

THE NEXT

FRANCHISEES

&

SMALL BUSINESS OWNERS

Includes the Future Franchisee Index™

WHO
THEY ARE

HOW
MANY
THERE ARE

WHAT
THEY WANT

A national research study exploring the outlook, size and other attributes of the prospective franchisee and near future small business owner market.

REGISFRANCHISE

ST. JACQUES
MARKETING

WHO BUYS FRANCHISES?

Simple enough question. Or is it?

Get a group of operating franchisors in a room and they'll tell you the competitive landscape is crowded, unclear, confusing and at times overwhelming. They'll probably say that franchise prospects span a wide range of socioeconomic backgrounds and come with various levels of business sophistication, capitalization, and risk tolerance. They'll say that many franchisees don't know what they're looking for. That some prospects hold misperceptions about the nature of business ownership success. While others have it figured out.

As a result, some franchisors are inundated with franchise leads they can't use. Some can't generate a lead for anything in the world. Others have it figured out – but perhaps not enough.

Get a group of qualified, prospective franchisees in a room and they'll give a similar account from the opposite perspective.

The landscape is crowded, unclear, at times overwhelming. Some franchisors have it figured out, some don't know what they're looking for, but in all cases the prospective franchisee's examination process is a search to separate fact from fiction.

From either viewpoint, the franchisor's or the franchisee's, this is an extremely important conversation. There's a lot at stake.

But...what's really happening out there? Right now? Statistically speaking, how can we form a precise, accurate picture of this entrepreneurial environment, the economy surrounding people looking to start businesses, including franchise options?

Being innately curious, we wanted concrete answers to some macro questions about the nature of franchising. At this moment, for example, how many people in the U.S. are exploring business ownership? Among these explorers, who sees themselves in a franchise in the near future? Who are they and what do they think and believe?

We wanted to start asking the questions in a scientific, statistically valid way. This report is the fruit of that effort, the result of a national research study that represents a first attempt at learning more about potential business owners and franchisees, specifically:

1

*What's the size of the future franchisee pool? Right now, how many people in the continental U.S. self-report that it is extremely likely they will be in a franchise in 12-18 months? This is our **Future Franchisee Index™***

2

What is their demographic makeup?

3

What are the beliefs and attitudes toward business ownership?

4

How are they going about the process?

What we thought we knew...

If you believe conventional wisdom, a significant set of the potential franchisee pool consists of people who, dissatisfied with their current careers, seek riskless business opportunities promising new levels of independence and income with few risks that might challenge their limited business experience.

Perhaps it's just a stereotype. But if it is, it's one that has had a profound influence on the franchise brands who recruit new partners, shaping not only the way they communicate their value, but the direction in which they target their messages. Just as significantly, it's the profile many potential new business investors have in mind when they assess their options, specifically, whether a franchise business might be a good investment for them.

But is it true? Does the stereotype really reflect the profile of the majority of potential franchise owners — now and, more importantly, in the future?

This Future Franchisee Index highlights the key outcomes. It reveals — for franchisors, potential and current franchisees, independent business owners and even political leaders — that there is a robust economy surrounding near-term business ownership in general and franchising specifically. And it suggests that there must be a MUCH better way to speak to that economy, and to the most urgent concerns of today's most promising franchise prospects.

Frankly, the results surprised us. We suspect that, for the roughly 3,000 franchise brands who fish for future franchisees within the same prospect pools, the following report may prove startling.

But for the ambitious investor, the prospect seeking new opportunities for business success, this Future Franchisee Index should be more inspiring than it is shocking. For Supercuts Franchise and St. Jacques Marketing, the Index began as a way to quantify the future franchisee marketplace. Yet, as you will see, it has emerged as something more: an invitation for the successful to become even more successful through the power of franchise business ownership.

OUR METHODOLOGY

The sweet spot is bigger and sweeter than anyone suspects

To gather information we could trust, we needed to meet accepted norms for data collection. St. Jacques Marketing, with the sponsorship of the Supercuts Franchise, and the assistance of Evans Larson Communications engaged an independent, third-party research group, AYT™, to explore the prospective franchisee marketplace, to dig deep and uncover the real motivations of potential franchise owners and to create a more accurate picture of the size of the near future market: who they are, what they want, what they believe, and what they expect from a business.

We designed an online survey of roughly 30 questions distributed to a nationally representative panel. This report represents an analysis of more than 1,000 completed surveys conducted between September and November 2013.

In order to achieve a more realistic understanding of the franchisee market — that is, people who have both the potential for and interest in owning a franchise business — the survey had to stretch both wide and deep: broad enough to capture as much of the market as possible, yet selective enough to screen out the “noise,” people with no practical interest or ability to pursue franchising.

To participate in the survey, participants had to meet certain criteria. Our first cut of the U.S. market aimed at the “affluents,” males and females 30-64 years old with annual household incomes greater than \$100,000. According to U.S. Census data, this is a pool of roughly 40.6 million people.

But in order to qualify for the survey, members of this pool also had to have:

A net worth over \$200,000 and one or more of the following:

.....
A plan to change careers

.....
An intention to either start a new business or a franchise

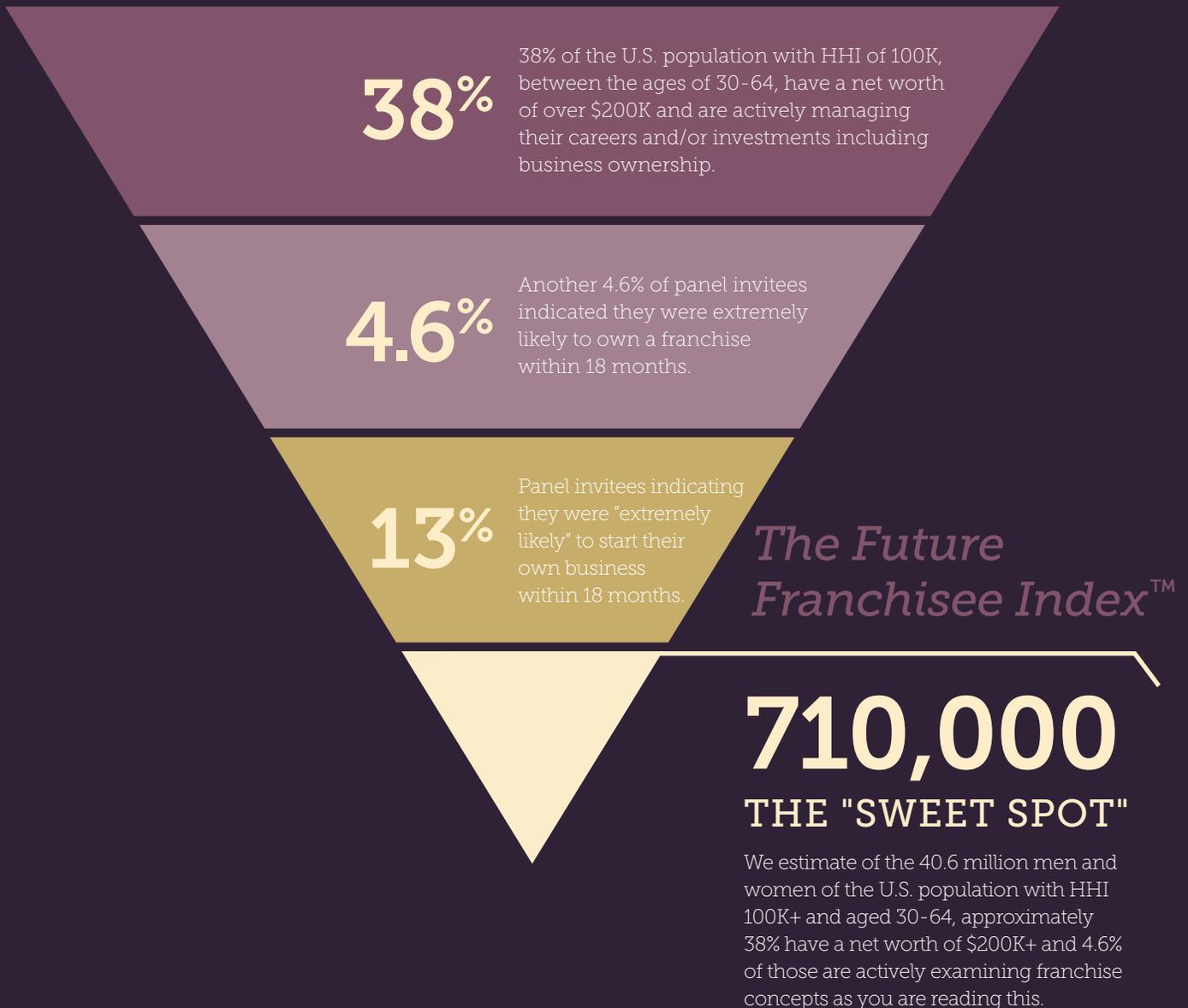
.....
An intention to make passive investments

Essentially, we were looking at a pool of people who were actively managing their careers or investments. We chose to eliminate people over age 65 because pre-testing quantitative results and past surveys showed a very low adoption of active career management and/or business ownership among those nearing retirement age. *(This may be the first surprising result. Although it might make intuitive sense to think retirees are prime for franchising, the data does not support this assertion.)*

Also eliminated from the study were people not actively managing their career or investments, those planning early retirement with a leisure lifestyle, and people who intended to go back to school.

Within this criteria, 38% of the men and women with household incomes of 100K+, ages 30-64, qualified to take the survey. We can roughly extrapolate from this data to say that among the 40.6 million people in the U.S. with HHI of 100K and between the ages of 30-64, 38% of the market has a net worth of over \$200K and are actively managing their careers and/or investments, which includes business ownership. But is it true? Does the stereotype really reflect the profile of the majority of potential franchise owners – now and, more importantly, in the future?

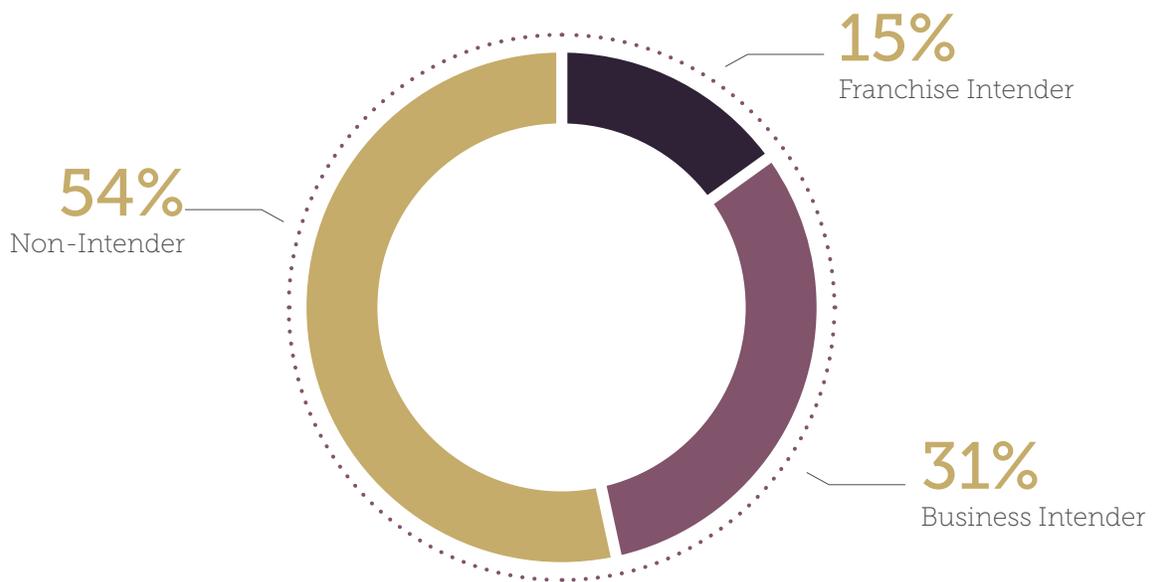
The participants who completed the survey were 1,000 of this special group of people: active, on the move and successful:



THE TOP LINE:

How the survey participants parsed out among current careers, business outlook and gender.

Grouping the survey participants around business intention.



Ultimately, the survey sampled 1,000 people who met the research qualifications. The following data moves away from focusing on the broad 100K+ HHI, 30-64-year-old population, to the 1,000 participants who met the additional criteria of 200K net worth and active career/investment management and completed the survey.

Of 1,000 survey participants, 46% expressed a desire to start or own a business within the next 18 months. When results were further sifted by intention, the survey found:

Responses to Survey Question 10: Within the next 12-18 months, how likely is it that you will start/buy your own business, own a franchise, or start a business with a partner? 1,000 responses.

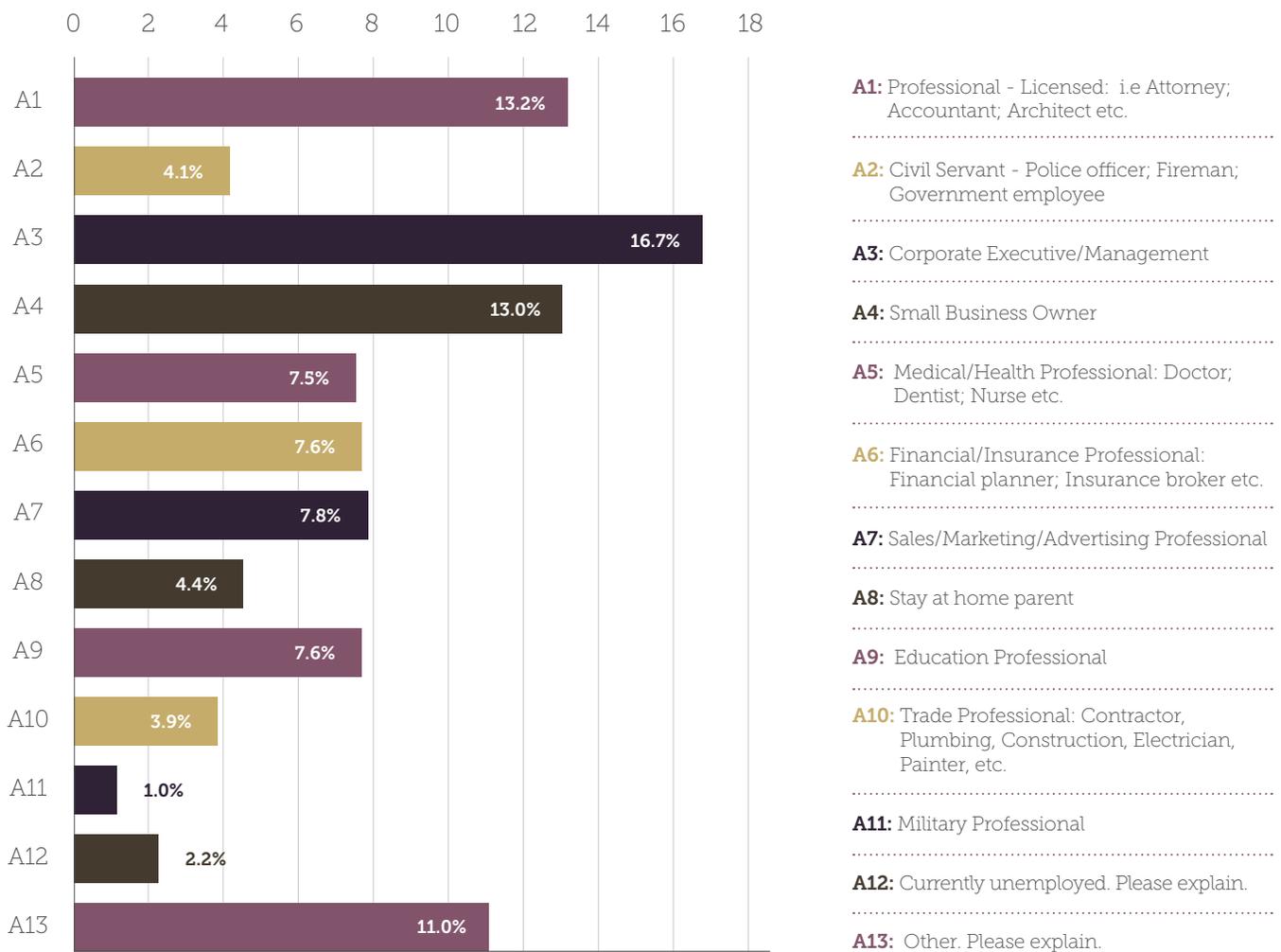
15% were Franchise Intenders, people who said they were "extremely likely" or "very likely" to own a franchise within 18 months;

31% were Business Intenders, people who said they were "extremely likely" or "very likely" to start their own independent businesses within 18 months.

54% were Non-Intenders, those not seeking business ownership now or in the future.

The balance of the report focuses on comparing the attitudes and behaviors among these "intenders."

Career-wise, this is how the survey participants broke out:



Responses to Survey Question 1: What is your primary occupation? 1,000 responses.

Men, women and rate of business ownership

We also wanted to examine gender viewpoints with respect to business ownership.

There was no statistical difference in the outlook for women and men looking to start a business. However, men were about twice as likely to consider a franchised business than women.

Women were also about twice as likely than men to be aware that their spouse/ domestic partners were considering business ownership.

We examine more fully the relationship between business ownership, franchising and partnerships later in the report.

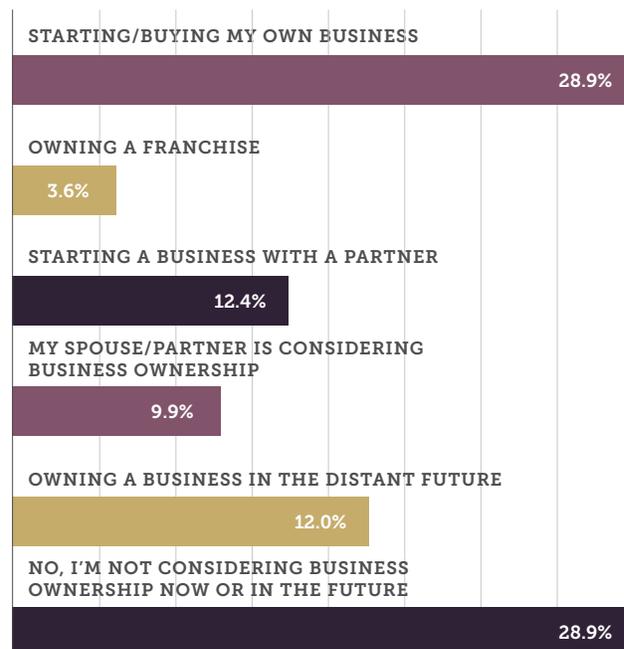
The takeaway here is we can assume an equally active involvement of both women and men surrounding the near-term small business economy.

Responses to Survey Question 11: Asked another way, are you seriously considering doing any of the following? 1,000 responses.

Within the next 12-18 months, how likely is it that you will...

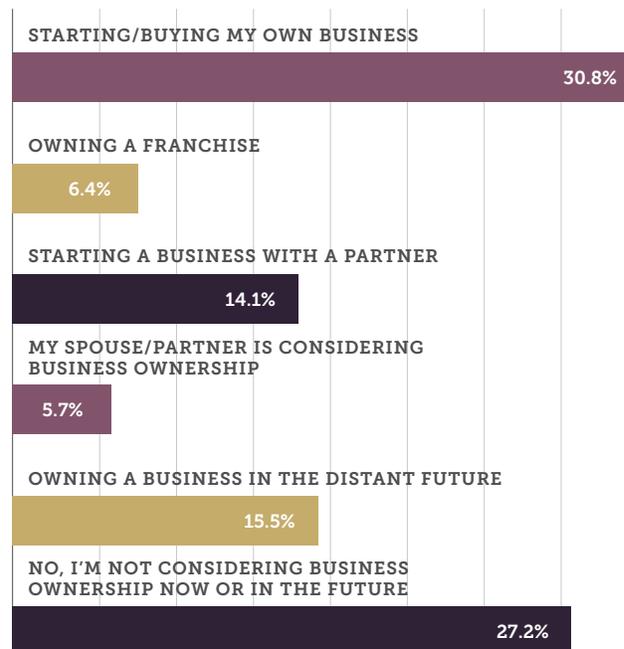
442 Females

0 16 32 48 64 80 96 112 128



558 Males

0 43 86 129 172



THE FIRST SURPRISE TAKEAWAY:

A bigger pool of more affluent, interested prospects. The first surprise? At 710,000, the pool of potential franchisees is much bigger than we expected to see. Better yet, it's a more qualified pool than we dared hoped for, composed of prospects who have both the assets and the interest to seriously pursue a franchise opportunity.

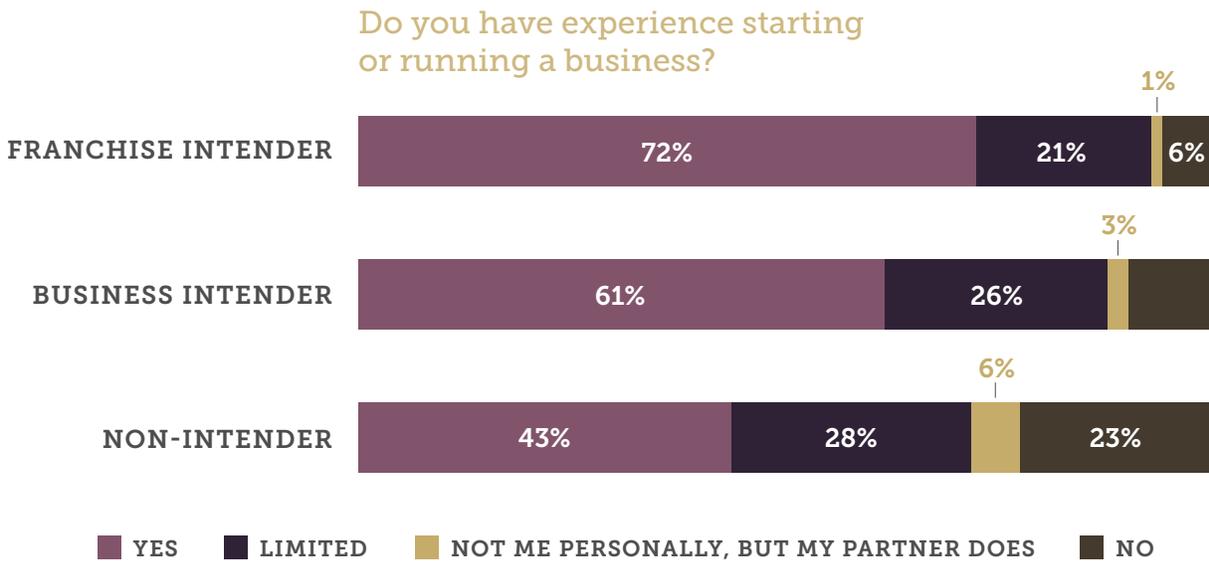
Now let's really get into the survey data.

WHO'S REALLY INTERESTED IN OWNING A FRANCHISE?

Time after time, participants in the franchisee survey defied prevailing stereotypes, creating a franchisee "self-portrait" that is more business sophisticated than the market imagines.

Here is what the research found:

Franchise Intenders have the most business experience



Based on how franchisors communicate with potential prospects, you might surmise that franchises are most attractive to prospects with little or no business experience; for these prospects, the franchise offers a business model they do not have the ability to build on their own.

But the survey demonstrates something completely different. Contrary to expectations, Franchise Intenders, with 72% reporting prior experience, are the most experienced in business, compared to Business Intenders at 61% and Non-Intenders at 43%.

Subsequent follow-up inquiries surfaced a number of anecdotes with a common theme: prospects with business experience understood where their talents could add value, and which challenges

drained their capital and energy. For them, the franchise model brings predesigned operational efficiencies – in supply chain management, human resource training, real estate development, customer acquisition and more – that they would not have to recreate, allowing them to focus on what really matters: business growth.

The Surprise Takeaway:

Myth: Franchise Intenders seek franchises to compensate for their lack of business experience.

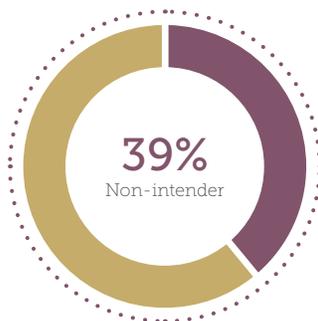
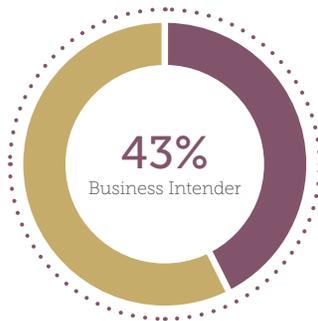
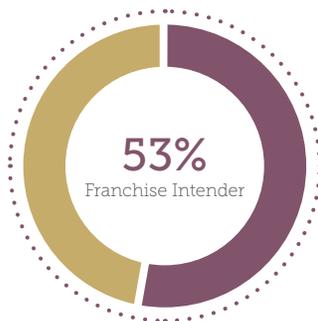
Reality: Franchise Intenders have business experience, or at least an orientation around business, and can appreciate how franchises can complement this understanding.

Responses to Survey Question 15: Do you have experience starting or running a business? 562 responses.

Franchise Intenders are the most satisfied with their current careers.

How satisfied are you in your current career?

■ VERY SATISFIED OR EXTREMELY SATISFIED



The Franchise Intender is a daydreamer, right? Trapped in unsatisfying careers or dead-end jobs, they long for escape. For them, owning a franchise is a more practical (and obtainable) alternative to winning the lottery, a way to gain relief from their current dissatisfactions. If you're looking for potential franchisees, look among the discontented.

The survey data tells a much different story. In the survey, 53% of Franchise Intenders reported being "extremely" or "very" satisfied with their careers, compared to 43% of the Business Intenders and 39% of the Non-Intenders.

People interested in owning franchises are the most satisfied with their careers.

In fact, most Franchise Intenders plan on keeping their current jobs even as they pursue and open franchises. The reality is, Franchise Intenders are people who know how to succeed and appreciate the lives they have. They are not interested in replacing their careers; they want to expand the success they have already achieved.

The Surprise Takeaway

Myth: Franchise Intenders are looking for a way to escape their current situation.

Reality: Real franchisees want to expand their success.

Responses to Survey Question 4: How satisfied are you in your current career? 1,000 responses.

Franchise Intenders embrace risk

Franchisors often market their businesses as the “low risk” path to business ownership, working under the assumption that their prepackaged business methodologies would appeal most to people lacking confidence in the marketplace — or in their own business acumen.

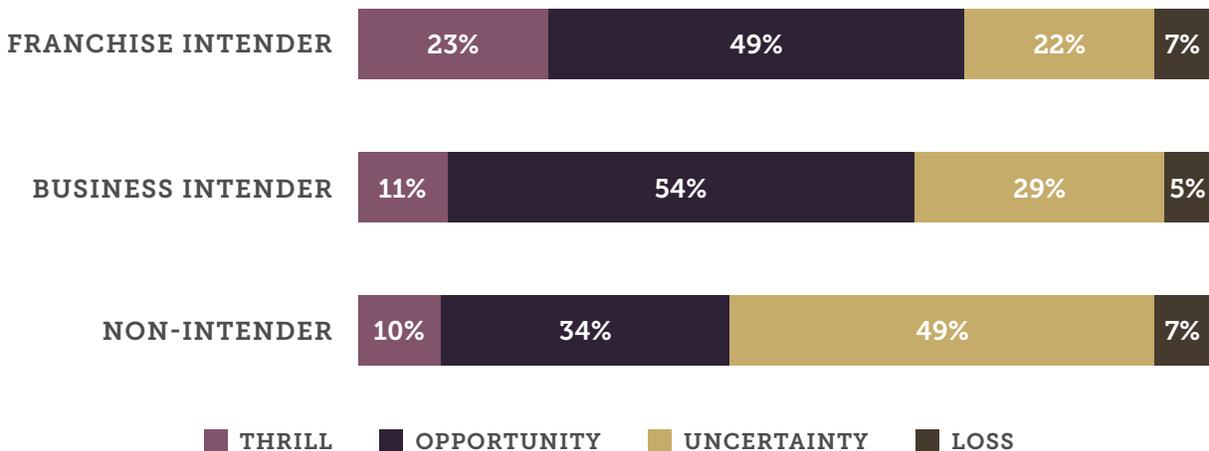
Asked, “When you think of the word ‘risk,’ which word comes to mind first?” once again Franchise Intenders contradicted the stereotype, choosing

“thrill” or “opportunity” over “uncertainty” or “loss” by 72% to 29%, leading both Business Intenders (65% to 34%) and Non-Intenders (44% to 56%).

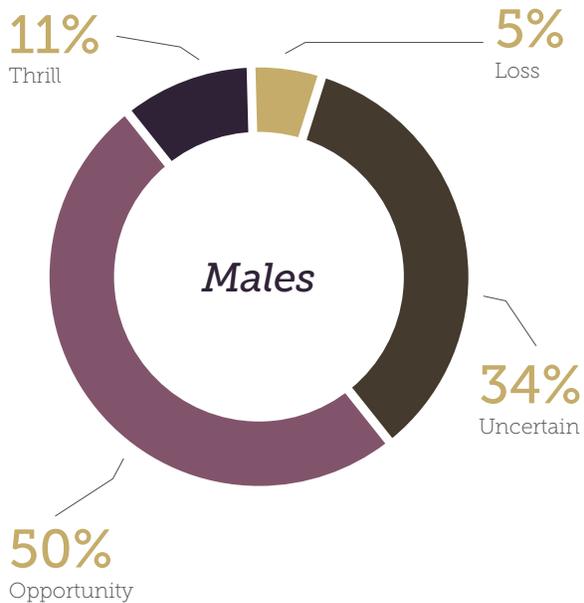
The Surprise Takeaway

In fact, Franchise Intenders were more than twice as likely to regard risk as a “thrill” than business intenders: 23% versus 11%.

When you think of the word ‘risk’ which word comes to mind first?

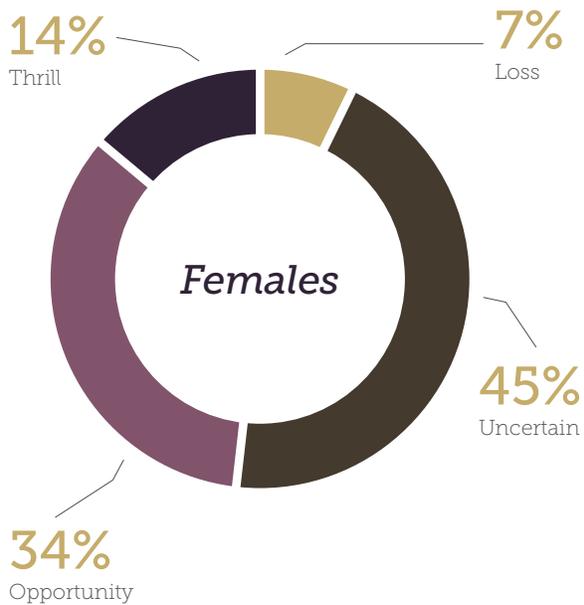


Responses to Survey Question 9: When you think of the word “risk” which word comes to mind first? 1,000 responses.



How women and men perceive risk.

Among Franchise Intenders, there were intriguing differences of opinion between men and women. Men were more likely (at 50%) than women (at 34%) to see risk as an opportunity, yet more women (14%) described risk as a thrill than men (11%). These numbers tend to confirm our observations of Franchise Intender attitudes. While franchise brands “sell” their business models as a way to reduce risk, franchisees appreciate the value of the model in a completely different way: as a tested way to achieve success faster. Franchise Intenders know that business ownership requires a clear understanding and acceptance of reasonable risk.



The Surprise Takeaway

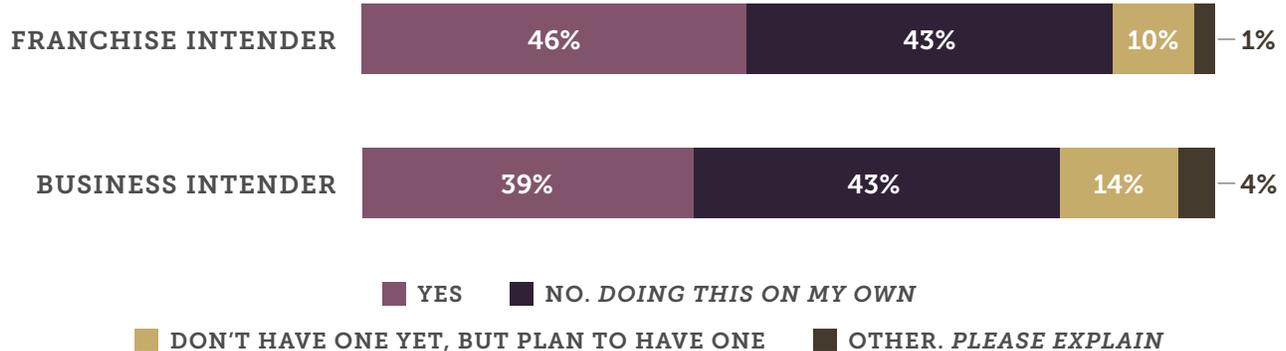
Myth: Franchise prospects see franchises as the low-risk way to own a business.

Reality: Real Franchise Intenders feel quite comfortable with risk; what they’re really looking for are resources.

Franchise Intenders welcome partnerships

Franchisees, we have been told, seek escape from workplace dynamics and see the franchise as a way to scratch the entrepreneurial itch and strike out on their own.

Are you planning on having a business partner?



The numbers, however, reveal something else. When it comes to either having a partner or planning to find one, Franchise Intenders and Business Intenders are in a statistical dead heat, equally likely to form partnerships. The most popular partners are spouses/domestic partners (30.9%), friends (30.3%) and colleagues (25.5%). Parents, siblings, children and other relatives ranked far behind, each in the single digits. Men and women were equally likely to have or seek a business partner, at 56% and 54% respectively. But men were slightly less likely to have one already designated: 15% plan to have one, versus 9% of the women.

In our research, “independence” remains a significant motivation for both Franchise and Business Intenders, but it is not a desire that precludes partnerships. What franchisees really want is a practical pathway to success, and half the time expect to share that journey with someone close to them.

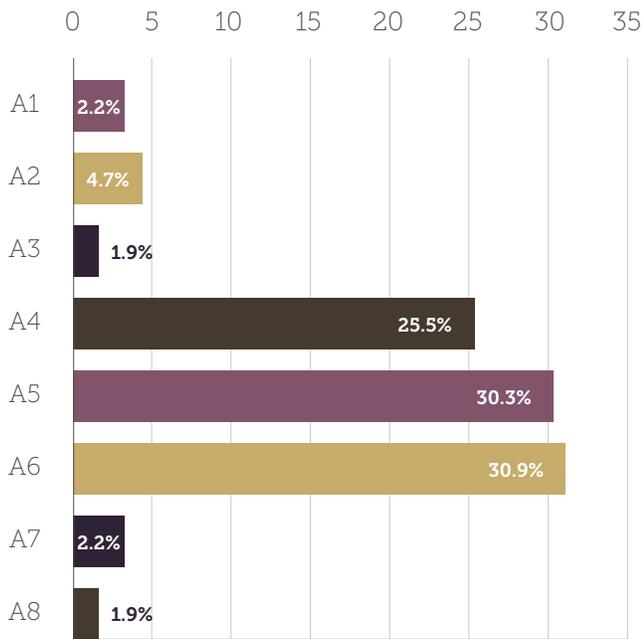
The Surprise Takeaway

Myth: The Franchise Intender is driven by a desire for independence.

Reality: The Franchise Intender is really motivated by a desire to succeed, most likely with others.

Response to Survey Questions 20 and 21: Q20: Are you planning on having a business partner? Q21: How are you related to your business partner? 562 and 313 responses, respectively.

How are you related to your business partner?



- A1:** Parent
- A2:** Sibling
- A3:** Other Relative (Grandparent; Aunt etc.)
- A4:** Colleague
- A5:** Friend
- A6:** Spouse/Domestic Partner
- A7:** Son or daughter
- A8:** Other

FEMALE **MALE**

Are you planning on having a business partner?

FEMALE **MALE**

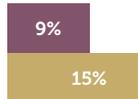
YES



NO. DOING THIS ON MY OWN



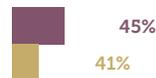
DON'T HAVE ONE YET, BUT PLAN TO HAVE ONE



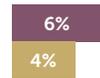
OTHER, PLEASE EXPLAIN



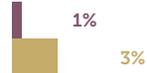
PARENT



SIBLING



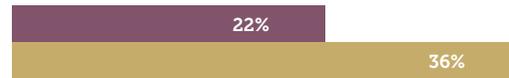
OTHER RELATIVE (GRANDPARENT; AUNT ETC.)



COLLEAGUE



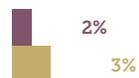
FRIEND



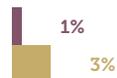
SPOUSE/DOMESTIC PARTNER



SON OR DAUGHTER



OTHER



Franchise Intenders have the most realistic cost expectations

Those who think that franchise prospects are among the least sophisticated entrepreneurs need to rethink their assumptions. In reality, Franchise Intenders demonstrated the best grasp on the true costs of owning a business.

- Only 25% of both Business Intenders and Non-Intenders expected franchise start-up costs to be \$250,000 or more, as opposed to 41% of Franchise Intenders.
- In their estimation of costs for starting an independent business, 69% of Franchise Intenders expected a capital investment of \$101,000 or more, while only 44% of Business Intenders and 38% of Non-Intenders shared a similar expectation.

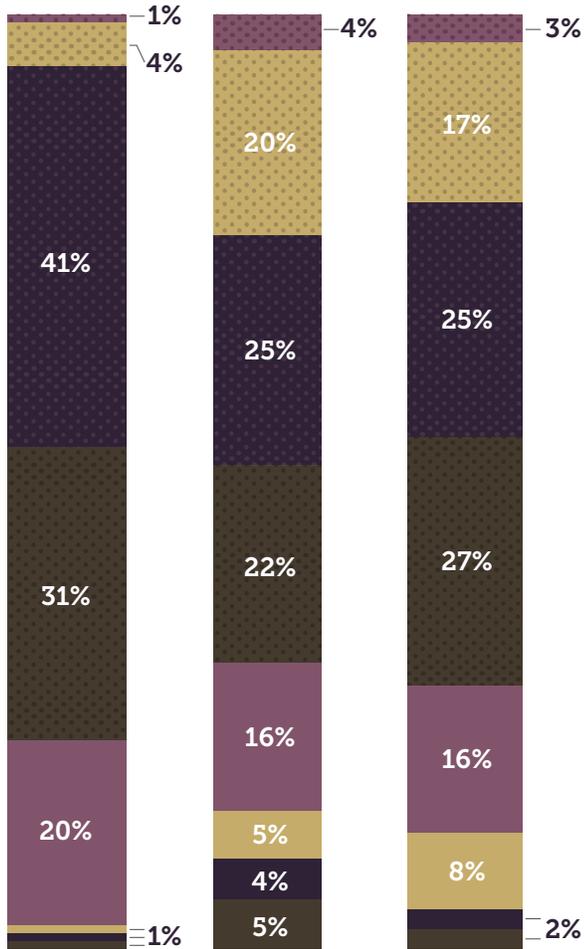
Contrary to stereotype, the Franchise Intender proceeds into business with eyes wide open, more aware than the general population of the capital investment necessary to make a new business succeed.

The Surprise Takeaway

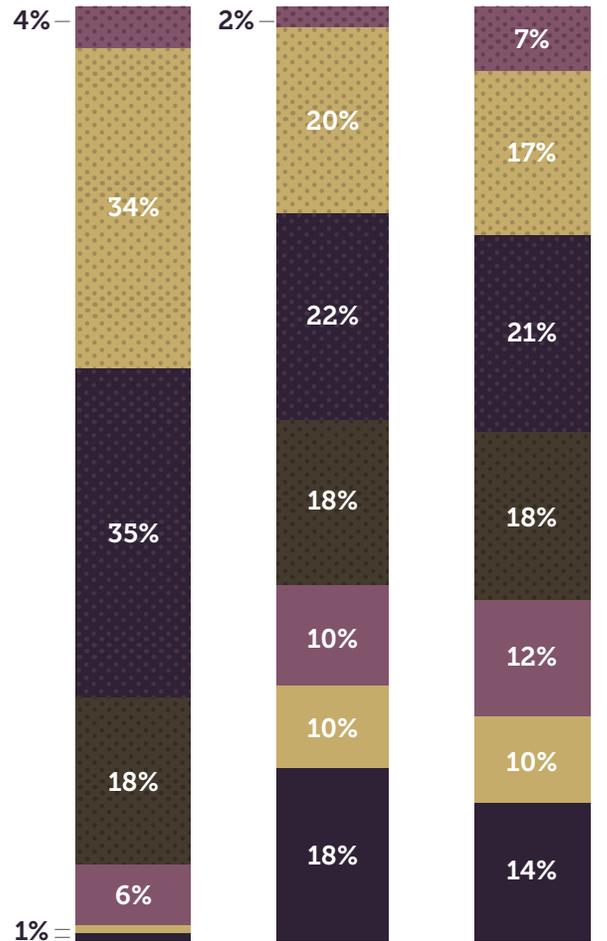
Myth: People attracted to franchises are less business-savvy than other entrepreneurs.

Reality: Truth is, Franchise Intenders have the most realistic understanding of what it takes to start a business.

Approximately, how much do you think it will cost to start a franchise?



How much money do you feel you need to start your business?



FRANCHISE INTENDER

BUSINESS INTENDER

NON-INTENDER

FRANCHISE INTENDER

BUSINESS INTENDER

NON-INTENDER

OTHER

I HAVE NO IDEA

\$250,000 OR MORE

\$101,000 - \$250,000

\$51,000 - \$100,000

\$26,000 - \$50,000

\$10,000 - \$25,000

\$10,000 OR LESS

Response to Survey Question 24: Approximately, how much do you think it will cost to start a franchise? 562 responses.

Response to Survey Question 19: How much money do you feel you need to start your business? 562 responses.

A fresh perspective opens **NEW OPPORTUNITIES**

And so much more... This is just the start of understanding what this data set implies. We'll be releasing more information as it is analyzed. But one thing is certain — a new level of understanding can lead to better partnerships, systems and businesses.

As the numbers show, there are more than enough qualified franchise prospects to satisfy the lead-generating needs of growth oriented franchisors. Knowing who the prospect is, what motivates them and what they are looking for allows franchisors to have meaningful conversations about something as critical to both parties as franchising.

We believe that prevailing stereotypes, left unchallenged, have thwarted opportunities for growth. Laboring under false assumptions, franchise brands have been competing for recruits among the disenchanted and the risk-averse. Worse, many potential entrepreneurs eager to build upon their past and current achievements may have overlooked franchises, assuming they were not a good fit for their ambitions.

The results of the Future Franchisee Index paint an entirely different picture, one that connects prosperous, confident and sophisticated prospects to the kinds of investments they value: businesses with robust brands and ready-built operational structures that amplify entrepreneurial efforts.

We see the Future Franchise Index as both a challenge and a call: a challenge to set aside false understandings that have inhibited franchisors and potential franchisees alike, and a call to connect savvy prospects and growing brands together in the mutual pursuit of even greater success.

FOR MORE INFORMATION ABOUT THIS
REPORT, THE STUDY OR THE FUTURE
FRANCHISEE INDEX PLEASE VISIT:

www.supercutsfranchise.com/franchiseeindex2014

WHO BUYS FRANCHISES?

Derived from a national research study of 1,000 participants on their plans to start a business or a franchise.

1

Participants had to have:

A net worth over \$200,000 and planning one or more of the following:

Change careers

Start a new business or franchise

Make passive investments

2

38%

38% of the U.S. population with HHI of 100K between the ages of 30-64, have a net worth of over \$200K and are actively managing their careers and/or investments including business ownership.

13%

Panel invitees indicating they were 'extremely likely' to start their own business within 18 months.

4.6%

Another 4.6% of panel invitees indicated they were extremely likely to own a franchise within 18 months.

710,000

The Future Franchisee Index™

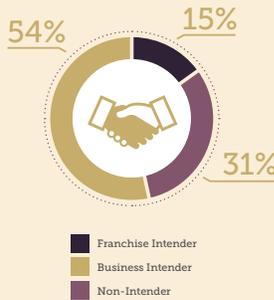
THE "SWEET SPOT"

710,000

We estimate of the 40.6 million men and women of the U.S. population with HHI 100K+ and aged 30-64, approximately 38% have a net worth of \$200K+ and 4.6% of those are actively examining franchise concepts.

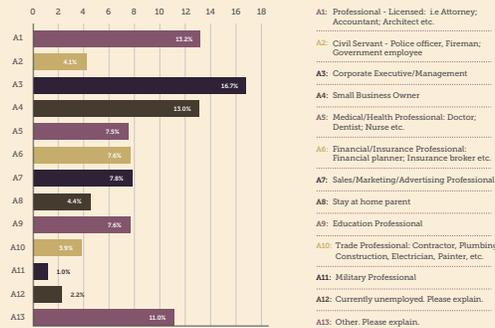
3

Business intention



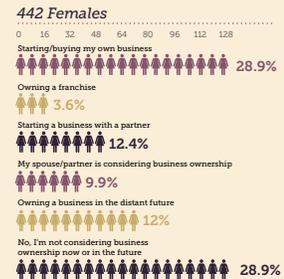
4

Career distribution



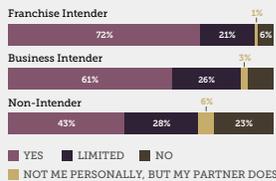
5

Business ownership rates by gender



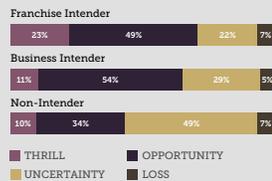
6

Business experience



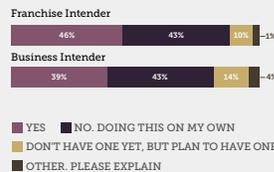
7

Perceptions of the word 'risk'



8

Plans to have a business partner



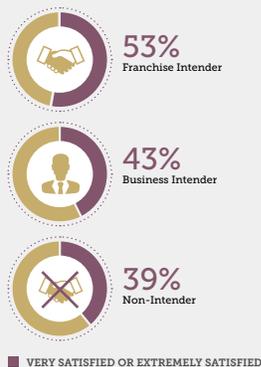
11

Relationship to business partner



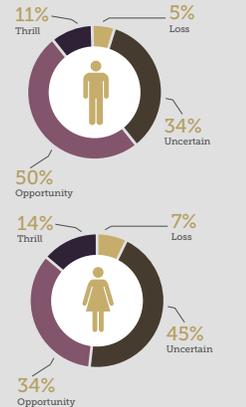
9

Current career satisfaction



10

How women and men perceive risk



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ST. JACQUES
MARKETING

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