Looser Lending Leads to New Jobs and Economic Growth

May 16, 2011 By Julie Bennett

If franchisees could borrow all the money they need this year, they could purchase over 41,000 new or transfer businesses and create an astounding 333,000 new jobs. "Franchised businesses can be a locomotive of employment and economic growth," according to a recent report from the Washington-based International Franchise Association (IFA) called "Linking Franchise Success with Economic Growth and Net Job Creation."


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Each new franchise creates an average of 10 direct jobs. Every time a new fast-food franchise opens, an average of 20 people get jobs; every new lube shop means six more people are employed.

"The franchise industry's proven, structured and scalable business model translates into less risk and more profit, while also creating jobs faster than nonfranchised small businesses," says Steve Caldeira, IFA president and CEO.

They ramp up faster, says John Reynolds, president of the IFA's Educational Foundation, because their brand identity brings in customers from day one. "The training and support franchisees get from their franchisers mean they can grow faster during times of expansion and weather times of economic turndown better than many nonfranchised businesses," Mr. Reynolds says.

Mr. Caldeira and the IFA are on a mission to inform lenders about the advantages of franchising and to convince them to open the credit spigots even wider. The stakes are high. FRANdata, a franchise research firm in Arlington, Va., projects that franchisees will be able to borrow $8.4 billion this year, or $2 billion less than they need, which means that 82,000 of those new jobs will be lost.

Closing that $2 billion lending gap was a major focus of a Small Business Lending Summit in April, organized by the IFA to open a dialogue between the franchising and lending communities. "Banks have money to lend," says summit attendee Mary Navarro, vice president of retail and business banking for Huntington Bank in Columbus, Ohio, and a board member of the Consumer Bankers Association (CBA) trade group in Arlington, Va. "But franchisees don't necessarily get those loans because they don't know how to approach banks. We want to know about the franchise itself, how long it's been in business and how successful other franchisees have been."

Another problem, says summit panelist Aziz Hashim, a multiunit franchisee from Decatur, Ga., is that banks don't want to take a chance on a franchisee until after he or she is successful. Although he had a college degree and had worked part time in fast-food restaurants for eight years, Mr. Hashim says he could borrow only 50% of the cost of his first franchise, a KFC he opened in downtown Atlanta in 1996. "My parents mortgaged their home and gave me their entire life savings to finance the rest," he says. Now that he operates 54 Checkers, Popeye's and Domino's Pizza franchises, borrowing money is much easier.

Quick to Hire

"Each time I open a restaurant, I need a crew of 25 to 35 employees," Mr. Hashim says. "I can't think of any independent restaurant, except a large full-service dining establishment, that hires as many workers so quickly. And those are not just low-paying jobs. Among my 1,400 employees are well-paid restaurant managers and finance, construction and human resource professionals. I've even helped eight of my workers become franchisees themselves."

Sometimes just a small loan can generate a large number of jobs. Jeff Stone and his wife Pam had opened a BrightStar Care franchise in Tulsa, Okla., in 2008 with their own funds but by the middle of last year, "we needed money to grow," Mr. Stone says. After a local bank approved the couple for a $75,000 working- capital loan, they were able to hire 50 more workers. Today, their BrightStar franchise employs 125 in-home care givers, registered nurses and licensed practical nurses and they plan to borrow more money to expand to 200 employees. "It's gratifying to provide employment for so many people. We have an annual payroll of over $500,000 in a business that didn't exist three years ago," Mr. Stone says.

As the economy improves, franchisees that provide temporary staffing are especially busy. Celia Smith, who owns two Express Employment Professionals franchises in the Knoxville, Tenn., area, says she is working with local unemployment offices, chambers of commerce and the Urban League "to provide industrial or professional employment for people who lost their jobs during the recession." In the 18 years she's been in business, Ms. Smith has placed 23,372 people into contingent or permanent positions.

That number should go even higher, because Ms. Smith is using her own funds to open two more Express franchises this year. She is also mentoring six employees who want to be franchisees themselves but worries that they will have trouble finding financing.

Boosting Small Businesses

Gregg Gaskins, a multiunit franchisee of Express Oil Change & Service Center in Columbia, S.C., says an SBA-guaranteed loan through a regional bank enabled him to open two more centers and hire 12 new employees in the past six months. Mr. Gaskins says he saved about $35,000 by using a stimulus program that waived Small Business Administration fees for new small-business loans in 2010.

The Small Business Jobs Act that passed last fall permanently raises the lending limits for two loan programs from $2 million to $5 million, a provision that is helping other multiunit operators expand. Christopher Hurn, co-founder of Mercantile Capital Corp. in Altamonte Springs, Fla., says he is now working with five franchisees who are seeking large SBA-guaranteed loans to open limited service hotels, facilities that will each provide up to 40 new jobs.

And banks in general are stepping up SBA lending, because they believe the government guarantee of a percentage of the loan helps mitigate their risk, says Tony Wilkinson, president of the National Association of Government Guaranteed Lenders (NAGGL) in Stillwater, Okla. But, Mr. Wilkinson cautions, "franchisees looking for financing must convince loan officers that they are joining a franchise system with a good business model and a franchiser that stands behind them."

To help franchisees make that case, the IFA's Mr. Caldeira has formed a joint working group of lenders and franchise representatives "to put what we learned at the summit into action, by creating short-term solutions that lead to long-term economic growth and job creation." Plans include presentations on the advantages of franchise lending to the annual conventions of lending groups like the NAGGL and CBA and Web-based seminars to help franchisees be better prepared for the loan process, and to help lenders become more comfortable with franchise lending. Mr. Caldeira says the group also plans to create an online Franchise Lending Toolkit to help franchisees apply for loans and a National Franchise Loan Network to link lenders, franchisers and franchisees.

"Two billion dollars in lending isn't that much money," says Ms. Navarro. "Last year Huntington Bank did $1 billion in new loans, and this year we'll increase that to $1.8 billion. If every bank increased its lending to franchisees, we could close that gap quickly and put thousands of people back to work."