

Forecasting Future Success for Franchises



Gene Marks

CPA, Columnist, and Host



Matt Haller

President and CEO,
International Franchise
Association (IFA)

Announcer:

Welcome to THRIVE, a Paychex Business Podcast where you'll hear timely insights to help you navigate marketplace dynamics and propel your business forward. Here's your host, Gene Marks.

Gene Marks:

Hey everybody, it's Gene Marks. I spoke today to Matt Haller. Matt is the president and CEO of the International Franchise Association, that's franchise.org. Matt has been with the organization for about 10 years, and we talked about some of the things that really are affecting franchisees and the people that are running everything from the local McDonald's restaurant, to Subways, to all the franchise outlets that you see all around. I mean, they represent, more than a thousand brands, the big brands that you've all heard of.

Gene Marks:

Listen, franchising is a fantastic way to get into business. It is a great place to start your own business, particularly if you've never had a business before, it's a great place to really learn it. Also a lot of people are going into franchising because it's a great way to control your money. I mean, you can take your money and invest it in the stock market, give it to Jeff Bezos or Mark Zuckerberg and hope that they run their companies well, or you could take that same money and invest it in your own business, like a franchise, where you've got the big name brand behind you. You've got their marketing muscle, you've got their name or recognition. You're going to pay something for that, but at least it gets you up and running and gets you moving.

Gene Marks:

Matt also mentioned at the very end of our conversation, how franchisees, I mean, you really make your money when you scale. So, if you just own one location of a store, you can make a living, but the people that really succeed are the ones that build on that. So, keep that in mind, if you want to go into the world of franchising.

Gene Marks:

We talked about in this conversation, about what current franchises are doing to find employees. So whether or not you are running a franchise or not, we're all looking for people. He had some ideas to share

with you what they're doing as well. We also dug into a big issue that affects the franchising world, which is joint employer. That is where there has been efforts made by the government to wrap in employees of a local franchisee, to consider them to actually be the employees of the brand that's behind the franchise, rather than being local business-owned. There's a big debate going on about it. The Trump administration eased up the rules for employers, now the Biden administration is making it a little bit tougher for franchise owners. They want to include more employees in the overall corporate brand so that they can have a little bit more regulations and potential for unionization. So, there's those issues there.

Gene Marks:

So listen, if you run your own franchise, if you're looking to get into the franchise industry, buying your own franchise, even if you're just not even in the industry at all, but you're running your own small business and you want to talk a little bit about what this industry is doing to find employees, encourage minorities to get involved, because we talked about that too, it's a great conversation. So we'll be back in just a moment with Matt Haller from the International Franchise Association.

Gene Marks:

All right, everybody. I got Matt Haller with me. Thank you very much for joining me, Matt.

Matt Haller:

Thanks Gene, it's good to be with you.

Gene Marks:

So first of all, tell me about the International Franchise Association. What do you guys do? Who are your members? What are you all about?

Matt Haller:

So, we're a trade association in Washington, D.C., where we're headquartered. We have about 30 employees who work on behalf of our mission, which is to protect, to promote and to enhance franchising. We have about a hundred brands, excuse me, a thousand brands, who are members of the IFA. So, all the big ones that you all heard of, from McDonald's to Dunkin' Donuts, to Marriott, to the UPS store. But we have hundreds of brands that are in early or mid-tier franchising stage, brands with 20 to 50, to 500 locations nationwide.

Matt Haller:

So, we advocate for policies on Capitol Hill, in the states and in cities, that either help, or against policies that might harm franchising and local franchise businesses, but we also do a lot of education. On our website, there's a tremendous amount of great content and webinars and resources to educate brands that want to grow, franchisees that are in the business model and want to understand the tax law that's being proposed, or new things coming out of the small business administration and really translate them to franchising-speak.

Matt Haller:

We also convene — we have a number of big events and small and regional events across the country — and we convene through those on an ongoing basis. We've learned how to convene a lot more effectively online because of COVID. It doesn't replace the in-person experience, but convening through education and through online and committees and things like that, on topics from some of the things we're going to talk about today, I think, Gene. So that's a little bit a snapshot of what we do.

Gene Marks:

It's good, and you and I were talking right before we started recording that you're in Philly right now and you're attending one of your conferences. I'm just curious, who is attending these conferences of yours? These are a lot of small franchises, there's a lot of small business owners, right?

Matt Haller:

Yeah. It's a mix of people that are franchising their businesses. So, people on the brand side who are looking for prospective new franchisees, they're also looking for, we call them "supplier partners." Paychex is a supplier partner of the IFA. So, every brand and every franchisees is looking for payroll and human resources support. These are local small businesses, they don't have this in-house. So, technology companies, marketing companies, lawyers — all of the things that franchisees or franchisors need — we create forums for those individuals to understand those who understand franchising because it is a unique way of doing business.

Gene Marks:

So, let's talk about people and let's talk about employees. Now, I'm just keeping up on the news. As far as I can gather, your members, your franchise owners, they're fine with employees, they're really not looking for anybody? It's all good, right? I mean, their payrolls are full of good people, good workers, am I right?

Matt Haller:

Yeah, right.

Matt Haller:

I mean, 80% of the sector, according to some research I saw, are having trouble finding talent to meet their available demand for their product or service. So, it's happening across the spectrum, everywhere from the C-suite at brand, at the brand side down to the frontline employees. I'll say, nobody has the silver bullet because the market is competitive. The good news for employees is wages are going up, benefits are going up. We actually just put out some research last week that shows that the franchise model and franchisees who do most of the employing in franchising, they're paying higher wages and providing stronger benefits than similarly situated non-franchise businesses.

Matt Haller:

So, there's a story to be told there at a macro level in the industry that IFA is encouraging our brands and their franchisees to tell. But then there's the micro story of what are you doing to create a greater culture inside your franchise business, and why are there greater opportunities for advancement and things like that? I think one of the things that we're seeing, that may be working is, to meet that labor challenge, is some brands looking at taking dollars from their advertising funds and moving it to national recruitment advertising. So, rather than promoting a product or a service that a brand offers, they're taking that and really helping lean in with national and regional advertising, focused on the availability of these positions because people are thinking about switching careers and that is something that we see.

Matt Haller:

We also had an expo in New York City last weekend and what we see is, with such displacement in the broader economy right now, and record levels of savings and available capital, people looking at going and buying a franchise. So, the development pipeline is also ramping up. So, there's no doubt there's some headwinds in our world, like there is with everybody, but there's also some really good opportunities that I think help franchising stand out above other types of employment and business right now.

Gene Marks:

Yeah, I've got to comment on a couple things that you say. We talk about we're in inflationary times, people are concerned about where they invest their money. Certainly you could put it in the stock market, if you want to give your money to other executives to run it. I mean, you're investing in those companies, but there has been a significant interest and growth and people looking to own their own businesses and buy into the franchise industry because you have more control over your future when you do that, as well as who you employ in your business. That was case number one.

Gene Marks:

The other case, I also want to say, you mentioned about people advertising for-- redirecting some of their advertising money towards advertising for employment. To me, it kills two birds with one stone. I mean, I see a lot of franchises advertising on social. I mean, I bump into them on TikTok, and Instagram, and even Snapchat, where they're looking for employees and they're offering great wages. It's like- it seems like it does two things. It's not only like, a recruitment ad, but for me — who's not looking for a job — I'm still seeing the brand in front of me, you know?

Matt Haller:

Yeah. I mean, the power of our members' brands is tremendous. So I do agree with if what you said, Gene, as far as a two-fer. I think that is part of why, the challenge is there in franchising, but it's not as acute as it might be for some other types of businesses. I mean, we like to say in franchising, you go into business for yourself, but not by yourself. You really do have a partner there if you're a franchise owner, with the brand, and working hand-in-hand each and every day to solve the real-world challenges that are on the ground level, which you might not be getting in a traditional corporate job, or you're doing it at a traditional, non-franchise, independent business.

Gene Marks:

Yeah. It's one of the biggest challenges I have in my ... I own a 10-person company and it's called The Marks Group. Nobody knows The Marks Group, what the heck is The Marks Group? And yet if you own a franchise, obviously you've got that huge brand name behind you, and it's a huge leverage for a business owner. Even for people that just want to start up their own business.

Matt Haller:

Yeah, you've also got hundreds — or thousands in some systems — of other people that are probably dealing with the same issue that you're dealing with that you can compare notes on. So, that is the power of the model. Obviously you pay a price for that in terms of the fees and the royalties, doesn't work for everybody. We don't want people that want to run The Marks Group, but do it as a brand company or as a franchisee. That's a message we oftentimes want to get out, but for the right type of person that meets the right marriage with the brand that works for them, it can be tremendously powerful.

Gene Marks:

Matt, I'm curious, I'm going to San Diego on Wednesday to speak to an industry of both retailers and mid-market distributors. The whole conversation is going to be about people and compensation strategies, as well as finding people. I'm curious, where in your industry are your members going to find employees? I mean, there's no silver bullet to find employees, but have you heard from any of your members, like, "Oh, this has been a good resource for us," or, "This has been a good place where we've gone to find people?"

Matt Haller:

Well, I think they've done everything from the traditional, you know, the hiring fairs, to the advertising, to employee referrals. I haven't heard one particular silver bullet solution either, Gene, but I do, I do hear that

the brands that are figuring out the right way to create that partnership with a national push, but the right type of system that doesn't kind of cross the line. We deal with this issue in franchising of co-employment or joint employment, with those brands that have figured out how to skin that cat, seem to be doing things a little bit better than those that aren't kind of doing it in a collaborative way, while again, maintaining that separation of brand versus local hiring.

Gene Marks:

Yeah. I did a piece on this for The Philly Inquirer just a couple weeks ago. I was talking to this one person at Temple University here, and one of the place that he recommends, he does small businesses in the area of Temple as their community outreach. He's recommended for years, faith-based groups, which I never thought of. It was like, churches, mosques, synagogues, it's a great place to reach out. Those are the people that know their community members, people that belong to their organization that are looking for jobs, or family members looking for jobs. Anyway, I just thought I would throw that out there.

Matt Haller:

Great point. I mean, franchisees are supporting local charities and other community organizations, just with sponsorships and other things in a tremendous way, they often are probably not asking those organizations for something like this in the past, but those are relationships that you have at an extremely high level. So whether it's the little league team, or cleaning up after a ... I was up in Buffalo at the Washington football team game yesterday, and I saw a number of our brands who are sponsors of that event. I mean, those are opportunities for leveraging third-party relationships, as I call them, or non-traditional allies, for helping you solve a business challenge and just getting your opportunities out there through people you have relationships with.

Gene Marks:

Smart man going to Buffalo in September, rather than in November, December.

Matt Haller:

Yeah, not December.

Gene Marks:

My hat's off to you, sir. Okay, let's pivot a little bit. We are still talking about employees — joint employer, has been a big issue for your industry. The Trump administration issued some executive orders back when that administration was in power, that was more favorable towards the franchise industry. The Biden administration has come in and made some changes to that, which may not be as favorable. Give us an update, Matt, on joint employer and how it's affecting your members.

Matt Haller:

Yeah, so we often see this when there's a change in power, as you alluded to Gene, and the joint employer issue is really something that the labor union movement has tried to use to change and upend the franchising model, from one where it's creating local opportunity and local ownership, to more of a top-down type of approach. So, if you have a joint employer relationship, it's going to effectively turn a Dunkin' Donuts or a UPS store, into one corporation that is a lot easier for a labor union to come in and organize the employees.

Matt Haller:

So, Joe Biden comes into office in January, he says he wants to be the most pro-union president ever. Notwithstanding the value of the labor union movement and that labor unions can do a lot of good things, we don't think that the franchise business model should be collateral damage. So, we need to fight an expansion of the joint employer standard or joint employer rules, that can be done through the labor department or the National Labor Relations Board, or even worse, through Congress.

Matt Haller:

So, the good news is because Washington is so divided with a 50/50 Senate and such a narrow majority in the House of Representatives, changing the joint employer rules through legislation, which would be the hardest to then undo, is not going to happen. There's something called the PRO Act, which has passed the house, but it is stalled in the Senate because of bipartisan opposition to it in the Senate. Unfortunately, when you do control an administration, you know, people are policy, and Joe Biden ultimately is likely to get his people at the National Labor Relations Board and the Department of Labor, where these changes to joint employment policy are likely to be expanded.

Matt Haller:

We are currently in litigation. The IFA is against the Department of Labor and the National Labor Relations Board is now facing litigation challenging the pro-employer, the pro-franchise joint employer rule, that the Trump administration put into place about two-and-a-half years ago. So, these things bear watching, they're very sort of wonky, esoteric issues that IFA is fighting, but they do have a real-world impact to franchisees.

Matt Haller:

We want to make sure that franchisees continue to control their businesses and the labor and employment decisions don't get shifted to the mothership franchise or entity. That's what we're trying to protect and preserve. And we think it's good for workers too, because as I mentioned, the data — the Oxford Economics report that we released last week — franchisees are paying higher wages, better benefits, and have greater opportunities for advancement than similarly situated non-franchise businesses. So, we don't think we need to insert another third party, like a labor union, into our business model.

Gene Marks:

Yeah. The one thing I've noticed as I've gotten older and have been writing so much about public policy, is that legislation is hard to change, but it can be changed. But if it's not legislation, the rules themselves can be changed. So, right now, President Biden has got Marty Walsh as his Secretary of Labor and very pro-union, pro-worker and you're right, the National Labor Relations Board, I think by the end of the year, will be populated with mostly President Biden's appointees. So, they can change the rules and make things tougher for a lot of your members and tighten up the joint employer rules, as it is, over the next few years, but then new administration comes in and all those rules can be changed again. So, I guess you have to tell your members to just ... You almost have to ride out the storm if things turn against them.

Matt Haller:

Yeah. I mean, look, elections have consequences and this will be one of those consequences in all likelihood, but we think that — we've been through this before — I mean, joint employment was kind of new during the Obama administration in that second term, and brands figured out how to deal with a change in and on the regulatory side. It was not permanent, but there were brands that backed off on providing certain products, or services, or information their franchisees, and made clear in their franchise documents and franchise manuals where responsibility ultimately lied for labor and employment matters.

Matt Haller:

That's likely going to need to take a fresh look at some of that, given the likely expansion of these liability standards at DOL. I think also, with respect to OSHA, because we're still dealing with the pandemic and the president has announced that he's going to institute a vaccine mandate or a testing regime for non-vaccinated employees at businesses with 100 or more employees, which will include many franchisees. And we're hopeful that there will at least be some element of a safe harbor, if you will, around brands that want to work with their franchisees to ensure compliance.

Matt Haller:

We want to make sure that companies that are trying to do the right thing and abide by the law have certainty. If the whole goal here is to increase the number of vaccinations at the employee level, brands should be able to lean into that communications and provide their franchisees with tools and resources, but not be, not have that type of activity used against them to create a joint-employer relationship.

Gene Marks:

Yeah, makes sense. All right, I have a list of things I want to ask you and yet, I promised you a certain amount out of time, so we're not going to get to them all, but I'm going to jump a little bit down the list. I want to talk about veterans and minorities, and increasing their ownership. There's been a big push in that, across the board, of trying to have more support for veteran- and minority-owned small businesses, providing them with capital, providing them with education, trying to get these entrepreneurs really off the ground. So, I guess Matt, I'm going to ask you, I mean, what is the IFA doing to try and help that, to try and get more veterans and particularly minority business owners into the franchising world?

Matt Haller:

Yeah. So we've got some programs at the IFA that focus specifically on minority outreach and veterans outreach. So, with respect to minorities, I'll start there. According to the U.S. Census, we over-index in terms of minority franchise ownership by about 50% versus non-franchise businesses. So, we already have a good track record and a good story to tell there, but we think more needs to be done to support underrepresented communities of color — and while we're doing that, each community faces different challenges.

Matt Haller:

So, Black Americans face different challenges than Hispanic Americans. So we recognize that, and we've developed some affinity groups within our membership that represent those different communities of color, and we convene around those topics. So particularly for Black Americans, access to capital is one of the bigger challenges. The good news in franchising is by associating yourself with a proven brand and a proven concept, you can leverage that relationship. Many brands have specific relationships with lending institutions or other types of funding mechanisms that are available for communities of color that have disproportionately faced ... are un-banked or under-banked. That is something where we're trying to ramp up awareness of how well franchising does for potential minority business owners and some of the advantages of the franchise model, and also establish additional partnerships with organizations that specifically represent communities of color. For instance, the U.S. Black Chambers of Commerce, they have over a hundred, I believe, state and local chambers that are affiliated with them, where we're trying to raise awareness of the franchising opportunity, raise the level of understanding about what it takes to get into franchising, the right type of people.

Matt Haller:

Then another trend that we're seeing is partnerships with HBCUs, or historically black colleges and universities. Oftentimes, this isn't just evident in minority communities, but the general franchising community, not many people start out thinking, "I want to go into franchising for my career," whether becoming a franchise owner or going to work at a corporation. So, just raising awareness of the range of opportunities that exist in franchising as a potential career path, particularly at early stage — in colleges, even high schools, and then ultimately in business schools. So, that's a bit on the minority side.

Matt Haller:

With veterans, we've had a long standing program at IFA called VetFran. More than 500 of our 1,000 member companies have a program where they discount the initial franchise fee for veterans. And when

you think about what you do in the military, it's a very structured regime that people follow and it translates very well into the franchise business model. So, we've seen that, over decades now, of veterans' success in franchising. And that's why our VetFran program has been so successful.

Matt Haller:

During the pandemic, our VetFran website had a tremendous amount of increase in people looking at franchising opportunities from the veterans community, and we expect that to grow. In- In 2022, we will celebrate our 30th anniversary of the VetFran program and our convention will have a number of activities related to that.

Gene Marks:

Yeah. You got involved with the IFA, how long ago?

Matt Haller:

A little over 10 years.

Gene Marks:

So, what's changed since then?

Matt Haller:

Well, I think what has changed for all organizations is the importance of being more intentional about your outreach to whatever community that you're attempting to communicate with. Segmented communications are critical and franchising is such a big tent that we really do have something for everybody, and the ability to meet people where they are and find some common ground. I think in the past, IFA had been, a little bit more of an old boys club in and of itself. I think that translated into some of the outward-facing messaging that we used as an organization and tougher for people to break into and find a home. I think, I've certainly found it's a lesson of myself at the IFA, being more open and listening more, and not being so top-down as a organization. I think you're finding that probably throughout corporate America and organizations that are succeeding moving forward, have that type of mentality.

Gene Marks:

It's great. I always thought that the biggest barrier to entry to get into the franchise as world was just capital. I mean, the story that you hear is, "Well, to buy into a McDonald's franchise costs, X amount of dollars," some large amount. I think that's a bit of a misconception and I'm wondering what you think if ... You had mentioned about Black business owners, other minorities that want to get involved and own their own business and get into the world of franchising, or anyone else that wants to do that. So, in 2021, what resources are there? Is it all about capital? Or, can somebody with very little capital still get their— you know, dip their toe in the water?

Matt Haller:

Well, you will always need some capital, the ability either to have your own cash or go out and raise cash. I always want to be careful when I say, the last thing any brand wants to do is bring in some franchisee into their system that's not going to be successful and doesn't fully either have the capital or the ability to get the capital, or the wherewithal to succeed. That being said, franchising has created probably more millionaires out of nothing than any other business model that exists. And most franchise development leaders — or CEOs of smaller brands that are really spending time looking for the right franchise partners — they have an incredible ability to ferret out people that aren't going to be a match for their system. That doesn't always include somebody that comes from millions of dollars.

Matt Haller:

It's people that are willing to put some of their own skin in the game, or their own time in the game, and work hard, follow the playbook, and nine out of 10 times, it's going to be successful. So, there is a range of investment opportunities in franchising, from the low five figures, all the way into the millions of dollars to own a restaurant, or a hotel, or a collection of them. It is about scale, right?

Gene Marks:

Yeah.

Matt Haller:

I mean, the more you can own over time, the greater return on your investment you can receive, much like real estate. However, most of these successful franchising entrepreneurs, they started with one location, and over decades of hard work, building relationships, networking — not just through IFA, but through other organizations and their own brand — have found a great pathway to success. And I think it remains that opportunity for the right people that are willing to do the research and build the right relationships.

Gene Marks:

Matt Haller is the president and CEO of the International Franchise Association, just sharing with us some thoughts on the industry itself and some of the issues that franchisees are facing, and some of the opportunities. Matt, thank you very much. Great- great information and I got through like 30% of what I wanted to ask you, so I'd love to- love to speak with you again.

Matt Haller:

All right. Thanks Gene, and if those want to find more about the IFA, you can find us on franchise.org, or Franchising411 on Twitter.

Gene Marks:

Very good. Thanks for your time, and you take care.

Matt Haller:

Thanks Gene.

Gene Marks:

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Announcer:

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