

The Future of Franchising:

Taking Advantage of the Changing Complexion of the American Economy

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Despite the recent economic downturn, franchising remains one of the fastest growing segments of the American business economy. As we continue to move through this new millennium, franchising as a business format will continue to grow in importance. The driving force behind any successful business venture, whether it is a part of the "new" economy or the old "industrial revolution" is profitability. And profitability is largely dependent on operating a business in the most proven and cost-efficient manner possible—the core ingredients of any well-run franchise system.

With traditional domestic market rapidly reaching their saturation point, many U.S. companies began to look elsewhere for the new sites they needed to sustain their company's growth. Over the past decade, a number of franchisors have rapidly expanded the presence of their companies in foreign countries. A significant portion of the expanded globalization of the "new" U.S. economy has been led by domestic franchise companies. At the same time, many foreign companies, seeking to gain a portion of the largest consumer market in the world, have chosen to acquire or expand into the American market. From fast food to hospitality and from automobile dealerships to telecommunication companies, franchising has led the way for expansion in this new global economy. The availability of new technology has aided the communication and management capabilities of many businesses and has allowed smaller companies to develop strategies for international expansion.

The Potential Business Opportunity in Minority Communities

In September of 2000, the Minority Business Development Agency (MBDA), a division of the U.S. Department of Commerce, issued a report on the projected purchasing power of minorities for the period of 2000 to 2045. MBDA pointed out that the minority population over the age of 15 had increased its purchasing power by 47 percent from the period of 1990 to 1998. During the same time period, non-Hispanic whites increased their purchasing power by only 18 percent. And, the report indicates that by the year 2045, minority purchasing power will be between \$4 trillion and \$6.1 trillion.

As a result, minority populations may contribute between 44 and 70 percent, of the total increase in U.S. purchasing power from 2000 to 2045. With the large concentration of minority population in our urban centers and their increasing presence in the "close-in" suburbs, this is a tremendous portion of the buying public in the "new economy" that cannot be ignored.

According to the Urban Land Institute, "Inner-city retailing is one of the few areas where there is still unfulfilled demand, but a cookie-cutter approach will not work. Successful inner-city retail development requires partnerships between forward thinking developers and creative public officials. Partnerships of this kind can help developers and retailers to tap into a significant and under-served market."

Increasing Support for Diversity in Franchising Industry

Recently, the International Franchise Association's (IFA) Educational Foundation has received a significant number of donations, specifically, to support greater understanding of diversity and its impact within the franchise industry. For example, Coca Cola has pledged \$250,000 to the IFA Foundation to establish a Diversity Training Institute. The purpose of the Institute will be to provide a permanent framework for fostering diversity awareness and providing training for franchise executives and franchisees. Marriott has announced a grant of \$150,000 to the IFA Educational Foundation to establish a Franchising Minority Scholarship Program. Marriott's gift will establish a restricted fund for the purpose of developing and supporting a Franchising Minority Scholarship Program to expand education and career opportunities for minorities in franchising. Other member companies, like PepsiCo and AFC, have also provided contributions to the foundation to expand diversity education and training in the franchise community.

City and Statewide programs that provide a path of entry to entrepreneurs of color include: Community Connections and The Latino Franchise Project in Chicago; the North Carolina Community Development Initiative and the Tennessee Strategic Targeted Areas of Redevelopment.

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