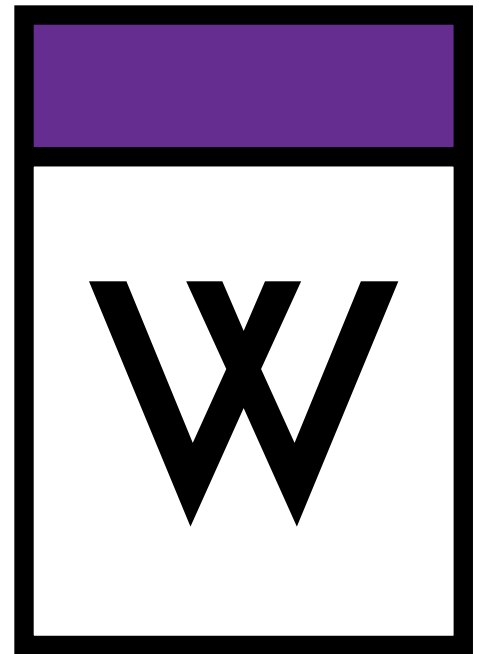
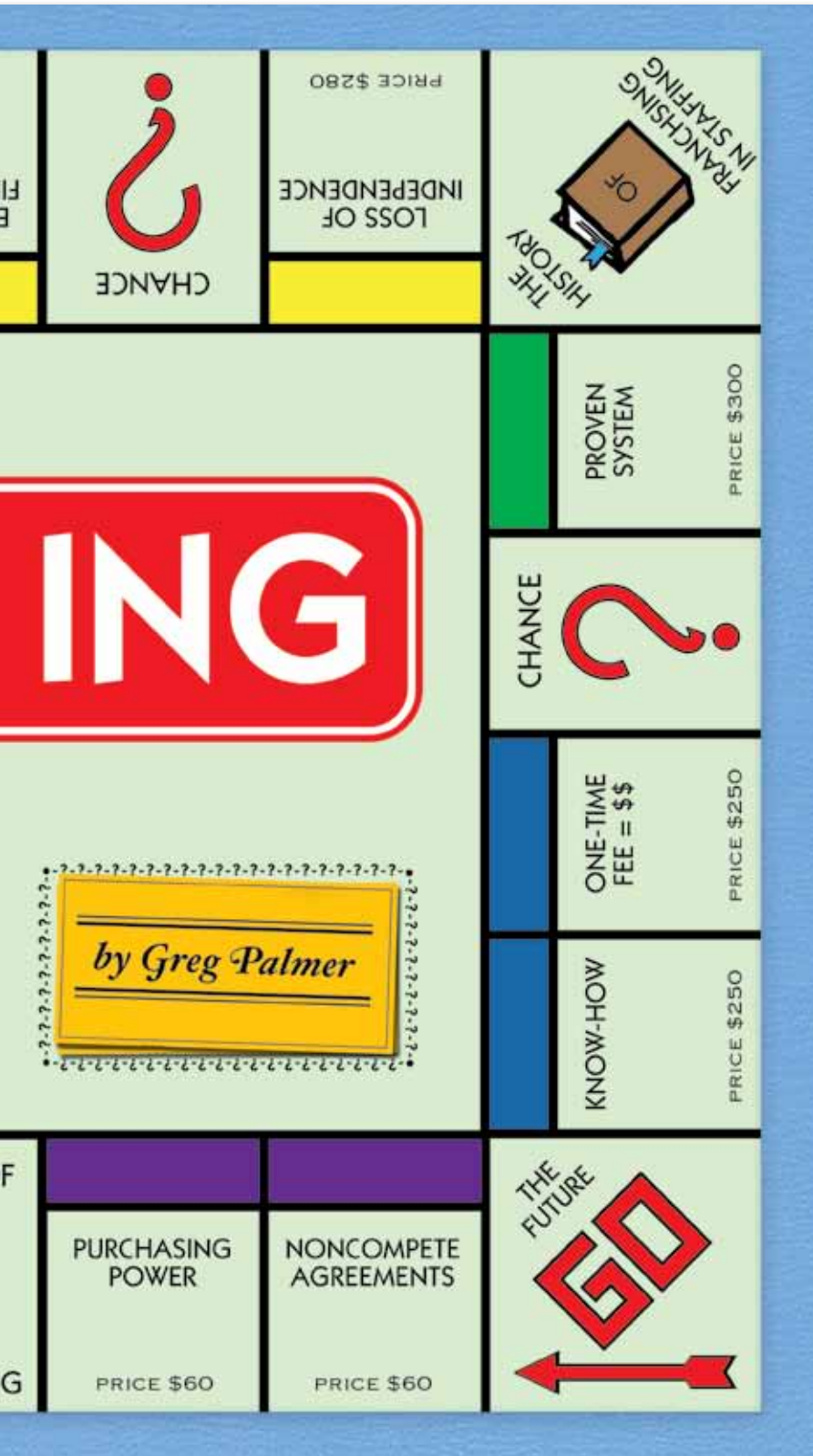


Have you ever imagined owning your own business but simply did not know where to begin? Have you had an idea but was missing that secret ingredient of success and needed a little help figuring it out? For many people, these are often the first thoughts in an exploratory journey destined to discover if a franchise is the right course to take.

| | | | | | |
|--|--|---|---|------------------------------------|---|
|  <p>THE PLAYERS</p> | <p>PRICE \$240</p> <p>TURKEY START-UP</p> | <p>PRICE \$220</p> <p>5 - 7% OF REVENUE DUE</p> | <p>STAFFING FRANCHISING</p>  <p>BENEFITS OF</p> | <p>PRICE \$260</p> <p>SECURITY</p> | <p>PRICE \$260</p> <p>EXPERIENCED FIELD SUPPORT</p> |
| <p>BUILT-IN NETWORKING</p> <p>PRICE \$200</p> | <div data-bbox="491 863 1592 1150" style="border: 2px solid red; border-radius: 15px; padding: 10px; text-align: center;"> <h1 style="margin: 0;">FRANCHIS</h1> <h2 style="margin: 10px 0 0 0;">Past & Present</h2> </div> | | | | |
| <p>ROYALTIES DUE</p> <p>PRICE \$180</p> | | | | | |
| <p>STAFFING FRANCHISING</p>  <p>BENEFITS OF</p> | | | | | |
| <p>WORKERS COMP CONTROL</p> <p>PRICE \$140</p> | | | | | |
| <p>DOWN SIDE OF</p>  <p>FRANCHISING</p> | | | | | |



With its roots beginning to form after World War II, franchising has grown to become a trillion dollar industry. Initially starting primarily in the restaurant industry, today franchising can be found in dozens of industries with hundreds of concepts around the world. By 2001, there were a total of 767,483 business establishments in all domestic franchise systems (either owned by franchisors and franchisees), which employed almost 10 million people. They had direct output close to \$625 billion and a payroll of \$230 billion. These establishments account for a significant percentage of all establishments in many important lines of business: 56.3% in quick service restaurants, 18.2% in lodging, 14.2% in retail food and 13.1% in table/full-service restaurants.

According to the IFA (International Franchise Association) the industry categories in franchising that are expected to continue to experience rapid growth for the start of the new century are service-related fields such as home repair and remodeling, carpet cleaning, household furnishings and various other maintenance and cleaning services; business support services including accounting, mail processing, advertising services, package

FP AD

House ad 2 (TBD)

wrapping and shipping, personnel and temporary help services, and printing and copying services; automotive repairs and services such as quick-lube and tune-up; and other areas such as environmental services, hair salons, health aids and services, computers, clothing, children's services, educational products and services, and telecommunications services.

I have been fortunate enough to have had a bird's-eye view of franchising from the staffing perspective for over 25 years. I have also seen franchising from both the coffee shop and the commercial real estate perspectives. I was an executive at Olsten, one of the industry's first staffing companies to franchise, and CEO of Remedy Temp, which had \$200m+ in franchise revenue. I have also served as a board member of Dietrich's Coffee (ddrx), a publicly traded chain of coffee houses and single-serve coffee roasters, and Sperry Van Ness, one of the top 10 commercial real estate brokers in the United States. Both firms have large national franchise concepts.

In discussing the history of franchising, I will discuss the players, cover models, pros and cons, and trends found in today's evolving staffing franchise world.

HISTORY OF FRANCHISING IN STAFFING

During the early days of staffing in post-World War II, four companies emerged that discovered franchising as their vehicle to grow their respective concepts across the United States. Kelly, Manpower and Olsten led in temporary help services, and MRI did the same in search.

The drivers were pretty straightforward at the time. The franchisee would pay a fee for startup costs and training. Once the business began billing they paid a royalty back to the franchisor. The premise was that the startup fees were used as working capital to expand, and the royalties served as a cash-flow vehicle to sustain the business long term.

At that time capital was scarce, and the industry was brand new. Without the

capital to grow, the pioneers used the capital provided from the fees and royalties to create multimillion and some multibillion dollar organizations.

It is estimated today that there are over 30 staffing and search firms who have franchising offerings. Express is the clear leader with revenues just short of \$2B. Kelly, Manpower, Olsten and Spherion decided that to pursue national accounts and to eliminate growth restrictions they would discontinue their franchise offerings.

BENEFITS OF A STAFFING FRANCHISE: WHY WOULD ANYONE WANT TO BE A FRANCHISOR OR FRANCHISEE?

Why be a franchisee?

It is a terrific way to get a start if you do not have a staffing background. The franchisor teaches you the ropes, and provides the funding, insurances and the knowhow from day one. The franchisors provide the support in several key areas:

- Sales, set pricing, wages, recruiting and general business techniques
- Site selection for office locations
- Purchasing power – for supplies, insurances, funding and IT
- Serving national accounts
- Keeping up to date regarding laws, best practices and emerging ideas

The franchisor is also likely the best built-in buyer or can direct the franchisee to a buyer when that time occurs. The idea that the franchisee is independent, but not alone, is a compelling one for many first-time entrepreneurs.

Why be a franchisor?

Recurring revenue, little turnover of market management and low costs of capital to expand are the overriding drivers for the franchisor. The franchisor provides all of the support, and the franchisee does the entire spade working in the field. In return, the franchisee keeps the majority of the gross profit, and the franchisor usually provides protected territories and national marketing in exchange.

THE DOWN SIDE OF FRANCHISING

Franchisee View

In exchange for the knowhow, security, training and marketing power of the franchise trademark, you must be able and willing to give up some of your independence. If you are a person who likes to make most decisions on your own or to chart the course of your business alone, a franchise may not be right for you. As a franchise owner, you must comply with the various controls and procedures established by the franchisor. You will likely be asked to sign a non-compete, and be restricted by territory as well as follow the franchisor's policies and procedure to the letter.

Franchisor View

By granting exclusive territories and rights, the franchisor could give up a valuable market to a franchisee that may perform at a lower-than-desired rate. The franchisors will also likely face franchisees who do not always agree with the decisions that make sense for the company but may not always be the direction a single franchisee might follow. Some have found the inherent conflict found in the model not worth the headache. Ultimate Staffing is an example of a firm that began franchising but quickly found owning the office to be a preferable route to take.

Who are some of the players?

There are over 30 firms offering franchises today. They range from general staffing to niche providers in health care, home health, IT and accounting. The emerging leaders of today are firms such as Express Employment Professionals. Today, Express Employment Professionals has nearly 600 franchises in the United States, Canada, South Africa and Australia. The staffing company generated \$1.8 billion in sales in 2008. Bill Stoller, vice chairman and cofounder said "Revenues are up 37% ytd, which is outpacing the industry as a whole." As much as there is robust growth of the existing

Figure 1 – SUPPORT FROM FRANCHISORS

Source: GPalmer and Associates

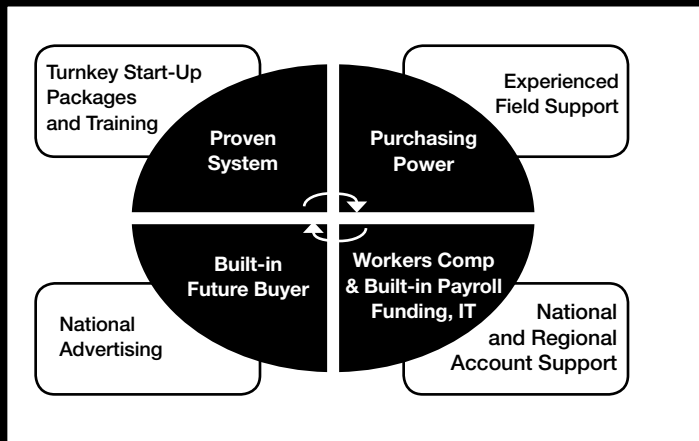
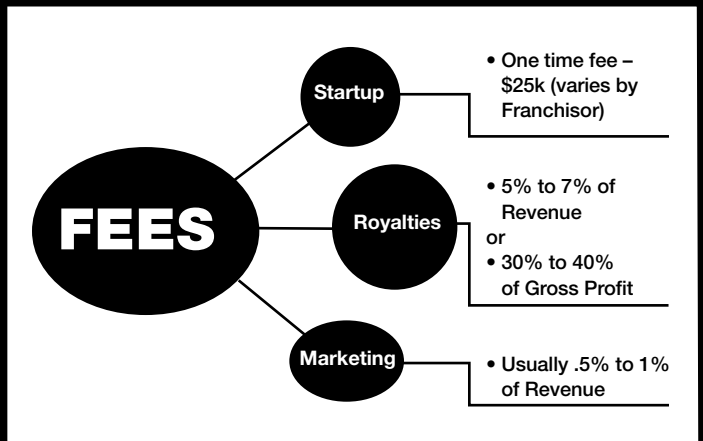


Figure 2 – FEES

Source: GPalmer and Associates



offices, it is becoming conversely more difficult to find qualified franchisees. Stoller added, “Prospects’ bank accounts have been hammered due to the recession, and bank funding is scarce.” Express usually finds entrepreneurial executives, teaches them the staffing business and provides existing territories. Express has a royalty of about 8% of revenue but is a real bargain, Stoller feels, “for similar support in-house the cost would be closer to 12-15% of revenue.” Express is clearly the one-stop shop leader that has bundled an offering focused only on franchising.

An emerging niche competitor is 10 til 2, a unique company in many ways. It was started by three women friends, who were trying to solve the employment challenge of stay at home parents who want to be active but also work just part-time – thus the name 10 til 2. They offer only part-time assignments. The franchisee offices are primary home-based offices, and the temps are professionals only looking for part-time work. In addition, often the contractors are placed in people’s home offices. 10 til 2 now has over 20 offices, a considerable growth for this four-year-old firm. Since opening the doors in 2006, 10 til 2 has been featured on TV shows such as CNBC and the TODAY show. They have also

been featured in publications such as Newsweek and Good Housekeeping. Jodi Olin, founding partner, feels that they have attracted so much media attention and have grown so quickly because they have struck a nerve with many people. “Many people can identify with the notion of having a work-life balance but are challenged to pull it off.” Jodi added: “The future at 10 til 2 looks very bright, with revenue and franchise applications picking up nicely in 2010. As the recession ends we have seen the demand for staffing services and franchisee interest pick up nicely.”

On the search side of the equation, SearchPath International has a unique model. They distinguish a “Super Franchise” from a regular “Franchise” using the following criteria: A Super Franchise owner has the right to purchase and resell franchises at a significant discount, with no geographic restrictions. The Super Franchisee also gains more favorable/lucrative revenue sharing than a regular franchise as well as a larger number of shares of the company’s common stock. The goal of the company’s initiative is to promote the exponential growth of SearchPath International as a worldwide leading talent and executive recruiting organization. “Most franchise

organizations pay a referral fee to existing franchisees but SearchPath not only pays the referral fee but also pays a piece of the royalty indefinitely. This keeps the cost of advertising low and makes the network highly motivated to expand,” says Tom Johnston, CEO and founder.

“We are very excited that our Super Franchise initiative has gotten off to such a great start. The search and recruiting industry is continuing to evolve, and territories are no longer relevant. Our industry niche focus allows our people to work and live globally.” SearchPath, started in 2005, currently has 75 locations and boasts that it is the fastest-growing franchisee concept in the employment space.

The granddaddy of them all in search is MRINetwork. MRINetwork was founded in 1965, providing search and recruitment services to companies who needed mid- to upper-level managers and professionals to run their businesses. Firms that covered both the high and the low ends of the recruitment business were available, but none dealt exclusively with the sector that came to be known as mid-management.

The concept caught on almost immediately, and MRINetwork determined that the best way to replicate its business model ahead of any new competition was to franchise, and what would become



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the MRINetwork global network was launched. Before long, MRINetwork franchises existed in almost every major metropolitan area in the United States. Over the course of the next decade the network continued to grow, and MRINetwork became a wholly owned subsidiary of CDI Corp., which remains its parent company today.

Over the course of the past nearly 35 years, MRINetwork has continued to refine, redesign and adapt in response to changing needs in its marketplace. This ability to reinvent itself is the chief reason that MRINetwork continues to thrive and grow, and has made them number one in the world for franchise search. Today, MRINetwork has approximately 950 offices in over 35 countries, with system-wide revenues of US\$500M.

Who are those new guys?

A number of businesses have emerged to create new lower-cost, more-flexible models and offerings that look like a franchise but that legally are not. The initial target audience in the newer model category is the existing successful staffing and search operators who don't need the startup handholding of a full-blown franchise.

People 2.0 is one of the innovators in this category and has emerged in a dramatic fashion. From one perspective, it is a back office outsourcer; from another it could be a cross between a PEO and franchisor without the branding component. This model is designed for existing, independent staffing firms or industry veterans who prefer not to be bound by a franchise contract and non-compete. Currently, People 2.0 has affiliates who operate in

over 40 states. People 2.0 also has two primary groups of target staffing firms. The first group comprises companies who have \$3M- \$20M in payroll, and the second and fast growing are those firms over \$20M. The larger the program, the more custom the solution.

People 2.0 charges less than franchisors and allows for the affiliates to opt out of the system with a 6-month notice. This is a flexible departure from a traditional franchisor that typically requires a 5- to 10-year contract and a non-compete clause. Chuck Miller, founder and president, said, "I feel that the key to our success has been our ability to find existing staffing operators and offer them outsourcing solutions with real economies and significant flexibility." Miller added, "We allow our affiliates to focus on sales, recruiting and fulfillment, while we

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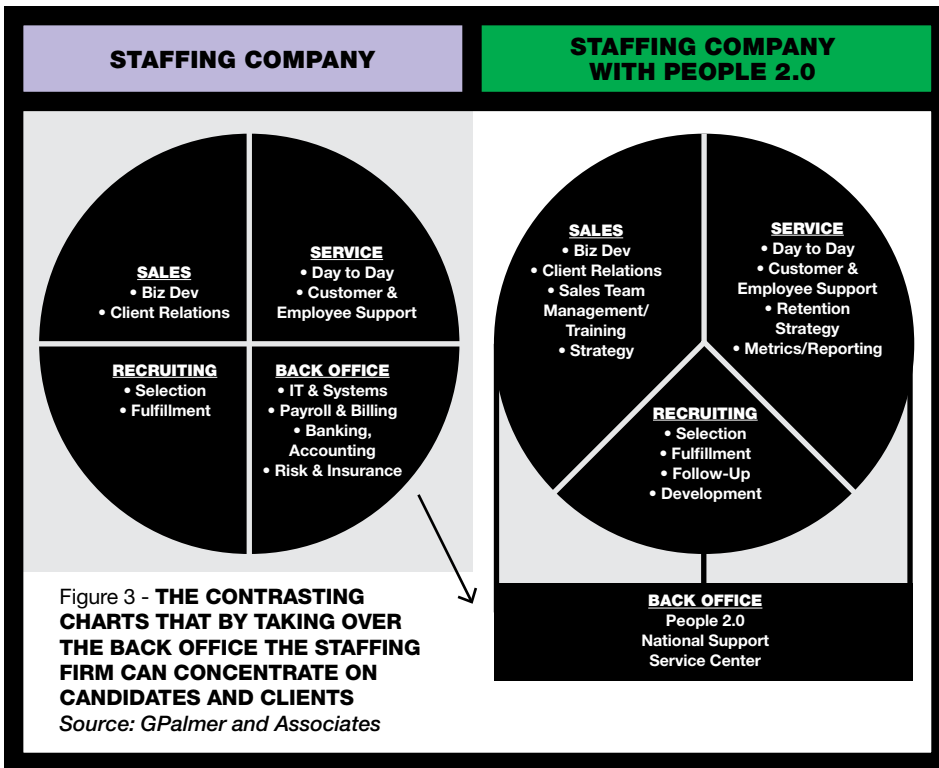


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Payroll funding companies are getting into the act as well. For example some funding firms not only provide funding but also provide systems, insurance or referrals to brokers, marketing assistance, background screening and tax credit programs. Some firms have startup kits for launching a government, creative or healthcare division as well as consulting help.

THE STRESS TO THE MODEL

For a franchisor to grow, the franchisee must make a profit. With the gross margins under stress in commercial staffing sector, many of the



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franchisees are under pressure to make a profit. When this occurs it is more difficult to sell and renew franchisees. This is one of the reasons more franchise offerings in the market today are focused on niche areas because these offerings have typically yielded higher gross margins.

Since capital is also scarce today, the initial startup costs and working capital required add stress to the traditional franchise model. It generally takes anywhere up to \$25M in franchisee fees and another \$75,000 to \$100,000 in working capital to run the business until it begins to generate cash flow. Many prospective franchisees have seen their nest eggs erode, and banks are not as open to fund a startup at this point in the recovery. In speaking to several franchisors,

it is clear that new franchisees are more difficult to bring on than during previous recoveries for the above-mentioned reasons.

THE FUTURE

Minorities and Women in Franchising Will Expand Their Reach

According to the IFA, increasing numbers of minorities and women are discovering that franchising can be a good opportunity for everybody. While franchising is not a panacea, it provides a means for mitigating the traditional obstacles that otherwise, competent and capable small investors, particularly women and minorities, face: lack of business experience

1/2H AD
Ad Index

and capital. Franchisors provide managerial training and assistance on an ongoing basis and, in some cases, arrange for property leases, provide equipment financing and sale-leaseback programs, and assist franchisees in obtaining financing.

- According to the Center for Women's Business Research, as of 2004, there are an estimated 10.6 million privately held, 50% or more women-owned firms in the United States, accounting for nearly half (47.7%) of all privately held firms in the country. These firms employ 19.1 million people and generate \$2.46 trillion in sales.

- As the population of minorities in the U.S. population continues to rise, minority franchising in cities is expected to rise.

More Niches and More Flexible models

With the growth of healthcare and other niche, faster-growing areas in the labor market, we are expecting to see more franchise offerings that specialize in hard-to-fill, difficult-to-recruit-for areas. In addition, also expect to see more models that look like franchising, but without the restrictions.

SUMMARY

Whether you want to become a franchisor or a franchisee, first do your homework. Check the trends, investigate the necessary business references and talk to associations

to do the research necessary to make an intelligent case for your next move. Both the Federal Trade Commission (www.ftc.gov) and IFA (www.franchise.org) have many helpful publications and resources. I have seen the franchise model thrive for 25 years and feel that it has, and will, continue to play a vital role in the staffing and search industries for many years to come. **SI**

Greg Palmer is the former CEO of Remedy Temp Inc and founder of GPalmer and Associates, www.GPalmerandassociates.com, a management consulting firm focused on the staffing industry. You can find the recently published GPalmer temp labor forecasts and related material on the GPalmer Website.

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