



ETALON SCIENCES

NAVIGATING THE FRANCHISE SQUEEZE

WHY SMALL BUSINESS OWNERS ARE GETTING CRUSHED

Franchising promises a proven path to business ownership, but the barriers keep getting higher



Executive Summary

Franchising offers a proven path to business ownership, yet small business franchisees face growing structural barriers. This paper dives into insights from national surveys, direct interviews, and real-world franchise operations to reveal key pressure points.

While many franchisors and coaching organizations are working to address these challenges, systemic barriers remain that limit who can successfully enter franchise ownership. Franchisees are squeezed by shrinking margins, inflexible business models, difficult labor markets, rising technology and compliance costs, and limited access to capital.

How the Franchise Marketplace Actually Works

The franchise world runs on a simple premise: franchisors have a brand, franchisees have energy and capital, and everyone makes money. On top of that, a large percentage of franchisees are operating those businesses with an idea of making money with side-hustles. Except it's never that simple.

Franchisors are competing hard for quality operators. They're not just fighting other franchise brands—they're competing against people who'd rather start their own thing or just keep their corporate job. According to the 2025 Franchisor Survey, **more than half of franchisors are spending more on marketing and expanding their sales teams**. Many are working with broker networks just to find qualified candidates.

Meanwhile, prospective franchisees are trying to figure out which opportunities are real. They're reading FDDs that might as well be written in a foreign language. **They're trying to understand unit economics** that many franchisors won't fully disclose. They're wondering if the territory they're buying into is already saturated. It's overwhelming, and the information asymmetry heavily favors the franchisor.

Problem:

How can it work for everyone?

Compounding factors not only challenge profitability but also restrict who can participate in franchise ownership.

Without adaptive innovation from both franchisors and governing bodies, **the system risks becoming inaccessible to all but the wealthiest or most connected operators**

The Math That Doesn't Math

Here's the core problem: franchisees keep telling us they can't make the numbers work.

The "franchise tax"—that's what operators call it—takes 6-12% of gross revenue right off the top. Royalties, marketing fees, whatever you want to call them, they come out before you've paid rent, before you've made payroll, before you've taken a dime home. For low-margin businesses like quick-service restaurants, fitness studios, or senior care, that **6-12% can be the difference between barely surviving and going under.**

And here's the kicker: the franchisor gets paid even when you don't. They're taking a percentage of revenue, not profit. So you can be losing money every month and still cutting them a check.

For most prospects, the information gap is huge.

One franchisee we talked to runs a security business. He told us, "Margins are ridiculously thin, so any optimization helps the bottom line. We constantly have to watch costs like a hawk—taxes, wages, even screw inventory." When you're counting screws to stay profitable, something's broken.

The problem gets worse in high-rent locations. Airport kiosks, college campuses, downtown storefronts—the brand wants to be there for visibility, but the unit economics are brutal. Rent eats you alive, customers expect premium service, and you still can't raise prices because the guy down the street is cheaper. When is a \$18 deli sandwich considered a great value? It feels that ballpark prices have descended on everyday main street.

Franchises Addressing Endemic Problems

Not every franchisor operates the same way, and it's important to acknowledge the leaders who are working to solve these structural challenges.

We've encountered franchise organizations that invest heavily in prospect education and transparency. These franchisors spend substantial time with candidates before any agreements are signed, making their leadership accessible, connecting prospects with current owners who will share both successes and struggles, and running thorough discovery programs designed to answer questions honestly.

When franchisors commit to this level of transparency upfront, the relationship changes fundamentally. **Franchisees enter the partnership with realistic expectations about unit economics, operational demands, and market conditions.** They understand the challenges before investing their savings and reputation.

Some franchise development groups are tackling these problems at scale—building stronger corporate infrastructure, better marketing platforms, and more sophisticated technology stacks that level the playing field for smaller operators. They're investing in training programs that prepare franchisees for the realities of launch, not just the optimistic projections.

Quality franchise coaches and consultants play a critical role here as well. They guide prospects through structured discovery processes, help them evaluate opportunities realistically, connect them with funding partners who understand franchise lending, and ensure candidates aren't overwhelmed by looking at hundreds of opportunities simultaneously. When done right, this guidance dramatically improves success rates.

The challenge is that these best practices aren't universal.



The Labor Crisis Nobody Can Solve

Ask franchisors what their biggest challenge is. Ask franchisees the same question. They'll give you the same answer: finding people to work.

This showed up as the #1 issue in both the 2024 Franchisee Report and the 2025 Franchisor Survey. It's not just that wages keep going up—though they do. It's that **turnover is insane, the talent pool is shallow, and regulations keep getting more complex.**

Franchisees don't have the same leverage as corporate-owned locations. They can't offer the same benefits packages or career paths. They're competing for the same workers as McDonald's and Walmart, except those companies have more resources and deeper pockets.

If you're running a children's education franchise or a childcare center, it gets even harder. You need people who are qualified, background-checked, and actually good with kids. That's a small pool to begin with. Now try competing for those workers in a tight suburban labor market where everyone's hiring.

One health services franchisee put it bluntly: "It's a daily battle to find people who want to work and who can pass a background check. The labor pool is shallow and unreliable, and our customers expect professionalism."

Senior care franchises have it just as bad. Caregivers are hard to find, even harder to keep, and the work is demanding. Meanwhile, families expect consistency and compassion, and state regulations are all over the map. It's an **impossible balancing act.**

It's even worse for QSRs (quick service restaurants) who are putting inexperienced workers in front of demanding customers who a). Need to have their order right everytime, and b). Have next to no patience in getting their order to the minute of what an ordering app promised.

The Tech Treadmill

Every year, there's a new system you're supposed to implement. AI-powered scheduling. New POS platforms. Customer portals. Inventory management upgrades. Some of this stuff genuinely helps—but a lot of it just creates more work and expense.

For tech-savvy operators in markets where customers expect digital convenience, fine. They can keep up. But what about the 60-year-old franchisee in a smaller market who's still figuring out Instagram? Or the operator who's crushing it on customer service but doesn't have time to become an IT manager?

One workspace management franchisee told us, "We're required to adopt new tech every year, but no one's accounting for the time it takes to train the team or the cash to buy the systems. It's a moving target."

The result is a two-tier system. Some franchisees are humming along with all the latest tools. Others are falling behind, and ***the performance gap just keeps widening.***

The Loan Problem

Let's talk about money. Specifically, how hard it is to get it.

Most people who want to buy a franchise need financing. They turn to the Small Business Administration because SBA loans are supposed to be designed for exactly this scenario. But here's what actually happens: you get rejected.

In 2024, only 34% of SBA 7(a) loan applicants got approved. Think about that. ***Two out of three people who apply get turned down.*** That's down from 41% just two years earlier in 2022.

Why? A bunch of reasons, all of them frustrating:

- You don't have enough equity or collateral
- Your credit history isn't perfect
- You haven't run a business before (even though franchising is supposed to be for first-timers)
- The documentation requirements are absurd
- The bank takes forever to respond and then says no anyway



This hits minority entrepreneurs, veterans, and first-time buyers the hardest. If you don't have generational wealth or an established business track record, the system isn't built for you. Franchisors will happily talk to you, show you the opportunity, get you excited—but when it's time to actually buy in, the money isn't there. And they're not offering to help. Bridge financing? Flexible payment terms? Forget it.

34%



SBA Loan Approval

Some people are turning to alternatives like ROBS (rolling over their 401(k) into their business) or private lending. These can work, but they come with serious risks and their own regulatory headaches.

One access control franchisee told us: "The bank paperwork is endless. I had solid cash flow projections, years of management experience, and still struggled to get approved. Without my 401(k) rollover, I'd be dead in the water."

The Launch Problem Nobody Talks About

Here's something the industry surveys don't really capture:

the sheer overwhelm of actually launching the business.

You've signed the franchise agreement. You've secured financing. You're excited. And then reality hits.

Suddenly you're wearing six hats at once. You need to be a sales expert in your specific market segment—except you're still learning who your customers actually are. You're an operations guru responsible for hiring, training, and retention—except you've never built a team from scratch. You're making critical decisions about site selection, negotiating leases, setting up technology systems, and trying to absorb everything from training while also figuring out local compliance requirements.

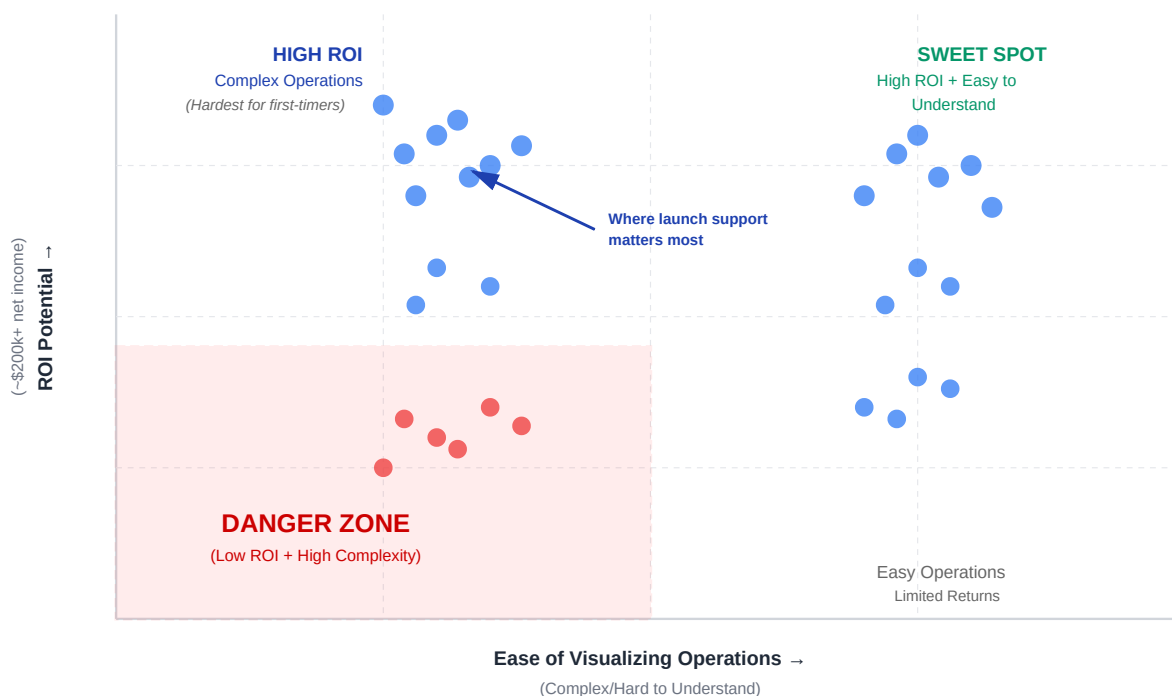
Even if you have an MBA—and most franchisees don't—**the weight of these simultaneous priorities is intense**. You're essentially running a small company on day one, but without the institutional knowledge or support infrastructure that existed in your corporate job.

The franchisor gives you a playbook. The problem is, it's usually cookie-cutter. It works great if you fit the mold—if you're launching in a similar market, with a similar demographic, with similar resources as the last cohort of franchisees. But what if your territory is different? What if your customer base skews older, or younger, or has different buying patterns? What if your labor market is tighter or your rent is higher?

Failure to Launch

Franchise Model Positioning: ROI vs Operational Complexity

Launch challenge: High ROI models often require complex operations that are hard to visualize



Note: First-time franchisees often struggle most with high-ROI models in the upper left—strong returns but operationally complex and hard to visualize before launch.

The playbook doesn't flex. You're left making judgment calls on things you've never done before, with very high stakes.

And here's what makes it worse: **the timeline crunch**. Let's say you're tracking toward the average—breakeven in 18-24 months, full payback of your initial investment by year 3 or 4. That means you've got **maybe 12-18 months of actual profit** in the bank before your 5-year franchise agreement comes up for renewal. Just when you've figured out how to run the business profitably, you're back at the negotiating table with the franchisor, who now has all the leverage.

What franchisees need is a way to launch with conviction—not just hope. Better financial modeling that accounts for their specific territory and circumstances. Real-time benchmarking against similar operators so they know if they're on track or falling behind. Decision frameworks that help them prioritize what actually matters during those critical first 18 months.

Right now, too many franchisees are flying blind during the most critical phase of their business. And by the time they figure it out, they've burned through cash, confidence, and often their first round of staff.

What's Working: Solutions from the Field

The **challenges outlined in this paper are real, but they're not insurmountable**. In our upcoming research, we'll showcase how successful franchise organizations, experienced coaches, and innovative operators are tackling these problems head-on.

We'll examine **franchise systems that have cracked the code on launch support**—providing adaptive playbooks that flex based on territory, demographics, and market conditions. We'll talk to coaches who have developed frameworks that help first-time franchisees prioritize the decisions that actually matter during those critical first 18 months. And **we'll explore how top-performing franchisees are using data and benchmarking to stay ahead of operational challenges**.

So What Now?

Franchising still works. The **model delivers real value**—brand recognition, proven systems, ongoing support. **But the barriers to entry are getting higher**, and the margin for error is getting thinner.

If nothing changes, franchising risks becoming a game only wealthy or well-connected people can play. That's bad for aspiring business owners, bad for franchisors who need quality operators, and bad for communities that need small businesses.

Fixing this isn't simple. Franchisors need to think harder about sustainable unit economics and equitable support structures. Lenders need better processes for evaluating franchise opportunities and first-time borrowers. Policymakers need to understand that access to capital is access to opportunity.



What We're Exploring at Etalon

At Etalon, we're working on some of these challenges from a different angle. We think part of the solution lies in better launch decision frameworks—tools that help first-time franchisees navigate those overwhelming first 18 months with more clarity and confidence.

We're studying how AI could work as a coach or assistant for small business owners, specifically tailored to individual niches. ***Imagine a system that understands the unique challenges of running a construction franchise versus a food service operation—one that can help you prioritize decisions, model scenarios for your specific territory, and give you real-time feedback*** on whether you're on track.

This isn't about replacing the franchisor's support. It's about supplementing it with adaptive, intelligent tools that meet franchisees where they are.

We're also exploring how to unlock the knowledge that's currently trapped in spreadsheets, emails, and the heads of experienced operators. There's so much valuable information scattered across franchise systems—insights about what actually works in different markets, which decisions matter most during launch, how top performers solve common problems. Right now, that knowledge is siloed and hard to access when you need it most.

The next paper in this series will focus specifically on unlocking the unstructured knowledge trapped across franchise systems. We will dig into this challenge: the complexities of unstructured data in small business operations and how we might make that information more accessible and actionable for franchisees who are just starting out.

We Want to Hear from You

If you're a franchisee, franchisor, or broker working in this space, ***we'd love to hear your perspective***. What challenges are we missing? What solutions have you seen work? Where do you think innovation could make the biggest difference?

The franchise model has helped tens of thousands of people build businesses and wealth. It can keep doing that. But only if we're honest about what's broken and willing to experiment with new approaches to fix it.

We'll be publishing the next paper in this series soon. In the meantime, reach out if you want to share your story or explore how we might work together.

References and Data Sources

- International Franchise Association (IFA), 2025 Franchisor Survey
- International Franchise Association (IFA), 2024 Annual Franchisee Report
- U.S. Small Business Administration, SBA 7(a) Loan Program Performance Data, 2022–2024
- Direct franchisee interviews and discovery conversations, including insights from operators in security services, health services, workspace management, and food service sectors



About This Research

This white paper represents independent research by Etalon Sciences based on publicly available industry surveys, direct franchisee interviews, and market analysis conducted between May and October, 2025. The findings and opinions expressed are our own and do not represent the views of any specific franchise organization or regulatory body.

While we've made every effort to ensure accuracy, readers should verify information independently and consult with franchise attorneys, accountants, and business advisors before making investment decisions. Franchise performance varies significantly based on location, operator capability, market conditions, brand strength, and many other factors. Past performance is not indicative of future results.

Nothing in this paper constitutes financial, legal, or business advice. The franchise operators quoted are used for illustrative purposes only and do not constitute endorsements of specific franchise systems.

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About Etalon Sciences

Etalon Sciences is exploring how AI and machine learning tools can address structural challenges in small business operations, with initial focus on franchise launch and knowledge management. Learn more at <http://www.etalonsciences.com> or contact us at info@etalonsciences.com.

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