

The Challenges of Entering Inner-City Neighborhoods

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With saturation in their traditional markets, the emerging markets offer some real opportunities for franchise systems today. Saying that, is penetration of the emerging markets easy? Are companies guaranteed successes if they open locations there? Hardly.

Not every company will do well in the emerging markets any more than every company will do well in the “traditional” markets. First of all, there is no such thing as a single profile for any of the emerging markets. They are not fungible and companies need to understand that ethnic backgrounds, consumer preferences, economic conditions, local competitors, real estate, community support, among a host of other variables must be evaluated.

But a strong opportunity exists. There is a rapidly expanding minority middle class with a dramatic increase in the number of African American, Hispanic, Asian and new immigrants entering the workforce and achieving management positions and wealth. Working with clients and government in establishing emerging market opportunities my firm uses a tool called a “leakage analysis” to measure local demand for products and services. Our studies often find for certain products and services some emerging markets often have higher sales potential than suburban markets.

If the demand is there, why are these markets still relatively underdeveloped for branded retailers and service providers? The answer is really quite simple. Other opportunities seemed better. Expansion was booming and except for the fast feeders, most branded chains took the easier path and avoided the inner cities. Companies also avoided these markets because of the perceptions, the fear of crime (which has dropped dramatically as the economy has improved), possibly some underlying bigotry and a reality that potential franchisees for these opportunities were not as easily available as in the suburbs. The markets also suffered from lack of available capital, higher insurance rates, and a perception of lower sales and profitability.

Times have changed. Because of the strong economy of the past several years’ (GOD bless the Republican Congress) minority franchisees are coming at a time when franchisors are actively seeking new prospects as many traditional candidates are electing to stay put in their well paying and safe jobs. Some of these “new” candidates live in the markets and because of the huge opportunity are choosing to invest in the areas in which they live.

For some franchisors the transition will not be easy. They have to shake off any preconceived notions about the emerging markets including an assumption that all of the inner cities share the same attributes. Making the assumption that consumers universally want the same thing is as silly as assuming that residents in Paris Texas purchase in the same way as residents of Paris France. Product and services may have to change somewhat to meet local consumer preference. There may be language and cultural differences and these differences will not only have an impact on their local marketing, and local marketing messages, but will also have an impact on local signage, local recruiting, training, operations manuals, etc. To be successful, some modification of the franchise and local offering may be necessary to meet the needs and desires of the community.

There are other barriers that may need to be overcome. Investment in headquarters and field support program that might include additional levels or different types of support to the local

franchisees may be required. Increased spending on research and development to understand local community needs, establishing relationships with local community organizations that can help support their efforts, developing advertising campaigns that have different message – not just a different language are also essential.

Recruiting qualified franchisees may require some modification to traditional methods and some franchisors are marrying available capital with locally based franchise candidates. But, this does not mean lowering selection standards or standards set for operating under the brand. It also does not necessarily mean changing the economics of the relationship. The emerging markets don't need charity they need opportunity and the essence of the relationship has to rest on its economic viability for all parties. Changing system standards to penetrate these markets is not only unnecessary; it may be counterproductive to a successful long-term relationship.

The emerging markets can be the next great gold rush for business. Companies are beginning to realize that improving diversity is not only important to their brand but also essential to their competitive base and bottom line.

Be open to the opportunities. Understand the issues. Understand the diversity. Modify the offering. Provide the proper level of support. Most importantly, treat the markets with respect. Making the investment required may not be easy, but it is essential.