

The 25 Franchises That Made the Cut for Our List

By LAUREN BAIER KIM

For prospective franchisees contemplating a purchase, the number of options can be daunting. In the U.S. alone, there are more than 2,500 brands, according to FRANdata, an Arlington, Va.-based independent franchise research firm. Start-up costs for new franchisees vary significantly and, in some cases, reach into the seven figures. With the number of brands to consider and, potentially, a big investment at stake, how can would-be franchisees narrow their choices to a manageable list of concepts?

Startup Journal turned to FRANdata to help us come up with a group of 25 high performers for our readers' consideration. Ultimately, we cannot say that these franchises are the best in the U.S. or that they are the outfits that will net potential franchisees the most profit. Rather, we looked to create a list of franchises that are well established, have experienced leadership, exhibit overall financial health and have a proven record of franchising success. Our list is not a ranking; franchises appear in alphabetical order.

To get to our 25, we began with a universe of 1,458 systems for which detailed performance information was available for 2005 from their Uniform Franchise Offering Circulars, including audited financial statements. Only brands with separately disclosed financial performance data were included in the final list. That meant excluding outfits like McDonald's Corp. and Dunkin' Brands, Inc. from consideration because they combine performance data for their multiple brands.

The list was reduced to a group of 37 companies that met the following criteria:

- Seven or more years of experience franchising.
- A minimum of 100 franchise units.
- A below-average turnover rate for 2004 (the most current available data).

The turnover rate reflects the portion of a company's existing franchise units that were either closed ("cancelled" in franchise jargon), sold back to the franchiser ("reacquired") or sold to another franchisee ("transferred"). For that year, the industry average turnover rate was 12%.

A company's years in franchising and its number of franchised units are important because they show the experience a company has in franchising, says Darrell Johnson, president of FRANdata. "If you look at a company that only has one year of franchising experience, it might not know how much support to provide franchisees," even if it knows a great deal about its core business, he says. A company that has a greater number of franchise units will have "experience dealing with a wider range of services, franchisee business issues and franchisee personalities."

Franchisee turnover offers clues to franchisee success, Mr. Johnson says. While some turnover is healthy (e.g., a sale of a profitable franchise), high turnover may indicate a lack of stability, says Mr. Johnson. For example, a dissatisfied or unsuccessful franchisee might sell a franchise or close at a loss.

Once we reduced our list to 37 franchise brands, we canvassed those companies with the following variables in mind:

- *Franchises' net income/shareholders' equity ratio*
- *Projected additional franchise units for 2005*
- *Franchise unit cancellations*
- *Top executives' experience at the company*

We looked at their net income (profit) and shareholders' equity (assets minus liabilities) for fiscal 2004 to try to ensure that franchises on our list were financially sound. The capital base of franchises in our final 25, as measured by shareholders' equity, was at least \$950,000 for fiscal 2004. All franchises in our final group exceeded a 25% return-on-equity ratio (net income divided by shareholders' equity) average over the past three years and in 2004. It's also worth noting that our 25 franchises had positive net income over the prior three years.

We also looked to see whether the franchise was in a growth mode. We included only systems in the final analysis that were projecting nine or more units for 2005.

In trimming our list, we also took a closer look at turnover, specifically at cancelled units, or units that were closed. All 25 companies on our list had a cancelled unit rate of less than 3% in 2004.

We wanted the systems on our list to have top executives with significant experience at the company. All the franchises on our list had top executives with at least six years of experience at the company.

Looking over our list as it stood, we eliminated two more franchises. One we dropped because it was extending its franchise only in rural markets and through existing businesses under a co-branding arrangement. Another franchise with more than 700 units had a net growth in units of only 20 in the past five years; we thought readers would want to see franchises with more active expansion plans.

Thus, we came up with our list of 25. Is each one right for every prospective franchisee? Certainly not. Minimum investment alone is a differentiating factor. Start-up costs can range from a few thousand dollars in the case of, say, Cruise Planners, to more than a million dollars in the case of Pizzeria Uno. (These figures exclude real-estate purchase costs.)

This list, and our look-up tool for it, should serve as a starting point. StartupJournal will be doing an ongoing series of franchising articles throughout the year to provide our readers with information that will help them make the best investment for them and then make the best of their investment. If you have thoughts on this list, or our coverage in general, please email them to sjeditor@dowjones.com. We look forward to hearing from you.

-- Ms. Kim is a senior editor at StartupJournal.com.

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Franchise High Performers

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Brand	Minimum Investment *	Maximum Investment **	Financing Available? +	SBA Franchise Registry Status ¹	Years Franchising
Abbey Carpet System	\$48,900	\$108,100	No	Not registered	35
Assist-2-Sell	\$35,000	\$62,000	No	Not registered	16
Banfield, The Pet Hospital	\$242,000	\$443,000	No	Not registered	8
Batteries Plus	\$176,485	\$327,385	No	Not renewed	14
CICI's Pizza	\$404,400	\$646,400	No	Current	18
Cruise Planners	\$2,245	\$20,440	No	Not registered	12
Curves For Women	\$38,425	\$53,450	Yes	Current	11
Del Taco	\$272,000	\$626,000	Yes	Not registered	18
Domino's Pizza	\$118,350	\$450,100	Yes	Not renewed	39
Friendly's Restaurants	\$498,500	\$1,954,250	No	Not renewed	10
Home Instead Senior Care	\$34,050	\$46,050	No	Current	11
Huntington Learning Centers	\$158,270	\$273,400	Yes	Current	21
Jimmy John's	\$229,400	\$368,000	No	Not registered	13
Keller Williams Realty	\$121,200	\$457,000	No	Not registered	19
Mighty Distributing System	\$116,575	\$176,500	Yes	Not registered	36
Pizzeria Uno	\$1,103,500	\$2,673,000	No	Not registered	10
Rita's Water Ice	\$161,900	\$337,500	No	Current	17
Round Table Pizza	\$521,000	\$633,000	No	Not registered	44
Servpro	\$99,250	\$150,400	No	Current	37
Sport Clips	\$127,200	\$219,900	No	Not registered	11
Stanley Steemer Carpet Cleaner	\$90,440	\$214,775	Yes	Not registered	34
Subway	\$91,800	\$220,300	Yes	Current	32
Two Men And A Truck	\$94,300	\$311,000	No	Not renewed	17
United Country	\$6,690	\$28,250	Yes	Not registered	17