

THE COSTCO CONNECTION

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A lifestyle magazine for Costco members

The pursuit of happiness

Is franchising right for you?

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Michael Maritzen,
Fetch! Pet Care
franchise owner

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While by no means risk free, franchising can offer a shortcut to business success

Franchise enterprise

By Will Fifield

After a decade-long career in the film and video industry, a frustrated Geraldine Smythe, a Costco member in Austin, Texas, finally threw in the towel.

The final straw came in 2004, when, after a year of exceeding quotas in a sales position, she was "rewarded" with a cap on her commissions, significantly cutting her salary. "At that point, I thought I'd better go to work for myself before I blew a gasket," Smythe says.

Determined to make her next career more fulfilling, creatively and financially, Smythe worked with a job coach, researching a long list of business ideas for nearly a year while she finished her last job in the film and video industry. After eliminating many ideas, her coach suggested franchising as a possible path.

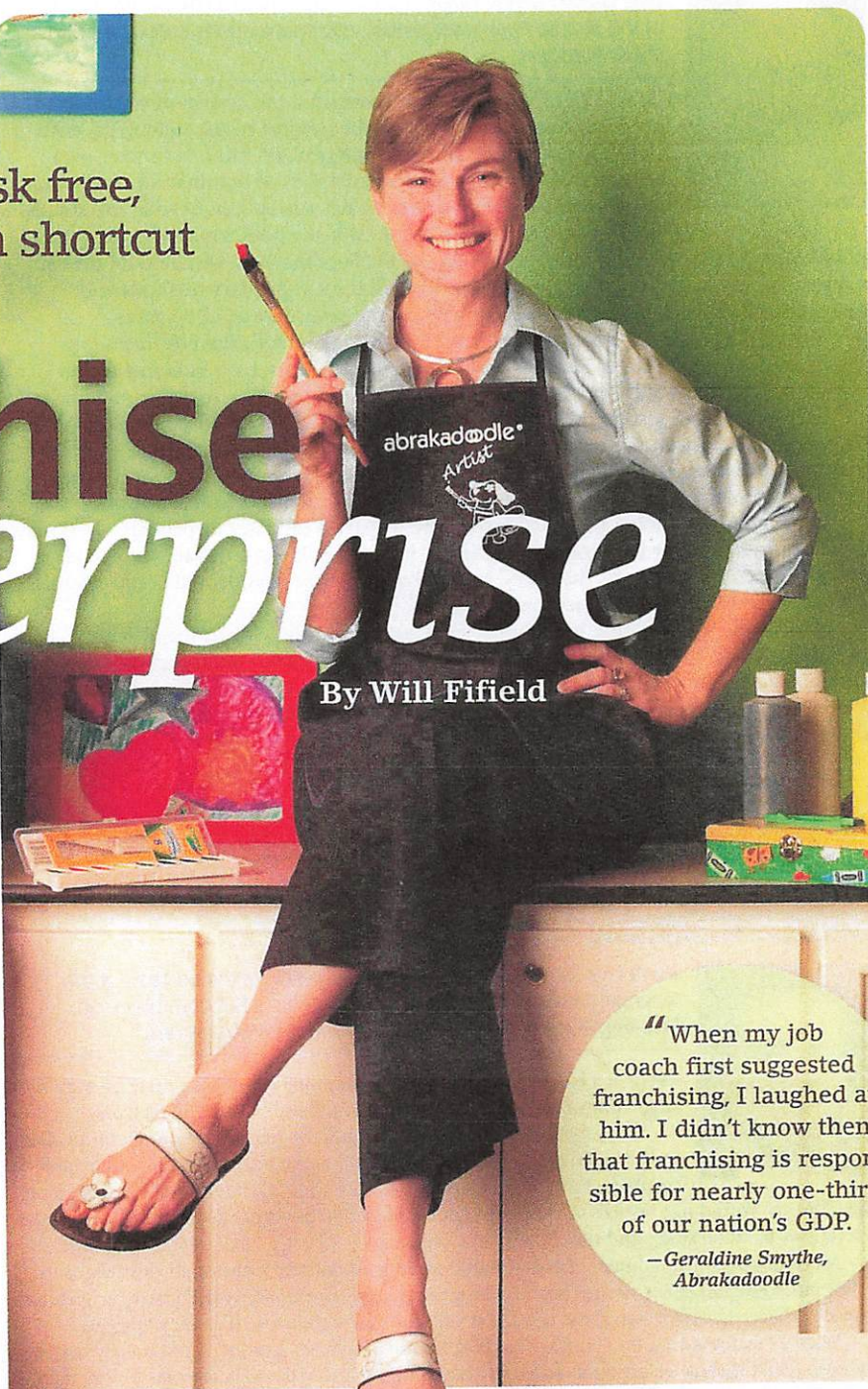
Initially she equated franchising with a certain bespectacled Southern gentleman known across the country for his fried chicken. But her research revealed a staggering number of franchise business opportunities in all kinds of fields.

In 2005, after weighing her coach's advice and evaluating her career goals, Smythe bought a franchise from Abrakadoodle, a chain of 70 home-based art education centers for children from 20 months to 12 years old. In this way she ended one career and began another.

Today Smythe owns two Abrakadoodle franchises, manages 17 instructors and receives high praise from her clients. More important, she finds her work satisfying and is good at it. Abrakadoodle named her its most outstanding franchise owner for 2007.

Franchising 101

Smythe's quest to find meaningful and gainful employment is all too common. And, like her, a growing number of people are find-



"When my job coach first suggested franchising, I laughed at him. I didn't know then that franchising is responsible for nearly one-third of our nation's GDP."

—Geraldine Smythe, Abrakadoodle

MICHAEL O'BRIEN

ing viable and attractive business paths in franchising. According to the International Franchising Association (IFA, www.franchising.org), which represents more than 10,000 franchisees and 1,200 franchise companies, 2007 saw the births of 900 new franchises in industries as diverse as health care, art education, hotels, personnel services, real estate, automotive care and accessories, travel, home maintenance and construction. These are 900 new parent companies, many of which, like Abrakadoodle, operate many "units."

Overall, franchising accounts for more

than 760,000 U.S. businesses that generate \$1.5 trillion annually and supply one out of seven jobs, according to the IFA.

"There are more franchises now than ever before," says Terry Hill, a communications and media-relations executive with the IFA. Some people are drawn to franchising because their jobs have been downsized, "right-sized" or outsourced. Others are entrepreneurial minded yet want to work for someone else, while others have marketable skills but their life circumstances don't permit a regular 9-to-5 job.

"It is difficult to accurately track franchise numbers, because each year some franchises

fail, others expand wildly, while large corporations buy others," says Hill. "But one simple way we can tell franchised businesses are rapidly growing is that the number of members in our organization has more than doubled in the last five years."

Advantages and drawbacks

If you're considering opening a franchise you have more than 80 lines of business, in all shapes and sizes, from which to choose. Franchise investments range from \$10,000 to \$1 million and more. Franchises cater to a variety of lifestyles, too. Some, for instance, are home based, while others operate from portable kiosks; still others are run from traditional retail storefronts.

The Small Business Administration (SBA, www.sba.gov) points out that franchising is an attractive choice for many entrepreneurs because it eliminates the painstaking work of starting a business from scratch. When you buy a franchise, your new venture comes with systems in place to help run it, including marketing, accounting, business training and coaching on how to retain employees. Often it comes with a recognized brand as well, making it easier to establish the franchise in a community.

While these benefits are huge, they also come at a cost.

In exchange for all of this you pay a large sum of money upfront. Often you pay a percentage of your revenue back to the franchiser, and you may also be required to buy supplies from the franchiser as well. This may include only inventory, but it might mean office supplies, computers and whatever else the franchiser specifies.

This leads to the biggest drawback of all: Although you are the owner, you don't control your business. You must follow the franchiser's processes and procedures without variation, and contracts routinely run for a decade or longer. And if you decide you want to sell, you may not be able to do so easily. Often the new owner will have to be approved by the franchiser before you sell.

For these reasons, business experts, franchise lawyers, accountants, franchisers and their franchisees recommend doing lots of

homework before taking the plunge.

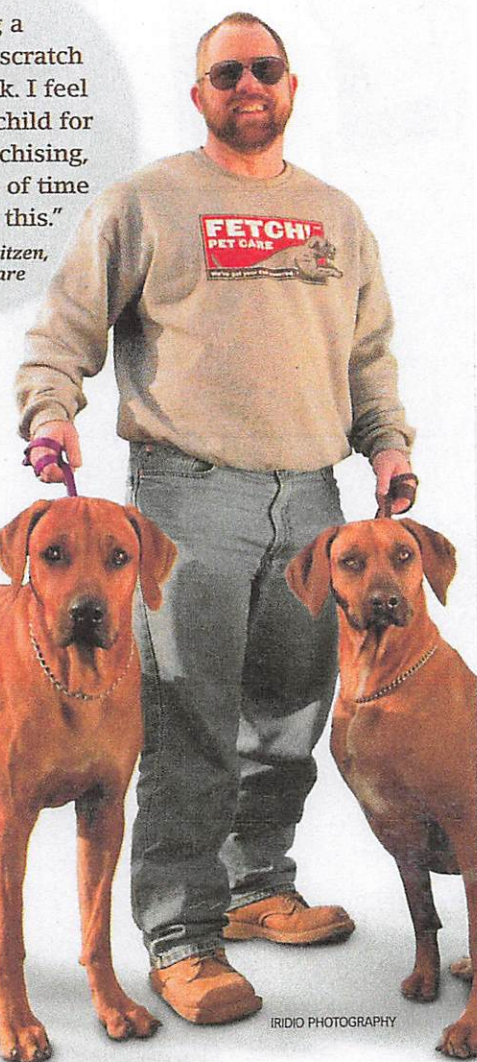
Research, research, research

Michael Maritzen, a Costco member in the San Francisco Bay Area who owns two franchises that offer pet care, agrees. He believes that a critical part of franchise research is coming to terms with why you're thinking about franchising in the first place. It was only after he worked out why he wanted to leave his six-figure salary as an executive in the information technology industry that he considered franchising.

"I was successful, but I had no spare time. No life, really," Maritzen says. "I was probably 50 pounds overweight because of my lifestyle. One day I asked myself, 'Do I want to do this for the rest of my life?' It was then I realized that it was time to move on. I just had to

"Starting a business from scratch is so much work. I feel like the poster child for successful franchising, but I spent lots of time planning for this."

—Michael Maritzen, Fetch! Pet Care



IRIDIO PHOTOGRAPHY



Fend off franchising fiascos

NANCY LANARD is a Costco member whose Philadelphia-area law firm, Law Offices of Nancy L. Lanard, P.C. (www.lanardlaw.com), has been helping franchisers and franchisees nationwide for more than 25 years. Lanard offers these vital tips to anyone considering buying a franchise:

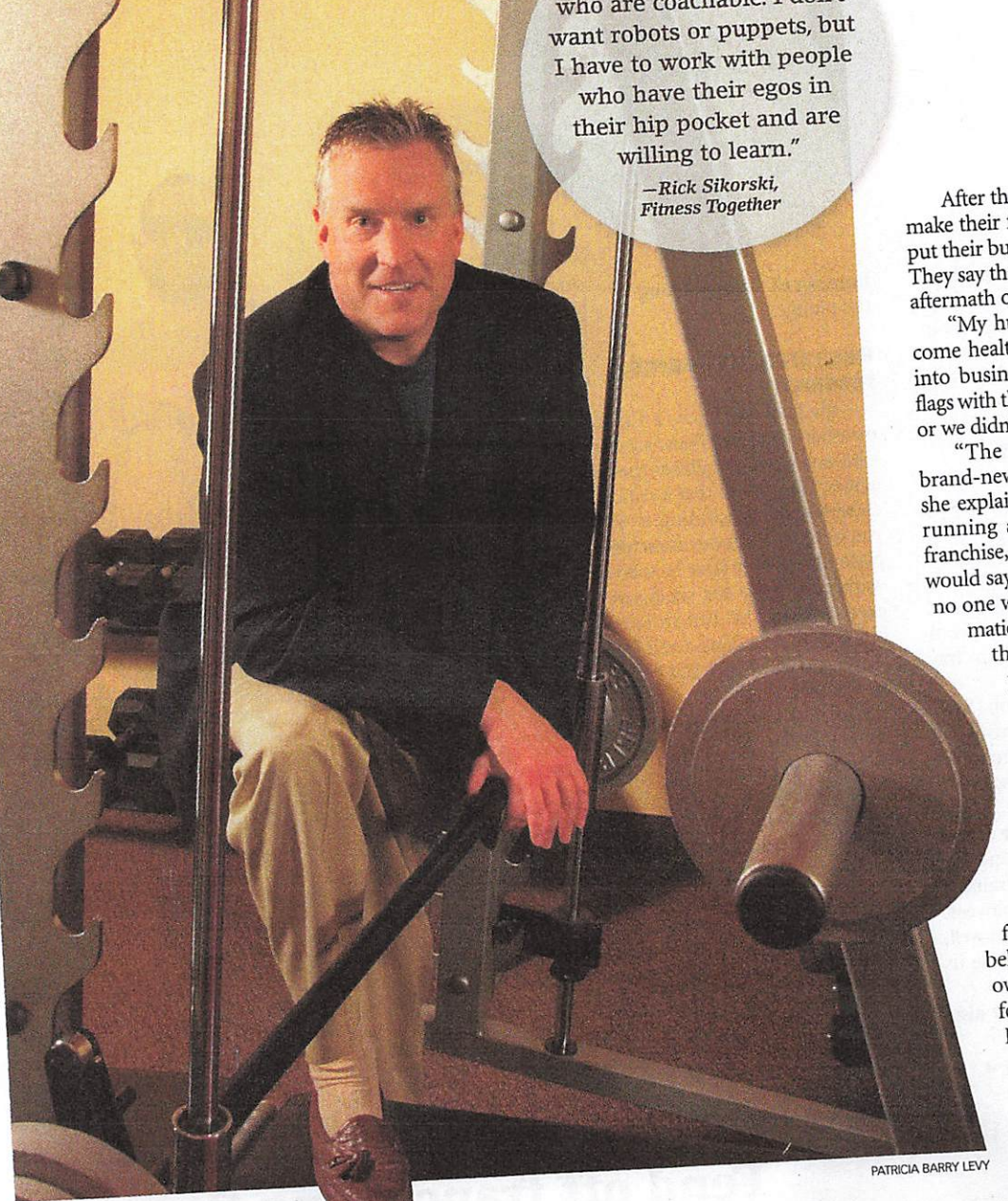
■ **Read the entire disclosure document** you received. It describes vital information about the investment you will be making, such as the anticipated initial costs, ongoing fees, your legal

obligations and important information about the franchiser.

■ **Contact current and former franchisees** and ask them what they liked and disliked about the support and training they received.

■ **Review the franchiser's audited financial statements** with an experienced business accountant who can evaluate the financial strength of the franchiser and determine whether this business will help you accomplish your financial goals. The accountant should analyze whether the franchiser is financially strong enough to support the sys-

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A photograph of Rick Sikorski, a man with short grey hair, wearing a dark jacket over a dark shirt and light-colored trousers. He is sitting on a piece of gym equipment, possibly a rowing machine, with his hands on the handle. The background is a light-colored wall with some equipment visible.

"I look for franchisees who are coachable. I don't want robots or puppets, but I have to work with people who have their egos in their hip pocket and are willing to learn."

—Rick Sikorski,
Fitness Together

After three very difficult years of trying to make their franchises work, the Buxtons have put their businesses up for sale and taken jobs. They say they may even lose their home in the aftermath of their business venture.

"My husband's desire to help others become healthy was the force behind us going into business, but there were plenty of red flags with the franchise; we just didn't see them, or we didn't want to see them," Edna says.

"The franchise we bought into was brand-new, with no track record to speak of," she explains. "And we were inexperienced at running a business. Before we bought the franchise, we visited a few locations. No one would say how many members they had, and no one was really willing to give much information. Also, nearly everyone working in the franchise corporate office was young and inexperienced."

"Initially, my husband kept his job and I ran the business. Not long after we opened the first franchise, my parents moved in with us to help with the kids. We made a lot of sacrifices to try to make our business work."

The Buxtons say that the franchise took royalty fees and marketing fees but did very little marketing. "I believe they used the money for their own needs locally, and didn't do much for their franchisees nationally," says Edna. "They made promises that were not kept and eventually ended up just letting all their franchisees out of their contracts, with all the money that we all spent on this company gone. No marketing, no help."

Edna is now working as an office coordinator for an insurance broker and studying for a real estate license, while her husband is working in sales. The ripple effect of their franchise experience has yet to be seen because they don't know what is going to happen. Edna says, "The landlord could sue us [and] file a lien against our house, on which we already have a second mortgage we used to try to keep the business open."

Expanding business horizons

On the other side of the franchising equation, independent business owners often consider franchising as a way to step back from the daily operation of their ventures and focus on growth.

"It's hard to bake bread and sell bread the same time," says Rick Sikorski, founder

find out what that meant for me."

After this epiphany, he determined exactly what he wanted out of the next phase of his work life. At the top of his list were "no more travel" and "more time away from work," as well as a more flexible schedule.

With these criteria in mind, he compared starting an independent business with buying a franchise. While researching franchises he discovered Fetch! Pet Care (www.fetchpetcare.com), a pet-sitting and dog-walking franchise that serves more than 1,200 cities nationally.

He says he liked the company business model and was confident about the company's financial standing and its ability to handle growth. Best of all, the work was a great match because, while he was in high school and college, he had worked with pets, first as a veter-

inarian's assistant and later in pet hotels. His experience with and love for animals made Fetch! Pet Care an appealing choice.

"Starting a business from scratch is so much work. I feel like the poster child for successful franchising, but I spent lots of time planning for this. I had to financially prepare myself, which meant wiping out my debt and saving money, not just for the franchise but operating expenses as well," says Maritzen.

What can go wrong?

Edna and Brent Buxton, Costco members in Roswell, Georgia, have a very different franchising story to tell. They followed a passion for health and fitness into buying two fitness franchises. As a result, they're in the midst of a financial nightmare.

Fitness Together (www.fitnessstogether.com), a network of more than 600 gyms that provide one-on-one personal training throughout the United States and in Canada, Costa Rica, Israel and Ireland.

Sikorski bootstrapped his business in 1982 at the age of 21 in Phoenix. He sold his car for \$9,000 for start-up capital. With the proceeds he bought used gym equipment and rented a building. Because he didn't have enough money to both meet his business obligations and rent an apartment, he lived in the gym for the first year.

After a few months of working on his fledgling business, Sikorski had a number of steady clients. They were enjoying results, and the gym was getting a good reputation in the community. The early signs of success were enough to inspire Sikorski to leave the master's program he'd been enrolled in and focus on his business.

After 14 years, Sikorski, who eventually relocated to the Denver area, had four locations. "I was a workaholic. I had no home life, but I had a successful group of studios. I was at a crossroads. I had to decide if I was going to try to expand my own gyms across the nation or franchise," Sikorski says.

Franchising seemed the best route to grow his business, but it was tough to trust others with a business idea that had been established through such personal sacrifice. But after a steep six-year learning curve as a franchiser, his business is rapidly expanding.

The final word

In researching this story, *The Costco Connection* read many, many letters from members involved in franchising in various ways across the country. Some were stories of

success and others were bitter tales of failure. Most, but not all, success stories had a prologue of lengthy and thorough research and huge doses of soul searching, followed by lots of hard work.

But there is no failsafe formula for success. Whether you're looking for a way to grow your business or you're an entrepreneurial-spirited person in search of pleasure and profit in your work life, franchising involves an element of risk. Recent studies, including a Gallup survey, show that a majority of franchisees are glad they made the leap. The letters we received reflect this too. The conclusion that emerges from them: Franchising can be a great vocational path, but it should not be taken lightly. [E]



STAN KAADY

FRANCHISING RESOURCES

Learn more about franchising through these sources:

- International Franchise Association (www.franchise.org).
- Small Business Administration (www.sba.gov)
- *Entrepreneur*, a monthly magazine, and its Web site, www.entrepreneur.com, thoroughly cover franchising and other business issues.
- *Franchising Times*, www.franchisetimes.com, is a publication geared specifically toward franchisers and multi-unit franchisees.

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tem it has in place and the growth it anticipates.

■ **Consult an experienced franchisee attorney** to advise you on the risks and advantages of making this substantial investment before you sign a franchise agreement. Your attorney should:

- * Check the status of the trademark(s) to make sure they are federally registered.
- * Review the franchise agreement,

noting obligations (financial, reporting, advertising, etc.) that the franchisee will have to the franchiser, as well as concerns over items that are not typical, and suggest revisions where necessary.

* Negotiate terms to make the franchise agreement fairer to both sides.

■ **Retain experienced franchise counsel** to be on your team even if the franchiser will not negotiate the fran-

chise agreement. This will assure you understand your legal obligations under the agreement before making the investment. In addition, experienced franchise attorneys can form your legal entity (corporation or limited liability company) and review and negotiate the lease for your business location, as well as provide other legal assistance you may need. [E]