Research

A Regulatory Wave Impacts Franchises

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EXECUTIVE SUMMARY

Recently, policymakers and regulators have enacted an abundance of laws and regulations affecting labor policy, including raising the minimum wage, expanding overtime pay coverage, and attempting to change the legal definition of "joint employer." Interestingly, franchised businesses seem to bear a considerable amount of the burden from these new rules. One of the key sources of private sector job growth in the nation, franchises employed 7.1 percent of private industry workers in 2014, and created 10.8 percent of all jobs added last year. Moreover, franchises have been central to job creation for automobile dealers, restaurants, and accommodation services since 2012. This report examines the role of franchises in today's economy and provides an analysis of associated regulations.

INTRODUCTION

The franchise business model has been among the most dependable sources of new jobs over the last few years. According to the payroll processing firm ADP, franchises employ more than 8.4 million workers, representing 7.1 percent of private sector workers.[1] While the most common type of franchise businesses are restaurants or fast-food chains, the franchise model has taken hold in several industries. Workers are employed by franchise supermarkets, gasoline and auto repair stores, drug stores, real estate services, and even professional and scientific technical services. The three industries that most frequently employ the franchise model are automobile dealers, restaurants, and accommodation services.

FRANCHISES AND ECONOMIC RECOVERY

During the past few years, franchise industries have been a central source of job creation. Looking at the entire economy, ADP data suggest that private sector job creation has not been accelerating. As illustrated in table 1, from 2012 to 2014, private sector employment levels grew 2.0 percent to 2.2 percent each year. While growing steady, the lack of acceleration is worrisome.

Table 1: Job Creation in Franchise Businesses			
Year	**Total Private Sector Job Growth (y-o-y %)**	**Franchise Job Growth (y-o-y %)**	**Portion of New Jobs in Franchise Business (%)**
2012	2.1	2.1	6.8

Table 1: Job Creation in Franchise Businesses			
2013	2.0	3.1	10.9
2014	2.2	3.4	10.8