



## MILLION DOLLAR CONCEPTS: Franchise Businesses That Make the Register Ring

by Mark Henricks

Today, would-be franchisees can find a healthy number of what could be called “million-dollar concepts”: franchise businesses with at or near seven-figure revenue prospects. However, those concepts with seven-figure sales potential also can come with higher price tags and cluster in certain types of business opportunities.

In general, bricks-and-mortar retailers are likely to have higher sales volume than Internet-only retail operations. And businesses that sell products will often generate higher sales volume than those that provide only services. As a rule of thumb, the higher the investment required to get into the business, the higher the revenue potential. “A full-service sit-down restaurant normally will be a high sales volume franchise,” says Francine Lafontaine, a business professor and franchising expert at the University of Michigan. “They also require more real estate and costs.”

That last thought brings up an important point: Business success depends on more than sales. “The profit, at the end of the day, is connected to sales,” Lafontaine says. “But it also could be that the costs completely undo the sales benefit.” In addition to possibly higher costs, businesses that generate more revenues can have their bottom lines negatively affected by many other factors, including competition, regulation, and lack of differentiation.

It also can be harder to get into a business that promises higher revenues, given that more sales often are tied to more investment, and today’s tight credit market makes it more difficult to get financing. The situation isn’t helped by consumers’ lackluster spending habits of late. “When times are a little rough and the macro economic conditions are not as good, both in terms of customers and in terms of financing, it’s a little tougher to start a bigger business,” Lafontaine says.

With all this in mind, Lafontaine says her recommendation is to not consider only revenue potential while deliberating about a franchise concept in which to invest. “When people think about choosing either to start their own businesses or invest in franchises, they ought to think about what they’re liable to spend all their time doing,” Lafontaine says. “This business is going to take time and energy, and they should be happy in the process,” she adds. “They’re not buying a 40-hour-a-week job. They’re going to be working much harder than that, so they should be passionate about their work.”



At School of Rock, in Teaneck, N.J., CEO Chris Catalano has no shortage of passion for the mission of improving the way kids learn about music. “Music education, like foreign language education, has been broken in the country for a long time,” Catalano says. School of Rock is out to change that.

Instead of having kids start with scales and theory, School of Rock’s instructors help students learn songs and perform with their peers in bands. At the end of the semester, they put on a live concert. “Kids don’t want to sit down and play scales for three months,” Catalano says. “They want to play a song. We get kids playing music and that inspires an interest in the theory behind it. Additionally our approach teaches lessons beyond music, such as self-confidence, teamwork, and giving back. It’s a fundamentally better way to teach kids how to play music.”

That basic difference is a large part of what attracts both potential franchisees and music students to School of Rock. And Catalano says there are lots of other ways School of Rock can turn that difference into revenues for franchisees. For instance, the company is looking into programs that address students younger than the 7 to 18 year olds that make up its core audience. They’re also planning to add programs in songwriting, band coaching, and album recording. “What’s exciting about our business from a revenue standpoint is that we’re just

touching the tip of the iceberg as far as new products we can sell,” he says.

School of Rock has 46 franchises and 22 company-owned locations spread across the U.S. and two franchises open in Mexico. The company is having conversations with potential franchisees in a number of Latin American countries, as well as Asia. “We are pursuing international opportunities as we get them,” Catalano says. Meanwhile, he anticipates rapidly growing the system in all domestic markets. “You look out the next couple of years and in the U.S. we hope to have 300 to 500 locations,” he says.

When John Hewitt looks at the next couple of years for Liberty Tax Service, he sees plenty of promise. “We believe this is, if not the best industry, one of the top 10,” says the CEO of the Virginia Beach, Va.-based chain of tax return preparation businesses. One of the most attractive features is the lack of a truly dominant national supplier. “Unlike most industries that have already gone to the national players, the majority of the industry is still mom and pop,” Hewitt says.



That high degree of fragmentation, along with the industry’s recession-resistant nature, permits Liberty Tax franchisees to expect a positive business climate, he says. And the fact that the busiest season only encompasses a few months of the year ensures good lifestyle quality, he adds. “They have the ability to make good money without working year round,” Hewitt says.

Liberty Tax franchisees’ potential for high sales volume is tied to their ability to own and operate multiple offices. Many franchisees open several locations, adding to their overall sales volume with each new office, Hewitt says. And a new opportunity they are going to offer in about half of their markets makes it easier to open a franchise by eliminating the usual franchise fee in exchange for a higher royalty rate. “They’ll be able to get a franchise for just a \$2,500 deposit,” Hewitt says.



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The company has 3,800 locations in all U.S. states as well as Canadian provinces. In another year, Hewitt says that number should grow to 4,500. Liberty Tax isn't targeting any specific markets. Hewitt regards the franchisee as more important than the market. "What I learned a long time ago was although it was better to grow strategically from a geographic center, you can put a great franchisee in Timbuktu and they'll do well," he says. "It's not geographic; it's finding the right people."

Finding the right people is central to the strategy of Seniors Helping Seniors. Philip Yocom, co-founder and CEO of the Reading, Pa.-based chain of in-home care businesses, says people who enjoy helping others and giving back to their communities prosper both personally and financially as Seniors Helping Seniors franchisees. The vital element, Yocom says, is the bond created between care provider and client.

The help Seniors Helping Seniors franchisees provides ranges from simple things such as changing a light bulb to 24-hour-a-day, seven-day-a-week care. The scope of its services, and caring manner in which they are delivered--by

a staff of more-active seniors--encourages clients to come to Seniors Helping Seniors for other non-medical care. "This dynamic allows our Seniors Helping Seniors franchise partners to generate month-in and month-out income by our providing much needed help to a very deserving population whose needs continue to grow," Yocom says.

No matter what the specific service may be, it acts to help the business and the client. "By nature of our Seniors Helping Seniors business model our franchise partners generate repeat business," Yocom says. "We provide less-active seniors with all of the help they need to be able to continue to live independently in their own homes with both the dignity and the respect they deserve."

Seniors Helping Seniors currently has approximately 165 franchise territories open. Yocom anticipates opening about that many additional territories over the next 12 months. "Our goal had been to double our size of our community each year for our first five years and beginning in 2011 to add 100 new franchise territories each year for our next five years," he says. "All of that is currently on track."

The goal at Environmental Waste Solutions is to help business clients save money on waste disposal and recycling, and Diana Shapiro, chief operating officer of the Baton Rouge, La. company, says the uncertain economy is boosting sales to unheard of levels. "Our service is in more demand now than ever," she says. "Companies are looking for any and all ways to reduce costs, and waste disposal and recycling is a sleeper line item on the balance sheet."

Environmental Waste Solutions affiliates offer to help businesses save from 10-percent to 75-percent off what they spend for waste disposal and recycling. The affiliates collect a percentage of the savings as compensation. If there are no savings, there's no cost. The proposition is usually an easy one to sign on to for prospective customers. "Now more than ever company executives are incented to reduce costs and keep costs low, and when compensation of these executives is directly tied to the bottom line of the company, the closing rate for new clients is high," Shapiro says.

Affiliates also pay no fee or royalty to Environmental Waste Solutions. Instead, the parent organization assists affiliates in fulfilling contracts that are too large for an individual affiliate to handle, and splits the fees with them. Some affiliates focus on selling to smaller, local companies, while others like to go after the big national clients that they can share with Environmental Waste Solutions.

One element driving potential revenue is the company's position as, in some respects, the only game in town. "Environmental Waste Solutions is the only national waste management consulting company in North America," Shapiro says. "And we have only been in business for 16 years, so we have barely scratched the surface of large companies that need help reducing costs."

Shapiro says the company is actively seeking new affiliates in all markets to help reach those potential clients. "I hope to add 120 new affiliates in the next 12 months," she says. "We have over 600 locations across North America; however, most areas are still wide open to new affiliates."

Opportunity is wide open for franchisees of Stratus Building Solutions, says Dennis Jarrett, CEO of the St. Louis-based chain of businesses providing cleaning, landscaping, security, and safety services to other businesses. A lot of that has to do with the fact that the industry is still dominated by small, local businesses.

"The fact that no one's got 5-percent market share is hugely important," Jarrett says. "There's a lot of fragmentation and upside potential. And the concept ramps up extremely fast."

One indicator of its appeal is that Stratus has doubled in size three years in a row despite an extraordinarily challenging economic environment for most businesses, Jarrett says. And he expects the company's growth to continue even in the face of competition and economic uncertainty. "What we do can't be outsourced overseas," he says. "It has to be done locally. And our concept resonates with the customer. It's environmental stewardship, it's value, it's consistency."

Stratus has an unusually flexible offering to prospective franchisees, including 16 different levels of investment for unit franchisees, ranging from \$1,000 to \$50,000. "We like to think there's a level for anybody," Jarrett says. "And you're only limited by your vision and work ethic."

Stratus has 60 master franchisees in large and mid-market locations, and plans to add 15 master franchises this year. There are about 5,000 unit locations, and those are growing at about 100 per month. The company has locations across the U.S. as well as Canada, Panama, and Eastern Europe, and is exploring expansion to Asia, Australia, and Latin America. "There's a tremendous opportunity internationally," Jarrett says.

Signal88 sees tremendous opportunity in the business of providing security services to businesses and consumers. Reed Nyffeler, CEO of the Omaha, Neb.-based franchiser of local security businesses, says resistance to external events, including recessions, is a fundamental part of its attraction. "First of all, the security industry is not affected by any major negative--or positive, for that matter--economic or catastrophic event," he says. "If there's a natural disaster, you need more security to protect assets. If there's an economic recovery, they have to protect more assets. If there's a recession, they want to protect what they have left."

One external influence--widespread cuts in spending by all levels of government--is a positive, Nyffeler says. "Organizations that generally have been providing our security in the past are losing funding," he says. As police and other law enforcement agencies face budget cuts, they are reducing the level of security people can expect. Those who want more are turning to private suppliers like Signal88.



Signal88 franchisees enjoy high sales potential because of the industry's generally fragmented state, especially when it comes to franchised competition and to the level of technology Signal88 can deploy. "What uniquely defines us in franchising is that we have the most refined technology in the space," Nyffeler says. As a national franchise, Signal88 can give local franchisees the ability to sell to and to profit from other franchisees' sales to national organizations such as property management companies whose system-wide needs can't be satisfied by independent local operators.

Signal88 has 73 franchises in 35 states including Hawaii and Alaska, and anticipates opening 40 more over the next year. Major metropolitan areas are generally most promising because they tend to have higher crime rates and more opportunity. "We generally sell about 25 to 30 a year, and we expect do more or as our brand grows across the U.S.," Nyffeler says

The prospect of doing more underlies the revenue potential of DVDNow Kiosks, says Scott McInnes, CEO of the North Vancouver, B.C., company that partners with local entrepreneurs to create a network of automated DVD rental machines. "Our business is a scalable opportunity, meaning that it is possible to start with a small number of kiosks, or even a single unit, and grow it into a business with tremendous sales volume," McInnes says.

The appeal of this offering has made DVDNow a popular choice for people who want to get into business. "The demand for our kiosks is up dramatically over previous years," McInnes says. "More and more people are making the transition from renting from a traditional rental store to being a regular kiosk customer. This trend has

accelerated as more and more traditional video rental stores close locations. Now, for the first time, more movies are rented through kiosks than at traditional video stores.'

DVDNow Kiosks has more than 2,500 locations operational in 16 countries including the U. S., where most of its kiosks are, as well as Canada, England, Ireland, South Africa, Australia, and New Zealand. Over the next year, it will primarily target U.S. markets, but it also will expand to several new countries. "Before the end of this year we'll be adding Mexico, Costa Rica, Chile, Brazil and Norway," McInnes says.

At the end of last year, Steak 'n Shake had posted one of the strongest sales performances in the restaurant industry. With an average unit volume approaching \$1.6 million, the company recorded an increase in same-store sales of 7.5 percent, which was on top of a 4.1 percent increase in 2009. This million-dollar opportunity, based in Indianapolis, Ind., is the dominant brand in the premium burger and milkshake segment.

Steak 'n Shake, famous for the Original Steakburger and hand-dipped milk shakes, has developed a loyal following since its founding in Normal, Ill., in 1934. Building upon its current string of nine consecutive quarters of positive same store sales growth, Steak 'n Shake offers potential franchisees a wide range of investment and aesthetic design options, including Steak 'n Shake Signature, a new smaller-footprint format, well suited for shopping centers. Steak 'n Shake Signature offers a low investment option and a more simplified operation.

Steak 'n Shake operates nearly 500 quick-serve restaurants in 22 states. Territories in the Western, upper Midwestern,

Southern, and Northeastern states are mostly or completely available. The company is actively seeking single and multi-unit operators, continually adding new stores across the U.S. as well as internationally.

Medi-Weightloss Clinics is a business devoted to filling consumers' need for safe, effective, medically supervised weight-control programs. Andrew Cox, vice president of business development for the Tampa, Fla.-based company, says a convergence of trends is helping to support the concept's appeal.

One of those trends is the decline in income experienced by many physicians. "The cost of running medical practices today has escalated, while the revenues have gone down," Cox says. "Literally, a lot of physicians will make half of what they used to make." Combined with this is an epidemic of obesity among Americans. The resulting health crisis has caused many consumers to seek reliable, reputable solutions, and physicians are positioned to respond, he says.

Medi-Weightloss Clinics offers a medically supervised regimen that may consist of nutritional counseling, exercise, behavioral modification, and medical treatments. Physician-owners market the service to their clients and often achieve response rates of 20 percent or more, Cox says. As a result, average unit sales are \$800,000 a year and some generate more than \$2 million a year.

The company has 91 locations in 22 states, mostly on the East Coast. "Now we're moving west," Cox says, citing Alabama, Arizona, California, Illinois, Kansas, Mississippi, and Texas as potential locations. "We've always grown by about 20 to 25 clinics a year," he says. "By third quarter of next year, we'll be at about 120 to 125 clinics."

HealthyYOU Vending continues to expand into the market for good-for-you convenience foods with its HealthyYOU Vending distributorship opportunities. The Kaysville, Utah-based company is one of the largest vending machine suppliers in the U.S. and a world leader in the vending industry.

The company's machines feature eye-catching designs and technological advancements including the ability to accept debit and credit cards, and accommodate remote monitoring. They also have eco-friendly engineering features such as energy-efficient refrigeration units. With 1,100 products to choose from including granola bars and nuts, water and juices, and entrees such as soups and noodles, HealthyYOU

Vending gives distributors a lengthy menu of nutritionally preferable options to stock in their machines.

Prospective distributors can place their machines in prime locations across the U.S. and Canada. HealthyYOU Vending's distributor training program provides distributors assistance in location procurement, a personal coach, technical support, route management software, an online support center, and more.

The advantage Penn Station provides its franchisees starts with the quality of its food products, says Craig Dunaway, president of the Milford, Ohio, chain of East Coast style sub sandwich shops. "Most sandwich concepts don't make the time to do what we do via grilling the product and cooking to order," he says. "We find many sandwich concepts simply assemble subs, most often served cold. We take the time to grill the subs and serve each sandwich hot."

Penn Station operates only two company owned units, one of which is used as a training facility. Dunaway says that frees the company to focus entirely on franchisee success. "From a franchise perspective, we sincerely want to see each franchisee succeed, and that is why we devote our full time and efforts in reviewing a franchisee's operations, and providing management tools and reports," he says. "We even have invested in a point-of-sale system that was created from the ground up for Penn Station."

Penn Station has 226 locations in 12 Midwestern states. Target markets for additional expansion include Michigan, North and South Carolina, and Tennessee. By the end of 2011, Dunaway anticipates having nine additional locations operational and from 260 to 275 new units up and running by the end of 2012.

As these examples indicate, there is plenty of variety in the franchise business opportunities that offer prospective franchisees the opportunity to make a good living. That variety makes it possible for people to find both financial success and personal fulfillment as franchisees. And that's important, according to the Michigan professor Lafontaine who reiterates that there is more to succeeding as a franchisee than picking a concept that will throw off lots of money.

"People should, as much as they can, follow what is dear to their heart rather than anything else," she says. "When it comes to opening a business, just as it does choosing a career, one should aim at something that makes your life feel fulfilled and fits your interest. It would be too bad to have someone start a franchise in something that they end up really disliking longer term."