



The State of Franchising A Viable Business Opportunity

by C. Everett Wallace

As the overheated American economy has finally begun to cool down, many businesses are finding themselves looking for those "new markets" that will supply them with the opportunity for continued growth and expansion. This is particularly true when it comes to franchise businesses.

According to the International Franchise Association, there are more than 1,500 franchise concepts, representing more than 75 business categories, operating nearly 350,000 units throughout the United States. These small businesses collectively account for an estimated \$1 trillion in retail sales annually. Franchise business owners can be found in virtually every type of business, selling an increasingly wide variety of goods and services to the American consumer.

More than ever before, franchise businesses, with their highly recognized brands and sophisticated marketing and advertising programs, are attracting extremely motivated entrepreneurs. More and more of these "new economy" business people are coming from the minority community. For many, franchising is providing the tool needed to break the "glass ceiling" found in many large U.S. corporations. It is proving to be a way to achieve one part of the American dream - owning one's own business.

As the former President of the Federal Reserve Bank of Chicago said, "You don't have to cross the International Date Line to find an emerging market. We have some right under our noses." This "domestic emerging market" is located in the overlooked and underserved neighborhoods of medium and large cities across the United States. Former President Bill Clinton said in his 1999 State of the Union Address, "Our greatest untapped markets are not overseas - they are right here at home. And we should go after them." And now it would appear, that many retailers, particularly those with franchise businesses, are starting to heed this very sound advice.

WHY HERE? WHY NOW?

In the past decade, there has been a growing recognition that the future growth of the American retail market may be directly linked to the health of the American urban market. American inner-city neighborhoods are brimming with under serviced

retail purchasing power. A recent study by the U.S. Department of Housing and Urban Affairs revealed that in 1998, nearly one-third of the \$1.1 trillion dollars in retail buying power found in our central cities, or roughly \$331 billion, was located in "inner-city" neighborhoods. But, despite this enormous spending power, these communities remain under retailled. In fact, the unmet demand in many of these communities ranges from 25% to as much as 60%.

The opportunity for retail development is real. It can provide a much needed shot in the arm for many communities that are struggling to maintain viability or to restore the vitality that time and neglect has stolen. Franchise businesses provide jobs, increase a community's tax base and attract new neighbors. At the same time, the community benefits from the infusion of new business owners who can provide an important political, social, and civic voice.

Even that old nemesis - access to capital - is finding some new answers in this "new age" economy. As a result of the Community Reinvestment Act, many financial institutions are developing loan programs that are designed to support individuals interested in establishing franchise businesses in underserved communities. The Small Business Administration has established a Franchise Registry to expedite the availability of funding for people interested in one of those listed small businesses. A bipartisan group in Congress, working with the Clinton Administration, passed the Community Renewal Tax Relief Act of 2000 (H.R. 5662) which provides for a variety of financing tools to assist businesses that are or will be located in underserved communities. It provides for venture capital funds, employment and business tax credits, elimination of capital gains, and other capital building measures. And, recently, a group of professional athletes, with the assistance of Wallace Enterprises, formed a new venture called Athletes Building Better Communities to develop franchise opportunities in underserved markets around the country.

There are excellent opportunities for franchisors to develop new and rewarding business ventures with people who are interested in taking advantage of the opportunities buried in these underserved markets.