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Personal-Services Firms Lead Industry Recovery

By Julie Bennett

Franchising is ready for its comeback. After growing more than 40% between 2001 and 2008, the number of U.S. franchised businesses contracted 0.1% in 2009. But according to the "2010 Franchise Business Economic Outlook," prepared by global professional services firm PricewaterhouseCoopers for the Washington-based International Franchise Association (IFA), franchising will grow almost 18,000 units this year, to 901,093 individual businesses. Franchises that keep cars on the road, keep other small businesses humming or keep people safe and relaxed, should do especially well in the recovery.

The Franchise Outlook predicts personal-services franchises, such as those that provide education, health care or hair care, will add about 2,000 units and increase revenues over 4.4% this year, the largest revenue jump of all franchise categories. Massage Envy, a franchisor of 608 massage clinics, headquartered in Scottsdale, Ariz., has been adding customers throughout the recession. CEO David Humphrey says that business rose over 40% in 2009 from 2008. "We opened 80 new units last year," Mr. Humphrey says, "and should add even more this year."

"When people are stressed out, this is one of the services they won't give up," says Frank Stockton, a former executive with Southwest Airlines who opened three Massage Envy clinics in Dallas, Fort Worth and Arlington, Texas, the first in 2007, a second in 2008 and the third in 2009. Massage Envy markets a $49 a month membership which includes one massage; additional massages are $39. "Sure, we lost some customers," Mr. Stockton says, "but we attracted others who could no longer afford $200 massages at fancy spas."

Growth Expected

Franchises that provide care for the elderly are also expected to grow. Sarah Care, an adult day care franchise in Canton, Ohio, will open six new centers this year, says company founder Dr. Merle Griff, making a total of 36. "The recession slowed us down," says Dr. Griff, "because it costs $400,000 to $500,000 to open a center and franchisees had difficulty getting financing."

Families pay about $70 a day to leave seniors at Sarah Care centers, which include cafes, hair salons, art rooms and even putting greens. Before the recession, franchisee Curt Maier says he averaged 28 seniors a day at his center in Allentown, Pa. When that number dropped to 23 a day, he began offering in-home care as well. "You have to be adaptive in a tough economy," Mr. Maier says.

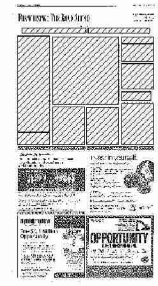
Almost 1,000 franchises that serve other businesses closed in 2009, but those numbers should be offset by about 4,000 business-services franchise openings this year. Personnel-services franchises were hit especially hard. Employers tend to lay off temporary workers at the beginning of a recession then hire them back at the start of a recovery. Connie Druliner, a longtime franchisee with Express Employment Professionals of Oklahoma City, says, "My franchise in Bend, Ore., provided industrial workers to lumber and construction companies during the housing boom." But once demand for the area's wood products ceased, "it was like someone turned off a faucet that had been going full blast," Ms. Druliner says. Unemployment in Central Oregon shot up to 22% and her business dropped 50%.

According to the American Staffing Association in Alexandria, Va., employment of temporary workers is bouncing back and increased 23% from July to December 2009. Jennifer Anderson, vice president of marketing and communications for Express, speaking from Oklahoma City, says that franchise, with 520 U.S. offices, saw its business increase 36% since last April and the company is on pace to open 35 new franchises this year.

Ms. Druliner says her business is making a marked improvement. "We used the down time to diversify our business mix, improve our training and tighten our spending. At this juncture, we watch everything," she says.

A franchise that watches non-core expenses for other businesses, Expense Reduction Analysts (ERA), in Carlsbad, Calif., is also growing, says president and CEO Ken Hagerstrom, and should add about 50 new franchises this year, making a total of 300. Franchisee revenues should go up 45%, he says.

Jim Schmitt, an ERA franchisee in Cedar Rapids, Iowa, says, "We analyze expenses for busi-



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ness clients, to help them reduce what they're spending on anything from industrial chemicals to insurance, telecommunications, utilities, transportation or credit card fees." Instead of charging for their services, ERA franchisees keep 50% of the savings for 24 months. "When the recession first started," Mr. Schmitt says, "we thought we'd see a windfall of business. But many clients were so busy cutting their workers, they weren't inclined to worry about anything else."

Picking Up

Business started picking up in 2009, Mr. Schmitt says. "Now that the recession has bottomed out, suppliers are raising prices and clients are hiring us to help them with procurement again."

The turmoil in the automotive industry is helping franchises that repair cars and, according to the IFA Report, about 700 new auto-related franchises should open this year. "People are keeping their cars longer," says Barry Teagle, vice president of franchising for Mighty Distributing System of America in Norcross, Ga., a franchise that sells products like filters, brake parts, belts and windshield wipers to auto repair shops. Mr. Teagle says Mighty will add nine new franchises this year, mostly to operators of other car-related businesses.

Franchisee Craig Sumerel, president of Bob Sumerel Tire & Service in Cincinnati, says he added two Mighty units to his 30-store retail tire chain, which is now owned by AAA-Allied Group of West Hartford, Conn., and may add more in the next two years. "Before the recession, when we told consumers they were in need of preventative maintenance items — filters, flushes, new tires, shocks and struts — they would do it pretty quickly. Then they started delaying those buying decisions up to six months," says Mr. Sumerel. "But they can't put repairs off permanently, and there's a lot of pent up demand. We expect to be very busy this year."

Business is also picking up for advisers and consultants that help companies become franchisors. Scott Jewett, of Irvine, Calif., a senior adviser to the iFranchise Group, based in Homewood, Ill., says, "We've been busier in the last six months than we'd been in the past three years. That's a sign that the industry is finally turning around."

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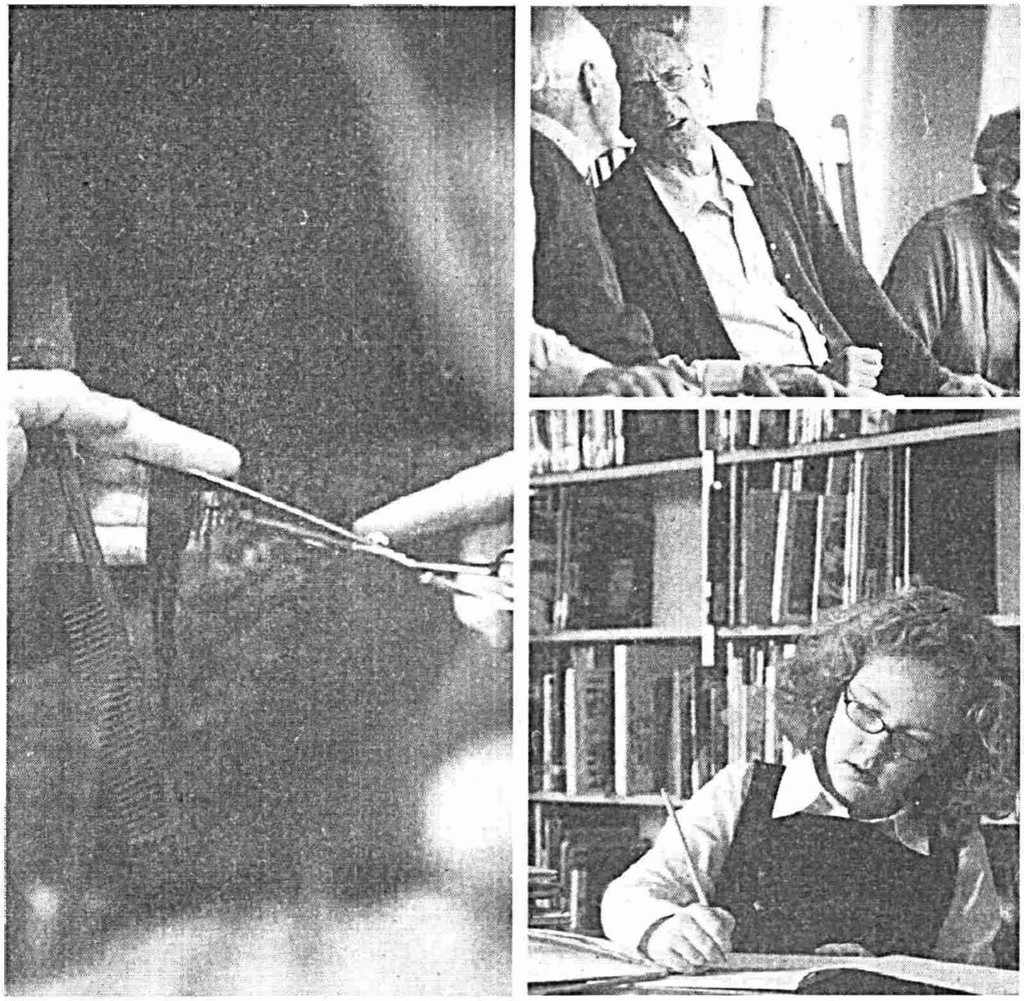

Personal-services franchises are predicted to increase revenues more than 4.4% this year.