Faltering economy spurs interest in franchising

By ***Gail Appleson***
ST. LOUIS POST-DISPATCH
Sunday, May. 04 2008

Jason Coleman, 50, used to be a middle manager at Chevron Corp. in San Francisco. But if you're looking for him now, you might find him scooping ice cream at the Baskin-Robbins that recently opened at the intersection of Manchester and McKnight in Rock Hill.

No, it's not because he's hit hard times. Instead, Coleman is right where he wants to be. After all, he's his own boss and a franchisee in the world's largest chain of ice cream shops. And despite the worsening economy, this Chesterfield resident plans to open up three more stores.

"I'm a fairly long-term investor," said Coleman, a Jamoca Almond Fudge fan who grew up on Baskin-Robbins. "The economy goes up and down, and you anticipate that as a businessman."

Indeed, the economy is not a deterrent to franchising. It appears to be fueling it.

Spurred by the faltering economy, corporate downsizings are producing a pool of seasoned managers and executives considering self-employment. The once well-compensated baby boomers also are facing tough competition from younger, less experienced job candidates willing to work for lower pay.

"There are businesses that will do well because of the recession," said Eric Reiss, who specializes in franchising law at St. Louis-based Greensfelder, Hemker & Gale. "Franchisors absolutely love it because everybody's getting canned. The recession is a boon for them. I've never been busier."

He said brokers, who match franchisors with franchisees, are using outsourcing companies to find out-of-work executives, who can make excellent business operators.

"They are filled with executives that never want to work for anyone again," he said.

The franchising business also is getting a boost from good property leasing deals, said Ryan Woods of Clayton-based Lee & Associates of St. Louis, a commercial real estate firm. He specializes in locating space for franchisors and franchisees.

A year and a half ago, it would have been impossible for potential tenants offering new concepts to lease certain desirable properties. Not only can they lease those properties now but the terms are far better, Woods said.

"They (landlords) are in deep trouble and need to get the spaces leased," he said. "Landlords now need franchisees much more. The environment is much more conducive to franchisees."

The franchising sector is an important part of the U.S. economy, regardless of the twist and turns of the business cycle. The International Franchise Association, a Washington-based industry group, released a recent study showing that the sector grew by more than 18 percent from 2001 to 2005, adding more than 140,000 new businesses and 1.2 million new jobs during that period.

The study, prepared by PricewaterhouseCoopers, showed that franchise businesses outpaced the economy as a whole during that period in terms of the rate of growth, jobs and payroll. Franchise payrolls alone grew by 22 percent to $279 billion, faster than any other industry businesses, the report said.

Although the 2005 figures are the most recent, anecdotal information suggests figures are rising even as the economy slides, said Alisa Harrison, IFA spokeswoman.

"The franchise sector fares well during downturns in the economy, and we expect that to continue," she said.

Canton, Mass.-based Baskin-Robbins, for example, expects a total of 100 new franchised stores by the end of 2008. That's 50 more than in 2007, said James Franks, director of franchising. Baskin-Robbins, which is part of Dunkin' Brands Inc., has 2,800 stores in the United States.

St. Louis is one of the ice cream company's focus markets, and it hopes to add more than 40 franchises here in the next four years. There are currently seven Baskin-Robbins in the St. Louis area.

Franks has been in the franchising business for some 19 years and has seen the sector react in downturns. When experienced employees are downsized out of jobs, they don't want to go back to the corporate world. Instead, they want their own businesses, but with less risk.

"They want to control their own future. There's a sense of security investing in a credible business system rather than going out on their own," Franks said. "Even if the economy is shifting, people may not be taking trips to Disney World but they will still go to Baskin-Robbins."

In Coleman's case, he didn't pursue a franchise because of a job loss. He moved to the St. Louis area in 1996 when his wife, an Air Force nurse, was transferred. But Coleman was unable to find a position here that was comparable to his job on the West Coast.

"The economy was changing, and the ranks of middle managers were shrinking," he said. So Coleman became a management consultant, running a business from his home, before deciding to become a franchisee.

Baskin-Robbins' training and support system for franchisees was a key reason why Coleman went with that franchise. But he also liked the concept.

"The nature of the ice cream business is it's a happy business," he said. "People come in when they're in a good mood or because they want to be in one."

Franchised businesses have a good shot at success because they often offer services that consumers need regardless of the economic situation, said Ken Coleman, a consultant in the local office of FranNet, a national franchise broker. (He is not related to Jason Coleman.)

"These businesses are recession-proof and can be solid investments during tough times," he said.

About 80 percent of FranNet clients tend to spend between $50,000 to $150,000 on initial startup costs, including licensing fees. He said initial costs can be as low as $30,000 for a small office setup or home-based operation and as high as more than $1 million for a full-service restaurant.

One of the areas seeing a strong uptick is in senior health care services, according to IFA.

That niche is being filled by franchises like Omaha, Neb.-based Right at Home, which provides in-home care to seniors and disabled adults. It has a franchised unit in St. Charles and one in Frontenac.

Founded in 1995, the company has 151 franchised units in 39 states. It added 35 franchised units last year and will add 55 more this year, said Allen Hager, Right at Home president and founder.

Helping spur the senior home health care business is the unprecedented number of people in their 50s and 60s whose parents are still alive, Hager said.

That means aging baby boomers are the primary caregivers, and they need help, he said.

"I've even had an individual who was 76 who needed to get care for her parent," Hager said. "If you need our service, you need it. It's not a luxury item. It's a quality of life issue."

gappleson@post-dispatch.com

314-340-8331
