

July 1, 2008

ON FRANCHISING  
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## **A Look at the Performance of Loans That Are Guaranteed by the SBA**

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There's no sure way for would-be franchisees to gauge their likely success with a potential franchise. But like bettors at a racetrack, they do have a tip sheet they can use for guidance.

It's the Small Business Administration's annual compilation of performance data on thousands of franchisee loans it has guaranteed.

### REPORT CARD

#### Class Leaders

Franchiser	Failure Rate	Failed loans	Total loans
Comfort Inn	0%	0	158
Primrose	0	0	110
Edible Arrangements	0	0	104
Massage Envy	0	0	61
Holiday Inn Express	1	1	157
Culver's Frozen Custard	1	1	150
Hampton Inn	1	1	88
Bruster's Real Ice Cream	1	1	84
Little Caesars Pizza	1	1	72
Fastsigns	1	1	71
Super 8 Motel	2	8	363
Best Western	2	3	156
Choice Hotels International	2	3	144
Rita's Water Ice	2	2	103
Arco	2	2	85

Zaxby's	2	2	81
Anytime Fitness	2	1	65
Econo Lodge	3	4	119
Goddard	3	3	109
Subway	4	84	1,974
Dunkin' Donuts	4	17	410
Sport Clips	4	8	191
Cartridge World Stores	4	5	112
Travelodge	4	4	91
IHOP	4	3	67

#### Class Trailers

Franchiser	Failure Rate	Failed loans	Total loans
All Tune and Lube	48%	37	77
Philly Connection	48	30	63
Cottman Transmission	46	75	163
Blimpie Subs & Salads	37	58	158
Golf Etc.	36	24	67
Cornwell Quality Tool	36	19	53
Matco Tools	30	95	316
Atlanta Bread Co. Bakery	30	18	61
Carvel Ice Cream	26	20	76

Note: Listed by percent of SBA-backed loans that failed between Oct. 1, 2000, and Sept. 30, 2007, starting with the highest rate. When percent is the same, companies are listed from highest to lowest number of total loans.

Source: Coleman Report

The latest report -- covering loans made from Oct. 1, 2000, to Sept. 30, 2007 -- is one indicator of the relative health of 500 franchises. Among other statistics, it shows how many loans were made to a franchise, the dollars disbursed, and what percentage of loans went into liquidation, something the SBA classifies as a "failure." Wells Fargo & Co., a major SBA lender, says it uses the data to help spot negative trends and reduce future loan losses, as well as to prospect for business. "We select new franchisers to target for sales opportunities based on the strength of their performance," says Thomas W. Burke, senior vice president. "High delinquencies will cause us to avoid a particular franchiser."

There are several caveats to the list, which is compiled by the SBA and published by Coleman Report, an SBA industry trade publication based in La Canada, Calif.

First, the list isn't all-inclusive. Banker lenders aren't required to disclose whether borrowers are franchisees. Franchises with fewer than 10 loans aren't counted. And many franchisees may have obtained conventional loans, which aren't included in the

list.

What's more, the "failure" rate doesn't necessarily mean the franchise is a bad one. It just means that for some reason the borrower ran into difficulty paying off a loan.

That said, here's a look at how some franchises fared.

Among the best loan performers -- franchises with more than 60 SBA-guaranteed loans that have failure rates of less than 5% -- were numerous motel chains. They included Best Western, Choice Hotels International, Comfort Inn, Econo Lodge, Hampton Inn, Holiday Inn Express, Super 8 Motel and Travelodge hotels.

The category also included Anytime Fitness health clubs, Arco gas stations and convenience stores, Bruster's Real Ice Cream, Cartridge World stores, Culver's Frozen Custard, Dunkin' Donuts, Edible Arrangements fruit bouquets, Fastsigns signage and graphics, Goddard schools, IHOP, Little Caesars Pizza, Massage Envy, Primrose schools, Rita's Water Ice, Sport Clips hair salons, Subway sandwich shops and Zaxby's chicken restaurants.

Franchises with more than 60 SBA-guaranteed loans that have failure rates greater than 25% included Atlanta Bread Co. bakery cafes, All Tune and Lube, Cottman Transmission, Mr. Goodcents Subs & Pastas and Philly Connection.

Only one of these five, Atlanta Bread Co., responded to requests for comment. The company says a concept revitalization that required its bakery cafes to remodel had caused some franchisees to leave the system, as did others who no longer were actively involved in day-to-day operations.

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