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Franchising Eases the Path for Many Entrepreneurs

BY LAWRENCE BIVINS

As a deputy county prosecutor in Douglas County, Nebraska, Bill Dahlquist wasn't exactly the face of entrepreneurship when he decided to launch a business that runs errands and provides other non-medical services to elderly customers. In 1999, with no experience as a business owner and little knowledge of marketing or management, Mr. Dahlquist made the bold career shift nonetheless. Today, after seven years of double-digit sales growth, he employs a full- and part-time staff of 212 across his two Home Instead Senior Care locations in Denver.

"I was an attorney," says Mr. Dahlquist. "I had never owned my own business, successful or otherwise." Still, he describes the ease with which he transitioned from trial lawyer to entrepreneur as "a slam dunk."

Such success stories are repeated each day for thousands of Americans who have chosen the franchising route to small business ownership. Instead of building a new firm from scratch, they've entered into contract with larger, established companies

that have proven track records. In exchange for a fee - in the case of Omaha-based Home Instead, \$25,500 - and a percentage of net sales that is typically from five to eight percent, franchisees get access to high-quality training, site selection expertise, ongoing support and national advertising surrounding an established brand.

Buying into a franchise system takes most of the guesswork out of business start-up, according to Ralph Gregory, founder and chief executive officer of **Intelligent Office**, a Boulder, Colo., franchisor of short-term office space and administrative support for mobile and home-based business people. "You don't have to reinvent the wheel and come up with a new idea," he says. **Intelligent Office** gives its new franchisees 25 hours of computer-based training before bringing them to

Boulder for a week of face-to-face instruction. The company's real estate experts work with franchisees on finding the right Class A office space and will even

haggle with landlords over leasing terms. "For our concept, location means everything," Mr. Gregory says.

Once new franchisees open the doors to their new businesses, they stay in close touch with the corporate office, as well as other franchisees, on technical assistance and idea sharing, "Training is never really over for us," says Mr. Gregory, who founded **Intelligent Office** in 1995 and now has 32 locations. When changes occur in the economy and office space market, **Intelligent Office** franchisees collaborate with the corporate headquarters in making the necessary adjustments to their business model. "Our success is

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tied directly to the success of every location," says Mr. Gregory

Ideally, the relationship between franchisors and their franchisees is symbiotic. Developers of a business idea, be they global business legends like McDonald's pioneer Ray Kroc or less ubiquitous ones such as Mr. Gregory, use franchising as a way to quickly grow their brands through a matrix of partners who bring in outside capital, manpower and leadership. Robert Justis, a professor of management at Louisiana State University's E.J. Ourso College of Business, likens franchising to riding a bicycle. "You need both steering power and pedal power," he says. Franchisors provide strategic direction for the brand while franchisees are the lead interface with customers. "The relationship is interdependent, and good franchisors realize that," says Mr. Justis, who consults with business owners on the development of new franchise systems.

Lenders tend to look with favor on those seeking loans to open a franchise with a proven name as opposed to an applicant needing financing for an untested business plan. "Bankers working with SBA loan programs want to see a record of success," says Mr. Justis. Some financing entities focus exclusively on making loans to new franchisees, and some larger, well-established franchise systems will even lend funds to cover the franchise fee. "Often-times, franchisors have established relationships with lenders that their franchisees can tap,"

Mr. Justis adds.

Compared to those opening their own freestanding businesses, franchisees enjoy shorter ramp-up periods. There is little time spent on store design and researching relevant licensing and permitting requirements. In December 2003, after selling a struggling wireless business he had founded, Steve Holder was leafing through a franchise directory in a bookstore near his Raleigh, N.C., home when he came across a listing for Cartridge World, an Australian firm then just making inroads into the U.S. market. Mr. Holder opened the doors to North Carolina's first Cartridge World location less than six months later.

"With all the training and start-up support I got, I was able to move really fast," says Mr. Holder, who is now readying his second location to open later this year.

Franchise operations, especially in the brutally competitive realm of restaurants and retail, are less apt than their independent counterparts to fail, experts such as LSU's Mr. Justis say, though aggregate data are unavailable. When failure of a franchise does occur, it is usually because a franchisee deviated too far from the brand's formula. Should the experience of owning a franchise turn out to be unsat-

isfying - or when the time comes to exit the business for whatever reason - there are a number of avenues available for selling the unit to an employee, another existing franchisee or an outside buyer. Franchisors themselves, which typically own several units themselves, are often interested in buying back an existing store.

"One of the beauties of the franchise model is that if the owner is successful, they can sell for a greater multiplier than what they could get for a free-standing business, especially if it's a well-known brand," explains Anne Barr; a franchise consultant in

Dallas. A member of FranNet, a national network that advises and trains franchisees, Ms. Barr says

there are over 5,000 franchise concepts operating in the U.S. right now across about 80 industries. Growth is particularly strong for concepts such as **Intelligent Office**, which cater to what she calls the "cocoon boom," and for franchises like Home Instead that provide service the nation's burgeoning senior population. "The direction of our society and economy has made it an ideal time for franchising," Ms. Barr says.

[Mr. Bivins is a writer in Raleigh, N.C.]

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