

Women and Minorities in Franchising and Financing Practices

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The findings and recommendations in this report are those of the author(s) and do not necessarily represent the positions and policies of the U.S. Small Business Administration (SBA).

Survey of Women and Minorities in Franchising and Financing Practices

May 1999

I. Background

According to an SBA-sponsored research report released in 1993, women-owned businesses comprise about one-third of all firms in the United States, but only ten percent of all franchised businesses. Similarly, minority-owned businesses constitute nine percent of all businesses nationwide, but only five percent of all franchises. If franchising is accepted as an appropriate medium for increasing the participation of women and minorities in the business community, then there are serious discrepancies in the preceding relationships which need to be addressed.

The object of this research is to understand the underlying reasons for these discrepancies more clearly, with appropriate support of an analytical base. This research was designed to develop information in the following areas:

- The share of franchises owned by minorities and women for the most recent period.¹
- How women and minorities have succeeded in both growing and declining sectors which use franchising.
- Successful and unsuccessful financing practices in the franchise industries applicable to women and minorities.

Finally, the report will suggest public policy options to increase the share of minorities and women in franchising.

II. Survey Methodology

The Federal Trade Commission's (FTC) Trade Regulation Rule ("Rule") on Franchising and Business Opportunity Ventures (16 CFR part 467) requires that each franchise company offering franchises for sale must provide certain information about the franchise opportunity to prospective buyers. This information is provided to the prospective franchise buyer in a document called the offering circular or prospectus. According to the Rule, offering circulars must be updated annually by the franchisor to reflect all material changes in the system.

¹From 1975-1986, the U.S. Department of Commerce collected data on franchising, including the numbers of minority owners of business format franchises. The Department of Commerce ceased collecting franchise data in 1988 with the final publication of the agency's *Franchising in the Economy 1986-1988*.

The FTC does not review a franchise company's offering circular. Nor does the FTC require that the document be registered at a central location.

Twelve states require that a franchise company register its offering circular using the Uniform Franchise Offering Circular (UFOC) format with an agency of the state before selling any franchises. Examiners in these states (CA, HI, IL, IN, MD, MN, ND, NY, RI, SD, VA and WA) read the UFOCs and frequently ask the franchise company to clarify or provide additional information.

Twenty-three items of information are required by federal Rule and state law to be disclosed to a potential franchise purchaser. One of those items includes the name, address and phone number of all current franchise owners. In some states certain large franchisors are exempt from this requirement and may only have to provide a list of franchise owners in that particular state or in a specified geographic area.

Providing information concerning ethnicity or gender of franchise owners is not a requirement of either the federal Rule or any state franchise law. Therefore, in order to determine approximate percentages of ownership of franchised outlets by minorities and women, Women in Franchising (WIF) researchers used two different survey methods to collect the data.

First, to determine franchise ownership by gender, researchers utilized the lists of current franchisees contained in the franchise companies' offering circulars. Second, to determine franchise ownership by ethnicity, researchers developed a survey instrument which was mailed to franchisors in order to gather their responses.

Researchers were also interested in comparing gender and ethnic franchise business ownership by industry and investment cost. To determine industry categories and minimum initial investment costs, researchers used *The 1995 Franchise Annual*, a franchise directory published by Info Franchise News.

The Franchise Annual is updated yearly and includes, grouped by industry, investment costs and fees for both U.S. and Canadian franchise companies. To calculate the average initial investment cost for an industry, researchers used the minimum investment listed for each franchise company in the industry category.

Data was not collected for either the gender or minority studies for product / trade name franchisors (i.e., automobile and truck dealers, gasoline service stations and soft drink bottlers).

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A. Gender Study

Researchers traveled to two of the states requiring registration of the offering circulars by franchisors (Indiana and Illinois) to photocopy the current franchise owner lists. These two states combined have over 1400 franchise companies registered.

Franchise owner lists from 251 different franchise companies with registration dates during calendar year 1995 were used to determine gender for purposes of data collection (*See Exhibit A*).

Researchers manually reviewed each of the franchise owner lists to determine the gender of the current franchise owner. Each franchise owner was categorized into one of the following four ownership areas:

Female:	Female-only names are listed as owners or co-owners;
Male:	Male-only names are listed as owners or co-owners;
Female/Male:	Female and male names are listed together as co-owners;
Unknown:	Gender cannot be determined or when a corporation is listed in the offering circular as owner.

Researchers spot-checked male and female names to validate gender ownership. However, no attempt was made to determine the percentage of ownership of franchise businesses owned by Female/Male partnerships, i.e., 51% Female / 49% male. Nor did researchers attempt to determine the percentage of female-owned franchised businesses in the Unknown category.

By using the initial investment data in *The 1995 Franchise Annual*, researchers were able to determine the minimum initial investment required by industry category to purchase a particular franchise. This information was used to compare gender ownership with minimum initial investment costs within an industry category (*See Exhibit B*).

Out of the 251 companies in the gender survey, initial investment costs for 11 companies were not contained in *The 1995 Franchise Annual*. In some cases only the initial franchise fee was listed. In other cases costs such as inventory or land purchase were not included. As a result, the set of franchise companies used to calculate minimum initial investment costs in an industry category may be different from the set of companies used to calculate gender ownership in the same industry.

B. Minority Study

To determine the ethnicity of franchise owners, a survey instrument was developed by WIF (*See Exhibit D*). Researchers used a mailing list of franchise companies procured

from the *1995 Franchise Annual*. Utilizing this list, 3,385 survey instruments were mailed to U.S. franchisors between August 1, 1996 and September 30, 1996.

The survey instrument was designed to collect information on special financing programs for new franchisees as well as special financing programs for minorities and/or women. In addition, franchisors were asked to provide data on the ethnicity of the franchise owners and information on those women and minorities who had been either successful or unsuccessful in their franchise purchase efforts. Researchers contacted some of these individuals to conduct case study interviews.

In order to collect data regarding the financing strategies and methods in use by franchisors today, it was necessary to ask franchisors about their knowledge of successful and unsuccessful financing practices, especially as it relates to women and minorities. For purposes of this study, it was assumed that a successful strategy was one that not only enabled the purchase of the franchised unit, but also supported or had a positive effect on the ability of the franchised unit to remain open beyond the critical start-up phase.

The Minority Survey instrument was not designed to collect investment cost data. However, as with the Gender Study researchers used *The 1995 Franchise Annual* to determine both industry categories and initial investment costs.

Of the 358 companies that responded to the Minority Survey initial investment costs were available for 253 franchise companies. In some cases only the initial franchise fee was listed. In other cases costs such as inventory or land purchase were not included. Therefore, the franchise companies used to calculate minority ownership within a industry category will be different from those used to calculate minimum initial investment costs.

III. Reliability of Data

A. Gender Study

Researchers concluded that identifying a person's gender based on his or her first name as listed in the franchise company's offering circular has two drawbacks. First, many franchised businesses are owned by corporations. Second, many individuals' first names are gender neutral.

These drawbacks were mitigated somewhat by placing all franchise owners in four categories; Female, Male, Female/Male and Unknown. All corporate and gender neutral names were placed in the Unknown category.

Additionally, since the franchise chains chosen for the Gender Study were taken from franchise documents in two registration states representing only 42% of all franchise companies listed in the *1995 Franchise Annual*, the study cannot be confirmed to represent the entire franchise industry. However, by conducting studies over a number of years using the same methodology the results from each study can suggest changes that may be occurring in the franchise industry.²

Ethnic names were another obstacle faced by the researchers. In cases where the gender was not readily apparent due to the ethnicity of the name, researchers made spot-checks by telephoning franchisees to determine gender.

B. Minority Study

WIF staff mailed a minority survey form to each of the 3,385 U.S. franchisors listed in *The 1995 Franchise Annual*. Only 126 franchisors returned the survey form to the contractor within the stated time period. It is reasonable, therefore, to assume that some companies listed in the directory are no longer in business. However, researchers feel this alone cannot account for such a poor response rate.

Because there was such a poor response to the initial mailing, telephone calls were made to approximately 450 of the 3,259 franchisors who did not initially return the survey instrument. Researchers requested that the franchisor complete the survey and

² Since 1987 Women in Franchising, Inc. (WIF) has surveyed female ownership of franchised businesses using the methodology described on pages 2 and 3. The 1987, 1990 and 1994 data gathered by WIF is compared below with the 1995 data gathered for this *Survey*.

Year	Total	Female	Female-Male	Male	Unknown
1995	71,497	8.45%	15.53%	62.30%	13.34%
1994	42,552	9.72%	20.43%	60.81%	9.04%
1990	34,407	11.12%	23.95%	60.21	4.72%
1987	18,868	10.9%	20.0%	60.60	8.50%

The 1995 data suggests that there has been a decrease in women's sole ownership of franchised business when compared to previous WIF studies. The decrease may be explained by the fact that more female-owned businesses are incorporated and are now included in the "Unknown" column. However, the percentage of sole male franchise ownership of franchised businesses did not appreciably change. The "Female" numbers, however, continue a trend in previous WIF surveys which suggest that sole-female ownership of franchised businesses is decreasing.

This latest result is disturbing in light of the continual growth in the number of non-franchised women-owned businesses in the U.S. and the increasing number of franchised businesses opening in the U.S. each day. The data in this study suggests that women are not participating to their potential in the growth of franchised outlets.

return it via facsimile. As a result of these telephone calls researchers ultimately received an additional 232 survey instruments.

During these calls researchers found companies that were no longer in business, no longer franchising and some who stated that they did not want to participate in such a survey. In addition, researchers found franchise companies, through referrals, who were not in the initial mailing because they were not listed in the *1995 Franchise Annual*. These franchise companies were sent survey forms and twelve were returned.

The initial low franchisor response to the survey instrument suggests that the franchisor community has very little interest or motivation in providing information regarding women and minority franchise ownership. Of those that returned surveys, many chose to ignore the question of the ethnicity of their franchisees. Others stated that they either did not track such information, did not have it available or did not have the time to research and collect the data. At least one large multi-national franchise company contacted the U.S. Small Business Administration (SBA) directly to ask why these questions were being asked in a government-funded research project.

Further, many franchisors who returned the surveys appeared either to 1) not have understood the survey questions regarding ethnicity or perhaps 2) they were trying to send another message with their responses. For example, one franchise company responded that all of its franchisees were of Native American descent. Other respondents' answers indicated there were more ethnic franchisee-owned units than the total number of units for their entire franchise systems.

Researchers made telephone calls to franchisors to spot-check the validity of the survey responses. Through this process researchers were able to eliminate survey instruments that contained obviously erroneous answers in order to ensure the data used in this study was reliable.

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IV. Gender Study Results

In reviewing each franchise document researchers counted the number of units owned by gender categories. Researchers individually reviewed and counted 71,497 franchised outlets as listed in the documents and categorized the gender of the owner. After examining the franchise owner lists from 251 offering circulars, researchers found that women own 8.45% of the 71,497 units listed (*Exhibit A*). The remaining unit ownership is as follows: Female-Male partnerships, 15.53%; Male-owned units, 62.30% and Unknown, 13.34% (see *Chart 1*).

Sole Women's Ownership of Franchised Units					
251 Franchising Companies					
	Total	Female	Female-Male	Male	Unknown
1995	71,497	8.45%	15.53%	62.30%	13.34%

Chart 1

Further research is required to determine the number of units in which women are the majority owners in the Female-Male category. Additionally, in some industries the Unknown category has a higher percentage of ownership than any other category. For example, the Unknown category for Hair Styling & Cosmetics is 37%. It is also 37% for Accounting & Tax Services. For Motels, Hotels and Campgrounds the Unknown category is 77%. Such percentages tend to reduce the value of the data in those industry categories.

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Female Ownership By Industry: Highest Percentage

When grouped by industry, the 251 franchise companies in the Gender Study represent 33 industry categories as listed in *The 1995 Franchise Annual*. Two industry categories have a significantly higher than average percentage of women as sole franchise owners: Children's Products & Services (48.03%) and Travel (31.50%). Seven other industries report female-owned franchised units at 10% or more (see *Chart 2*).

Female Franchise Ownership by Industry					
Highest Percentage					
Industry/Avg. Cost	Total	Female	Fem./Male	Male	Unknown
Children's Prods. Svcs. \$59,571	1,066 100%	512 48.0%	305 28.6%	193 18.1%	56 5.3%
Travel \$57,000	1,381 100%	435 31.5%	42 3.0%	640 46.3%	264 19.1%
Acct. & Tax Svcs. \$19,433	1,651 100%	326 19.8%	112 6.8%	604 36.6%	609 36.9%
Health Aids & Svcs. \$75,029	1,890 100%	299 15.8%	185 9.8%	1,342 71.0%	64 3.4%
Business Prods. & Svcs. \$65,188	1,653 100%	245 14.8%	286 17.3%	835 50.5%	287 17.4%
Cleaning Prods. & Svcs. \$29,586	1,931 100%	237 12.3%	776 40.2%	692 35.8%	226 11.7%
Hair Styling & Cosmetics \$60,749	2,593 100%	295 11.4%	570 22.0%	765 29.5%	963 37.2%
Schools \$ Teaching \$110,033	1,161 100%	124 10.7%	240 20.7%	512 44.1%	285 24.6%
Employment & Personnel \$63,911	1,222 100%	122 10.0%	260 21.3%	556 45.5%	284 23.2%

Chart 2

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Female Ownership By Industry: Lowest Percentage

Women as sole owners of franchised businesses are least represented in Motel, Hotel & Campgrounds (0.91%); Automotive: Lubrication & Tune-up (1.35%); Automotive: Products & Services (1.38%); Automotive: Muffler Shops (1.50%) and Rental Services (3.30%) (see *Chart 3*). Note: The *1995 Franchise Annual* did not list initial investment costs for franchise companies in the Gender Study's Motels, Hotels & Campgrounds industry category.

Female Franchise Ownership By Industry					
Lowest Percentage					
Industry/Average Cost	Total	Female	Fem./Male	Male	Unknown
Motels, Hotels & Campgrds. ND*	439 100%	4 0.91%	7 1.59%	88 20.05%	340 77.45%
Auto: Lube & Tune-Up \$120,317	2,821 100%	38 1.35%	275 9.75%	2,077 73.63%	431 15.28%
Auto: Products & Svcs. \$76,540	2,390 100%	33 1.38%	188 7.87%	2,025 84.73%	144 6.03%
Auto: Muffler Shops \$105,667	1,066 100%	16 1.50%	217 20.36%	785 73.64%	48 4.50%
Rental Svcs. \$98,950	546 100%	18 3.30%	78 14.29%	415 76.01%	35 6.41%
ND*-Investment Data not available.					

Chart 3

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Female-Male Ownership By Industry: Highest Percentage

When women partner with men as franchisees, the industries in which they demonstrate the greatest percentage of ownership includes Printing & Copying Services (49.45%); Cleaning Products & Services (40.19%); Photo, Framing & Art (37.74%); Sports & Recreation (31.73%) and Food: Ice Cream & Yogurt (30.98%) (See Chart 4).

Female-Male Franchise Ownership By Industry Highest Percentage					
Industry/Average Cost	Total	Female	Fem./Male	Male	Unknown
Printing & Copying Svcs. \$147,167	2,012 100%	134 6.66%	995 49.45%	826 41.05%	57 2.83%
Cleaning Prods. & Svcs. \$29,586	1,931 100%	237 12.27%	776 40.19%	692 35.84%	226 11.70%
Photo, Framing & Art \$133,667	636 100%	38 5.96%	240 37.74%	205 32.23%	153 24.06%
Sports & Recreation \$108,850	1,459 100%	60 4.11%	463 31.73%	885 60.66%	51 3.50%
Food: Ice Cream \$144,000	4,145 100%	372 8.97%	1,284 30.98%	1,708 41.21%	781 18.84%

Chart 4

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Female-Ownership By Minimum Investment

Researchers were interested in determining if there was a total investment level at which franchise ownership by women either increased or decreased. When initial investment costs contained in *The 1995 Franchise Annual* were analyzed it was found that female franchise ownership generally decreased as the cost of the franchise increased (See *Chart 5*). In fact, 42% of all sole female-owned franchised units in the survey cost less than \$75,000.

Female-Owned Franchise Units By Minimum Investment					
Investment Cost	# Ind.	# Cos.	# Units	# Women Units	% Women-Units
\$0-\$24,999	3	8	2510	389	15.5%
\$25,000-\$49,999	4	29	3,643	356	9.8%
\$50,000-\$74,999	8	51	10,432	2,435	16.4%
\$75,000-\$99,999	4	34	9,537	720	7.5%
\$100,00-\$124,999	6	45	8,112	348	4.3%
\$125,000-\$149,999	4	20	7,181	567	7.9%
\$150,000-\$249,999	1	11	1,577	74	4.7%
\$250,000-up	1	4	27,805	1852	6.7%
Unknown	2	11	11,067	1,094	9.89%
Total	33	213	71,497	6,038	8.45%

Chart 5

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V. Minority Study Results

A total of 359 franchise companies responded to the Minority Survey (See *Exhibit E*). Eventually, 71 of these companies were deleted from this analysis. The 71 franchise companies were deleted due to one or more of the following circumstances:

- Twenty-two franchise companies listed zero or did not list franchised units or were not currently franchising;
- Eleven companies stated they did not keep data on minority franchise ownership;
- Ten companies did not complete the survey or gave no data;
- Fourteen companies had two or fewer franchised outlets;
- Six companies started franchising in 1996;
- Ten companies provided data that did not reconcile, i.e., the number of minority units equaled more than the total number of units;
- One company franchised internationally and was not franchising in the U.S.; and
- One company was actually a franchise consultant and not a franchisor.

Franchise Industries

The 359 responding franchise companies represent 42 of the 46 industries categories in *The 1995 Franchise Annual*. With the 71 franchisors who provided incomplete data eliminated, the analysis includes 288 franchisors in 40 industries (See *Exhibit F*).

In two of the industry categories, Beverages and Distributors, all of the returned surveys were eliminated. Franchisor surveys from Beverages (1) and Distributors (3) had no franchised units or did not provide the data.

Thirty-five (35) of the 40 industry categories chosen for analysis included two or more franchise companies. Five industries, Auto: Mufflers Shops; Rental Services; Retail: Clothing; Travel; and Water Treatment had just one company included in the analysis.

Initial Investment Costs

Using initial investment costs as provided by *The 1995 Franchise Annual* researchers calculated average minimum investment costs for each franchise industry having two or more franchise companies. Initial investment data was available for 253 of the 359 franchise companies utilized in the minority survey (See *Exhibit G*).

The 253 franchised companies which had initial investment costs listed in *The 1995 Franchise Annual* represent 39 industry categories. Four industries, Entertainment; Rental Services; Retail: Computer, Electronics & Video; and Travel had only one franchised company represented with initial investment cost data.

Survey Results

Tabulation of the respondents' answers reveal that 9.3% of the 53,053 franchised units listed were owned by minorities (See *Exhibit F*). According to respondents, African-Americans own the most franchised businesses with a total of 2,192 outlets (4.1%). Asian-Americans own the second highest number of franchised businesses with a total of 1,370 outlets (2.6%). Hispanic-Americans own 1,286 outlets (2.4%). Native Americans own the least number of franchised businesses with just 64 outlets (0.12%).³

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³ Using the methodology described on page 3, Women in Franchising, Inc. (WIF) surveyed minority ownership of franchised businesses in 1992 and 1993 under contract to the U.S. Department of Commerce's Minority Business Development Agency (MBDA). The 1992 and 1993 data is compared below with 1995 data gathered for this *Survey*.

	Total	Black	Hispanic	Asian/PI	Native Amer.
1995	100% 53,053	4.13% 2,192	2.42% 1,286	2.58% 1,370	0.12% 64
1993	100% 61,343	2.56% 1,572	2.16% 1,323	5.40% 3,313	0.15% 95
1992	100% 60,342	3.47% 2,095	2.32% 1,400	5.88% 3,548	0.13% 80

The 1995 data suggests no appreciable change in franchised business ownership for Hispanics and Native Americans. The 1995 data also suggests a slight upward trend in black ownership of franchised businesses and a significant downward trend in Asian/Pacific Islanders' ownership of franchised businesses.

Anecdotal evidence suggests there is a higher number of Asian owners of franchises in certain industries, i.e., hotels, motels and campgrounds. The lack of data from these and other sectors of business format franchising for the 1995 survey may explain, in part, the decline of Asian American franchise ownership as indicated above.

Minority Ownership By Industry: Highest Percentage

Respondents reported the highest percentage of minority ownership of franchises in the following industries: Cleaning Products & Services (19.2%); Carpet, Drapery & Upholstery Cleaning (18.8%); Laundry & Dry Cleaning Services (14.6%); Miscellaneous (14.3%); Printing & Copying Services (13.5%); Motels, Hotels & Campgrounds (12.6%); Food: Ice Cream & Yogurt (10.4%) and Food: Restaurant & Quick Service (10.3%) (See *Chart 6*).

Industries By Percentage of Minority-Owned Units			
Highest Percentage			
Industry/Average Investment	Total Units	Minority Units	% Minority Units
Cleaning Prods. & Svcs. \$22,744	5,644	1,080	19.2%
Carpet, Drapery & Upholstery \$8,500	133	25	18.8%
Laundry Dry Clean Svcs. \$87,167	636	93	14.6%
Miscellaneous \$52,825	2,608	374	14.3%
Printing & Copying Svcs. \$174,000	1,323	179	13.5%
Motels, Hotels & Campgrounds \$1,594,375	438	55	12.6%
Food: Ice Cream & Yogurt \$146,800	96	10	10.4%
Food: Rest. & Quick Svcs. \$291,356	23,917	2,468	10.3%

Chart 6

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Minority Ownership By Industry: Lowest Percentage

According to respondents, the industries in which minorities were least represented in the survey include Advertising/Publishing Services (0.0%); House/Pet Sitting Services (0.0%); Retail: Computers, Electronics (0.0%); Lawn, Garden Care & Florists (1.4%); Food: Convenience Stores & Specialty Shops (1.6%); Auto: Products & Services (1.8%); Schools & Teaching (1.9%); Auto: Transmission Repair (1.9%) (See *Chart 7*).

Minority-Owned Franchised Units			
Lowest Percentage			
Industry/Average Investment	Total Units	Minority Units	% Minority Units
Advertising/Publishing Svcs. \$16,250	544	0	0.0%
House/Pet Sitting Svcs. \$7,667	41	0	0.0%
Retail: Computers, Electronics \$ND*	49	0	0.0%
Lawn, Garden Care & Florists \$32,000	364	5	1.4%
Food: Convenience Stores \$116,000	1,048	17	1.6%
Auto: Prods. & Svcs. \$55,043	437	8	1.8%
Schools & Teaching \$64,100	432	8	1.9%
Auto: Transmission Repair \$98,000	265	5	1.9%

ND*-Investment Data not available.

Chart 7

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African American-Ownership By Industry: Highest Percentage

According to respondents, African Americans own the largest percentage of franchises in Cleaning Products & Services (11.09%); Food: Restaurant Quick Service (5.05%); Health Aids & Services (3.71%); Printing & Copying Services (3.30%) and Children's Products & Services (3.03%) (See *Chart 8*).

African American-Owned Franchised Units			
Highest Percentage			
Industry/Average Investment	Total Units	Afro-Amer. Units	% Units
Cleaning Prods. & Svcs. \$22,744	5,604	624	11.1%
Food: Rest.. & Quick Svcs. \$291,356	23,880	1,205	5.1%
Accounting & Tax Svcs. \$22,975	826	37	4.5%
Greeting Card Svcs. \$62,125	260	10	3.9%
Printing & Copying Svcs. \$174,000	1,323	47	3.6%
Miscellaneous \$52,825	2,608	88	3.4%
Food: Ice Cream & Yogurt \$146,800	96	3	3.1%
Children's Prods. & Svcs. \$35,100	1,096	33	3.0%

Chart 8

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Hispanic American-Ownership By Industry: Highest Percentage

Respondents reported that Hispanic Americans own the largest percentage of franchised businesses in the categories of Carpet, Drapery & Upholstery Cleaning (18.0%); Miscellaneous (8.7%); Automotive: Lubrication & Tune-up (7.9%); Printing & Copying Services (6.8%); Laundry & Dry Cleaning Services (6.8%); Sign Products & Services (3.0%); Food: Restaurant Quick Service (2.4%); and Cleaning Products & Services (2.2%) (See *Chart 9*).

Hispanic American-Owned Franchised Units			
Highest Percentage			
Industry/Average Investment	Total Units	Hisp. Amer. Units	% Units
Carpet, Drapery & Upholstery \$8,500	133	18	18.8%
Miscellaneous \$52,825	2,608	228	8.7%
Auto: Lubrication & Tune-up \$125,000	305	24	7.9%
Printing & Copying Svcs. \$174,000	1,323	90	6.8%
Laundry & Dry Clean Svcs. \$87,167	636	43	6.8%
Sign Products & Svcs. \$133,500	263	8	3.0%
Food: Rest. & Quick Svcs. \$291,356	23,917	578	2.4%
Cleaning Products & Svcs. \$22,744	5,604	123	2.2%

Chart 9

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Asian American-Ownership By Industry: Highest Percentage

Asian Americans have the highest percentage of franchise business ownership in the following industries: Motels, Hotels & Campgrounds (10.9%); Food: Ice Cream & Yogurt (7.3%); Laundry & Dry Cleaning Services (6.6%); Cleaning Products and Services (5.6%); Pet Products & Services (4.8%); Greeting Services (4.2%); Photo, Framing & Art (3.4%) and Printing & Copying Services (3.1) (See *Chart 10*).

Asian American-Owned Franchised Units			
Highest Percentage			
Industry/Average Investment	Total Units	Asian Amer. Units	% Units
Motels, Hotels & Campgrounds \$1,594,375	438	48	10.9%
Food: Ice Cream & Yogurt \$146,800	96	7	7.3%
Laundry & Dry Clean Svcs. \$87,167	636	42	6.6%
Cleaning Prods & Svcs. \$22,744	5,604	311	5.6%
Pet Products & Svcs. \$50,000	145	7	4.8%
Greeting Services \$62,125	260	11	4.2%
Photo, Framing & Art \$99,177	706	24	3.4%
Printing & Copying Svcs. \$174,000	1,323	41	3.1%

Chart 10

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Native American-Ownership By Industry: Highest Percentage

Native American franchisees have the highest percentage of ownership in Laundry & Dry Cleaning Services (0.6%); Automotive: Transmission & Tune-Up (0.4%); Cleaning Products & Services(0.3%); Motels, Hotels & Campgrounds (0.2%); Automotive: Products & Services (0.2%); Building Products & Services (0.2%); Home Furnishings (0.2%) and Photo, Framing & Art (0.1%) (See *Chart 11*).

Native American-Owned Franchised Units			
Highest Percentage			
Industry/Average Investment	Total Units	Nat. Amer. Units	% Units
Laundry & Dry Clean Svcs. \$87,167	636	4	0.6%
Auto: Transmission & Repair \$98,000	265	1	0.4%
Cleaning Products & Svcs. \$22,744	5,604	17	0.3%
Motels, Hotels & Campgrounds \$1,594,375	438	1	0.2%
Auto: Products & Svcs. \$55,043	437	1	0.2%
Building Products & Svcs. \$39,829	1,487	3	0.2%
Home Furnishings \$115,556	550	1	0.2%
Photo, Framing & Art \$99,177	706	1	0.1%

Chart 11

VI. Financial Assistance

Direct financial assistance was defined on the Minority Study survey instrument as 1) financing some or all of the initial franchise fee; 2) financing the entire turn-key operation over a period of X years; 3) equipment leasing through company or subsidiary; or 4) other. Indirect financial assistance was defined on the survey instrument as 1) providing a hard copy of a business plan; 2) providing computer software to prepare business plan or pro forma; and 3) offering introductions to friendly lenders or 4) other.

Of the 288 franchise companies whose data was tabulated for the survey, sixty-five (65) reported that they offered direct financial assistance to franchise buyers. In addition, 145 reported that they offered indirect financial assistance; 109 reported they offered no financial assistance; and 29 reported offering both direct and indirect financial assistance (See *Chart 12*).

Minority Franchises By Type Financial Assistance of Franchisor					
Type Financial Assistance	Number---- % Franchisors		# Number Units	# Minority Units	% Minority Units
Direct	65	22.5%	13,522	1,575	11.65%
Indirect	145	50.2%	34,733	3,470	9.99%
Both Direct & Indirect	29	10.0%	4,640	485	10.45%
None	106	36.7%	9,362	349	3.73%

Chart 12

Those franchisors who do not offer financial assistance have only 3.73% minority ownership in their systems while those that offer some form of financial assistance, direct, indirect or both, average over 10% minority franchise ownership. This result suggests that access to financial assistance is important to increasing minority ownership of franchised businesses.

VII. Financing Practices

The Minority Study survey instrument also asked for written responses from franchisors regarding women and minority franchisees who were either successful at securing financing to purchase their franchise or were unsuccessful in securing financing to purchase their franchise. The first question reads as follows: *“If you are aware of a “successful financing practice” used in the start up of a woman- or minority-owned franchised outlet in your system, please describe below. May we contact the franchisee described above?”*

Only 35 of the respondents provided an answer to this question. Of those responding 17 mentioned the SBA as a “successful financing practice.” One franchisor answered this question by stating that the SBA “should be more pro-active.” Examples of other responses include:

- “SBA loan.”
- “SBA Low Doc Loan.”
- “Third party SBA.”

Another franchisor’s response to this question sums up what researchers obtained from the case study interviews (See *Case Studies*, page 22) as it relates to women and minorities seeking financing for franchise purchases: *“Financing options are very limited. Traditional bank financing depends heavily on franchisee collateral. Venture capital financing generally not available for small franchisees. SBA loan guarantees the only avenue.”*. This franchisor did not list a successful franchisee purchaser to interview.

Only four (4) of 289 franchisors described a financing program that is internal to the franchise company. These programs are described as follows by the franchise companies:

- *“We finance the franchise fee 1/3 and \$2,500 of the supplies necessary to begin operation.”*
- *“...freedom program provides operating loan, computer system, subsidy, back office support.”*
- *“Our 24 week ‘taking flight’ program of marketing and advertising start up program...”*
- *“1)...finances 45% of the initial physical inventory 2) for second or more locations ...3) finances the store fixtures.”*

Just one of the above four franchisors listed a franchised unit owned by a minority.

The next question on the Minority Study survey instrument requiring a written response from franchise companies reads as follows: *“If you are aware of a woman or minority franchise applicant who was unable to obtain the franchise due to unsuccessful efforts to obtain financing, please describe below. What prevented the applicant from obtaining financing (e.g., lack of collateral, no business plan prepared, lenders unfamiliar with franchising)? May we contact the applicant described above?”*

Of the twenty three (23) respondents answering this question, twenty (20) stated that lack of collateral was the reason the franchisee did not obtain financing. A lender unwilling to make the loan was listed eight times. Typical of the responses to this question were:

- *Bank/SBA unwilling to lend small amount.*
- *Lack of collateral. Disqualified by SBA....owns receivable.*
- *A very capable women who had experience in our business was turned down by SBA because a service franchise (ours) lacked collateral.*
- *We have found that lack of collateral and "newness" of business has been a preventive factor for several women and minorities wanting to buy our franchise.*

Researchers were able to contact four individuals provided by franchisors as examples of those who were unable to obtain a loan to purchase a franchise. All four individuals were women, three of whom were minority (See *Case Studies*, following).

VIII. Case Studies

Case Study #1:

An African-American woman living in Kansas City, Missouri, attempted to purchase a children's physical education franchise as an addition to her 10-year old day care business. The upfront franchise fee for this franchise was \$30,000-\$40,000. Her total investment would have been approximately \$160,000. She was negotiating to purchase a building to house both her day care center and the new franchise. She needed the building in order to complete the deal to meet the bank's collateral requirement for her loan. During the time she was negotiating to buy the building, her bank was bought out by another bank.

The acquiring bank did not have a good reputation in the community. Other minority business people familiar to her had difficulties in dealing with them. In fact, she had tried to use the acquiring bank to open up a restaurant. At the time, they told her they were not interested in her project. In fact, a local television station did a piece on the acquiring bank regarding its lending money to whites but not to blacks.

Our case study example realized she would be faced with the same obstacles from the acquiring bank--again. She decided therefore not to proceed with the acquisition of the building--and the franchise.

Case Study #2:

An African-American female living in a southern state purchased a retail bicycle sales franchise in May of 1994 but didn't open it until October of 1995 because she couldn't find financing. To have enough money to purchase the franchise she took out a second mortgage on her house which netted her \$17,000 and used another \$25,000 from her retirement savings.

The upfront franchise fee was \$15,000. She used an additional \$27,000 to open the store. The franchisor typically requires \$65,000-\$75,000 to open but the franchisor assured her she could open with less. She decided to open the business without additional bank financing because she had already given the franchisor \$15,000 and she was living off of her savings. She figured she would be able to get a loan easier after the business was in operation.

After opening she wrote a business plan, phoned her bank to be sure she had all the components they would require to review her loan application. She also completed paperwork for an SBA guarantee on the loan. Then she went to the bank to see the loan officer. He saw her. He had her sit in the outer office for over thirty minutes. A clerk was sent to tell her they couldn't do the loan. Case study #2 feels it was blatant discrimination. "This is the south. This is good old boy land," she said.

She knows that if her husband didn't have his job, she'd have been out of business a long time ago. Every penny she makes goes back into the business. Its very difficult for her to stock the store with an appropriate amount of inventory. Customers don't want to hear, "I can order it for you." She hears from other franchisees that if you open with enough money you'll make it, otherwise you'll struggle. The franchisor has not assisted with locating financing. She thinks they're too busy opening other stores. She says that they're going international now, too.

Case Study #3:

An African-American female living in Pennsylvania attempted to get financing to purchase two different home-based franchised businesses over the past few years. She tried local programs and the SBA and was turned down by all.

For example, to purchase the first home-based franchise she needed \$25,000. She applied for an SBA-guaranteed loan through the Low Doc program. She got the standard letter, stating she did not have enough collateral. A friend of hers lent her the money, she purchased the franchise and is operating it although she doesn't like the business. She has the franchise listed with a business broker.

She read about the second home-based franchise in a magazine article and decided she would like to pursue that opportunity. She went to the Harrisburg Capital Regional

Economic Development Corporation (CREDC) and also went back to her bank to apply for an SBA-guaranteed loan. Because she is self-employed they wanted a co-signer.

Previously, Case Study # 3 had owned an ice cream and sandwich shop business for ten years. She was named "Rookie Businessperson of the Year" in her community for her outstanding growth. She recently found a retail ice cream franchise that had 3 owners over 12 years but was currently closed. The master franchisee and she made an arrangement whereby she is now running the franchise, keeping the proceeds and paying all the bills. She has signed an agreement with him that says the business is hers but the franchise paperwork has been held up for some reason.

She is still trying to sell the first home-based franchise she bought and pay off her debt to her friend. She stated, "What it comes down to, anything that I've done to get into business has been lines of credit or personal loans. No bank loans. No non-bank lending or women's business programs. You don't want to point fingers at the bank, but because I'm a woman and African American..."

Case Study #4:

An English woman moved to Canada with her husband and together they bought an upscale retail furniture franchise 15 years ago. She sold both her home in England and her car to buy the franchise. In their third year in business they secured a bank loan for \$150,000. Six months after making the loan the bank decided furniture was a bad risk and pulled the loan. They fought with the bank, were in every other day to pay down the loan and ended up maxing out their credit cards to totally pay off the bank.

Ten years ago she and her husband divorced. Three years ago she tried to get a bank loan on her own. She stated to the researcher, "Gender discrimination is worse in Canada than in the states. Women loan officers are often the most rigid."

After fifteen years of being in business she grosses over \$1,000,000 a year, yet her franchise still has not been able to secure bank loans. She believes in the adage that if you want to borrow a dollar you'd better have two. "I've learned not to need banking and if anything happens, you still have your credit cards--there's \$20,000 if you need it. The killer is interest. But if it keeps you alive, it keeps you alive."

To open this particular retail furniture franchise requires approximately \$250,000 cash. An additional \$150,000 is needed for inventory. "The franchisor is not up front about this at all," stated the interviewee, "Where's our money, thank you, and then they left us."

Case Study #5:

An African American female in Washington state successfully secured an SBA guaranteed loan from her local bank to buy a retail bagel franchise. The total investment was \$262,000. She got the loan by using her mother's home as collateral. The franchise fee was \$30,000, \$10,000 of which was paid to the franchisor. Her attorney wrote into the franchise agreement that the remaining \$20,000 wouldn't be paid until the lease was signed on her location.

She wrote a business plan with the help of a man from the University of Washington's Business and Economic Development Program. She wrote the plan first, he gave her some tips and then took an interest in her because he thought she had all the ingredients to put the deal together.

The franchisor suggested she go to AT & T Small Business Lending but she didn't feel comfortable there. She felt the loan officer was condescending. Her mother's investment broker went with her to different banks in the area. He knows her character and is well-established in the area. They found a female loan officer at the bank that eventually closed on her loan that she feels has truly been her champion.

She says, "I'm not a success story because I wouldn't have been considered for the loan if not for my mother's backing. I simply wouldn't have gotten the money." She is also confused as to the purpose of an SBA-guaranteed loan. "My impression and my mother's impression was, if you have a good business plan, the SBA will finance. That's just not true."

She is equally as confused about the purpose of an SBA loan. "The green SBA flier says for the minority and women pre-qualification program you must have 25% down and at least 51% ownership. We are putting in over 50% cash down and both me and my mom signed personal guarantees. I really had a different impression of the SBA. We thought if you have a good business plan, the SBA will finance."

In addition to the house as collateral the bank is the beneficiary on her \$130,000 life insurance policy.

During the time the bank reviewed her loan application, the most recent financial statement from the franchisor showed a \$3,000,000 loss. In addition, five franchises turned over. The bank felt the company had enough stock to cover the losses.

Case Study #5, however, felt that the company's officers were feeling a cash crunch back at the home office. She was increasingly pressured during this time to pay the remaining \$20,000 balance on her franchise fee before the lease was signed. "They must need the \$20,000," she told the interviewer.

Case Study #6:

A white female in New York state bought her maid service franchise in April of 1996 and opened in June of 1996. She worked in the corporate world for seven years prior to purchasing her franchise. She had problems finding her own cleaning person and decided this might be a business she could own and operate locally. She called a number of maid service franchises but let their information packages sit under her bed for a year. Her company relocated and offered her a severance package which prompted her to re-visit buying a maid cleaning franchise.

She went to the local Small Business Development Center (SBDC) after reading a newspaper article about how they had successfully helped another start-up entrepreneur. She believes she would have had a very different experience if she had not gone to the SBDC.

She received help with the business plan but she had to write it herself. She and her counselor at the SBDC decided she needed \$60,000 to open her maid service franchise. She went to a bank recommended by the SBDC, worked with a female loan officer and got a 5 and 1/2 year bank loan with an SBA guarantee for \$42,000. She invested \$18,000 of her own money. Her interest rate is prime plus 1 3/4%. She believes her franchisor now recommends potential franchisees to use AT & T Small Business Lending.

“In the beginning, things are hard, staff is late, business is slow, I didn’t feel like I was getting the support from the franchisor I thought I should get. When I called as a prospective franchisee I got callbacks immediately. When I called back as a franchisee, they weren’t as quick to call back. I had to leave messages,” she said.

All that has changed. She has blown all of her projections away. She currently does \$10,000+ per week. Her original projections didn’t have her grossing that much at the end of her third year in business. “Few other [franchisees] do what I do now. And there a lot of [franchisees] that do a lot more than me. I’ve gotten a lot of awards for [achieving this level of] revenue so quickly.”

Case Study #7:

A white female in Bozeman, Montana has owned her signs franchise since August of 1995. It took her over 4 years to “get the guts to do it” as she said to the interviewer. She looked into 3 or 4 other sign company franchises in addition to the franchise she bought although she says that her franchisor was really persistent with her.

She determined she’d need \$91,000 including furnishings, fixtures and equipment, tools, supplies, training, build-out, insurance, grand opening expenses and \$10,000 for working capital. She wrote the business plan by herself. She visited with an

entrepreneur who owns almost all the small businesses on her street and he helped her out with general business advice.

Her future franchisor put her in touch with AT & T Small Business Lending. She sent them her business plan. AT & T conducted a couple of phone interviews with her to verify her projections. She told the interviewer that she had called “a ton” of different franchisees and used averages in her projections. She was approved within three weeks.

Business is going very well for her. She is able to pay her loan the day she gets the statement. In her first year she was slightly under projection, but in the second and subsequent years she has exceeded her projections. She invested 30% of the total project costs or \$27,750. Her loan was for 7 years at 11% interest.

She credits the gentleman that owns all those local businesses for getting her mentally ready for the consecutive 20-hour days she would be working early on in establishing the business. She worked the store by herself for the first year and a half in order not to take on additional debt.

She also credits the franchisor. “They’re not in your hair. They let you do your own thing.” When she had to have knee surgery the franchisor sent out an employee for a week to run the franchise while she was in the hospital. “And our regional manager is a wonderful lady. She goes way beyond the call of duty. I just love her to death. We’re just one big happy family.”

IX. Conclusions and Recommendations

A. Conclusions

Conclusion 1:

The data gathered in this study suggests that overall, women and minority franchise business ownership is not increasing proportionately as the ownership of non-franchise businesses is increasing for both groups. In fact, the data suggests that women’s ownership of franchised businesses may be decreasing while minority franchise ownership is stagnant.

Conclusion 2:

The impediments typically given as reasons for the lack of business ownership by women and minorities, i.e., lack of capital and lack of collateral, are the same reasons given by franchisors for why both women and minorities are unable to obtain franchised businesses.

Conclusion 3:

Data from the Minority Study described herein suggest that financial assistance from the franchisor, either direct or indirect, is important for those minorities obtaining franchised businesses. Franchisors who offer direct financing have a 12% minority ownership rate while those who offer no financial assistance have a 4% minority ownership rate.

Conclusion 4:

Data from the Gender Study indicates that women have a higher percentage of ownership in those franchises that cost the least amount of money. Forty-two percent of all women-owned franchises in the study had minimum initial investment costs of less than \$75,000.

Conclusion 5:

Based on the responses received on the Minority Study survey instrument it appears that franchisors see the SBA as “the” program for women and minorities in their efforts to purchase franchised businesses. Of all the franchisors in this study who indicated that a woman or minority had been successful in purchasing a franchise, half (50%) used the SBA. Not one franchisor indicated that a purchase by a female or minority was successful after having been turned down by the SBA.

Conclusion 6:

While this study was not intended to determine the gender of minority franchise business owners it is interesting that of all the examples given by franchisors of women or minorities who were unsuccessful in purchasing a franchise that none were male minorities. Ninety-five (95%) percent of all examples provided of minority franchisees who were either successful or unsuccessful in obtaining financing were females, not males.

Conclusion 7:

According to respondents, collateral seems to be the chief impediment to women and minorities in obtaining franchised businesses. This may also explain why there is no statistical difference in minority franchise ownership between the group of franchisors who offer direct financing assistance (12%) and the group that offers indirect financing assistance (10%).

Conclusion 8:

Because there is no requirement at either a federal or state level to track either gender or ethnicity of franchised business owners, researchers lacked consistent data gathered over an extended period of time to analyze the increase or decrease in female or minority ownership of franchised businesses.

B. Recommendations

A. The Department of Commerce should resume the collection of data to identify franchised business ownership by gender and ethnicity through the census gathering process.

B. Each new franchise purchaser should be required by the Department of Commerce (or other federal agency) to return a short form, on a confidential and anonymous basis, identifying their gender and ethnicity for tabulation purposes.

C. A more comprehensive study should be commissioned to determine gender ownership of those franchises listed as corporations and/or those listed as owned by Female-Male partnerships.

D. The SBA should improve its efforts to aid women and minorities to purchase franchised businesses by providing guarantees for non-traditional, non-secured loans to those women and minority franchise prospects who meet all other criteria.

E. The SBA should expand and/or redirect its micro-lending program to provide more loans for women for the low-cost franchised businesses that they seem more likely to purchase.

F. The SBA should develop lending policies that encourage franchisors to provide some form of financial assistance to women and minorities. This could be in the form of loan guarantees for any unsecured amount loaned to the prospect after the franchisor has provided some financing.

G. A study should be commissioned to identify franchisors with high numbers of women and minority franchisees to determine why they are successful. The SBA could provide incentives to franchisors who replicate similar successful programs in their chains.

H. A study should be commissioned to determine the number, ethnicity and gender of franchise buyers, their rate of success in obtaining franchised businesses and their ability to stay in business during a ten year time period.

EXHIBIT A (Not available in the PDF version)

Gender Study Results

EXHIBIT B (Not available in the PDF version)

**Gender Franchise Ownership
By
Minimum Initial Investment**

EXHIBIT C (Not available in the PDF version)

**Gender Franchise Ownership
By
Industry**

EXHIBIT D (Not available in the PDF version)

**Minority Study
Survey Instrument**

EXHIBIT E (Not available in the PDF version)

**Minority Study
Tabulation**

EXHIBIT F (Not available in the PDF version)

Minority Study Results

EXHIBIT G (Not available in the PDF version)

**Minority Franchise Ownership
By
Minimum Initial Investment**

EXHIBIT H (Not available in the PDF version)

**Minority Franchise Ownership
By
Industry**