

**Utilizing the Franchise Business Model as a
Tool for Sustainable Local Economic
Development (SLED) in Low-Wealth Urban
Business Districts:**

**Recommendations for the Local Economic
Developer's Toolbox**

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Overview

Fostering a strong small business sector is a significant component of a sustainable local economic development strategy (SLED). For many urban commercial business corridors, however, decades of disinvestment have resulted in a dearth of essential services and entrepreneurial opportunities that are significant drivers of wealth creation. To help reverse this trend, economic development professionals have begun to broaden their “toolbox” of inner-city revitalization strategies and approaches. Franchise businesses could be an efficient, innovative tool to help communities address service and small business ownership gaps as well as create a diverse business mix. Franchising – a contractual relationship where one party (the franchisor) grants to another party to the contract (a franchisee) the right to use the franchisor’s trade name to market and produce a certain brand of goods or services - is a small business model that is present in almost every community. This business model plays an important role in the local and national economy, directly and indirectly accounting for 11.8% of all nonfarm private jobs in the United States and contributing \$1.2 trillion in GDP to the national economy. Franchise businesses have grown in their diversity, currently offering over 1,200 opportunities across dozens of sectors. This business model also presents a range of locational options from traditional main street storefronts to mobile and home-based businesses. Additionally, franchise businesses provide an organizational system and corporate support that can diminish barriers to entry. Reducing these traditional obstacles may greatly enhance opportunities for many first time entrepreneurs who traditionally lack adequate resources, access to capital, and extensive industry experience. The result is a tool that offers the brand recognition, efficiency and economies of scale advantages of a chain store while retaining some of the local economy and entrepreneurial benefits that are hallmarks of independent small businesses.

Despite these factors, franchise businesses are rarely considered by local economic development professionals as a viable, small business strategy. This may be due to a lack of understanding regarding the entire breadth of franchise sectors, certain obstacles observed within the franchisor-franchisee relationship, or the misconception that franchise businesses require an entirely separate approach outside of current revitalization approaches. Additionally under-represented groups often must overcome substantial hurdles like how to leverage capital from outside funding sources or the identification of emerging franchise sectors to operate a

sustainable franchise. This paper seeks to explore the franchise business model and the franchisor-franchisee relationship, provide case assessments and recommendations based on existing local economic development strategies, and offer future opportunities for leveraging this tool as an important component of sustainable local economic development.

Defining the Problem in Low-Wealth Communities

Vibrant commercial business districts are a foundational component of healthy neighborhoods, serving as a gauge for community economic confidence. (Jacobus & Hickey, n.d.) A strong determinant of a healthy business district is a diverse business mix that offers a variety of goods and services, entrepreneurial opportunities, and multi-level career prospects (from entry-level through managerial roles). Over the past 60 years, many inner-city commercial corridors have experienced significant disinvestment and economic decline as numerous businesses and industries followed the middle-class to the suburbs. While the reasons behind this are many,¹ the result has been inner-city economic centers that are often imbalanced, lacking in business diversity, vacant and/or “understored.” (Stephan Weiler et al., 2003) For example, inner-city commercial corridors may lack access to high quality copy, print and ship stores, which offer faxing, high-speed internet, high quality printing, and expensive computer programs (e.g., Microsoft Publisher). These offerings can be considered important ancillary services for supporting and increasing both educational and business opportunities in underserved and under-represented communities. Despite the importance of these services, they may be too expensive for the average low-income household and outside the scope of normal services provided by local libraries and community service centers.

The consequence of these negative economic trends has been that a significant number of inner-city residents reside in low-income and low-wealth communities (LWCs). While the U.S. Department of Housing and Urban Development (HUD) defines low-income as 80% of the median family income within a designated area, the lack of wealth can be another foundational consideration for increasing upward economic mobility and offering a critical economic buffer

¹ Many authors have debated the political, economic and social factors that resulted in the decline of urban neighborhoods and commercial corridors. Research has centered on many reasons, including Urban Renewal, federal policies that subsidized suburban freeway and infrastructure development, federal and local banking guidelines and practices such as FHA lending and redlining that discriminated against minority inner-city residents, and local exclusionary zoning practices (S. D. Bennett, Blom, Howells, & Kenn, 2012)

for low-to-moderate income families. (Scholz & Seshadri, 2008; U.S. Department of Housing and Urban Development, n.d.) Low wealth can be defined as those who have a little to no net worth (i.e., assets minus liabilities). (Rockey Moore & Guzman, 2014) These households are not necessarily income poor, rather, they are asset poor. Those individuals who are most likely to be considered low-wealth include: those who have low-to-moderate income, minorities, single-parent households, and those living with disabilities. (Ohio Credit Union League, 2010) Compared to white households, there is a significant and persistent wealth gap for both Hispanic and black households. According to a 2013 Pew Research analysis of Federal Reserve data, black households (\$11,000) and Hispanic households (\$13,700) wealth was considerably less than white households (\$141,900). (Fry, 2014) Moreover, residing in a low wealth community can not only have negative economic effects (e.g., inadequate retirement savings), but can also have a negative impact on long-term health outcomes as well. (Clay, 2001)

Realizing the importance of addressing these troubling, long-term negative effects, economic developers have begun to develop strategies that are specifically targeted towards increasing wealth among minorities and those living in LWCs. These strategies are holistic in nature, focusing on several public policy changes such as increased access to high quality educational opportunities, adjusting the tax code to greater incentivize quality home ownership opportunities for low-wealth families, as well as promoting automatic individual savings accounts (IRAs). Another foundational economic development component for increasing wealth within these communities is the promotion of small business ownership and access to small business capital. (McKernan & Ratcliffe, 2013) Owning a small business, as either a main income source or as a supplement to wage employment income, is a significant driver for building assets and has a positive impact on household income, poverty reduction, and a reduction in a household's reliance on government assistance. (Clark, Kays, Zandniapour, Soto, & Doyle, n.d.) Additionally, economic developers see increasing access to greater capital avenues and on-going technical assistance as critical tools for increasing and sustaining small business development opportunities. LWCs are often in close proximity to the central business district where many emerging economic trends are being developed. Yet, many of these communities' residents face significant barriers to entry that hinder access. Entrepreneurs in LWCs may have the skill-base and business acumen to start a successful business, but they often are faced with insufficient pathways to capital and business development assistance services.

(Clark et al., n.d.; McKay, Williams, Atkinson, & Levin, 2014) In particular, African Americans and Hispanics do not have the same access to conventional bank loans or large gifts and inheritances as their white counterparts. (McKernan & Ratcliffe, 2013) This wide-spread lack of capital access and need for small business assistance indicate that, for a small business wealth building strategy, a holistic approach to business growth and capital lending opportunities is essential for long-term economic growth within LWCs.

Wealth building is also a crucial component of a broader approach to local economic development: Sustainable Local Economic Development (SLED). Economic development literature does not appear to have a definitive definition for SLED. Rather, the strategy can be seen as a holistic, balanced approach to economic development that considers the “entire range of economic development and regeneration options available” and focuses on approaches that offer a combination of social, economic, and environmental benefits. (Blakely & Leigh, 2009) Newby (1999) contends that the many definitions of SLED can be condensed to the following “core” economic development principles: quality of life, fairness and equity, participation and partnership, care for the environment, and thought for the future. (Newby, 1999) Jepson and Haines (2003) maintain that those adopting SLED strategies should focus on several key issues, including but not limited to, development rather than growth and tools that lead to a more diverse and self-sufficient local economy. (Jepson & Haines, 2003) Strategies from both definitions will serve as a foundation for analyzing existing and potential approaches for leveraging the franchise business model as a SLED tool.

Further, economic development professionals focusing on improving the quality of life for residents by aiming to broaden local service diversity and self-employment opportunities often face an uphill climb. Competing neighboring community interests, inadequate public/private partnerships in low income communities, shrinking funding sources (local, state and federal), and market forces frequently prolong revitalization plans in underserved communities. Meanwhile, community residents, in the interim, must live with inadequate commercial corridors and a dearth of services as they wait for long-term comprehensive plans to come to fruition. Due to this reality, community and economic leaders have begun to focus on innovative and efficient small business tools to quickly “jump start” the revitalization process. Alternative approaches such as “pop-up to permanent” shops have emerged as a means of

activating dormant commercial centers (e.g., generating consumer interest through a network drive marketing campaign) while simultaneously providing ownership opportunities and supportive services. These new methods suggest a broader need to look at the appropriate role for multiple business models for SLED. Franchise businesses, when used as part of a broader economic development strategy, could similarly fill service gaps, offer income-creation activities based on self-employment and increase customer traffic for all business tenants. Moreover, the model has the potential to help mitigate the inherent risks of starting a new business and leverage a proven business and marketing support system for underrepresented entrepreneurs in LWCs. (Muhammad, 2014)

The widening breath of individual franchise models also affords the opportunity for local entrepreneurs to expand to broader, regional economic trends and ultimately become more competitive. Those looking to efficiently link entrepreneurs in LWCs to prospective small business opportunities must now contend with the growing need to have an online presence. Businesses must now in tune with the growing use of mobile technology to market to customers who are often searching for products and local store information on their cell phones and mobile devices. (Libava, 2013) Franchisors have begun to realize the need to embrace mobile and emerging technologies such as customer-based mobile applications and cloud-based technology to improve overall efficiency. (Daley, 2014) Many small, independent businesses in LWCs may not have the resources and up-front capital to remain competitive with these broader technological trends. Finally, franchises provide the unique opportunity to connect traditionally under-represented entrepreneurs to emerging regional industries and corporate trends through the delivery of important supportive services (e.g., greater corporate responsibility initiating the desire for green cleaning services).

Research Question

How can economic development professionals leverage the franchise business model as part of a sustainable, comprehensive revitalization plan for low-wealth urban communities (LWCs)?

Research Limitations

Despite the role of franchises in the national economy and the business model's local economic implications for low wealth communities, I have found limited scholarly research focused on franchising as a local economic development tool within the U.S. Existing empirical research tends to focus significantly on franchises within the fast-food industry and from the franchisor's perspective rather than the franchisee. (Dant, 2008) This is not to say that franchise data is not prevalent. Rather, up-to-date research is usually industry-driven, often providing a less than complete picture of the model's current strengths and weaknesses, especially when compared to other business models such as independent businesses. Moreover, the extent to which economic development agencies and local governments have specific policies, initiatives and programs pertaining directly to franchises, cannot be discerned from existing literature. Future research should focus on offering a comprehensive analysis of franchising from a multi-sectorial, multi-investment level as well as from the perspective of the franchisee. Research should also focus on the impact of new franchisor-driven technology on franchisee productivity and the franchisor-franchise relationship. (Lafontaine, 2014) Finally, U.S. Census Bureau's *Franchise Statistics Report*, based on the 2012 Economic Census, is scheduled to be released February 2016. (U.S. Census Bureau, n.d.) The new data generated in this report that will show relevant data about the performance of franchises through the most recent U.S. Economic Recession and may provide an impetus for future academic research.

An Overview of the Franchise Business Model & Economy

A Definition for Franchising

Academic scholars, government entities and industry practitioners alike have long debated the definition of franchising and its place among established business models. Stansworth and Curan (1999) sought to combine many of these earlier perspectives into a broad, comprehensive definition as follows:

(Franchises are) “*A business form essentially consisting of an organization (the franchisor) with a market-tested business package centered on a product or service, entering into a continuing contractual relationship with franchisees, typically self-financed and independently owner-managed small firms, operating under the*

franchisor's trade name to produce and/or market goods or services according to a format specified by the franchisor” (Stanworth & Curran, 1999)

Furthermore, the Code of Federal Regulations (CFR), in an effort to provide clear guidance for the franchise industry, codifies a federal definition for the franchise contract. The CFR separates the franchisor-franchisee relationship into three distinct elements (Franchise Rule, 16 C.F.R. §436.1 (g) (2007)):

- ***The “Trademark Element”*** – *the franchisee will obtain the right to operate a business that is identified or associated with the franchisor's trademark, or to offer, sell, or distribute goods, services, or commodities that are identified or associated with the franchisor's trademark*
- ***The “Significant Control or Assistance Element”*** - *The franchisor will exert or has authority to exert a significant degree of control over the franchisee's method of operation, or provide significant assistance in the franchisee's method of operation*
- ***The “Required Payment Element”*** - *As a condition of obtaining or commencing operation of the franchise, the franchisee makes a required payment or commits to make a required payment to the franchisor or its affiliate*

The Trademark Element

The trademark element is the most critical component of the franchise model. The franchisor’s trademark is a distinctive marking that creates value for the franchisee by efficiently and effectively certifying the source and level of quality of the goods or services being sold. (Barkoff & Selden, 2009) A message is conveyed to the customer that the goods or services provided in the current transaction is the same or similar to those received in previous locations and experiences. (Finkelstein, 2012) While there are certain risks associated with aligning one’s own business interests with a larger entity’s trademark (discussed later in this paper), the trademark has the potential to allow local businesses entrepreneurs to leverage the advertising and marketing benefits of an established, national brand.

The Significant Control or Assistance Element

The amount of significant control or assistance the franchisor provides the franchisee depends on the type of franchise model stipulated in the franchise contract. There are two main types of franchise business models: product (or trade name) and business format. In a product and trade name franchise, a single supplier of manufactured products (franchisor) licenses its trademark and distributes its products to dealers (the franchisees) who then resell the products to the customer. ("The Franchise Classroom," n.d.) This supplier-dealer relationship, widely used in the soft drink, gasoline and automotive sales industries, does not typically involve the franchisor providing an entire system for running their business to the franchisee. (International Franchise Association, n.d.-c)

In contrast, the business format model involves a more complex relationship that goes beyond the franchisee being supplied with the franchisor's product, service and trademark. (International Franchise Association, n.d.-c) The franchisee is provided with a comprehensive method for operating a business, including: marketing, promotion, site selection, price suggestions, grand opening plans, management, business operations, on-going training, initial financing, accounting systems and legal information. This "franchise in a box" model is the most applicable for economic developers because it provides an entrepreneur, with no previous experience, the training and relevant information needed to operate a new business. ("The Franchise Classroom," n.d.) The business format model will be the franchise type that will be highlighted through the rest of this paper.

Aside from its potential application, the significant control imbedded within this model is not without its critics. The franchisor, depending on the specific provisions in the franchise agreement, can exhibit considerable control over the day-to-day operations of a franchisee. This relinquishing of control can impair a franchisee's ability to aggressively market or respond to local market forces compared to an independent business owner. Several franchisor-control

issues have begun to face legal challenges, including the ability to fix a maximum price on goods and services.² (Wittrock & Johnson, 2009)

The Required Payment Element

As a condition of entering into a valid franchisor-franchisee relationship, the Franchise Rule requires that the franchise purchaser (franchisee) pay the franchisor at least \$540 prior to or within six months after the opening of the franchise business. (Federal Trade Commission, 2012) Generally, franchisors require an initial franchise fee, which can vary, but often includes the cost of joining the franchisor's network and using the trademark. This one-time fee is usually non-refundable; however, the franchise agreement may offer certain exceptions. (Lawyers.com, n.d.-c) What constitutes acceptable payment that could meet the \$500 threshold under the CFR, however, has been broadly defined and includes, inter alia, security deposits, training, rent, advertising assistance, and promotional literature. (Hall, n.d.)

Franchise Ownership Trends

The most comprehensive franchise ownership data is usually generated through the U.S. Survey of Businesses, which is released every five years (with comprehensive franchise-specific data being tracked beginning in 2007). While this is the most reliable data available, it is also almost always outdated for an industry that can significantly change from year to year. Industry consultants and trade organizations provide more up-to-date data, but sometimes at a significant cost. Additionally, one of the key goals for many economic developers focusing on urban commercial districts is increasing the number of minority and women business owners. The International Franchise Association (IFA) analyzed minority ownership trends based on the 2002 and 2007 U.S. Survey of Business Owners in the 2011 report entitled, *Franchised Business Ownership: By Minority and Gender Groups*. (International Franchise Association Educational Foundation, 2011) The following is a brief overview of their findings:

- From 2002 – 2007, minority franchise business ownership grew 1.2 percentage points from 19.3% (2002) to 20.5% (2007). In comparison, minority franchise ownership for

² Recent litigation between the franchisee and franchisor has focused on the franchisor's contractual right to impose maximum prices on products such as \$4 dollar value meals. (Wittrock & Johnson, 2009) The disadvantages of the franchisor-franchisee relationship will be discussed in greater depth in a later section of this paper.

nonfranchise businesses increased 1 percentage points from 13.2% (2002) to 14.2% (2007).

- From 2002-2007, the percentage of female franchise business ownership declined 4.5 percentage points from 25% in 2002 to 20.5% in 2007. Further, in 2007, the percentage of female owned nonfranchise businesses was greater (25.7%) than female owned franchise businesses (20.5%).
- Among minority franchise business owners in 2007, Asians Americans had the largest difference in ownership rates between franchise (10.4%) than nonfranchise businesses (4.9%). African American owners had the second largest difference in ownership rates between franchise (4.9%) and nonfranchise businesses (3.6%).

Franchising and the Economy

While franchise businesses in the United States have origins that trace back to the 1800s, the model did not begin to truly flourish until the 1950s. (Evans, n.d.) The 1950s and 60s saw franchise models expand beyond the traditional restaurant to several nonfood applications including hotels, business services and convenience stores. (J. Bennett & Babcock, 2008) Historians and franchise experts point to several factors that led to this rapid expansion, including the shift to a service-based national economy, the construction of the federal interstate highway system, and the growth of suburbia. (Kaufman & Kaufman, 2009), (Herman, n.d.) By the 21st century, franchise businesses had become a vital component of local economies. The business model could be found in almost every corridor, from rural highway off-ramp, transient-service clusters to densely populated central business districts. This realization led the Washington D.C.-based International Franchise Association (IFA) and the United Census Bureau to begin measuring the growing economic impact of franchise businesses within the *2007 Economic Census*. (US Census Bureau, 2010) The survey discovered that franchises could be found in 295 industries and encompassed an estimated 10.5% (453,336) of the 4.3 million total business establishments within these industries. Additionally, franchise businesses represented 16.8% (\$1.288 trillion) of total sales, 9.7% (\$154 billion) of annual payroll, and 13.5% (7.822 million) of private nonfarm employment. As most would expect, the accommodations and food services sector (including hotels and quick service restaurants) and retail trade sector signified

the bulk of total distribution, accounting for an estimated 70% of total franchise businesses and 90% of franchise business sales.

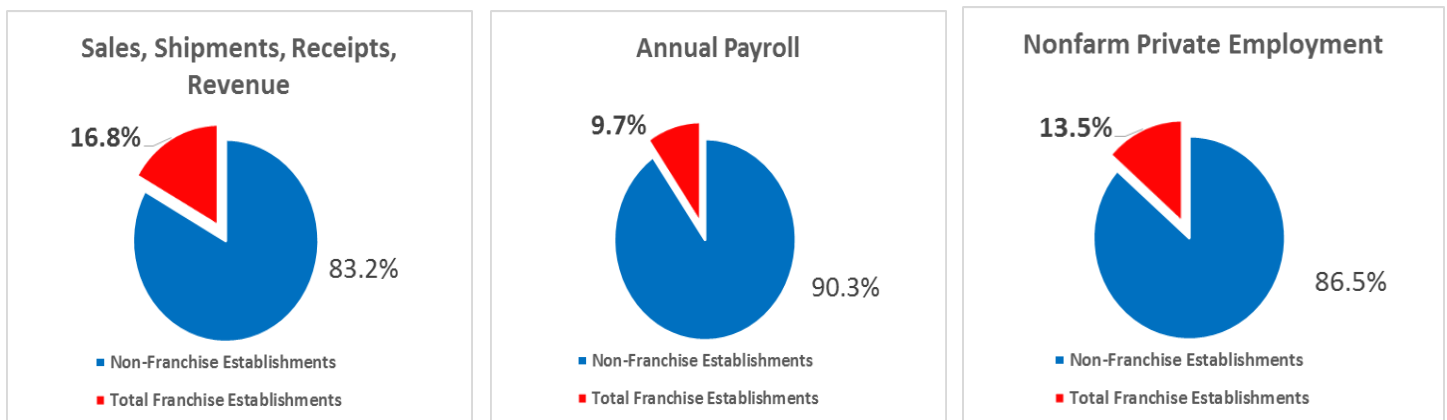


Figure 1. 2007 Franchise Economic Statistics for the 295 Industries Surveyed (US Census Bureau, 2010)

In 2011, the IFA commissioned a supplement report to the 2007 Economic Census that sought to provide a more comprehensive understanding of the franchise business model’s economic footprint. The report, entitled “The Economic Impact of Franchise Businesses: Volume III, Results for 2007” added additional economic estimates and impact analysis, including non-employer businesses (e.g., independent contractors) and expanding the number of industries covered in the analysis. (PricewaterhouseCoopers, 2011) Further, the report expanded the Census’ original analysis to incorporate the impacts of franchise businesses on the economy. Direct impacts were combined with both the indirect impact (economic activity generated through the purchase of goods and services by franchise businesses) and induced impact (personal purchases of those franchise owners and employees) to measure “total contributions” to the national economy. Table 1 presents a brief highlight of the IFA report’s findings from this expanded economic analysis.

Franchise Business Direct and Total Private Nonfarm Contributions (Indirect and Induced Impact) to the 2007 US Economy				
	In Franchise Business (Direct)	Direct % of Nonfarm Private Sector	Total Contributions (Direct, Indirect, & Induced)	Total Contributions % of Nonfarm Private Sector
Establishments (Both Franchisor and Franchisee owned single physical locations)	828,138	2.80%		
Jobs (Private nonfarm jobs)	9,125,700	6.20%	17,430,700	11.80%
Annual Payroll (Wages, salaries, & all other forms of compensation)	\$ 304.4 billion	4.20%	\$ 707.6 billion	9.70%
Annual Output (Gross value of goods and services produced)	\$ 802.2 billion	3.40%	\$ 2.1 trillion	9.00%
Gross Domestic Product (Annual Output less intermediate input expenditures)	\$ 468.5 billion	3.90%	\$ 1.2 trillion	9.70%

Table 1. 2007 IFA Franchise Total Private Nonfarm Contributions (PwC & IFA Education Foundation, 2011)

The results revealed that franchise businesses had an even bigger impact on the economy than previously measured in the 2007 US Economic Census. Franchises, according to the findings, have significant economic spillover effects for surrounding businesses due to franchise-related indirect and induced purchases of goods and services. When looking at the total contributions to the economy, franchises accounted for approximately 1 in 8 private nonfarm jobs and contributed \$1.2 trillion to GDP.

Franchise Business Performance since the Start of the Economic Recession

The IFA Education Foundation has helped prepare and commission several reports and economic growth indicators that tracked franchise business statistics since the start of the economic recession.³ *The Franchise Business Economic Outlook for 2014* is the latest version of an annual report that provides an economic forecast for franchise businesses in 2014. (IHS Global Insight, 2014) From 2008 – 2009, franchise businesses, similar to chain stores and independent small businesses, experienced a measurable decline across key economic indicators (i.e., employment, establishments, GDP, and output). Further, the report indicated that the franchise industry lost 27,370 establishments, 228,000 private nonfarm jobs, \$22 billion in annual output, and \$5 billion in annual GDP during this period. Since 2009, however, franchise

³ According to the National Bureau of Economic Research, an economic recession occurred beginning in December 2007 and lasting until June 2009. (National Bureau of Economic Research)

businesses rebounded and began to show modest positive growth as the economy as a whole entered into a recovery period. From 2009 – 2013, the IFA report estimates the following:

- **Establishments:** Franchise establishments grew 1.45%, from 746,646 to 757,503
- **Jobs:** Franchise jobs grew 6.76%, from 7,800,000 to 8,327,000
- **Annual Output:** Franchise output grew 19.14%, from \$674 billion to \$803 billion
- **Annual GDP:** Franchise GDP grew 16.54%, from \$405 billion to \$472 billion

In addition to annual economic reports, the IFA produces the Franchise Business Index (FBI), a monthly economic measurement that combines several franchise-related economic indicators to discern the current “health” of the franchise industry.⁴ The FBI has mirrored other economic indicators in demonstrating improving conditions for franchise businesses since the end of the economic recession. Between December 2011 and December 2013, the FBI grew 3.63% from an index score of 107.3 to 111.2. (IHS Global Insight, 2014)

2014 Economic Outlook for Franchises

The Franchise industry has continued to show moderate growth through the first three quarters of 2014. According to market data and trends analyzed by ADP and Moody’s Analytics, franchise business have created 180,153 private-sector jobs through September 2014. According to Figure 2, from March 2014 – September 2014, franchise businesses employment growth outperformed national employment growth. . As of September 2014, the monthly ADP Franchise Report estimates that franchises accounted for 8,318,828 private-sector jobs. Although the restaurant sector remained the largest employer of private-sector franchise jobs (4,221,059) or 51% as indicated in Figure 4, Figure 3 demonstrates that the personal care retailer sector exhibited the greatest year-to-date employment increase (an estimated 5.53% between January 2014 and September 2014). (ADP, 2014)

⁴ The Franchise Business Index includes the following national statistics: employment in Franchise-intensive industries, number of self-employed, and unemployment rate from the Bureau of Labor Statistics; consumer demand in franchise-intensive services from the Bureau of Economic Analysis; and small business optimism index and small business credit conditions index from the National Federation of Independent Businesses. Economic conditions from 2000 are used as a baseline. (Harrison & Haller, 2012)

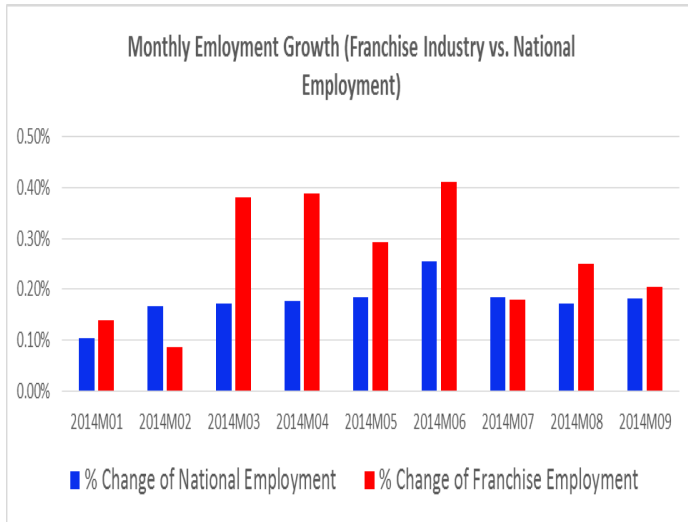


Figure 2. Franchise vs National Monthly Employment Growth from January – September 2014 (ADP, 2014)

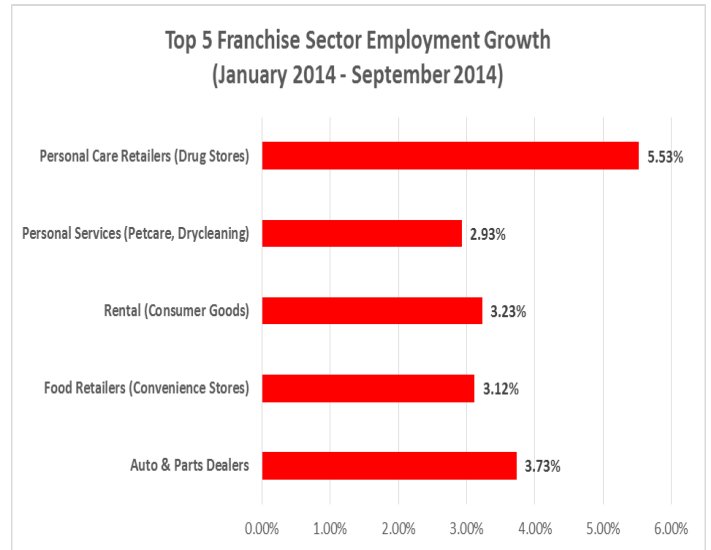


Figure 3. Top 5 Franchise Sector Employment Growth from January – September 2014 (ADP, 2014)

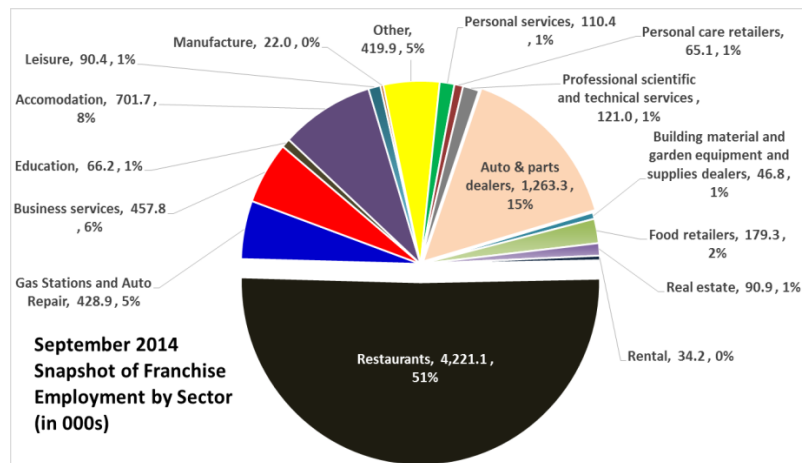


Figure 4. September 2014 Snapshot of Franchise Employment Sector (ADP, 2014)

Strengths, Weaknesses, Opportunities and Threats (SWOT) Analysis

One of the main decisions an entrepreneur must decide is whether to start an entirely new business or whether to utilize a pre-existing business format franchise. This decision may depend on several factors including whether the entrepreneur has pre-existing experience in this field, the current economic forecast for this field, the amount of capital the entrepreneur has access to, and ultimately the timing of entry into the field. Both options have significant strengths as well as important weaknesses that will need to be individually analyzed before going forward. The following Strengths, Weaknesses, Opportunity, and Threats (SWOT) analysis will help

economic developers and entrepreneurs evaluate potential and existing risks and rewards concerning the franchise business model.

Strengths

- Many franchisors provide initial and on-going support for franchisees, including one-on-one assistance for advertising and marketing, sales training, personnel management and training, group purchasing, and inventory management. This personalized assistance is a hallmark of the business format franchise system and can help reduce initial risk and carrying costs of starting a completely new business. (Goldberg, n.d.)
- Franchises can offer many new entrepreneurs a relationship with a well-known, reputable brand that delivers an established product or service. Additionally, many franchisors have proven networks and supply chains to assist franchisees. One of the main issues with owning an independent business is trying to market your new product or service to the public.
- Franchisors can provide significant assistance and cost-reduction on the front-end by offering franchisees market analysis and site-selection information for potential locations
- Many franchisors offer in-house financing and third-party financial agreements with lenders that may be alternatives to conventional lending.
- Franchisees can benefit from an established group network of fellow franchisees that can serve as mentors

Weaknesses

- Some franchises require significant up-front costs in the form of initial start-up fees. Franchisees must pay the franchisee an on-going royalty fee, usually from gross sales. This amount, depending on fixed costs, could be a sizeable portion of the franchisees monthly profits.
- Entrepreneurs must relinquish a certain level of autonomy that is often associated with an independent business. Many of the franchise agreements are one-sided, heavily favoring the franchisor and have strict rules for sign placement, cost of products, raining, hours of operation, etc. For some franchisees, this rigid, national structural may not be quick to

respond to regional and market competition. Franchisees may be left competing with chain stores and independent businesses with over-priced goods. Finally, strict franchisor guidelines may stifle innovation, impacting long-term local economic growth (if too many franchises are placed in one neighborhood). (Gerber, n.d.)

- Franchisees do not have control over the corporate branding strategies or public relations. One franchisee's actions could significantly harm other franchisees in the network and the overall brand

Opportunities

- The growth of the franchise industry as a whole has allowed for more innovative franchise strategies. Franchises have begun to form around surging economic trends such as green technology, information technology and health care. Additionally, the growth of regional franchise networks have allowed franchise networks to participate in economic development strategies often associated with independent networks (e.g., locally-sourced products, local charitable giving strategies)
- "Purchasing cooperatives," a member-owned and controlled business created solely to take advantage of group benefits (e.g., pooling resources). Thus, smaller, regional franchises that may focus on more local economic development goals can still achieve economies of scale, decreased costs, the promotion and implementation of innovative strategies, and greater return of investment that are often associated with larger franchises and chain stores. (Loonam, 2010)

Threats

- The increasing number of franchise blogs and new franchises providing inflated numbers, leading to possible false expectations. This occurrence may only intensify as the economy gains steam and new franchises begin to emerge.
- Minimum wage laws may greatly impact franchisees with significant royalty fees and low profit margins. Franchisors must take the initiative in looking for alternative strategies such as flexible regional pricing for goods and services and employee benefit programs.

Local Economic Impact of Franchise vs. Chain and Independent Businesses

Franchise businesses and chain stores, although often considered similar business models, have distinct differences in their organizational structure operation and measured impact on local economies. Chain stores, for example, are owned, operated and managed by one main partner entity. They hire managers to run the day-to-day operations of the business (e.g., Walmart). The parent company undertakes all of the risks involved in operating the individual businesses, and in turn, realizes all of the profits at each location. In contrast, the franchisor sells the trademarked rights to the businesses name, provides individual training and support to franchisee-owners and takes a contracted portion of the profits in the form of on-going royalties. (Lesonsky, n.d.) The risk is shared by both the franchisor and the franchisee as partners, albeit within an uneven power structure (i.e., where the parent company has the authority and power to control many aspects of the franchisee operations). In addition, the franchisee can enjoy many of the benefits that are enjoyed by chain location businesses such as combined purchasing power and marketing). Finally, on the other end of the spectrum is the independent restaurant owner, whom undertakes all of the risk and sees all of the profit as the sole owner and operator.

These business formats traditionally have had different levels of impact on local economies and different levels of importance for sustainable local economic development principles. For many local economic professionals, the local “multiplier effect” and determining economic leakage rates are often considered the gold standard for evaluating and ultimately growing a sustainable local economy. This importance has given birth to many encouraging economic development marketing strategies, such as the “Buy Local” campaigns, that focus on the role independent businesses play in preventing local resident spending from leaving the community (economic “leakage”) and the reinvestment and turning of capital within a local community (“economic multiplier”). (Clements, 2010)

There is very limited scholarly research directly comparing the economic leakage and multiplier effects for franchises versus chain and independent businesses. However, several recent studies, from both industry organizations and scholarly researchers, have compared the

local impact of both chain and independent stores.⁵ These studies used several metrics to help measure the impact, including payroll, goods/services purchased from area businesses, retail employment, poverty rates, profits spent by local owners, and donations to area charities. The research generally found that local independent businesses had a larger local economic multiplier for monetary spending than chain stores. (American Independent Business Alliance, n.d.)

Further, while franchise businesses were not included in these studies, the leakage and multiplier effects could be evaluated through a more informal qualitative analysis by looking at three businesses (Chain, Franchise and Independent) with equal revenue/profit and examining the probable local economic impact based on several key indicators utilized in previous studies. This exercise is not intended to be definitive, but is instead based on emerging trends, industry data and scholarly research.⁶

Local Economic Impact of Franchise vs. Chain and Independent Businesses

Key Indicator	Chain Business	Franchise Business	Independent Business
Local Owner Profits	Profits flow from local chain stores to the Parent Corporation.	Profits are split with the franchisor per the Franchise Royalty Fee. Owner may not be local.	Profits stay with the business owner. Owner may not be local.
Wages Paid to Employees	Wages depend on local minimum wage laws. Current movement (e.g., Walmart) to begin increasing wages to a more living wage. Usually sets a certain price for goods and services across local and regional markets to keep consistency, ultimately impacting the ability to raise employee wages.	Wages depend on minimum wage laws. Current issue is whether franchises should be treated as individual businesses or a network of businesses for minimum wage laws. Similar to chain stores, franchisees usually must adhere to franchisor uniform pricing for goods and services across local markets.	Wages depend on minimum wage laws. Also subject to minimum wage laws, however, they have the greatest flexibility as to employee wage determination and are not tied down by the franchisor's priority for uniform costs across local markets.

⁵ See also the Institute for Local Self Reliance, which has collected several studies connected to research comparing economic leakage and the multiplier effect of local independent businesses vs. big-box chain stores. This research can be accessed here: <http://ilsr.org/key-studies-why-local-matters/>

⁶ The following criteria for comparing the different business structures (i.e., local owner profits, wages paid to employees, locally sourced goods and services, and charitable giving) was taken from a Salt Lake City report done by Civic Economics which can be found here: <http://localfirst.org/images/stories/SLC-Final-Impact-Study-Series.pdf>

Locally Sourced Goods and Services	While there has been a bigger push for "locally grown" products, very few chain stores have the capability to offer truly local community sourced products and utilize local services. Smaller chain store networks are beginning to see the value and utilize locally sourced goods.	Larger franchise networks are similar to chain stores in their inability to provide local community-sourced products and utilize local services, a few smaller regional franchises have been able to offer in-season sourced goods from local communities.	Independent businesses often have the flexibility in their business model to truly offer local farm-to-table products and other purchasing opportunities to provide locally-sourced goods and utilize local services.
Charitable Giving	Most chain store networks provide charitable giving on the national or state level. Some chain stores (e.g., Whole Foods) have been given greater latitude in directing charitable giving within the individual location's community.	Franchisees, as local community owners, often have the same connection and ability to give to local communities as independent owners. Franchisors have begun think more locally and allow for individual franchisees to determine location-specific community charities and organizations for donations and fund raising campaigns (e.g., Stevi B's Pizza Buffett)	Independent businesses often have the greatest flexibility in their business model to determine their local charitable giving recipients and campaigns.

Table 2. Local Economic Impact Comparison between Franchise, Chain and Independent Businesses (Four Key Metrics Source: (Civic Economics, 2012))

Table 2 uses four key metrics to compare the local economic impact of franchise, chain and independent business models. In terms of Local Profits, the chain store structure calls for much of the chain store revenue generated to flow through the headquarters in the form of corporate profit, chain store expansion, and other chain stores in other locations. (Clements, 2010) The franchise structure has traditionally fallen within the middle of the spectrum when it comes to Local Profits. While a significant amount of the profit stays with the franchise owner, a portion of the profit will go to the franchisor in the form of royalty and other on-going fees. However, franchises, similar to independent businesses, face the same weakness when trying to measure local profits in a particular sub-market such as an inner-city business district. A brief look into the tax parcel make-up of any local business community sometimes indicates that a business, whether chain, franchise or independent business, is owned by an entity or individual that is registered or resides outside of the local community (e.g., an owner may live in another part of the metropolitan area or in another neighborhood and does not traditionally shop in the community negating the multiplier effect).

Providing a living wage to meet a worker's basic needs has become an important economic and political issue for many cities and business districts. Economic development professionals, in particular, see a living wage as an important consideration for business recruitment and retention strategies. All three business structures are subject to federal minimum wage laws. The franchise model, however, appears to be at a significant disadvantage regarding the current focus on increasing an employee's minimum wage. (Taylor, 2014) Franchisors often deal with fixed costs set by the standardized franchise model (i.e. uniform methods of operation set by the franchisor) and are usually prohibited by the franchise agreement from raising prices on goods and services beyond a maximum price point. Further, franchises must also give a percentage of their revenue to the franchisor in the form of a royalty fee. Franchisees cannot raise their prices as efficiently and quickly as independent businesses when local market standards shift. Franchisees also often do not have the resources to absorb costs like chain stores. The result has been a business model (franchisee owned businesses) that lags behind chain businesses, independent businesses and even franchisor owned businesses when it comes to employee wage rates and rate increases. (Krueger, 1991)

Additionally, the consequence of this franchisor-franchisee relationship issue has been a franchise industry that has both collectively fought against minimum wage laws in places such as Seattle, Washington⁷ and exhibited a split between franchisor and franchisee-owned approaches to minimum wage increases.⁸ The move towards higher living wage standards is a positive trend for many low-wealth workers, yet it has the ability to greatly impact the franchise model. For economic development professionals, this may be a hurdle for truly considering a franchise business for growing a local commercial business district. In the short term, franchisors may have to allow franchisees greater autonomy in setting the cost of prices and services per local market standards. In the long-term, franchisors may have to utilize their more extensive

⁷ A recent Seattle local ordinance raises the city minimum wage to \$15 per hour over a seven year period. Due to the ordinance counting the national franchisor and franchisee network as one business, individual franchisees are usually considered a "large employer" with 500 or more employees and are required to implement the new minimum wage standards in three years rather than the seven years for independent small businesses. (Taylor, 2015)

⁸ McDonalds, in response to what the company sees as an increasingly competitive market and minimum wage campaigns, has instituted at least a \$1 minimum wage increase over the legal minimum wage for employees at company/franchisor-owned stores. Franchisee-owned stores were not subject to this new policy. (Strom, 2015)

resources at the corporate level to broaden their employee career advancement and training programs at the franchisee level. While the franchise model may be at a disadvantage in terms of employee wages, broader employee training programs and best practices may offer the opportunity to offer cost efficient, non-monetary benefits to employees while still competing with chain stores and independent businesses.

Local Employee Non-Monetary Benefits, Development and Training

The Chick-Fil-A Model

Chick-Fil-A is an interesting case study because the franchise has flourished and remained highly successful in a fast-food industry that has seen many of the Atlanta-based company's competitors face declining revenue and minimal growth. Despite remaining closed on Sundays and facing national public relation controversies for the past few years, the company has exhibited tremendous market share growth in the national limited-service chicken classification. Additionally, the company, from 2004 to 2013, has experienced an annual compounded sales growth rate of 12.7% and has reached over \$5 billion in annual system-wide sales. (Kalinowski, 2014) This tremendous growth has been coupled with the company's unique approach to employee retention, support and development at both their company owned and nearly 1,000 franchise locations. In an era where many minimum wage jobs are considered short-term, high-turnover positions, Chick-Fil-A has managed to significantly beat the average hourly employee turnover rate, with a 60% turnover rate compared to 107% for the entire industry. (Schmall, 2007)

What makes this statistic more remarkable is that Chick-Fil-A's hourly pay is not significantly higher than industry standards.⁹ Chick-Fil-A, instead, focuses on a long-term, holistic approach to supporting employees that holds team member training and development as a core value. The Restaurant Team Member Scholarship Program, for example, directs a portion of the company's proceeds to annual scholarships for employees to attend colleges and universities. Every employee that qualifies receives at least \$1,000, with more scholarship money available for those employees chosen by an independent panel. Since the program's

⁹ According to Glassdoor.com, the average hourly wage for a team member is \$8.50 per hour and \$8.27 for a cashier. (Glassdoor, 2015)

inception in 1973, Chick-Fil-A has given more than \$34 million in scholarship money to 34,000 employee team members. (Chick-fil-A, n.d.-c) Moreover, the company offers the Chick-Fil-A Jumpstart Leadership Development program, an intensive job opportunity and personal development program that aims to give existing and non-Chick-Fil-A employees a “jumpstart” on their careers in business leadership. The program requires that a participant has graduated from a four year college and exhibited at least two years of leadership experience in some capacity. Each participant will undergo a demanding, two-year program that includes hands-on experience in running all facets of a company restaurant, individual mentorship opportunities, and “life” planning assistance. (Chick-fil-A, n.d.-a) Chick-Fil-A’s programs focus on assisting the restaurant team member from college through leadership and ownership experiences and may serve as an alternative example for how franchisor corporate officers can assist franchisee locations with employee retention and long-term development.

Local Sourced Goods and Services/Charitable Giving

Finally, locally Sourced Goods and Services and Charitable Giving have traditionally been an economic measurement that resulted in a significant disadvantage for both chain stores and franchises in local markets. Franchisees and chain stores typically focus their charitable giving and sourcing of goods and services at the regional, state, national and even global level. Local franchise and businesses stores usually have little control over how money is spent in the local community where they reside. Recent industry trends, however, indicate that regional and national franchisor chains are starting to encourage locally-based charitable giving and offer greater autonomy to their local franchisee businesses. (Ewen, 2014; Funk, 2013)

Locally Source Goods and Services: B. Good, a Boston-based Burger and Sandwich Regional Franchise Network

B. Good is a regionally-positioned, all-natural burger and sandwich franchise restaurant network operating in Massachusetts, Maine, New Hampshire, New Jersey, Rhode Island, North Carolina and Connecticut. The creator produced a menu that features locally-sourced seasonal ingredients for all of its beef and produce at their 18 locations. Further, the franchise’s costs are not significantly higher than regular, non-locally sourced fast food restaurants because the company uses whole food products, such as whole potatoes and carrots, and cutting/grinding/processing the products themselves at their locations. B. Good also focuses on

building networks with a growing list of local farmers and plugging them directly into their supply networks. To accomplish such a unique list of ingredients and products in the face of possible sourcing issues, the founders have concentrated on keeping the menu smaller than other fast food restaurants. Finally, the creators pride themselves on offering customers a flexible menu that highlights ingredients that are unique to each franchise location's local market (e.g., in-season blueberries for their Boston-based smoothies). (B. Good, 2015; Daley, 2013) While B. Good doesn't have the presence of a Chick-Fil-A, their flexibility and commitment to all-natural, locally-sourced products provide a great example of how franchises, albeit in a smaller network, can offer the same local economic benefits as independently owned businesses.

Local Charitable Giving Case Study: Stevi B's Pizza

Stevi B's is a pizza buffet restaurant franchise with over 40 locations in over eight states. The franchise proudly touts its "culture of giving" as a fundamental component of the company's core value on the official website and has promoted this philosophy throughout its local franchisee networks. The Atlanta-based franchise realized early in setting its charitable giving campaign, that the most effective and efficient way to direct its charitable giving campaign is to let the franchisees drive the programs at the local level rather than at the corporate office. The organization has gone even further than most local charitable giving strategies: each franchisee location hires a local, part-time "marketing ambassador" from the community that helps implement local giving plans. A full-time, charitable giving staffer at the corporate level helps train and support the local ambassadors. (Ewen, 2014; Stevi B's, 2015) The result is a bottom-up partnership strategy between the corporate office, franchisee location and the local community that is driven and implemented at the local level and supported whole-heartedly at the franchisor headquarters.

Furthermore, the International Franchise Association has made local franchise charitable giving a key initiative for 2015, implementing the year-long "Franchising Giving Back" campaign at their 2015 annual conference. The association's goal is to produce a charitable giving report that provides several metrics, including a registry that gathers local franchise charitable giving data, an annual report of key franchise charitable giving data, and best practices for making a local impact within the franchise location's community. (Romaniello, 2015)

Failure Rates for Franchises and Independent Businesses

Finally, this comparison should also consider business failure rates and whether the local economic multiplier and leakage rates should be adjusted for the average rate of failure (after a given amount of time) for both franchises and chain businesses. Franchise industry articles and consultant blogs often provide misleading or outdated data as current facts, giving the impression that franchise businesses is a flourishing industry with almost unlimited growth potential. (Blair & Lafontaine, 2010) Various studies have been conducted in the past years looking to explore a 1980s survey by the U.S. Department of Commerce that originally reported an estimated success rate of 90% to 95% for franchise businesses over a five year period. This one statistic has been used as a driver for franchise industry consultants and blogs to push forward the myth of franchises as a foolproof business model that can easily be picked up for any willing entrepreneur. (Internicola, 2014) While the particular statistics have varied, the SBA has found that franchise businesses have similar survival rates and age distributions (from start-up to termination) as those of independent businesses. Additionally, the SBA cautions that a potential business owner considering either a franchise or business model must evaluate each model based on several individual factors such as management talent and sales abilities.¹⁰ (Tobias, 2012) This discussion suggests a greater need for in-depth analysis to understand trends in which different types of business models fail and why. For example, is the long-term survival rate for low-cost, SBA backed franchises similar to their independent business counterparts?

Although there may not be an absolute study for franchise vs. independent business rates, the most consistent data may come from the Small Business Administration (SBA).¹¹ The SBA has several databases that provide vital information about individual franchises as they relate to SBA financial assistance eligibility and loan failure rates.¹² The information can serve as a valuable tool for potential franchisees and economic development professionals looking to utilize the franchise business model. Additionally, the SBA Below is a brief listing of available

¹⁰ Blue MauMau, an online franchise news publication geared towards franchisees, has compiled a report on existing statistics and sources regarding franchise vs. independent business failure rates. Available at: http://www.bluemaumau.org/what_success_rate_a_franchise_versus_independent

¹¹ Franchises are not required by law to disclose initial year average sales and failure rates, thus information is limited. The FTC does require franchises to report certain information such as pertinent litigation and bankruptcy filings. (Needleman & Jones, 2014)

franchise resources that provides information as to franchise business stability, failure rates and eligibility for SBA financial assistance:

- **SBA Franchise Registry:** A database of approved franchisor's that have gone through SBA Franchise Committee's initial eligibility review and requirements for franchise size/affiliation and any unacceptable control provisions on the franchisee. Available here: <https://www.sba.gov/content/franchise-registry-approved-brands>
- **SBA Franchise Findings List:** A spreadsheet that contains those franchises that have been deemed ineligible due to various issues in their Franchise, License, Dealer, Transfer or other agreements. The list also includes how long the franchise has been listed in the SBA's Franchise Registry Listing and any "negotiated fixes" that the franchisor has undergone to help alleviate noted issues. Available here: <https://www.sba.gov/content/franchise-findings>
- **SBA Loan Failure Rate by Franchise:** A database indicating the annual SBA loan default rates (either liquidated or charged/off) for franchises (by brand) that have received either/both the SBA general 7(a) loans and real estate and equipment 504 loans. Latest available report can be found here: https://www.sba.gov/sites/default/files/files/sbl_12study.pdf

The Franchise Business Model vs. Independent Businesses during Business Start-Up

While more research is needed to better compare survival rates between the two business models, possibly the most unique aspect of franchising is the natural advantage the business model may have over independent businesses during the initial start-up stage (from accessing necessary capital through grand opening). For aspiring business owners who may lack the requisite knowledge or skill needed to successfully launch a new small business from the ground up, franchising offers the unique transfer of entrepreneurial expertise and knowledge from business experts (the franchisor's level of knowledge, expertise and business record is provided in the FDD) to the franchisee. (Seawright, 2008) A franchisor can offer several services that are beneficial for aspiring entrepreneurs during phase before launch, including (Hidalgo, 2012):

- alternative access to capital (through the franchisor and its third-party relationships with financial lending institutions)
- previous examples of cash flow estimates, sales and identifiable operational costs (based on similar franchisee operational needs and sales in similar markets, etc.) that has the opportunity to reduce the credit risk of new entrepreneurs
- a defined marketing strategy (including internet marketing) and customer-brand recognition, and
- franchisee on-going capacity building (including management, operational training and launch coordination strategies).

These services, which are usually built within the franchisor-franchisee relationship, can significantly reduce the learning curve for new entrepreneurs planning to enter into the market. While these offerings may not be presented by every franchisor, they are hallmarks of the expertise and assistance franchisors can provide to new franchisees during the initial start-up phase.

Conclusion

This discussion demonstrates the significant need for up-to-date, scholarly research that focuses on the changing impact of the franchise (and chain and independent stores) on local communities. Traditionally, the independent business was seen as the gold standard for local economic development professionals. Franchises and chain businesses, however, have begun to shift their approach to operations, employee support and development, and charitable giving to provide a greater economic impact at the local level. While the independent business may still may be the most optimal solution for increasing the economic multiplier within a community, developing trends, the realities of absentee owners of all business types, and the ever-evolving nature of franchise and chain stores ultimately necessitates a holistic approach to local community business recruitment and retention strategies.

Recommendations

- Provide a clearinghouse of relevant franchise SBA loan failure rates and current issues for potential franchisee entrepreneurs and economic and local economic developers.

- The SBA Loan Failure Rate by Franchise registry may be an excellent source for understanding long-term failure trends and causes for franchise businesses (by sector, initial fee and total investment, etc.).
- Begin building a database that tracks franchises that have a core philosophy and an infrastructure that emphasizes supporting local economic markets (e.g., local sourcing and charitable giving). Additionally, have a multifaceted, holistic approach to employee development.
- Provide clear guidance to potential franchisees about realistic franchise industry stats and reliable, neutral sources for current statistics.

Franchise and the Law

The Franchisor-Franchisee Contract

What makes the franchise concept unique is the strategic alliance that balances the interests of two independent legal entities: the franchisor and the franchisee. (J. Bennett & Babcock, 2008) The franchisor, realizing a need to market its products and services without having to incur the hard and soft costs of business expansion, grants certain rights and support to the franchisee in exchange for a specified royalty fee. The Franchisee, besides paying the required fee, also agrees to allow the franchisor to assert control over or provide assistance to its day-to-day operations. This relationship is memorialized in a franchisor-franchisee contractual agreement.

Franchise agreements are usually unilateral, non-negotiable and significantly favor the franchisor. The franchisor, as the originator of the franchise offer to the potential franchisee, creates and dictates the material contractual terms (which is often seen as a practical way to protect the overall franchise network and ensure uniformity of relationships). (Elgin, 2009) Due to the increased potential for fraud and the often considerable up-front risk undertaken by the potential franchisee, these agreements have become highly regulated by the United States Federal Trade Commission (FTC) and certain state laws and agencies. (Kurtz & Clements, 2013) The FTC, in particular, has recognized the need to provide the most information possible about the franchisor's company to protect potential franchisees. The Commission requires that a franchisor must disclose certain information in a Franchise Disclosure Document (FDD). The

FDD is a packet that includes 23 different types of information about the franchisor, its officers, and other franchisees within the network. Information in the FDD includes, but is not limited to (Federal Trade Commission, 2008; Lawyers.com, n.d.-a):

- Franchisor Historical Information and Background (Including business experience of the parent franchisor's corporate officers, franchisor's most likely competition)
- The Existence of Current and Pending Litigation, Settlement Restrictions, or Certain Types of Prior Legal Actions that the Franchisor was Involved
- Bankruptcy History of the Franchisor and its Officers, Affiliates, Partners as well as any Information for its Parent Organization
- Refundability of Initial Fees or Ability to Pay Initial Fees in Installment Payments
- Franchisee's Entire Initial Investment in Tabular Form (e.g., all expenses required by the franchise agreement)
- Franchisor Financial Statements
- Restrictions on Sources of Products and Services (e.g., including required purchases of goods and services, benefits)

Certain states, known as registration states, require that franchisors looking to operate within their boundaries register their FDD and have the packet reviewed by the designated state agency. These states include California, Hawaii, Illinois, Indiana, Maryland, Michigan, Minnesota, New York, North Dakota, South Dakota, Virginia, Washington, Rhode Island and Wisconsin. (Franchise Solutions, n.d.)

Despite these exhaustive disclosure requirements, there have been numerous legal cases that have occurred surrounding potentially excessive franchisor control, franchise support, the termination of the franchise relationship, and franchisee competition initiated by the franchisor granting too many locations within close proximity to each other (Daley, 2015; Lu, 2012) Due to on-going litigation as well as the potential financial risks in starting a franchise (or any business), many legal organizations, state agencies and local governments have begun to create manuals and online portals that provide vital information for potential franchisees. In the next section, I review the New York Attorney General's approach to franchise education and franchisee assistance.

Franchise Legal Guidance: The New York Attorney General’s Franchise Resource Center

The New York State Attorney General’s office has put together a franchise information portal on the office’s website to help potential franchisees navigate the franchise disclosure agreement, franchisor-franchisee relationship, and other franchisee issues.¹³ As the primary office that monitors and enforces franchise law, the Attorney General’s office seeks to protect potential franchisees from fraud and help navigate the franchisee-franchisor relationship. Helpful educational tools for the public include links to a franchise lawyer contact database, pertinent legal cases impacting the franchise relationship, alternative dispute resolution information and electronic forms. (New York State Office of the Attorney General, 2015)

The highlight of the portal is the “What to Consider Before You Buy a Franchise” booklet for potential franchisees.(New York State Office of the Attorney General, n.d.) The 17-page manual provides the public with a crash course on starting and maintaining a successful franchise business and relationship with the parent franchisor. Franchisee-specific information includes:

- Fraud warning signs
- Tips for prospective franchise purchasers
- Regulatory and legal requirements for the franchisor
- The costs involved in buying and owning a franchise
- The legal rights and responsibilities of the franchisee and franchisor
- Understanding the process for renewing, transferring, and terminating a franchise
- Important questions to ask current and former franchisees
- Franchise resources

¹³ The Franchise-specific web port is available here: <http://www.ag.ny.gov/investor-protection/franchisors-franchisees>

Recommendations

- Determine if your state is a designated FDD registration state and what information the state Attorney General offers for potential franchisees (including relevant manuals, a list of registered franchises, available resources) (New York State Office of the Attorney General, n.d.).
- Contact the local and state bar association to see what legal manuals or workshops are being offered by their franchise division. The American Bar Association houses a cumulative index of available franchise legal articles and manuals on their website Available here:
http://www.americanbar.org/content/dam/aba/administrative/franchising/aba_franchising_forum_index_2012.authcheckdam.pdf.
- Work with local legal organizations to build a franchise law 101 manual and/or online portal that provides free resources and a franchise lawyer directory for more information.
- Offer franchise legal-specific workshops to provide useful information and comparison methods regarding the various FDDs. Further, workshops should also focus on the overall potential hurdles and best practices for navigating on-going franchise disputes. (Emerson & Benoliel, 2013)

Resources Available for Securing & Financing a Franchise Business

External financing (funds secured from outside the personal resources of the franchisee) has remained a significant barrier for those seeking to enter into the franchise industry. For minorities and under-represented groups in the industry, the capital gap has been one of the most difficult hurdles to overcome. (Brathwaite, 2006) This reality has been compounded by an industry-wide lending gap that has hampered many potential franchisees from getting the financing needed to start and grow a successful franchise. In recent years, however, this trend has appeared to be reversing course and the lending shortfall has been narrowing. According to the IFA, the franchise lending gap for 2014¹⁴ is \$1.3 billion or 4.4%. While still significant, the

¹⁴ The IFA describes the lending gap as the difference between the amount of financial lending to meet the demand for unit transactions (new, transfer and refranchised units) and the current supply of financial lending

projected percentage has steadily declined from a projected high of 16.6% in 2010 to 4.4% in 2014. (International Franchise Association, n.d.-a)

Despite these encouraging signs, the current financial lending requirements and persistent capital issues for entrepreneurs in underserved communities will most likely require economic developers to go beyond traditional bank lending options. Interested parties will have to begin looking at innovative strategies that combine several different sources to help meet the capital needs of potential franchisees. There are two avenues for economic developers: focusing on low-investment franchises or accessing capital through non-traditional sources.

Low Cost Franchise Industries

Franchise Name	Type	Home-Based or Location-Based	Franchise Fee	Total Investment	On-Going Royalty Fee	Financial Requirements (Net Worth)	Financial Requirements (Liquid Cash)
Jan-Pro Franchising, International, Inc.	Commercial Cleaning	Home-Based	\$2,520 - \$44,000	\$3,145 - \$50,905	10%	\$1,000 - \$14,000	\$1,000
Proforma	Printing and Promotional Products	Home-Based	\$0 - \$29,500	\$4,730 - \$50,195	5-8%	\$100,000	\$50,000
Rooter-Man	Plumbing, drain and sewer cleaning	Home-Based	\$3,975 - \$39,750	\$46,750 - \$137,600	Varies	\$25,000	\$10,000
WIN Home Inspections	Home Inspections	Home-Based	\$17,000 - \$27,000	\$33,900 - \$54,500	7%	\$40,000	\$25,000
Fresh Coat	Residential and Commercial Painting	Home-Based	\$42,900	\$49,350 - \$76,950	6%	NA	\$45,000
Oxi Fresh Franchising Co.	Carpet Cleaning	Home-Based	\$33,900	\$37,735 - \$65,640	\$295 per month	\$100,000	
Window Gang	Window, exterior, dryer-vent and chimney cleaning; deck and fence sealing	Home-Based	\$25,000	\$34,350 - \$81,100	7%	\$50,000	\$50,000
Computer Troubleshooters	Technology consulting for small businesses	Home-Based	\$14,900 - \$34,900	\$17,200 - \$82,900	\$330 per month	\$100,000	\$15,000 - \$50,000
The Senior's Choice Inc.	Nonmedical home care	Home-Based	\$25,000	\$34,000 - \$51,000	NA	\$100,000	\$50,000

Table 3. 10 Low-Cost Franchises with less than \$50,000 Starting Total Investments Required
(Source: Entrepreneur.com)

available. In 2014, the financial lending demand was projected to be \$29.4 billion and the financial lending supply was projected to be \$28.1 billion. (FRANdata, 2013)

Reducing total costs by investing in low cost franchises is a cost-effective option for potential entrepreneurs to enter the franchise industry. Table XX shows 10 franchises that have a starting “total investments” under \$50,000 as defined by Entrepreneur.com’s “2014 Top Low Cost” database. (Entrepreneur, 2015) As the table suggests, the advent of home-based franchising has allowed for franchisees to reduce fixed costs that are usually associated with brick-and-mortar locations. Additionally, potential franchisees should also focus on franchise financial requirements. Financial requirements for franchises could also be a significant barrier to franchise ownership adoption in low wealth communities and they could range from \$1,000 to more than \$1 million.

Finally, according to Entrepreneur.com’s 2014 Top Low Cost Franchises, nine of the top fifty low cost franchises are within the commercial cleaning industry. This may be because many small-to-medium businesses are using contract cleaning companies rather than having a full-time cleaning staff to help reduce the cost of keeping a full-time cleaning staff.

Small Business Administration Loan Programs

Traditional banking institutions often require potential franchisees to secure a mortgage with a home or other asset in addition to a certain percentage of cash down (usually 20 to 35%). (The Wall Street Journal, 2015) For those unable to meet these requirements, United States Small Business Administration (SBA) loans could be an attractive alternative. The SBA offers several long- and short-term financing loans that are partially backed by the federal government and can be used for financing various costs from acquisition through operation and expansion. The franchisee will apply for these loans through the bank or other type of lending institution, with the SBA serving as a guarantor for a significant portion of the loan. This guarantee allows for lending institutions to be more flexible with their terms and loosen some of the traditional equity requirements and underwriting standards for small businesses. The exact loan terms for each of these programs may vary depending on the specific requirements of the loan provider. (Bank of America, 2015)

There are more than 10 small business loans that are offered by the SBA. The SBA provides a quick reference guide for available programs and an overview of their terms, which can be found here: http://www.sba.gov/sites/default/files/files/Loan_Chart_Baltimore_October_2014a.pdf

In the next section, I will identify loan programs that may be beneficial for economic developers and potential entrepreneurs looking to find alternative financing for franchise businesses.

SBA Section 7 (a) Loan Guaranty

The SBA Section 7(a) loan is the SBA's most common and basic loan program, offering financing for a broad list of business costs. The SBA notes that this loan is an excellent method for providing essential capital for small businesses in traditionally underserved communities. Additionally, the SBA has started several initiatives focusing providing a more efficient application for those living in low income communities efficient application process. (U.S. Small Business Administration, 2015e) The Section 7(a) loan can be used for several long- and short-term financing needs, including, but not limited to (U.S. Small Business Administration, 2015a):

- Short-term working capital such as construction or seasonal financing
- Long-term working capital such as purchasing inventory
- Start-up costs such as purchasing equipment, furniture, supplies or materials
- Purchasing real estate (including land and buildings)
- New Building construction or renovation of an existing building
- Acquiring a new business or business expansion
- Refinancing existing debt

There are several benefits for the Section 7(a) loan that make this loan more attractive. While the actual loan term depends on the specific underwriting analysis for the individual requesting the loan, this loan generally offers a longer maturity than conventional loans and max out at 25 years for real estate, 7 years for working capital and 10 years for equipment (based on the useful life of the equipment). Finally, the SBA 7(a) program guarantees loans up to \$5 million dollars and provides a guarantee of 75% for loans greater than \$150,000 and 85% for loans at or less than \$150,000. (U.S. Small Business Administration, 2015c)

The SBA Community Advantage Loan Guarantee Program: A Specialized Lending Program for Small Businesses in Underserved Markets

While the Section 7(a) program may be the most generally used, wide-ranging program for potential franchise funding, the SBA offers additional programs that are specifically targeted towards low wealth communities. For example, the SBA Community Advantage Loan Program, launched in 2011, is a pilot program created by the SBA to assist local lending and financial organizations that were created to address the needs of potential and existing entrepreneurs living in underserved and undercapitalized communities. By utilizing local mission-oriented, economic development-focused financial intermediaries as lenders, this program aims to increase the number of SBA 7(a) loans offered to small businesses in underserved communities. Through this program, the SBA aims to meet several goals within these communities, including: increasing access to much needed start-up and continuing operational capital, increasing the amount of lenders offering SBA-backed Section 7(a) loans, and offering individually-tailored management and technical assistance on an on-going basis. The Community Advantage Program provides traditionally local-based organizations that have operated in underserved communities for decades, such as Community Development Financial Institutions (CDFIs), community development corporations and faith-based institutions, the SBA's financial guarantee and network of resources. The terms of the program mirror those of the traditional SBA Section 7(a) loan, except that the Community Advantage Loan program restricts the maximum loan amount to \$250,000. (U.S. Small Business Administration, 2012)

SBA Micro-Loan Lending Programs

Micro-loans traditionally have been an important tool for small independent businesses, overseas and increasingly now within the United States, who are looking for small financial inputs to help round out their relatively low capital stack for start-up or operations. Yet, the arrival of lower cost, home-based franchise businesses with smaller start-up capital requirements has provided the opportunity for micro-loan lending programs to become an important part of a potential franchisee's capital stack. The SBA's microloan program offers loans up to \$50,000 and is provided through specifically designated, local non-profit intermediary lenders. Microloans could be used for working capital, buying inventory or supplies, buying furniture or supplies, and buying machinery and equipment. These loans appear to be especially well-suited

for home-based franchises that often require supplies and equipment as the most significant purchase (e.g., cleaning equipment and supplies as well as branding materials for commercial cleaning franchises). A list of designated community-based, SBA-micro loan lenders can be found by contacting a local SBA district office. (Beesley, 2012; U.S. Small Business Administration, 2015c)

Community Reinvestment Act and Microlending Opportunities

Supporting and investing in community and regional-based institutions that provide micro loans to local franchisees may be an efficient and profitable method for banks that fall under the Community Reinvestment Act. This lending strategy could be a win-win for economic developers and financial lending institutions as a way to meet both CRA lending requirements as well as increase the flow of accessible capital for low-cost franchise funding in low-and-moderate income communities. Congress passed the Community Reinvestment Act (CRA) in 1977 as a means to encourage financial institutions to meet the convenience and needs of all members of the communities where they reside and whom they serve, including those residents within low- and moderate-income neighborhoods (LMIs) who have been traditionally denied equitable credit opportunities. (Laderman & Reid, 2010) Moreover, the CRA states that financial lending institutions have a continuing obligation to meet the “convenience and needs” of these local communities, including “the need for credit services as well as deposit services.” (“12 U.S.C. § 2901 (1977),”) The CRA was established to help enforce a more equitable lending process in the wake of several bank practices, such as redlining, that had a severe negative impact on the growth of many minority and low wealth communities. (Meeks, 2012)

The CRA requires that financial lending institutions undergo several compliance tests to examine their lending records and how responsiveness they are to local community needs. Banks are evaluated and given a score of “outstanding,” “satisfactory,” “needs to improve,” or “substantial noncompliance.” Receiving either a “needs to improve” or “substantial noncompliance” could impact the financial institution’s ability to participate in mergers, acquisitions, or expansion of services. (National Community Reinvestment Coalition, 2015)

One of the standards for evaluating overall CRA compliance and scoring is the Act's Community Development Loan testing requirements. Under the Community Development Standard, financial institutions are tested on whether their lending activities support ("12 C.F.R. Part 25,"):

- Affordable housing for low-to-moderate income individuals
- Community services targeted towards low-to-moderate income individuals
- Activities that support economic development by financing businesses (or farms) that meet the size requirements for SBA's Small Business Development Company (SBDC) or Small Business Investment Company (SBIC) programs or have gross annual revenues at or below \$1 million
- Activities that revitalize or stabilize communities that fit certain criteria, including, but not limited to, low-to-moderate income communities

For banks subject to these requirements, the CRA's Community Development standards provide a clear incentive to support economic development lending strategies, such as microloans, that may be too small for direct bank loans. (Opportunity Fund, 2015) In recent years, banks have focused on investing in CDFI microlenders for economic development. For example, the Opportunity Fund, a microlending CDFI based in the San Francisco Bay Area, was set-up as a strategy for several banks to increase their CRA-compliant lending by investing in CDFI-generated microloans that were usually too small for a traditional bank loan. (Opportunity Fund, n.d.) While information provided by the fund has predominately focused on microloans that have supported local, independent start-up businesses, these same lending strategies could easily be adopted to support start-up costs for a low-cost franchise that may only require \$5,000 to \$10,000 for initial start-up costs and training costs.

Internal Franchise Financing Opportunities

Financial lending and grants, from the franchisor-entity itself, has become an increasingly appealing option for individuals looking to invest in a franchise business. While franchisors providing internal financing and preferred lending opportunities through third party lending agreements (e.g., McDonald's offering franchisees lowering rates through Chase Bank in their Chase McDonald's Finance Program) is an important characteristic that is unique to the

franchise model, several franchisors have begun to offer more innovative financing strategies for potential entrepreneurs and employees who many not have the traditional capital or assets to qualify for a franchise. These programs highlight one of the main strengths of the franchise model: the ability to utilize the resources, assistance and financial backing of a forward-thinking franchisor as a way to offer entrepreneurial opportunities to underrepresented residents in low wealth communities. A list of some of the discounts and additional support specifically for women (and minority) and any potential new franchisees can be found here:

<https://www.franchisehelp.com/blog/minorityfran-changing-the-game-for-minorities-in-franchising/>

Domino's "Deliver the Dream Program"

Domino's "Deliver the Dream Program" is a unique program that aims to provide corporate financial support and technical assistance to help minority Domino's team members the opportunity to become franchise owners. The program prides itself on a process that helps identify and develop high performing, elite minority team members regardless of where they began with the company (often highlighting owners who rose from taking calls and making pizzas to ownership). Domino's partners with American Equipment Finance, LLC to grant financial assistance to selected members. This partnership, coupled with an approach that the company notes is a primarily internally-based franchise system focusing on internal team members as potential franchisees, has allowed for participants to start franchises with only a \$5,000 franchise fee. Moreover, the company offers several other programs that could serve as feeders for this program, including optional training programs for employees interested in becoming managers and the Franchise Management School for those employees interested in becoming franchisees and operating managers. (Domino's Pizza, 2015, n.d.)

Recommendations

- Identify and create a database of local, mission-oriented, economic development-focused financial institutions that have access to various SBA-backed loans, including the Community Advantage Loan Guarantee Program
- Create a capital stack matrix to help potential franchisees understand where micro loans and small SBA-backed loans can be most beneficial
- Identify franchises that have innovative employee-to-owner and internal financing programs (for women and minorities as well)

Current Local Government Strategies for Franchises Businesses

Franchise specific local government strategies have focused on utilizing the franchise business model to help revitalize struggling commercial districts and promote ownership in underrepresented communities. In this section, I will examine current franchise-specific economic development strategies from both a metropolitan government and a metropolitan chamber of commerce. Further, I will highlight how local governments have initiated partnerships with national franchise associations to develop strategies to help promote franchise business ownership among minorities and women.

Metropolitan Government: City of Boston Neighborhood Restaurant Initiative

In an effort to revitalize Boston's historic commercial districts, the City's Office of Business Development launched the Neighborhood Restaurant Initiative in 2004. The restaurant initiative, which includes locally-owned franchise businesses, primarily focuses on developing fully service restaurants in neighborhoods lacking access to full-service, sit-down restaurants. The Office of Business Development emphasizes full service restaurants, as opposed to fast food restaurants, as a way to revitalize underserved communities while simultaneously preserving historic business district character. By helping to create new full service restaurants, the Neighborhood Restaurant Initiative ultimately seeks to expand ownership and management opportunities among local neighborhood entrepreneurs, increase the number of jobs, and strengthen commercial districts. (City of Boston, 2014)

Resources and Requirements for Full Service Restaurants

The Office of Business Development provides several resources and assistance for developing new and expanding existing full service restaurants. These resources include (City of Boston, 2014):

- Technical Assistance (e.g., creating business plans, choosing a location space, marketing)
- Permitting and Licensing
- Design Assistance: signage, logos and storefronts
- Façade improvement grants

- Liaison to other City departments
- Financing: direct assistance and referrals
- Workshops for potential restaurant entrepreneurs

Furthermore, access to financial assistance is one of the key barriers to entry for potential franchisees. The Neighborhood Franchise Initiative provides additional funding as a junior loan of up to \$100,000 for qualifying businesses. As a way to ensure increased access to jobs in underserved neighborhoods, each business receiving financial assistance is expected to sign an Employment Initiative Agreement with the City of Boston (City of Boston). The Employment Initiative Agreement requires that each restaurant meet both Housing and Urban Development (HUD) and Boston Resident's Jobs Policy (BRJP) job creation requirements. HUD requires that at least one job is created per \$35,000 of local government financial assistance, or one job per \$50,000 for projects in federally designated empowerment zones. Additionally, the BRJP stipulates that to receive financial assistance, owners and franchisees must use their "best efforts" to hire at least 50% Boston residents, 10% minority, and 5% women. (City of Boston, 2014)

Implications for Future Franchise Strategies

Providing technical assistance on business permitting, licensing and health inspection requirement could be an invaluable benefit to franchisees. While the franchisor usually provides many of the resources offered through the Neighborhood Restaurant Initiative, providing technical assistance with local government new restaurant requirements could save the franchisees certain Boston fees during the initial start-up, pre-launch process.

In addition, the City of Boston provides a "Restaurant Road Map" on its city website. The roadmap offers an overview of the requirements for opening a restaurant in Boston, including a health inspection checklist, a business permit flowchart, and best practices for going before the licensing board. Though the overview is not franchise specific, it does offer Boston restaurant franchisees a guide for managing the local business application process. (City of Boston, 2015)

Future Strategies for Promoting Minority and Women Franchise Ownership: Office of Minority Business Development, Saint Louis Development Corporation

Saint Louis Development Corporation (SLDC), the economic development arm of the City of St. Louis, has begun to develop franchise ownership strategies as part of their overall minority and women business development programming. While examining SLDC's current business development strategies, SLDC realized the need to incorporate the franchise business model into their current approach for encouraging minority and women business owner development in the city. (Meadows, 2010) The development corporation noticed a growing disconnect between the potential of the model for business ownership growth in minority communities and the current percentage of St. Louis minority franchise owners. To help address this issue and encourage greater exposure to the industry, the SLDC undertook a series of annual workshops and fairs that focused on on-going education and counseling services for interested minority entrepreneurs. Additionally, the SLDC began engaging and recruiting franchisors who clearly demonstrated a strong commitment to franchisee diversity. (Meadows, 2010)

Further, the Office partnered with several minority and women focused organizations, including the National Black MBA Association - St. Louis Chapter; Harris Stowe University School of Business, a local historically Black college; the Hispanic Chamber of Commerce of Metropolitan St. Louis; and the National Urban League of Metropolitan St. Louis (International Franchise Association, 2011). A flyer describing the event can be found here: <http://caaab.org/wordpress/wp-content/uploads/2012/04/SLDC-Franchise-Fair3.pdf>

The franchise fair focused on the following aspects of franchise business (International Franchise Association, 2011):

- Fundamentals of franchising
- Experiences in franchising
- Legal aspects of franchising
- Funding and technical assistance

Recommendations

- Organize a franchise seminar targeting potential franchisees in underrepresented communities. If your city or neighborhood does not have the initial capacity, consider contacting regional or national franchises such as the International Franchise Association that may have existing franchise seminar initiatives and programs.
- Partner with local minority and women civic/social organizations such as the National Urban League and the 100 Black Men who already promote entrepreneurship as one of their main goals.

Opportunities for Franchises to Support Sustainable Local Economic Development Strategies

Creating a diverse business mix is one of the most important components of a sustainable local economic development strategy. The most desirable commercial districts offer a collection of businesses that meet the needs of local residents. Yet, many low wealth commercial corridors frequently lack essential services that are required to sustain quality neighborhoods. For economic developers, this reality demands a holistic strategy that identifies several different business types to “fill gaps” in the business district. Additionally, a compounding issue is the need for local entrepreneurs in low wealth communities to connect to regional economic development trends such as the growth of information technology and the movement toward green technology and methods. Far too often, potential business owners cannot take advantage of these trends due to several issues, including limited networks, the cost of entry into these markets, etc. Few economic developers and local governments have looked to franchise businesses as a viable economic strategy for bridging these gaps and offering connections to the broader economy. St. Louis’ economic development department had a similar strategy in the early 2000s through their retail franchise initiative as a part of a holistic, multi-faced economic development strategy for “reenergizing” struggling urban commercial districts and building healthy neighborhoods. The initiative focused on a two-step strategy: matching neighborhood-based entrepreneurs with retail service franchises that also provide these communities with the services residents desire and need. (Geisman, 2004)

In the case assessments below, I will build on the “St. Louis” strategy by looking at low-cost franchises that provide neighborhood-based entrepreneurs connections to greater economic trends as well as those businesses that offer services that help broader, holistic business district revitalization strategies.

Providing Basic Services for Urban Business Districts

For many urban business districts, the flight of capital and businesses from their neighborhoods has left a dearth of services that are needed to help revitalize neighborhoods. When developing an economic development plan, the first strategy is to take an inventory of existing businesses and evaluating existing service gaps. Often, the next strategy is to begin looking at best practices and services in ideal communities. Many of these communities include places that not only provide a wide variety of food options and internet cafes, but also support entrepreneurs and provide educational services such as: back office support for small independent businesses, faxing and high quality printing services for presentations, shipping services and web design assistance.

Goin Postal: Shipping and Receiving/Business Services

Goin Postal is a Florida-based, postal shipping firm that provides customers with an array of shipping and business services. Goin Postal advertises each location as a full-service “neighborhood business shipping center.” As an authorized shipping center for both FedEx and DHL, customers are able to create accounts for shipping and receiving services, mail forwarding, as well as private mailbox rental services that allow receipt and housing of any size packages (as opposed to United States Post Office locations that have specific package size requirements). While each location can offer specialized services unique to each location, the company appears to give individual Goin Postal franchisees a certain amount of autonomy in the specific services offered at each location. Additional business assistance services, include:

- Notary services
- Access to a high speed internet services/Computer terminals for customers
- Bulk faxing, printing and copying services
- Web design assistance and hosting services

- Business card and brochure design and production services
- Resumes Consulting Services
- Local Deliveries and Pick Up
- Passport Photo Services

Established in 2002, all of the company's 243 franchises within the United States and an estimated 10% of all franchisees own more than one store. (Entrepreneur "Goin Postal", 2015; Goin' Postal, 2015)

Requirements for becoming a Franchisee

Goin Postal provides a significant amount of information regarding franchise cost and the overall process for becoming a franchisee, including offering their entire, 238 page Franchise Disclosure Document for public viewing on their website. The franchise requires that potential franchisees demonstrate applicable business experience, good moral character and meet certain financial requirements (to the satisfaction of the franchisor). While the franchisor does not indicate a set net worth requirement, it does expect franchisees to have at least \$20,000 in liquid cash available. The initial franchise fee is \$15,000 with a renewable franchise license agreement term of 15 years. Instead of having a royalty fee based on a percentage of revenues (which is the usual practice in the industry), franchisees are charged a flat fee of \$420 per month. Goin Postal allows franchisees to build out their own stores (including how to build the counters) with detailed plans. The total investment cost can vary, depending on whether the franchisee decides to renovate the building themselves according to Goin Postal specifications (the Franchisee "build-out" option) or elects for Goin Postal's contractors to completely build out for them (the "turn-key" option). Total costs can range from \$48,865 for franchisee build-out to \$139,500 for the turn-key option. (Entrepreneur "Goin Postal", 2015; Goin' Postal Franchise Corporation, 2014)

Essential Service Provided for Sustainable Local Economic Development

Faxing, printing and copying as well as high speed internet are basic services for any community. Most people take for granted the ability to quickly print research reports or fax a document through multi-function printers. However, many urban, low wealth communities lack easy access to these fundamental amenities that serve as ancillary services for important

educational opportunities (e.g., printing a report or utilizing high speed internet to conduct research for a report). Additionally, these basic services foster independent business growth as well business opportunities (e.g., offering bulk copying, notary services or access to local couriers). In many of these communities, libraries and community centers help fill these voids, yet these community centers cannot adequately support the current demand or need. For low wealth communities to begin building diverse, healthy economies, there needs to be foundational services and businesses that offer residents these services. Business center franchises, such as Goin Postal, may serve as an efficient method for increasing local ownership while helping to meet essential community needs.

Additional Franchises that Provide Essential Services

Franchise Name	Type	Home-Based or Location-Based	Sustainable Local Economic Development Strategy
BookKeeping Express	Book-Keeping /Accounting	Home-Based	Providing bookkeeping, payroll services, cash management (bill pay and invoicing) and other back office tasks for home and location-based, small businesses who may not have the expertise or resources to undertake these tasks on their own
CMIT Solutions, Inc.	Computer and Information Technology Desktop Support	Home-Based	Managed technical service offerings, including: remote monitoring and maintenance, data backup and disaster recovery, mobile device monitoring, cloud computing, managed print services, VOIP telecommunications services and unified communications systems for home and location-based, small-to-medium size businesses who do have the expertise, resources or capital to have in-house information technological services

Table 4. Additional Franchises that Provide Essential Services (Source: Entrepreneur.com)

Connecting Entrepreneurs to Regional Economic Trends

Potential and existing entrepreneurs in low wealth communities are often isolated from economic trends that are influencing the flow of resources and capital at the metropolitan and regional levels. Trends such as shifts toward green technology, mobile technology, health delivery services, and cloud-based and information technology support services require networks, resources and capital that may be out of the reach for many residents living in low wealth communities. How do independent businesses and entrepreneurs in low wealth participate in growing regional economic trends often backed by local governments, large industries and chambers of commerce? Franchises and the ability to access the franchisor’s networks could be

one avenue for entrepreneurs to more efficiently connect to these emerging economic development opportunities.

Fast Teks: On-Site Computer Repair and Information Technology Consulting

Fast Teks is an on-site computer servicing franchise focused on providing residential and business customers a full-range of information technology repair and consulting services. The Tampa, Florida-based firm started franchising in 2003 with a focus on offering two distinct services: general computer assistance services for residential customers and full range of back office information technology support and resources for small and medium sized business. As of 2012, there were 249 national franchises that delivered business customers with the following services:

- **Managed IT Maintenance:** Troubleshooting and routine maintenance for computer networks and company computer systems
- **Cloud Computing:** On-demand virtual cloud services that provides small-to-medium size businesses with the ability to store, back up, and immediately access large quantities of data
- **Server Installation and Support:** Installing and setting up a business network server and software (e.g., Microsoft Server)
- **Anti-virus and Internet Security Solutions**
- **Remote Data Backup and Recovery**
- **Technological Consulting:** Identifying opportunities for consolidating IT services, lowering operating expenses, and improving IT-related business processes
- **Business Network Monitoring and Management**
- **Email Server and Mobile Device Support**
- **Office Relocation and Set-Up**

Finally, the franchisor has set-up a call center that answers all incoming calls during business hours and weekends and routes dispatches technicians to job sites. (Entrepreneur "Fast Teks", 2015; Fast Teks, 2015)

Requirements for Being a Franchise

Fast Teks franchise does not require franchisees to have prior computer-related experience. Rather, the company focuses on business owners with strong management skills and the ability to grow business. Onsite IT services are handled by a staff of certified technicians and trainers who travel to the customer's place of business or residence. The franchisor does not provide initial financial requirements for franchisees (i.e., net worth and liquid capital requirements), however, the preliminary franchise fee can range from \$19,500 to \$42,000. The franchise agreement licensing is a renewable, seven year term. Starting a Fast Teks franchise requires a total investment that starts at \$34,500 and can reach \$60,540. Additionally, the franchisor's has two main on-going fees based on monthly gross sales: an 8% royalty fee and a 2% advertising/marketing fee. (Entrepreneur "Fast Teks", 2015; Fast Teks, 2015)

Essential Service Provided for Sustainable Local Economic Development

Many potential business owners in urban, low wealth communities are unable to tap into broader economic trends such as the move towards the outsourcing of back office IT services. With more people beginning to move back into or stay within the urban core, there may be a future influx of established and start-up businesses following them as well. Small-scale IT desktop and consulting companies may be a natural need for companies looking to reduce administrative overhead costs by outsourcing their IT services. Additionally, there appears to be a growing preference for the ability of desktop help call centers to provide on-site, US-based services when necessary. For some residents living in these communities, an educational or information gap may serve as a significant barrier to entry into the IT field. However, for many others, there doesn't appear to be a reasonable on-ramp to access these opportunities. Independent businesses usually lack the networks or up-front capital to purchase the resources needed to actively compete in these markets. Franchises, such as Fast Teks, could utilize their central call center services and holistic approach to IT business services to allow potential business owners in these communities to obtain these opportunities.

Additional Franchises that Offer Connections to Regional Economic Trends

Franchise Name	Type	Home-Based or Location-Based	Sustainable Local Economic Development Strategy
Synergy Home Care	Senior nonmedical home care/Healthcare coordination for Senior Services	Home-Based/Customer Home	The Department of Health and Human Services estimates that by 2030, there will be 72 million seniors, aged 65 or older living in the United States, more than twice the number in 2010. (U.S. Department of Health and Human Services, 2015) Additionally, current trends have focused on the ability for seniors, the "Baby Boomer" generation who have increasingly more capital than their predecessors, to "age in place" with more home-based strategies to allow for independent living.
EcoMaid	Residential and Commercial Cleaning franchise that focuses on healthy, eco-friendly	Home-Based	Large corporations and small businesses, alike, have all begun to focus on their organization's environmental footprint as employees are becoming more concerned with their employer's corporate responsibility strategies and the quality of their overall work environment. Employers and residents are becoming more "green conscious" and often require their cleaning services to utilize green cleaning technology. An independent, small business may have trouble paying for the up-front cost or have the knowledge to obtain specialized green cleaning product/systems.
American Business Systems	Medical Billing	Home-Based	As more individuals begin to have access to healthcare through the Affordable Health Care Act, there may be a growing need for medical billing companies as doctors look for more efficient methods for electronically processing claims and lowering administrative costs (i.e., outsourcing medical billing outside of their office).

Table 5. Franchises that can allow entrepreneurs living in LWCs to connect with regional economic trends

(Source: Entrepreneur.com)

Conclusion

Promoting small business ownership is a fundamental element of sustainable local economic development (SLED) strategies for low wealth communities (LWCs). While franchises are small businesses that populate almost every local urban business district and have significantly contributed to the national economy, economic development professionals rarely consider this business model as a viable economic development tool. Despite its current reputation, the business model can be an alternative avenue for improving quality of life and increasing self-sufficiency within these communities. The multiple sectors in the franchise business model and the advent of low-cost and locally-focused franchises (from local sourcing to local charitable giving) offer new, innovative ways to assist holistic, diverse development in

LWCs. Further, encouraging franchising as a useful SLED tool has unique benefits for several local partners committed to sustainable economic development within LWCs.

- **Economic Development Professionals:** The franchise business model offers opportunities to foster greater avenues for small business ownership and increasing access to critical capital required to drive these strategies. Instead of traditional economic development approaches that usually focus on recruiting national chain stores, economic developers could utilize franchises as a means of addressing service gaps as well as supporting educational opportunities and broader independent small business development (ancillary services).
- **Aspiring Entrepreneurs Living in LWCs:** Franchising offers entrepreneurs, who may not have all of the necessary knowledge or skills needed to successfully launch a new small business, expert assistance including capacity building, marketing strategies, and training before and during the initial start-up phase. Moreover, for many aspiring entrepreneurs in LWCs, there often is a lack of access to emerging economic trends despite their usual proximity to the central business district and urban cores. Franchises could provide local entrepreneurs with a connection to greater, regional economic and technological trends that are essential to developing a sustainable small business.
- **Local Wealth Communities:** For LWCs, franchise businesses present a local owner-driven strategy for diversifying and filling in “service gaps” that usually exist in imbalanced, fast-food dominated LWC business districts. Further, the business model can be an internally-focused, cost-effective method for quickly “jump-starting” business districts, rather than waiting for outside public and private investment sources.

For these partners to fully take advantage of this unique economic development tool, however, they should be aware of the many realities that franchisees often face. These potential drawbacks include the lack of autonomy and control over branding and pricing strategies, initial and on-going fees that could be costly for aspiring entrepreneurs and local wage laws that may not be favorable to the business model in the short-term. Additionally, there appears to be a current information gap, with the industry lacking up-to-date research that can accurately

compare the survival rates of franchises and independent businesses. While this will need to be addressed in future research, the model also has the ability to provide significant technical and financial assistance for entrepreneurs during the critical small business start-up to launch phase. Subsequently, communities thinking about creating franchise business-specific strategies must have a robust comprehension of the available regional and local market opportunities, available low cost franchises, financial lending environment, and legal liabilities within the business model. Equipped with this knowledge, local economic development professionals can begin to assess their local business districts' current service gaps and potential for new franchise business development. A clear understanding of the franchising model may offer economic developers and local residents a new avenue for sustainable local economic development in low-wealth communities.

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