

Franchising puts business growth on fast track

• **Process involves partnerships that use 'other people's money' to expand a company, consultant says**

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MCCLATCHY NEWS SERVICE

[Article Launched: 04/06/2007 03:14:48 AM PDT](#)

ST. LOUIS -- In 1994, Todd Beckman's plan for building his tanning business was simple: Start small, cultivate and then expand.

"My original expectation was just to have three stores, and it just took off," said Beckman, 42, chief executive of the Tan Co. Today, the Fenton, Mo.-based company has 72 locations in 12 states and annual revenue of \$35 million.

Franchising played a big part in that growth, which was something he hadn't expected. "Franchising was not a thought, not at the very beginning," Beckman said.

Companies with a business model that can be replicated have two ways to grow.

They can add locations, financing each expansion themselves and taking full ownership of the new operations. Or they can find partners to open franchises under the company name. The franchise partners pay a fee to the company, and in return get access to its business model, products and marketing and advertising tools.

Franchising helps companies defray the cost of expansion, which can lead to faster growth.

"They (companies) grow faster by motivating management and using other people's money to grow the business," said Mark Siebert, chief executive of iFranchise Group Inc., a franchise consulting firm based in Homewood, Ill. "You have an ability to leverage the time and efforts of your franchisees as well as their capital."

The franchisee does most of the work -- leasing a building, hiring employees, buying equipment and managing inventory. Those are tasks that franchisers would have to undertake if they were to fully own those locations, Siebert said.

Perhaps most critically, franchisees are driven by their own investment in the store, Seibert said, improving the chance of success.

Nationwide, there are about 2,500 franchisers, according to the International Franchise Association, based in Washington.

The key for franchisers is to "start out with two to three stores in order to create that franchisable business model," said Kevin Schulte, center director for the Smurfit-Stone Center for Entrepreneurship at the John Cook School of Business at St. Louis University. "Create that one success and then you can replicate it over and over again."

Dan Abel, president of St. Louis-based Chocolate Chocolate Chocolate Co., which has 13 franchised and company-owned locations throughout the St. Louis area, hopes for quick expansion, as well.

The company's truffles and chocolate-covered strawberries also are sold in Dierberg Markets Inc. stores, and each of his eight franchisees is responsible for the Dierberg stores' inventory.

He said in the next five years he will turn the ropes over to his adult children, who will open about 150 stores, expanding from the Midwest outward "like a spider web," he said.

"I have taken it this far," Abel said. "They have the energy to take it to the next level."

The Tan Co.'s Beckman began paving the way early on for franchising.

First, he purchased an existing tanning salon in Ballwin, Mo., which had about \$65,000 in annual sales. In its first month, the salon had about \$57,000 in sales.

Nine months later, Beckman opened another location in St. Louis. He sold memberships, tanning care products and offered new services such as the "Mystic Tan," which is applied to the body using a light mist and does not require the use of a bed and ultraviolet lights.

Beckman figured that his business model was unusual enough to move beyond the Midwest.

With nearly \$1 million invested in his existing salons, Beckman decided to franchise his company, hoping to profit even more from the success of his tanning concepts. He attended tanning trade shows, did multiple market studies and presented his ideas to interested business colleagues before franchising.

By 1996, the first franchise was open in Maryland Heights, Mo. The company had 15 franchised locations by 2000.

In 2001, increasing customers in stores and interested franchisees from outside the Midwest prompted Beckman to change the name of the company from the St. Louis Tan Salon to the Tan Co.

The Tan Co. charges a one-time franchise fee of \$30,000. Franchisees also must pay royalties -- 6 percent of monthly gross sales. They also are required to contribute to an advertising fund.

In order for a franchise to sell beyond the comfort zone of its hometown, the franchise concept has to be unique but simple, said Terry Hill, spokesman for the IFA.

"You don't want to create something that is difficult to operate," Hill said.

A franchiser must have a system that gives each location the right level of management and control for the business to run smoothly.

Beckman uses an intranet system that links all of his stores, providing daily information about sales, employees and inventory.

"I feel we are always on the leading edge because we have so many stores and we are actually doing the work," said Beckman. "A lot of franchises out there are just a franchise company, and they don't actually run their facilities."

To help grow the business, Beckman brought in Dave Lageschulte, who is intimately familiar with franchising.

Lageschulte, who last year purchased half of the Tan Co. as well as development rights in five southeastern states, was one of the first franchisees of Hooters Restaurants and co-owner of the Hooters Casino Hotel in Las Vegas, which opened last year.

Today, Tan Co. stores employ about 700 people. Beckman said his goal is to have 100 locations by the end of this year, and 500 in the next five years.

Franchising isn't without complexities, including federal rules enforced by the Federal Trade Commission in a document called the Uniform Franchise Offering Circular.

The circular is the first document a potential franchisee sees before an agreement between both parties is signed, said Leonard Vines, franchise attorney with St. Louis-based Greensfelder, Hemker & Gale. It exists largely to protect potential franchisees by providing full disclosure on financial and other information, and it can be a headache.

"It is a long, laborious task," said Abel of Chocolate Chocolate Chocolate. "I had no idea that it would be this much legal work."