



Their name, your business

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STAFF WRITER

Paulino Silvano wanted to be his own boss, to live the American dream. Lisa Annitti Holgerson wanted work to be rewarding, something more than a job.

Both found what they sought in franchising.

Like millions of entrepreneurs, they went into business for themselves by buying into an existing company, rather than creating their own enterprise.

At the same time, business owners like Jeff Ryu, the founder of Kudo Beans Inc. in Fort Lee, are going the franchise route to expand successful enterprises.

The appeal for both is obvious. The business owners can grow beyond their original home territories and the buyers enjoy the advantages of being their own boss with the financial and promotional backing of established brands.

But that backing comes at a cost: Franchise holders dictate how the business is run and take their cut off the top, and franchisees lose some control.

Those drawbacks haven't kept franchising from becoming big business, contributing more than 11 percent to the U.S. economy, the International Franchise Association reports.

Franchisers provide 18.2 million jobs and \$506.6 billion in payroll in the United States, with the fastest growth in building and construction, child-related and service businesses, the IFA says.

Franchising is big in New Jersey as well, with 37 franchising companies based in the state. Some of the brands are well-known, such as Ramada Inns, Lawn Doctor and Party City. But franchises also are available in lesser-known businesses as varied as fast-food restaurants, office cleaning, tutoring centers and fitness centers.

Combined, the 17,530 franchises operating in the state have created 312,951 jobs and are pumping \$42 billion into the state's economy, the IFA says.

Silvano and Holgerson are included in those statistics, and neither has any regrets.

No bosses

Eight months ago, Silvano purchased a franchise from Heits Building Services, a Hasbrouck Heights-based office-cleaning and janitorial service, and now the Brazilian native has seven employees.

The FTC rule

The Federal Trade Commission requires sellers of franchise or business opportunities to give potential buyers a detailed disclosure document at least 10 business days before the buyers pay any money or legally commit themselves to a purchase. The buyers can use these disclosures to compare a particular business with others or simply for information.

"You don't have a boss pushing you," the Cliffside Park resident said. "You work hard because the business is yours. If you don't do it right, you lose."

Heits has awarded 45 franchises at an average cost of \$14,500 -- \$8,800 up front -- plus ongoing payments of 16 percent to 20 percent of revenues. For their money, franchisees get a pre-determined amount of cleaning contracts -- typically \$1,000 to \$20,000 a month -- that are negotiated by the parent company.

Heits also handles the billing and provides franchisees with training and starter cleaning supplies, owner David Heitner said.

Holgerson and her husband Eric have been running a Curves for Women fitness center in Butler since May, and they love it, even knowing that it won't be profitable for at least a year, she said.

"It needed a lot of work, TLC," the Bloomingdale resident said. "It was neglected by absentee owners. We did what needed to be done."

New Curves franchises cost about \$120,000, but the Holgersons paid a \$40,000 premium because they were taking over an established business, she said.

In addition, they will pay 5 percent of revenues to corporate headquarters for marketing and advertising.

Buying a franchise can cost as little as a few thousand dollars to millions, and franchise holders can expect to spend even more on construction, equipment and supplies.

At the Teaneck-based Kumon Learning Centers, for example, the franchise fee is \$1,000, but the total investment to open a new center ranges from \$15,163 to \$37,778. Or buy into one of the five restaurant concepts marketed by Villa Enterprises Management in Morristown and the \$25,000 franchise fee is a small part of the \$162,000 to \$402,000 needed to get up

Thinking of buying a franchise?

North Jersey is home to 37 companies selling franchises, including the three listed below. The cost is the typical up-front fee and can vary based on location and size of the territory. It does not include royalties, which are usually based on a percentage of monthly sales, and some start-up and construction costs.

Heits Building Services, Hasbrouck Heights

Commercial cleaning and janitorial services. Has 45 unit franchises in New Jersey; starting to sell regional franchises.

Cost: \$2,200 to \$42,350 for unit franchises; master franchises, \$110,000 to \$400,000.

Information:
heits.com/htm/franchise/index.htm;
201-288-7708

Huntington Learning Centers,
Oradell

The document includes:

- Names, addresses and telephone numbers of at least 10 previous purchasers who live closest to you.

- A fully audited financial statement of the seller.

- Background and experience of the business's key executives.

- Cost of starting and maintaining the business.

- The responsibilities the buyer and seller will have to each other once the investment is made.

For further information:
ftc.gov/ftc/consumer.htm and click on "Franchise & Business Opportunities"

and running.

Corporate support

Even within one franchise seller, costs can vary widely, such as with Wyndham Worldwide Corp., the Parsippany-based owner of 10 hotel brands, including Ramada and Days Inn. Franchisees can spend as little as \$183,000 for a small Knights Inn (including a \$5,000 franchise fee) to \$49 million (with a \$225,000 fee) for a typical 285-room Wyndham Hotel and Resort.

Entrepreneurs starting a business from scratch wouldn't have those fees, but they wouldn't have the corporate support either, said Bernadette Tiernan, executive director of the William Paterson University Center for Continuing Education and Distance Learning, and the author of three books on small business development.

"When you buy into a franchise, they have established brand, they've developed a marketing plan, they have created an image and they have defined the policies and procedures," Tiernan said. "They've looked at pricing, they understand their market and they will prohibit a direct competition too close to you."

"When you're starting your own business, you're figuring all that out from scratch."

But owning a franchise is no guarantee you'll make money, said Ed Doherty of Saddle River, who has owned franchised restaurants for 35 years.

"Only if it's the right franchise," he said.

Doherty, who owns 50 franchised Applebee's restaurants in New Jersey and 13 Panera bread stores in New York, experienced what mismanagement can do.

He held a franchise in Roy Rogers restaurants owned by Marriott Corp. with about 800 locations in the

Tutoring in reading, writing, mathematics, study skills, phonics and related areas for children ages 5 to 17, with 275 locations in 37 states.

Cost: \$40,000

Information:
huntingtonfranchise.com; 800-653-8400

Kudo Beans Inc., Fort Lee

Upscale coffee, tea and snacks restaurants. Three licensed stores are expected to be converted to franchises this fall.

Cost: \$25,000

Info:
magnummultimedia.com/cached/kudobeans/franchise/;
201-242-3360

Source: *Company reports*

More opportunities

Here are some more North Jersey franchisers.

American Prosperity Group (APG), Wayne

Retirement and estate-planning company, in business since 1991. Sold its first franchise this year.

Cost: \$50,000

Information: apgfranchise.com; 973-831-4424

Northeast. The chain virtually disappeared, however, after Hardees Food Systems purchased it and bumbled attempts to merge the two brands.

"You can't anticipate management changes within a franchise system," he said. "As a franchise holder, you don't have control over who is running the system."

Not as much risk

No reliable statistics exist on how franchised start-ups compare to other new businesses, the franchising industry says. But franchise operations are considered less risky than start-ups because a franchiser has been through the trial-and-error process for you, Tiernan said.

"They know they have the right price point, know who they want to sell to, know what hours of operation you should have, what your facility should look like, what your standard for quality for your product or service should be," Tiernan said.

"They've ironed out a lot of the decisions you make in a start-up."

A start-up typically takes three years to really get into gear, she said. "With a franchise, you literally turn the key, walk in the door and start an operation."

Even so, there is a downside, said Tiernan, formerly associate director of the New Jersey Small Business Development Centers and associate dean of the Rutgers University Business School.

"If you start a franchise, a percentage of the money has to go back to the holding company," she said. "If you start your own business, guess who the money goes back to if you have an idea that catches on at the right time and the right place? But it's a riskier situation."

In addition, franchise holders may feel restricted in putting their creative mark on a company because they are legally required to adhere to design and supply standards set by the parent, she said.

While franchises are an attractive option for people looking to go into business for themselves, they are also a way for a company to grow.

FTC regulation

McDonald's success story spurs entrepreneurs like Ryu. For six years, Ryu built Kudo Beans, a successful coffee wholesaler to mostly mom-and-pop retailers, into a company whose blends are served in such upscale restaurants as Smith & Wollensky and Ruth's Chris

Daekyo USA (Eastern), Englewood Cliffs

Tutoring services since 1976; doubled number of U.S. franchises in last year to 100.

Cost: \$3,000

Information: enopi.com; 888-835-1212

Jackson Hewitt Tax Service Inc., Parsippany

Nation's second-largest income tax preparation company with 5,379 franchised offices.

Cost: \$10,000 to \$25,000

Information: jacksonhewitt.com/franchise.asp; 800-234-1040

Kumon Learning Centers, Teaneck

After-school math and reading tutoring centers, with 26,138 facilities and 3.7 million students worldwide.

Cost: \$1,000

Information: kumon.com/franchise/default.asp?language=USA; 866-633-0740

Party City, Rockaway

Party-supply store; 259 franchised and 247 company-opened outlets, employing 4,500 people in the U.S. and Puerto Rico.

Cost: n/a

Information: partycity.com; 973-983-0888

Steak House.

Now Ryu is seeking to parlay that reputation into a chain of upscale coffee and snack shops featuring custom-blended coffees and teas.

Franchisers are subject to Federal Trade Commission oversight, and Ryu is still going through regulatory review.

As a result, Kudo Bean shops in Manhattan's East Village and Bethesda, Md., as well as one in Fort Lee run by Ryu's wife Cherie and her friend, Jane Cho, are already operating as licensed stores, not franchises.

But once the approvals come through, the long-time Fort Lee resident is looking to market franchises aggressively with a goal of 250 locations in five years, including sites in South Korea (where Ryu and his wife were born), Kuwait and India.

The franchises will cost \$25,000, plus construction costs, and royalties will be "on the low side" of the national average of 6 percent to 8.5 percent, Ryu said.

For that, franchisees will get a turn-key operation, he said. "We find locations, work directly with developers, oversee all the permits and construction, hire and train all the employees, handle publicity for the grand opening," he said.

Heits is also seeking to expand. All its existing franchises are in New Jersey, but the company is looking to expand nationally, owner David Heitner said. To do that, he will sell geographically defined master franchises for \$110,000 to \$400,000, which will give buyers rights to sell unit franchises in each territory.

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Realogy Corp., Parsippany

Franchises 15,800 real estate offices under Century 21 (8,000), Coldwell Banker (4,000), Coldwell Banker Commercial (500), ERA (3,000) and Sotheby's brands.

Cost: \$25,000 to \$200,000

Information:

realogy.com/b2b/brokers_us/franchises/; 973-407-2709 or 2727

Villa Enterprises Management,
Morristown

Food franchises with 300 locations in five concepts: Villa Fresh Italian Kitchen, Green Leaf's (soup and salads), Bananas (fruit drinks, smoothies), South Philly Steak & Fries and Casa Java.

Cost: \$25,000

Information: villapizza.com/villa-enterprises-franchising.html; 973-285-4800

Wyndham Worldwide Corp., Parsippany

Some of the nation's best-known hotel brands, with 6,400 properties, including Days Inn, Howard Johnson, Knights Inn, Ramada, Super 8, Travelodge, Villager Lodge, Wingate Inns and Wyndham.

Cost: \$5,000 (Knight) to as much as \$225,000 (Wyndham Hotels and Resorts); average around \$35,000

Information: wyndhamworldwide.com; 973-428-9700

Source: Company reports

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