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Enterprise / By Richard Gibson

## Franchise Backers Become Hesitant, Demanding

*Other Franchising News:  
Hungry for Hamburgers  
And Rule Update Dispute*

**L**ENDERS ARE BECOMING increasingly skittish about franchising. Evidence of why isn't hard to find. Fitch Inc. reports the asset-backed franchise financing market was largely dormant in the first quarter, as cumulative defaults totaled \$1.7 billion. Many newly defaulting borrowers were in the quick-service restaurant or convenience-store businesses, the credit-rating service says.

Similarly, the Small Business Administration says the delinquency rate for its business-loan programs remains high - 7.9% of loans outstanding as of June 30. At the same time, the SBA is being asked by nervous banks and other lenders to guarantee more loans.

"We're running 16% over where we were last year" in the number of approved guaranteed loans, says LeAnn Oliver, an agency financial assistance official.

Some lenders are requiring personal guarantees, but "real estate is king" when it comes to collateral, says Michael Eagen, vice president of workouts and acquisitions at **CNL American Properties Inc.**, which still is originating franchise loans. "Reliance on pro formas or projections are seriously diminished," he adds. Mr. Eagen well knows how difficult the market has become. He recently left Pitney Bowes Capital after that firm folded its franchise finance operation.

**WOULD YOU BELIEVE** hamburgers are still a hot concept? One of the fastest-growing franchises around is a family-run restaurant chain called Culver's. Founded in Prairie du Sac, Wis., in 1984, it hopes to have 200 units across America's midsection this year selling sandwiches called ButterBurgers (because the toasted buns are lightly buttered) and rich frozen

custards. Average annual unit sales are "a hair above \$1.5 million," a spokeswoman says. That's about the volume of an average U.S. McDonald's.

The company grew up in small Midwestern towns but now is moving into metropolitan areas such as Dallas and Minneapolis-St. Paul. Unlike many fast food competitors, Culver's grants franchisees exclusivity in some markets and doesn't build company-owned stores, thus eliminating potential friction between itself and its independent operators.

"We haven't spent a dime on recruiting franchisees - it's all been word of mouth," says **Culver Franchising System Inc.** marketing director Barbara Behling. Still, inquiries from would-be store owners were up 42% from a year earlier through May. A Culver's franchise isn't cheap. The initial fee is \$50,000, and total start-up costs, including land, building, equipment, supplies and miscellaneous expenses, can range from \$340,000 to \$2.8 million.

**UPDATING THE FTC'S** Franchise Rule has become a contentious issue. Adopted by the Federal Trade Commission in 1979, the rule required franchisers to disclose some information about their businesses to prospective franchisees. But it left it up to the states to review those pitches for completeness and accuracy - and to take on much of the enforcement work. Because only 15 states adopted regulations, the FTC is considering tougher nationwide disclosure requirements.

The International Franchise Assoc., the franchisers' main trade group, supports more uniform disclosure. But a rival, the American Franchise Association, wants the FTC to go further and let individuals sue alleged rule violators. That so-called private right of action is considered an effective remedy by state franchising regulators.

Something all sides seem to agree on: There should be separate FTC regulations of "business opportunities," which differ from franchises in that they generally don't require adherence to strict operating standards and call for a smaller investment.

**A FRUSTRATED FRANCHISEE** takes matters into his own hands and becomes the boss. Concerned about what he regarded as a flawed strategy and disappointing bottom line, **Computer Renaissance** franchisee Jack Hollis put his money where his mind was. He offered to buy the 178-store computer trade-in and repair business for about \$3 million and, two years ago, franchiser **Grow Biz Intl. Inc.** agreed.

Among Mr. Hollis's first steps was to cull franchisees. "We had a lot of people who were enamored of the technology" but not retail-oriented, he said. The Lakeland, Fla., businessman shrank the average store's size, reduced the initial franchise investment requirement and refocused the business from mainly repair to selling used, refurbished computers to the layman. "The grandmother who wants to e-mail doesn't need a two-gigahertz machine," Mr. Hollis says.

But the stores also stock new components for techies who want to assemble their own systems. Computer Renaissance buys equipment from individuals wanting to trade up as well as from businesses shedding obsolete inventory. Mr. Hollis anticipates the day when computer recycling is mainstream. "We've got to get the components out of landfills," he says.

**FOR GRADUATION**, he got a franchise. When Brad Johnson graduated from the University of Rhode Island in finance, his parents put him right to work - in a Maui Wowi smoothie franchise in New Jersey they bought for him. "We saw this as an opportunity to help our son get started in a business," say father Robert Johnson, a longtime franchising consultant. Says a 21-year old Brad, who is scouting for smoothie stand locations, "They made me part owner and it didn't cost me anything." Although he's expected to run the business it will be a family affair. His mother Jean, will do the books.