

# “These efforts aim to break through the barriers to franchise ownership.”

## Diversity on the Menu



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arents hurrying kids off to school before heading to the bus stop or subway station for work or errands. Babies being pushed in strollers along the main avenue to the park. These are daily sights in every urban neighborhood in every city in America.

So are the McDonald's franchise on the main avenue and, a few doors away, the Taco Bell. And the Wendy's and Popeyes on the other side of the street. And—further up the block—the Burger King, the Subway, and various other staple fast-food outlets. In addition to their locations, what these fast-food restaurants have in common is this: the owner of each franchise is likely a white person, and probably a white man.

Fast-food restaurants (also known as quick-service restaurants, or QSRs) easily rank as the

largest segment of the franchising industry, generating about \$240 billion in economic output in 2020—nearly 20 percent of the industry's total value. The problem, however, is that fast-food franchisees aren't very diverse, at least in the United States. For example, fewer than a third of US franchisees of major QSR companies are Asian, Black, or Hispanic. Still fewer are women.

But the industry is trying to change that. Over the last year, some of the biggest names in fast food have announced major initiatives aimed at growing franchise ownership among underrepresented groups. McDonald's has committed \$250 million over the next five years to increase diverse ownership. In February, Wendy's announced its Own Your Opportunity initiative with a similar goal. Yum! Brands, owner of Taco Bell, KFC, and Pizza Hut, among others, is putting \$100 million toward the cause.

The industry's long and complicated relationship with underrepresented groups is well known. It's one of the sector's biggest concerns: While underrepresented groups account for the majority of workers, they are still a minority in management, ownership, and executive leadership.

These diversity efforts build on social-impact initiatives launched during the height of the Black Lives Matter movement. Their goal is to better reflect the communities in which QSRs operate by breaking through the barriers to franchise ownership that underrepresented groups have historically faced. One such barrier is the fact that few new franchise licenses are granted annually. Other obstacles: potential new owners often lack access to the deal pipeline, or don't know how to participate in the bidding process. And the capital requirements can run into the millions of dollars.

All of the programs announced so far include measures to address these barriers, including lower liquidity and net-worth requirements, commitments from banks to provide credit and loan access at competitive rates, and money earmarked to help fund start-up costs. Other measures include creating new, more affordable restaurant formats such as food trucks; forming partnerships with universities to provide education and training in entrepreneurship and franchising; and building a more structured onboarding process that includes access—at both the franchise-ownership and corporate levels—to resources and mentors.

Done right, these initiatives can expand franchise ownership opportunities for underrepresented groups. They can also create a leadership pipeline, enabling the QSR firms to reach back into diverse restaurant teams to recruit and develop corporate executives. So far, the signs are positive. One client told me they've received more than 700 leads from potential

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franchise owners since launching their program.

With only about 26 percent of franchises across industries owned by people of color, and women receiving just 16 percent of all conventional small-business loans annually, the lack of diversity in franchise ownership isn't just a problem in the world of fast food. But the new programs, if they're successful, could serve as models for other industries and their leaders. ▀

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