



Michael H. Seid & Associates, LLC

Franchising Basics

Understanding the Franchise Relationship
Diversity - Franchise Opportunities In
The Emerging Markets

West River Self-Help Investment Plan

Immanuel Missionary Baptist Church
November 26th, 2002

The Facts

The research quoted in this report is drawn from:

- The Boston Consulting Group
- Price WaterhouseCoopers
- Initiative for a Competitive Inner City
- International Franchise Association
- Neighborhood Franchise Project (LISC)
- Michael H. Seid & Associates

How big is the market

There are approximately 8 million households in Americas emerging markets

How big is the market

Annual retail sales in the emerging markets are approximately \$85 billion dollars

How big is the market

That's in addition to approximately \$15 billion dollars in unrecorded legal activities

How big is the market

The opportunity in the emerging markets is larger than the entire retail market of Mexico

How big is the market

That's approximately 7 percent of the total retail spending in the United States

How big is the opportunity

Approximately 25% of the entire retail sales in the emerging markets is not provided by inner city retailers

in some markets it's as high as 60%

How big is the opportunity for franchisors

- 30 percent in Boston
- 40 percent in Chicago
- 60 percent in Harlem

How big is the opportunity

\$21 billion in retail purchases made by inner city residents are leaking out of the market to surrounding areas

Why does the opportunity exist

- Lack of branded retailers
- Low quality offerings
- Higher prices than in suburban markets

What does it mean for franchisors

The density of population in the emerging markets means that buying power per square mile can be as high as six times that of the surrounding areas

What does it mean for franchisors

Since the leakage already exists

AND

The existing competition is poor

The potential for branded franchisors is
even greater

The myths that some franchisors believe

- Poor and can't afford our products
- Crime is too high
- Labor is unavailable and untrained
- There are no minority franchisees that meet our requirements
- Can't achieve our quality standards
- Our products won't sell to these customers

The facts - Ability to purchase

- Branded retailers in the market report higher than average square foot sales
 - ◆ Grocery - Pathmark in Bed Sty and Newark - Super Stop and Shop in Boston
 - ◆ Drug Stores - Rite Aid and Duane Reed - in Harlem
 - ◆ Kmart - Oakland and Boston
 - ◆ Foot Locker - Harlem
 - ◆ Sterling Optical - Harlem

The facts - Crime

- Internal - Shrink
 - ◆ Requires planning in store design and technology
 - ◆ Requires management control
 - ◆ Requires neighborhood employees
 - ◆ Requires community ties
 - ◆ No different strategy than in traditional markets
 - ◆ Shrink can actually be lower if managed from the start

The facts - Crime

- External
 - ◆ More of a perception than a reality
 - ◆ Crime rates have dropped dramatically
 - ◆ Requires store design, relationship with community and law enforcement
 - ◆ Requires management control
 - ◆ Requires neighborhood employees
 - ◆ Requires operational excellence
- Fiesta Mart - no armed robberies in 25 years

The facts - Labor

- The available labor is already working and traveling outside of the market
- Unskilled labor more a perception than a reality
- Requires human resource management and training - no different than traditional markets
- Government and local trained labor pools
- Language skills are an advantage - staff speaks the same language as the customers
- Cultural affiliation

The facts - Available Franchisees

- Requires some rethinking on the part of franchisors
 - ◆ It's a different pool of opportunities
 - ◆ Rapidly growing minority population
 - ◆ Rapidly growing middle class
 - ◆ Hispanics
 - ◆ African Americans
 - ◆ Asians
 - ◆ Other immigrants and second and third generation

Available franchisees

- Requires partnering, innovation and different techniques
 - ◆ Community Development Corporations
 - ◆ Other community groups
 - ◆ Joint ventures
 - ◆ Commitment
 - ◆ Local discovery days - with education on what is franchising

MLK Economic Development Corporation

■ Milwaukee

◆ Ponderosa Steak House

- ◆ Total investment over \$1 million
- ◆ Required \$375,000 initial investment
- ◆ Locally based franchisee - with equity and \$75,000 cash - 80% equity and debt guarantee
- ◆ MLK - \$300,000 cash - 20% equity
- ◆ Balance bank and other financing

MLK Economic Development Corporation

- Franchisee funding - from personal and business assets
- MLK funding
 - ◆ Corporate assets
 - ◆ Bradley Foundation
 - ◆ City contribution
 - ◆ HUD Grants
 - ◆ LISC
 - ◆ Other Foundations

MLK Economic Development Corporation

- Commitment and change from Ponderosa
 - ◆ Design changes for local conditions
 - ◆ Localization of some products
 - ◆ Evaluate change in criteria for parking due to market conditions
 - ◆ Increased support provided
 - ◆ Worked with community and franchisee
 - ◆ No change in quality or consistency standards

The New York Model

- Locally based franchisee
- Locally based CDC
- Joint venture franchise
- Earn out of equity
- Back of house support
- Commitment to community
- No change in economic relationship
- No change in quality or consistency standards
- Modifications of product to market conditions
- Commitment - modification to support and training
- Modification to marketing to meet local conditions

Quality Standards

- Franchisors need to learn to be better - they'll need to
 - “Across all product categories, inner city customers are more selective and customer service oriented than the average shopper. They are looking for more information and help from sales associates in the store” BCC

Product Mix

- Tailor the product to the market

Franchisors are already doing this in their international markets and should be already doing it for their traditional domestic markets if they are to remain competitive

Product Mix

- Understand the preferences in the micro markets and tailor the offering
 - ◆ Requires initial research and understanding
 - ◆ Requires state of the art information technology
 - ◆ Might account for up to 10 percent of offering but usually substantially less
 - ◆ Franchising has advantages over large chains with employee management

Product Mix

- Tailored to fit the budget
- Tailored to fit consumer preferences
- Tailored to meet brand preferences

Inner city markets are more brand conscious than traditional markets
- equate brand with quality

Product Mix

- Changes should be considered in
 - ◆ Styles
 - ◆ Sizes
 - ◆ Uniqueness
 - ◆ Products
 - ◆ Menus
 - ◆ Credit terms

Product Mix

- The markets are not fungible
 - ◆ Larger size clothing in African American markets to meet teenage consumer demands
 - ◆ Bright colored apparel in Hispanic markets

Greens, rice, condiments, spices, ethnic preference - the same as franchisors are already doing internationally?

Advantages

- Saturation and Opportunity
 - ◆ Traditional markets are well developed and may be saturated
 - ◆ Emerging markets want brands and are ready and willing to buy

Advantages

- Strategically located near downtown - mainstream markets
 - ◆ Perfect for service businesses that can service main stream markets
 - ◆ Customers are already traveling great distances to get your products and services outside of the market - capture brand recognition

Advantages

- Strategically located near existing support infrastructure
 - ◆ Distribution
 - ◆ Field Support
 - ◆ Leverages off of market critical mass established in existing markets

Advantages

- Real estate availability
 - ◆ Large tracts of undeveloped or underdeveloped property
 - ◆ Assemblage can be lower than traditional markets
 - ◆ Often owned by community groups
 - ◆ Often distressed ownership
 - ◆ Government assistance or development

Advantages

■ Labor

- ◆ Higher than average unemployment
- ◆ May not be cheap but its no more expensive
- ◆ Training available for labor from government and not-for-profits means a significant portion is trained

Advantages

- Government programs
 - ◆ Tax credits
 - ◆ Tax free bonds
 - ◆ Depreciation advantages
 - ◆ Training programs
 - ◆ Other economic assistance

Next steps

- Assemble local CDCs and community groups
- Work with government agencies
- Work with minority agencies and associations
- Work with the International Franchise Association
- Get assistance from those who have done it - successfully
 - ◆ Franchisors committed to markets
 - ◆ Non franchisors who are willing to franchise
 - ◆ Professional advisors

The available opportunity for franchisors - even without growth - is larger than the entire retail economy of Mexico

and

Each community controls the opportunity franchisors want and need

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