

### Overview

Franchises make up a large part of the American economy. Parties involved in a franchising agreement include the franchisor, someone that establishes the brand's trademark or trade name and a business system; and the franchisee, someone that pays a royalty and often an initial fee for the right to do business under the franchisor's name and system. In the United States, there are more than 733,000 franchised establishments that employ more than 7.6 million people. Franchises span various industries including fast-food restaurants, storage and warehousing, eyeglass stores, weight-loss centers, hotels, cleaning services, printing services, automotive repairs and services, hair salons, computer and phone repairs.

### Starting a Franchise

Starting a franchise can be a complicated and expensive business venture. For example, some franchises require hundreds of thousands of dollars for the initial franchise fee. Many franchises do offer important pre-opening support such as site selection, design, construction, financing, training, and a grand-opening program. In addition to the initial support, many offer continual programs such as training, advertising, and ongoing supervision and management assistance.

There are two different types of franchising relationships. Business format franchising is when the franchisor provides the franchisee the name, products, and services and offers an entire system for operating the business. For example, the franchisee generally receives site selection and development support, operating manuals, training, brand standards, quality control, a marketing strategy, and business advisory support from the franchisor. The second type of franchising is traditional or product distribution franchising. In a traditional franchise, the franchisee often handles the franchisor's products on an exclusive or semi-exclusive basis, while the supplier-dealer may handle several, competing products. Examples of this type include businesses such as the soft-drinks, gasoline, automotive, and other manufacturing industries.

### Funding for a Franchise

A franchisee usually pays the franchisor the franchise fee, a one-time initial fee, and a continuing royalty fee, for use of the franchisor's trade name and operating methods. Then, the franchisee is responsible for the day-to-day management of the independently owned business and any benefits or losses based on the businesses' performance.

Franchisees are required to operate their businesses according to the procedures and restrictions set forth by the franchisor in the franchisee agreement. These often include restrictions such as the products or services that can be offered, pricing, and geographic location of the franchise. Also, franchisees must pay ongoing royalties and advertising fees.

### Center Forward Basics

Center Forward brings together members of Congress, not-for profits, academic experts, trade associations, corporations and unions to find common ground. Our mission: to give centrist allies the information they need to craft common sense solutions, and provide those allies the support they need to turn those ideas into results.

In order to meet our challenges we need to put aside the partisan bickering that has gridlocked Washington and come together to find common sense solutions.

For more information, please visit [www.center-forward.org](http://www.center-forward.org)

### Key Facts

- Percentage of Types of Franchise Establishments:
  - 15%: Quick Service Restaurants
  - 15%: Personal Services
  - 14%: Business Services
  - 9%: Commercial and Residential Services
  - 8%: Real Estate
  - 8%: Retail Products and Services
  - 7%: Retail Food
  - 5%: Automotive
  - 4%: Hotels and Lodging
  - 4%: Table and Full-Service Restaurants

## Government Initiatives

According to the United States Census Bureau, the number of minority-owned firms and franchises in the United States rose from 5.8 million in 2007 to 8 million in 2012, the most recent years for which data is available. Currently, 30% of franchise owners are minority owners and 30% are women. Additionally, the 9.9 million women-owned firms increased by 26.8 percent over a two-year period. Although the number of minority-owned franchised businesses is higher than ownership rate for non-franchises businesses, access to capital remains a significant barrier for minorities looking to start a business. For example, minority-owned businesses are three times as likely to be denied a loan as non-minority owned businesses. Additionally, numerous bipartisan Members of Congress have requested the Census Bureau increase minority ownership data collection in an effort to alleviate this disparity.

Many franchisors have initiated programs to recruit minorities that include discounts on franchise fees and royalties and payment plans to aid in an easier entry into the business. Several states including Wisconsin, Pennsylvania, New York and Connecticut are successfully using these funds to help minority business owners raise capital for startup and expansion initiatives.

Veterans' franchise ownership continues to increase, as well. Through franchisor recruitment efforts, non-profit partnerships, and Congressional efforts, around 6,500 veterans have become franchise owners since 2011.

## Conclusion

Franchises make up a large part of the United States' economy. Every five years, the Census Bureau conducts an economic census that collects data for approximately 3.7 million business locations. For instance, and while they represent only 15% of franchise establishments, the 2012 Economic Census estimates 122,042 quick-service franchise restaurants made up approximately 54 percent of all fast-food restaurants in the United States, nearly 70 percent of all the sales of fast-food restaurants, and about 73 percent of the employment of fast-food restaurants. Data from the 2017 Economic Census will start being released in September 2019 and will be fully released in the spring of 2020.

## Links to Other Resources

- [Franchise Direct - Top 100 Franchises 2019](#)
- [Franchising.com - Minorities in Franchising](#)
- [International Franchise Association](#)
- [Minority Business Development Agency](#)
- [MSN - These are America's most successful franchises right now](#)
- [PEW - State Revolving Loan Fund Gains Momentum in Congress](#)
- [United States Census Bureau - Economic Census Shows Franchising Key to Many Industries](#)