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Recession-Resistant Businesses Succeed

By Julie Bennett

When the tech bubble burst and the recession of 2002 set in, former computer company manager Terry Ladd of San Francisco, decided it was time to do something else, so he became a franchisee of Philadelphia-based CertaPro Painters. Mr. Ladd, who has grown his painting business to 47 employees, nine vehicles and over \$4 million in annual revenues, expects to do just fine during the current downturn.

Many franchised businesses in the service sector do well during tough economic times and some even thrive. Darrell Johnson, CEO of FRANData in Arlington, Va., a franchise research and consulting firm, says, "the fate of franchises during the next several months depends on whether consumers view their services as discretionary or necessary."

Opinions vary about what is necessary during a downturn, Mr. Johnson says, but many people consider services and support related to their families, such as child, senior and pet care, and home repairs and maintenance like painting, floor covering, plumbing, electric and lawn care as more necessary than discretionary.

Other franchise categories that should do well are automotive repair, hair salons, dollar stores, resale shops, and franchises that provide services like consulting, tax advice and equipment leasing to other businesses. Because credit is so tight, Mr. Johnson says that franchisers with lower startup fees or with programs to help new franchisees find financing are more attractive than systems that require newcomers to find their own money.

Here are some examples of recession-resistant franchises:

CertaPro CEO Charlie Chase says that many of its 339 North American franchisees (the company also has franchisees in the Dominican Republic, Guatemala, Panama and Portugal) are, like Mr. Ladd, former middle managers who can cover the franchise's total investment, of \$119,000 to \$144,000, with personal savings or home-equity loans. "Our total sales from January through September are up 6% compared with the same time last year," says Mr. Chase. "During the last recession, we lost some residential customers, but our commercial customers were still buying, because they have to keep up the appearances of their stores."

"Being a painting contractor may not be sexy," says Mr. Ladd, who has an M.B.A., "but I'm using all the skills I developed in business school — setting up management and accounting systems, recruiting, production scheduling, dealing with a complex regulatory environment, sales and marketing. The recession looks a little scary, but I see



Childcare is one sector where customers are less likely to compromise during a recession.

it as an opportunity to capture some good talent and negotiate a better space for my business."

Sales are up 8% this year at Bob Bell's seven Pittsburgh-area Great Clips hair salons. Mr. Bell, who was downsized out of a corporate human resources position in 2003, says he was "enticed by Great Clips' low cost (total investment is between \$150,000 and \$160,000), low failure rate, very little inventory and no accounts receivable, because everyone pays cash."

Regular customers who are struggling now may stretch out the time between visits, he says, but that's offset by new customers who are leaving full-service salons for his \$12 haircuts. Mr. Bell, who has 75 employees and expects to reach \$2 million in sales this year, plans to open two more Great Clips next year.

Rob Goggins, vice president of franchise development for Minneapolis-based Great Clips, says his 26-year-old company has a long relationship with three national lenders who are willing to finance new franchisees. Great Clips now has 1,037 franchisees running 2,703 hair salons in the U.S. and Canada and, since the economic downturn started, has had so many new franchise applications "that it's difficult to keep up," Mr. Goggins says.

People may seek cheaper haircuts during a recession, but they still want the best for their children and pets. Jo Kirchner, CEO of educational childcare provider Primrose Schools in Acworth, Ga., says enrollment in the chain's 197 franchised schools has been stable, and revenues

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for schools that have been up and running for at least two years are up 4.8% for the first eight months of this year, compared with the same period last year. Like Great Clips, Primrose — which provides educational day care for children to age six, and after-school care for children to age 12, at fees of up to \$250 a week — has a longtime relationship with a lender that helps franchisees finance new schools, which cost between \$3.2 million and \$3.7 million to open.

Franchisee Joyce Konrad says enrollment is still full in four of the Primrose schools she and her husband, Michael, and another couple operate in the Dallas-Fort Worth area, but declined in their two schools in McKinney, Texas. McKinney, Mrs. Konrad says, was a particularly fast-growing city until the housing bubble burst, halting both new home sales and the arrival of new families with Primrose-age tots. Nevertheless, she and her partners feel the dip is temporary and are planning to build two more schools, including another one in McKinney, after the economy improves.

"During times of stress, pet owners need more emotional support from their pets," says Paul Mann, founder and CEO of Fetch! Pet Care in

Berkeley, Calif., "and may spend even more money on them than usual." Mr. Mann, who started his pet care franchise in 2002 when he couldn't find sitters for his own pets, now has 200 franchisees in 1,800 communities and is opening seven to 10 new units each month. The total investment is about \$19,000 and franchisees can work from home; 56% of franchisees keep their day jobs and another 19% work part time.

Deborah Jack, of Fort Lee, N.J., left her job as the ad sales director of a financial publication 15 months ago to run her Fetch! Pet Care franchise full time. Although she had "a lot of wonderful clients on Wall Street," Ms. Jack says she finds her new occupation more rewarding.

Ms. Jack's part-time staff, of 25 pet sitters and dog walkers, are young professionals, she says — artists, writers, photographers, academics and even some former Wall Street executives — who are happy to earn at least \$20 an hour walking dogs while getting exercise. "In the midst of this financial crisis, I had my best quarter ever," says Ms. Jack.

During a downturn, there's also greater demand for in-home medical and nonmedical care for seniors, says Shelly Sun, who started BrightStar Healthcare in Gurnee, Ill., with her husband in 2005. "Seniors who can't sell their houses and move to nursing homes or assisted-living facilities must explore other alternatives," Ms. Sun says. BrightStar now has 75 franchisees who have invested between \$108,000 and \$180,000 to provide services that range from bathing seniors to providing 24-hour care.

In 2006, downsized information technology executive Jeffrey Tews and his wife, Susan Rafter, the former manager of a hospital laboratory, became BrightStar franchisees for the Madison, Wis., area. "We had our first client in September, 2006," says Mr. Tews, "and now have 140 full- and part-time employees and should do \$2.3 million in gross sales this year. We're not losing clients because of the recession, but some people are being more conservative about the hours they hire us for."

Mr. Tews says he has replaced his corporate salary and gained even more. "This work is so rewarding," he says. "We're making a difference in people's lives."

The recession has even turned downsized banker Tyler McCarty, of Denver, into a superhero. Mr. McCarty is the 27th franchisee to join Wirth Business Credit in Golden Valley, Minn., says Steve Murphy, president of franchising for Wirth's parent company, the Winmark Corporation. Franchisees, whose required investment is between \$40,000 and \$75,000, sell equipment leases to other business owners. The equipment acts as collateral.

Mr. McCarty says his first deal was with a 25-year-old man who was handcrafting bar displays for premium brands of liquor. "He wanted a CNC Router, a tool that cuts designs into wood automatically," says Mr. McCarty, "but no bank would lend him the money. When I arranged for him to lease one, I felt just like Superman."