FRANCHISING OUTLOOK FOR 2010

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Cautious optimism for 2010 reflects improvement over the dim outlook for franchising and the economy that existed this time last year. Looking ahead to the rest of 2010, one can foresee a continued mix of opportunities and challenges in the world of franchising. Here are a few observations:

1. Greater Interest in Franchising. Increased unemployment and corporate downsizing will increase the population of potential franchisees. Unemployed individuals (and those anticipating being unemployed) may explore franchising more seriously as a career alternative. Franchisors might expect to see franchisee applicants in greater numbers and perhaps higher quality than in recent years. According to a recent report prepared by PricewaterhouseCoopers LLP for the International Franchise Association's Educational Foundation, the number of franchised business establishments is expected to grow by a modest two percent this year, with a slight gain of 36,000 jobs (following the unfortunate loss of 400,000 jobs in 2009).

2. Greater Concessions by Franchisors. Franchisors will continue to employ more aggressive and creative sales methods in their efforts to recruit top quality franchisees which may take the form of lower fees, fee deferrals, and other forms of franchisor-provided financing. This is a period when prospective franchisees (at least those with adequate financing) arguably possess more bargaining power than in more robust economic times. Notably, Virginia is the only state that requires franchisors to meaningfully negotiate with prospects over most of the terms found in a franchise agreement.

3. Areas of Growth. Personal services franchises, quick service restaurants, and business service franchises are expected to enjoy the greatest increases in output, with hospitality and commercial and residential service franchise systems projected to have another difficult year.

4. Greater Leverage with Landlords. Real estate industry experts predict the next phase of the economic crisis will relate to an increase in commercial real estate loan defaults and foreclosures. With vacancy rates increasing at shopping centers and office buildings across the nation, franchisees should expect to have greater leverage with landlords when negotiating lease terms. This could mean greater tenant improvement allowances, multiple months of free rent, and other concessions.

5. The Credit Crunch Continues. Indications are that traditional bank financing will remain relatively inaccessible for a good portion of 2010; therefore, prospective franchisees will need to be both diligent and creative in obtaining start-up financing. Expect to see franchisors make efforts to help prospects obtain financing, either through developing lending relationships and preferred lender lists for the benefit of prospective franchisees or perhaps by offering direct financing. Home equity lines might again gradually re-emerge as a viable source of capital as the residential real estate market turns the corner. Likewise, retirement asset loans also should regain some of their attractiveness in 2010 given the upturn in the stock market over the past year helping restore retirement account balances. Further, SBA financing and other special lending programs should also be a viable option for many borrowers in 2010.