



FRANCHISING TODAY

FRANCHISING: THE DOORWAY TO MINORITY BUSINESS OWNERSHIP



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"Franchising, although not for everyone, has provided a good lifestyle for hundreds of thousands of people," said Don DeBolt, president of the International Franchise Association (IFA), the leading trade group for the \$1 trillion business sector in the U.S. "Minorities are increasingly turning to this exciting growth sector."

According to DeBolt, diversity has become a business imperative of franchise company executives. The rapid expansion of Hispanic, Asian and other immigrant populations has made minorities an important investor group with increased buying power to spend on goods, services and to own their own franchises.

In addition, the shift toward a service-oriented economy has led to the development of a number of franchise concepts that can be run from a home office, reducing the amount of initial capital needed. "A barrier to self employment, particularly among minorities, is finding the capital to get started," DeBolt said. "But, nearly half of the franchise companies operating today have initial investment levels of less than \$100,000."

Visit the association's Web site, www.franchise.org, for more on the franchise sector's efforts to attract minority entrepreneurs.

DIVERSITY: A BUSINESS IMPERATIVE FOR FRANCHISING



By C. Everett Wallace

Over the next 30 years, the population of this country will become "majority minority." According to the 2000 Census, in two of our largest states, California and Texas, the minority population already outnumbers non-Hispanic whites. Given their rapidly growing numbers and their increasing purchasing power, these ethnic and racial minorities are quickly becoming the most sought after consumer segment by business and industry. Many companies in the franchise sector, like so many other American businesses, are moving to position themselves to be embraced by these "emerging market" consumers. This means that they must recruit more minorities as franchisees, employees, vendors and suppliers if they are to remain competitive. For many companies, diversity efforts have gone beyond being "smart" or "forward" thinking—it has become an imperative for business survival.

Adding Mass: The Changing Demographics

In the decade of the 1990s, many companies focused their attention on rapid global expansion and easy capital. At the same time, dramatic ethnic and socio-economic changes were taking place in cities and states across the United States. As we have entered the "new" global market, many franchise systems have discovered that, now, they must place greater focus on the domestic market, if they are to grow and prosper. In addition, they must become leaner and more agile—with a keen eye for the demands of the multi-cultural community that has developed while they were working the international markets.

A recent report by the Brookings Institution's Center on Urban and Metropolitan Policy outlines the

dramatic shifts that have reshaped the complexion and racial composition of the 100 largest cities in this country over the last 10 years. The analysis highlighted numerous patterns that reflect the increasing diversity of this country's urban populations. For example: Almost one-half of the largest cities no longer have majority white populations. The nation's largest cities lost large numbers of white residents. White population loss was widespread. Of the 100 largest cities in 1990, 71 lost at least 2 percent of their white populations over the decade. In 20 cities, white population loss exceeded 20 percent.

Building Muscle: Growing Minority Purchasing Power

A study by the University of Georgia's Selig Center for Economic Growth projected the collective buying power of African-American, Asian-American, Latinos and American Indians to reach \$1.3 trillion in 2001—up from \$647 billion in 1990. In the past 10 years, minorities have accounted for more than 60 percent of the net growth in new households and it is projected that over the next 10 years two-thirds of all new

households will be minority.

In September 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 2000–2045. 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 count for between 44 percent and 70 percent of the total increase in U.S. purchasing power from 2000 to 2045. With the heavy concentration of minorities in urban centers and their increasing presence in the "close-in" suburbs, this is a sizeable portion of the buying public that franchise systems will need to seek out.

Getting in Shape: Franchise Outreach and Support Programs

A number of franchise companies

have developed exemplary diversity programs. The International Franchise Association's (IFA) Educational Foundation has recently released a study that highlights four such companies—AFC Enterprises, Choice Hotels, Denny's and Domino's Pizza. The National Minority Franchising Initiative (NMFI) has worked with such franchisors as Accor North America, Cendant, Metromedia Restaurant Group, Express Personnel Services, YUM! Brands, and ServiceMaster to develop outreach and recruitment programs aimed at expanding the number of minority franchisees in their ranks. All of these programs have been developed to position these companies to grow and expand in these new emerging markets.

NMFI and IFA's Minorities in Franchising Committee are working with franchisors, franchisees, professional organizations, and financial institutions in partnership with business, governmental and community leaders to increase the awareness of franchising opportunities to minority communities. For example, IFA, NMFI and the National Congress for

Community Economic Development are jointly exploring ways to create a funding program to use New Markets Tax Credits to aid in the development of franchises in underserved markets

There is also a myriad of federal, state and local technical assistance and financing tools that can be employed by individuals and companies interested in bringing much needed goods and services to urban and rural markets through the use of franchise concepts. In addition, there are numerous initiatives that are supported by the private and non-profit sectors that are designed to assist minorities, women and other groups that have difficulty in overcoming the information and capital barriers.

C. Everett Wallace is an attorney and financial services consultant who specializes in franchising and community economic development. He is vice-chairman of the Minorities in Franchising Committee of the International Franchise Association and director and co-founder of the National Minority Franchising Initiative.