June 2014
Issue 6

State Owner Newsletter

Next State Owner Webinar

Our next State Owner Webinar will be Wednesday June 25, 2014 at 4:00 pm MDT. I will send out the link and agenda about one week before.

INSIDE THIS ISSUE

Concerns

We have a good little business that has provided a good living for a lot of people. I appreciate each of you that have gotten involved with us. Everyone at our corporate office works very hard to provide help and support to each city operator, and each state owner. Our company has always worked on very low margins. We provide as much as we can with the limited manpower, time, and financial resources we have available.

Raw products, containers, employee, and shipping costs have all increased. We have increased city owner product costs to keep our margins about the same over the last five years.

Our advertising costs for 2011 were $41,271.80, 2012 were $48,822.63, and 2013 were $72,636.02. This is above and beyond the $200.00 per month that each state owner is paying.

Franchise sales have been extremely slow for the last three years. In 2011 M-CO INC received $124,976.09 from franchise sales, 2012 was $74,526.53, and 2013 was $49,784.56.

This is the third year in a row that M-CO INC has shown a loss rather than a profit from operations. Our 2011 audited financial statements showed a loss of $17,779.61. Our 2012 audited financial statements showed a loss of $26,223.92. Our 2013 audited financial statements showed a loss of $41,838.90.

How excited would you be to purchase a franchise from a company that showed a loss for the last three years running? How excited do you think a bank or any other lending institution would be to offer franchise financing to a franchisee when they can see that the franchisor has shown an increasing loss for three consecutive years?

I raised a warning flag in February 2009 stating that some changes needed to be initiated in order to keep the company healthy financially. Many ideas were expressed, some of which we have initiated and that will have a positive long term affect. A great divide developed among our state owners as those with certain opinions tried to gain support for their own ideas and agendas. I committed that I would hold off doing anything drastic at that time and we would see how the economy would play out.

So here we are five years later. Our economies are still struggling to a certain extent. Franchise sales are slower for the majority of franchise companies, not just our own. Many of our state owners are not doing any more to help their city owners now than they were five years ago. They have not increased their budget or efforts to find new franchisees. Many are content with just cashing their checks from corporate twice a month. Many are not monitoring what their operators are ordering, and some have operators that have gone a year or more without ordering any cleaning solution or other supplies from Heaven's Best, and the state owners either did not know until we told them, or did not care. Everything was great as long as they were getting the monthly fees.

What does all of this mean? It means we have problems that still need to be fixed. Some state owners may think that it is all corporate's fault and that we need a new CEO. Maybe they are right. A new CEO would come in and see where the dead wood is and eliminate it. He would have no emotional attachment to anyone. He would do as much as a valid contract would allow. He would adjust the renewal contracts for the benefit of corporate first. Perhaps it is time for a new CEO, or for some of you to move on, or both.

Now having said all of that, am I still optimistic about the future? Yes I am. Many major companies show huge losses, and yet stay in business. The losses we have shown are relatively small and can be overcome by having 4 to 6 more franchise sales in a year. They can be overcome by having the income from one good employee based area. These losses are not just showing up overnight. They have been listed in the financials of our disclosures for the last two years. It is not time to panic, but it is time to make some changes and give a greater concentrated effort to franchise sales and other measures that we have been discussing with our state owners over the last five years.

On a positive note, things are going well with EZ-Nettools and the websites they are creating for our city operators. This will help our city operators get more cleaning jobs with a lower advertising cost, it will help state owners and corporate make more income from increased product sales, and eventually turn into a small revenue stream for the corporate office, but for now it is still a cash drain on the company. A portion of this is reflected in our increased advertising expense on our audited financial statements. We need each state owner to get more of their people on board with EZ-Nettools.

We have initiated some employee based areas in Idaho as a pilot program. We are working out the bugs currently. We have a number of state owners that are already running an employee based area near their city. This employee could remain as an employee or develop into a potential buyer for an area within your state. One good employee based area can bring in more profit per year than five average existing franchisees. Of course it does take a lot more money and time to make one of these function properly.

Most of our state owners have committed to pay a $2,000.00 finder's fee in order to get more franchise sales across state lines. Those that did not respond will be forced to participate by having the funds deducted from their reconciliation checks.

We are developing a strategic alliance with a few Franchise Consultants and Brokers. Their commission will be in the $5,000.00 range. A state owner will still have the ability to reject any potential candidate he does not feel comfortable with.

We need each state owner working with their city operators to either develop or sell off their undeveloped territory.

We have offered all of our state owners the opportunity of a lease/buyout over a five year period for their state based on their current income, and participation level. We encourage any of you who are interested in this to contact Cody for specific details.

We are also considering many other options that were discussed in February, 2009.

We have some very good state owners that are very involved in growing their state, supporting their operators, and supporting the entire team, including the corporate office. We all have room for improvement. Are you an active member of our team, or do you need to go pursue other interests?

We hope to have all of you participate in our Webinar on June 25, 2014.