

The Profile of Franchising

Volume III: A Statistical Abstract of
1998 UFOC Data

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Release Date: February 2000

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5.1 Franchise Population by Average Initial Investment (Excluding Real Estate Costs)

Description

Pie Chart: Chart 5.1 displays the number of systems, represented as a percentage of the total Franchise Population, which fall into one of the selected average initial investment ranges (excluding real estate costs). Each slice of the pie chart represents one of the seven initial investment ranges (excluding real estate costs), which are listed at the bottom of the opposite page.

Bar Graph: The bar graph breaks down the Average Initial Investment (excluding real estate costs) of the Franchise Population, in relation to each system's industry category. Each bar represents the number of franchise systems within each industry category, in one of the seven ranges.

Methodology

In order to create an average initial investment per system, the "low" and "high" estimates of the total initial investment level (as defined in Item 7 of the UFOC) were added together and then divided in half (excluding real estate costs). Although real estate costs are a variable that a franchisor may include in the Item 7 initial investment totals, this variable was excluded from the Chart 5.1 query for the reasons cited below:

- 1) Real estate costs are not universally included in Item 7; and
- 2) For those systems providing real estate related costs, some provide the cost associated with the purchase of real estate, while others provide estimates on costs associated with leasing space (while others may include both purchased and leased information).

FRANDATA's internal database tracks *initial investment* according to nine main categories, and 69 sub-categories. By excluding the costs associated with real estate, the following sub-categories were suppressed:

Building construction	Site selection cost	Leasehold improvements
Building permits	Land	Rent
Car expense	Building construction (franchisee-developed)	Other lease related
Site improvements	Other real estate costs	Vehicle-related payments total
Building improvements	Lease payments total	Van expense
Architectural plans and specs	Site selection	Cart/Kiosk purchase
General improvements	Security deposit	Vehicle security deposit
		Vehicle lease payment

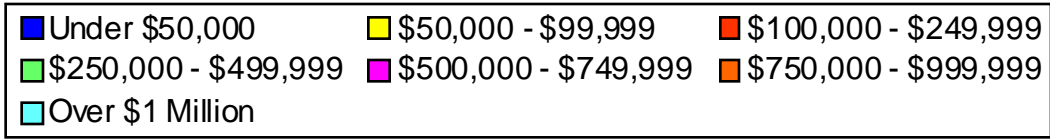
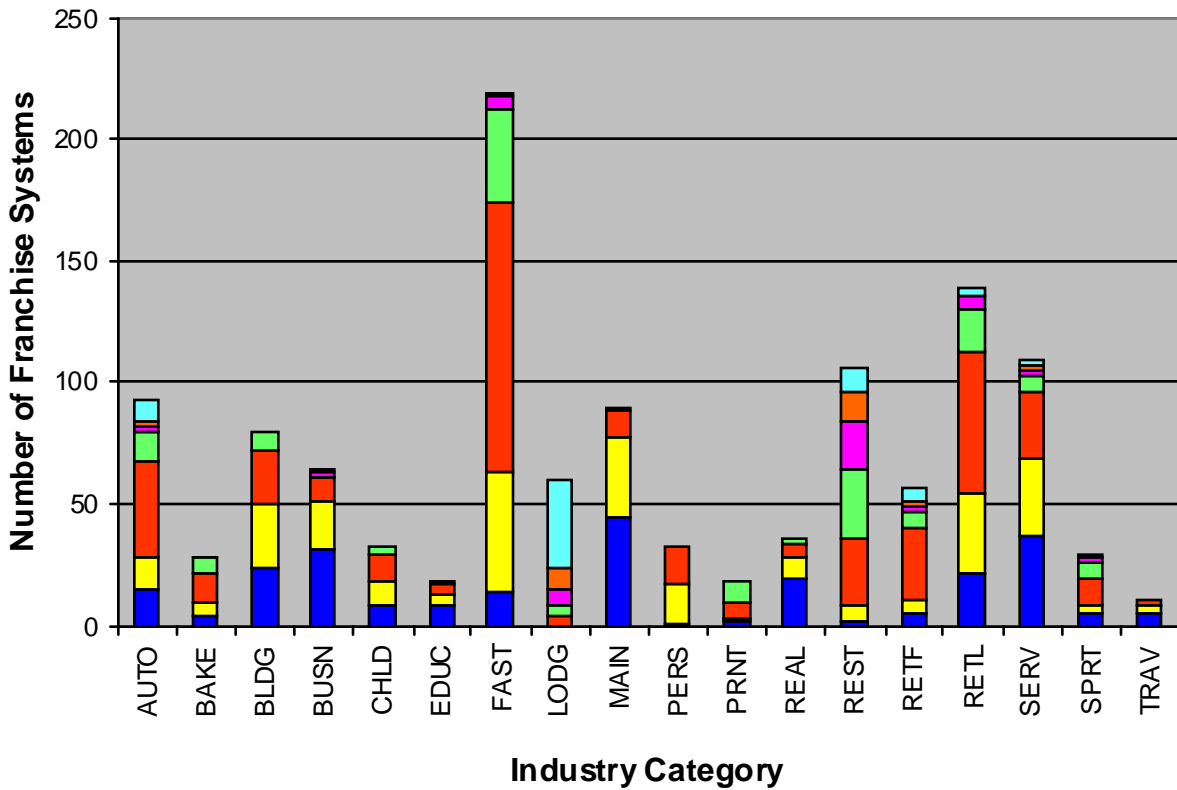
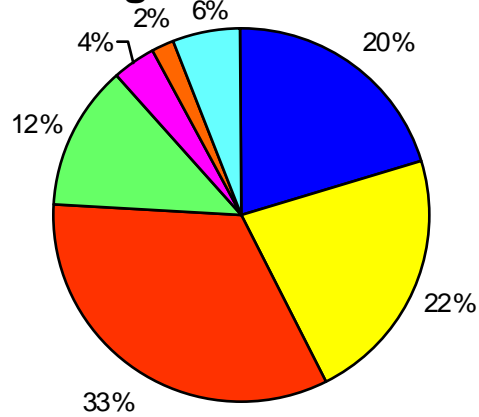
It should be noted that data related to vans, carts, and other related vehicles have also been suppressed. This was done because such items (e.g. Kiosks) are the equivalent of real estate costs in systems where construction or leasing/renting are replaced by mobile-based operations.

Selected Findings

While consideration must be given to the fact that the average initial investment price is marginally lower due to the suppression of fees related to the cost of real estate, the following statistics are of note:

- 1) 77% of the Franchise Population have an average initial investment range under \$250,000.
- 2) The Maintenance Industry (Main) has the highest percentage (87%) of systems falling into the average initial investment range (excluding real estate costs) under \$50,000.
- 3) The Lodging Industry (LODG) has the highest percentage (60%) of systems having an average initial investment range (excluding real estate costs) which exceeds \$1,000,000.

5.1 Franchise Population by Average Initial Investment (Excluding Real Estate Costs)



5.1
Franchise Population by Average Initial Investment
(Excluding Real Estate Costs)

	Under \$50,000	\$50,000 - \$99,999	\$100,000 - \$249,999	\$250,000 - \$499,999	\$500,000 - \$749,999	\$750,000 - \$999,999	Over \$1 Million	Total
AUTO	15	13	40	12	2	2	9	93
BAKE	4	6	12	6	0	1	0	29
BLDG	24	26	22	8	0	0	0	80
BUSN	32	19	10	1	1	0	1	64
CHLD	9	10	11	3	0	0	0	33
EDUC	8	5	4	2	0	0	0	19
FAST	14	49	111	38	6	0	1	219
LODG	0	0	4	5	7	8	36	60
MAIN	44	34	11	1	0	0	0	90
PERS	1	16	16	0	0	0	0	33
PRNT	2	1	7	8	0	0	0	18
REAL	20	9	5	2	0	0	0	36
REST	2	7	27	28	20	12	10	106
RETF	5	6	29	7	2	2	6	57
RETL	22	33	58	18	5	0	3	139
SERV	37	32	27	7	2	2	2	109
SPRT	6	3	11	6	2	0	2	30
TRAV	6	2	3	0	0	0	0	11
Total	251	271	408	152	47	27	70	1226

	Under \$50,000	\$50,000 - \$99,999	\$100,000 - \$249,999	\$250,000 - \$499,999	\$500,000 - \$749,999	\$750,000 - \$999,999	Over \$1 Million	Total
AUTO	16%	14%	43%	13%	2%	2%	10%	100%
BAKE	14%	21%	41%	21%	0%	3%	0%	100%
BLDG	30%	33%	28%	10%	0%	0%	0%	100%
BUSN	50%	30%	16%	2%	2%	0%	2%	100%
CHLD	27%	30%	33%	9%	0%	0%	0%	100%
EDUC	42%	26%	21%	11%	0%	0%	0%	100%
FAST	6%	22%	51%	17%	3%	0%	0%	100%
LODG	0%	0%	7%	8%	12%	13%	60%	100%
MAIN	49%	38%	12%	1%	0%	0%	0%	100%
PERS	3%	48%	48%	0%	0%	0%	0%	100%
PRNT	11%	6%	39%	44%	0%	0%	0%	100%
REAL	56%	25%	14%	6%	0%	0%	0%	100%
REST	2%	7%	25%	26%	19%	11%	9%	100%
RETF	9%	11%	51%	12%	4%	4%	11%	100%
RETL	16%	24%	42%	13%	4%	0%	2%	100%
SERV	34%	29%	25%	6%	2%	2%	2%	100%
SPRT	20%	10%	37%	20%	7%	0%	7%	100%
TRAV	55%	18%	27%	0%	0%	0%	0%	100%
Total	20%	22%	33%	12%	4%	2%	6%	100%

5.1 Franchise Population by Average Initial Investment (Excluding Real Estate Costs)

	Under \$50,000	\$50,000 - \$99,999	\$100,000 - \$249,999	\$250,000 - \$499,999	\$500,000 - \$749,999	\$750,000 - \$999,999	Over \$1 Million	Total
AUTO	14	12	48	12	4	2	5	97
BAKE	3	7	17	8	0	0	0	35
BLDG	25	21	20	5	0	0	0	71
BUSN	33	11	9	2	0	1	1	57
CHLD	9	11	9	1	0	0	0	30
EDUC	5	6	5	2	0	0	0	18
FAST	13	48	109	36	5	2	0	213
LODG	1	1	3	4	9	8	25	51
MAIN	37	29	7	1	0	0	0	74
PERS	1	16	18	0	0	0	0	35
PRNT	1	1	8	6	0	0	0	16
REAL	18	11	4	1	0	0	0	34
REST	2	7	20	26	13	11	11	90
RETF	5	9	30	5	2	3	3	57
RETL	18	39	51	18	6	0	1	133
SERV	41	28	30	4	3	1	3	110
SPRT	8	4	11	6	3	0	3	35
TRAV	5	4	4	1	0	0	0	14
Total	239	265	403	138	45	28	52	1170

	Under \$50,000	\$50,000 - \$99,999	\$100,000 - \$249,999	\$250,000 - \$499,999	\$500,000 - \$749,999	\$750,000 - \$999,999	Over \$1 Million	Total
AUTO	14%	12%	49%	12%	4%	2%	5%	100%
BAKE	9%	20%	49%	23%	0%	0%	0%	100%
BLDG	35%	30%	28%	7%	0%	0%	0%	100%
BUSN	58%	19%	16%	4%	0%	2%	2%	100%
CHLD	30%	37%	30%	3%	0%	0%	0%	100%
EDUC	28%	33%	28%	11%	0%	0%	0%	100%
FAST	6%	23%	51%	17%	2%	1%	0%	100%
LODG	2%	2%	6%	8%	18%	16%	49%	100%
MAIN	50%	39%	9%	1%	0%	0%	0%	100%
PERS	3%	46%	51%	0%	0%	0%	0%	100%
PRNT	6%	6%	50%	38%	0%	0%	0%	100%
REAL	53%	32%	12%	3%	0%	0%	0%	100%
REST	2%	8%	22%	29%	14%	12%	12%	100%
RETF	9%	16%	53%	9%	4%	5%	5%	100%
RETL	14%	29%	38%	14%	5%	0%	1%	100%
SERV	37%	25%	27%	4%	3%	1%	3%	100%
SPRT	23%	11%	31%	17%	9%	0%	9%	100%
TRAV	36%	29%	29%	7%	0%	0%	0%	100%
Total	20%	23%	34%	12%	4%	2%	4%	100%

5.1 Franchise Population by Average Initial Investment (Excluding Real Estate Costs)

Description

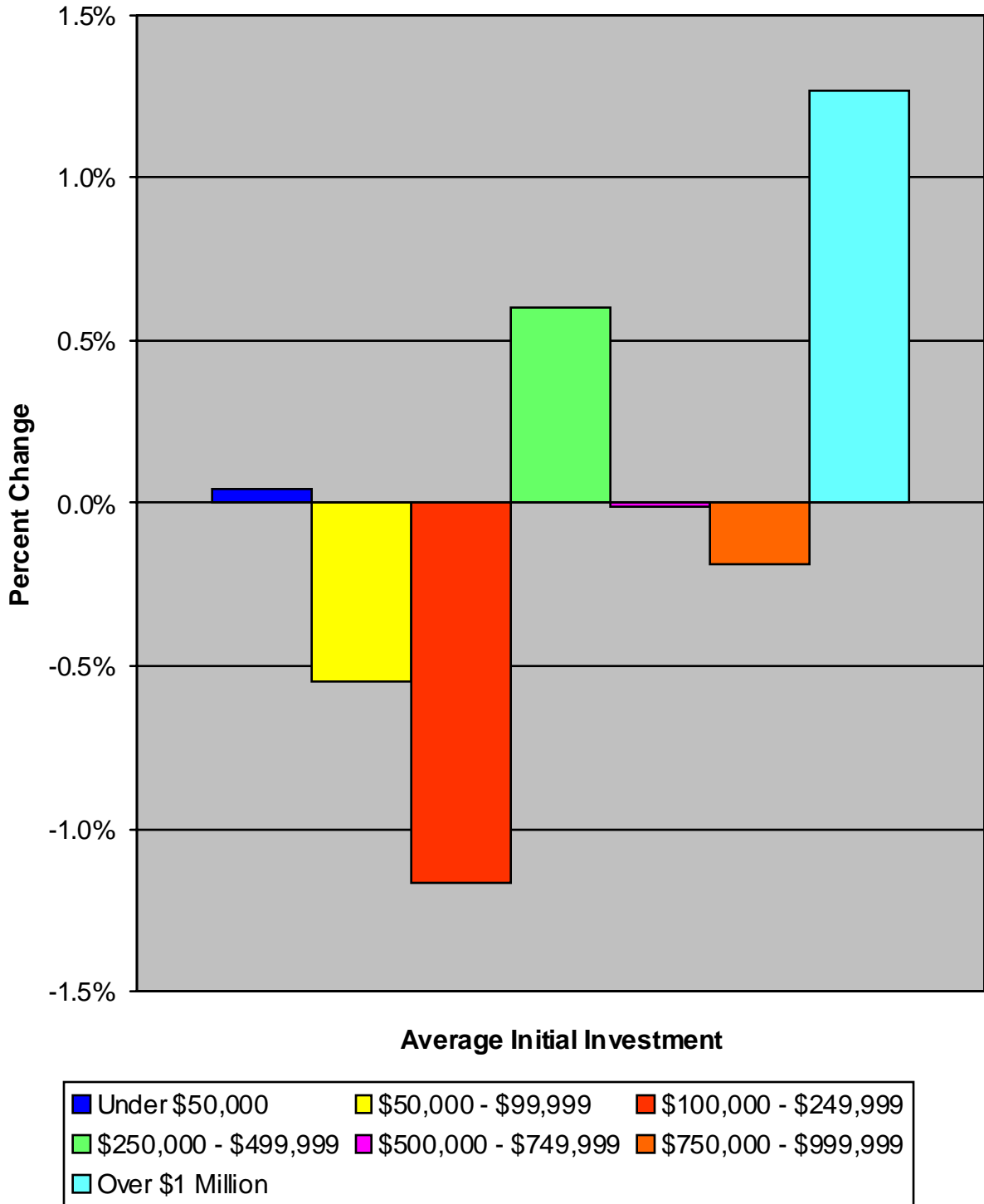
Bar graph: The bar graph on the opposite page depicts the average change in franchise population from 1997 to 1998 by industry category. The chart found below contains the source data from which the graph was created.

Positive percentages represent an increase in the number of systems falling into one of the average initial investment ranges in 1998. Conversely, negative percentages represent a decrease in the number of systems falling into an average initial investment range in 1998. Data is presented by the 18 Industry Categories and by the total Franchise Population (delineated in the "Total" category).

	Under \$50,000	\$50,000 - \$99,999	\$100,000 - \$249,999	\$250,000 - \$499,999	\$500,000 - \$749,999	\$750,000 - \$999,999	Over \$1 Million	Total
AUTO	2%	2%	-6%	1%	-2%	0%	5%	0%
BAKE	5%	1%	-7%	-2%	0%	3%	0%	0%
BLDG	-5%	3%	-1%	3%	0%	0%	0%	0%
BUSN	-8%	10%	0%	-2%	2%	-2%	0%	0%
CHLD	-3%	-6%	3%	6%	0%	0%	0%	0%
EDUC	14%	-7%	-7%	-1%	0%	0%	0%	0%
FAST	0%	0%	0%	0%	0%	-1%	0%	0%
LODG	-2%	-2%	1%	0%	-6%	-2%	11%	0%
MAIN	-1%	-1%	3%	0%	0%	0%	0%	0%
PERS	0%	3%	-3%	0%	0%	0%	0%	0%
PRNT	5%	-1%	-11%	7%	0%	0%	0%	0%
REAL	3%	-7%	2%	3%	0%	0%	0%	0%
REST	0%	-1%	3%	-2%	4%	-1%	-3%	0%
RETF	0%	-5%	-2%	4%	0%	-2%	5%	0%
RETL	2%	-6%	3%	-1%	-1%	0%	1%	0%
SERV	-3%	4%	-3%	3%	-1%	1%	-1%	0%
SPRT	-3%	-1%	5%	3%	-2%	0%	-2%	0%
TRAV	19%	-10%	-1%	-7%	0%	0%	0%	0%
Total	0%	-1%	-1%	1%	0%	0%	1%	0%

In reviewing this data, it is important to understand that the Franchise Population from which the data was drawn in Volume III of the **Profile** is not identical to the Franchise Population which was used to collect data for Volume II of the **Profile** (see Chapter V and Appendix B). In fact, only 75% of the systems in Volume III of **Profile** were also in Volume II of the **Profile**. Therefore, large fluctuations in variances may be directly attributable to a change in population within a particular industry group, rather than to any real change in that industry. Please use caution when drawing conclusions from these results.

**5.1
Franchise Population by Average Initial
Investment (Excluding Real Estate Costs)**



5.2 Average Initial Investment (Excluding Real Estate Costs)

Description

Bar Graph: Graph 5.2 displays the average initial investment (excluding real estate costs) for each industry category.

Methodology

In order to create an average initial investment per system, the “low” and “high” estimates of the total initial investment level (as defined in Item 7 of the UFOC) were added together and then divided in half (excluding real estate costs). Although real estate costs are a variable that a franchisor may include in the Item 7 initial investment totals, this variable was excluded from the Chart 5.1 query for the reason cited below:

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Building construction	Site selection cost	Leasehold improvements
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Car expense	Building construction (franchisee-developed)	Other lease related
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General improvements	Security deposit	Vehicle security deposit
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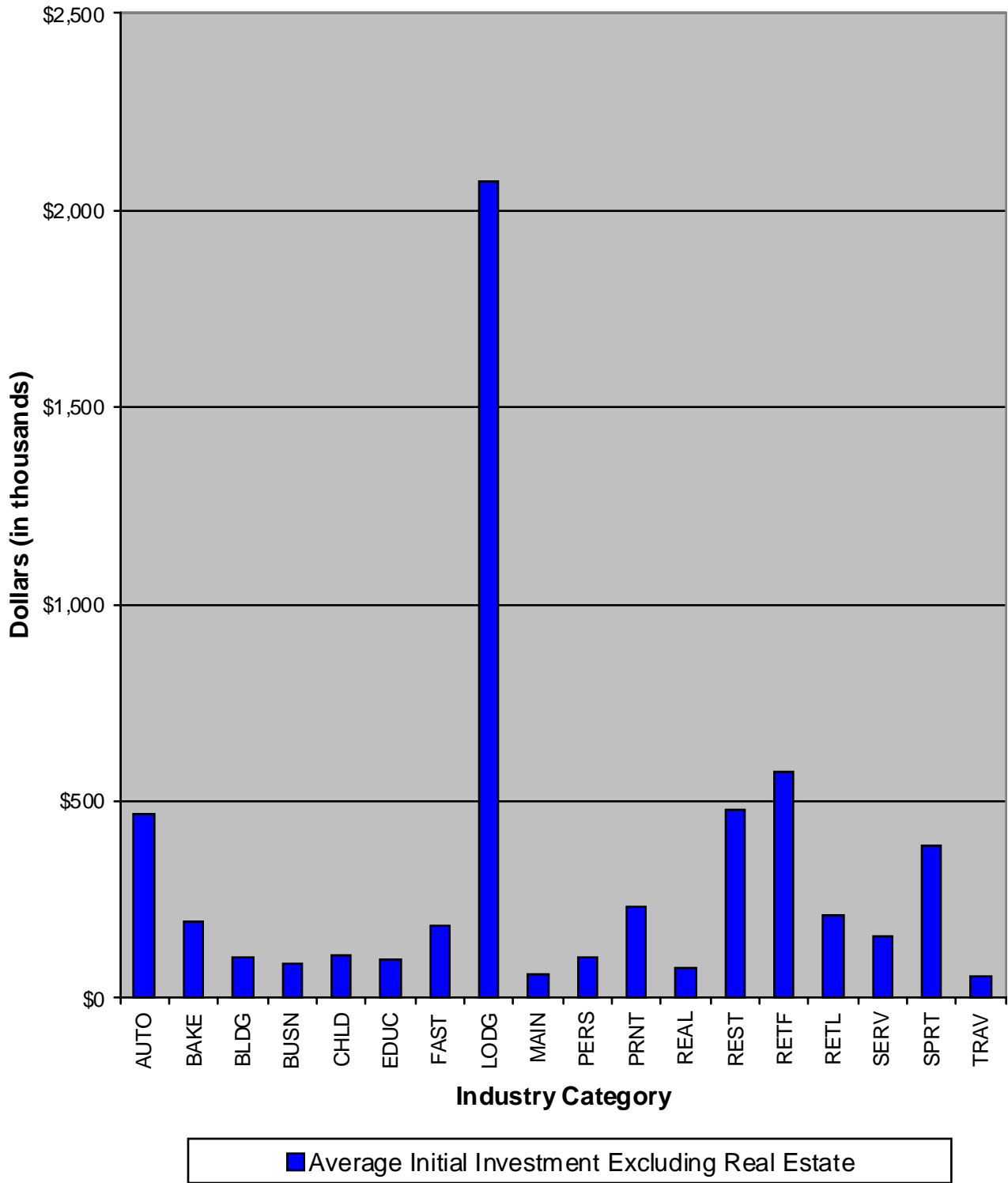
It should be noted that data related to vans, carts, and other related vehicles have also been suppressed. This was done because such items (e.g. Kiosks) are the equivalent of real estate costs in systems where construction or leasing/renting are replaced by mobile-based operations.

Selected Findings

- 1) The average initial investment (excluding real estate costs) for the Franchise Population is \$318,975. When the Lodging Industry is not included, the average initial investment (excluding real estate costs) for the Franchise Population is \$228,580.
- 2) The Lodging Industry (LODG) is the most expensive investment in the Franchise Population, with an average initial investment (excluding real estate costs) of \$2,075,651.13.
- 3) The Maintenance Industry (MAIN) has the lowest average initial investment (excluding real estate costs) at \$55,928.23.

5.2 Average Initial Investment (Excluding Real Estate Costs)

1998



5.2
Average Initial Investment
(Excluding Real Estate Costs)

	Average Initial Investment Excluding Real Estate
AUTO	\$465,188.32
BAKE	\$195,109.24
BLDG	\$104,458.76
BUSN	\$86,219.69
CHLD	\$111,422.41
EDUC	\$97,328.58
FAST	\$182,569.86
LODG	\$2,075,651.13
MAIN	\$62,912.89
PERS	\$106,462.27
PRNT	\$232,483.69
REAL	\$76,030.62
REST	\$477,925.12
RETF	\$576,814.60
RETL	\$210,235.78
SERV	\$157,616.96
SPRT	\$385,530.00
TRAV	\$55,928.23
Total	\$318,975.00

5.2
Average Initial Investment
(Excluding Real Estate Costs)

	Average Initial Investment Excluding Real Estate
AUTO	\$222,850
BAKE	\$149,187
BLDG	\$88,926
BUSN	\$62,709
CHLD	\$84,185
EDUC	\$102,051
FAST	\$158,612
LODG	\$1,285,749
MAIN	\$50,026
PERS	\$100,006
PRNT	\$233,833
REAL	\$60,105
REST	\$460,944
RETF	\$204,058
RETL	\$144,185
SERV	\$123,813
SPRT	\$195,073
TRAV	\$71,824
Total	\$210,133

1997

5.2 Average Initial Investment (Excluding Real Estate Costs)

Description

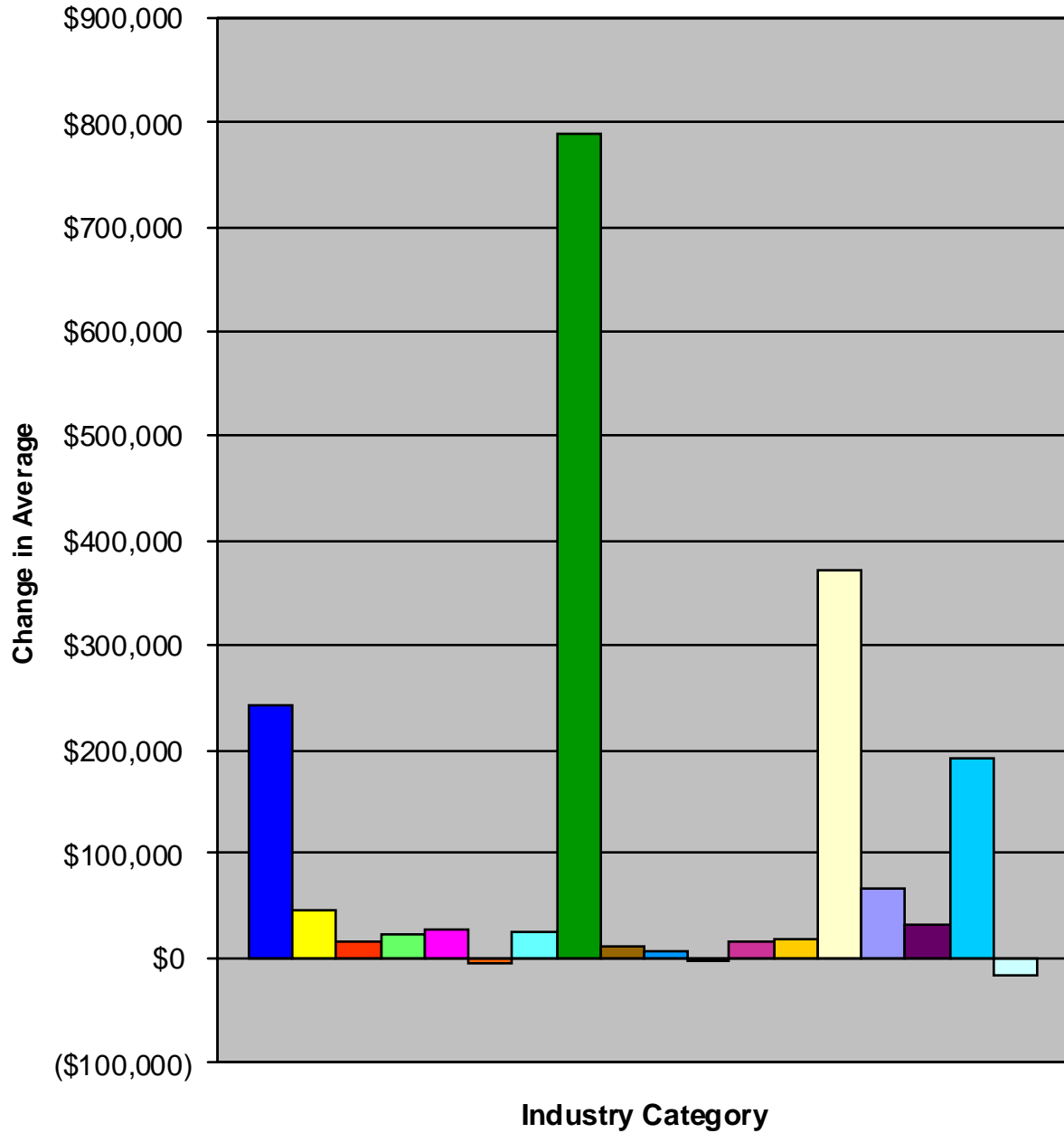
Bar graph: The bar graph on the opposite page depicts the average change in franchise population from 1997 to 1998 by industry category. The chart found below contains the source data from which the graph was created.

Positive dollar figures represent an increase in the average initial investment for the Industry Category in 1998. Conversely, negative dollar figures represent a decrease in the average initial investment for the Industry Category in 1998. Data is presented by the 18 Industry Categories and by the total Franchise Population (delineated in the "Total" category).

	Average Initial Investment Excluding Real Estate
AUTO	\$242,338.23
BAKE	\$45,922.30
BLDG	\$15,533.26
BUSN	\$23,511.14
CHLD	\$27,237.65
EDUC	(\$4,722.01)
FAST	\$23,957.72
LODG	\$789,902.59
MAIN	\$12,886.82
PERS	\$6,456.13
PRNT	(\$1,348.96)
REAL	\$15,925.93
REST	\$16,981.36
RETF	\$372,756.96
RETL	\$66,051.00
SERV	\$33,804.38
SPRT	\$190,457.14
TRAV	(\$15,895.27)
Total	\$108,842.19

In reviewing this data, it is important to understand that the Franchise Population from which the data was drawn in Volume III of the **Profile** is not identical to the Franchise Population which was used to collect data for Volume II of the **Profile** (see Chapter V and Appendix B). In fact, only 75% of the systems in Volume III of **Profile** were also in Volume II of the **Profile**. Therefore, large fluctuations in variances may be directly attributable to a change in population within a particular industry group, rather than to any real change in that industry. Please use caution when drawing conclusions from these results.

**5.2
Average Initial Investment
(Excluding Real Estate Costs)**



■ AUTO	■ BAKE	■ BLDG	■ BUSN	■ CHLD	■ EDUC	■ FAST
■ LODG	■ MAIN	■ PERS	■ PRNT	■ REAL	■ REST	■ RETF
■ RETL	■ SERV	■ SPRT	■ TRAV			