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Local Ownership, National Brands: How Franchising Is a Pathway to Entrepreneurship

Chairman, Ranking Member, and Members of the Committee,

Thank you for the opportunity to testify before you today. My name is Rico Macaraeg. I am a veteran, a franchise owner, and a small business operator.

I am here to speak about how franchising can be a powerful pathway to entrepreneurship—and how the systems surrounding it are creating unnecessary barriers for entrepreneurs like me.

I believe context matters. We all have origin stories, and mine helps explain why this work matters so deeply to me.

I grew up poor. My mother was a single mother raising three boys, working three jobs just to make ends meet. My father was an immigrant from the Philippines who became an American citizen and worked for the Department of the Navy for more than 30 years. There was no generational wealth and no safety net—only hard work and resilience.

I served in the United States military for eight years, from 2003 to 2011, with deployments across the Middle East, South America, Africa, and Europe. When I left the service, like many veterans, I transitioned directly into the workforce with no clear plan—just grit and a strong military work ethic.

At the same time, I studied nights and weekends full time, earning my bachelor's degree in Organizational Leadership from National University in San Diego, and later my MBA from Georgetown University's McDonough School of Business.

I went on to hold senior corporate leadership roles, including head of marketing for Lamborghini North America and Lord & Taylor. By many measures, I had a successful corporate career.

But entrepreneurship—owning something and building something—was always our dream.

My co-founder and husband, Steven, also chose a path of service. He served our nation as a Peace Corps volunteer in Morocco for nearly three years, working directly with local communities to help build small businesses. Service—to country and to others—has always been part of our DNA.

Together, we wanted to build an organization that would create jobs, support healthier lives, and ultimately provide the foundation for a lasting family legacy and philanthropy.

That's why we chose franchising. Franchising is often presented as a structured and supported entry into entrepreneurship, particularly for veterans and mission-driven founders—one that allows local owners to succeed with the backing of national brands.

And in many ways, that promise is real.

But what is often overlooked is how shifts in the macro-economic environment and policy decisions impact local franchise owners first—and hardest.

These issues are not abstract. They determine whether a business opens on time, whether employees are hired, whether benefits are offered, and whether a business survives its first critical year.

First, tariffs.

Tariffs matter because they directly affect the cost of building and equipping a business—long before a single dollar of revenue is earned. Most furniture, fixtures, and equipment for franchise businesses are sourced overseas, primarily from China. As a result, we have seen cost increases of **25 to 50 percent** on required items.

After one of our projects opened, I received a **\$30,000 tariff bill**—three months after opening—for equipment we had already purchased and installed. That cost was never forecasted and could not be planned for. For a newly opened small business, that kind of surprise expense immediately drains working capital and often forces higher prices on consumers.

Second, economic instability and inflation.

For small business owners, predictability is essential. When costs change rapidly, it becomes extremely difficult to budget, hire, and grow responsibly.

Earlier this year, one of our locations was built at **\$130 per square foot**. Just months later, the same studio design, using the same materials, now costs **\$165 to \$170 per square foot**—an increase of more than **25 percent**.

Those increases don't just raise construction budgets. They reduce capital available for staffing, training, marketing, and employee benefits. Local owners absorb these costs personally, while larger national brands are insulated.

Third, the Franchise Disclosure Document, or FDD.

For first-time entrepreneurs, the FDD is often treated as a trusted and reliable source of information. In reality, it is not meaningfully regulated. Franchisors can choose what financial data to include, how it is averaged, and how it is presented.

When we purchased our franchise in 2024, we were shown financial data that did not reflect subsequent material changes to design, operations, or costs. Build-out expenses later doubled—from **\$400,000 to \$800,000**—yet none of that was reflected in the disclosures we relied on.

This lack of consistency can turn what appears to be a safe investment into a highly risky one, with life-altering financial consequences for local owners.

Fourth, veteran access to capital.

Veterans are encouraged to become entrepreneurs, yet there is no meaningful capital product through the Veterans Administration to support that transition. Education and housing benefits exist—but entrepreneurship funding does not. Without access to appropriate capital at reasonable terms, the dream of business ownership remains out of reach for many veterans.

Finally, healthcare.

Healthcare costs directly affect hiring, retention, and long-term stability. Rising premiums and economic uncertainty make offering coverage increasingly difficult for small businesses.

Even when we attempted to provide stipends so employees could purchase their own plans, healthcare had become unaffordable. Costs have increased by as much as **300 percent** compared to what many employees previously paid.

Starting a business has been our dream. But economic instability, rising costs, lack of transparency, and limited access to capital have made that journey far harder than it needs to be.

Franchising can be a pathway to entrepreneurship—but only if policy keeps pace with the realities faced by local owners. This is not a partisan issue. It is about preserving the entrepreneurial spirit that has always defined our country.

Thank you. I look forward to your questions.