

# Business Plan for Empire Fences and Decks

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## Summary

Empire seeks to be the largest deck and fence building company in Canada through franchising.

Operating a trade based franchise can be difficult since a franchisee must sell to customers and service them as well. Franchisees are able to achieve greater amounts of sales by hiring production managers to help with servicing the customers. Empire is very aware of this. By franchising the sales and construction components out individually, franchisees are able to focus on one task and achieve greater results. Construction managers will focus on delivering outstanding service and earning a large profit (upwards of \$337,000) through leveraging the time of their employees. Sales managers on the other hand will be entirely focused on sales. They will manage a team of door-to-door sales reps and earn a commission off every sale their reps make. A successful sales manager can expect to earn \$635,000 a year by managing 15 sales reps.

Empire is confident that franchisees will be successful since there is a large market for newly constructed homes. Ottawa, its launch city, had 13,000 new home starts in 2009. Sales reps will be first to the door and as a result will have the first impression on clients. With Empire training, the 3-D designer, check-ins throughout construction and a two year warrantee on labour clients will gladly trust Empire.

Hickory dickory decks is the only Canadian deck building franchisor. They were founded in the 1995 and currently have 20 franchises. The franchise company (TFC) also specializes in trade based franchising. I was a franchisee for TFC from 2006-2009. There I learned a lot about the franchising industry and realized the greatest flaws in trade based franchises.

I set the weekly sales record through hiring "marketing managers" to help in the sales process. The management team at TFC was very impressed with my creativity and was looking to move my up in the company. I got the idea for Empire Fences and Decks when I realized that there were entire subdivisions that were not being served. By my third year I saw the magnitude of the opportunity and I left TFC.

Empire plans on spending the first three years developing the branchise system. Moreover, the entire process will be self capitalized through the sale of services. By the third year I hire a full time general manager to coach and support the franchisees while I seek to improve and spread the system across Ontario and Alberta.

Being a self-capitalized business Empire is a very low risk venture with great room for growth.

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## Business Model

Empire fences and decks will take over the industry through franchising. Empire firstly recognizes that not everyone is both a tenacious sales person and a devoted customer servant. By separating the sales and construction components of the business Empire will allow franchisees to focus on their preferred task.

Sales franchisees manage a group of sales reps. The sales reps are the first ones to knock on a customer's door when they are ready to have their house ready for landscape construction. The sales franchisee then designs a customized deck using Empire's 3-D deck designer. The 3-D deck is uploaded onto Empire's system where the date of construction is scheduled for the construction franchisee. The 3-D deck design is based on standardized production protocols to reduce the time of construction. Also fence production is easily standardized and priced. The construction franchisee then sends a crew over to produce the work. Empire regularly checks in during the production process to make sure the customer is being serviced appropriately.

## Customer Value Proposition

Empire prides itself on understanding the customer's key needs before presenting a solution. Our sales reps have been trained to ask key questions to get to know the customer. Once the customer is well understood the sales rep will work with the customer to build a 3-D deck design. This tool allows the customer to see exactly what they're getting. It also allows them to make design changes before construction.

Once the job has been booked our database automatically fits the customer into a time slot. If there are any delays the customer is notified a week in advance. Once the crews are on the job site they are trained to be courteous and are able to complete the job very efficiently. Empire's e-mail communication tool communicates with the customer throughout the construction process to make sure the crew is courteous and the job is being done as discussed. Empire then guarantees the work done. We offer a two year warranty on all labour.

## Construction Franchise Value Proposition

Construction Franchisees are able to focus on what they are most passionate about, building decks and fences. Empire makes the process easy in that we book all the work for them. To help them run a larger business and ensure customer satisfaction, Empire provides training sessions, in-field coaching, weekly telephone check-ins, training videos with follow-up tests for employees, and personality tests for all their employees to help screen during the interview process.

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A construction Branchise would cost \$45,000 and the branchisee running 3 crews should expect to make that money back within half a year of production. A first year branchisee would be expected to run 3 crews their first year 6 crews within 3 years and 10 crews after 7 years of operating the branchise.

Branchisee’s are liable for the quality of work done. Empire has automated e-mails that check in with the customer throughout construction. A customer merely has to reply with a non satisfactory issue to inform Empire of the situation. Empire would then offer coaching and support to the branchisee through the process of resolution. In the case that the branchisee didn’t follow through Empire would step in to solve the issue. Empire also reserves the ability to terminate thebranchise if the branchisee is not delivering proper services to the customer.

It is also important to note that Empire makes no guarantee on the amount of work to be provided the construction branchisee. Nevertheless, the general managers role is to insure the fact that sales branchisees hit their targets and book enough work for the summer. Regions would also be divided in such a fashion that the branchisee would have more than enough work to hit their target business goal. Moreover, to ensure excess work Empire would have sales branchisees book extra work and would then hire a construction manager to handle any jobs that weren’t produced by the branchisees.

Branchisees get paid per job they complete. Empire would give the branchisee the specifications of the job a 3-D deck design and the budget for labour and materials. The pay is on a piece work system. Going over budget would cost the branchisee and going under budget would save money. Again Empire would provide video training for employees on how to complete the standardized deck designs efficiently and coach branchisees on how to manage their crews effectively. Empire charges \$85 per labour hour and pays the branchisees \$30 per labour hour. The branchisee then forms crews of three consisting of an Empire approved foreman and two labourers at \$20/hour and \$12/hour respectively. The branchisee as a result earns \$46/hour the crew works. Table 1 shows the earning of a branchisee having said number of crews operating for 40h/week for 6 months of the year. In Ottawa crews can work up to 50h/week and for 7 months of the year.

	Small	Medium	Large
Number of Crews	3	6	10
Income	\$126,720	\$253,440	\$422,400
Profit	\$101,400	\$202,800	\$337,900

Table 1: earnings of a construction branchisees in a 6 month season where crews work 40h/week.

## Sales Branchise Value Proposition

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Sales franchisees are typically have a strong sales background and are hoping to leverage their skills in a lucrative business. Empire looks to recruit managers of sales divisions (i.e. used car reps, high end electronic stores, furniture stores) to be sales franchisees. The benefit is that individuals will earn a much larger commission working for Empire and have a massive market that they can actively target through Empire's marketing program.

Sales franchisees leverage sales reps for higher income and to target more customers. Empire offers training sessions for franchisees and their reps, in field coaching, weekly goal setting sessions, training video's, training videos with tests for employees, and personality test for all their employees to help in the interview process. A sales franchise would cost \$35,000. A franchisee would earn the money back after booking 44 jobs. Upon being awarded the franchise Empire would do a site visit and help the franchisee book four jobs. From there on Empire would offer sales training programs at no charge and weekly phone coaching.

Sales franchisees are given standardized pricing for fences and decks. There would be several standard deck and the customer could vary certain components of the design (i.e. where the stairs are, do they want benches or a pergola, what about railings). After understanding the customers needs the sales rep would use the 3-D design to come up with the customers dream deck. The software would then produce the quote for the deck. This ensures uniform pricing throughout all empire franchises and allows for construction franchisees to deliver the same level of service. Empire may one day evolve into a strictly online sales channel. I just feel that customers are confused about decks and the design consultation would help them design their ideal deck.

Sales franchisees get paid 10% of all sales. They then pay each of their sales reps 5% of sales. The following is a description of how much a sales rep should expect to make per hour of sales:

Empire assumes the following:

Average job size (AJS) varies from \$7000-\$13000

The success ratio (SR) (# of jobs booked/ # of estimates) ranges from 40% to 70%

The time taken to complete a design consultation (CT) as well as a follow up call take 1.5- 2h

Sales reps and managers are able to hire cold callers to generate leads at \$10/h

A sales rep who averages \$13000 per job, has a success ratio of 70%, and takes 1.5 hours to complete a consultation would earn:

$$(AJS*SR*Pay/CT) - \text{lead}/SR = \$13000*0.7*0.05/1.5 - \$10/0.7 = \$289/h$$

Extrapolating to the below expected performance:

$$(AJS*SR*Pay/CT) - \text{lead}/SR = \$7000*0.4*0.05/2 - \$10/0.4 = \$45/h$$

Extrapolating to the expected performance:

$$\text{Average: } (AJS*SR*Pay/CT) - \text{lead}/SR = \$8000*0.45*0.05/1.5 - \$10/0.45 = \$98/h$$

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A sales rep can expect to earn great commission working for a franchisee. Empire offers training to both the sales franchisee on how to coach their reps and also offers video training for the reps themselves. This training would be focused on uncovering the key emotional needs of what customers and then matching those needs to the ideal deck.

Table 2 shows the earnings for a sales franchisee running said number of sales reps working 20 h week for 6 months of the year. 20 h was derived from the sales reps working 6 hours Saturday and Sunday and 4 hours Monday and Tuesday evenings.

	Small*	Medium	Large
Sales reps	3	5	15
Income	\$141,100	\$235,000	\$705,600
Profit	\$127,000	\$211,700	\$635,000

Table 2: Earning of a sales franchisees in a 6 month season where reps work 20h/week. The numbers were based on the sales reps performing at expected levels

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- A sales manager running a small franchise would be expected to also sell. That would be able to earn an extra \$71000 by working 20h/week.
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## Market Analysis

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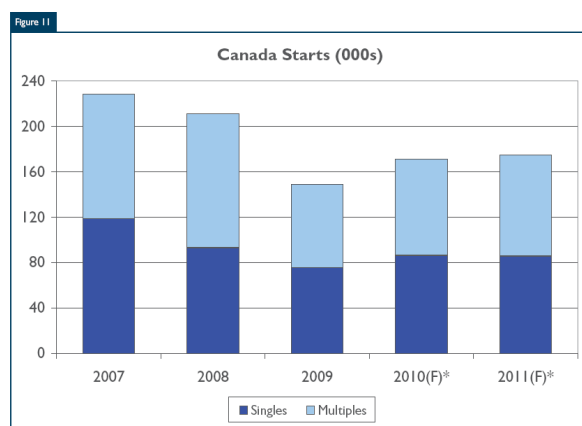
New home starts are the easiest to target. Developers build subdivisions of 50-500 homes. Within two years these home have had their landscaping done and are then eager to have their landscape construction projects completed. Through door-to-door marketing it is very easy to get in touch with you target market directly.

Sales reps will simply hire cold callers to knock on doors and generate leads. Newly built subdivision represent hundreds of people who need Empire's services. By being first to the door we actively engage the customer and greatly increase our likely hood of getting the job.

Once the first rounds of jobs are booked lawn signs are placed and a referral program is used where the referee gets \$100 and the referred get \$50 cash upon booking. This creates a branded neighbourhood. People leave their houses in their morning and see the Empire 5-10 times while leaving their subdivision.

Finally a second round of cold calling is done to gather and customers who were on the fence about getting a consultation.

New housing is a massive industry in Canada. Figure 1 was taken from CMHC. It shows the number of housing starts in Canada. During the recent boom economy Canada saw 230,000 new home starts and even during the recession there were still 150,000 starts. Empire is based out of Ottawa. In 2009 there were 13,000 new home starts in the Ottawa-Gatineau region. This represents a potential \$130 million market, at \$10,000 a job. The entire market doesn't buy and a large percentage chooses interlocking for their backyard. We assume that the current market is within \$40-\$60 million dollars. Bytown lumber is the largest competitor in Ottawa. Last year they built 2300 fences. At \$4000 a fence, that results in \$9.2 million dollars in fencing revenue.



\*The point estimate for total housing starts is 172,350 for 2010 and 176,400 for 2011. Economic uncertainty is reflected by the current range of forecasts which varies from 152,000-189,300 units for 2010 and 156,400-205,600 for 2010.

Figure 1: Housing Market Outlook (CMHC, January 2010)

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## Company and Industry

Empire plans to be in the franchising business. We plan on taking 45-60% of the Ottawa market through an aggressive and highly effective door-to-door marketing strategy. From there we plan on franchising across Canada. Hickory dickory decks is currently the only deck building franchisor in Canada. The franchise company also specializes in franchising trade based franchises. What makes Empire better than the others is that sales and construction are separated through franchising.

## Management team

I ran a window cleaning franchise with the franchise company (TFC). The learning curve was steep and rough and the income was low with respect to the amount of work I did. Nevertheless, I was still a president club award winner (an award for top achievers in the company). I was then quickly recognized within the company as a top performer and one who "thought outside the box". In my second year, at age 19, I managed eleven employees (two crews of four window cleaners, two sales reps, and a secretary). With this experience I sought out to build my own franchise system where sales and production are separate and allowed key players to focus on their talents.

I'm a visionary who can picture what a successful trades based franchise would look like. With my chemical engineering and biochemistry background I am able to break a system down into components and work towards optimizing each component. That is the thought process behind Empire Fences and Decks. Empire will seek to provide sales franchisees with fantastic sales training so they can out compete the competition while recruiting construction franchisees who are genuinely passionate about carpentry and strive to deliver fantastic customer service.

In order for me to focus on developing the franchise system and expanding it out I will need the assistance of franchise professionals (lawyers, accountants, consultants). I will also need to recruit a top performing general manager to run the Empire franchise system. They would be in charge of selling franchises and coaching the franchisees to deliver top results.

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## Operations and Financial Plan

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Year one will be focused on learning the deck and fence industry. I have built two decks last summer (see appendix). By completing 35 jobs I will start to develop the model for the franchising system.

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Income:

Sales \$200,000

Expenses:

cost of goods sold \$100,000

Salaries 30,000

Legal set up \$3000

Assets:

\$70,000

Liabilities:

\$200,000 Warrantees

In year two I will start to leverage the franchising system. I will operate four crews and have a sales rep with me using our standardized estimating system. This will enable me to test the accuracy of the estimating system. I will also start to develop the 3-D deck designer. In year two I will personally book 75 jobs and have my sales rep book 25 jobs. At the end of year two I would seek out the proper mentor consultants and professionals needed to set up a franchise.

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Income:

Sales \$750,000

Expenses:

Cost of goods sold \$350,000

Salaries \$30,000

Franchise legal, accounting, consulting fees \$75,000

Software design \$30,000

Assets

\$328,000

Liabilities

\$950,000 Warrantees

Year three or four is where the system really starts taking off. I would seek out a general manager with at least five years experience in the franchising industry. I and the general manager would work towards recruiting five construction franchisees and one sales franchisee. The construction franchisees would be coached on running three crews and the sales franchisee would be coached on hiring 3 sales reps to

help in booking 350 jobs. Year three or four is a landmark year in that the branchise system has proven itself. This point may take more than one year to perfect but once done the system can be spread across the country. I would need a great deal of mentoring to achieve this step.

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Income  
Sales                                 \$2,500,000

Sale of branchises                 \$170,000

Expense

Cost of goods sold                 \$1,500,000

Salaries                                 \$150,000

Operations cost                         \$50000

Assets

\$1,328,000

Liabilities

\$3,250,000 Warrantees

Year's five to seven is where we would look at partnering with a national franchisor to quickly expand across the nation or we would continue to organically grow the company. The financials below represent a top performing division with 25 construction branchisees running 6 crews on average and 3 sales branchisees running 5 sales reps on average.

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Income

Sales of decks                         \$24,500,000

Sales of branchises                 \$105,000

Expense

Cost of goods sold                 \$14,700,000

Sales Manager Pay                 \$1,713,000

Salaries                                 \$250,000

Operations cost                         \$50,000

## Risk

The venture is entirely bootstrapped. Thus the largest risk associated with the venture is the time devoted to the project. Challenges may arise in having the builders deliver on what the sales reps promised. This must be dealt with some sort of quality assurance program. As, a result Empire is a very low risk venture that relies heavily on persistence.

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## Appendix



Figure 2: The first deck I built. When I first started I knew nothing about how to build a deck. I did 15 estimates until I finally booked this one. The cost to customer was \$4500. I grossed \$2500 profit from the job. When the job was presented to a competitor they told me I under bid. They would have charged \$8000 for the deck and had a grossed 75% profit. The deck and fence business can be very lucrative.



Figure 3: The second deck we built. I cold called the same crescent as job one and within twenty generated the lead. The design consultation took fifteen minutes and the cost was\$2200. I grossed \$1100 profit from the job.