GAINING TRACTION: 5 Steps to Drive Franchise Performance and Profitability

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Creating a culture of transparency.

By Eric Stites, CFE

Having a strong culture of transparency is critical for the long-term success of your franchisees and your system as a whole. Franchisees can easily get distracted as their business grows, which will ultimately stall their growth. Being 100 percent transparent as an organization will keep you and your franchisees laser-focused on things that really matter. Here's how.

Step 1 — Financial Benchmarking

Being transparent requires accurate financial benchmarking, which starts with a standard chart of accounts. This may seem simple, yet it is amazing to me how many brands don't require their franchisees to use a standard chart of accounts within their accounting system.

Once you have established a standard chart of accounts, you will need to start collecting financial data, and you need to go deep. Top-line revenue reporting for royalty calculations is not enough. The best franchises collect full profit and loss data, as well as balance sheets from their franchisees on a monthly basis (or more often). This will give you a detailed view of the true financial health of your system.

For brands that have never collected and shared financial data, there can be some initial pushback from franchisees. The best way to overcome this is by showing franchisees just how powerful financial benchmarking can be in helping grow their business. Create a franchisee task force to help advise you on your benchmarking program and establishing the key performance indicators that will be reported.

Agreeing on the most important KPIs will be the next challenge. Set a goal to come up with a short list of KPIs, and be sure to include a few non-financial metrics as well (customer counts, marketing/sales conversion rates, customer satisfaction, etc.) Too much financial information can be just as bad as having too little, so limit your focus.

"When everything is a priority, nothing is a priority," explains Mary Kennedy Thompson, CFE, Dwyer Group executive vice president and Mr. Rooter president, who recommends no more than 10 to 15 KPIs.

Sharing the data across your network in real time, with intuitive dashboard reporting that compares franchisees by region, tenure and performance should be your primary objective. That said, it's important to realize not everyone will have the same level of comfort digesting the data. Teaching franchisees how to read the information, and coaching them on how to manage KPIs to drive their business will be an ongoing process.

Step 2 — Set Realistic Expectations from Day One

Many franchisees start their business with unrealistic financial expectations. Some of the blame falls on optimistic salespeople who pitch best-case examples of top performers, rather than grounding candidates with most likely scenarios.

With unrealistic expectations, the franchise relationship is doomed from the start. One way to overcome this is with a detailed Item 19, showing gross and net figures. Illustrate to candidates exactly how your system performs for the average franchisee.

East Coast Wings & Grill, led by a master of unit economics, Pres. and CEO Sam Ballas, CFE, offers a great example of what a good Item 19 looks like. Theirs includes system-wide average/highs/lows for net sales, cost of goods sold, lease, marketing, operations, payroll, royalties and net income. Every Item 19 should be this detailed.

Lastly, don't assume candidates will read and understand your Item 19. Walk them through your financials in detail. Talk about average ramp-up time frames, and educate candidates about paying off debt, re-investing in their business and normal "take-home" income.

Step 3 – Big Picture Vision

Understanding the personal goals of franchisees is critical to coaching them to long-term success. This exercise should begin during discovery day. Ask them to develop a long-term "vision plan" and present it to your team and other candidates. It should look ahead 10 years and include business and personal goals, as well as shorter-term milestones. They should include the critical factors that will help them achieve each milestone.

Mr. Rooter uses a performance enhancement tool to help guide franchisees. It's a detailed worksheet that projects forward 10 years, looking at their income statement, net income, debt repayment, business reinvestment, wealth contribution, asset accumulation, personal income and estimated business value based on typical resale multiples. It tracks all their KPIs and business ratios, and helps franchisees identify when they get off track.

Thompson says the tool "shows franchisees exactly where they are today, and where their business is going to be in the future." It is a powerful way to show franchisees how their efforts directly impact their business value.

Step 4 — Action Plan

Have your franchisees boil down their vision into a quarterly action plan. "Traction: Get a Grip on Your Business Traction," a book written by Gino Wickman, does exactly that in a step-by-step format. Wickman's simple yet genius tool, Vision/Traction Organizer, will bring clarity to the key priorities of any business.

Having a clear vision and a detailed plan will dramatically improve your franchisees' success. PostNet International Franchise Corp., BrightStar Franchising LLC, Moran Family of Brands and ZOUP! Fresh Soup Co. are just a few brands using "Traction" (and companion book "Get A Grip: How to Get Everything You Want from Your Entrepreneuria Business") to push their businesses forward.

Step 5 — Peer Accountability

Even the most focused, well-intentioned franchisee can get off track. One of the best ways to keep them on track is through peer performance groups. Franchisees are likely to follow the advice of their colleagues, and the inherent pressure and competitiveness spurred by these groups will kick performance into high gear.

Strangely, two-thirds of franchise brands don't offer formal performance groups based on our research. Still, category-leading brands such as Home Instead Senior Care and TWO MEN AND A TRUCK credit franchisee performance groups as a major differentiator.

Obviously franchisees can form informal performance groups on their own (and they often do), yet having a formal performance group program will help encourage greater participation across your system, especially for franchisees who need them the most.

Rolling out franchisee performance groups isn't difficult or expensive. Here are several tips to make yours successful.

- Ask your franchisee advisory council to help develop your performance group program. If you don't have an FAC, simply ask six franchisees to volunteer to be the first group.
- The most effective performance groups are always on the smaller side (six to eight people). Franchisees should be grouped with such similar franchisees considering such factors as business size, tenure, geography, single-unit versus multi-unit, etc.
- Start with groups being led by a corporate executive or a professional facilitator and migrate to franchisee-led after the first year. Review IFA's Supplier Forum members at www.franchise.org for suppliers specializing in financial benchmarking and facilitating franchisee performance groups.
- Group meetings can vary in length and frequency. Some of the best I've seen meet quarterly for a full day with some sort of social activity on either end. Meetings can be hosted by a franchisee to reduce costs, and the meeting host should be rotated.
- Meetings should all have a formal agenda and include a full review of KPIs, financial statements and current challenges. Meetings should conclude with stated objectives, which will be reviewed at the beginning of the next meeting.

Rolling out performance groups across your system will take some time to perfect, but the benefits will be tremendous. Start small and adjust things as you go. Once you're comfortable with the way the program has developed, require new franchisees to join immediately upon opening. This will help ensure they get the best possible start and develop a habit of peer accountability early.

Eric Stites, CFE, is CEO and managing director of Franchise Business Review and serves as a member of the IFA Franchise Relations Committee. Find him at fransocial.franchise.org.