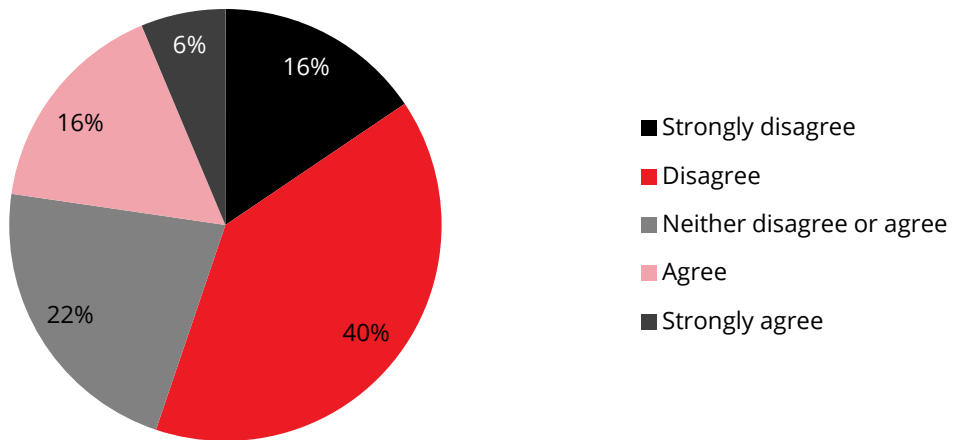
Economic Success

I believe I can sell my unit(s) for a fair price if I wanted to.



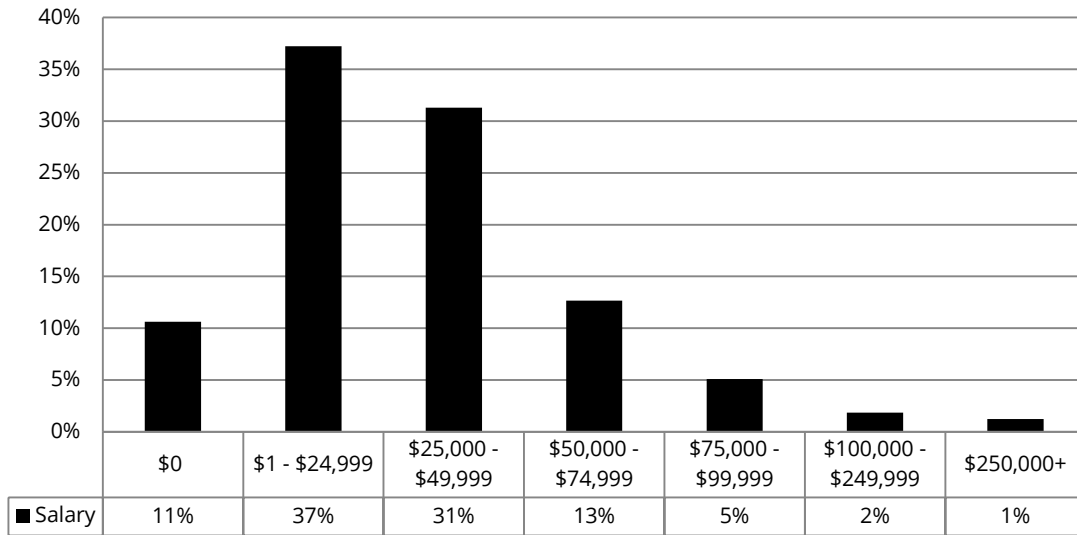
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

I make a fair profit and earn a decent living from my franchised business.



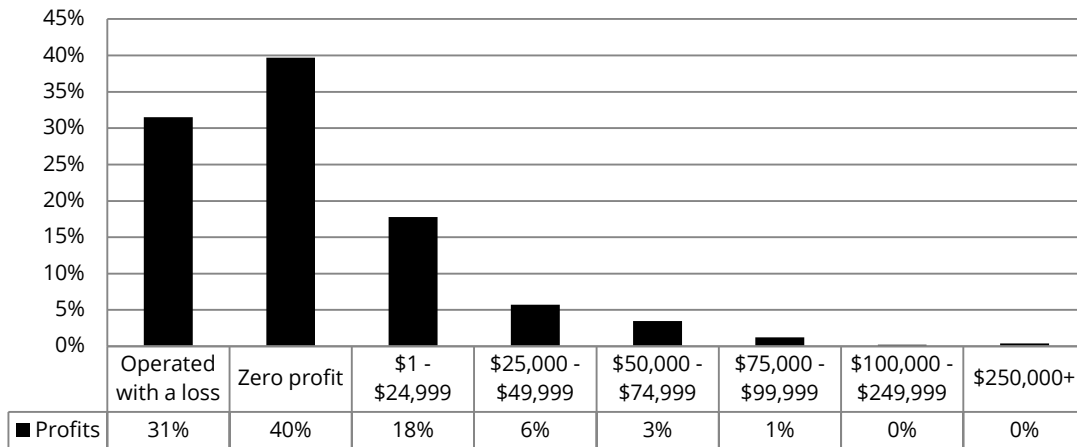
Source: FranchiseGrade.com, National Survey of Franchisees, 2015

Last year how much salary or cash did you personally take/draw out of your franchise unit(s)?



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

After your salary/draw, after operating expenses and after any equipment purchases, renovations or other capital investments, what were the profits from your franchised business last year?

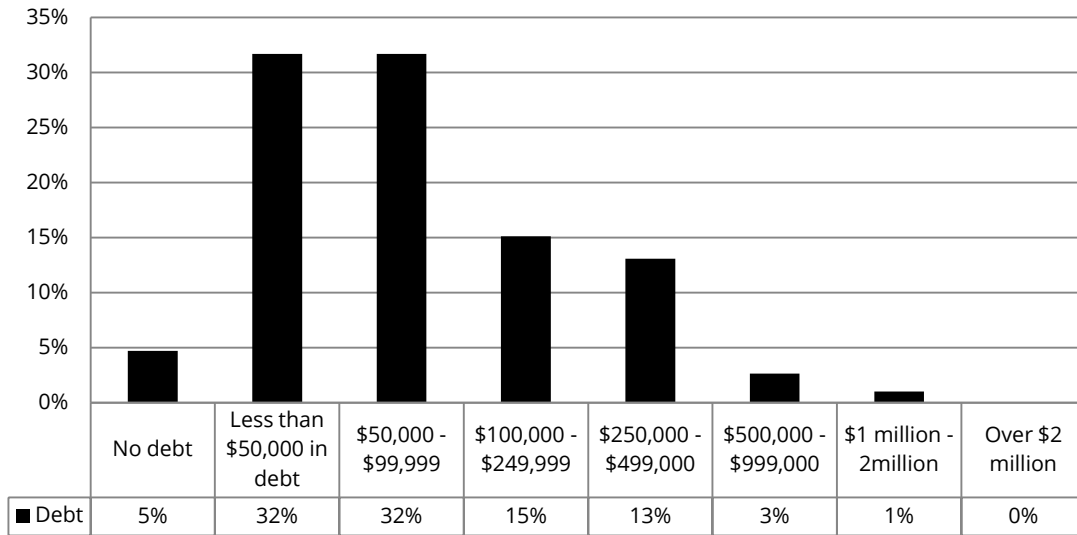


Source: FranchiseGrade.com, National Survey of Franchisees, 2015

43% of respondents indicated a combined salary and profit of less than \$25,000.⁷

⁷ Aggregation requested by client.

What is the total amount of debt you now owe related to your franchise business?



Source: FranchiseGrade.com, National Survey of Franchisees, 2015

Disclaimer

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Two main categories can be used to group the possible errors of a survey: sampling errors and non-sampling errors. Sampling error arises because a sample is used to estimate quantities of interest as opposed to a census of the population, this error is reflected in the margin of error discussed above. The non-sampling errors may occur at any phase of a survey. Non-sampling errors can include, but are not limited to, errors in: coverage, non-response, response, and processing. Similar to all sample surveys, this survey is subject to sampling and non-sampling errors. These errors can impact the precision of the survey results and can lead to bias results.

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About FranchiseGrade.com

FranchiseGrade.com is the leader in competitive market research and objective analysis for the franchise industry.

Our franchise assessment, grading and standardized reporting tools provide industry stakeholders with critical data driven metrics to support the growth of successful franchise systems. Our motivation is simple: we want to raise the bar in franchise industry market research and build a stronger franchise community.

FranchiseGrade.com provides custom research for greater understanding of franchise systems in every sector of the franchise industry. For comprehensive, custom reports or surveys and further interpretation of our research please contact us or visit

<http://reports.franchisegrade.com>

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