# Franchise Advertising and Marketing Research Report

**BIA/KELSEY'S KEY INSIGHTS INTO CURRENT AND FUTURE TRENDS**

BIA Kelsey

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# INTRODUCTION

Understanding which channels franchises use and how much they spend at the local level is critical for franchise businesses. Franchisors can use franchisee advertising and spending data to tailor local advertising programs and marketing campaigns which have the potential to make their franchisees more successful and in turn enhance the franchise brand.

Each year BIA/Kelsey conducts Local Commerce Monitor™ (LCM), a survey that tracks small-business advertising and marketing spending, buying preferences, and reported return on investment. LCM also examines unique small-business segments, including franchises. The data in this report is based on their annual survey of over 1,000 SMBS with 100 or fewer employees. The data is collected by an independent research firm using a panel of highly engaged small businesses.

LCM Local Commerce Monitor™ BY BIA Kelsey

# The Franchise Market

For the past several years, the franchise industry has been in a strong growth mode, according to the International Franchise Association (IFA). U.S. franchise start-up rates are generally between 1 percent and 3 percent annually, with significant variations based on the franchise vertical industry (Franchise Business Economic Outlook 2016, IFA).

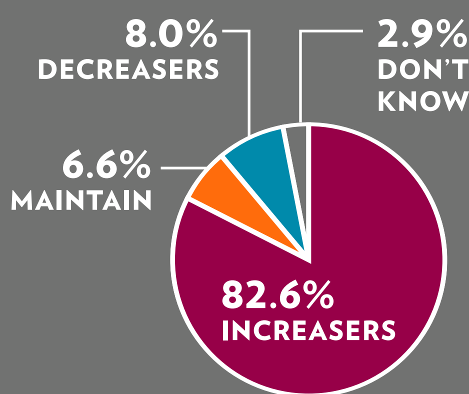
Franchise growth leads to more competition for established franchises in the markets where they operate and presents challenges to new franchisors seeking local franchisee investments. In the past year, strong economic growth has led to an increase in spending by small and medium-sized businesses (SMBs) and franchises on advertising and marketing. Consequently, it is more important than ever to support franchises in their local advertising efforts.

How are franchises investing in and marketing their businesses to separate themselves from the competition?

Franchises' spend on advertising is directly related to economic health. 2016 was a good year for small business, with franchises in particular experiencing healthy growth. About 89 percent of U.S. franchise respondents in BIA/Kelsey's LCM survey said they added new employees in the past year.

Franchise respondents also reported high levels of optimism about their industries and prospects for growth in the coming year. A strong majority, 80.2 percent, of franchises said their revenues will increase in the next year, and a slightly larger percentage said they believe their industry's revenues will grow overall in the next year.

**FOR YOUR INDUSTRY, HOW DO YOU FEEL REVENUE WILL CHANGE IN THE NEXT YEAR?**



Continuing a trend from previous years, franchise respondents remain aggressive in their current and future advertising spend. Seventy-four percent of franchises surveyed said they plan to increase their overall advertising spend in the next 12 months, this is an increase over last year. These spending behaviors are not surprising given that franchises report almost half of their business is derived from promotions.

The growth in franchise spending comes from the lower end of the market. According to BIA/Kelsey's survey, smaller franchises are spending substantially more than they have in the past two years, up approximately 100 percent to an average of $5,697, while larger franchises are showing a slight decrease in overall annual budget, down about 15 percent overall.

**FRANCHISES REPORT ALMOST HALF OF THEIR BUSINESS IS DERIVED FROM PROMOTIONS**

The increase can be related to the top two factors franchises in the survey say are the factors that determine advertising spend: economic conditions and money left after expenses.

# Co-Opportunity

Notably, only two thirds of franchises take advantage of co-op dollars. When they do use co-op funding, it supports less than half of their overall advertising spend, leaving a lot of opportunity for franchises to spend on their own instead of as part of the brand spend.

The amount of co-op dollars available for different channels from franchisors is a key influencer of franchise spend, even though it remains underutilized. Most co-op advertising programs focus on traditional channels and targeted digital such as search and display advertising.

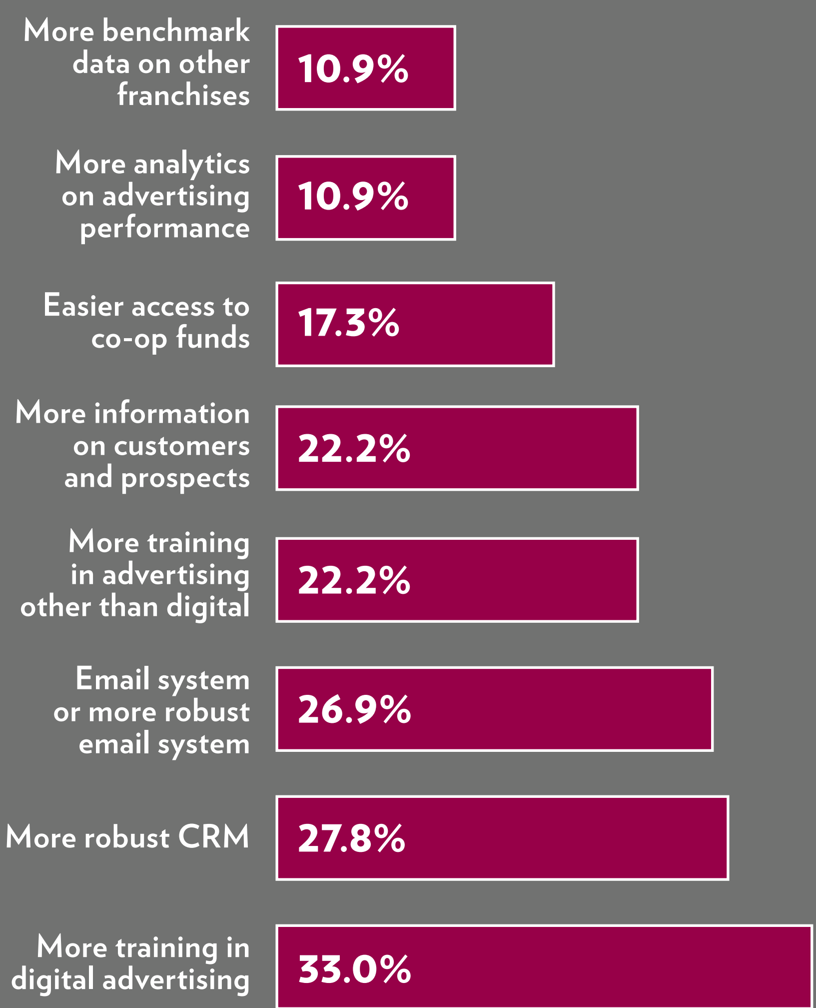
In general, corporate marketing and advertising support is increasing with franchises reporting that parent franchisor support of their annual marketing and advertising efforts went from 33.3 percent of franchises' annual advertising and marketing costs in 2015 to 37.1 percent in 2016.

Franchisors exert their influence over franchisee social media with co-op and social budgets. Seventy percent of franchisees reported that the brand franchisor is "highly/somewhat" involved in their social media marketing.

When asked what they consider the most important advertising and marketing support available from their franchisor, franchise SMBs said they need more training in digital advertising, more robust customer relationship management (CRM), and better email systems with marketing tools and reporting. Currently, most franchises use their own internal software and services rather than adopting the franchisor's marketing tool set. BIA/Kelsey identifies this as a key opportunity for franchisors to up their marketing game and partner more closely with franchisees.

> "CURRENTLY, MOST FRANCHISES USE THEIR OWN INTERNAL SOFTWARE AND SERVICES RATHER THAN ADOPTING THE FRANCHISOR'S MARKETING TOOL SET. BIA/KELSEY IDENTIFIES THIS AS A KEY OPPORTUNITY FOR FRANCHISORS TO UP THEIR MARKETING GAME AND PARTNER MORE CLOSELY WITH FRANCHISEES."

## WHAT ARE THE MOST IMPORTANT ADVERTISING AND MARKETING SUPPORT YOU WOULD LIKE FROM YOUR FRANCHISOR?



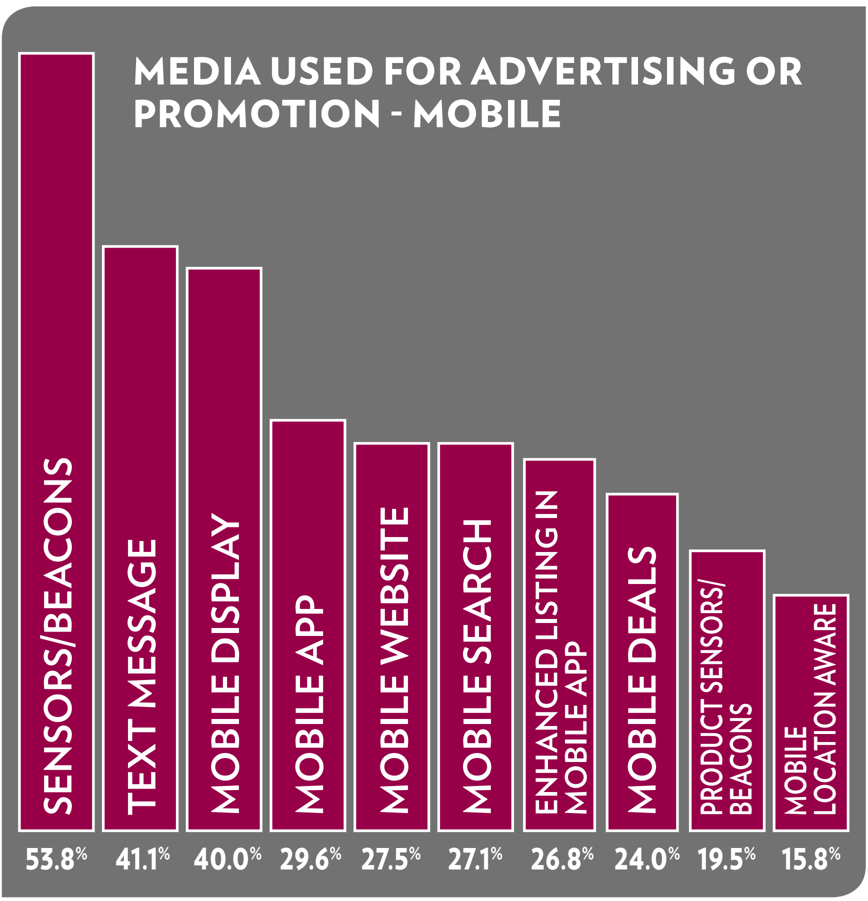
# Channel Propagation: The Ever-Expanding Consumer Relationship

Because of the intense competition for consumer engagement, it's understandable that franchises report they use on average 20 different free and paid advertising or marketing channels. This is more than small businesses overall in the U.S., which use an average of 15 channels. The diversity of channels used by franchises is not only influenced by franchisor support but consumers' aggressive adoption of new technology and shopping on multiple screens.

Franchises are early adaptors of new technology. Understanding where they will invest in the future is closely tied to consumer usage trends, which show growth in both social and mobile channels.

A notable entrant in the digital advertising category in 2016 is Snapchat, a newer social mobile channel now used by 8.8 percent of U.S. franchise brands. By contrast, SMBs overall have adopted Snapchat at less than half the pace of franchises, at only 4.1 percent.

Mobile is another area franchises continue to pioneer. According to a 2016 comScore study, 65 percent of digital growth now comes from mobile. BIA/Kelsey reports that 42.1 percent of franchise customers use mobile phones in-store. Franchises in turn are showing higher use of mobile targeted products.



Franchises are not simply rushing into digital advertising; they are blending it with key traditional channels.

**DIRECT MAIL IS THE MOST POPULAR MEDIA USED BY FRANCHISES**

It's more important than ever to be where the customer is, whether in print, online or in-person. Not surprisingly, the top media used by franchises are a mix of traditional and digital channels. Direct mail is the most popular media used by franchises at 62.8 percent, followed closely by Facebook. Internet Yellow Pages, Community Sponsorships and Radio round out the top 5 media used by franchises. Clearly local franchises favor traditional and digital channels that increase their local market visibility. Their goal is to establish a local brand and customer relationships across multiple media.

Franchise budgets, too, reflect a healthy balance of digital and traditional channels, with digital accounting for about 40 percent of overall spend. In 2016 digital spending dropped slightly to 38.9 percent from 39.5 percent in 2015. Franchises' spending on traditional, social and mobile channels shows marketers are establishing a new baseline for digital vs. traditional spending.

Online video, mobile and other digital channels represent key areas of focus for small and large franchises alike. Online video accounts for 10.6 percent of spending by core franchise SMBs, which spend less than $25,000 a year on advertising and marketing. Among plus franchise SMBs, which spend more than $25,000 annually, online video now represents 12.7 percent of spend.

## TOP 10 MOST USED MEDIA BY FRANCHISES

| | |
|---|---|
| 62.8% | Direct Mail |
| 59.5% | Facebook Ad |
| 57.5% | Internet Yellow Pages |
| 57.0% | Community Sponsorships |
| 54.2% | Radio |
| 53.8% | Sensors/Beacons |
| 51.0% | Giveaways |
| 48.9% | Online Display |
| 48.0% | Website Video |
| 47.5% | Online Coupons |

In previous years a majority of new franchise ad dollars went to mobile and social channels. During 2016 smaller franchises reported spending more across all channels, though social still represents one of the largest shares of spend ever reported by BIA/Kelsey. The biggest increase, which doubled in the past 12 months, is spending on deals & coupons which includes mobile promotions.

## PERCENTAGE OF ANNUAL BUDGET SPEND ON MEDIA

| | CORE $5,697.41 Annual Spend | PLUS $63,969.26 Annual Spend |
|---|---|---|
| Deals & Coupons | 10.3% | 9.1% |
| Video | 10.6% | 12.7% |
| Broadcast | 10.8% | 10.7% |
| Mobile | 12.1% | 9.6% |
| Other traditional | 24.2% | 21.2% |
| Sponsorships & Giveaways | 9.8% | 7.8% |
| Social Media | 13.6% | 13.7% |
| Other online | 11.5% | 14.2% |

*Core <$25K Ad Spend*
*Plus >$25K Ad Spend*
*Traditional includes newspapers, yellow pages, direct mail, radio, cable, directory assistance. Other online includes email, search, display, SEO. Video includes video on social and other digital budgets.*
*May not add up to 100% due to weighting.*
*BIA/Kelsey Local Commerce Monitor™ Wave 20 (LCM)*
*(3Q2016) Q101 Sample=102*

# Franchises & Loyalty Programs

Loyalty programs, both paper and digitally managed, are important to franchises. They typically have large customer lists of more than 500 customers but do not aggressively utilize this channel for promotions. While 52 percent of franchises reported to BIA/Kelsey that they use customer loyalty programs and another 37 percent said they plan to adopt such programs in the next year, fewer than half of franchises that maintain customer lists use those lists for promotions.

Franchises even collect customer data at the point of sale that could be used for loyalty and direct marketing, but most are not using the data. Helping franchises realize higher conversion rates and more revenues through better use of customer lists is a keystone opportunity for franchisors to help franchises use targeted media like direct marketing more effectively as well as manage their customer communications.

## FRANCHISES BY INDUSTRY GROUPS THAT USE AND WANT TO USE LOYALTY PROGRAMS

# Recommendations

With franchisees using so many channels for local advertising and promotions, it can be challenging for franchisors to support them in their efforts. But with the need for visibility in the competitive local marketplace and the amount of revenue franchises derive from promotions, it is critical for franchisors to encourage and guide local marketing initiatives.  Franchisors need to streamline local marketing campaigns and make it easy for franchisees to participate and utilize their customer lists. By tracking and growing franchise campaign participation, franchisors can reduce redundant local/corporate spend and take advantage of economies of scale while at the same time driving revenue for their franchisees.

Local Commerce Monitor™ (LCM) is BIA/Kelsey's proprietary annual survey of over 1,000 small and medium business marketers. The survey tracks SMB advertising and marketing spending, web footprint, media performance assessments, and opinions about key topics like emerging media and sales channels. The LCM Wave 20 survey was conducted in 3Q16, and includes businesses in Professional Services, Home/Trade Services, Financial Services, Retail, Technology, Entertainment (including Restaurants), and other industries. All the data in this report is for small businesses that indicate they are a franchisee or licensee of national companies. In the Wave 20 survey, 102 respondents identified as franchises. Of this group, 36.3 percent and 35.3 percent are single and 2-5 locations; the remainder have six or more locations. Learn more about BIA/Kelsey and the Local Commerce Monitor™ at biakelsey.com.

## LET'S DISCUSS.

I hope this BIA/Kelsey report was helpful in your local marketing planning.  It would be my pleasure to have a conversation and discuss your campaign execution approach and challenges.

Please call me at **513-552-0142** or email me at **sales@vyasystems.com**.

Kandi O'Connor

## ABOUT VYA

Vya is a provider of simplified marketing systems that solve local marketing challenges for marketers in franchising. We make your job easier and your franchisees more successful.

vya | Simplified Marketing Systems

vyasystems.com/franchising