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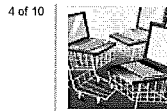
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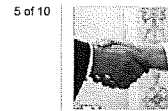
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ON FRANCHISING | NOVEMBER 25, 2008

Lifeline for Franchisees

More Franchisers Help Franchisees Ride Out Credit Crunch With Financing, Waivers or Assistance Getting Outside Loans

By RICHARD GIBSON



Article

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Most franchisers don't help franchisees out with financing, but more exceptions are emerging in today's tight credit market. Great Clips Inc., a Minneapolis-based hair-salon chain, says it has secured \$14 million in loans for expansions, acquisitions, debt consolidation and refinancing for new and current franchisees.

The franchiser obtained the money from lenders InSource Capital Services Inc. of Sherman Oaks, Calif., and IRH Capital LLC, Deerfield, Ill., "in the wake of all the turmoil and fear out there," says Rob Goggins, Great Clips' vice president of franchise development.

Mr. Goggins says the franchiser was able to get the financing partly because of franchisees' low default rate on previous loans. Much of the money is still available, the company says.

To attract investors to a new hotel-motel prototype, Red Roof Inn, a unit of RRI Inc., is extending a \$50,000 credit against various costs, capping marketing and reservation fees and waiving royalties for seven years. The waiver, which starts when the franchisee signs up, could average \$45,000 a year or so, estimates Joe Wheeling, the company's CEO.

For the franchisers who have long offered financial assistance of some kind, the measures are taking on greater importance these days as a lot of outside lending dries up and personal assets shrink.

Toronto-based Proshred Security, which provides document-shredding services, finances the initial \$35,000 fee on at least one franchise when selling a multifranchise territory to an individual.

The franchiser typically attracts people with high net worths, who usually don't need such financing. But more such franchisees have recently sought the loans, which carry an interest rate of prime plus 2%.

"Their resources have diminished," says Proshred President John Prittie, citing business owners' shrunken asset portfolios and 401(k)s. Coverall Cleaning Concepts lends up to \$6,800 of its initial franchise fee, which, depending on the franchise's size, ranges from \$10,750 to \$32,200. "About 80% of our franchisees take advantage" of that financing, says Kevin Derella, a senior vice president at the Boca Raton, Fla., company, whose 9,000 franchisees provide cleaning services.

Real-estate franchiser RE/MAX International Inc. will finance as much as 50% of its initial fees, which vary from \$12,000 to \$25,000, depending on the market. But only a small percentage of franchisees tap that money, because "we can be extremely selective in making sure we have a really strong client," says Tim Burns, director of franchise sales.

Multiconcept franchiser ServiceMaster is unusual among franchisers in that it has an in-house bank, ServiceMaster Acceptance Co., to lend money to current franchisees for working capital, equipment and vehicles.

The company also will lend as much as 80% of initial franchise fees and start-up equipment costs. Those fees and costs could range between \$27,000 and \$87,000, depending on its



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franchises -- ServiceMaster Clean, a commercial cleaning business; Furniture Medic, on-site furniture repair; Merry Maids maid service; and AmeriSpec home inspections.

"Often, we'll charge interest only in the first year, as a way of helping new franchisees get started," says David Messenger, vice president of market expansion for the Memphis-based company, a unit of private-equity firm Clayton, Dubilier & Rice Inc.

One franchising giant, meantime, still carries enough clout to help business owners get outside financing from banks and other lenders. McDonald's Corp. has more than 50 institutions on its lenders list, including Chase McDonald's Finance, an arm of J.P. Morgan Chase & Co. that deals exclusively with McDonald's franchisees.

The money is still available, although it might take longer to process loan applications and the cost may be "a bit higher," says McDonald's Chief Executive Jim Skinner.

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