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Making a go of it with a franchise

More Americans are choosing an investment in ownership

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Tom Wiens is pumped.

Only two months after opening his own Max Muscle franchise in Eugene, Wiens, 49, comes into work every day excited about the decision he says he has “banked his whole future on.”

“This is going to be huge,” he said, elatedly.

A former Marine and 18-year Les Schwab employee, Wiens is one of the thousands of Americans who have taken, or will take, the plunge into franchise ownership in 2011.

Wiens said he decided to go into business for himself because he felt he had reached a career plateau and because he has seen a former colleague open a successful Max Muscle franchise in Bend.

Wiens looked into getting credit to finance the franchise purchase both through a bank and through the federal Small Business Administration Patriot Express Loan program, which is designed to help veterans borrow.

But ultimately he opted to pay the approximately \$200,000 in start-up costs out of his own pocket because of the difficulty he had in finding financing.

“It’s so tough right now to find those borrowing funds,” he said.

Wiens said he chose to buy into Max Muscle because of what he felt was the quality of the corporation’s line of nutrition supplements and vitamins and because of the support system it provides for franchisees.

Industry experts expect 2011 to be something of a bounce-back year for franchising, after a loss of almost 30,000 individual franchises nationwide during the depths of the recession in 2009 and anemic franchise growth in 2010.

This year, the number of franchises across the United States is expected to grow by 2.5 percent, to 784,802, according the International Franchise Association.

Limited credit availability for small businesses remains a major stumbling block to a faster recovery, said Alisa Harrison, a spokeswoman for the association, which has been lobbying in Washington, D.C., this year for some of the postrecession bank lending regulations to be

loosened.

“During past recessions, (the franchising industry) has done quite well,” she said. “But credit is so tight right now, it makes things difficult. ... Still, this year is going better than last year.”

Tighter credit markets have meant that franchises which require a lower initial investment — such as tutoring, home repair, or pet care services — are seeing more growth than the more traditional but more expensive food service or hotel franchises, said Page Nicol, the owner of FranNet, a franchising consulting company based in Portland.

“Franchises with upfront costs of \$75,000 to \$125,000 are doing the best right now in Oregon,” he said. “The majority of our clients are using some savings and some equity, but very little financing.”

Mark Beauchamp, one of the founders of Cafe Yumm!, which began in Eugene and now has 11 franchises across Oregon, said every economic factor that would have fueled healthy franchise growth was turned on its head by the recession.

“For the general franchise market, I think the growth we’ll see in the short term will be very marginal,” Beauchamp said. “But there are still those (companies) that are being aggressive and taking advantage of the fact that it’s a good time to expand because of preferable lease conditions and good location options.”

Strong local interest

Although the Portland metro area has traditionally attracted the highest concentration of franchises in the state, interest in franchising opportunities in Eugene and Springfield is very high, said Nicol, the host of several recent seminars about franchising in Lane County.

With many people facing employment instability and uncertain job prospects, purchasing a franchise often can offer a more stable future, he added.

Although franchise owners typically come from a variety of demographic backgrounds, early retirees, laid-off white-collar workers, the adult children of middle class “baby boomers,” and veterans are some of the groups that frequently are attracted to franchising, several sources said.

“Buying into a franchise can be attractive to somebody who has a little bit of money and who has been in business long enough to know how difficult it is ‘to get all your ducks in order’ to start your own business,” said Jim Lindly, executive director of the Lane Community College Business Development Center.

Franchises tend to be less likely to fail than independent businesses, Nicol said, both because of the name-brand recognition of a franchise in a given industry and because established franchisors provide a proven rather than an experimental business model.

“There’s a risk-mitigation factor to a franchise that is very appealing to people,” he said.

James Burke, a retired physician who opened Woodcraft, a woodworking retail franchise, in Eugene in 1999, said it was the parent company’s business know-how that attracted him.

“I didn’t feel like I had enough experience to start a large business from scratch,” he said. “They helped me negotiate my lease, set up the store ... and with a lot of the legal stuff.

“It was essentially a ‘turn-key’ operation,” he said.

Wiens said that, as part of becoming a Max Muscle franchisee, he went through more than 200 hours of training, a process that included becoming a certified fitness and nutrition coach.

On top of that training, he said, he has been in regular contact with company representatives as he learns the ropes of operating his store on a day-to-day basis.

“I can pick up the phone or shoot an e-mail to the (company) owners or other franchisees any time I have a problem or a question,” he said. “It’s a really nice to have that communication.”

Mixed experiences

Burke said there were pros and cons to his experience as a Woodcraft franchise owner, which ended in 2009 when he sold the store. Burke paid \$200,000 in start-up costs for the store with a 30 percent down payment. He signed a 10-year contract with the franchisor and paid a small percentage of his gross sales to the parent company — fairly typical franchise contract terms.

Burke earned about half of what he did as a physician during his tenure as a franchisee and “about broke even” when he sold the business, he said.

“I didn’t see a huge windfall after owning (the business) for 10 years,” he said. “But it was a good deal for me and (the buyer).”

Burke said that being part of a franchise was helpful in terms of increasing his buying power and driving down supplier prices.

The franchisor also covered all the brand’s marketing and advertising costs.

However, Burke said, he ran into some control issues with the franchisors.

For example, he said he found them unresponsive to input from franchise owners about different ideas for improving their stores.

He also said he was required to carry merchandise he didn’t feel was a good local fit, such as NASCAR helmets.

“Overall, it was a mixed experience,” he said. “People who are headstrong can find themselves frustrated by the franchise model.”

Lindly, of the LCC Business Development Center, said different companies allow varying degrees of franchisee control at their own location.

“Some (companies), if you don’t do it their way, they’ll take your sign down,” he said.

But, from the franchisor’s point of view, having consistency at all the company’s locations is key to ensuring that a brand stays strong, Beauchamp of Cafe Yumm! said.

“Crafting a successful business model is difficult, but making it exportable is even more of a

challenging task,” Beauchamp said.

“Our main goal is making sure guests get the same great experience at all our locations,” he said. “Our franchisees have to be willing to run our system.”

Ultimately, industry experts say, the best way to avoid friction with a parent company is for franchise purchasers to do their research and pick a company that suits them best.

“The biggest mistake people make is to buy into (a business) that is familiar,” Nicol of FranNet said. “There’s no quicker way to start hating that business.”

“I recommend buying into a business that you know has a future,” he said.

Burke said he isn’t sure whether he would have become a Woodcraft franchisee if he could go back in time.

“People need to do their homework before they get involved with a franchise,” he said.

“Talk to as many of the company’s franchise owners as possible, not just the names (the parent company) gives you. Get the full picture.”

Franchise Investment Costs

Upfront costs can vary widely. For example:

Subway: \$100,000 to \$285,000

Cafe Yumm!: \$350,000 to \$500,000

Courtyard by Marriott: \$5,000,000 to \$7,000,000

Hilton Hotels and Resorts: \$53,000,000 to \$90,000,000

AAMCO Transmissions: \$196,000 to \$252,000

Bally Total Fitness: \$1,000,000 to \$2,500,000

Mr. Handyman: \$91,000 to \$132,000

Pet Butler: \$39,500 to \$92,000

Source: Company websites; www.thefranchisemall.com

More information on franchising: Call Lane Community College Small Business Development Center, 541-463-5255

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