

Testimony of  
Matthew R. Shay  
President  
International Franchise Association  
before the  
Subcommittee on Economic Opportunity  
of the  
Committee on Veterans Affairs  
United States House of Representatives  
May 25, 2005



May 19, 2005

The Honorable John Boozman  
Chairman  
Subcommittee on Economic Opportunity  
Committee on Veterans Affairs  
U.S. House of Representatives  
Washington, DC 20515

Dear Chairman Boozman:

Neither the International Franchise Association nor I has received Federal grants or contracts relevant to the subject matter of this testimony during the current fiscal year or during either of the last two fiscal years.

Sincerely,

A handwritten signature in black ink, appearing to read 'Matthew R. Shay', written in a cursive style.

Matthew R. Shay  
President

## Executive Summary

My name is Matthew Shay and I am the President of the International Franchise Association (IFA). Established in 1960, the mission of the IFA is to safeguard the business environment for franchising worldwide. IFA is the oldest and largest franchising trade group representing over 1,000 franchisor, 8,000 franchisee and 400 supplier members. The nation's more than 760,000 franchised businesses generate jobs for more than 18 million Americans (nearly 14 percent of the nation's private-sector employment) and account for \$1.53 trillion in economic activity (9.5 percent of the private-sector economic output).

One of the wonderful features of franchising is its diversity. Over 75 industries franchise and franchise opportunities come in all shapes and sizes. For an initial investment of under \$32,000, one can launch a residential cleaning franchise. That initial investment includes a franchise fee of around \$9,000 with the rest being equipment purchases, lease costs, and so forth.

The IFA is not a newcomer to the idea that veterans and franchising can make a great team. Through IFA's Veterans Transition Franchise Initiative, known as "VetFran," 337 franchises have been sold to veterans and another 137 deals are pending. IFA also offers an annual veterans educational advancement scholarship.

IFA endorses the Veterans Self-Employment Act, which would allow more veterans to take advantage of the opportunities in franchising by allowing a veteran to apply a portion of his or her educational benefits to defray the portion of a franchise purchase cost attributable to training.

We understand that this legislation seeks to create a program that is not burdensome, but rather one that allows the greatest number of veterans to have access to the greatest number of franchise opportunities and we applaud that aim. As the process moves forward, we look forward to working with Congress, the Veterans Administration and other agencies to ensure that this legislation make more franchise opportunities available to veteran potential investors in an efficient, effective way for all stakeholders.

## **Introduction**

Chairman Boozman, Ranking Member Herseth, and other members of the Subcommittee, thank you for the opportunity to testify before you on the Veterans Self-Employment Act of 2005. I appreciate you holding this hearing Mr. Chairman and thank you and your staff for your work on this bill. And I would also like to thank Representative Baker and his staff for their work and for listening to our concerns and the concerns of veterans while producing this legislation. It is an innovative way to help veterans enter the world of franchising – to be, as we say, in business for yourself, but not by yourself.

My name is Matthew Shay and I am the President of the International Franchise Association (IFA). Established in 1960, the mission of the IFA is to safeguard the business environment for franchising worldwide. IFA is the oldest and largest franchising trade group representing over 1,000 franchisor, 8,000 franchisee and 400 supplier members.

## **The Impact of Franchising**

Last year, the International Franchise Association Educational Foundation released the results of an unprecedented study of the economic impact of franchising on the economy. What we learned was eye opening: Franchising is an enormous component of the U.S. economy.

This half-million dollar study conducted by PricewaterhouseCoopers found that the nation's more than 760,000 franchised businesses generate jobs for more than 18 million Americans (nearly 14 percent of the nation's private-sector employment) and account for \$1.53 trillion in economic activity (9.5 percent of the private-sector economic output).

In the counties that make up the 3rd Congressional District of Arkansas, Mr. Chairman, there are over 2,200 franchised establishments generating jobs for over 37,000 workers. And in the South Dakota, Ms. Herseth, there are nearly 2,500 franchised establishments providing jobs for over 54,000.

**The Contribution of 767,483 Franchised Businesses to the US Economy  
Indirect and Direct**

	Because of Franchised Businesses (indirect)	Percent of the Private Sector Economy (indirect)	In Franchised Businesses (direct)	Percent of the Private Sector Economy (direct)
Jobs	18,121,595	13.7%	9,797,117	7.4%
Payroll	\$506.6 billion	11.1%	229.1 billion	5.0%
Output	\$1.53 trillion	9.5%	624.6 billion	3.9%

**Direct Employment by Economic Sector**

Information	3,629,000
Construction	6,826,000
Financial Activities	7,807,000
<b>Franchised Businesses</b>	<b>9,797,000</b>
Durable Goods Manufacturing	10,335,000

**Impact of Franchising in the Counties of the Congressional Districts  
of Subcommittee Members**

Member of Congress	Congressional District	Franchised Establishments	Jobs
Rep. John Boozman	AR-3	2,235	37,401
Rep. Stephanie Herseth	SD-AL	2,500	54,000
Rep. Richard Baker	LA-6	2,323	39,976
Rep. Ginny Brown-Waite	FL-5	4,026	43,789
Rep. Lane Evans	IL-17	3,975	63,590
Rep. Darlene Hooley	OR-5	4,717	80,081

*Note on the data: All data are from 2001, the most recent year available.*

Clearly, franchising is a critical engine of economic growth. Over 75 industries utilize the franchise model for distribution of products and services: everything from the familiar restaurants and hotels to lawn care, tax preparation, personnel services, movers; the list goes on.

Even in economic downturns, franchising creates jobs. There are countless stories of people downsized from their companies who have chosen franchising as a way of becoming their own boss and controlling their own destiny.

## About Franchising

The terms “franchising” and “franchise” are often used interchangeably to mean a business, a type of business, or an industry. Strictly speaking, the “franchise” is the agreement or license between two parties which gives a person or group of people (the franchisee) the rights to market a product or service using the trademark and operating methods of another business (the franchisor). The franchisee has the obligation to pay the franchisor certain fees and royalties in exchange for these rights. In this sense, franchising is not a business or an industry, but it is a way of doing businesses.

There are two main types of franchises – product distribution franchises and business format franchises.

Product distribution franchises sell the franchisor’s products and are supplier-dealer relationships. In general, the franchisor licenses the use of its trademark to the franchisee but may not in all cases provide the franchisee with a system for running its business. Examples of product distribution franchises are soft drink distributors, automobile dealerships, and gas stations.

Business format franchises not only sell the franchisor’s product or service, with the franchisor’s trademark, but operate the business according to a system provided by the franchisor. Among other things, the franchisor also provides training, marketing materials, and an operations manual to the franchisee. There are many examples of business format franchises, including – quick service restaurants, automotive services, lodging, real estate agents, convenience stores, and tax preparation services, to name a few. The International Franchise Association represents business format franchising across this entire spectrum.

The typical franchise company (franchisor) will have establishments that are operated by franchisees as well as establishments that are operated by corporate employees. Over three quarters of franchised establishments are owned by franchisees. The remainder are owned by the franchisor.

One of the wonderful features of franchising is its diversity. As I mentioned earlier, over 75 industries franchise – everything from plumbers to realtors, florists to hoteliers. Likewise, franchisees come from all walks of life.

Franchise opportunities come in all shapes and sizes. For an initial investment of under \$32,000, one can launch a residential cleaning franchise. That initial investment includes a franchise fee of around \$9,000 with the rest being equipment purchases, lease costs, and so forth.

To open a quick service restaurant, the investment would be in the \$300,000 – \$2,800,000 range depending on whether the location was a mall food court facility or a freestanding facility complete with a playground and would include a franchise fee of

\$45,000 to \$50,000. To start a major, full service hotel, though, might require an investment of over \$70,000,000. The franchise fee in this range would be about \$85,000.

The training provided by franchisors is as diverse as the lines of business themselves, but can include material such as sales, costing and pricing, customer service, inventory control, regulatory obligations, quality standards, daily operational management, business computer systems. The training also likely will include education on specialized knowledge of the goods, services, policies, and practices of the individual franchise system.

### **Veterans and Franchising**

The IFA is not a newcomer to the idea that veterans and franchising can make a great team. In 1991, during the Gulf War, the IFA – under the leadership of board member Don Dwyer – launched the Veterans Transition Franchise Initiative, known as “VetFran.” Through VetFran, the participating franchise companies pledge to help qualified veterans acquire franchise businesses by providing financial incentives not otherwise available to other franchise investors. Veterans will get the "best deal" from these companies.

Through a Memorandum of Understanding with the U.S. Department of Veterans Affairs, with the cooperation the Veterans Corporation and the U.S. Small Business Administration, and with outreach initiatives to our country's military and veteran organizations, the program continues to expand.

When IFA testified last June on the Veterans Self-Employment Act, approximately 100 franchises had been sold through the VetFran program and 75 more agreements were in the pipeline. I am proud to say that a recent survey of our membership revealed that today 337 franchises have been sold through VetFran and another 137 deals are pending.

The number of participating IFA member franchise systems is growing as well. Last year, 139 companies were part of VetFran and today there are 162 participating companies.

Successful franchise agreements have been realized through companies such as Express Personnel Services, Geeks on Call, Glass Doctor, Kabloom Franchising Corp., Meineke Car Care Centers, Merry Maids, Mr. Rooter Plumbing, PostNet Postal & Business Services, and the UPS Store, just to name a few.

In a further effort to assist veterans, the IFA Educational Foundation and Michael H. Seid and Associates, LLC, last year established an annual veterans educational advancement scholarship. The program is designed to help veterans transitioning out of the military to achieve their dreams.

The 2005 award winner is Marine Corps veteran Johnny Fajardo. Fajardo served in Iraq as a Communications Specialist. After completing his tour of duty, he returned to his

family of four in Tucson, AZ, to a full-time job as a cable technician during the day, and to part-time studies at the Pima Community College. Fajardo is continuing his studies at the University of Phoenix, working toward completion of a bachelor's degree in business.

Fajardo plans to become an entrepreneur, to start his own business, and he says that he "is exploring all options, including franchising." Fajardo's parents both dropped out of school to come to the U.S. in search of a better life. Fajardo says, "I realize that if my parents had had a formal education they would have been very successful in their endeavors. I want to complete my education and build a better legacy for my children."

The 2004 recipient was Marine Corps Captain Nathaniel Fick, who is enrolled in a joint MBA program at Harvard University.

### **The Veterans Self-Employment Act of 2005**

The Veterans Self-Employment Act would allow more veterans to take advantage of the opportunities in franchising by allowing a veteran to apply a portion of his or her educational benefits to defray the portion of a franchise purchase cost attributable to training.

We understand that this legislation seeks to create a program that is not burdensome, but rather one that allows the greatest number of veterans to have access to the greatest number of franchise opportunities and we applaud that aim. As the process moves forward, we look forward to working with Congress, the Veterans Administration and other agencies to ensure that this legislation makes more franchise opportunities available to veteran potential investors in an efficient, effective way for all stakeholders.

As with any new proposal, we have some questions and concerns about how the program might function that we would like to note and to work with the Subcommittee and others to address.

As I mentioned earlier, franchising is an astonishingly diverse world, with training curriculum that is tailored to each particular concept. Therefore, due to the scope and diversity of the franchising sector – 75 industries – it would not be possible to create a standard franchise training program. For this reason, we urge that the new program be flexible enough to recognize the legitimate variations that exist in franchise training. We also hope that Congress will make clear its intent that this program is not intended to create a de facto standard for training requirements. While franchisors should be encouraged to participate in this program, that participation should be entirely voluntary.

Many franchise systems conduct centralized or regional training, which may require that prospective franchisees travel to the training location and be housed in hotels. We ask that such expenses be included in the training costs that the program would reimburse.

Another concern is that the program not create an entitlement to a franchise where none exists. We believe that Congress should be clear in its intent that veterans participating in



the program must be otherwise qualified to purchase a franchise according to the participating franchisor's requirements and standards.

We realize that the legislation leaves to the Secretary of Veterans Affairs discretion whether to approve franchisor applications to the program or to delegate such approval to the states. We appreciate that the bill also suggests that the Secretary consult with franchise representatives and we pledge to assist the Secretary in any way we can.

We strongly urge that Congress make its intent clear that these evaluation processes be sufficient to protect veterans and taxpayers while also being clear, simple and efficient enough to attract participation by the greatest number of franchise systems.

To give one example, if the Secretary retains authority to approve training programs, we urge that the process be similar to achieving Small Business Administration approval: that a franchisor can be placed on a VA registry so that approval is not required with respect to each franchisee's individual application. Similarly, should the Secretary choose to delegate evaluation of franchisor training programs to the state approving agencies, a franchisor should be able to satisfy the requirements of one state in order to allow participation by veterans of all other states.

We also would seek an approval process that would ensure that a franchisor's trade secrets and other proprietary information would not become part of the public record.

Another concern raised is the possibility of this program opening the door to federal regulation of franchising, which IFA believes is not only unnecessary, but which IFA believes would be unduly burdensome on an important segment of the private economy. Again, we understand this is not the intent, but Congress should clarify that point.

In conclusion, I would again like to thank you, Mr. Chairman for holding this hearing thank you Representative Baker for writing this bill. America's veterans deserve every opportunity to achieve the dream of business ownership and we believe that franchising will be the right choice for many of them.

Thank you and I would be happy to answer any questions.



**Matthew Shay**  
**President**  
**International Franchise Association**

Matthew Shay is President of the International Franchise Association. Since joining IFA in 1993, he has also served as Executive Vice President and Chief Operating Officer, Senior Vice President and Chief Counsel, as well as Vice President and Director of Government Relations.

Shay has represented IFA at legislative and regulatory proceedings at the federal and state levels, appeared on television and radio programs on behalf of IFA and been quoted in such publications as the *Wall Street Journal*, *Washington Post*, *Nation's Restaurant News*, *New York Times* and *Restaurant Business*, among others.

Shay is responsible for IFA's management, including finance and operations, membership development and marketing, communications, and legislative, regulatory and legal initiatives. He works closely with IFA's Board of Directors and leadership on strategic and policy issues affecting IFA and on other matters related to governance and structure of the association.

From 1988 until he joined the IFA staff, Shay served as Assistant General Counsel of the Ohio Council of Retail Merchants in Columbus, Ohio. He is a graduate of the Ohio State University College of Law in Columbus, Ohio, where he was a member of the Ohio State Law Review, and received his undergraduate degree at the Wittenberg University. Shay is also a graduate of the U.S. Chamber of Commerce's Institute for Organization Management and holds the designation of Certified Association Executive (CAE), which is conferred by the American Society of Association Executives.

IFA, headquartered in Washington, D.C., is the world's oldest and largest association representing the interests of franchising, with more than 1,000 franchisor members, 8,000 franchisee members and 400 franchise supplier members. The membership of IFA includes franchise systems operating in more than 75 different industries including, among others, the leading franchise systems in the quick service restaurant, hospitality, real estate and automotive industries.

For more information, please contact the IFA Media and Communications Department at (202) 628-8000 or visit IFA's website at [www.franchise.org](http://www.franchise.org).