**COVID-19 – Franchising State of Affairs**

**The Current Impact**

Although opening a franchise business has statistically proven to be a very secure route to entry for business ownership, franchising will be impacted in the near-term by the COVID-19 Pandemic - just like most of the economy. At FranNet, we are intentionally having frank discussions with every client around the additional risk and uncertainty that COVID-19 has triggered, and we’re making sure that they understand these new factors in their decision-making process.

Franchise brands in fields such as Hospitality, Restaurants, Entertainment, Fitness, and Travel are hurting right now.  We are seeing responsible franchisors in those fields put unprecedented resources into helping their local owners: Adapt to delivery-based and/or virtual services; achieve industry-specific compliance with enhanced infection control guidelines; and even provide temporary relief on royalty payments in some cases.

**Context and Perspective**

To be sure, FranNet has experienced numerous events that caused uncertainty in our community and our world over our 33 years in the field. The Dot Com Bust, 9/11, the Great Recession, and the closer to home the Hurricanes in Florida come to mind. Each of these events was scary at the time, but our state, nation and our community recovered and returned to prosperity after each event, as we always do.

That being said, we know that pulling the trigger on new franchise ownership will not be comfortable for everyone in this environment. We will not waiver from our practice of advising folks to make the best fact-based decision for their individual situation - including if their decision is to delay or terminate research altogether.

We can also say, from experience, that each economic cycle *creates* opportunities of its own. In this regard, investing in a franchise business is similar to investing in the stock market – it’s all about finding the *right* opportunity at the *right* time. In the current environment, franchises that we have vetted within the Distance Learning, Lab Testing, Residential & Commercial Cleaning, and Technology spaces fit that bill.

Those that have the discipline to act on such opportunities during times like this are very likely to see substantial Return on Investment.  In all likelihood, they’ll also be able to leverage:

·         SBA loan interest rates at, or near, historic lows - as the Federal Reserve recently lowered the Fed Funds Rate to 0%;

·         Greater bargaining power on leases;

·         Some – perhaps substantial - alleviation of the employee recruitment challenges that have dogged local businesses for the past few years;

·       **IMPACT for Small Businesses Act** -is passed and becomes law, then SBA loans will be available with more generous terms and lower fees.

**Our Response and Suggestions**

We expect need-based franchise businesses such as Automotive Repair, Fire/Water Damage Restoration, and In-Home Senior Care to see stagnation for a few weeks, and they will have to adapt to new CDC / Governmental guidelines like the rest of us. However, the need and demand for those services simply cannot abate much beyond those few weeks.

Pivoting to research in these more secure, need-driven industries will be especially important for professionals who are forced into career transition by an economic slowdown. These folks are traditionally fearful about the potential for extended corporate hiring freezes, and often decide to research self-employment as a safer option that puts them in control of their own future. Unfortunately, we’re likely to see more of these folks dealing with career transition in the coming months.

For those who continue researching, we’ll suggest utilizing this extra time to begin/continue a cautious, deliberate due diligence process. When done properly, the timeline to research, validate, decide upon, and open a quality franchise business should be anywhere from 90 days to 12 months. Referencing prior slowdowns as a guidepost, many clients recognize that the economic environment is likely to improve dramatically over such a research period.

**Summation**

COVID-19 is an Event-Based slowdown, not the structural meltdown of 10 years ago.  As such, we remain optimistic that level heads will prevail, and we will return to a degree of normalcy in the near term. We are available to address any questions or concerns you or your clients may have. Please stay safe and healthy.

***“Good timber does not grow with ease. The stronger the wind, the stronger the trees.”***

**-Thomas Monson**

Sincerely,

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