

# CLEMENT TROUTMAN

FRANCHISE OWNER  
TROPICAL SMOOTHIE CAFÉ  
CAPITOL HEIGHTS, MD

TESTIMONY BEFORE THE U.S. HOUSE SMALL BUSINESS  
COMMITTEE

HEARING ON “LOCAL OWNERSHIP, NATIONAL BRANDS:  
HOW FRANCHISING IS A PATHWAY TO  
ENTREPRENEURSHIP”

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Good afternoon, Chairman Williams, Ranking Member Velazquez and distinguished members of the Committee.

My name is Clement Troutman, and I am a franchise owner of two Tropical Smoothie Café locations in Capitol Heights, Maryland, which are a part of a roughly 1,600 Tropical Smoothie Café locations that serve families and communities throughout the United States. Many of which, too, are owned by constituents of yours and operate and employee individuals as small businesses within the communities that you all represent here in Congress. In addition to our Tropical Smoothie Café locations, we are also planning our grand opening of PJ's Coffee of New Orleans here in Maryland. That said, on behalf of my fellow franchise owners, I appreciate the opportunity to be before you today to speak on local ownership, national brands, and how franchising is a pathway to entrepreneurship.

I also appear today on behalf of the International Franchise Association (IFA), the world's oldest and largest organization representing franchising worldwide. IFA works through its government relations and public policy, media relations, and educational programs to protect, enhance and promote franchising and the approximately 830,876 franchise establishments that support nearly 8.8 million direct jobs and \$896.9 billion of economic output, representing almost 3 percent of the Gross Domestic Product (GDP). IFA members include franchise companies in over 300 different business format categories, individual franchisees, and companies that support the industry in marketing, law, technology, and business development.

After my career in the United States Navy, I became a defense contractor in cybersecurity consulting, which I enjoyed and felt was a meaningful career, as it allowed me to be a part of a team to help support the warfighter. In 2015, while in my consulting career, my daughter, who was attending Howard University School of Business, approached me on a research project of hers that was about the smoothie industry. As a Baby Boomer, the smoothie industry was a new industry to me; however, shortly thereafter, I was returning from a meeting and was asked by a colleague as to whether I had ever been to a Tropical Smoothie Café. My answer was, "No, I wasn't familiar with it," yet we stopped. That lunch was a game changer. I had a smoothie and a wrap. It was real simple, but I saw the brand potential, and it reawakened the spirit of enterprise within me and being a part of team.

So in 2015, without any qualifications or background in franchising and the food service industry, I, with my wife, Jackie's support, opened my first Tropical Smoothie location less than 30 minutes from here, knowing that I could harness the teamwork learned from my background in athletics and in the United States Navy to then lead, motivate, inspire, and serve my business venture. And ironically, my first hire became my daughter following her graduation from Howard. Now, our Tropical Smoothie Cafés are a 9-year-running family business within our community with nearly 70 to 80 total employees across our two locations and we are growing.

Today's hearing is a great opportunity to highlight the power of franchising, an all-American business model that is far more than the 9 million direct jobs and roughly 831,000 establishments across America. Franchising is more than just numbers on a page – it is a powerful method for business growth in hundreds of industries, including restaurants, hospitality, personal care, pet care, security, home care, fitness, and real estate, and provides business ownership opportunities to individuals who may not have the opportunity otherwise but feel empowered to be a part of a team, to find a purpose, and to be a part of brand that is greater than themselves – all the while, helping to positively affect the lives of their employees, family, and communities as a small business owner.

To add, the franchise business model allows franchisees, like myself at Tropical Smoothie, to immediately benefit from the franchisor's existing supply chain, marketing tools, and operational systems, while maintaining control of day-to-day operations. As I always say, every franchise owner is driven by something, has a dream that may not only be monetary, but is willing to make a difference, and statically, the benefits of franchising speak for themselves: for example, franchising drives 1.8 times higher sales than comparable non-franchise establishments, and 2.3 times as many jobs than non-franchise counterparts.

For franchisors and franchisees alike, the model is a win-win, and I look forward to speaking on its benefits as a family-run franchise owner.

## The Franchise Model and the Value of Franchising

Despite how it is often characterized, franchising is not an industry, rather it is a business growth model used *within* nearly every industry. At its core, franchising is about the relationship between the franchisor and its franchisees — how the franchisor supports its franchisees, the franchisor's brand value, and how the franchisee, like myself, then meet the franchisor's obligations to deliver the products and services to the system's brand standards. For me, that is delivering quality smoothies, acai bowls, and sandwiches at our Tropical Smoothie locations in the DMV area. The franchise relationship is a long-term relationship that spans a decade and, in many cases, more than 20 years. These long-term relationships only work where the parties can trust that the relationship and the expectations each party has of the other will remain stable.

Often, franchising is mischaracterized as “big business,” yet it is not. Franchises are first a local business, like mine in Maryland, distinguished from other local businesses because we are licensed the branding and operational processes from a franchisor – for me, that is Tropical Smoothie Café – while operating independently in a defined market – for me, the greater DMV communities. The local owner, or franchisee like myself, is responsible for hiring staff, organizing schedules, managing payroll, and all daily operational tasks as well as local sales and marketing.

The value of franchising then lies in a strategic balance in the relationship between a franchisor and franchisee: the independence for me as a franchisee to manage the day-to-day operations and connections with my employees, consumers and the local community, balanced with the franchise system giving aspiring small business owners, like I was, a head start toward becoming my own boss, with a proven business model that can set up new business owners for success and easier access to financing than a traditional business.

This franchise model has allowed me as a franchise owner to become entrepreneurial, where we set and accomplished a goal of serving 1 million customers when we began our first location, where we also grew so successful as a team to the point that we had to relocate from our first 1,600 square-foot, drive-thru store to a new location, and where we partner with an 501(C)(3), Mission of Love Charities, which I sit on the Board of Directors of, to provides services like food and support items to the community of Capital Heights and the surrounding area. And lastly, the franchise model has allowed us as a franchisee to create a Customer Appreciation Day at our first location on its anniversary day, which has an emphasis on the customer and the community, because we are creating jobs for the community and it's a place where tomorrow's leaders come either as employees or customers.

Earlier this month, IFA released an updated version of its flagship research report, [The Value of](#)

[Franchising](#), in partnership with Oxford Economics. This study featured three workstreams: 1) a survey of more than 2,900 franchisees, representing over 13,000 U.S. franchised establishments; 2) a literature review of major empirical evidence around franchising; and 3) an econometric analysis comparing franchises with non-franchise employers.

In addition to the importance of franchising to the U.S. economy, this study highlights the contributions of the franchise model to positive worker outcomes, promoting entrepreneurship and supporting local communities. My own story can make up so many of these findings.

### **Franchisees as Employers**

Oxford Economics' econometric analysis of data from leading payroll services provider Paychex suggests that franchises drive stronger employee retention and faster career growth than non-franchised businesses. They found that retention rates at franchised businesses were significantly better than those of similarly situated non-franchised businesses. In the second month after initial employment, non-franchise employees were 16% more likely to leave their jobs than their franchise counterparts (conditional on still being employed at the start of the month); this figure rose to 34% in the sixth month and 49% in the 12th month.

Workers at franchised businesses also switched from part-time to full-time faster than their counterparts at non-franchised businesses, on average. In the second month after initial employment, part-time franchise employees were 20% more likely to switch to full-time employment than are non-franchise employees, all else equal. The data also show that wages grow faster for franchise employees than for non-franchise employees and that there is no difference in wage rates between franchise and non-franchise employees overall, after controlling for observable characteristics available in the dataset. In other words, franchises offer pay on par with comparable non-franchise small businesses.

And job quality extends beyond salary. The data showed that working at a franchised business was associated with 3–7 percentage points higher likelihood of receiving key benefits compared with working at a non-franchised business. The effects were strongest for sick leave and health insurance, with franchise employees 6.5 percentage points more likely to receive sick leave pay and 5.7 percentage points more likely to receive health insurance benefits. These effects were even larger for full-time employees.

### **Franchisees as Entrepreneurs**

The benefits of being a franchise owner are substantial, particularly for those new to entrepreneurship. In the IFA franchisee survey for the Value of Franchising report, franchisees were asked to describe the areas where franchisor support was received and proved most useful. The most important areas identified included access to a network (65% of franchisees found it very important), franchisee training (64%), and technology platforms (64%). For first-time business owners and women, access to an established network was perceived as very important by a larger share of respondents (67% and 69%, respectively), stressing how franchising can meaningfully help overcome barriers to business ownership for these groups.

Similarly, the 2023 Annual Business Survey found that franchised businesses were more likely to have a minority owner than non-franchised businesses, and those businesses tended to be larger than non-franchised businesses. On average, franchises reported sales 1.4 times as large as non-franchised businesses, and Black or African American franchise firms earned 2.3 times as much in

sales compared with Black-owned non-franchised businesses.

For the majority of survey respondents (64%), their franchise was the first business they owned, suggesting that franchising serves as a reliable entry point into entrepreneurship for many prospective business owners. Additionally, 30% of respondents said they would not own a business if they were not franchisees. Those respondents were more likely to be single-unit owners, women, and first-time owners. Extrapolating the percentage of enterprises that would not exist without franchising, the U.S. would have an estimated 80,000 fewer businesses, 215,500 fewer local franchise establishments, and 4.0 million fewer jobs.

### **Franchisees as Neighbors**

Most franchisees operate as small business owners who live and work in the communities they serve, with 85% of respondents owning/operating businesses in the town or region where they live. In this way, the franchise model supports local employment and helps circulate wealth and economic growth within the community. Franchise supply chains also support the local economy: on average, franchisees purchased 40% of their inputs from local suppliers. Even further, approximately 83% of franchisees surveyed gave to local charities during the previous year. By aggregating those responses, the report found that, during the last financial year, U.S. franchisees donated an estimated \$2.3 billion to charity, raised \$2.6 billion, and sponsored 34 million hours of volunteer activity.

## **The Veteran Advantage: From the Navy to Franchising**

My career in the United States Navy provided the foundational toolkit that allowed me to transition successfully into business ownership in 2015. My transition from the United States Navy to small business ownership was successful because franchising mirrors the structured, mission-driven environment I knew in uniform. In the military, we live and die by standard operating procedures; a franchise operation manual is remarkably similar to the manuals used to operate complex military equipment. This "business-in-a-box" model allowed me to execute a proven playbook with the same precision I used in the service, translating my background in logistics and team coordination directly into operational excellence. For a veteran, franchising isn't about reinventing the wheel, it's about "owning the mission" and leading a team to achieve a well-defined objective.

Beyond my own success, I believe other veterans are uniquely positioned to benefit from this pathway to entrepreneurship. Veterans are nearly three times as likely to own a franchise as non-veterans because they possess a "leadership toolkit" – emotional intelligence, resilience, and the ability to make decisions under pressure – that others may spend years developing. Furthermore, programs like IFA's VetFran and the SBA's Veterans Advantage offer critical financial incentives, such as fee reductions and specialized lending, which make ownership accessible even to those without prior business experience. By entering franchising, veterans don't just find a second career; they build wealth, stabilize their families, and continue their legacy of service by providing meaningful employment to their local communities.

My military background taught me how to lead, motivate, and inspire. Today, I apply those lessons to manage nearly 80 employees, providing them with the same sense of purpose and teamwork I felt during my service. Whether serving the warfighter as a contractor or partnering with Mission of Love Charities to provide food to those in need, the mission remains the core of my enterprise.

## SBA Lending and the Franchise Directory

Next, I'd like to speak about the importance of the Small Business Administration (SBA) and the access to capital that its lending programs provide for entrepreneurs, like myself, to become franchise owners within a franchise system, like Tropical Smoothie. When I was beginning my first location, I was completely a new franchisee and needed access to capital, which I did not know how to do with a bank lender. However, my franchisor's familiarity with the SBA's 7(a) loan program was instrumental, as it allowed us to access capital to start my venture under the best conditions and was an instrumental part of our and many others franchise success story. The 7(a)-loan program is so important and widely utilized amongst many of my franchise-owning peers, in which in fiscal year 2024 along, the SBA guaranteed \$31.1 billion in 7(a) loan volume and \$6.7 billion in 504 loan volume. Of which, franchises have represented about 20% of SBA loans by dollar volume.

To that end, I'd also like to highlight the welcomed news to the franchising community last spring, where the SBA stated it was reinstating the Franchise Directory. The Directory, which was unfortunately eliminated in 2023, is an essential and centralized tool for lenders to assess SBA loan eligibility and financing for franchisees, like mine. The SBA Directory has also served as a beneficial tool for prospective franchisees as we continue to evaluate franchise opportunities.

On behalf of IFA, we appreciate the Committee's attention to this issue given how critical SBA lending is to new franchisees and appreciate your efforts to once again have the use of the Franchise Directory for both banks and borrowers.

## Tax Policies that Support Small Businesses

Last summer, Congress enacted the One Big Beautiful Bill, which provided critical tax relief to small businesses, making permanent provisions like the 199A small business deduction, bonus depreciation, interest deductibility, and estate tax relief. In particular, as a family-run franchisee, I cannot underscore my appreciation for the estate tax relief.

### Estate Tax

Again, with my daughter being a vital role in our franchise locations, acting in a manner similar to Chief Operating Officer, the changes within the estate tax are so vitally important to me, as we see our Tropical Smoothie Café as a something being built for the future of our family. I know other franchise owners feel the same.

The TCJA made permanent the \$5 million estate tax exemption, spousal transfer and stepped-up basis that was passed as part of the American Taxpayer Relief Act of 2012 and increased the exemption to \$11 million through the end of 2025. Yet, the One Big Beautiful Bill went a step further, raising the exemption amount to \$15 million for individuals, indexed to inflation.

These provisions are critical to allowing family businesses, like ours, to be passed down to the next generation without selling or taking on crushing debt burdens. Throughout the franchise community this is especially critical, as many franchisees are family-owned and operated. Estate taxes can pose a substantial burden on family-owned businesses when owners pass away. Without careful planning, heirs may be forced to sell off parts or all of the business to cover the tax liability. The TCJA's increased estate tax exemption helps maintain the business's continuity and

preserves the family's legacy. Moreover, family businesses often have significant value tied up in illiquid assets, such as property, equipment, and inventory. Paying a large estate tax can create a liquidity crisis. By increasing the exemption, I applaud Congress in lessening the immediate financial strain on these businesses, enabling our family and others to focus on long-term strategic planning rather than worrying about immediate tax liabilities.

### The Power of the 199A Deduction

As a franchise owner, I cannot overstate the impact of the 199A Small Business Deduction, which was made permanent and expanded under the One Big Beautiful Bill (OB BB) Act enacted last summer. Prior to this legislation, the 199A deduction was a temporary provision scheduled to expire. For a family business like ours, making this permanent provides the long-term stability needed to plan future investments in our staff and additional locations. Most franchises are organized as "pass-through" entities, meaning our business income is taxed at individual rates. The 199A deduction ensures we remain competitive by allowing us to deduct a significant portion of our qualified business income, which we then reinvest directly into our Capitol Heights community.

### Work Opportunity Tax Credit (WOTC)

WOTC is a federal tax credit available to employers for hiring and employing individuals from certain targeted groups who have faced significant barriers to employment, including SNAP recipients, supplemental security income recipients, ex-felons and certain veterans. According to Department of Labor statistics, WOTC supports the hiring of around two million such individuals annually. IFA supports support efforts to strengthen WOTC and expand its eligibility to additional groups.

## The American Franchise Act: Securing the Future of Local Ownership

Finally, I urge this Committee to support and enact the American Franchise Act (AFA). This bipartisan, bicameral legislation is essential to ending a decade of "regulatory whiplash" that has threatened the independence of small business owners like myself.

For years, shifting federal rules have blurred the lines between franchisors and franchisees. The AFA would codify a uniform standard, clarifying that a franchisor is only a "joint employer" if they exercise substantial, direct, and immediate control over hiring, firing, or wages. As a franchisee, I am responsible for my own payroll, scheduling, and daily operations. The AFA ensures I remain an independent employer, preventing the government from treating me as a mere middle-manager of a large corporation. Currently, many franchisors are hesitant to provide advanced training or recruitment tools for fear of being labeled a joint employer. By enacting the AFA, Congress will allow brands to better support their local owners with best practices and resources without increasing legal liability.

Franchising is a uniquely American engine of upward mobility. By supporting the American Franchise Act and maintaining the tax benefits of the OB BB Act, you are protecting the dreams of thousands of veterans and family business owners across the country.

In conclusion, I'd like to express my gratitude to the Committee for holding this hearing on franchising, a business model that has benefited not just myself and Tropical Smoothie Café, but also the millions of Americans that work at small businesses and enjoy the diverse products and services franchising offers every day. Congress should not only support this business model through sound tax and regulation but celebrate as a uniquely American business model that provides incredibly upward mobility that could only exist in the greatest country on earth.

Mr. Chairman, Members of the Committee, thank you again for the opportunity to testify, and I look forward to your questions.