

Optimistic franchisees undeterred by downer economy

Danny Bone spent months researching franchises before settling on Elevation Burger and signing a contract last spring. Then the economy went south.

Bone remains undeterred. Construction will begin on his Austin, Texas, franchise this month and should be open by May. "I'm hoping that things will begin to do better," Bone said. "By the time we open up, we'll do well."

It's safe to say that most new franchisees, if not all, hold a certain level of optimism. It's also safe to say that, for those entering the business world now—especially in industries like restaurants—that optimism is receiving a stiff test.

Yet rather than view the timing as heralding some sort of early demise, the franchisees view it as an opportunity, echoing the investment philosophy of Warren Buffett to be fearful when others are greedy, and greedy when others are fearful. "Yes, the economy is down," said Glenn Gross, who signed a deal in October to open a MassageLuxe franchise in Memphis, Tennessee. "But I look at it this way: Getting into business, franchising especially, is like getting into the stock market. You buy low and sell high."

Indeed, Gross signed his deal—which also includes a 10-unit development agreement—just weeks after the pivotal Lehman Brothers collapse that signaled the current recession. He felt a slow economy would be good for business. Mostly, he believed he'd be able to get better deals from developers eager to lease space in new buildings.

Many other franchisors and consultants echo that view, saying landlords are more likely these days to give better deals so they can fill empty space. Gross said he can negotiate better lease prices, and ask property owners to do the remodeling or provide buildout money they wouldn't consider paying in a stronger economy. "That could amount to quite a sizable chunk of your investment when you open a store," Gross said.

Wallace Aldea may be able to thank the declining economy for his franchise opportunity. Aldea worked for Radisson and Hooters before returning to his native Puerto Rico five years ago and taking a job at a construction company. He urged his bosses to buy a franchise to diversify the company's income, but they agreed to do so only once

the economy slowed and sales fell.

The company now has invested in a separate entity that will open three Salsarita's in Puerto Rico—Aldea owns 20 percent of the company. "I think it's actually a great time to invest," he said. He noted that few restaurants are opening on the island right now, and that there is a need for good customer service. "I think that is actually good for our brand. People still have to go out to eat, and most do it in less than an hour. If we're out there, we're exposed."

Like Aldea, Nick Paluzzi believes good service will help set him apart in a troubled economy. Paluzzi bought a Floor Coverings International franchise last spring after he was laid off twice in nine months. He liked the company's focus on sales staff who act like design consultants rather than salespeople.

The economy isn't affecting his mindset as he starts his new career. "Psychologically, from a planning standpoint, I was starting at zero revenue, anyway," he said. "Anything I got was more than that."

By starting in a recession, he added, he has to be more sensitive to competitors' pricing and his company must focus heavily on customer service to attract what customers are out there. He said his franchise isn't burdened by high expectations. "As the business grows, it's all very positive," he said.

Danny Bone, meanwhile, is confident in his brother's ability to run the restaurant during a tough economy. Bone worked in the insurance industry, and his brother approached him to start a franchise after their parents sold their Dunkin' Donuts store. Bone is the investor and will continue to work in insurance. His brother will operate the store.

Bone believes their plan is sound. They have a good location, and he said Austin should be a good place to operate a franchise that specializes in burgers made from organic ingredients and fries cooked in olive oil. The customers will come, and the company will focus on running an efficient operation.

"We'll run a good operation," he said. "We'll keep our payroll down and control our food costs. We'll hang in there until it turns around." He added that his parents opened their Dunkin' Donuts in 1974, when the business environment was far worse, and they succeeded. "It was far worse than it is today," Bone said. "The inflation rate (12 percent) and unemployment (7 percent) was unbelievable."