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CASE STUDY

A Fast-Growing Tree Service Considers Selling Franchises

Jessica Kourkounis for The New York Times

Josh Skolnick, 29, chief of Monster Tree Service, has been an entrepreneur since boyhood.

By JOHN GROSSMANN
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MONSTER TREE SERVICE is a five-year-old tree pruning and removal business based in Fort Washington, Pa., north of Philadelphia. It is owned by Josh Skolnick, 29, an entrepreneur since boyhood, whose outdoor businesses have evolved from lawn mowing to mulching to his current company, which has 15 employees and annual revenue of more than $2 million. Mr. Skolnick, who manages the business, takes pride in the fact that he has "never pulled the cord on a chain saw."

YOU'RE THE BOSS

Is This Business Ready to Open Franchises?

Josh Skolnick, who has demonstrated a knack for building and selling businesses, is trying to decide the best way to grow his latest venture.

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THE CHALLENGE Having established himself in a profitable niche, Mr. Skolnick wants to add more locations, but he is not sure whether he wants to own the locations or franchise them.

THE BACKGROUND Like many boys growing up in the suburbs, Mr. Skolnick mowed lawns in the neighborhood. At first he did it to earn spending money, but by the time he graduated from high school, he had three employees and 110 clients. He bought his first house (for $167,000) when he was 18. His friends had headed off to college, and Mr. Skolnick realized, "I didn't want to be cutting grass for the rest of my life." He took landscaping courses at a vocational school and started offering additional services, like putting in patios, walkways and ponds with waterfalls. He acquired other landscaping businesses, paying much of the purchase price out of future earnings, and folded them into Josh Skolnick Landscaping.

Sensing an opportunity, Mr. Skolnick began to focus on one aspect of his business, mulching. He bought trucks and mulch-blowing equipment to spread wood chips for shopping centers, office parks, universities and municipalities. In 2007, he sold the landscaping business for $70,000 to concentrate on mulch. That company soon grew to two dozen employees who operated seven trailer- and truck-mounted units, the larger ones costing $275,000. His clients stretched from Long Island to Northern Virginia. Best of all, the mulching business increased in spring and ended in early summer, leaving him free to head to the shore and spend time on his boat — while still producing more than $1 million a year in revenue.

Ultimately, though, Mr. Skolnick put that business in his rearview mirror, too. "When I see an opportunity that's bigger and better or more profitable," he said, "I'm all over it." The new opportunity was tree removal and trimming, which Mr. Skolnick stumbled upon when he arranged the removal of a dead tree for a friend. On site with the crew he had hired, neighbors up and down the block came by to ask: "Can you help me, too?"

He said he discovered an industry where major players, like Bartlett Tree Experts and SavATree, tended to concentrate more on fertilizing and maintenance and to leave the removal jobs — which can cost more than $1,000 — largely to mom-and-pop companies, many of them ill equipped for the kinds of towering mature trees that can be found in established suburbs.

"Big or small, we do them all," Mr. Skolnick said, naming his new business after the behemoths on which he planned to build his reputation. "Our slogan," he said, "is estimates in hours, not days." Monster Tree took in $1.6 million in sales in 2010, its first full year in business, and grew by more than half a million dollars the following year.

Unlike lawn care and mulching, the tree business is year-round. "But the trade-off," Mr. Skolnick said, "is my income has tripled, if not quadrupled; I'm 29 now. I have a wife and two kids."

THE OPTIONS Mindful of the future — and that 35 percent annual increases in sales would be far less likely without opening new locations — Mr. Skolnick pondered two courses. He could open and operate a second company-owned location. To do so, he would have to assume additional debt to cover the $250,000 to $500,000 costs of opening and staffing a new office and outfitting it with the necessary equipment and bucket trucks. He would need to train a manager to run the office. He could expect to repay his debt out of operating profits.

Mr. Skolnick weighed that against his second option, franchising — "where you're really trusting other people with your brand." The two franchising consultants he brought in to advise him both felt strongly that he had a replicable model and good systems in place. There would, of course, be added costs in setting up as a franchiser — $100,000 or more. Thereafter, he would have to pay the salary of a full-time director of franchising. In return, the franchisees would pay him a percentage of their revenue — and there was a chance the chain could grow extremely quickly. Still, he had been told it could take 15 to 20 operating franchises, or perhaps two years or so, before he would earn back his investment.

WHAT OTHERS SAY Burton D. Cohen is the managing partner of Burton D. Cohen & Associates, a franchise consulting firm based in Chicago, and a lecturer on management and strategic franchising at the Kellogg School of Management at Northwestern University: "Josh is a driven, successful serial entrepreneur who has also demonstrated the ability to manage a multistate mulching business, apparently solving span-of-control issues. While expanding through wholly owned operations will require more capital than franchising, the hard and soft costs of franchising, both initially and on an ongoing basis, will not be insignificant. He should have no trouble raising capital and finding and training one or more regional managers. Finally, if he plans to sell the company in a relatively short period of time — five years or less — as he has done with his other companies, a wholly owned operation will be much more attractive to a potential buyer than a franchise system with only a handful of franchisees."

Ambrosio Cantada is the founder of Franchise Chatter, a site devoted to reviewing franchise earnings claims: "I would advise Josh to open a second corporate location to prove that his model works beyond his current market. Without a solid track record of success across multiple units, attracting the best franchisees will be a significant challenge. Moreover, with a second corporate location, Josh can hit the ground running and leverage the operational experience he already has, without having to develop an entirely new skill set. Josh faces a much steeper learning curve with franchising because his focus will inevitably shift to selling franchises, training franchisees and making sure they are satisfied with their investment. If his second location is as profitable as his first, Josh should have no problem paying off his loan, and he'll have a much easier time convincing qualified franchisees to sign on when he is ready to franchise."

Susan Sarich, founder and chief executive of SusieCakes bakeries, with eight company-owned locations in California: "Firstly, he has not yet proven success in a secondary market nor built the infrastructure to support a satellite operation. I think this step is critical before he even considers selling Monster Tree to franchisees to execute. Secondly, I believe too many companies choose to franchise before they are large enough to attract multiunit, sophisticated franchisees. Given the large equipment investment his concept requires, he would need well-capitalized operators, which may be difficult to source without further proof of concept. Finally, he will need a large investment to build out the infrastructure required to become a franchiser: creating legal documents, developing training and marketing materials, and hiring the sales and support personnel."

THE RESULTS Offer your thoughts on the You're the Boss blog at nytimes.com/boss. Next week on the blog and on this page, we will give an update on what Mr. Skolnick plans to do.

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