



Michael H. Seid
Managing Director

94 Mohegan Drive
West Hartford, CT 06117-1403

860-523-4257

mseid@msaworldwide.com
www.msaworldwide.com

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Human Services Committee
State of Connecticut
General Assembly
Legislative Office Building
Room 2000
Hartford, CT 06106

Re: Raised Bill 391 - An Act Concerning The Recoupment of
State Costs Attributable To Low Wage Employers

Testimony of Michael Seid

Good Afternoon. Thank you for allowing me to address the Human Services Committee regarding SB 391, the Connecticut Low Wage Worker bill.

I am the founder and Managing Director of MSA Worldwide based in West Hartford. MSA is generally considered one of the nation's leading franchise advisory firms with clients ranging from small to mid-sized emerging companies to some of the world's largest franchised and non-franchised brands, many with locations in the State of Connecticut.

I serve on the Board of Directors for the International Franchise Association and have done that for approximately 11 and a half years. I also serve on the Connecticut Low Wage Employer Advisory Board, which is scheduled to meet later this afternoon in Wethersfield.

I am a social franchisor with over 160 medical clinics in Kenya and Rwanda that provide medical services and authentic drugs in peri-urban areas. Our nurse owned clinics have served in excess of 5 million patients to date and has enabled our franchisees to provide medical care with dignity to over 5 million patients and to create jobs in their communities while building equity and supporting their families. MSA currently is supporting the creation of birthing centers in Ghana and localized fresh water in Tanzania. I head the International Franchise Association's social sector franchising initiative that supports the development and management of social franchising and other NGOs globally.

I am also an author, including a book I wrote with the late Dave Thomas, founder of Wendy's called *Franchising for Dummies*. Franchising for Dummies is the largest selling book on franchising. Dave and I committed that all of the authors' proceeds go to Dave's adoption foundation, a tradition I continued in the later editions after Dave passed away and will continue on my next book on social franchising.

I am the son and nephew of union members and union organizers and I am a proud member of UAW Local 1981 of the AFL-CIO.

I thought it essential to give you more than a brief overview of my background so that my opposition to SB 391 not be viewed as just another representative of big business opposing a salary increase for low wage workers.

My career has been focused on diversity and in creating jobs and opportunities for over 30 years. In addition to my other accomplishments, I am proud of the pioneering work my firm did that resulted in the populating of inner city neighborhoods in the United States, including in Connecticut, with branded opportunities that thankfully appears so common to all of us today. Working with others on the IFA's task force, we are now commencing an initiative to enable local governments to collaborate and deliver social services in a branded network to increase quality and consistency for recipients while lowering the delivery costs for municipalities across the United States. Ensuring that your actions in considering the passage of SB 391, will not undue my work and the work of thousands of other professionals, local business owners and franchisors to create business opportunities and jobs in the State of Connecticut is the reason I am here today.

I have reviewed SB 391 that effectively recasts the franchising relationship improperly and that will most assuredly reduce economic opportunity for emerging business owners and entry-level workers, simply as a way to provide additional revenue to our State during difficult economic times.

By the very nature of the franchise relationship each franchisee is an independent business owner that operates under a license allowing them to use their franchisor's brand and consumer systems. But it is essential to understand that while the franchisee and franchisor share a common brand, and while all franchisees in a system share that common brand, they are all independent business people. Each making their own staffing decisions including whom to hire, how many people to hire, the benefits they offer, the hours available for work and how much each of them can afford to pay their staff. Franchisors have no ownership interest in their franchisees' businesses and franchisees that share a common brand are in no way partners with each other. Each independently owned franchisee has the day-to day management responsibility over their owned businesses and no one, including the franchisor, has any authority over how they choose to conduct or manage their businesses on a day to day basis. Independent franchisees are no different than any other independent business owner and despite what SB 391 is attempting to do the legal, contractual and operational realities of the relationship will not change.

Making labor decisions, including the amount paid to their staff, is not a brand standard that franchisors can establish or enforce under the law. HB 391 appears to make the improper assumption that the franchisor and franchisee have some collective control over each other's day-to-day business affairs, and this is absolutely untrue.

Franchisees are small business owners. They independently invest in their businesses and pay the operating costs of their businesses, as would any other small business owner in Connecticut. They pay rent, wages, taxes and debt service and no other party, including the franchisor, shares in these small business obligations. Franchisees pay initial and continuing licensing fee to the franchisor for the use of the franchisor's brand and other intellectual

property. Franchisors are merely the licensors of their brands and methods of doing business and they are not co-venturers in the business affairs as this law apparently misrepresents.

Franchising is of considerable importance to the economic development of Connecticut as it is for the rest of the United States. Franchising allows for the creation of independently owned businesses that enable entrepreneurs to operate their businesses under recognized brands. It is also a driving force in the creation of the jobs our residents critically need in this economy. During the economic downturn that started in 2007, over 20% of the new jobs created in the United States has come from franchising.

The stability and proven capability of franchising has allowed thousands of Nutmeggers to create equity for their families and opportunities for employment for our residents. The myth that franchisee workers are compensated at lower than market rates is also not supported by the facts. Franchisee's compete with all other employers in the State for labor, pay market driven wages and have the same business necessity of retaining their trained and talented management and staff. While increasing the minimum wage in Connecticut is a prerogative of the legislature, and an action given the economic challenges in the state that I would not recommend at this time due to the flight of businesses from our State, discriminating against franchisees should not be seen as anything but another reason business development in our state will continue to suffer.

There are nearly 8,000 franchised businesses, licensing hundreds of brands and, employing over 100,000 individuals in our State today. By attempting to change the nature of the relationship between independent entities, as SB 391 does, you will be obligating and penalizing franchisors for actions they can't control under their contracts or the law. SB 391 will most certainly damage one of the most significant contributors to job creation in our State and, is both discriminatory and most importantly, ill advised.

When we advise our clients on the operational structure and financial relationship with their franchisees we base our recommendations on the underlying profitability of the businesses each operates. Our recommendations are also based on the underlying business realities including but not limited to the competitive environment in which the franchisee and franchisor's businesses will need to operate. Having a business friendly market is of course important to where our clients choose to expand.

Markets chosen for expansion need to allow for consistent, replicable and sustainable growth for franchisors and franchisees. Responsible government policies are of course important and regulatory environments that do not cause risk to our clients' brands or the sustainability of their franchisee's operations are essential. With SB 391 the basic premise of a licensing arrangement changes in Connecticut for franchisors and franchisees resulting in a market that is no longer a viable place for franchisees or franchisors to do business in. Let us remember that franchising is employed in over 120 separate and distinct industries and I challenge any of the members of this committee to find a day in which they don't shop at an independently owned franchised business.

I am uncertain how Connecticut will be able to enforce SB 391 because of the United State's Constitutional issues it raises in discriminating against franchisees and forcing out of state franchisors to comply with the surcharges, all proceeds going to the state and not to the

workers. In addition, it should be recognized that SB 391 will damage the equity value built by existing franchisees operating in Connecticut as they will now have difficulty in selling their businesses and will likely be unable to expand further under the franchisor's marks. The additional costs imposed on franchisors will by necessity be passed on to franchisees as well and from them to consumers already challenged by the high cost of living in Connecticut. SB 391 will challenge the economic viability in Connecticut for all of franchising.

I am not a politician and my words may not be as polite as those used by politicians. But I think it interesting that this body has chosen to exempt itself from the requirements of SB 391 to pay its own workers the same higher minimum wage you want to impose on small businesses in Connecticut. In polite society all I can say is that is extraordinary. My late father would call it Chutzpah.

This body has created a Low Wage Employer Advisory Board on which I serve. That body has just started its work. While I expect that I may disagree with the outcome of the Low Wage board's opinion, primarily because of how the body was constituted, some semblance of respect is due the members of your appointed board. I think that it is beholden on this body to let us do our work, the work you assigned to us in advising you on how to deal with the low wage issue this bill attempts to address.

Respectfully I request that you vote against SB 391. Its impact on Connecticut will be dramatic but not as you might hope. Lets understand that since Seattle raised its minimum wage it has experienced the largest 3-month job loss in its history. If SB 391 passes, equity creation in Connecticut will suffer. First rung of the ladder jobs will vanish or become very limited. Those selected for entry level positions will come from the significantly older and better educated unemployed that populate our state. Franchising, the world's largest trainer of entrepreneurial and entry level job skills will cease to function in that area in Connecticut and, the exact select group of people that you wish to help will be the ones devastated by your actions. We live in a technological age and when confronted with uncontrollable labor costs, investments in technology that save on labor costs, especially in a Millennial driven marketplace will most certainly follow.

Let me close with a quote from the economist Milton Friedman. When asked, "What do you call a person whose labor is worth less than the minimum wage" Mr. Friedman simply responded – "Permanently unemployed." Lets not risk the opportunity for job creation in Connecticut for the young and other entry-level worker. Your goal to improve living standards is indeed laudable but SB 391 is neither a short or long-term solution the problem.

Thank you for allowing me to speak to you today. If you have any questions, I will be happy to answer them for you.