



WHAT'S IN A (BRAND) NAME?

Dr. Lloyd Corder
CorCom, Inc.
Carnegie Mellon University

January 2016

**Employment
Policies**

INSTITUTE

A Comparison Of Minimum Wage Effects
on Franchise and Non-Franchise Businesses

The Employment Policies Institute (EPI) is a nonprofit research organization dedicated to studying public policy issues surrounding employment growth. In particular, EPI research focuses on issues that affect entry-level employment. Among other issues, EPI research has quantified the impact of new labor costs on job creation, explored the connection between entry-level employment and welfare reform, and analyzed the demographic distribution of mandated benefits. EPI sponsors nonpartisan research that is conducted by independent economists at major universities around the country.

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I N S T I T U T E

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A Comparison Of Minimum Wage Effects on Franchise and Non-Franchise Businesses

Executive Summary

One unique feature of recent local minimum wage battles is the focus on franchise businesses.

In Seattle, for instance, a minimum wage of \$15 took effect in 2015 with multiple phase-in paths that depend on the business size (as measured by number of employees), with smaller businesses being granted more time to adapt to the mandate. Under the Seattle law, an independent, locally-owned franchise business is treated like the larger corporate entity from which the franchise business gets its brand-name and trademark.

Justifying this treatment, Brian Surrat, director of the city's Office of Economic Development, stated "franchises are different, in that they are part of a network, with built-in economies of scale and support with advertising, supply chain management and menus." Similarly, Washington State's Attorney General Robert Ferguson, in a brief defending Seattle's law before the 9th District Court of Appeals stated, "franchisees enjoy

a unique economic advantage that gives them the ability to more easily absorb an accelerated wage phase-in."

In fact, a new national survey of mostly-small businesses shows that minimum wage increases being considered by some cities will likely have a more negative impact on franchise businesses. Conducted by Dr. Lloyd Cordor for the Employment Policies Institute, this survey of franchise business owners (n=307) and non-franchise business owners (n=305) focused on eight key industries such as restaurants and hotels that typically have a larger share of minimum wage employees.

The survey finds that franchise businesses are more likely to employ minimum wage workers than other businesses, and are more likely to take offsetting steps to manage the increased labor costs. Despite the claim that franchise businesses have unique economic advantages and can manage the cost increases more easily than non-franchise businesses, the survey results show the opposite to be the case (see Chart 1).

CHART 1: Impact of \$15 Minimum Wage

Survey Results:	Franchise Businesses	Non-Franchise Businesses
Likely Reduce Staff	65%	51%
Likely Reduce Hours	64%	46%
Likely Use More Automation	54%	37%

At businesses such as quick service restaurants and hotels, the impacts are even greater on franchise business owners than non-franchise business owners. More than 80 percent of franchise quick service restaurant owners said they are likely to reduce hiring compared to 58 percent of non-franchise quick service restaurant owners. Nearly 90 percent of franchise hotel owners said they are likely to raise room rates compared to 70 percent of non-franchise hotel owners.

In other survey results, 86 percent of franchise business owners who were able to answer the question said they will not be able to renegotiate contracts with their franchisor to absorb the increased labor cost, and nearly 80 percent

of the same said that the royalty fees they currently pay for advertising, marketing and other services can't be reduced without having to pay for those costs themselves.

In 2016, policymakers at the city and state level will face a familiar trade-off when deciding whether to raise the minimum wage: Higher wages for some employees versus lost jobs for others. If they decide that the lost jobs are worth it, however, these survey results suggests that there's no rationale for treating franchise businesses differently than other small businesses in the final wage law and that doing so would exacerbate the negative consequences typically associated with wage increases.

WHAT'S IN A (BRAND) NAME?

A Comparison Of Minimum Wage Effects on Franchise and Non-Franchise Businesses

Surveying the Impact of a \$15 Minimum Wage on Franchises and Non-Franchises

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Some policymakers have contended that branded businesses, such as those owned and operated by franchisees, have a greater capacity to absorb and financially-support a minimum wage increase to \$15 than other similarly situated small businesses. To better understand the efficacy of this concept, a survey was administered that included both franchise and non-franchise businesses.

The survey described below, of 612 businesses located in the top 24 Metropolitan Service Areas (MSAs) and representing eight key industry categories, focuses on franchise and non-franchise businesses that would be affected by a \$15 minimum wage.

Method

A total of 612 franchise business owners (n=307) and non-franchise business owners (n=305) were interviewed primarily by phone (with a few online participants who were invited based on available email contacts) between October 26, 2015 and December 7, 2015.

Business owners were selected proportionally at random from the top 24 Metropolitan Service Areas in eight industry categories who typically employ people at or near the minimum wage, and where the franchise business model is widely-used. Industry categories included:

1. Beauty
2. Child care
3. Health and fitness
4. Lodging
5. QSR (Quick Service Restaurants)
6. Restaurants (Full Service)
7. Retail food
8. Retail shopping

To ensure a representative sample, interview quotas were established for each of the MSAs and the eight industry categories for both franchise and non-franchise owners based on the proportion of businesses identified in the database.

The franchise owner contact list of approximately 12,300 was purchased from FRANData, an industry source for franchise information and analysis. The non-franchise owner contact list of approximately 18,500 was created through Reference USA, an extensive business database that identified businesses based on a number of characteristics, including whether they are a franchise.

Description of Respondents: Size, Segment & Years in Business

The responding businesses were mostly small businesses—nearly ninety percent have fewer than 50 employees (See Table 1). Three-fourths (76%) of respondents have four or fewer locations nationwide, with over half (56%) having only one. Respondents represented a number of industries and two-thirds (61%) had operated their business for 5 years or longer. Franchises are likely to have more staff and have shorter operational tenures than non-franchises.

Business Composition of Minimum Wage Workers

About half (47%) of businesses have employees who are paid the applicable state/local minimum wage (See Table 7). Franchise owners (56%) were more likely than non-franchise owners (38%) to employ minimum wage workers. The percentage of their entire workforce that is paid minimum wage varies greatly, with about one-in-five (19%) saying less than 50 percent of their staff is paid the

minimum wage, while one-fourth (28%) say 50 percent or more are paid that wage. Likewise, franchisees are more likely to employ a greater overall percentage of minimum wage workers than are non-franchisees.

The survey results clearly show that any changes to the applicable minimum wage are going to affect both franchise business owners and non-franchise business owners. However, these changes will be most impactful to franchise owners because as a group they are more likely to employ minimum wage workers and their overall workforce comprises a larger percentage of minimum wage workers.

Expected Impact of \$15 Minimum Wage on Franchisees That Have at Least Some Minimum Wage Employees

Over half (56%) of franchise owners have employees who receive the applicable state/local minimum wage. These franchise businesses are very likely to take a series of steps to offset the cost of a \$15 minimum wage (Figure 1). Nearly three-quarters of respondents reported that they will be likely to raise prices, with 65 percent reporting they will be very likely to take this step.

Over 40 percent of surveyed franchise business owners will be very likely to reduce staff levels; in total, almost two-thirds will be very or somewhat likely to take this step. Similarly, over 40 percent are very likely to scale back on employees' hours or their hours of operation. For some businesses, even these options aren't sufficient: 39 percent said they are very likely to pursue lower cost technological alternatives and over half (54%) of all franchise owners said they are very or somewhat likely to do so.

Table 1

Description of survey respondents, including comparisons between franchise and non-franchise businesses

	All respondents Base: 612	Type of Business	
		Franchise Base: 307	Non- Franchise Base: 305
Number of Employees			
Fewer than 10	42%	32%	52%
10 – 24	31%	36%	27%
25 – 49	16%	21%	11%
50 – 99	5%	5%	6%
100 – 499	4%	5%	3%
500 or more	0%	0%	1%
No Response	1%	1%	1%
Industry Segment			
Beauty	12%	5%	16%
Child Care	15%	24%	12%
Health & Fitness	16%	11%	17%
Lodging	13%	16%	10%
QSR	12%	11%	10%
Restaurants (Sit-Down)	8%	8%	9%
Retail Food	12%	19%	10%
Retail Shopping	12%	5%	16%
Years In Business			
1 year or less	8%	12%	5%
2-3 years	17%	21%	13%
4-5 years	12%	12%	12%
6-7 years	9%	12%	7%
8-9 years	10%	11%	9%
10 years or more	42%	31%	53%
Unsure	1%	1%	1%

Table 2

Description of percentage of staff that are currently paid the applicable state/local minimum wage

	All respondents Base: 612	Type of Business	
		Franchise Base: 307	Non- Franchise Base: 305
Percentage of Staff Paid Applicable State/Local Minimum Wage			
1-9%	7%	9%	6%
10-19%	4%	3%	5%
20-29%	3%	4%	3%
30-39%	3%	3%	2%
40-49%	2%	3%	1%
50-59%	5%	6%	4%
60-69%	2%	3%	2%
70-79%	4%	5%	3%
80-89%	3%	4%	2%
90-99%	4%	5%	3%
100%	10%	12%	8%
None	53%	44%	62%

Figure 1

Likely actions by franchise businesses who must pay the higher minimum wage

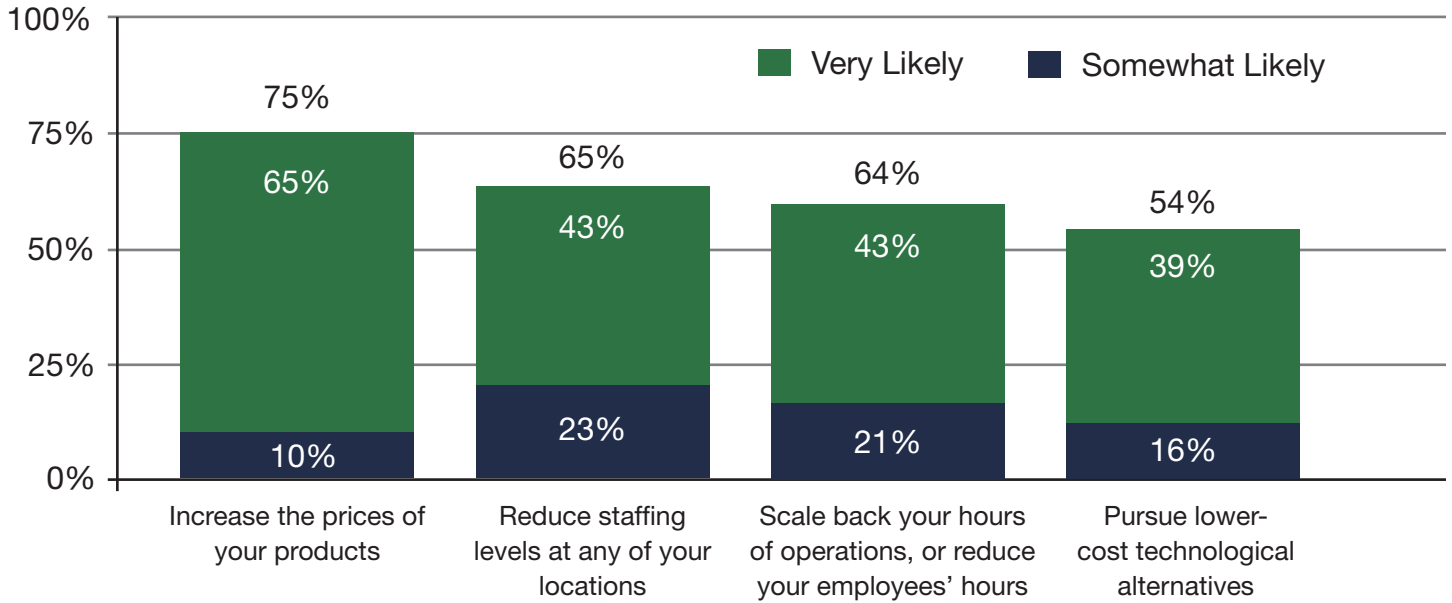
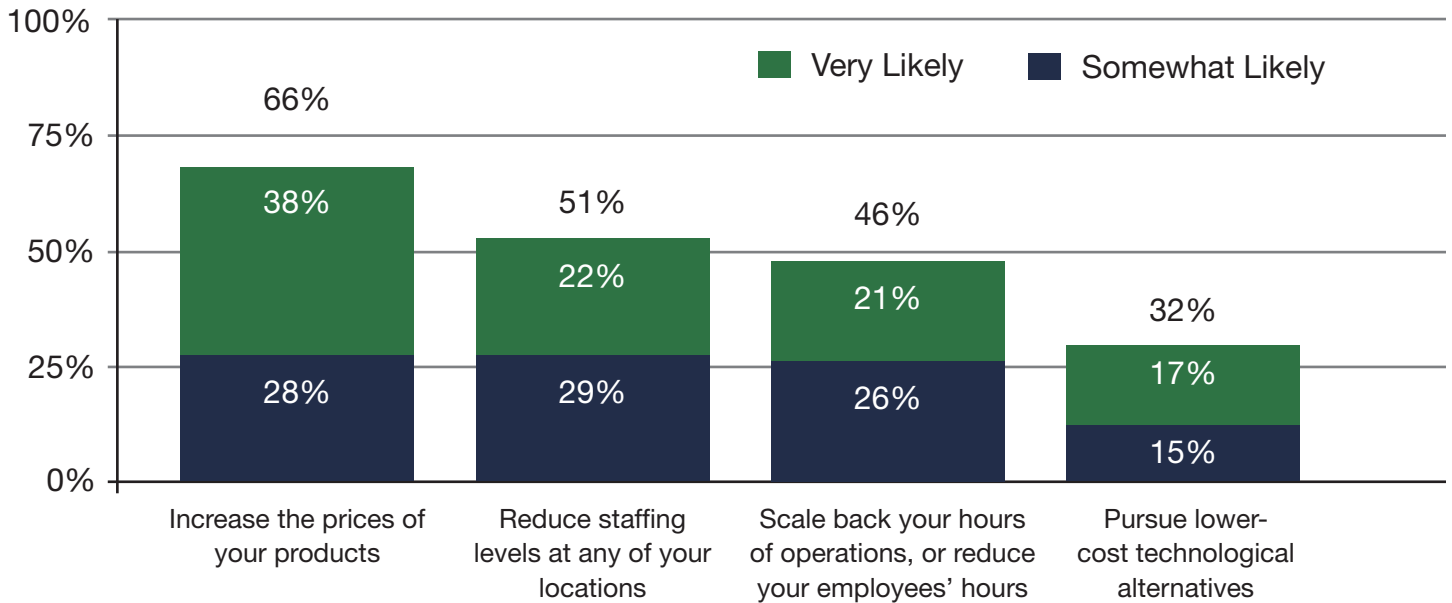


Figure 2

Likely actions by non-franchise businesses who must pay the higher minimum wage



In examining the potential response to an increase in key franchise business characteristics (Table 3), the data shows that:

- Industries more likely than others to take actions include lodging, quick service restaurants, full service restaurants, retail food and retail shopping. As a group, slightly fewer child care and health and fitness franchises would take steps to reduce the impact.

Franchise business owners typically pay a percentage of their revenue each month (called a royalty fee) to their franchisor, which covers the shared cost of services like marketing and advertising. Some proponents of higher minimum wages have suggested the franchisor could reduce the royalty fee and thus enable the franchise owner to better adapt to higher labor costs. However, half (49%) of all franchise owners say that they would still have to pay for the services currently covered by their franchisor's royalty fee, if those royalty fees were eliminated; only 13% said they would not have to pay for those services, and 37% were unsure. Franchise owners also said they would not be able to renegotiate their franchise contract should labor costs rise in their market. Only 8 percent said they could renegotiate the contract. Forty-eight percent said they could not renegotiate, and another 43% were unsure.

Based on these responses, many franchise owners are likely to take a variety of measures to offset the increase of the minimum wage to \$15, including steps that will adversely affect employees' job opportunities. Especially affected are those businesses with 10 or more employees, that operate in high service areas (such as lodging, restaurants, retail food and retail shopping) and those that have been in operation for multiple years.

Expected Impact of \$15 Minimum Wage on Non-franchisees That Have at Least Some Minimum Wage Employees

About one-third (38%) of non-franchise businesses have employees who receive the applicable state/local minimum wage. These non-franchise businesses are very likely to take a series of steps to offset the cost of a \$15 minimum wage (Figure 2 above). Nearly two-thirds of respondents reported that they are likely to raise prices, with 38 percent very likely to take this step.

As a group, compared to franchises (Figure 1), slightly fewer non-franchise businesses say they are likely to increase the price of their products (66%), with one-third (38%) being very likely. Half reported that they might have to scale back operations and reduce staffing, while one-third would pursue lower-cost technical alternatives.

In examining the potential response to a minimum wage increase in key non-franchise business characteristics (Table 4), the data shows that:

- Similar to franchises, non-franchisees in service businesses such as lodging, restaurants as well as health and fitness are more likely to make adjustments than are other industries.

Based on these responses many non-franchise owners are likely to take a variety of measures to offset the increased cost of the minimum wage to \$15; but as a group, fewer say they will do this than franchise business owners.

Table 3

Likely actions by franchise businesses by key demographics

	Increase Prices (75%)	Scale Back (51%)	Reduced Hours (46%)	Lower Cost (32%)
Number of Employees				
Fewer than 10 (n=49)	65%	61%	53%	41%
10 – 24 (n=66)	76%	67%	68%	55%
25 – 49 (n=33)	91%	58%	73%	61%
50 – 99 (n=8)	88%	63%	75%	75%
100 – 499 (n=14)	64%	86%	79%	71%
500 or more (n=1)	100%	100%	100%	100%
Industry Segment				
Beauty (n=12)	83%	75%	50%	50%
Child Care (n=25)	72%	40%	48%	36%
Health & Fitness (n=20)	55%	40%	50%	40%
Lodging (n=23)	87%	61%	65%	57%
QSR (n=27)	74%	81%	85%	89%
Restaurants (Sit- Down) (n=21)	95%	81%	86%	62%
Retail Food (n=29)	90%	76%	72%	62%
Retail Shopping (n=16)	31%	53%	50%	19%
Years In Business				
1 year or less (n=14)	71%	57%	57%	50%
2-3 years (n=35)	71%	57%	66%	51%
4-5 years (n=24)	79%	67%	67%	71%
6-7 years (n=20)	85%	75%	75%	35%
8-9 years (n=22)	82%	59%	55%	45%
10 years or more (n=57)	72%	68%	68%	61%

Note: Highlighted boxes (■) indicate groups more likely than average (mean) to take action.

*No responses are excluded from this table.

Table 4

Likely actions by non-franchise businesses by key demographics

	Increase Prices (66%)	Scale Back (51%)	Reduced Hours (46%)	Lower Cost (32%)
Number of Employees				
Fewer than 10 (n=42)	62%	55%	45%	33%
10 – 24 (n=36)	69%	47%	42%	25%
25 – 49 (n=19)	63%	47%	47%	42%
50 – 99 (n=10)	80%	50%	40%	50%
100 – 499 (n=6)	50%	33%	67%	17%
500 or more (n=2)	50%	100%	50%	0%
Industry Segment				
Beauty (n=13)	54%	38%	23%	31%
Child Care (n=10)	60%	40%	40%	21%
Health & Fitness (n=25)	76%	52%	56%	40%
Lodging (n=14)	71%	71%	57%	36%
QSR (n=19)	84%	58%	42%	21%
Restaurants (Sit- Down) (n=14)	71%	71%	79%	57%
Retail Food (n=10)	50%	20%	20%	20%
Retail Shopping (n=12)	33%	42%	33%	25%
Years In Business				
1 year or less (n=3)	100%	67%	33%	67%
2-3 years (n=14)	71%	57%	64%	43%
4-5 years (n=10)	60%	50%	40%	20%
6-7 years (n=4)	100%	100%	100%	100%
8-9 years (n=9)	78%	22%	56%	11%
10 years or more (n=74)	62%	50%	39%	28%

Note: Highlighted boxes (■) indicate groups more likely than average (mean) to take action.

*No responses are excluded from this table.

Appendix A: Survey Script

Mark based on call list (do not ask):

- Franchise
- Non-franchise

What percentage of your staff is paid the applicable state/local minimum wage?

- 1-9%
- 10-19%
- 20-29%
- 30-39%
- 40-49%
- 50-59%
- 60-69%
- 70-79%
- 80-89%
- 90-99%
- 100%
- None

To adapt to an increase in the minimum wage to \$15 an hour, how likely will you be to do any of the following?

	Unlikely	Somewhat Likely	Very Likely	Not Sure or Not Applicable
Increase the prices of your products	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Scale back your hours of operation, or reduce your employees' hours	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Reduce staffing levels at any of your locations	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Pursue lower-cost technological alternatives	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Add item				

Franchisee Script (For Franchisees ONLY)

Thinking about the types of service your franchisor provides in exchange for your royalty payment: If you didn't pay a royalty fee, would you still need to pay for these types of services on your own?

- Yes
- No
- Unsure

If labor costs go up in your city/state due to a minimum wage increase, can you renegotiate the terms of your contract with your franchisor so they can help alleviate those costs?

- Yes
- No
- Unsure

Demographics (All Respondents)

How many people do you have on staff at all locations?

- Fewer than 10 employees
- 10-24 employees
- 25-49 employees
- 50-99 employees
- 100-499 employees
- 500 or more employees

Which of these industry segments best describes your organization?

- Not for-profit
- Education
- Hospitality (Restaurant / Hotel)
- Manufacturing
- Medical / Home Healthcare
- Professional Services
- Retail
- Other

If other, please specify.

How many years have you been in business?

- 1 year or less
- 2-3 years
- 4-5 years
- 6-7 years
- 8-9 years
- 10 years or more

How many locations do you have nationwide?

City, State

- ATLANTA, GA
- BALTIMORE, MD
- BOSTON, MA
- CHARLOTTE, NC
- CHICAGO, IL
- DALLAS, TX
- DENVER, CO
- DETROIT, MI
- HOUSTON, TX
- LOS ANGELES, CA
- MIAMI, FL
- MINNEAPOLIS, MN
- NEW YORK, NY
- PHILADELPHIA, PA
- PHOENIX, AZ
- PITTSBURGH, PA
- PORTLAND, OR
- SAINT LOUIS, MO
- SAN ANTONIO, TX
- SAN DIEGO, CA
- SAN FRANCISCO, CA
- SEATTLE, WA
- TAMPA, FL
- WASHINGTON, DC



Industry:

- BEAUTY
- CHILD CARE
- FITNESS
- LODGING
- QSR
- RESTAURANTS
- RETAIL FOOD
- RETAIL STORES



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