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Franchising heats up as economy cools down

Tue Feb 24, 2009 10:43am EST

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By Deborah L. Cohen

CHICAGO (Reuters.com) - David Ambinder spent more than 25 years on Wall Street, most recently as a senior vice president of global support services for Lehman Brothers. When he got a pink slip last summer - just months before the investment bank filed for bankruptcy - he turned his attention to more humble endeavors: fixing up people's homes.

Ambinder, whose retirement package was hard hit by the economic downturn, dipped into savings and mortgaged his home to start a Union, New Jersey branch of a longstanding franchise called Mr. Handyman. The business sends skilled craftsmen to do a variety of household jobs ranging from installing toilets to cleaning gutters.

"It's very exciting to build a business; for me it's the right move," says Ambinder, who opened his doors in November after evaluating several franchise choices with a broker. "People aren't going to be moving and they are going to need their homes repaired. I feel there's a niche for it."

Ambinder declined to discuss specific costs of his business but Sara Faiwell, a spokeswoman for Mr. Handyman, said the average cost of a franchise is about \$110,000 with a franchise fee of \$14,900.

Among the rolls of laid off bankers, executives and blue collar workers - as well as the gainfully employed who can see the writing on the walls - are many aspiring franchisees looking to make the leap into entrepreneurship under the safety net of a tried-and-true business umbrella. They're sick of watching their 401Ks get hammered in the stock market and are looking for a structured plan that offers the promise of financial independence.

"I got my severance and retirement but that's not enough," says Jim Keck, a former plant manager for troubled automotive parts maker Delphi Corp. Keck's 35-year career with the company ended in July when Delphi closed its Kettering, Ohio facility and moved production overseas. He looked at three service franchises before choosing DUCTZ, which provides air duct cleaning and restoration services.

"They have a business model that works," says Keck.

INTEREST PICKING UP

A 2005 survey released by the Washington-based International Franchise Association showed that there were more than 909,000 franchised establishments in the United States alone, employing some 11 million people, or 8.1 percent of private sector jobs. In January, the IFA, which represents franchisors, forecast that the recession will lead to a 1.2 percent decrease in the number of franchised establishments this year as more businesses go under.

Even so, anecdotal evidence suggests that overall interest in franchising is indeed picking up, tracking earlier patterns set during troubled economic

times. Jim George, chief executive of Natick, Mass.-based Snip-Its Corp., a 65-unit chain of hair salons catering to children, agrees.

"January was our best month in the number of inquiries in the past seven or eight months," says George, noting that hair-care is somewhat recession-proof. "That is very positive."

Alisa Harrison, a spokeswoman for the IFA, said many of the workshops at the association's national conference in San Diego earlier this month drew standing room only crowds. "We're hearing from our people that they're finding greater interest and greater qualified candidates," she says.

Franchising is not for everyone. Terms vary widely but in exchange for use of the brand and business format, franchisees typically pay an initial licensing fee to the franchisor and turn over a percentage of their sales. In exchange, they get training, advertising and IT support, breaks on procurement costs and access to a network of established operators. The IFA says cost of entry ranges from \$20,000 or less for a simple home-based business to more than \$1 million for businesses requiring real estate and customized equipment.

One major problem slowing franchising progress is the severity of the current downturn and its impact on the ability of potential franchisees to obtain financing, says Harrison.

Indeed, the lack of available credit and eroding retirement savings may be curbing the appetite for bigger-ticket franchises such as restaurants as interested candidates hunt for lower-cost concepts that have recessionary staying power.

"They're not spending as much as they would have a year or two ago," says Blair Nicol, a San Diego-based franchise broker with FranNet, a national franchise consulting firm. He estimates that the average level of investment has dropped to a range of roughly \$80,000 to \$150,000 from \$150,000 to \$250,000 in 2007. Even so, he says: "We're busier than ever right now."

Among the more attractive concepts are those that provide services in business coaching, information technology and digital imaging as well as a host of franchises targeting senior care, which is set to heat up as baby-boomers continue to age, says Nicol.

That should come as no surprise to Carol Lange, a former Johnson & Johnson marketing executive who recently opened a Vancouver, Canada franchise offering in-home nursing care to the elderly.

"I realized that this is the best place to go," says Lange. "I can either go back to Corporate America, fear for my job every day and do more with less, or I can go into an industry that's all about caring for people and carve out my own road."

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