

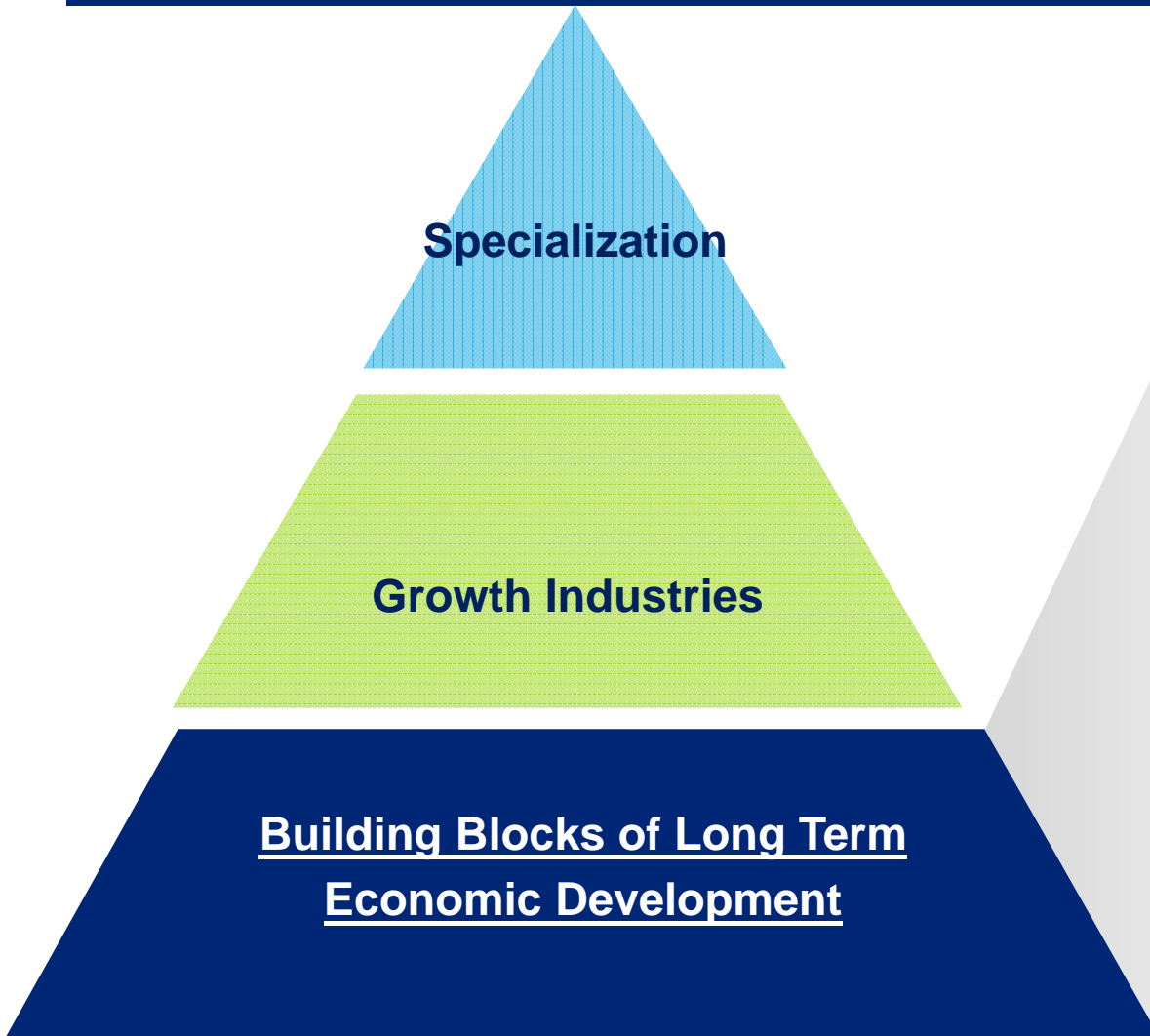
Training Module: Community Staples

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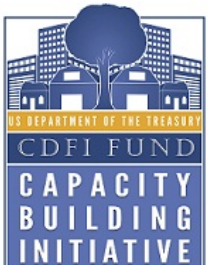


What are Community Staples?



Examples of Community Staples

- Local Healthcare
- Pharmacy
- Elderly Care Services
- Grocery Store
- Day Care
- Hardware Store
- Taxi/Van/Local Transport
- Laundry
- Gas Station/Auto Servicing
- Healthy Food Options
- Banking Services



Why are Community Staples Important?

Fight out-migration: Services that connect residents to their neighborhood and provide a minimum threshold for a good quality of life

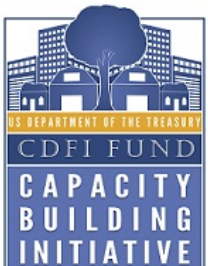
Spur local commerce: Encourage residents to invest locally

Provide growth opportunity: They lay the foundation for growth of other businesses and industries in your community

Stages of Maturity of Local Business

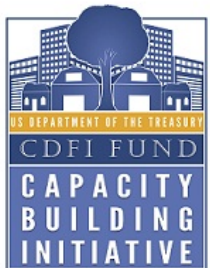


- 1. How are the business models of community staples transforming?**
- 2. What new markets are opening up to meet the needs of developing community staples?**



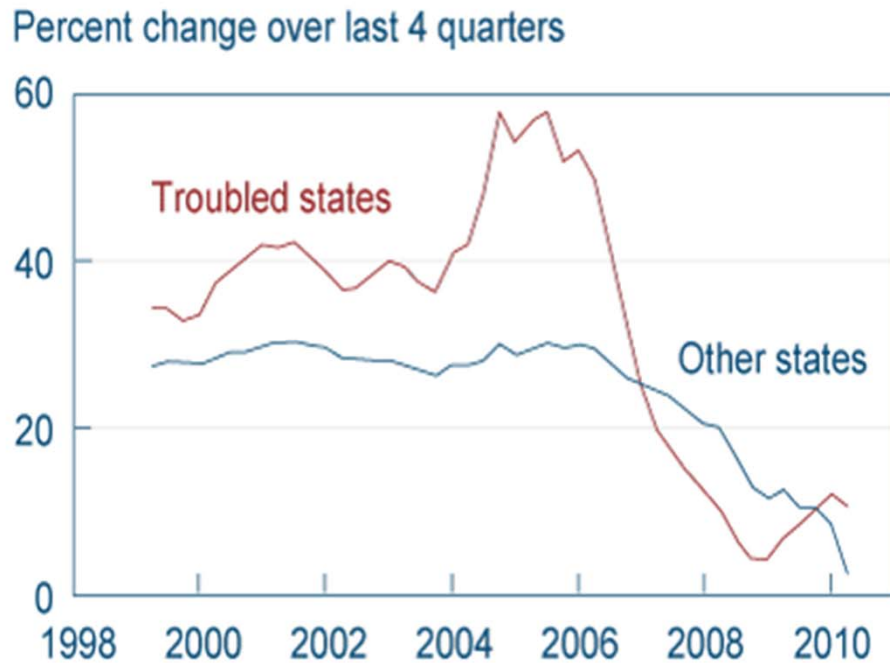
Major Trends in Community Staples

1. Personal Wealth for Small Business is Less Available
2. “Low Cost Business Model” is Winning
3. Healthcare is Growing Exponentially and Localizing



Trend #1 – Personal Wealth for Small Business is Less Available

Predicted Growth of Home Equity Lines of Credit



Source: Federal Reserve Bank of New York Data, 2010 calculations by author

- **25.4% used the equity in their homes to finance their businesses**
- Business owners **accounted for 25.1% of home equity borrowing**
- The fall in housing prices **causes lack of equity** availability
- Small business credit is **\$24.5 billion below where it was trending** prior to drop in equity lending
- CDFIs **should look within their communities for those that have lost access to their consumer-based financing**

**Market Trends Tip:
Watch for Industry Wide Impacts**

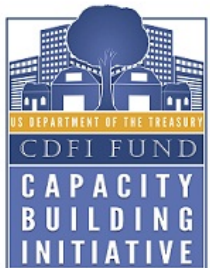


Trend #2 – “Low Cost Business Model” is Winning

Big Box Retailers have created challenges for local small business retailers. **Small businesses need to compete and complement the Big Box** in the market where low cost is demanded.

Way to compete include:

- Improving service quality, merchandising, marketing, and management
- Form a coalition of local businesses
- Nearness to Big Boxes can support business which are complementary.
- On cost with new operating technology and marketing forums



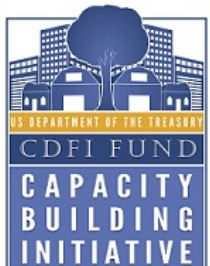
Related Innovation: Three Party Franchising

Low Cost Business Model – The Food Truck

Sources of Funds: Home equity lines, savings, credit cards, and family assistances are the most common sources of start up funds. Some may be eligible for SBA guaranteed loans but still require fronting 30% of the cost

Uses of Funds: Start-up costs \$50,000 - \$100,000 are about one-tenth of the cost of a restaurant in a high rent city

Partner : Food Truck Associations such as the Southern California Mobile Food Vendors Association (SoCALMFVA) or the NYC Food Truck Association (NYCFTA)



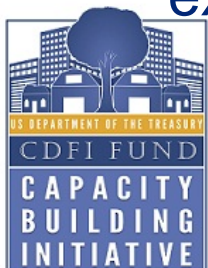
Low Cost Business Model – The Food Truck

Opportunities: Local Businesses say Food Trucks can actually increase local traffic to other stores which can benefit. The truck can serve as collateral.

Challenges: Push Back from Local Businesses which can cause increased licensing fee pushback to push them out

Skills of Successful Food Truck Operators

- Some food-service/hospitality experience
- Wide Business Skills to Obtain Licenses, buy supplies, familiarity with health department rules
- Long term growth plans – packaging food, opening a restaurant, expanding their truck fleet or moving into catering



**How are you seeing the low cost
business model play out in your
community?**



Trend #3 – Healthcare is Expanding and Localizing

Tremendous opportunities ahead in financing new and growing healthcare Small Businesses

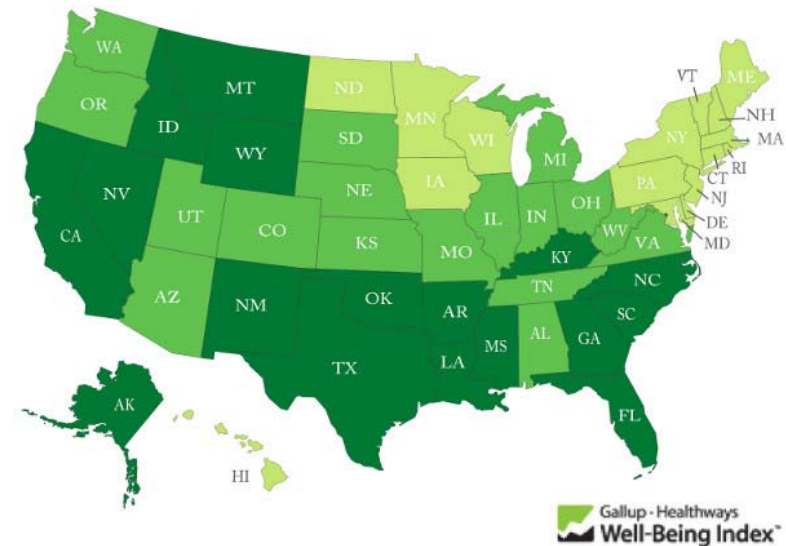
- Community Health Clinics
- Home Health Supplier
- Medical Practices
- Preventive Services

- Potential for **50 million in newly insured individuals** (16% of the population) through the **Affordable Healthcare Act**
- **Predicting a shortage of 21,000 primary care physicians by 2015**

- **Nearly \$2 trillion** in annual revenue for the health care industries – potential for exponential growth with newly insured population

Uninsured, 2011

■ Higher range ■ Midrange ■ Lower range

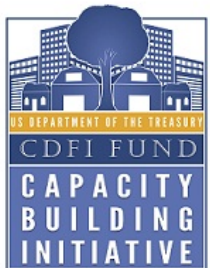


Source: Gallup-Healthways Well-Being Index



Related Innovation: Financing the Navigators Program

What are the challenges you see in expanding health care services in your community?



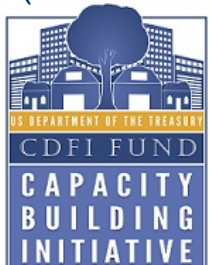
How does a CDFI determine what Community Staples are needed?

The Importance of Strategic Community Planning

- Meeting with the local community council to determine needs
- Partnering with others to bring in community staples
- Balance of national chains with local small business
- Affecting Change in Local Regulation



Case of the P & 14th Street Corridor Development in DC
<http://thekojonnamdishow.org/audio-player?nid=21691>
(6:20 – 8:30)

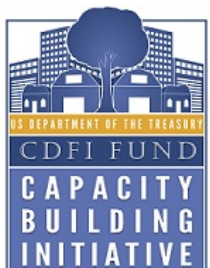


What Roles Can a CDFI Play?

- **As a Lender**
 - To low cost community businesses
 - Immigrant Businesses
 - Healthcare Businesses
- **As an Investor**
 - Syndicate Participant in loans originated by others

Tip for Fast Filter

Harnessing relationship with Immigrant Communities

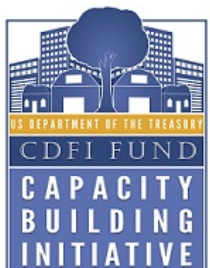


What Roles Can a CDFI Play?

- **As a Partner**
 - With socially responsible franchisors
 - Local Business Associations
 - With Developers and Local Municipality Strategic Planning Committees
 - With local immigrant community groups
- **As a Service Provider**
 - To educate small business owners to help navigate franchise ownership
 - To educate small business owners is how to compete in changing economic environment

Tip for Fast Filter

Know your Community Development Plan-
With redevelopment promote use of existing
vacant real estate.



The Low-Cost Business Model

Innovation Example #1: Three Party Franchising

Franchising is a high growth – scalable opportunity for competing on the low-cost business model

Within distressed and rural areas CDFIs can provide partner financing to franchisees

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Why Franchising?

- High Impact Scalable Business Model for Community Staples
- Low start-up costs for small business
- Minimal Business Capacity needed to start a Franchise
- Access to specialized skills, including technical assistance, legal, and marketing from Parent Company
- Job Creation: 8-14 new jobs per franchise and over 300,000 new jobs every year
- High growth: a new franchise opens every 8 minutes



Net Growth in Employment in 2012

2012 Franchise Employment by Industry

Industry	Amount	% Change
Business Services	916,399	3.7%
Personal Services	651,204	2.5%
Quick Service Restaurants	3,013,816	2.2%
Retail Food	484,213	2.2%
Automotive	180,911	2.0%
Retail Products & Services	484,000	2.0%
Table/Full Service Restaurants	1,031,124	2.0%
Commercial & Residential Services	347,163	1.8%
Real Estate	296,154	1.6%
Lodging	701,513	1.4%
Total	8,106,497	2.2%

Note: change is based on 2011 to 2012

Source: International Franchise Association, Franchise Business Economic Outlook, May 2012

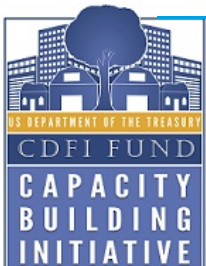


List of Fastest-Growing Franchises – *includes many Community Staples*

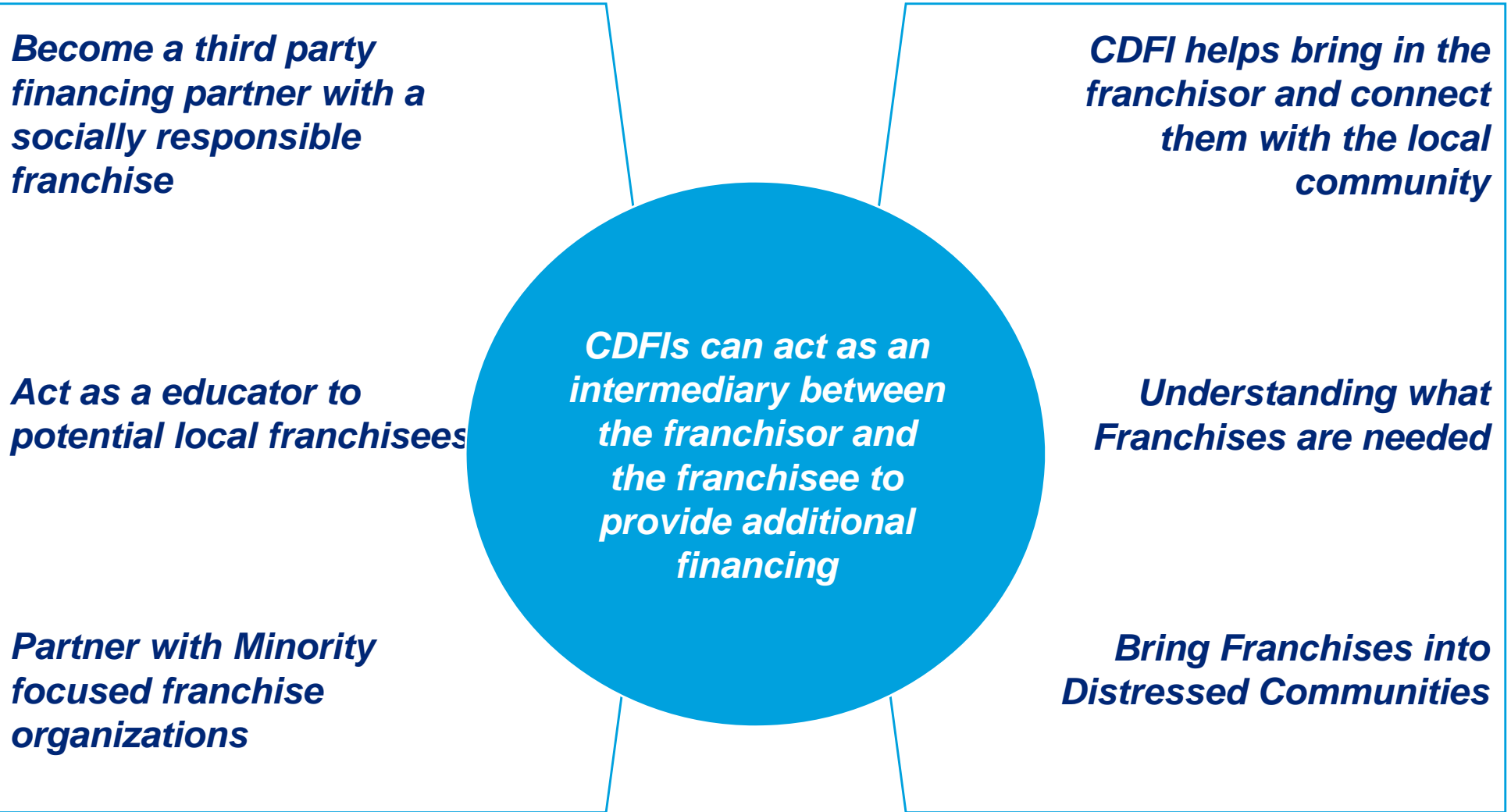
Franchise	Franchise 500 Rankings	Fastest-Growing Ranking	Startup Costs (in thousands)
Subway	2	2	\$85 – \$259
Chester's Chicken	-	7	\$6 – \$345
Anytime Fitness	11	10	\$46 – \$322
Supercuts	14	-	\$104 – \$197
Kumon Learning Centers	18	17	\$68 – \$145
Jimmy John's	22	11	\$306 – \$486
Ace Hardware	29	-	\$750 – \$1,000
Great Clips	-	32	\$108 – \$204
Snap Fitness	36	40	\$76 – \$362
UPS Store/Mail Boxes Etc.	37	-	\$176 – \$331
Super 8	41	-	\$169 – \$3,600
Seniors Helping Seniors	-	42	\$81 – \$118
Jersey Mike's Subs	-	48	\$162 – \$418

Source: 2012 Franchise Rankings, www.entrepreneur.com

Sample of franchising opportunities; due diligence required to determine if these are right for your community.



Socially Responsible Franchising: Where CDFIs Fit



Things CDFIs should look for in a Socially Responsible Franchise Company

Environmental Consciousness

Look at policies, procedures and practices in waste removal, recycling, etc.

Social Consciousness

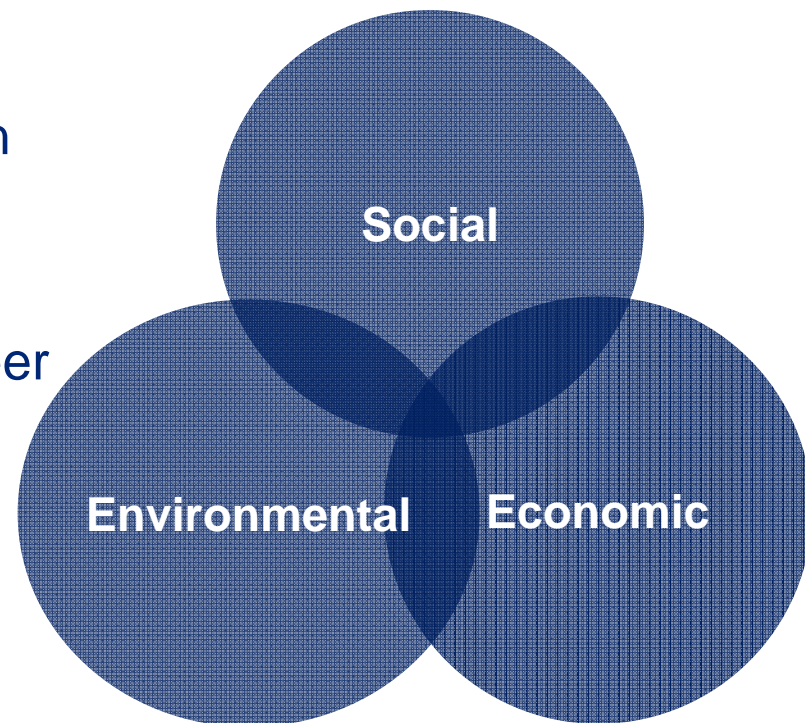
Labor practices, Employment Benefits, Career Development

Financial Profitability

More than just the next “hot” thing

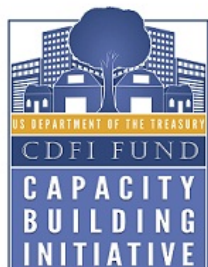
Corporate Social Responsibility

Involvement in the Local Community



Tip for Fast Filter

Local partners like **Live Green** in the DC area can act as potential advisors and deal sourcing partners for franchises who score well in these areas.



What should CDFIs look for in a franchisee

- Understands how a franchise or small business works from the ground up
- Has a “roll your sleeves up” approach
- Understand the communities in which they are working in
- Entrepreneurs partner with local community organizations such as the Urban League, Boys Club, Local Ministries – *underscores importance of community involvement*
- “Know the Youth In Your Community” - Ability to find high potential/responsible employees for franchise
- Franchisee assesses any risks of the site of the franchise in “off -hours”



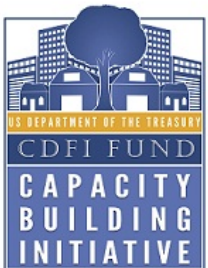
Source: Interview with Milestone Growth Fund

Risks and Challenges in Franchising

1. **Potential Conflict of Interest** -Partnerships with Franchise Parent Company could create a conflict of interest for financing business
2. **Financial Risk**- Franchising Agreements typically have recourse to the borrower which could impact any collateral for the CDFI Loan
3. **Lack of Business know-how of many Franchisees**

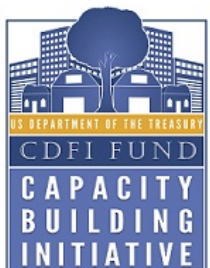
Incentives for Moving into Distressed Areas

Aspiring minority franchisees and CDFIs should become quite friendly with the local economic development office to take advantage of land development incentives



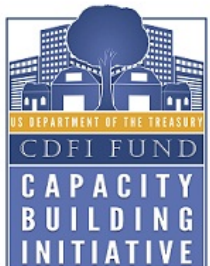
Strategies to Overcome the Challenges in Franchising

1. Partnerships with Parent Company	<ul style="list-style-type: none">• Ensure proper vetting of franchisee to ensure business success
2. Financial Risk	<ul style="list-style-type: none">• Understanding the Franchising Agreement and building mechanisms for mitigating the financial risk
3. Staffing	<ul style="list-style-type: none">• Make sure the franchise has knowledge of the how to run a food service business and of the local community



What are the capacity needs for this innovation?

- CDFI's mission statement allows for packaging of franchise financing
- Lawyer with Franchise experience (paid or unpaid) - separate from the Franchisee's Lawyer for Advice
- CDFI assembles a dedicated transaction team responsible for completion of the financing, risk management, and financial management.
- CDFI has determined that the franchisor is reputable and no direct conflicts with mission
- Conduct a compliance review - check on legal authority to complete the transaction (understands legal requirements of acting in different roles in the deal)



The Affordable Care Act

Innovation #2: Financing the Navigators Program

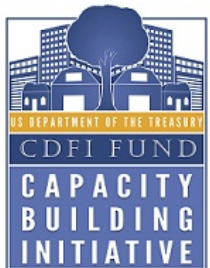
As the Affordable Care Act is implemented Healthcare Industry Opportunities will expand. Community Outreach and Education will play an important role.

Federal and State Programs will pay community oriented health insurance “Navigators”, (i.e. State sponsored health insurance agents), to guide the uninsured through their new insurance options.

This program is a high growth nationwide opportunity for CDFIs to pursue.

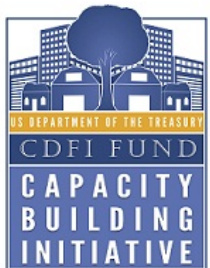
What is the Navigators Program?

- At its core, the Navigators Program is a community outreach and education program designed to match small businesses, self-employed and individuals with insurance as part of the State Health Care Exchanges.
- The ACA requires all State Exchanges to fund Navigators.
- Primary Navigator Responsibilities:
 - Conduct public education activities
 - Distribute and provide fair and impartial information
 - Facilitate enrollment
 - Provide referrals
 - Provide Information in a manner that reaches who they are serving



Suggestions for Strong Navigators

- Navigators must be trusted by the people they are serving
- Navigators must demonstrate existing relationships or the ability to establish relationships with a wide range of Exchange participants across the state
- Free from conflicts of interest and act in the interest of the consumer not the insurer
- Be able to effectively engage underserved populations
- Complete knowledge of the insurance market options in the state



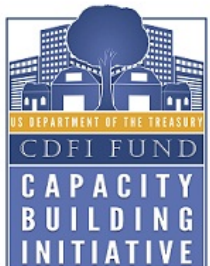
Navigators Program - Where the CDFI Fits

- **As a Lender**

- Provide supplementary financing to start-up Navigators or new service providers within the industry

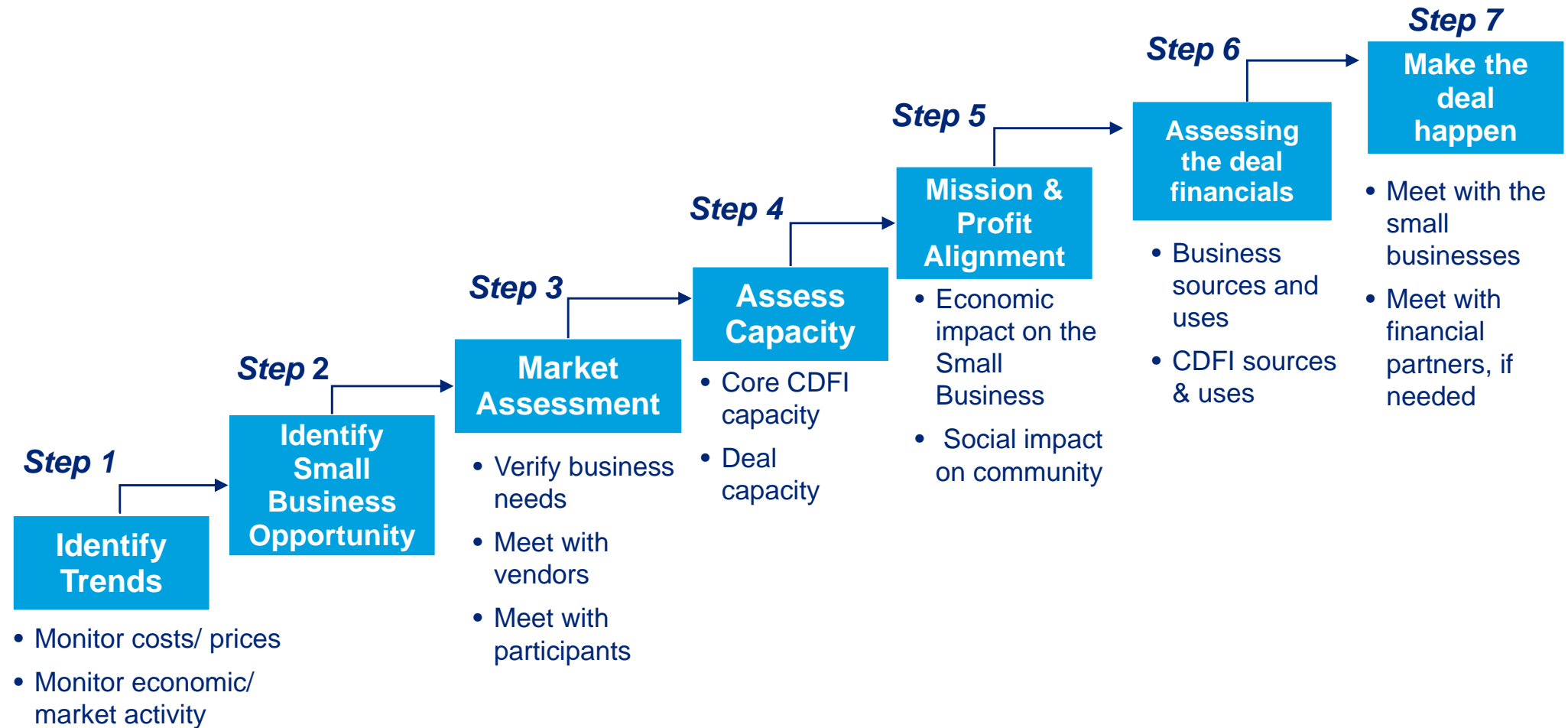
- **As a Service Provider**

- ***Serve as Navigators directly***, building a series of strong relationships with providers, services, and customers in the industry including the small businesses who borrow from them
- Develop a shared services platform for the industry to integrate Navigator and healthcare provider operations and information sharing



Session Wrap-Up

Overview: Process for Innovating New Business



**For sources and further information,
see the “Community Staples” section
of the Virtual Resource Bank**

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