

THE WALL STREET JOURNAL.

As Franchising Takes Off, These Businesses Are Hottest

The personal-services sector leads all franchises in growth in jobs and new outlets



For a small personal-service franchise, startup costs can be under \$10,000. PHOTO: ISTOCKPHOTO/GETTY IMAGES

By Elizabeth Garone

April 30, 2018 10:04 p.m. ET

After a year of slowing growth, franchises are expected to come back strong in 2018, topping their recent highs for growth in a number of big measures, including revenue, new outlets and employment.

Leading the way: franchises that offer personal services.

The sector—which covers everything from education to health and veterinary care to recreation—has been gaining momentum after a slump in 2015. This year, the sector is projected to lead all franchises in growth in new outlets (up 3% from 2017) and in employment (up 5%), according to the International Franchise Association.

A new mood

Franchisers credit the growth to a stronger economy, as well as the hope that the regulatory atmosphere will improve, specifically as it relates to so-called joint-employer rules.

For decades, one business couldn't be held liable for employment-related matters at another unless it had direct control over the employees in question. But in 2015, the National Labor Relations Board said any franchiser could be held as a joint employer with local franchisees, liable to legal action and protests by employees.

The move set the industry reeling—but the mood has shifted under the Trump administration, says Mark Siebert, chief executive officer and senior franchise consultant with consultancy iFranchise Group.

Although issues related to the joint-employer dispute are still in the courts and haven't been definitively settled, “under Trump, the folks who were leading the charge on the joint-employer issues have been replaced by more traditional regulators” in the NLRB, Mr. Siebert explains.

So, says Matthew Haller, IFA's senior vice president of government relations and public affairs, “people in franchising are feeling more confident about the regulatory environment and adding new locations, building into new markets.”

Personal-service franchises, meanwhile, seem to be leading the pack mainly because of the price tag. The cost of other popular types of franchises remains too steep for many people: Initial investment for a restaurant franchise can start at \$100,000 and is often higher.

For example, people need at least \$500,000 in liquid assets to start a [McDonald's](#) .MCD -0.99%. The total investment necessary to begin operation of a new Taco Bell is from \$1,177,300 to \$2,620,600, depending on the type of restaurant. But for a small personal-service franchise, startup costs can be under \$10,000.

A growing market

In addition, the market for what these smaller franchises sell is expanding, thanks to the growing economy. Consider beauty chains, says Sucharita Kodali, a retail analyst with [Forrester Research](#).

The Reach of Chains

A look at the makeup of the franchise industry, by sector

OUTLETS		EMPLOYMENT		REVENUE	
Quick-service restaurants	26%	Quick-service restaurants	46%	Quick-service restaurants	34%
Personal services	15	Table/full-serve restaurants	13	Business services	13
Business services	14	Business services	8	Lodging	10
Commercial. & residential services	9	Lodging	8	Table/full-serve restaurants	10
Real estate	8	Personal services	6	Real estate	7
Retail products & services	8	Retail food	6	Automotive	6
Retail food	7	Retail products & services	4	Commercial & residential services	6
Automotive	5	Automotive	3	Personal services	5
Lodging	4	Commercial & residential services	3	Retail food	5
Table/full-serve restaurants	4	Real estate	3	Retail products & services	4

Source: IHS Markit for the International Franchise Association Franchise Education and Research Foundation

“Beauty is probably a bit more cyclical, but I think there are now affordable luxuries where women will pay \$30 to \$50 for someone to do their hair or nails before the weekend,” she says.

At the same time, with dual-income households now the norm, there is often more money to spend but less opportunity to get things done. So, personal and home services such as laundry are taking off.

Likewise, child-care services. “In a downturn, you might have been teaching your kid how to play basketball,” says the IFA’s Mr. Haller. “Now you’re sending them to an after-school program that you pay to do that.”

Academic services are also a hot area. “In the last decade, people have been spending more on education,” says Ms. Kodali. “College is more competitive than ever, supplemental education is commonplace and replicable, and test-prep classes can find decent, inexpensive real estate.”

Another big trend driving the demand for services is higher health-care costs. Niche franchises that offer everything from chiropractic care to specialized sports medicine are expanding rapidly. Their appeal: shorter wait times to see a doctor and service that is often less expensive than traditional doctors’ offices.