

Lending slowdown puts chill on potential franchisers

By Nicole Norfleet

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Tim Lynch, 31, wanted a career change.

He was one of thousands of potential franchisees milling about the Walter E. Washington Convention Center for the [International Franchise Expo](#) the weekend before last.

With banks freezing up on franchise lending, it's more difficult for potential franchisees to secure the financing they need to get their businesses off the ground. To help solve this problem and attract more franchisees, franchisers have cut start-up costs and some have offered financing themselves.

Lynch, an engineer for a defense contractor, said he was at the conference to get a feel for his opportunities. He walked from booth to booth on the expo's opening day, not sure exactly what kind of franchise he wanted.

Lynch of Gainesville, Va., said he wanted to secure financing from a bank, but he knew it would be hard due to the economic climate. He had set a \$60,000 to \$80,000 limit on how much of his own money he would initially invest.

"I definitely don't want to tie up all my capital," he said.

That's a common sentiment these days.

"It would be the greatest time in the history of franchising, if there was enough financing," said Tom Portesy, president of [MFV Expositions](#), producer of the expo. With real estate for stores dropping in price and more qualified people looking into franchising, the industry could experience a lot of growth, Portesy said.

But franchisees are facing a "very risk averse world right now," said Darrell Johnson, president and chief executive of [Fradata](#), an Arlington-based company that monitors national franchising data and provides franchise risk assessments for banks.

Johnson estimates that the lack of financing could reduce the number of potential new openings by half this year.

To help more people enter the system, some franchisers now provide financial assistance.

Since the fourth quarter of 2009, [Home Service Franchising](#), an Alexandria-based firm that offers several potential home improvement concepts, has reduced its fees, provided financing and offered other incentives to help potential franchisees get started, said Paul Flick, the company's chief executive.

"We've never done financing before," he said. "Never had to until the meltdown. There are so many good potential franchises out there that are just having a hard time."

Lately, the company has encouraged new franchise operators to work from home instead of being burdened with the cost of an office, at least until the economy recovers and demand for home improvement services grows.

The economy hasn't hurt all franchises.

[Wireless Zone](#), a retail franchise for [Verizon Wireless](#) products, has about 25 local stores. Last year was a record growth year for the company, with about 100 new store openings nationally, said Sean Fitzgerald, Wireless Zone's national vice president of franchise development. Fitzgerald attributes the growth to low initial investment costs and the thriving wireless industry.

"Even if people are downsizing on their houses or their cars or anything, they are not cutting back on their cellphones," he said.

Wireless Zone is offering to finance half of the franchise fee for newcomers, he said. Verizon Wireless also is offering \$25,000 to put toward marketing costs.

[Mario L. Herman](#), a D.C.-based franchise attorney, said the current credit climate has forced franchisers to be more responsible for their franchisees' success, which in turn will help the entire market. In the past, Herman joked that anybody whose check cleared was allowed to open a franchise. With the credit crunch, franchisers have had to be more realistic in their selections and ultimately put their money where their mouth is, he said.

Franchisees also have to go into the business with realistic expectations, Herman said.

"Franchising is not a ticket for riches," he said. "For most people, it is just buying them a job, and a low-paying job at that."

Herman advises people interested in joining a franchise to review in detail what financial assistance franchisers are providing and how many franchisees in that company have failed. He also suggests reading every detail of the franchiser disclosure document and contacting former franchisees.