

The Inner City and Franchising - Where are we now?

By: Michael Seid

A few months back you wrote about a project you were leading which involved placing franchises into inner cities. What is the status of the project?

The project you are referring to is the Neighborhood Franchise Project. The program is sponsored by Bankers Trust Company and the Local Initiatives Support Corporation and is designed to selectively introduce franchised operations into five markets in Brooklyn, Manhattan and the Bronx. Much has been accomplished over the last few months and the participants are in the process of finalizing the selection of the franchise systems which will be participating.

The franchise selection process is based on a leakage analysis, similar to those we use in deciding product and service mix in emerging markets internationally. By analyzing the market's dynamics, we are able to determine products and services which have high consumer demand, but local suppliers are either inadequate or non-existing. This excess demand - the "leakage" - forces local residents to travel outside of their neighborhoods to make basic purchases. It is this determination that has made the Neighborhood Franchise Project an exciting opportunity for the franchisors selected to participate.

As the analytical work was completed, we met with local community representatives to verify our findings and to prioritize the opportunities factoring in the neighborhood's preferences. Based upon those meetings, we further reduced the initial targets to fifteen industries including Dry-cleaning and Laundromats; Sports Equipment, Video Rental; Pharmacy; Printing; Postal and Mailing services; Shoe Repair; Optical Suppliers; Automotive Aftermarket; Frozen Desserts; Health and Fitness; Family Dining; Niche Quick Service Restaurants; Apparel; and Books. In November we issued invitations to a selected group of franchisors in ten of the categories. Over 120 franchisors had requested participation in the program and had provided us with brochures and UFOC's. The information we received will be kept for review as we expand the program into other markets.

To begin the process of determining which franchise system to introduce into the markets, we provided each of the franchisors in the categories selected copies of the market studies we had developed together with photographs of the neighborhoods and other background information. We also sent the franchisors a due diligence questionnaire on their franchise system which we asked them to complete and return. Prior to meeting with the franchisors we reviewed their UFOC's, the completed questionnaires and performed other preliminary due diligence on the program.

While the information contained in the standard disclosure document is important and extensive, most of the UFOC's we reviewed were still inadequate to allow us to make a preliminary decision on the capabilities and integrity of the franchise systems. The due

diligence questionnaire probed into issues including field staff to unit ratios, the system's experience in minority and inner city markets, its approach to minority marketing, product development and product changes required, the depth of its training and headquarters support programs, its information technology capabilities as well as questions relating to management's plans for the system and the overall health of the franchise network.

Based upon the information received we invited the franchise systems which had met the programs standards to meet with us in New York, continue our discussions, tour the markets, meet with the local community participants and ensure that the interest to continue was still mutual.

The reaction from the franchisors who met with us in New York has been outstanding. Uniformly they have been impressed by the lack of competition for their system's product or service. They have also been impressed by the strength of the local market demand. Even with lower per capital income, the overall spending power in the markets for their particular products and services was high. The visits confirmed the findings in the leakage analysis, validated our approach and gave them the comfort necessary to move forward.

One of the printing franchisors was startled to find that with major court buildings and resultant support and ancillary professional offices in the surrounding neighborhood there were no local printers and the only in-market competition came from a 25 cent per copy photocopy machine located in a candy store. The President of one of the leading family dining chains had a similar reaction when he recognized that not one national chain had entered the market to serve the lunch and dinner requirements of the lawyers and other professionals, let alone the dining requirements of the local residents.

During the next few weeks we will be visiting the headquarters of the franchisors to finalize our due diligence and complete the selection process. In the meanwhile, the program will begin to match franchisee candidates with the franchisors. The franchisor will then review the candidates and when their process is completed, the development of the first of the initial twenty five planned locations will begin.

While the New York project has been progressing, we have begun similar initiatives in New Haven, Bridgeport, Hartford and Philadelphia as well as supporting an independent project in Los Angeles. Because of the importance of the initiative, the effect franchising will have on the selected markets and our belief that the window to achieve maximum results is now, we have been coordinating the strategy on a pro-bono basis. Working with HUD, the IFA, local and state government agencies and several universities including Yale in New Haven and Temple University in Philadelphia we are taking the lessons learned in New York and applying them to other markets. Using the intellectual capabilities of the University's business and graduate schools and the manpower of the local communities, we will be developing information similar to the leakage analysis developed for the New York program.

Each market will select franchisors that meet the product and services needs of the community as well as provide maximum potential for job creation for local residents and the creation of wealth in the area.

As part of this expanded approach, we have scheduled the first state wide franchise development meeting in Connecticut for March 11th. Participating in the meeting will be Terrian Barnes from the IFA and representatives of the governors office, the state legislature and the offices of mayor of the three major cities. In addition, representatives from the Small Business Administration, Housing and Urban Development, Health and Human Services, Department of Education, Department of Labor, Department of Justice, Regional bank(s) for franchisee loan portfolio, Property and Casualty Insurance company(s) for franchisee insurance requirements, participating universities and local community based organizations whose neighborhoods will be affected by the program are expected to attend.

The purpose of the meeting is tactical. The agenda is being developed to first educate the attendees on the scope of the opportunity and the lessons learned in New York. Each participant and their respective organizations will then determine how they can benefit the project and the resources they have to actively participate in the implementation of the development strategy. We will leverage the capacity of the implementation team across the combined markets and we expect that over time, the process will be copied across the country.

Even its critics will agree that franchising has been the premier vehicle for individuals to achieve sustainable business ownership and personal wealth for the last fifty years. However, its impact has not been felt in the inner city and minority markets as it has elsewhere in our society. Now with traditional markets becoming saturated, and other mainstream retailers, including Disney Stores and the Gap entering into these forgotten markets, the timing for franchising has never been better.