

Database Review: Franchise Failure Rates

By Toby Tatum, MBA, CBA, CVA, MAFF

In this *Business Appraisal Practice's* first article for this subject matter genre, we are all well aware of the databases available via Valusource and Business Valuation Resources, but there is no doubt a plethora of other venues accessible via the internet unfamiliar to many. Our purpose here is to give readers the opportunity to share data they have found interesting and believe may be of at least moderate interest to others in their capacity as business appraisers. I have no idea how deep this well is, but my hope is that this feature article addition to *Business Appraisal Practice* will endure as an interesting and fun read.

Our first database is produced by Blue MauMau™; a website promoting itself as “the franchise owner’s most trusted news source” (www.bluemaumau.com). Here is a list of some of the topics you can find on this website:

- Bankruptcy filings of nationally known franchisors
- Watch List: Distressed Franchisors Struggling with Insolvency
- 25 Worst Franchises to Buy, 2011
- Reviews of best franchise to buy lists
- List of best franchise brands by owner satisfaction
- Banker’s list of safest and riskiest franchises brands

The database we will look at today is a list of failure rates of franchise brands.¹ The Small Business Administration has provided to Blue MauMau its newest list of failure rates of small business loans sorted by franchise brands from

October 1, 2001 until September 30, 2011. This is a collection of data from lenders of 578 franchise brands who fail to pay back either an SBA 7(a) business acquisition loan or an SBA 504 real estate and/or operating

Figure 1

The fifteen highest loan defaults as a percentage of total SBA 7a or 504 loans granted:

Brand	Failure %	Number of failures
WINGS-N-THINGS	94.12%	17
TILDEN FOR BRAKES CAR CARE CENTER	92.86%	14
NOBLE ROMAN PIZZA	86.36%	22
JUST-A-BUCK	81.82%	11
LA PALETERA	81.25%	16
EXECUTIVE TANS	80.85%	47
COUNTRY CLUTTER (BED & BREAKFAST)	80.0%	20
BEAR ROCK CAFE	80.0%	10
BLOCKBUSTER VIDEO	78.57%	14
SUPER SUPPERS	76.92%	13
PRO GOLF	76.47%	34
SHAPEXPRESS	75.0%	12
ATHLETE'S FOOT	73.91%	23
STEAK ESCAPE	71.43%	21

Figure 2

The fifteen largest number of loan defaults:

Brand	Failure %	Number of failures
SUBWAY SANDWICH SHOP	9.13%	2508
QUIZNOS	38.83%	1857
COLD STONE CREAMERY, INC.	41.93%	787
DAIRY QUEEN	9.41%	542
DUNKIN DONUTS	12.88%	528
SUPER 8 MOTEL	6.37%	487
MAIL BOXES ETC. USA	15.1%	457
DAYS INN	6.19%	420
CURVES FOR WOMEN	25.35%	359
SPORTS CLIPS	9.06%	320
THE UPS STORE	16.67%	318
-CHOICE HOTELS INTERNATIONAL INC.	5.99%	317
UPS STORE	16.11%	298
HOLIDAY INN EXPRESS	.68%	295

1. http://www.bluemaumau.org/sba_franchisee_failure_rates_brand_2012

equipment loan. This was compiled by the Small Business Administration on May 1, 2012. It is redacted to 10 or more failures per code in order to show the aggregate but preserve an individual's right to privacy. The 578 listed franchise brands are but a fraction of the existing 3,500 estimated franchisors in the United States. This database can be downloaded in Excel.

There are 53 franchises with a loan default percentage less than .01%.

Out of the 578 brands listed, 207 were food service operations. This industry segment represents 36% of the total and is, by far, the industry with the greatest failure rate. Out of the 207 food service operations, 43, or 21%, had a failure rate greater than 50%. **BAP**



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Figure 3—Food Service Businesses

The fifteen highest loan defaults as a percentage of total SBA 7a or 504 loans granted:

Brand	Failure %	Number of failures
WINGS-N-THINGS	94.12%	17
NOBLE ROMAN PIZZA	86.36%	22
LA PALETERA	81.25%	16
BEAR ROCK CAFE	80.00%	10
STEAK ESCAPE	71.43%	21
AMAZON CAFE	65.22%	23
WING ZONE	65.12%	43
MR. GOODCENTS SUB' AND PASTA	64.71%	51
NEW YORK NY FRESH DELI	64.29%	14
OBEE'S SOUP SALAD SUBS	64.10%	39
FRULLATI CAFE	63.64%	11
NICK-N-WILLY'S PIZZA	62.16%	37
SMOOTHIE FACTORY	60.00%	25
NESTLE TOLL HOUSE CAFE	60.00%	15

Figure 4—Food Service Businesses

The fifteen largest number of loan defaults:

Brand	Failure %	Number of failures
SUBWAY SANDWICH SHOP	9.13%	2508
QUIZNOS	38.83%	1857
COLD STONE CREAMERY, INC.	41.93%	787
DAIRY QUEEN	9.41%	542
DUNKIN DONUTS	12.88%	528
DOMINO'S PIZZA	22.18%	284
PLANET BEACH	57.66%	248
CULVER'S FROZEN CUSTARD	4.27%	234
BASKIN-ROBBINS 31 ICE CREAM	23.58%	229
JIMMY JOHN'S	3.51%	228
WINGSTOP RESTAURANT	15.96%	213
LITTLE CEASAR'S PIZZA	4.35%	184
PAPA MURPHY'S TAKE & BAKE PIZZA	8.43%	178
CICI'S PIZZA	31.58%	171

Figure 5—Food Service Businesses

The fifteen lowest loan defaults as a percentage of total SBA 7a or 504 loans granted:

Brand	Failure %	Number of failures
CHICKEN EXPRESS	.%	48
FIVE GUYS FAMOUS BURGERS AND FRIES	.%	45
WENDY'S	.%	44
JETS PIZZA	.%	26
TIM HORTON DONUTS	.%	20
JAMBA JUICE	.%	18
TOPPERS PIZZA	.%	18
STEAK N SHAKE	.%	17
SARPINO'S PIZZERIA	.%	13
FARMER BOYS WORLD'S GREATEST RESTAUR	.%	13
TACO CASA	.%	12
PIGGLY WIGGLY	.%	11
JASON'S DELI	.%	10
TACO BELL	2.17%	46

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