

A DIFFERENT WORLD

Changing demographics will redefine global franchising

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Global franchising is entering a period in which demographic forces can no longer be treated as background context. Declining birth rates, aging populations, and shrinking working-age populations are now determining where franchise systems can grow, how shops and restaurants must operate, and what types of investments will be required to sustain expansion over the next five to 10 years. Let's look at some statistics and some solutions for franchisors to plan for change.

For decades, franchisors have had a powerful demographic tailwind. Populations expanded, urban centers grew, and labor markets largely replenished themselves on their own. Market selection focused on income levels, real estate availability, regulation, and the financial strength of local partners with demographics assumed to support growth.

That assumption no longer holds. Today, more than two-thirds of the world's population lives in countries with fertility rates below replacement level. This is a sharp reversal from the demographic conditions that supported many of the most successful global rollouts of the past generation.

Across much of the developed world, and increasingly in middle-income markets, birth rates have fallen below replacement levels. Population growth is slowing, and labor markets are becoming tighter and less forgiving. These shifts are gradual, but over time, they influence demand patterns, labor availability, unit economics, and ultimately, the sustainability of global expansion strategies.

For franchisors planning international growth, the question is no longer whether demographics matter. The real issue is whether demographic real-

ity is being translated into development and operating decisions that will still make sense three, five, or 10 years from now.

THE NEW CONTEXT

The stories on the evening news are familiar: Population growth is slowing around the world, especially in advanced economies. Even where total population is still rising, the working-age share is flattening or about to decline. A few examples illustrate the trend:

- In Japan, the population has been declining for more than a decade, and the share of people over 65 is already above 30%.
- In Western Europe, fertility rates are far below replacement in most markets with many countries hovering between 1.3 and 1.6 children per woman.
- In China, the working-age population has begun to shrink, and the long-term aging trend is baked in by prior decades of low fertility.

At the same time, a smaller group of countries in Asia and parts of Africa still enjoy relatively young populations and growing labor pools. These markets often present greater operational, financial, and regulatory challenges, but they may offer a longer demographic runway for franchise growth.

For franchisors, the implication is clear: Demographic conditions are diverging. Some markets are entering a prolonged phase of demographic headwind while others still provide tailwind if brands are prepared to work through the complexity that comes with them.

MARKET SELECTION

Declining birth rates quietly undermine global franchise plans. What new countries should we take our franchises into? Many markets still look attractive on the surface: GDP per capita is strong, infrastructure is modern, and real estate is plentiful.

Beneath those headline indicators, however, the demographic engine may already be weakening. The working-age population may be shrinking, household formation slowing, and labor supply increasingly dependent on migration or temporary workers. These conditions rarely stop development outright, but they frequently slow it sooner than anticipated and introduce operational friction that was not visible at the outset. A more robust market-screening approach now needs to include:

- Working-age population trends and projections
- Urbanization patterns and household formation rates
- Labor participation rates and reliance on migrant or temporary workers

From an expansion perspective, ignoring those demographic undercurrents is equivalent to signing long-term development commitments against a shrinking runway.

LABOR CONCERNS

Demographic shifts show up most immediately in labor markets. As the working-age share of the population shrinks, competition for frontline employees intensifies, and wage levels tend to rise faster than sales in many consumer-facing sectors. Franchise models built on abundant, low-cost



labor are particularly exposed. Operators in aging or low-fertility markets are already reporting:

- Chronic difficulty recruiting and retaining hourly staff
- Rising labor costs eating into margins even when sales remain solid
- Greater reliance on part-time, migrant, or older workers, requiring adjustments to scheduling, training, and operations

These issues are not simply cyclical. In markets where fertility has been below replacement level for many years, tight labor conditions are likely to persist and intensify. To succeed, franchisors and their partners will need to:

- Design operating models and formats that require fewer staff per unit of revenue.
- Use technology selectively to improve productivity from ordering and payment systems to back-of-house processes.
- Develop stronger employment value propositions, including clearer pathways for advancement, to compete for a smaller pool of workers.

UNIT ECONOMICS

Demographics also influence unit economics in ways that are easy to underestimate. Slower population growth can dampen same-store sales growth over time, particularly in segments that rely on younger consumers and families.

At the same time, rising labor costs and regulations in tight markets can compress margins, especially where menu price increases are difficult

to implement. When these dynamics are not fully reflected in initial pro formas, units that looked attractive at the signing stage can underperform once the demographic reality asserts itself. Franchisors can benefit from these trends by:

- Stress-testing store-level financial models under different demographic and wage scenarios
- Calibrating royalty and fee structures to maintain sustainable economics for both franchisor and franchisee in tighter labor environments
- Considering more flexible formats such as smaller footprints and modular equipment packages that can deliver acceptable returns even with higher labor costs

In many cases, the right answer will not be to avoid demographically challenged markets altogether. Instead, it will be to enter them with more realistic expectations, more conservative rollout plans, and operating models explicitly designed for a tighter labor world.

STRATEGIC ADVANTAGE

The demographic shifts now under way are slow but highly predictable. Birth rates, age structures, and working-age population projections change over decades, not quarters. That gives franchisors an opportunity. Those who systematically incorporate demographic analysis into their international strategy can gain a durable edge over competitors who continue to rely mainly on headline economic indicators. In practice, this means:

- Making demographic metrics a standard part of country-screening and prioritization tools

- Aligning development schedules, partner commitments, and format strategies with the demographic trajectory of each market
- Regularly revisiting assumptions as new demographic data and projections become available

BOTTOM LINE

Global franchising has always been about matching strong brands and proven operating systems with the right markets and partners. In the next decade, the right market will increasingly be defined not only by income and real estate, but by whether its demographic fundamentals can support sustainable growth in demand, labor, and unit economics. Franchisors who treat demographics as a core strategic input will be better positioned to choose countries wisely, support their country franchisees, and build brands that thrive in a world with an aging, slower-growing population. ■

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