

Testimony of

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before the

Subcommittee on Benefits

of the

Committee on Veterans Affairs

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Introduction

Chairman Brown, Ranking Member Michaud, and other members of the Subcommittee, thank you for opportunity to testify before you on the proposed Veterans Self-Employment Act of 2004. And thank you and your staff for listening to our concerns and the concerns of veterans while producing this draft 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 John Gay and I am the Vice President of Government Relations for the International Franchise Association (IFA). Established in 1960, the mission of the International Franchise Association (IFA) is to safeguard the business environment for franchising worldwide. IFA is the oldest and largest franchising trade group representing over 900 franchisor, 6,000 franchisee and 300 supplier members.

At the request of the Subcommittee, with me is Jim Amos, managing partner of Eagle Alliance Partners. Jim is a decorated Marine Corps veteran of Vietnam and a board member of the Veterans Corporation. He has many years of experience in franchising and, last but not least, is a past chairman of the International Franchise Association.

The Impact of Franchising

In March, 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 1st Congressional District of South Carolina, Mr. Chairman, there are over 3,000 franchised establishments employing almost 40,000 workers. And in the 2nd Congressional District of Maine, Mr. Michaud, there are roughly 1,650 franchised establishments employing over 18,000.

**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
Franchised Businesses	9,797,000
Durable Goods Manufacturing	10,335,000

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

Congressional District	Franchised Establishments	Jobs
CA-53	7,306	95,198
FL-1	2,403	26,210
FL-3	12,097	165,295
FL-5	4,026	43,789
ME-2	1,655	18,498
NH-1	2,955	34,730
NY-27	2,468	35,349
SC-1	3,018	39,385
TX-16	1,647	22,251

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 down times, 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, etc.

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.

With the cooperation of the U.S. Department of Veterans Affairs, 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. Now, 139 companies are participating in the program.

To date, nearly 100 franchises have been acquired through the program and an estimated 75 agreements are in various stages of completion. 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.

At the end of April, IFA Chairman Sidney Feltenstein signed a Memorandum of Understanding with the Department of Veterans Affairs renewing joint promotion of the VetFran program.

In a further effort to assist veterans, the IFA Educational Foundation and Michael H. Seid and Associates, LLC, last year established a veterans educational advancement scholarship. The program is designed to help veterans transitioning out of the military to achieve their dreams. The first scholarship provided by the program was presented to former Marine Captain Nathaniel Fick in March. He will attend Harvard University to study international development.

This new program is still growing. Just recently, IFA member Figaro's Italian Pizza announced a \$15,000 donation to the program.

The Veterans Self-Employment Act of 2004

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.

Mr. Chairman, we understand that you are seeking 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. In the limited time that we have had to review the draft bill, we believe that this legislation would make more franchise opportunities available to veteran potential investors.

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

As I mentioned earlier, franchising is an astonishingly diverse world, with training curriculum that is tailored to each particular concept. There could be no typical training program for a franchise and no standard of franchisee education. 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 to 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.

We note that the legislation carries an effective date of March 1, 2005, but that regulations may not become effective until 18 months after enactment. We would seek a more accelerated implementation, if possible, and will work with the Subcommittee and the Secretary to achieve that end.

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, and your staff for proposing this legislation. 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.