

FINANCIAL POST BUSINESS NEW VENTURES CASE SERIES

#2 OUT OF 12 SERIES



Today, the World!

Even successful domestic franchisors have doubts when demand for growth demands global expansion

The company: 1-800-GOT-JUNK?, a rapidly growing North American junk-removal franchise based in Vancouver. Six years in, it has 150 franchises and \$100 million in revenue in sight. Founder and CEO Brian Scudamore brands it the “FedEx of junk” – competing on service, but leading with a brash, marketing-driven corporate culture.

The situation: If \$100 million in revenue sounds ambitious, wrap your head around \$1 billion. That’s where management wants to be in 2012, and there’s only one way to get there – global expansion. Scudamore and team are readying their first overseas location and planning for a domestic growth spurt, all the while asking: Are we ready?

ONE NIGHT IN 2002, Brian Scudamore and Cameron Herold sat down for a late-night strategy jag over dinner at Vancouver’s Hyatt Regency hotel. Jotting notes on cocktail napkins, the pair sketched out an audacious vision for their company: \$1 billion in revenue and operations in 10 countries by 2012. “We just pulled the numbers out of the air, really,” COO Herold recalls. “It sounded good. More than anything, we wanted to build a global brand.”

There was more than a little basis for their ambition. Their company, 1-800-GOT-JUNK? – a junk-removal outfit that CEO Scudamore founded in Vancouver in 1989 – was nearing the 50-franchise mark. Given that it had launched its first franchise only three years earlier, it was a business on a roll. Its expanding fleet of blue trucks brought disciplined branding and committed customer service to an industry as seamy as it was fragmented.

Scudamore and Herold’s vision also placed the company on the cusp of a dramatic transformation. To get in line with their goals, the executives made a decision to scale back on their own corporate locations, and focus almost exclusively on franchising and infrastructure development.

At the start of 2005, three years after their late-night strategy session, 1-800-GOT-JUNK? had 146

This case study was jointly prepared by the Centre for Business Venturing at Queen’s School of Business and Financial Post Business. Case studies are an important element in the transformational learning method used at Queen’s School of Business

ILLUSTRATION BY ERIC PALMA

SPONSORED BY



BDO Chartered Accountants
and Advisors



RBC
Royal Bank



Queen's
SCHOOL OF BUSINESS

FINANCIAL POST
BUSINESS

franchises across North America and projected revenue of \$75 million. Financially, the company was on track. But not one cent of their revenue came from outside North America; the company was at least a year behind on their plans to internationalize. To get back on track, management charged Herold and Laurie Baggio, vice-president of franchise development, with the task of global expansion. They would need to accomplish two things: Expand the 1-800-GOT-JUNK? franchise internationally, while ensuring the company was ready to support a more dramatic expansion of its North American franchise network.

1-800-GOT-JUNK? started under the moniker The Rubbish Boys. It was founded as a way for Vancouver-raised Scudamore to pay his tuition at Montreal's Concordia University. After two years, demand was so brisk that Scudamore transferred to the University of British Columbia to run pickups between classes.

The Rubbish Boys promised scheduled on-time pickups for any junk – from a few bags of spring-cleaning waste to truckloads of remaindered office furniture. Their upfront fee was all-inclusive, including labour, loading, weight, tipping fees and cleanup. Merchantable used goods would be donated to charities, materials would be recycled where possible, and any other junk would be safely disposed of at a transfer station or landfill.

Prior to the arrival of 1-800-GOT-JUNK?, rubbish disposal was handled by a patchwork of local cartage and independent waste-management companies. Individuals and businesses needing junk disposal would often rent a dumpster, hire casual labour for loading, pay another firm for cartage and be billed for tipping fees at local landfills separately. Both the simplicity of 1-800-GOT-JUNK?'s pricing and the uniformity of the consumer experience

helped to fuel demand for their services.

As demand grew, Scudamore began hiring drivers and building a small fleet of trucks. A consummate marketer, he emblazoned the shiny blue vehicles with a distinctive phone number that would later become the core of his company's brand: "1-800-GOT-JUNK?"

Scudamore knew that his model could extend to other cities across Canada and the U.S. The infrastructure he had built to support his business – a high-performance call centre and a capable suite of Intranet applications – could easily be extended to a chain of locations. But for 1-800-GOT-JUNK?, the key question was how to fuel that growth. Scudamore chose a remarkable capital structure for an aggressively expanding company: no equity or debt financing. "I want one thing," he explains. "Control of the vision. I don't care about controlling the money. But I have a very clear vision of where I'm taking this company, and I don't want an equity partner interfering."

All of this made 1-800-GOT-JUNK? a prime candidate for franchising. Franchisees could exploit its sophisticated booking, management and dispatching systems, and 1-800-GOT-JUNK? could expand without serious capital outlays.

The company's first franchise, in Toronto, was opened in 1999 by a franchisee who had worked at head office. A year later, a Calgary franchisee opened the first U.S. location, the first of many to appear in the northwestern U.S. By 2000, revenue had swollen to \$2.8 million, and the company's growth has accelerated every year since. "Principally, Brian didn't have the money to open corporate stores. We chose franchising because your franchisees help finance your growth," Herold explains. "Beyond which, if you recruit smart, driven franchisees, they help you build the right systems to make the business work. We do view our franchise relationships as partnerships."

While franchising was an appealing growth strategy for a company on a frugal budget, the approach had two challenges. 1-800-GOT-JUNK? needed to recruit high-calibre franchisees inexpensively. And without capital to buy back mature operations, it needed to motivate its franchisees to maintain aggressive growth even after they had established comfortable "lifestyle" businesses.

For these reasons, the company became very targeted in its recruiting, seeking out young, aggressive franchisees. "You get a guy who's 27 or 28," franchise VP Baggio explains, "they'll be putting their entire net worth on the line. They're going to hit the market hard, lean on cash and hungry." The company's recruitment and selection processes were trim and efficient, costing under \$2,000 per successful franchisee. Of the hundreds of franchising inquiries received by the company, their elimination rounds of conference calls, phone interviews and gruelling day-long interviews reduced the pool of candidates by 98%.

From 2004 to 2005, average annual revenue growth per franchisee topped 60%. "Since it's basically a 20% net business, there's a real incentive for them to grow," notes Herold. But of the company's 146 franchise partners, only 23 have been operating for more than two and a half years. "So our results are encouraging," says Herold, citing the company's continuous, consistent growth. "But in some ways, it's too early to tell." To encourage franchisees to break through complacency, the company specified minimum performance standards for gross revenues, and required an acceleration of growth after five years – on pain of territory reduction.

GETTING NEW RECRUITS up and running quickly is another key. From the date it receives a signed franchise agreement, 1-800-GOT-JUNK?

INNOVATIVE IDEAS.
RELEVANT EXPERTISE.

aims to have its new franchisees operating within three months – and often in as little as five weeks. “It’s an astoundingly simple business,” Herold maintains. “The hard part is taking people who were cogs in a corporate wheel and turning them into entrepreneurs.”

To quickly inculcate franchisees with 1-800-GOT-JUNK?’s processes and priorities, the company puts all franchisees through an intensive nine-day program of classroom instruction and on-site field training. Once they graduate, franchisees return to their territories to ready their launch plans, getting regular, weekly assistance

scale up the number of franchise partners at this stage without adding new help-desk staff.”

But if 1-800-GOT-JUNK? has a special sauce or secret recipe, it’s in its marketing, brand development and public relations. Walk through any city with a 1-800-GOT-JUNK? franchise and you’ll find it difficult to miss the hundreds of promotional signs affixed to light standards. And on a major roadway, you might catch a glimpse of a “blue wig wave” – the franchisee and staff, clad in enormous blue wigs, waving madly at passing traffic, hoisting 1-800-GOT-JUNK? signs above their heads. The company’s guerrilla marketing,

WHEN IT CAME TO international expansion, the first country 1-800-GOT-JUNK? selected was Australia, where a close friend of Herold’s had recently settled. Through casual discussions with such acquaintances, supplemented by Internet research, the company’s founders settled on the country as a suitable pilot location. For 1-800-GOT-JUNK?, there were a handful of key indicators. “As long as there are independent operators, one-truck companies hauling junk, that’s a strong indication we have a market,” explains Baggio. “We basically ask: ‘Is there junk? Is the society wasteful? Is space at a pre-

“As long as there are independent, one-truck companies hauling junk, that’s a strong indication we have a market. We basically ask: Is there junk? Is the society wasteful? Is space at a premium?”

from a business-development consultant in Vancouver. The consultant acts as a start-up manager, providing franchisees with clear directions, deadlines and advice. “In the first year, it’s not as much strategy as execution,” says Herold.

Even with manuals and coaching, questions arise. So the company also runs a toll-free hotline for franchisees to handle tactical questions and provide practical advice. It’s able to serve all 146 franchisees with only two help-desk staff. “And we’re planning to keep it at that level for at least a couple more years,” promises Herold. “We’re gradually building out an online knowledge base for franchise partners to access Q&As on the fly. Manuals, forms, FAQs, trending – it’s all in the knowledge base. We can actually

along with its young founder and aggressive growth, has attracted plenty of press attention. Since it began franchising, the company has been covered by CNN, CBS, CNBC, Fortune, The New York Times, The Wall Street Journal – and even featured in a segment on Oprah in which they were hauling junk.

The company arms franchisees with most of the tools they need for their own local marketing. “In terms of marketing, 90% of what I do is execution,” explains franchisee Darcy Longpre, of Kingston, Ont. “The Vancouver head office provides the material, they give me the tactics, show me the strategy, and I hit the pavement.” For more mature franchisees, 1-800-GOT-JUNK? provides PR strategies and introductions to help fuel local media hits.

mium? Is there adequate household income?”

Australia met the litmus test: It was a first-world country with high household income and a strong consumer culture. That it was English-speaking was a bonus. The company planned to simply extend operations in its Vancouver call centre by four hours to service the new market.

While the company’s lifeblood is its franchise model, it planned a corporate store for its first Australian location. It would be run by a manager with a deep understanding of the local market, who would be supported directly through field advisers and business-development coaches used by North American franchisees. “We’ll bring the manager to work with a local B.C. franchise for a few months to get

Each year, our companies work with thousands of entrepreneurs and business owners to help them pursue their dreams. If you’re like the companies featured in the Financial Post Business New Ventures Case Series or you’re launching a company, expanding your business or exploring new products, services and markets, look to our companies for the resources and experience to guide your growth and success.

them ramped up," Baggio said. If the test succeeded, 1-800-GOT-JUNK? would seek to convert the pilot location to a franchise – and continue with its Australian expansion by seeking individual franchisors, competing in Australia's large, mature business-format franchise market.

Franchising amounts to a duplication of a successful business model in new locations. One of the key aspects of a successful duplication (particularly when it's the first franchised business, or the first in a new market) is entrusting that business model to an individual or

in a particular market is almost wholly dependent on the skills and abilities of their individual franchisees. Many franchisors assume that the best franchisees are "entrepreneurs." In fact, that isn't always the case. Some important entrepreneurial attributes are definitely required: drive and motivation, for instance. But other "entrepreneurial" qualities (such as a need to innovate or a reluctance to follow rules) can be incompatible with the environment of a franchise system. If 1-800-GOT-JUNK? can continue to identify its success factors and use its recruitment system to screen for those qualities, it will drive the bottom lines of both the parent company and its franchisees.

Any business considering franchising could emulate a few of 1-800-GOT-JUNK?'s approaches. Scudamore is entrusting new markets to individuals who are well-known to the company and who know the company well. He is aggressively recruiting and culling candidates with a particular set of characteristics in mind.

1-800-GOT-JUNK? is doing all the right things to position itself for international growth and expansion – but those things take time. Ambitious long-term goals are important (even when jotted on cocktail napkins), but the real challenge for 1-800-GOT-JUNK? will be in sticking to the fundamentals of the process it has established. Any franchisor can hit lofty growth targets, but only companies that invest in process and structure have the chance to sustain and support a fast-growing franchise system.

The Outcome

In the fall of 2005, 1-800-GOT-JUNK? opened its first international franchise in Sydney, Australia. The new corporate location is on track to meeting its growth targets, and the company plans to convert it into a franchise in 2006. 1-800-GOT-JUNK? is actively recruiting Australian entrepreneurs to join the company as franchise partners, and also plans to open its first European location in 2006.

Note: The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The views represented here are solely those of the case authors and are based on their own professional judgment. Certain names, scenarios or identifying information may have been disguised to protect confidentiality.

A key aspect of successful expansion is entrusting the franchise to someone who shares the company vision

1-800-GOT-JUNK? was in an enviable position: It had created a new market and developed one of North America's fastest-growing franchises. But the company would not be satisfied until it had met its audacious long-term goals. And questions weighed heavily on its leadership: Do we know enough about this market? Are our systems mature enough? Do we have enough experience to make the right decision here? In other words: Are we ready?

team that shares the vision for the company and a drive to succeed, and has the basic skills and abilities required to develop a business.

It is important to note that the company's first franchise was given to a former head-office employee who shared Scudamore's vision and drive. After its success in Canada, the company similarly "green-fielded" its first location in the United States with a seasoned franchisee who had co-owned the company's Calgary operation. Whether by coincidence or design, 1-800-GOT-JUNK? is again planning to use a known, trusted individual from its head office to open the Australian franchise, the company's first outside North America.

The best possible way to ensure that the vision and cultural norms of a franchised system are duplicated in a key market is to put a well-known and long-trusted lieutenant in charge of opening up that key market. Perhaps as a young entrepreneur Scudamore innately knew to entrust "his" company only to someone he trusted to help it grow – but however he reached his conclusion, that approach has been a key part of 1-800-GOT-JUNK?'s growth to date.

Another key element of the company's success to date appears to be its ability to recruit "smart, driven franchisees," as Herold described them. In so doing, the company has avoided a trap that befalls many new franchise systems: forsaking careful franchisee recruitment for the quick returns of fast expansion. 1-800-GOT-JUNK?, through its highly organized recruitment and culling process, has paid close attention to the qualities (or lack thereof) of each prospective franchisee.

1-800-GOT-JUNK? recognizes that its success

The Expert View

By James M. Bond

Chair (West), Franchise and Distribution,
Lang Michener LLP, Vancouver



1-800-GOT-JUNK? has had an impressive run. But to achieve its 2012 sales and operations goals, Brian Scudamore will need to concentrate on the fundamentals that have made it successful to date. A billion dollars in revenues and operations in 10 countries is a great vision (and a nice, round number), but to achieve it, the company will have to continue to concentrate on how to get there.