

# NOW & NEXT

## Franchise Alert

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### Current DEI trends in the franchise industry

By Kendal H. Tyre<sup>1</sup>

The industry uses reliable, easy-to-emulate strategies to create opportunities for minority franchise owners.



#### What's the Impact?

- / The franchise industry is being very thoughtful about bridging the gap between the barriers to entry and successful franchise ownership
- / Incentives for owners, DEI initiatives, and external partnerships are some ways franchised companies can increase diversity within their organizations

Franchising continues to offer a unique entrepreneurial avenue for people of color in the United States. According to *Franchising World*, the minority ownership rate of franchises is 26% compared to a 19% minority ownership rate of non-franchised small businesses. Black-owned franchises specifically earn 2.2 times more, on average, than Black-owned independent businesses. According to an Oxford Economics-International Franchise Association (IFA) study, Hispanic-owned franchise businesses have 1.6 times as many sales and employ 1.5 times more people per location than their non-franchise counterparts.

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Common barriers to franchising include difficulty finding financing, lack of education about how to run a franchise business, and not having connections in the industry.

Fortunately, the industry is being very thoughtful about bridging the gap between the barriers to entry and successful franchise ownership. The August 2022 *Entrepreneur Magazine* report: *The 50 Franchise Companies Doing the Most to Champion Diversity* indicates that there are three significant methods franchisors are using to increase diversity within their organizations and the industry at large. The methods are:

- / Providing incentives and discounts to minority franchise owners
- / Internal diversity, equity, and inclusion (DEI) initiatives
- / External partnerships

### Providing incentives and discounts to minority owners

A practical way to encourage and develop minority franchise ownership is to provide future and current owners with incentives and discounts. For example, McDonald's committed \$250 million in the U.S. over five years to "provide alternatives to traditional financing, to help candidates—who may face socio-economic barriers—join the McDonald's System." Similarly, Wendy's "Own Your Opportunity" is a franchise recruitment initiative created to expand restaurant ownership opportunities, specifically among women and people of color. Wendy's hopes the initiative will advance its goal to create pathways for everyone who wants to grow within its system. Ben & Jerry's waives the franchise fee for diverse franchisees, provides rebates for royalty fees, reimburses certain training and development fees, and waives transfer fees for existing franchisees who sell to a minority candidate. Many other franchises dedicated to furthering diversity in the industry also provide discounts or waive franchise fees to new minority owners

### Internal DEI initiatives

Franchisors recognize that it is important to cultivate an internal culture that supports their minority owners. To that end, the IFA Foundation has developed affinity groups committed to educating IFA members and providing members with opportunities to discuss ways to support minority members. The groups also promote awareness and access to opportunities for minority entrepreneurs looking to get into the franchise business. Franchisors are also:

- / Forming internal DEI councils (support networks or affinity groups)
- / Providing scholarships, education, and mentorship opportunities for minority owners and prospective owners
- / Providing complimentary membership and conference registration
- / Creating forums for minority owners to engage with company leadership
- / Becoming members of industry alliances that specifically support minority owners

## External DEI initiatives

To support their diverse customers and communities, franchisors are launching external DEI initiatives aimed at educating the external community about franchise ownership and encouraging them to become franchise operators. Yum Brands recently launched the “Center for Global Franchise Excellence,” a program designed for women and people of color to “learn how to run a franchise operation.” Yum also added an accelerator program in partnership with Howard University and the University of Louisville, where ten Black and Latino MBA students were selected for a five-month program that will end with two participants getting their own Yum Brands franchise. Many franchisors are committed to similar external initiatives. Some have partnered with Representative Alma Adams and the Historically Black Colleges and Universities (HBCU) Caucus to promote greater engagement between private companies and HBCUs. Other franchisors have made commitments to engage external communities in the following ways:

- / Targeting prospective bilingual franchisees to cater to the needs of the Latino market
- / Partnering with existing organizations to find and support prospective business owners from minority communities
- / Developing DEI training modules to create a more inclusive environment and experience for customers
- / Making sure marketing and advertising are targeted to specific communities

Social and political discord over the past three years has caused companies to re-evaluate their DEI initiatives and assess their effectiveness. As a result, companies are modifying existing programs or launching new programs to tap into new markets represented by growing diverse communities. The initiatives described here are just a sampling of the changes underway.

Nixon Peabody’s DEI Strategic Services group works with clients to develop inclusive cultures, drive business success, and elevate their brands. Learn more about our [three-phased approach](#) to helping clients: (1) assess current efforts, (2) address challenges, and (3) guide long-term success.

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