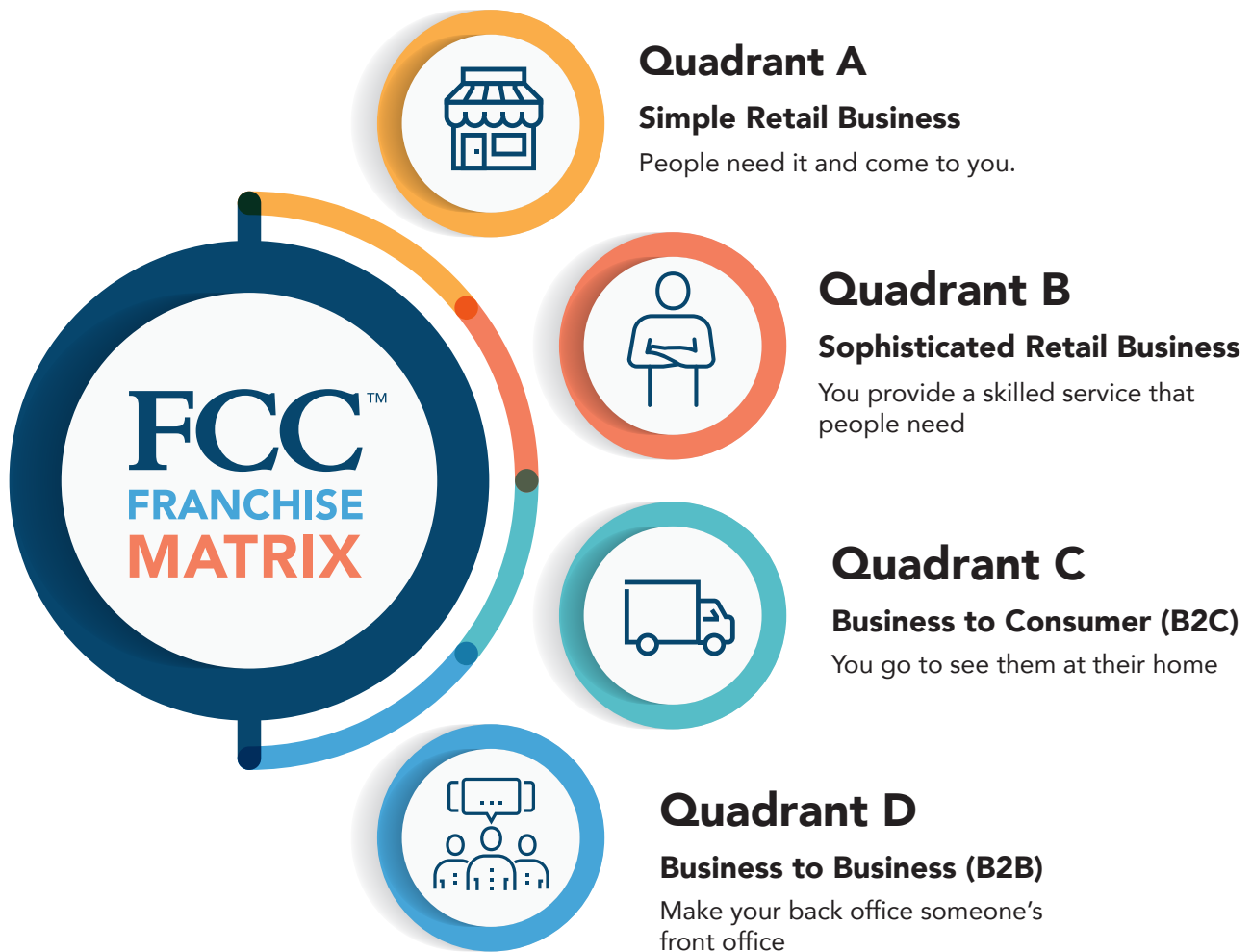


There are **four major categories of businesses** and they tend to share similar characteristics irrespective of the subject matter of what they provide. If we can understand the characteristics and how they fit into what criteria are important to you – we can then analyze different subject matter businesses within a quadrant for best practices and what makes the most sense to you. *In other words, how is Subway the same as a Supercuts?*



Your involvement

The continuum here is time or money.

What do you want to put more of into a business?

Everyone should strive for a business that can be absentee because you can then step away, treat it like an annuity or sell it. The value is the cash flow that continues to happen when you are not around.



Absentee

Hire a General Manager, an assistant manager and employees. Show up every now and then.

Semi-Absentee

You are the General Manager and have an Assistant Manager as your eyes and ears

Executive Owner

You do everything. Head cook and bottle washer.

Definitions

Franchisor - The company that allows an individual (known as the franchisee) to run a location of their business. The franchisor owns the overarching company, trademarks, and products, but gives the right to the franchisee to run the franchise location, in return for an agreed-upon fee.

Franchisee - One who purchases a franchise. The franchisee then runs that location of the purchased business. He or she is responsible for certain decisions, but many other decisions (such as the look, name, and products) are already determined by the franchisor and must be kept the same by the franchisee. The franchisee will pay the franchisor under the terms of the agreement, usually either a flat fee or a percentage of the revenues or profits, from the sales transacted at that location.

Royalty - Compensation, consideration, or fee paid for a license or privilege to use an intellectual property (brand, copyright, patent, process) or a natural resource (fishing, hunting, mining), computed usually as a percentage of revenue or profit realized from the use.

Territory – franchisors will grant various types of territory delineated by a radius, # of households, counties, zips, states etc. There are 3 principle types

- **Master License** – a big area, significant capital required and you have sub-licenses in your area. You share the proceeds with the franchisor.
- **Regional Development** – you have a defined area, must open a defined # of units within a defined time frame. The franchisor will not put someone else into that area as long as you are fulfilling the criteria set out.
- **Unit** – one location in one area

BRICK AND MORTAR BUSINESSES

Most of the national franchisors in this category have strong brand recognition.

Quadrant A

Simple Retail Business

“People need it and come to you”

Examples: McDonalds, Burger King, Subway, Supercuts, Great Clips, HR Block, Jackson Hewitt, Liberty Tax, Snap Fitness, LA Fitness

Any business that is transactional in nature

- Customers come, buy something and leave
- The thing they buy is from a pre-determined menu
- Simple employee model – think 18 year old kids learning over a few shifts
- Range of typical costs (start up fees, build out, marketing \$, working capital, fixtures, etc) from about \$50,000 - \$2,000,000+ (Kiosk business on the low end – McDonalds on the higher end)
- Lots of options in the \$150,000 - \$300,000 Range
- Average facility is 1200-2000 square ft in a strip mall – think Subway
- Marketing is REACTIVE – people come to us b/c they know the brand and they need the service
- We should be looking for Brand recognition here – think of Subway versus Nick’s subs – people will probably go to Subway
- Location is very important because most of our clients are going to see us and then come in

Quadrant B

Sophisticated Retail Business

“You provide a skilled service that people need”

Examples: Meineke, Midas, AAMCO, MAACO, Hand & Stone, Massage Envy, Fast Signs, SignArama, Medical Weight Loss Clinics, Urgent Care franchises

- Any business where you semi-customize inventory and need trained people to do the work. The employees may need licensing or schooling / certificates (think of the difference between a guy who can change a transmission at AAMCO and the kid at Subway...)
- Facilities are probably stand alone or in a higher end plaza (think of where a Meineke or a Urgent Care business is located and what they look like)
- Range of costs can vary greatly but there are lots of options in the \$300,000 - \$500,000 range. We need to be careful of site selection and build out costs
- Average facility is probably 3000-5000 sq ft
- Marketing is both reactive and proactive – we can target customers in certain areas
- Barriers to entry are higher than simple retail so these businesses tend to stick around longer and have fewer competitors
- We look for Brand Recognition as well as marketing, supply chain and operational capabilities here b/c most people aren’t doctors or mechanics – we need the franchisor to help us with finding, training and managing these people. Also, if we are dependent upon getting parts – we need an efficient supply chain already in place or else we can’t service customers.

PROS

- These are scalable and replicable
- i.e. if you open 1 Subway, you can open another. If you can run 2 then you can probably run 10.
- Financing tends to be straightforward – banks are lending again and they tend to like to lend to companies they have heard of

CONS

- These can be expensive to open and operate. Fixed costs can be high.
- We need people – people cause problems. There is an inverse correlation between how much you pay someone and the level of problems they can cause (not in all cases).

SERVICE BUSINESSES

You don't know they exist until you need them

Quadrant C

Business to Consumer (B2C)

"You go to see them at their home"

Examples: Elder care or child care – ComfortKeepers, Comforcare, Brightstar, Home Instead, Right at Home, Tutoring, Nanny / day care,

Property Services: Roto Rooter, Certa Pro Painters, Mr. Electric, Serv Pro, Paul Davis, California Closets, Budget Blinds

- Any business where you provide services to a residential consumer usually at their home. You (or your employees) go to them.
- You don't need a storefront – these can be run from a home office, a corporate office or a light industrial space
- As you scale up the business, you keep adding people to provide the services so these tend to be efficient on the costs i.e. when you can't keep up with demand hire someone and so on.
- We are looking at the marketing model the franchisor has to drive business to us – what makes the phone ring?
- The model tends to be "this is what we do, this is how we do it, this is where the people that need it live, this is how we connect with them"
- Brand recognition is important but the demand for services and the ability to reach consumers is equally important.
- The owner tends to have good selling and interpersonal skills b/c you will be explaining to people why they should choose your business.
- Costs are in the \$75,000 - \$150,000 range. This can increase depending on the level of equipment and personnel you start out with.

Quadrant D

Business to Business (B2B)

"Make your back office someone's front office"

Examples: JaniPro, JaniKing, Vanguard cleaning, Express Personnel, ArcPoint Drug Testing, Pride Staff, ATC Medical

- Anything that a business needs, there is probably a franchise to provide it.
- You operate from an office and meet with business owners to sell your services to them.
- Typically these owners tend to have white collar management backgrounds, are comfortable in professional settings and selling to a board room. Think powerpoint presentations to a group.
- Costs can range dramatically but there are many options in the \$150,000 - \$250,000 range.
- You will need a few employees to start, some equipment, office fixtures etc – a professional appearance or else a larger business probably won't work with you
- Sales cycles tend to be longer and the accounts that are landed tend to be larger. Maintaining relationships is important – think of it like this, if you get a bad burger at McDonalds you'll probably go back but if you provide a bad service to a business – they'll probably use someone else in the future.
- Marketing and national accounts, pre-existing relationships with large businesses can be important.

PROS

- You can start these up for less capital upfront because you are providing most of the labor initially.
- Scalability is efficient b/c you put people in as needed

CONS

- You have to be good at selling and consulting (or hire someone who is)
- Analyzing demand can be tricky
- Brand recognition can be low

A Bridge between Quadrant D & C --- B2B2C

There are many businesses that have a foot in both quadrants. They do work with consumers but can set up relationships with other businesses to have them refer clients to each other. Think of the realtor who recommends a remodeler to the person who's house she is selling. That is a business to business referral where the end user is a consumer. (By the way, the realtor is probably getting a referral fee for that...)

Closing Thoughts

Think about territory and your involvement in a business. You have many levers to pull in how you define what is your ideal type of business, how it will grow and what type of employee structure you can have in place. Certain franchises lend themselves better to certain combinations than others.

Example: You can have a regional development, semi-absentee business in Quadrant A or B but it is less likely in Quadrant C or D. It's not that it doesn't exist – it is merely that you will often see more McDonald's owners owning multiple locations in a specific geography because the distribution platform lends itself well to achieving operating efficiencies across many units. i.e. you can purchase in bulk, have a centralized management infrastructure to oversee several locations and move employees around as required.

Ultimately, the goal of this paper is to create a framework to help you put various business types into perspective as you think about your goals and ideal business. There is no business that will 100% fit all the criteria that are important to you but if you can define it, you can measure it and if you measure it – you can manage it!