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Growth preparation

Entrepreneur spreading his tax business nationwide

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There's a new player from Dayton in the tax-services block.

Using unorthodox methods, TCA Financial, parent company of Instant Tax Service, has grown rapidly in its short four-year history to nearly 120 stores that stretch from Sacramento, Calif., to Atlanta. The company also more than tripled its revenue in its first three years, which was \$6 million in 2003.

But Instant Tax Service founder Fesum "Fez" Ogbazion isn't satisfied. He recently started offering franchises in hopes of blanketing the country with his tax centers as part of a plan to boost revenue to at least \$50 million in five years. Ogbazion expects demand to be high for his tax centers that cut the competition's prices by as much as 20 percent and seem more like a coffee shop than a chain store.

"To keep growing the company -- that's the major focus right now," Ogbazion said.

The growth comes despite competing against three entrenched national players: Virginia-based Liberty Tax Service, Parsippany, N.J.-based Jackson Hewitt Tax Service, and the biggest of them all: Kansas City, Mo.-based H&R Block.

Kartik Mehta, an analyst for the industry at Midwest Research in Cleveland, said more national tax services companies have a good shot at the market for tax preparation.

"I think the market does have room for another player," Mehta said.

He added the two largest companies in the industry - H&R Block and Jackson Hewitt -- have just 35 percent of the market.

Employee counts

Ogbazion sees opportunities, largely because his concept has worked, and it has more than 40,000 customers to prove it -- even if the approach is a bit unusual.

When Instant Tax Service opens in a city during its first year, it offers completely free tax preparations to any customer.

It sends out a mailer and watches droves of people pack its centers. Once he has the customers inside, he can show off the inviting atmosphere, which he said was modeled on the casual environment at Starbucks.

At his center in downtown Dayton in Wright Stop Plaza, for example, there are big soft couches that face a large mural with warm colors. His staff offers customers a Coke or a coffee and tell them to relax while they go over the tax forms. And if the customers have kids, there's a place for them to play, too.

"Every office has a TV with a DVD player," he said. "If children come in, there are movies the kids can watch. ... It really is that comfy feeling."

The hope is that if they have a positive experience the first time, they'll come back the next year, he said, and he gives them an added incentive by offering the service for a 10 percent to 20 percent discount in the following years. By the third year, the centers are profitable, he added.

Buying in

But the expansion has come from stores that are company owned. Now, he's looking to expand with other entrepreneurs setting up their own stores with franchising, just like McDonald's or Panera Bread.

He said he avoided franchising in the early days because he wanted control over every store. Instead, he tapped friends and family, whom he trusted, to oversee operations and ensure the stores had good managers.

Good managers are key because Instant Tax Service must hire hundreds of people for just a few months out of the year to help run the stores. Just last year, with less than 120 stores, Instant Tax Service went from about 25 full-time employees during the off-season to about 550 in the months leading up to tax day on April 15.

But he only has so many friends and family, he said, and franchising will help give each owner a stake in the success of the business.

So earlier this year, Ogbazion hired Charles Lovelace, a former Liberty Tax Service employee, to get the franchising effort going and approximately double the number of stores next year to about 250.

"I wasn't even really interested in staying in the industry," Lovelace said. "But after the opportunity

to meet Fez, and spend time with him, I knew he was driven. I just decided this was a great opportunity, a great challenge that I wanted to be a part of."

Lovelace said Instant Tax Service is entering markets at a time when most of the major cities already are covered by franchises for competitors, such as H&R Block and Jackson Hewitt. So if entrepreneurs want to set up a franchise in the tax service industry, Instant Tax Service is usually the only one still available.

Despite the growth around the country, Ogbazion doesn't need more than his few thousand square feet at One Dayton Centre. He now has eight full-time employees at the company headquarters, enough to run the business for the next year, though there could be more in the years following.

A sequel?

If all goes well, it could work out nicely for Ogbazion, and it wouldn't be the first time.

In 1999, he sold his first chain of tax-preparation centers in Cincinnati for \$3 million. He had opened his first branch in 1993 -- and kept adding stores until he had 26 branches that covered much of the Cincinnati area.

As he pondered whether to attend graduate school following his sale, his friends and family were asking him to help them get in the business.

So in 2000, he decided to return to tax services and set up shop for his new company using his wad of cash from the sale and from another \$5 million in venture capital.

During the first year (or first tax season) in 2001, he pulled in \$2 million and had more than tripled that by last year.

What's the exit strategy now? Ogbazion said he's looking at about five years of hard work before he makes any moves, but he's willing to look at another sale, possibly to a competitor.

Or, he might stay independent and take his company public -- and join H&R Block on the New York Stock Exchange.

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