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SUNDAY FOCUS ON LOCAL INDUSTRY & DEVELOPMENT

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BUSINESS

Recession victims now working for themselves

Franchising is booming as executives seek a new start. One researcher calls it a historic shift toward "full-fledged entrepreneurial capitalism." D1

Entrepreneurships



Co-owners James Kim (left) and Dan Ketmayura bought into the Sarku Japan franchise and opened their restaurant recently in Alpharetta after losing their jobs last year. Jason Getz/jgetz@ajc.com

Start-ups on road to drive economy

After being laid off, some try franchises, others own businesses.

Experts say trend likely will be the fuel needed.

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What a difference a recession makes.

College buddies Dan Ketmayura and James Kim have gone from selling high-tech know-how to serving up sushi. The pair bought a franchise in Milton after being laid off last year. Instead of waiting on the recovery to yield more corporate jobs for them, they became their own bosses.

Likewise, Roger Panitch and Mike Connors took the self-employment route, via franchising, when the corporate road proved too bumpy. Panitch, a former pharmaceutical sales

rep and executive recruiter, now hauls people's junk for a living. Connors, who lost his job as a comptroller at a credit card company, now sells cell phones and wireless devices.

As the U.S. economy slogs toward recovery, many Americans, laid off from or fed up with corporate America, are taking control of their lives with help, in many cases, from

"We talked about starting a business, not just making money but being able to do things with the revenue to help people."

Dan Ketmayura
Co-owner of a Sarku Japan franchise in Alpharetta

franchises. Franchises are enticing would-be entrepreneurs with a variety of incentives, including lower entry fees.

Could the surge in entrepreneurs be just what the country needs to further revive the sluggish U.S. economy?

"It's a key to solving the big problem of huge segments of people who've been left behind in this recession," said John Challenger, chief executive of the Chicago outplacement firm Challenger, Gray & Christmas, which tracks workforce and economic trends. "Entrepreneurs may lead the recovery."

On a deeper level, the rise in new business owners also signals an historic shift in what will drive the U.S. economy in the future. Unlike past downturns, this one holds unique peculiarities. For one, many of the industries that helped pull

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Business



Start-ups to help fuel recovery

Economy

continued from D1

the country out of past recessions – autos and banks – have faced devastating, irreversible problems this go-round and aren't likely to reprise their roles as labor market saviors.

"No way is the recovery going to happen without the increase in entrepreneurs," said Dane Stangler, research manager at the Kansas City, Mo.-based Kauffman Foundation, one of the world's largest foundations devoted to entrepreneurship. "In 20 or 30 years, we're going to look back on this recession, and it will be a mark on the historic timeline where we precisely moved away from old-line industrial capitalism into full-fledged entrepreneurial capitalism."

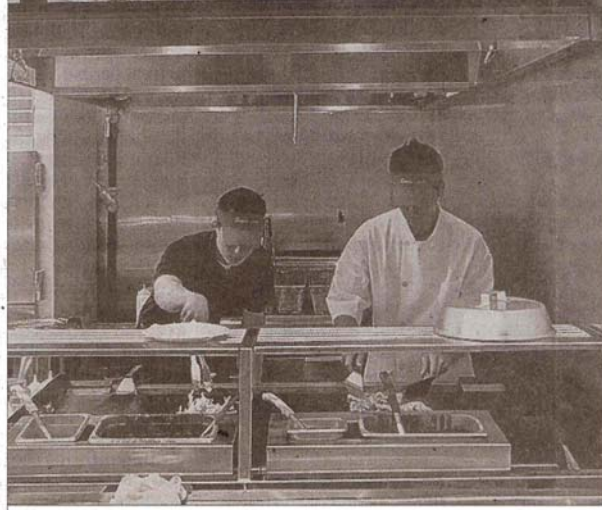
Entrepreneurship grows

Recovery aside, the latest crop of entrepreneurs are breaking records and assumptions.

Creation of new businesses has surged to a 14-year high, surpassing even the kinetic pace of startups during the peak of the tech boom a decade ago, according to the Kauffman Index of Entrepreneurial Activity, a key barometer of the nation's new-business activity. Some 558,000 new businesses were created each month last year, Kauffman reported. The ranks of the self-employed rose to 8.9 million in December, up from 8.7 million the year before. Recent government data shows that more Americans have quit their jobs by choice than were fired, indicating that some may be striking out on their own.

And the new entrepreneurs appear more diverse than their predecessors. Many of the businesses are being started by Americans who are 55 years or older, dispelling the idea that entrepreneurship is a young person's game.

Those nuggets of good news have gotten lost among the monthly jobs reports that show a job market still mired in chronic unemployment. Even now, as the recovery emerges, the number of long-term unemployed – those out of work for more than six months – remains at 6.8 million. That's nearly half of all jobless Amer-



James Kim (left) and Dan Ketmayura cook up a chicken teriyaki entree recently at their Sarku Japan restaurant on Windward Parkway in Alpharetta. Jason Getz/jgetz@ajc.com

icans, which is unprecedented in the 62 years the government has been tracking such data.

"There's a huge segment of people being left behind," said Challenger, whose firm produces its own entrepreneurial activity index. The latest Challenger index, released earlier this year, also shows a four-year high in the number of jobless executives and managers who started companies last year.

Add to that list the people with jobs who are itching to strike out on their own, and the ranks of the self-employed can't help but grow.

"Once you know you can start a business and get projects and deliver your expertise, it gives you an extra measure of security in downturns," Challenger said.

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Dane Stangler
Research manager,
Kansas City, Mo.-based
Kauffman Foundation

Barriers lowered

Franchising grew more than 40 percent between 2001 and 2008, and is forecast to increase slightly this year, by 2 percent or 18,000 establishments, according to the International Franchise Association's Franchise Business Outlook for 2010 forecast. In 2009, the number of franchises decreased by 0.1 percent. After the recession of 2000-01, the franchise industry created more than 140,000 new businesses and 1.2 million jobs over a five-year period, the IFA said.

But starting a business isn't necessarily a slam dunk. Raising capital – which can amount to hundreds of thousands for startup costs – continues to be a problem for many would-be entrepreneurs.

Franchising prospects still must pay a franchise fee, cover the cost of building renovation or construction, and buy merchandise and equipment. Once in operation, there are royalties that must be paid to the franchiser.

"They need financing, and banks just aren't lending at this point," said Alisa Harrison, IFA's vice president of communications and marketing in Washington. "Companies are looking at innovative ways to help franchi-

New entrepreneurs

Where largest percentage growth occurred among new entrepreneurs from 2008 to 2009:

By gender: Men
By age: 55 to 64 years old
By race: White (among racial minorities, blacks had higher rates of business startups than Latinos or Hispanics)
By geography: Southern and Western states

Source: Ewing Marion Kauffman Foundation Index of Entrepreneurial Activity

Creating their own jobs

Percentage of job seekers who started businesses, 1999-2009:

Year	Annual average (%)
1999	7.2
2000	7.1
2001	7.8
2002	9.6
2003	6.8
2004	9.1
2005	9.2
2006	7.7
2007	8.1
2008	5.1
2009	8.6

Source: Challenger, Gray & Christmas Inc.

sees get into business."

Atlanta-based Huddle House, for example, has slashed its franchise fee from the usual \$25,000 to just \$5,000 this year and its franchisees get a five-month pass on royalty fees.

"This program allows existing and new Huddle House franchisees to develop a lower cost of entry," said Thomas Flaherty, chief development officer for the 45-year-old chain.

Wing Zone, a 100-unit chicken wing takeout and delivery restaurant chain based in Atlanta, has taken a different tack to helping reduce barriers of entry and create more entrepreneurs. It offers a variety of architectural designs when building a unit. Some models, such as the style popularized at chains like Checkers, can hold down a franchisee's startup costs.

Wing Zone's chief operating officer Casey McEwen said reducing barriers is especially helpful now, when "there are so many displaced people who have that entrepreneurial spirit."

Mike Connors, the new owner of a Wireless Zone franchise, recognized that his chances of getting a start-up loan would be tough.

"No one wants to lend money to a guy like me," he observed. "I haven't been in business for myself. And, with the market being tight, if I'd taken this concept to a bank. ..."

Connors scraped up the franchise fee and paid for other costs, but took advantage

of an offer from Wireless Zone to knock up to \$25,000 off the cost of the building's fixtures and signage. He can also take advantage of in-house financing of the charges, if he chooses. He opened his new store on Woodstock Road in Roswell this past week.

Motivations vary

The flurry of entrepreneurial activity is especially impressive considering many of the traditional routes to ownership are no longer available.

In the past, people used their 401(k) retirement plans or the equity they'd built up in their homes. The recession, Wall Street meltdown and housing bust have killed those options, said Sean Fitzgerald, vice president of franchise development for Connecticut-based Wireless Zone.

"People were having a hard time getting financing, and that's when we got creative," Fitzgerald said. "We knew there were a lot of good quality candidates who couldn't get loans."

Roger Panitch chose the College Hunks Hauling Junk franchise because it was a relatively low-cost venture.

"It's a fun business model," said Panitch, who has three employees and a truck. "We plan to hire more people. We're allowing tomorrow's leaders to haul your junk today."

Georgia Tech grads Kim and Ketmayura invested their own money for the initial Sarku Japan franchise fee, which is normally \$30,000. By the time their store opened May 26, more than \$400,000 had been invested into the business, with much of the money coming from friends and family. That is not unusual since overall startup costs can balloon before a business opens.

They hope selling teriyaki chicken and other Japanese food will feed a bigger desire. About 10 percent of their profits will go to help build wells, finance orphanages and help other charities around the world. The pair employ 12 people, including three refugees from Iraq and one from Burma.

"We talked about starting a business, not just making money but being able to do things with the revenue to help people," Ketmayura, 28, said.

While working their corporate jobs, "we realized there was more to life and more to what we should be doing in our day-to-day lives," Kim, 29, added. "We have a direct say in who we could hire, and we not only want to provide good food but better the world around us."