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## Franchisers Focus on Loans

*Franchisees Get a Hand With Financing as Credit Crunch Stifles New Openings*

By SARAH E. NEEDLEMAN

Some U.S. franchisers are taking steps to help franchisees secure financing amid concerns that a credit crunch is still stifling new store openings.

The companies behind national brands such as Popeyes, IHOP and Maaco are hiring executives dedicated to helping franchisees get loans. Other franchisers are paying for services that match franchisees with lenders.

Before small-business lending dried up in the wake of the financial crisis, franchisers rarely got involved in franchisees' efforts to get loans. Franchisees were usually able to get financing on their own. But today, small-business lending is weak, and banks have stiffer lending requirements.

"Helping franchisees access financing wasn't a franchiser function a couple years ago," says Shelly Sun, founder and CEO of BrightStar Franchising LLC, which provides home-health-care services and staffing. "Now it's job No. 1."

Franchisers make money mainly by collecting fees and royalties from franchisees for the right to operate under their brands. If franchisees can't get loans to expand, that damps revenue for the franchisers. Last year, franchise openings in the U.S. rose just 0.3%, after declining 3.6% in 2009, according to a study released in January by PricewaterhouseCoopers.

Thirty-nine percent of franchisers said more than half of their franchisees and franchise prospects were unable to obtain needed financing, according to a March survey of 147 franchisers by International Franchise Association, a trade group. That's up from 33% who responded to a similar poll in November of last year.

Since June, AFC Enterprises Inc.'s Popeyes and DineEquity Inc.'s IHOP each have hired an executive to help boost franchisee lending. Driven Brands Inc., whose six franchise properties include auto-repair chains Maaco and Meineke, is currently



Amid the credit crunch, Popeyes has hired an executive dedicated to helping franchisees get loans.

attempting to do the same.

The executives meet with banks to promote their brands. They also offer lending guidance to franchisees.

Popeyes is hoping its new recruit will help increase new store openings this year to about 130. Last year, the chicken chain saw 106 new restaurants open up, and the year before just 95. "The job is about finding lenders and explaining what Popeyes is all about," says Gregory S. Vojnovic, vice president of development. "In the past we did not need to do that."

At Driven Brands, the new hire will be responsible for getting more banks interested in lending to the company's franchisees. Ken Walker, chairman and CEO of Driven Brands in Charlotte, N.C., says the new post is necessary because last year Maaco and Meineke franchisees secured just four bank loans backed by the Small Business Administration for starting up new stores. The brands used to get as many as 55 a year.

Franchisers say they can no

longer rely on a handful of national lenders to fund their franchisees and must now court regional and community banks that may be unfamiliar with their brands or even franchising in general. "Given the dearth of national lending programs, you [have to] talk to 15 to 20 regional players and then do the same for local players," says Mr. Walker. "I don't have the time to do that."

BrightStar hired a lending specialist in 2009 and says it has seen success with the move. Prior to the hire, fewer than 10% of BrightStar's 177 franchisees, were able to secure loans, says Ms. Sun. "We had slower growth and many had to leverage their 401Ks," she says. But today about 75% of the system's franchisees are able to secure the funds they need.

Franchisers are also making use of services that match lenders and borrowers, such as Franchise America Finance LLC of Conshohocken, Pa. The company helps arrange loans for franchisees by vetting franchisers' health. The loans are for the

franchisees, but franchisers pay up to 1% of the amounts borrowed.

Since April 2010, the firm has allocated \$280 million in loans for 14 franchise systems.

The loans, backed by the U.S. Small Business Administration, were secured through Bancorp Bank of in Wilmington, Del., a unit of Bancorp Inc., and are being made available to only qualifying franchisees within those systems.

In May, Popeyes franchisee Nazif Rahmani was approved for a \$500,000 loan from Bancorp as a result of Popeyes' teaming up with Franchise America Finance. The owner of five Popeyes outlets, he used the funds to open a sixth after prior attempts to obtain capital for it from four banks had failed.

Mr. Rahmani's restaurants are in New York and New Jersey and they collectively employ about 150 workers. "I'm happy that Popeyes got involved," says the 30-year-old. The construction of the sixth location would have otherwise been delayed indefinitely, he adds.