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Jaclyn Trop / The Detroit News

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Chain stores pinched as credit, consumer spending seize up

By Jaclyn TropThe Detroit News

At the Coffee Beanery in Warren, hard times mean fewer customers and more job applicants.

"I have 10 people coming in every day asking for jobs," said owner Michelle Garcia, "and I can't even afford to pay the four people working here."

Although the store has managed to stay afloat after a "drastic" decline in customer sales this fall, other Metro Detroit franchises have been shuttering their doors, and new numbers from a franchise trade group say there are more closings to come.

The franchise industry expects to shrink by 10,000 establishments nationally, or 1.2 percent, in 2009, according to a new report from the International Franchise Association. Jobs in franchise businesses will fall by 2.1 percent, for a loss of 207,000 jobs. Overall economic output, which includes sales, is expected drop 0.5 percent, or \$4.2 billion, to \$835 billion from \$839.2 billion in 2008.

Though the association doesn't keep state-by-state data, Michigan's weakened automotive economy is bound to hurt the franchise businesses that support and maintain autos, such as repair shops, car detailing services and car washes.

"Definitely the coming year is going to be a bit challenging for that segment," said John Reynolds, president of the association's Educational Foundation.

A credit crunch has made it difficult to secure loans and property to open new franchise stores or expand existing ones, while a sharp drop in consumer spending spells trouble for existing franchises. Many owners have shelved plans to expand in 2009 and 2010, the report said.

"The No. 1 pressure is the availability of capital," said Debi Scroggins, founder of Dexter-based Bearclaw Coffee Co., which has 21 locations in Michigan and two in Kentucky.

Franchisee applicants who would have had no trouble getting loans six to nine months ago simply can't borrow money, Scroggins said.

"We have had some very qualified candidates to open franchises who, at the end of the day, just cannot cross the finish line with financing."

The credit crunch has challenged franchisees to get creative with their financing. One Bearclaw franchisee's landlord provided \$80,000 in financing in exchange for an interest rate one percentage point above the market average, Scroggins said.

Meanwhile, consumers have curtailed their spending and cut back on indulgences such as coffee and ice cream as the U.S. economy spirals into the most severe recession in 25 years, according to the report.

"Nobody's spending any money," Garcia said. "The news doesn't make it easy by telling people to cut out things they don't need."

Franchise ownership is particularly challenging in this economy because franchisees owe monthly royalties to the parent company in addition to normal operating expenses, Garcia said. She pays the Coffee Beanery 8 percent of all sales.

One business strategy Macomb County franchisees are employing is locating near big box stores rather than opening as standalone stores or in strip malls, said Grace Shore, CEO of the Macomb Chamber of Commerce.

A new Meijer store in Mount Clemens has recently attracted a Sonic and a Jimmy John's Gourmet Sandwiches, she said. "There seems to be success with clustering."

In Dearborn, franchise businesses are flocking to the Fairlane Green shopping center because it has well-known anchor tenants such as Meijer and Best Buy, said Jennifer Giering, president of the Dearborn Chamber of Commerce.

"This economy is separating the wheat from the chaff," Giering said. Au Bon Pain and Caribou Coffee in Dearborn recently closed, but a Fatburger is expected to open soon, she said.

The frozen lending landscape is frustrating, Reynolds said, because new franchises represent "one of the fastest ways to stimulate the economy." A single franchise store generates between eight and 14 jobs on average, he said.

"Those are jobs that are not being created."

The franchise segments expected to cut employees are food, retail products and services, and automotive.

Lodging, business services and real estate franchises are expected to see the largest drops in sales. Restaurants are the only segment expected to see slight growth this year.

Bearclaw Coffee is trying to develop survival skills that will help the company emerge stronger from the recession, Scroggins said. Strategies include trimming operating costs and reinforcing customer loyalty.

"Every customer now is so precious," Scroggins said. "They're just gold."

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