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## PWC Article Archives

### Is a Franchise in Your Future?

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*The rewards can be great. But so can the risks.*

**Pamela Mills-Senn**



After enduring several layoffs, Rick Watt decided that he wanted to take charge of his own destiny. So with the help of a franchise consultant, Watt, whose background is in sales and marketing, started investigating franchises.

Although concerned about the potential restrictions, he was attracted by the idea of being his own boss without having to start a business from scratch. Eventually, he decided on the painting industry.

**Pamela Mills-Senn**

"I realized there was a lot of money to be made in this industry," he recalls. "You look around, and you can't look at something that's not painted."

Watt settled on Utah-based Five Star Painting. Founded in 2000 as a primarily residential painting company, Five Star started offering franchises in 2005 and now has 58 locations across the United States, Canada and Mexico, says founder/CEO Scott Abbott.

Watt has one franchise in the southeastern metro Denver area. Open a little over a year, the franchise will bill more than \$400,000 in sales this year.

In his former life, Kenneth Harris was a Sherwin-Williams store manager. There, he ran into Kevin New, president of Painter Ready, a 57-year-old company founded by his grandparents. At that time, about eight years ago, New was poised to begin franchising the Nashville-based company; he offered Harris the chance to become the first franchisee.

Today, Painter Ready operates 51 franchises that focus on commercial and industrial work, primarily in the Southeastern U.S. And with annual billings around \$750,000, Harris says he's never regretted the decision to open his Murray, Ky., franchise.

#### Alternatives: *The 'Anti-Franchise'*

Sometimes you want business support without surrendering your business independence to a franchise. In such cases, ongoing consulting services may be an option.

That was the right decision for Mark Osborne, owner of Manor Works Painting, a Virginia-based residential company. Nine



years in, the company had grown, but it was stuck “at rock bottom in terms of profit margins and performance,” he recalls.

Osborne turned to Summit Services Inc. ([www.summitservicesinc.com](http://www.summitservicesinc.com)), a consulting company based in Havertown, Pa., for the business coaching and support he felt he needed. Summit was founded in 2004 and has 44 members.



**Mark Osborne opted for consulting, not franchising, to save his business.**

Summit president Brian Nolan describes his company as the “anti-franchise,” because it allows contractors to maintain their independence while receiving a menu of franchise-like services, including business plans, financial management, business systems, HR consulting, an estimating system, bookkeeping and marketing management.

“Summit members don’t want to reinvent the wheel,” says Nolan. “They just want to put systems in place, have a business plan and road map to follow, understand their numbers, and become more profitable.”

Membership is about split between commercial and residential contractors. New members start with a one-year contract (cost: \$685 monthly). Summit also offers three-year, exclusive contracts to established members only.

Similar support and expertise are offered to varying degrees by other companies and professional associations, such as the Certified Contractors Network ([www.contractors.net](http://www.contractors.net)), the National Association of Professional Painters ([www.thenapp.com](http://www.thenapp.com)), and professional associations like the Painting and Decorating Contractors of America ([www.pdca.org](http://www.pdca.org)). Details and costs vary.

Two years into his Summit membership, Osborne’s company went from its worst year ever to its best.

“We’ve made more money this year than in the previous five years combined,” he says.

## Ready-made models

Success stories like these can make a franchise seem pretty attractive—and for good reason, says Sheila Keefe, of Access Resource Management LLC, a Wisconsin-based consultancy that provides strategic planning and corporate governance expertise to small businesses.

A franchise agreement can take much of the risk out of starting a business by providing a proven business model and a well-known brand, says Keefe.

These are some of the reasons why veteran painter Mark Lambert just bought a Five Star franchise in Colorado Springs, rather than start his own company.

“I knew a franchise could help my business,” he explains. “I know how to produce the results; it’s a matter of driving the market to my business. I needed the brand and marketing power of a franchise.”

## ‘Total business support’



Buyers of franchises get a “giant safety net,” says Jeff Clarke, president of Tampa-based Merit Professional Coatings, a 16-year-old commercial painting company that averages \$8 million in annual revenue.

Clarke and partner Ed Repins have just started franchising their business in Texas and the Southeast.

“You get total business support,” Clarke says. “Every mistake you could make in starting a business, we’ve made, so you don’t have to.”

**Franchises offer “a giant safety net,” says Jeff Clarke of Merit Professional Coatings.**

He’s right, broadly speaking. Franchises typically are selling access to the systems and processes that have made their companies successful.

Arrangements vary, but these assets may include proprietary software; estimating and bidding processes; call centers to handle incoming calls, book appointments and make outbound calls; sales reps who go after both national accounts and those in specific franchise areas; national marketing/brand-building support, including Internet marketing; discounts on materials; training; and expansion opportunities.

“To me, the advantage of a franchise is that it helps you run a painting business, rather than just painting,” says Dusty Rolling, who has owned a Painter Ready franchise in Atlanta for almost three years. “When people ask me what I do, I don’t tell them I’m a painter; I tell them I run a painting business.”

### Risky business

The opportunity to expand is why companies decide to franchise in the first place. Franchising can be an easier, faster way to broaden a company’s presence than directly opening new locations. Of course, the franchise fees and royalties also make it more lucrative. That’s fine, experts say—so long as the deal benefits everyone involved.

But franchisees can also fail, Keefe notes. Sometimes, the cause is poor franchise management; sometimes, it’s a poor fit between the franchisee and company; other times, the fees and royalties are too steep or the market is too challenging.

Whatever the cause, however, the franchisee typically pays the price—and the price can be devastating, Keefe says.

For example, Merit offers a five-year contract, renewable as long as the franchisee meets the contract terms. But if a franchisee can’t make a go of it—even if just a year or two in—he or she loses the fee.

That is mainly “because of the cost we have incurred in training them and getting them up and running, the advertising cost we incurred in their market to begin with, and the advertising costs we’re going to incur in trying to place a franchisee in that market again,” explains Clarke. He says the company profits from the royalties, not the franchise fee, but from the royalty.



**Franchisees will bear the costs of failure, no matter the cause, warns Sheila Keefe.**

#### Franchise Options

Painting companies offer franchises throughout North America. They include:

- Five Star Painting ([www.fivestarpainting.com](http://www.fivestarpainting.com))
- Fresh Coat Painters ([www.freshcoatpainters.com](http://www.freshcoatpainters.com))
- Hester Franchising LLC ([www.hesterfranchise.com](http://www.hesterfranchise.com))
- Merit Professional Coatings ([meritnow.com](http://meritnow.com))
- Painter Ready ([www.painterready.com](http://www.painterready.com))

### Fees and options

Five Star offers a 10-year contract. If the franchisee fails, the owner loses the fee but has some other options.

“The best one is to sell the business to someone else, which we help them do,” says Abbott. “The next option is to work with us in buying back the area from them—we would only be interested in buying back areas we thought we could find a buyer for—or closing the doors.”

Five Star’s fees vary with the market and the franchisee’s experience. For example, the cost would be \$10,000 for a painter in business at least three years; \$20,000 for a territory of fewer than 75,000 households; \$30,000 for a state with no other Five Star franchise; and \$40,000 for an established market.

Painter Ready has five-year contracts, says senior vice president Mark Evans. If the doors close before then, the agreement is nullified, the territory is reopened (and can be resold within 60 days), and the franchisee must pay off all outstanding debts to Painter Ready. That tab, including monthly fees and commissions, can run between \$5,000 and \$20,000, says Evans.

Initial fees may run \$20,000 to \$30,000, depending on location and experience. The monthly fee is \$1,000. Additional costs include equipment, uniforms and insurance.

### The right fit



Investigating a franchise naturally involves a number of financial questions (see “[Before You Sign](#)”). Less obvious, but just as important, is determining how well



you fit the franchise and its culture.

For example, cooperation between franchisees was a priority for Kenneth Harris. Consequently, he values the support he receives from other Painter Ready owners, who freely send work each others' way.

The same is true for Five Star franchisees, which is partly what attracted Rick Watt. In one large franchise he considered, franchisees were "very competitive"—an attitude he felt the company promoted and one he didn't embrace.

**Scott Abbott's Five-Star Painting has launched 58 sites since 2005.**

Consultant Keefe also suggests asking about limits on projects or territory. For example, although Five Star has a residential focus, Mark Lambert says he's free to take on commercial work. And there's no penalty for turning

down work.

Painter Ready, with a commercial orientation, allows franchisees to take residential projects, but the residential territory is restricted. There is no geographic restriction for commercial work.

Finally, experts say, try to determine the history of the company's failed franchisees—how many have left and why. Some franchisees say some companies appear more interested in turning over franchises than in helping them grow. Ask for names of franchisees who weren't happy with the arrangement.

"Speaking with franchisees that chose not to renew their agreements will be informative," Keefe says.

"Once you've weighed the pros and cons, taking into account the costs to start and maintain the franchise compared to the benefits of your association with the franchisor, you can decide if this opportunity is right for you."

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#### Before You Sign: What to Look For

You have a lot at stake when considering a franchise. Start by asking about the basics, including:

- Purchase cost.
- How royalties and marketing costs are calculated. ("If you're required to pay a minimum royalty fee, you'll owe that amount regardless of sales volume," says consultant Sheila Keefe.)
- The financial penalties for early termination.
- If and how a franchisor may buy back the franchise.

Beyond the immediate costs, you want a credible company that's a good fit for you. Experts advise looking at:

- The franchisor's history, brand image and reputation.
- The company's business plan.
- What and when training is provided, who receives it, and how it's delivered.
- How franchisees are notified of changes that will affect them and whether they have a say in these changes.
- Marketing. If local marketing is required, what kind, what outlay is expected, and what support will the franchise provide?
- The company's oversight style. Does it micromanage or allow some latitude in decision making?
- Company stability. Scott Abbott, of Five Star Painting, suggests requesting a firm's Franchise Disclosure Document (FDD) to obtain the financials.
- How long it typically takes franchisees to recover their initial investment. Ask current franchisees about this—and about whether they would choose that franchise again.

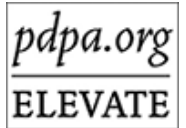
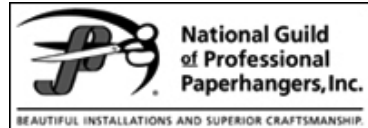
Make sure you work with an independent consultant and/or franchise attorney before making a final decision.

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