

## **TESTIMONY FOR THE RECORD – SB919**

Chairwoman Limon, Vice Chairman Niello, and Members of the Committee –

Thank you for the opportunity to testify today in support of Senate Bill 919. My name is Matthew Kagel, and I'm the director of state & local government relations at the International Franchise Association, the world's oldest and largest trade association for franchising. IFA works to promote, enhance, and protect franchising on behalf of its franchisee, franchisor, and supplier members, many of whom reside and do business here in the State of California.

The registration and disclosure requirements outlined in Senate Bill 919 further IFA's mission-critical priority of advancing responsible franchising, an IFA initiative that calls for all key stakeholders in franchising—franchisors, franchisees, and suppliers—to play a proactive role in the protection of the franchising model. Suppliers to the franchise system include the growing body of third-party franchise sellers—including individual brokers, broker networks, lead generators, franchise sales organizations, and franchise consultants—who play a pivotal role in the earliest stage of the franchise relationship, the franchise sales process.

Some third-party franchise sellers play an invaluable role in the strategic growth of franchise systems, providing mentorship in sustainable expansion that align with an emerging franchisors' infrastructure and financial resources, and guidance to prospective franchisees in selecting the franchise opportunity that aligns with experience and expectations. Yet, too many other third-party franchise sellers perpetuate irresponsible franchising, motivated by ever-increasing compensation generated from high-volume franchise sales and incentivized to usher prospective franchisees through the sales process as quickly as possible, regardless of whether the franchise opportunity is a good fit for either the prospective franchisee or the franchisor. By the time the misalignment is recognized, the third-party franchise seller is long gone.

Irresponsible franchising yields fractured franchise relationships, is costly, and ultimately harms the franchise model.

As it stands, third-party franchise sellers operate without necessary oversight, leaving prospective franchisees and franchisors vulnerable to misinformation and in the dark about information that is critical to making sound investment decisions.

SB 919 addresses this issue by mandating minimal yet effective disclosures from third-party franchise sellers to prospective franchisees and registration with the Commission to provide visibility to the franchise sales activity conducted in the State. Notably, the call for greater transparency in the franchise sales process through registration and disclosure by third party franchise sellers is shared by franchisors, franchisees, and suppliers, with the Coalition of Franchisee Associations and American Association of Franchisees and Dealers joining IFA in support of SB 919. This call for greater transparency also is not new: during the Federal Trade Commission's 2020 public workshop on presale disclosures under the Franchise Rule, franchise attorney, regulator and franchisee consultant participants cited to a need for the examination of the role of third-party franchise sellers in the sales process. The unified, continuing support for SB 919 demonstrates the need for greater transparency in the role of third-party franchise sellers.

SB 919 is a critical piece of legislation designed to enhance transparency for prospective franchisees and accountability of third-party franchise sellers throughout the franchise sales process.

I thank Senator Umberg for his leadership on this bill and urge the Committee to support it to promote responsible franchising, protect prospective franchisees, and foster a more equitable franchising environment in California.

Thank you for your time and attention today and I'm happy to take any questions.