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Jobless seek future in franchising

Elise Anderson THE WASHINGTON TIMES

As Elizabeth Winterhalter and her husband, Monte, packed up their house in Glastonbury, Conn., for their move to McLean, they were eager and anxious about trading the pain of unemployment for the promise and peril of something they had never tried before — running a franchise.

"[Monte] was managing 1,200 employees at the JCPenney's East Coast office in Manchester and worked for them for 35 years. He did everything for them ... but then in January they let him go. That was the only job he ever had; he started as a supervisor and then worked his way up to the head guy. Losing his job was a shock," said Mrs. Winterhalter, who also found out in February that her teaching job would be reduced to part time.

"You think, 'What can we do?' and we decided to turn the whole thing around ... We knew we would have to move, we had a big house and expensive house payments," she said.

The move is taking Mr. and Mrs. Winterhalter more than 300 miles to a rental house in McLean, where they will live while trying to negotiate a lease location for their Red Mango franchise, which will serve healthy nonfat frozen yogurt in the Washington area.

Franchising has become a popular trend among those recently faced with unemployment because of cutbacks due to the recession, a fate that both Mr. and Mrs. Winterhalter experienced in the Hartford suburb.

Alisa Harrison, vice president of communications and marketing at the International Franchise Association, located in Washington, said, "Generally during recessions we see an increased interest in people wanting to get into franchising."

But what's most interesting is that there is "an increase in the experience and quality of people because they are often highly-skilled workers who have been recently laid off ... Our members are saying that they're getting an increased level of experienced applicants, people who are more serious," she said.

In a 2008 report for the International Franchise Association Educational Foundation, PricewaterhouseCoopers said that in 2005, "business-format franchises operated 773,435 establishments in the United States," a number that grew to 847,246 by 2007.

Similarly, the number of full-time and part-time jobs provided by franchised businesses increased from 9 million to 9.8 million in the same period.

Although these numbers were expected to decline slightly in 2008-2009 due to the recession, the decline in the number of establishments and output were predicted to be less substantial than the growth seen in 2007-2008.

As franchising becomes more popular among the recently unemployed, these franchisees are hoping the franchise industry fares better than other industries in today's economy.

"It's make it or break it right now, but with a lot of hard work, we can be successful," Mrs. Winterhalter said, after explaining that her husband's severance check is being used to fund the franchise.

"We couldn't even try to get a loan for a home because it's so hard. You can't get a loan if you can't show income, so that was just one more thing for us, but you have to keep going. So we sold our house and will be renting until we know where we're leasing," she said.

Like the Winterhalters, Angela Dillen of Keller, Texas, decided to open a franchise when she lost her job, despite being a faithful long-term employee.

After losing her job at Citibank in May 2008, Ms. Dillen decided to open a Massage Heights franchise, which offers deep tissue and therapeutic massages to its customers.

"I had worked with them for 15 years, and I wasn't really happy that you work with a company for 15 years and then you're just laid off. I didn't want that to happen again," she said.

As a single mother, she needed time away from the corporate environment. She needed more time for family and more flexibility.

But financing the franchise was tough, as she had to use a combination of her own saved money and retirement funds, as well as loans.

But using her retirement funds to finance a franchise, although a potential risk, may be the key to franchising in today's economic downturn.

Ms. Harrison, of IFA, explained that in many cases, people with access to such funds are the only ones who are capable of franchising in a difficult economy, as people who show an increased interest in franchising are "probably people who will have more assets to tap in to, especially financially."

"Franchising runs across 85 different industries, and can range from a start-up of \$25,000 to a more expensive, multimillion-dollar franchise" depending on the level the franchisee can afford, Ms. Harrison said.

Even for the cheaper franchise options, accessing money that had previously been allocated for retirement may be much easier than applying for and receiving a loan.

Still, franchisees are drawn to the possibility of success, as unemployment has left them with few options.

Ms. Dillen was hoping to see immediate results, but "it's been about seven months since we started in mid-December 2008, and we're growing. [The growth] isn't at the rate we expected because of the economy, but I can definitely foresee positive results with an improved economy."

Ms. Dillen has always had a desire to own her own business, but it's simply too risky to for a privately owned start-up, she explained.

Right now she employs about 15 people in a mix of full- and part-time positions. The massage therapy franchise opportunity gave her the chance to operate her own business with less of the financial burden and stress of doing it on her own.

The prospect of operating a business through the guidance of franchising also interested Mark Prioleau of Fort Washington, who worked for 22 years at Freddie Mac and most recently held the position of senior project manager.

"After working [for Freddie Mac] for 22 years, I could have gone back into the corporate world, but it was a timing issue. If my wife and I were ever going to go the entrepreneurial route, this was the time to go in where I was in my life," he said.

But Mr. Prioleau is also experiencing the financial burden of starting his Molly Maid cleaning business, which employs four people, including himself, after first offering its services to customers at the end of April.

"It wasn't easy to start-up, and we had to utilize a lot of savings ... Writing the check can seem like the easiest part, but it's painful when you start writing the numbers," he said.

Like other entrepreneurs who are new to the franchise business, Mr. Prioleau is wary about the future and survival of a new company; he has been told that the first three years are the most challenging, but with the current economic problems continuing, there may be an even longer struggle.