

# SMALL BUSINESS

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Administration

# RESEARCH SUMMARY

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## Women and Minorities in Franchising and Financing Practices

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### Purpose

The purpose of this study was threefold. First, it was to identify the participation of women and minorities in the franchising industry, determine whether their participation was in general increasing or decreasing, and supply reasons for the findings. Second, this study was designed to examine the costs of franchising and business startup and to document those industries in which women and minority franchisees were concentrating. Third, the study was designed to determine whether franchisers were providing any financial assistance to new and potential women and minority franchisees.

### Scope and Methodology

Detailed survey questionnaires were mailed to 3,385 franchise companies during the summer of 1996. The survey was designed to ask general questions about the participation of women and minorities in the franchising process, as well as to ask whether any financial assistance was offered. Detailed information about the franchise companies was obtained from the Uniform Franchise Offering Circulars (UFOC) in the 12 states which require them—along with the names of present and past franchisees. In addition, the 1995 Franchise Annual was used to obtain the names and addresses of franchisers.

For the gender portion of the study, the contractor traveled to parts of Indiana and Illinois—two of the states requiring UFOC—to photocopy the names of current franchisees. Over 1400 franchise companies were in those two states, and the franchisee names were divided into units owned by

males, females, jointly owned by females and males, and those owned by partnerships and corporations.

The detailed survey instrument was also designed to solicit information on minority ownership and financing practices. Using both a mail survey and a telephone follow up, 358 completed surveys were returned for a 11 percent response rate. Because of the low response, the researchers urge caution in interpretation of the results.

### Highlights

- 8.5 percent of the franchises examined in Indiana and Illinois were owned solely by women. Compared with earlier years, this represented a drop from the 11 percent recorded in 1987 and 1990. About 16 percent were jointly owned by males and females, and the remaining majority were male-owned.
- Women-owned franchisees were in sectors that required the least amount of start up capital. 42 percent of women-owned franchisees had investment costs of less than \$75,000. The top four industrial sectors for women-owned franchisees were children's products and services, travel, accounting and tax services, and health aids and services.
- The lowest percentage of women-owned franchisees were in the hospitality industry and in automotive related services.

- Minorities owned 9.3 percent of the 53,053 franchise units reported by the responding franchise companies. The breakdown was as follows: African-American, 4.1 percent; Asian-American, 2.6 percent; Hispanic, 2.4 percent; and Native American, .12 percent. While African American ownership has risen slightly since 1995, it has been stagnant for Hispanics, and declined for Asian-Americans.
- The three most popular franchise units owned by minorities from the survey included: cleaning products and services (19.2 percent minority-owned); carpet, drapery and upholstery cleaning (18.8 percent); and laundry and dry cleaning services (14.6 percent). The average investment in these franchises was \$22,000-\$87,000. Three sectors had no minority representation: advertising and publishing services; retail computers and electronics; and house and pet sitting services. In addition, minorities owned less than one percent of the franchises in lawn and garden care, convenience food stores, and in auto related businesses.
- Of the firms responding to the minority survey, about 22.5 percent offered some form of direct financial assistance such as financing of some or all of the franchise fee, financing the entire operation over a fixed period of years, or assistance with equipment leasing. Another 50 percent offered some form of indirect assistance such as computer software, help with a business plan, or introductions to friendly lenders.
- Of potential franchisees that were turned down for financing, the most frequently given reason was the lack of collateral. Of the 50 percent of the minority franchisees that were successful in obtaining financing, half used the U.S. Small Business Administration (SBA).
- Franchisers who offered financial assistance had a 12 percent minority ownership rate, while those who did not had only a 4 percent minority ownership rate.

## Conclusions

- The Department of Commerce should resume the collection of survey data on franchised businesses, along with a check box identifying their race and gender for statistical purposes only. If such a data base had been available, it would have made the extensive efforts to obtain information on the race and gender of franchisees much easier.
- Women and minority franchise business ownership is not increasing proportionately with the larger documented increases in minority- and women-owned firms. The data suggests that women's ownership of

franchised businesses may be declining, while that of minorities is stagnant. There could be many reasons for this, including better opportunities in non-franchised businesses. Further research and larger samples are clearly needed.

- The SBA should develop lending policies that encourage franchisers to provide some form of financial assistance to women and minorities who seek to become franchisees. These could be loan guarantees, and should be modeled after women and minority businesspersons who have been successful. The SBA could provide incentives to franchisers who replicate similar successful programs in their chains.

## Ordering Information

The complete report, along with research summaries of other studies performed under contract to the SBA Office of Advocacy, is available on the World Wide Web at: <http://www.sba.gov/advo/research>

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