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# Business Outlook for the Personal Services Franchise Sector



# The Stars are Aligning for the Personal Services Industry

If you are a fitness instructor, an esthetician, a dog groomer, or a home healthcare provider, 2023 was a good year and 2024 is looking to be even better. According to International Franchise Association (IFA) data, franchised establishments delivering personal services such as beauty, health & wellness, and pet services enjoyed the highest growth of any franchise business line in 2023. In fact, since the Pandemic growth in Personal Services' establishments has far outpaced every other franchise industry sector. Employment growth has also greatly exceeded the industry, increasing 21% compared to industry growth of 16%.

## Why it Only Gets Better From Here

The outlook for 2024 and beyond looks favorable for Personal Services based on an assessment of economic, demographic and consumer indicators.



### Consumer Confidence

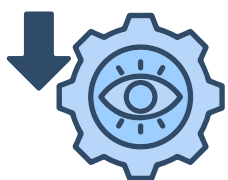
January 2024 consumer confidence hit a 2-year high, according to the Conference Board [Consumer Confidence Index](#). Increased consumer confidence translates to higher consumer discretionary spending for services such as Beauty and Health and Wellness.

### Aging of the Population



The US population is older today than it has ever been based on research by the [Population Research Bureau](#) (PRB). PRB forecasts that Americans aged 65 or older will increase almost 50% over the next 25 years compared to 11% growth in the overall population based on Congressional Budget Office statistics. An aging population presents the Personal Services industry with many avenues for growth including specialized Health and Wellness, Therapy, and Home Care services.

### Interest Rate Outlook



The growing consensus among Wall Street economists is that the Federal Reserve's credit tightening has come to an end. From its June 2022 peak of 9.1%, inflation has come down to an expected 3.1% in January 2024 and is forecast to trend down to 2.3% by Q3 2024 according to [Trading Economics](#). This is good news for the Personal Services industry because consumers tend to rely upon credit cards or BNPL (Buy Now, Pay Later) financing to purchase personal services.

# What Stands in the Way of Growth and Prosperity for Personal Service Franchise Brands?

Favorable economic and demographic trends, bolstered by improving consumer sentiment, create a land of opportunity for organic growth and emerging concept development in the Personal Services industry. The dramatic growth in recent years of salon suites, both franchise and corporate-owned concepts, is an example where commercial real estate investors have capitalized on consumer demand for Personal Services by renting “suites” to independent beauty Pros. What was an emerging business model 10 years ago is now a multi-billion-dollar industry. Today’s emerging concepts in the Personal Services industry include hydration bars, mobile gyms for people (and pets!), and elderly care businesses providing services such as helping the 11,000 baby boomers reaching retirement age every day downsize and simplify their lives. [FRANdata](#) recently reported on the acceleration of Personal Service’s emerging concepts.

Against this backdrop of opportunity, however, there are several significant challenges that need to be top of mind for any Personal Services brand, established or emerging:

1

**Finding skilled service providers** – Whether you are a dog trainer, a fitness instructor, a life coach, or a massage and bodywork professional, your customer’s expectation is that you are trained and credentialed. In many states, Personal Service providers are required to be licensed and certified.

2

**Maintaining quality and consistency of service** – Brand success and resiliency require a consistent and high-quality level of service. In a service business where quality and consistency are dependent on a human being (and not a machine!), having systems and processes that maintain quality standards and support rapid growth are essential to brand success.

3

**Creating a culture of customer obsession** – Consumers want to feel that they are priority number 1! This is especially true if a Personal Service is being provided. Unfortunately, too often consumers complain that they are on the receiving end of a service that feels formulaic and devoid of human connection. This is not to suggest that the service provider doesn’t care about the quality of the treatment or service provided, but that the service provider is literally overwhelmed by the challenges of running a business, delivering a service, making a profit, and finding time for rejuvenation.

These 3 challenges speak to the primacy of customer experience to be a successful franchise brand. [Steve Beagelman](#), CEO of SMB Franchise Advisors, speaks to this in his outlook for 2024: *The year 2024 is primed to put a spotlight on the customer experience. In response to increased demand, franchises need to redefine their strategies to deliver for their customers. As consumers shift their value towards personalization in products and experiences, the franchisors must adapt their approach to not only attract but also retain customers and align with the evolving expectations.*

Finding and retaining skilled service providers, maintaining quality and consistency, and creating a culture of customer obsession, are challenges for any service business. In a franchise business model, that challenge is magnified by the fact that you as the franchisor are not the employer! In fact, **joint employer liability** limits your ability to work directly with the employees of a franchisee. This limitation makes an imperative for you to provide your franchisees with the tools to succeed.

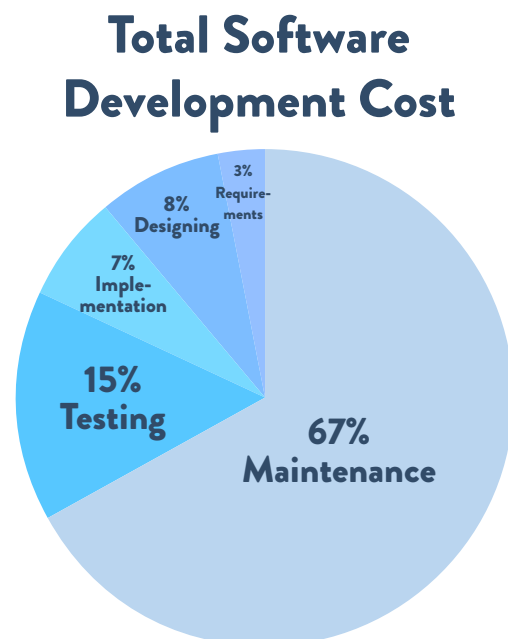
For emerging franchise concepts, the challenge is even more daunting. The fact that 84% of franchise brands never make it to 100 units, and that **royalty self-sufficiency** is typically not achieved before 50-75 units means that during the early years of growth, franchisors are forced to juggle the often-competing priorities of rapid growth by attracting new franchisees and building the systems and processes to help ensure that the services being delivered meet brand guidelines.

## The Role of Operational Technology in Meeting the Challenge

The challenge, simply stated, is about how well businesses manage the customer journey. Finding and retaining skilled service providers, maintaining consistently high-quality service, and creating a culture of customer obsession, are 3-legs of the customer journey stool. The explosion of affordable digital technologies and cloud computing tools in recent years provides small businesses with access to technology that was cost prohibitive not long ago. Personal Service businesses rely increasingly on a variety of cloud-based tools to manage the customer journey. These tools address the entire customer journey including acquisition, onboarding, scheduling, payment processing and relationship management. Within any given stage of the customer journey there are a plethora of tools to choose from. As a stand-alone point solution, a tool provides process and cost benefits. The challenge for a small business is how to manage the portfolio of tools required to achieve operational efficiency. Personal Service Pros who rely on **PocketSuite**'s unified platform to manage their operations tell us that before finding us they were spending 50-60% of their billable hours managing the business and not earning revenues by delivering services. The common complaint is: "I was working for the technology when the technology should have been working for me!"

Larger enterprises have IT departments whose job is to make the technology "work for you." A massage therapist or a mobile detailer, however, doesn't have the luxury of an IT department. A Personal Services franchisee is a micro-business with 3 – 15 employees who are generating revenues by providing highly skilled services.

Support is also limited at the franchisor level; according to FRANData, new franchisors have an average of 4.5 employees and will only add 3.4 employees in their first five years. These early employees must balance many responsibilities and do not have the bandwidth to focus exclusively on software development or technical support. Yet building new technology is not a simple task and is frequently subject to cost overruns and delays. The Standish Project's CHAOS Report found that 53% of projects cost 189% of the original estimate, with an additional 31% of build projects canceled outright. But the costs do not stop here. **Several studies have found that the cost of software maintenance averages around 70% of the total development cost.**



Many emerging franchisors consider it a competitive imperative to provide their franchisees with tools that are built in-house. The “Build versus Buy” decision is based on the faulty premise that technology is the brand differentiator and building the app is a “one and done” proposition. The danger in this thinking is two-fold: 1) scarce financial resources that should be allocated to achieving royalty self-sufficiency by recruiting, training and onboarding new franchisees are diverted to technology spend; and 2) the cost to maintain and improve the technology quickly becomes a fixed-cost burden that is difficult to unwind. It’s unlikely that an emerging franchise brand has the resources to keep pace with technological innovation. Far better to rent the leading solution(s) and put the onus of responsibility on your vendor(s) to maintain their market leadership.

A franchisee’s success is dependent on efficiency of customer acquisition, scheduling and customer retention. With a community of over 7K Personal Service businesses that have booked 7 million appointments, sent 16 million messages to clients, and generated \$650MM in income, PocketSuite can share a playbook for successful process optimization based on the following insights:

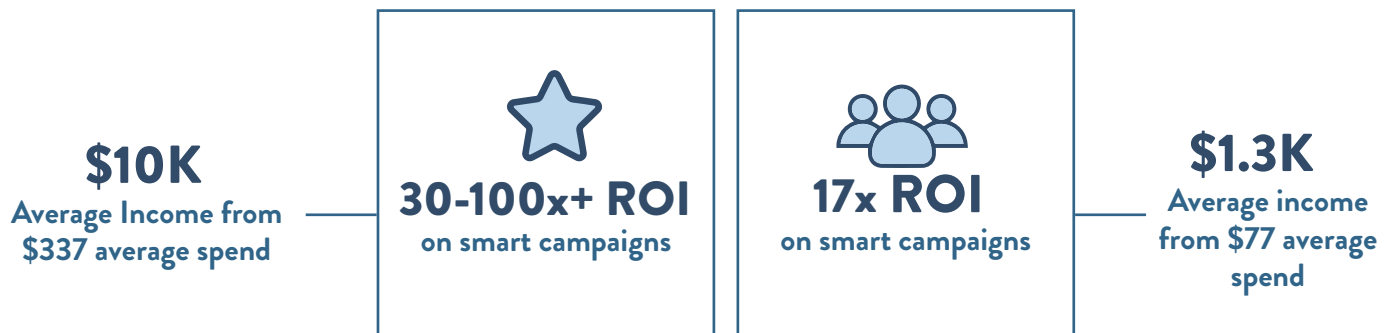
- **Mobile-first:** Having a fully-functional mobile app is not just a requirement for any professional that offers on-the-go services, it also provides utility to brick-and-mortar businesses. Mobile-first applications are much easier for franchisees to learn and offer flexibility to manage all aspects of the business from anywhere at any time. Owner/operator franchisees do not clock out at 5pm and the ability to manage your business on-the-go can make the difference between closing a sale and that customer moving on to your competitor, considering that 85% of consumers won’t call you back if you miss their first call.
- **Text-based communication:** Quick and effective communication is essential to attracting and retaining customers, and the clear preference today is for text-based communication. In Q4 of 2023, 95% of consumers on PocketSuite chose to receive their notifications via text instead of email. When customer preferences are met, those customers stick around. Bandwidth’s 2024 State of Messaging report found that sending confirmation messages via text creates a 20+% reduction in no-shows.
- **Online booking:** In order to maximize profitability of a service based business, it is essential to maximize the amount of time spent serving customers. Allowing customers to book online accomplishes this by reducing the administrative processes related to customer intake, opening up more time for appointments, and by giving customers the ability to book you directly, resulting in increased bookings. The impacts can be clear: a study on PocketSuite users in 2022 found that businesses who allow their customers to book online had 78% more bookings on average than businesses that did not allow customers to book directly. More bookings also directly correlates to increased income. The same study found that while only about 50% of all PocketSuite businesses allow online booking, among the top 10% businesses by income, nearly 75% utilize online booking.

## Online Booking



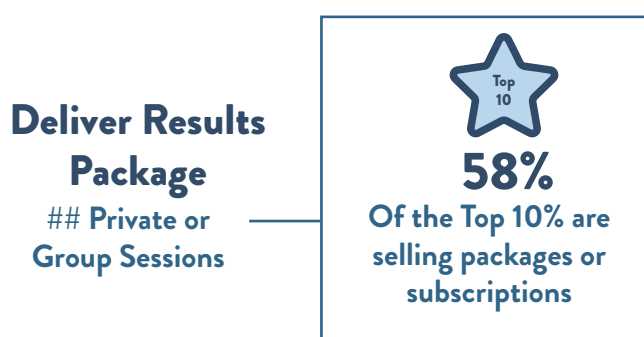
- Marketing automation and lead management:** Marketing technologies can accelerate customer acquisition and provide opportunities to increase revenues from existing customers. With a choice of many social media platforms to promote their services and products, businesses need the ability to track leads through their operating system and measure the quality of marketing spend. Marketing automation built into operating systems also provides opportunities to run comeback campaigns and upsell existing customers based on their purchase history. PocketSuite's text marketing feature, Smart Campaigns, supports this and has a historical return on investment of 17-30x, depending on the size of the marketing spend.

## Smart Campaigns



- Recurring revenue:** The old adage 'A bird in the hand is worth two in the bush' has a new importance for successful service-based businesses due to the growing impact of recurring revenue on their bottom lines. Recurring revenue from existing customers is more reliable than income from first-time customers and saves marketing spend due to reduced customer acquisition costs. Operating systems can help grow recurring revenue by steering customers towards repeat purchases with features such as packages and subscriptions, offering customers a slight discount per booking while vastly increasing the overall lifetime value of that customer.

## Packages & Subscriptions



- Business insight:** The data that is native to a unified operating system provides the business owner with actionable insights to improve operational efficiency and a better understanding of customer needs. As a franchisor, this business insight provides valuable intelligence into the financial and operational health of your system, thereby providing opportunities to focus on what matters to the health of the brand. Businesses on PocketSuite have access to data on conversion rates by lead source, ideal customer profiles, most popular services, and more.

# CASE STUDY

## Always Faithful Dog Training Franchise (AFDT)



Before PocketSuite	After Switching to PocketSuite
<p>Prior to November 2022, just 2 AFDT locations were using any software to manage their businesses.</p>	<p>By the end of 2023, all 24 AFDT franchisees were utilizing the AFDT Edition of PocketSuite.</p>
<p>Most franchisees were using their personal cell numbers to interact with clients. Franchisees were spending hours each evening reaching out to new leads and sending appointment reminder messages.</p>	<p>PocketSuite's automated text campaigns immediately reach out to new leads when they submit their information. Appointment confirmations and reminders are sent automatically from each franchisee's business number.</p> <p>PocketSuite's nurture campaigns and text features result in a nearly 40% lead to paying customer conversion rate in 2023, with over 4,000 new clients contacting franchisees.</p>
<p>Service agreements were manually edited and signed out to be signed. Franchisees relied on paper records of these contracts.</p>	<p>Smart contracts automatically pull in each client's information, reducing the time franchisees spent preparing documents when closing a sale. Contracts are signed digitally with a permanent digital record.</p>
<p>Franchisees spent hours each week manually compiling sales reports.</p>	<p>PocketSuite's data repository automatically compiles operating performance reports for franchisees and the franchisor. This process saves each franchisee 2+ hours on average, each week and provides the franchisor with valuable insight into franchise system performance.</p>
<p>No system-wide data was available beyond revenues, appointments, total leads, and total new paying customers.</p>	<p>With all operations being recorded in one system, PocketSuite is able to provide comprehensive and accurate data on conversion rates by lead source, ideal customer profiles, most popular services, and more,</p>
<p>New franchisees were left to figure out operational workflows on their own, delaying the time from startup to profitability.</p>	<p>With the AFDT Edition of PocketSuite, a new franchisee can can onboard with approved system guidelines and policies in just 15 minutes. New franchisees in 2023 were able to complete training and business setup in just 30 days.</p>