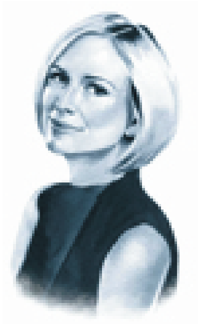

"The tales aren't advertised, but up to one in 10 franchises fails each year."

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GETTING INFO about how to start or buy into a franchise is easy. Finding out how many of the nation's 825,000 franchise units go belly up can be devilishly hard. The International Franchise Association doesn't keep such statistics. In federal disclosure documents filed by the parent companies, the numbers are often buried in figures that include location changes or the number of franchises that simply change hands. "There's really no way to track failures," says Mark Siebert of iFranchise Group, a Homewood, Ill., consulting firm.

Instead, we get ballpark estimates and unadvertised stories, such as that of Glenn Rose, 52, a New York City information-technology specialist who invested $120,000 in a computer-services franchise. His story doesn't fit the mold for what experts say are the most common causes of franchise flatlining. According to Rose and his company, marketing glitches, bad timing and loss of faith had roles in the demise—and Rose lost every cent of his investment.

Between 2 and 10 percent of franchises close every year for various reasons, estimates Frandata, a research firm. Some companies make the mistake of oversaturating a given geographical area with too many franchisees. Other common reasons are a sluggish economy or a franchisee that strays from the company's master plan, says Marc Kiekenapp, a Scottsdale, Ariz., franchise consultant.

ILLUSTRATION BY JAMES STEINBERG; COLUMNIST ILLUSTRATION BY ALEXANDRA COMPAIN-TISSIER/ART DEPARTMENT

In Rose's case, if he veered from the set formula, it was not necessarily through any fault of his own. With a background in aviation, options trading and computer technology, Rose contemplated buying a franchise after his tech job at the American Stock Exchange was made redundant following a merger in 2008. He learned about CMIT, an Austin, Texas–based computer-services firm with 130 franchises that caters to the small-business market. After careful research and a lengthy mating ritual, Rose decided to invest.

Rose liked the fact that he could work from home and found CMIT's sales pitch compelling—small businesses, underserved in the tech world, could save money by hiring a CMIT franchisee to handle their IT needs. CMIT says it also found Rose promising. "He was well-capitalized and had a solid technical background," notes CMIT's chief executive, Jeff Connally. Rose ultimately paid $63,000 for a two-week training program and the rights to sell in an area around New York City's Flatiron district.

By February 2010, Rose was ready to sell, but he says CMIT wasn't. The company underwent an ownership change that required it to get new state certifications. It was May before he had a green light; by then, he says, many potential customers were starting to exit for weekend homes and telling Rose they had less time for appointments. Things got worse when the company finally started mailing Rose's letters to prospects. Rose was horrified to see that the CMIT vendor he was required to use had left blanks in the letters where the customer's

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name should be. The vendor also mailed out a marketing newsletter that was supposed to steer business to Rose—and left off Rose's name, he says. "How can you quantify that damage?" asks Rose.

Though Rose also bought local ads and attended trade shows, the phone hardly ever rang. By his calculation, he needed 10 clients to break even and figured he'd get there within 12 months; after six months, he had one client. Meanwhile, he discovered there was more competition than he had anticipated and that most businesses he met with were highly reluctant to change their technology provider. And increasingly, he was witnessing the trend of computing moving away from business servers to Internet-based "cloud" computing. "It was a hard sell," concludes Rose.

Back in Austin, the company realized Rose was struggling. "It *is* a hard sell," says CMIT's Connally, who also acknowledges there were glitches with the marketing vendor. "But another Manhattan franchisee is one of our best." The company offered Rose business coaching, but it didn't provide sales leads. On that front, he was alone. By early last year, Rose was hanging on by a thread. He contacted other CMIT owners about buying his territory but had no takers, and he was still obligated to pay the company $750 a month in royalties. He decided to pull out last May. "I couldn't afford to keep going," says Rose.

CMIT says that in 2010 (the most recent year for which data is available), 9 percent of its 130 franchise units opted to "transfer out." Those that failed either lacked capital or didn't follow the company's business model, says Connally. He calls Rose's situation "an emotional loss for everyone." But he also says Rose had tepid sales skills and was awkward and uneasy with customers: "He showed doubt."

18 mil.
Total number of jobs at U.S. franchises

"That's an understatement," says Rose, who adds he'd lost faith in the company after the delays and marketing problems. Because he wasn't impressed with the technical help available to him in the area, he also felt uncomfortable making the company's promise that he could fix any customer's problem within four hours. ("I wish I had known that," says Connally, who claims he could have resolved that issue. "This is something that will keep me up at night.")

Rose doesn't blame CMIT for what happened and allows he wasn't ready to don all the hats entrepreneurs must wear. While a technology ace, he isn't a natural salesperson, and he says he should have done more research into his competition. "I won't say there isn't blame on our side," says Rose. "But as a former trader, I know when to cut my losses."