

# The Young & The Restless

## Franchise Times' Fast 55 for 2006

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# Fast 55 Methodology

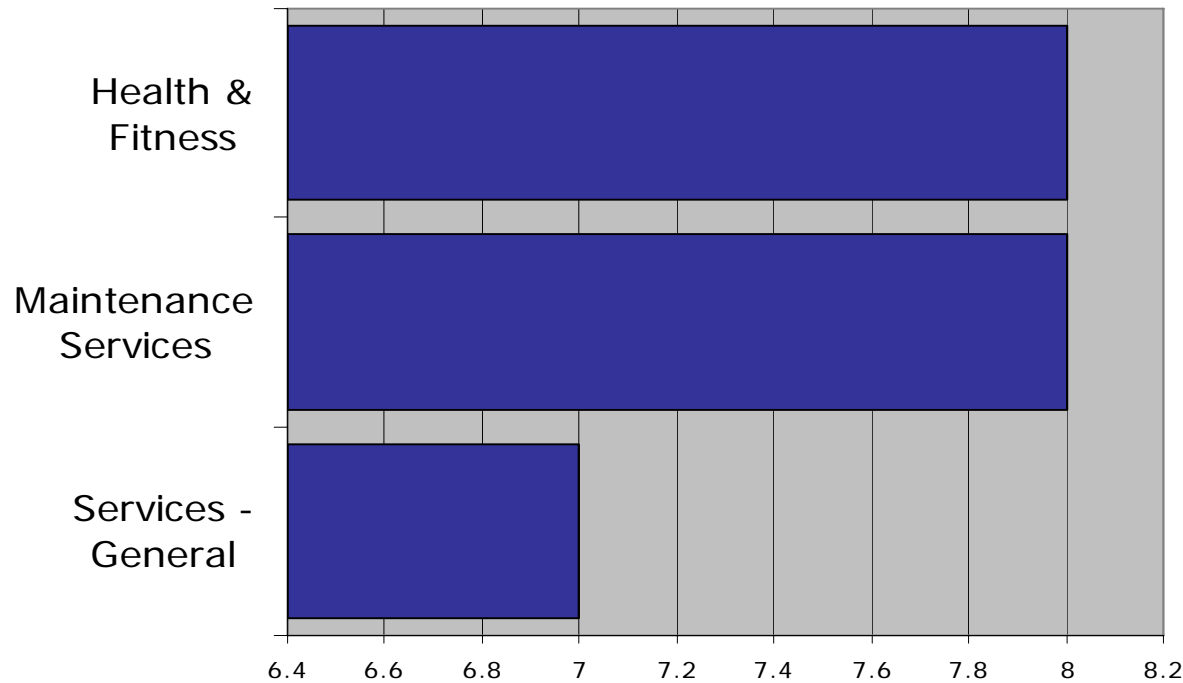
- Started franchising in 2000 or later
- Positive franchised unit growth each year
- Minimum of 3 years of data
- Minimum of 20 franchised units at EOY 2004
- 2005 UFOC available

## The Fast 55 for 2006

- |  |   |   |
|--|---|---|
| 1 Child I.D. Program of America, The                 | 21 Velocity Sports Performance                | 41 AllOver Media                            |
| 2 One Hour Air Conditioning & Heating                | 22 Bumper Man                                 | 42 1-800-Water Damage                       |
| 3 Cloud 9 Shuttle                                    | 23 Foot Solutions                             | 43 Anytime Fitness                          |
| 4 Border Magic                                       | 24 Expense Reduction Analysts                 | 44 LearningRX Training Center               |
| 5 Slim and Tone 30 Minute Workout for Women          | 25 Kabloom                                    | 45 SaveltNow! Business Purchasing Solutions |
| 6 Certified Restoration DryCleaning (1-888-DryClean) | 26 BuildingStars                              | 46 LoveSac, The                             |
| 7 Paul Mitchell Partner School, PMAE                 | 27 Foot Efx                                   | 47 Mocha Delites                            |
| 8 Quikdrop   | 28 Line-X (urethane concepts)                 | 48 It's A Grind Coffee House                |
| 9 Positive Changes Hypnosis                          | 29 1-800-Flooded                              | 49 Geeks on Call America                    |
| 10 Zerorez   | 30 Visiting Angels Living Assistance Services | 50 FiltaFry                                 |
| 11 CompuChild USA/CompuChild                         | 31 Volvo Construction Equipment Rents         | 51 It's Just Lunch                          |
| 12 N-Hance   | 32 Caffino                                    | 52 KidzArt                                  |
| 13 Growth Coach                                      | 33 EmbroidMe.com                              | 53 Stars National Dance Program             |
| 14 Alloy Wheel Repair Specialists                    | 34 Pizza Patron, Mas Pizza, Menos Dinero      | 54 Granite Transformations                  |
| 15 Cuts Fitness for Men                              | 35 Massage Envy                               | 55 1-800-Dryclean.com                       |
| 16 ShapeXpress for Women                             | 36 KaleidoScoops (cooperative)                |   |
| 17 La Quinta Inn/La Quinta Inn & Suites              | 37 Lyons & Wolivar Investigations             |   |
| 18 MyFamilyCD  | 38 Nothing But Noodles                        |   |
| 19 iNX Building Maintenance Solutions                | 39 Benjamin Franklin Plumbing                 |   |
| 20 Global Recruiters                                 | 40 Gandolfo's DeliBoys                        |   |

# Industries in the Fast 55

- 20 different industries, 42 different sectors



# Making the List (Again)

- 17 Systems appear on both 2005 and 2006 lists
- 38 were new to the list in 2006
- 9 of the top 10 systems did not appear in the 2005 list

# Franchised Units

- 3,557 units at EOY 2004
- Projected unit growth of 73% in 2005
- Top DMAs with franchised units:
  - Los Angeles (145 units)
  - Chicago (102)
  - Dallas-Ft. Worth (84)
  - Phoenix (79)
  - Atlanta (78)

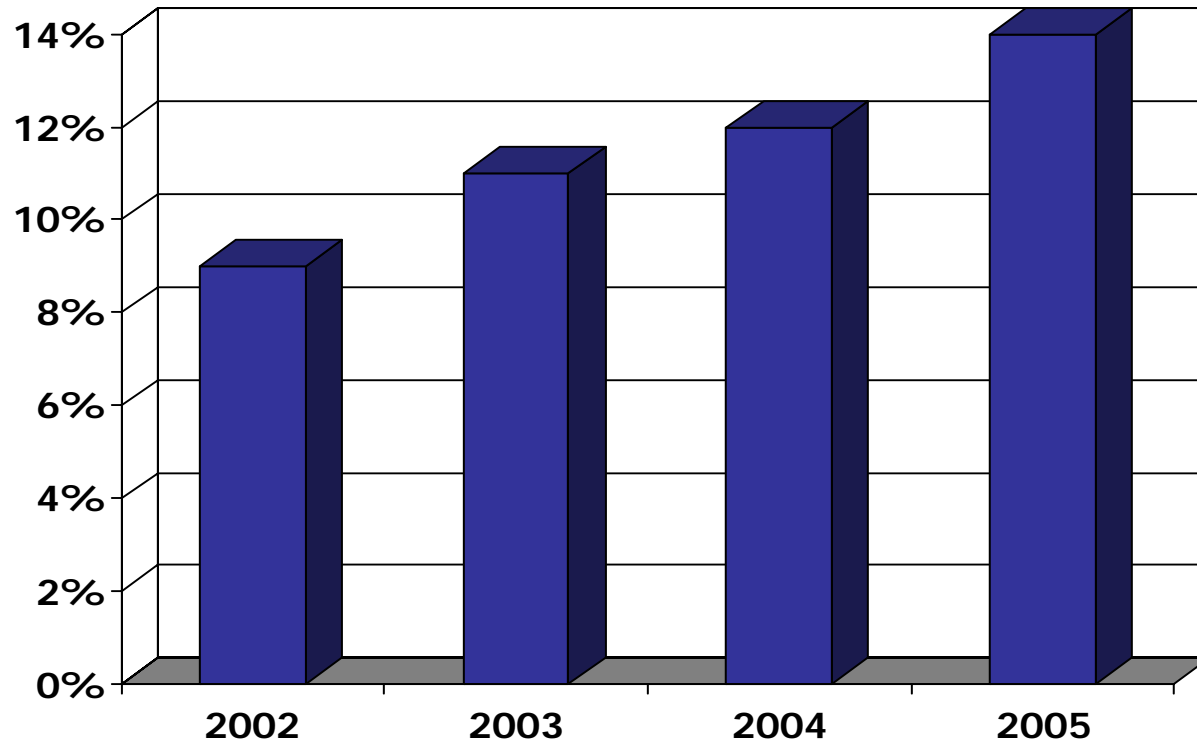
Vegas

# 2006 Forecast: Implications for Franchising

- Economy cooperating for franchise growth
- Inflation relatively quiet
- Cost of capital a growing factor
- Lots of debt and equity capital available
- Another year of hiring challenges

Vegas

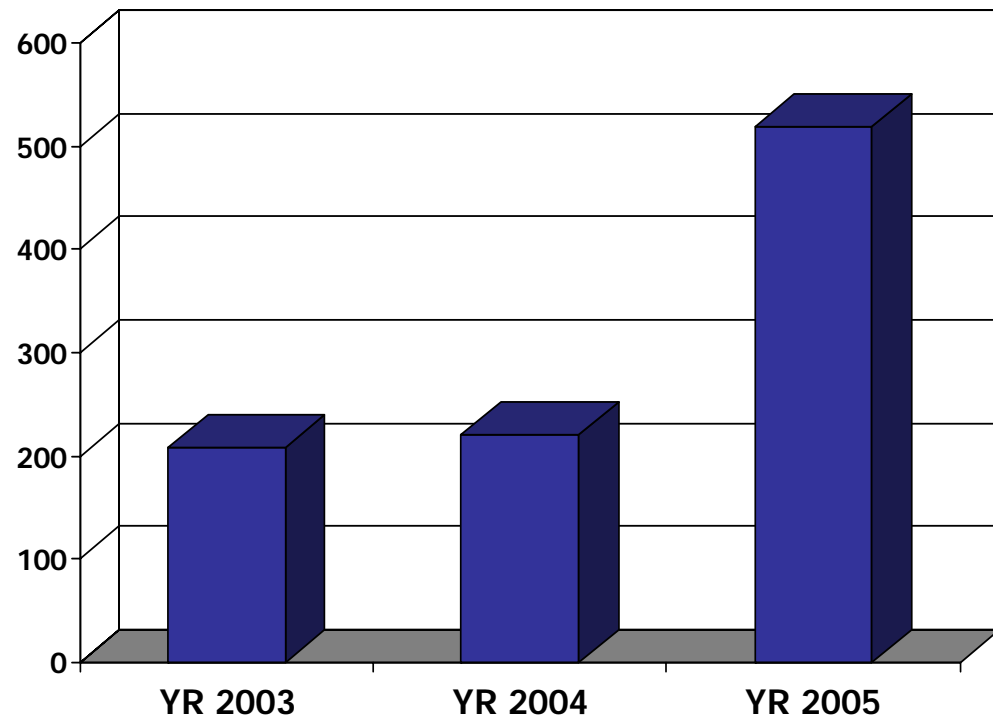
# Growth in Franchising: Projected Unit Growth



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# Growth in Franchising: New Franchise Concepts

- **New Concepts:**
  - new companies
  - new brands
  - new offerings
- **What makes a franchise?**



# How They Grew

- 91% of their unit growth was in franchised units
- Only 36% of the systems had company-owned units

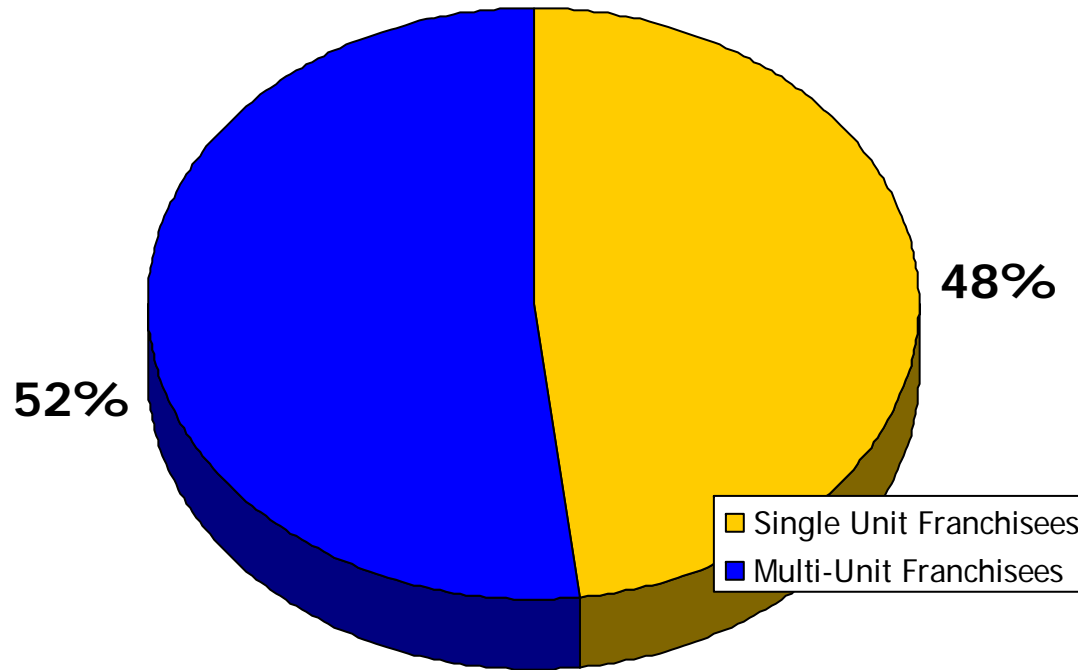
# Affiliated Brands

- 62% of companies had affiliated brands or complementary businesses
- 7% had affiliates who owned units
- 22% allowed for conversions from other businesses

# Development Models

- 60% Encourage Multi-unit Franchisees
  - 13 offer initial fee reductions for additional units
  - 7 have formal Multi-Unit Agreements
  - 12 have Area Development programs
  - 1 offered a Subfranchising/Master Franchising program

# Who Owns the Units?



52% of all franchised units are controlled by multi-unit franchisees.

# Initial Investment

- Median initial investment range (single-unit, excluding real estate): \$67,350-\$167,450
- High: \$6,390,900 La Quinta Inns & Suites

# Franchise Sales Tools

- 8 Systems use brokers; 5 use area representatives (24% total)
- 19 (35%) offer some financing for franchisees
- 17 (31%) listed on SBA Franchise Registry
- 16 (29%) disclose unit performance data (aka “Earnings Claims”)

# CEO Experience

- 65% of CEOs had direct industry experience
- 33% had previous franchising experience
- 22% had both industry and franchising experience

# Financial Performance - Revenues

## Franchisor

Median = \$1,632,812

Max = \$35,523,802

Based on Franchisor Financial  
Statements

## Franchisee

Median = \$559,532

Maximum = \$1,036,018

Based on Financial Performance  
Claims from 16 Systems

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# Financial Performance: Franchisor Net Income

- 35 Systems Profitable
- Of these:
  - Median Income = \$89,229
  - Max Income = \$6,109,182

# Franchisee Sales : Investment

- 16 systems make financial performance representations
- Of these:
  - Median S:I Ratio = 2.84
  - Maximum S:I Ratio = 6.73

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# **The Challenges and Solutions What the CEOs Said**

- Picking the Right Franchisees
- Building Infrastructure
- Staying Relevant

## Picking the Right Franchisees – Evolution of the Dating Game

- Single Unit and/or Multiple Unit Program
- Expect Some Early Failures as You Learn How to Find Good Fits
- Personality Tests and Other Selection Tool Experiences
- Some Interesting Approaches to Early Growth

# Building Infrastructure

- Does Infrastructure Chase Growth or Lead Growth
- Build Staff or Outsource
- Needed Skills Change over Time -- ex. Dancing with Developers
- Franchisee Needs Change Over Time
- When to Go From Local To National

# Staying Relevant

- Evolving Franchise Agreements
- Adding Other Services
- Adding a Complementary Concept or New Program from Existing Concept
- Going International

# Lessons to be Learned

- Emerging, Growth, Mature – Know Where You Are in the Life Cycle
- You are More Alike Than Different – Learn From What Others Did
- Match Infrastructure and Capital to Growth

Franchise Times



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