

THE WALL STREET JOURNAL.

Monday, November 15, 2010

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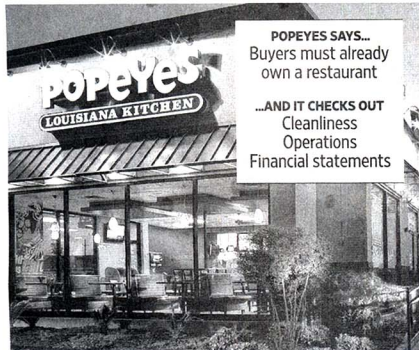
DOW JONES

DJIA 12200.10 ▼ 65.03 -0.5% NASDAQ 2278.75 ▼ 1.3% NIKKEI 13099.24 ▼ 4.7% DJ STOXX 50 3216.03 ▲ 0.4% 10-YR TREAS ▼ 8/32, yield 3.615% OIL \$87.14 ▼ \$1.27 GOLD \$900.70 ▲ \$14.80 EURO \$1.4624 YEN 106.48

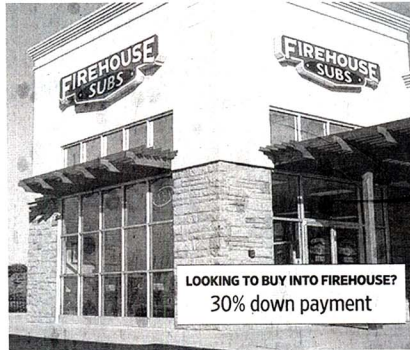


ZOUP WANTS BUYERS WITH:
\$150k in cash
\$350k net worth
Credit score over 700

Zoup Fresh Soup's managing partner and founder, Eric Ersher



POPEYES SAYS...
Buyers must already own a restaurant
...AND IT CHECKS OUT
Cleanliness
Operations
Financial statements



LOOKING TO BUY INTO FIREHOUSE?
30% down payment

Want to Buy a Franchise? The Requirements Went Up

Some chains demand more experience—and more cash—from buyers

By EMILY MALTRY

For entrepreneurs, it's getting tougher to get in on some franchises these days.

With the economy in the dumps, an array of franchisors are raising their standards for prospective buyers. They're demanding candidates bring much more cash to the table, as well as a stronger track record of experience in the industry. In some cases, they're even inspecting the buyers' current operations to see just how well they're run.

Tactics for Tough Times

"The margin for error in a down economy is less," says Darrell Johnson, chief executive of franchise research-and consulting firm FRANData in Arlington, Va. "In a good economy, when you are struggling and learning on the job there is more margin for error because the economy is helping you along."

Consider the moves at Popeyes, the fast-food chain operated by AFC Enterprises Inc. In late 2007, Popeyes began to feel "a mushiness in the market," triggered by the housing crisis, recalls Vice President of Development Greg Vojnovic.

Candidates with stronger business acumen could better handle a bad economy, the company figured—so it mandated that all potential franchisees, or their business partners, must already own a restaurant.

"We're looking for those that have experience...sweating about payroll and paying taxes every month," Mr. Vojnovic says. As part of the evaluation process, Popeyes visits the existing establishment to evaluate its cleanliness, operations, culture and financial statements.

The strategy has paid off. Popeyes restaurants that opened in 2008 and 2009 generally have better sales than

those that opened earlier, according to Mr. Vojnovic. Also, he says, lenders are more comfortable financing new Popeyes locations because of its improved track record.

Following the Money

Indeed, banks are a big reason some franchisors are raising the bar. Since the credit crunch hit, banks have been turning down loans left and right—and if a potential buyer can't get financing, it means big headaches all around.

Would-be buyers lose the time and money that they spent going through the application process. And franchisors—which give franchisees a set window of time in which to find financing, hire employees and open shop—must sometimes wait as long as six months to a year to take back the area and make it available to new candidates.

So, franchisors want candidates to look as attractive to banks as possible. And for

banks looking at franchisee loans these days, "[personal] financials are of much greater importance," says Mr. Johnson. "And most lenders are requiring industry experience."

A Pot of Cash

For instance, the sandwich chain Firehouse Subs used to encourage a 30% down payment out of the buyer's pocket, but some candidates could get away with 10% or 20% before the recession. Now it's requiring 30%—roughly \$80,000 to \$90,000—because banks won't stand for anything less.

The results have been positive, says Don Fox, chief executive of Firehouse of America LLC, headquartered in Jacksonville, Fla. The quality of the applicants is higher than it's ever been in the 12 years the company has franchised, and stores that opened this year are pulling in sales that are 17% higher than those that opened earlier.

At Zoup Fresh Soup Co., candidates now must have

\$150,000 in cash, \$350,000 in net worth and a credit score greater than 700. Previously, they needed only \$100,000 in cash and \$300,000 in net worth to open a store, which costs between \$250,000 and \$400,000.

"The credit score and assets seem to be in line with the requirements of the financiers," explains Eric Ersher, managing partner and founder of the 26-store eatery, headquartered in Southfield, Mich. "We do not look at applications if they don't meet the financial requirements."

The new owners must also now be hands-on and present at the business. That disqualifies candidates who have another business or a day job. "The downturn highlighted the importance of fitting with the culture," says Mr. Ersher. "Those stores that had either absentee or not-engaged owners have not fared as well as those that continue to be passionate leaders."