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Immigrant franchisees on the rise

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THE NEW ENTREPRENEURS

IMMIGRANT FRANCHISEES ON THE RISE

NEWSDAY / JOHN PARASKEVAS

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Immigrants are the fastest-rowing segment of franchise owners on Long Island, reflecting a national trend of entrepreneurial newcomers launching businesses, taking risks and generating jobs, business experts say.

Franchises are well suited to immigrants who want to start a business but lack established relationships that other entrepreneurs have.

"If you are an immigrant and you don't have connections in the U.S., the advantage of joining a franchise is that you can buy into the network, find connections and resources you wouldn't find otherwise," said John Reynolds, head of the International Franchise Association Educational Foundation, the charitable arm of the Washington, D.C., trade group for franchisers and franchisees.

New demographics

The rising number of immigrant franchise owners reflects the changing demographics of the United States and Long Island, experts said. According to the U.S. Census Bureau, 13.3 percent of the U.S. population was foreign-born in 2014, compared with 21.9 percent in Nassau County and 15.5 percent in Suffolk. Since 2010 the percentage of foreign-born residents rose by 0.6 percentage point in Nassau and in the United States, and by 1.2 percentage points in Suffolk.

The number of franchise establishments in the nation is forecast to increase by 1.7 percent to nearly 796,000 this year, according to the 2016 Franchise Business Economic Outlook report by IHS Global Insight, a research and analytics firm in Englewood, Colorado, for the International Franchise Association. Employment will increase 3.1 percent to 9.1 million jobs, and franchises will generate more than $944 billion in sales.

An array of companies offers franchises at different levels of investment, ranging

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GETTING INTO THE FRANCHISE GAME

Immigrants are buying into established brands for a shot at LI business success

from $50,000 for window coverings franchise Budget Blinds to $1 million for a fast-food franchise such as Dunkin' Donuts, KFC or Popeyes, experts said. Franchisees can choose among full-service restaurants, hotels, auto repair shops, educational centers, cleaning services and dance studios.

On Long Island, immigrant entrepreneurs, particularly those from India, have become more active in the franchise market within the past five years, said Ken Stein, managing director of The Kensington Company, a Roslyn Heights merger, acquisitions and franchise sales firm. Most of his immigrant clients are well-educated and established here, not recent arrivals.

"There is a tremendous increase in the immigrant community interested in franchises," said Stein.

Most franchisers require potential franchisees to have a green card or citizenship, Stein said. Some, but not all, franchisers allow franchisees to use special E-2 or EB-5 visas allowing investors to legally live and work in this country.

Tale of success spreads

After one member of a community sets up, others often follow. "Once you have immigrants that had successful stories, it spreads in an informal network," said Nanda Viswanathan, assistant dean at Farmingdale State College's School of Business. "They all get introduced to it, and they want to start franchises."

Indian immigrant Kanchila Chadha, 41, of East Meadow, came to the United States in 1995. She was inspired to open a franchise by her father and older sister, also a mother of two, who own shipping and business services franchises on Long Island. Chadha opened the Kumon Math and Reading Center of Levittown in September 2011, after she enrolled her son at the age of 5 at a Kumon center in Hicksville. She employs 14 part-time workers, and more than 220 students are enrolled in the Levittown center.

Kumon, a Teaneck, New Jersey-based education franchise, has more than 26,000 centers worldwide, including 22 on Long Island. Kumon franchisees must have a four-year college degree, be proficient in math and reading, and have investment capital of $70,000 and a net worth of at least $150,000, the franchiser company said. The cost to open a center ranges from $64,187 to $134,100. Franchisees undergo tests to evaluate their reading and math skills. Kumon provides equipment, furniture, supplies, training and signs.

"It is difficult to be a mom and a business owner, but if you are getting that support from that franchise business, it takes away that pressure from your mind," said Chadha, who has a bachelor's degree in business administration and worked for about 12 years as an overseas trading manager for a manufacturing company. "The challenges are wearing different hats on a day-to-day basis, being a recruiter, hiring staff, being an accountant and being an instructor. It's like every hour there is a different hat on my head."

Franchising levels the playing field for foreign-born entrepreneurs who may not have experience conducting business in the United States, said Tom Portesy, president of Paramus, New Jersey-based MFV Expositions. His company produces the International Franchise Expo, which is to be held June 16-18 at the Javits Convention Center in Manhattan.

"Franchising offers unique opportunities for people who are new to the market," Portesy said. "They are going to say, 'If you have the desire, you are willing to work hard and you can follow procedures, you are our person.' "

Help from franchisers

Moreover, franchises come with step-by-step instructions.

"If you want to start a business, being a franchisee reduces the risk," Viswanathan said. "Starting a franchise business is easier because you don't have to worry about marketing and branding. It is the franchiser's duty to do that. The franchisee is more involved in implementing and making sure the business runs well and at low cost."

JOHNNY MILANO

Indian immigrant Kanchila Chadha has 220 enrolled at her Kumon Math and Reading Center of Levittown.

Husband and wife Jose and Marina Palacios, of Lindenhurst, became franchise owners of the Fred Astaire Dance Studio of Huntington in July 2015. They bought the studio from its previous owner, who had operated the location for seven years. They employ one instructor and have 30 students.

Marina Palacios, 33, who was born in Russia, arrived here in 2010. Jose Palacios, 35, who was born in Venezuela, came in 2008. The two met in 2011 when she was his dance instructor at an Astaire studio in Wisconsin.

Astaire, the dancing virtuoso in films such as "Top Hat" and "Swing Time," co-founded Fred Astaire Dance Studios in 1947.

"Most people know who Fred Astaire was," Marina Palacios said. "It gives an extra elegance to the studio."

In return for using the Fred Astaire name, the couple pays a 7 percent royalty fee on revenue. The startup cost to open an Astaire studio is usually about $150,000, the Longmeadow, Massachusetts-based franchiser said. The company provides its franchisees business and management training, dance curriculum certification and marketing tools.

"It would have taken us longer to be where we are right now if we were not with a franchise," Jose Palacios said. "Working with a franchise really sets a road for you to follow, especially being an immigrant, where you don't know anything about the United States laws, where to get started and where to go. With a franchise, all of that is provided to you. The only thing you need as a foreigner is to have the will and the confidence that you want this."

Loans available

To pay startup costs to open a franchise, many immigrant entrepreneurs tap their own savings or turn to family and friends, or financial institutions.

"The franchising industry is viewed so well by banks and the financial industry that they

NEWSDAY / J. CONRAD WILLIAMS JR.

Jose and Marina Palacios, from Venezuela and Russia respectively, own the Fred Astaire Dance Studio franchise in Huntington.

NEWSDAY / J. CONRAD WILLIAMS JR.

Raj Whadwa, Auntie Anne's franchise owner in Deer Park, cites a "roller coaster of challenges."

can find financing for it," Portesy said. "Lenders know that chances of success is greater in a franchise, so the access to capital is much greater."

From 2013 to March 2016, the U.S. Small Business Administration made 19 franchise loan offers totaling $9.17 million to open fast-food, fitness, shipping and educational franchises on Long Island. Asians or Pacific Islanders had the majority of the loans. The SBA data does not determine who may be an immigrant and who might have been born in the United States.

Franchising, however, comes with risks. A 2015 analysis of SBA lending by the Service Employees International Union (SEIU) found that 1 in 6 franchise loans made from 1991 to 2010 ended in failure by October 2014. Banks and other lenders actually make the loans, and the SBA partially guarantees payment. Loan failures can result in the loss of the franchise business and potential loss of any personal assets pledged as collateral, the SEIU found.

Still, FRANdata, a franchise analysis firm in Arlington, Virginia, found in a review of SBA loans that the franchise loan default rate is 20 percent lower than the default rate for non-franchise small-business loans.

Raj Whadwa, 40, who was born in Afghanistan and came to the United States in 1999, knows about the risks and rewards of small businesses.

He started a jewelry business out of a kiosk at Roosevelt Field mall in 2001, subsequently opening two more locations. He used close to $300,000 in profits from that business and savings to open his first franchise, an Auntie Anne's pretzel shop at Tanger Outlets at the Arches in Deer Park, in December 2010.

"I realized that people were moving towards the brands and everybody was following the name brand," Whadwa said. "It doesn't matter if it is food, jewelry or clothing. Nobody wants to shop where they don't recognize the name of it."

Whadwa used the money from the sale of his jewelry business in 2012 and a $250,000 loan to expand his franchise empire. At his peak he owned a total of 15 Auntie Anne's, Carvel, Cinnabon and Sarku Japan (fast food) franchise locations in New York and Connecticut. But by last year he had closed five of the locations — one of each type, plus another Sarku Japan — because they did not have enough consumer traffic to pay the bills, resulting in a loss of about $3 million.

Franchises don't always succeed, experts said. "When a small-business owner buys into a franchise, they are buying into a proven concept," said SBA Regional Administrator Kellie LeDet. "However, when it comes to business ideas or concepts, nothing is ever 100 percent foolproof, and unfortunately that also includes franchises."

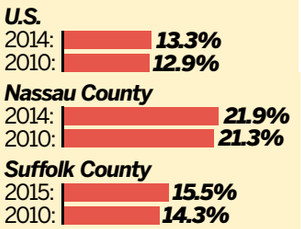
Whadwa, of Commack, said, "I had a roller coaster of challenges." The married father of three, who has a bachelor's degree in economics, said, "I opened them thinking they were going to do phenomenal, but they did very badly, so I ended up closing them and losing all of my savings. . . . We went too fast. So now, if I get any deal, I think 10 times before I go forward."

Whadwa recently bought the LI development rights from early education/care provider franchise Primrose Schools. He plans to open a Primrose child care center in spring 2017.

"My biggest contribution is that I brought so much employment," said Whadwa, who employs about 150 people, including his two brothers. "I think that is my biggest achievement."

"I still want to grow more," he said. "I think I still have a lot to achieve in my life."

FOREIGN BORN POPULATION:



Source: U.S. Census Bureau

2016 U.S. FRANCHISE BUSINESS ECONOMIC OUTLOOK:

Sales: **$944 billion**
Percentage increase: **5.6%**
Employment: **9.11 million**
Percentage increase: **3.1%**
Establishments: **795,932**
Percentage increase: **1.7%**

Source: IHS Economics; International Franchise Association Educational Foundation