

STRATEGIES FOR SUCCESS IN DIFFICULT ECONOMIC TIMES

IFA ROUNDTABLE DISCUSSION, TUESDAY, FEBRUARY 17, 2009

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In this session, roundtable participants discussed their strategies for controlling costs and for assuring that marketing efforts aren't sacrificed in the process. The session was repeated three times. This summary includes comments made during all three of the sessions.

Cost Controls

Start by Prioritizing – Where Can My Efforts Pay Off?

What are the most significant expenses in your business? If you manufacture or resell products, supplier costs may be your most significant expense. If you are a service business, your staff costs are likely the most important. For bricks and mortar retail establishments, rent and occupancy costs may be critical. A large expense area is likely to contain some opportunity for cost reductions.

Start with the areas that have the greatest potential for savings, but don't forget, the little things add up. Rethink all costs that are not revenue generating. Do you really need it now? Here are some specific issues that were discussed regarding cost controls.

Attending conferences – Franchisors reported that they were not sending as many of their staff to conferences. Instead, they establish a way for those who attend to report their learnings back to those who didn't go. Attending conferences is still important, but given the need for cost control focus on getting the maximum ROI is critical.

Hosting franchisee conferences – Roundtable members agreed that even though they could expect lower franchisee attendance, it is important to have a conference to deliver management's vision and get everybody on board with important initiatives. In difficult economic times it is more important than ever to keep the team focused on the vision of a valuable future. This is also a good time to help franchisees improve their financial acumen so they can better respond to profitability challenges. Consider hosting goal setting workshops at conferences to help franchisees focus on the things that matter. It is easy to get distracted in this environment.

Video conferencing – Use it more, communicate more regularly, but don't use it as a replacement for things that should be done face to face. Not all meeting objectives can be met with video conferencing, but use it when it's appropriate to do so.

Ask each department head (or possibly even each employee) for suggestions of things they could cut. Involve them in cost cutting decisions. For example, they may choose to stay in a Motel 6 when they travel if it will provide the business with the relief it needs to avoid employee pay cuts.

Challenge prices for everything you purchase. How long has it been since you shopped to see if you were getting the best price?

Negotiate prices for advertising materials. Bulk printing is a competitive market. Roundtable participants reported success in negotiating better prices on printing of all kinds, including marketing materials, stationery, and packaging materials.

Negotiate with American Express to lower the discount rates (and also with credit card processors/re-negotiate merchant fees).

Renegotiate the price you pay for garbage collection. Recycling and other programs have reduced the cost of providing this service in some markets. It may be a good time to negotiate for savings.

Insurance – shop it competitively. Ask a broker to build a preferred package for your franchise network and get franchisees on board for the savings. If you can get a critical mass to play, you may be able to save 10% to 30% on insurance costs.

Assign a person to purchasing who will question everything, re-evaluating all the supplier relationships and buying practices of the company.

Use the power of the network's total purchases to negotiate with suppliers. In this economy suppliers know they need to be competitive, but don't expect them to call you to offer a lower price. You'll need to start the conversation.

Discuss your preferred pricing arrangements with franchisees. Find out which they use and which they don't. If they aren't using them, it could be because they are getting a better deal on their own from another source. Find out how and why, and use that information to renegotiate with suppliers.

Make sure franchisees are aware of all of your vendor arrangements and help them set targets for increasing their use of the programs. More participation saves franchisees more money and gives you more negotiating power for future deals.

Facility Rent

For many business models, rent is the largest fixed expense. When sales drop off, we look to lessen our burden of fixed costs. Rent renegotiation can be a fruitful target. Here are some tips related to reducing rent expenses.

Dedicate a person (at the franchisor) to monitor site leasing issues.

Have a template available to franchisees that shows them how to present their case when negotiating with landlords.

Ask for a better deal.

Renewals – get aggressive and consider relocation to get a better deal on rent.

Renegotiation – don't wait for renewal to renegotiate rent. If a franchisee is having losses, they may want to share their existing P&L with the landlord to show the need for help. "We either need to renegotiate or develop an exit strategy." Roundtable attendees reported high success rates at getting rent abatements for at least one year. Several reported reductions of 10% to 30% as common.

New locations – negotiate hard for build out costs. This will help the franchisee's ability to get credit because the bank knows the build out is already paid for, so money that they lend is used for other purposes (maybe for hard assets that are easier to collateralize, and therefore easier to finance).

Provide franchisees with tools, information or assistance at renegotiating. Some reported that the franchisor is actually doing the renegotiating on behalf of the franchisee (after an initial discussion between the franchisee and the landlord).

Consider hosting a webinar for franchisees to share rent negotiating strategies. Use real examples of what others have done to reduce rent costs.

Employee costs

As unpleasant as it is, many organizations are faced with cutting employee costs. None of us want to lose our good people. Roundtable members focused their discussions on alternatives to staff reductions. Staff-related issues and comments are described below.

Are you making the most of incentive based compensation opportunities? Can you use incentives to improve productivity?

Consider asking your employees to take voluntary short-term pay cuts.

One roundtable member reported that they had implemented 10% salary cuts across the board. They also have an arrangement to share profit with those same employees, so they see that they will get it back if the team works together to solve profit problems.

Are there opportunities to make your staff cost a variable expense? For example, can you reduce base pay and rely more heavily on commission? Can you pay for production instead of time spent? Can you relate staff's pay to the customer billings they produce? This is fairly simple to do with commissioned sales people, but there may be ways to achieve the same thing for production employees.

Do you have too much administrative support staff? How do administrative support staff costs compare to production staff costs? One franchisor reported that they strive for two hours of production time for each one hour of administrative staff time. Is that a good result for you? Not necessarily. To set a target, monitor what you're currently

achieving and use your gut sense about your capacity and efficiency to establish a desired level of improvement. Then identify how the goal could be measured. Admin to production staff could be a viable measurement.

How do you make the administration of what you do more efficient? Assess your processes for scheduling, billing, payroll, database management, communication, client contact, production, problem resolution, training, education, etc. in search of things that don't add value. Are there things you do just because you always have? Is there information you collect that you do nothing with? Are there manual processes that could be automated? Challenge your thinking about the value of administrative processes.

How does your culture impact staff efficiency? Is there a belief that a lot of support staff is good? Does it indicate status? How can you shift the culture to a model where everybody is expected to carry their own weight and be efficient and productive?

Back to basics: Do you make full use of the systems you have? Are you using all the features of your CRM or Point of Sale systems? They are designed to make you more productive and effective, but you need to use the features to get the full benefits.

Productivity and Staff Morale

Several participants were concerned about how the challenges of the economy impact staff morale. How do you keep your people upbeat and optimistic when they are bombarded with fear and negativity from the media and the rest of the world outside your doors? Here are some comments and issues related to that topic:

Be upbeat about it yourself and increase communications (short meetings, memos, etc that reinforce positive messages).

Focus on your business goals, share the goals with staff and celebrate successes openly and frequently – even the small successes.

Educate your business - take advantage of educational opportunities – do everything you can to educate your staff, especially on communication and motivational topics. Some employees will be motivated by the fact that you are investing in them.

Be involved in Chamber of Commerce or other business organizations

Marketing

In an effort to cut fixed costs, franchisees may be tempted to eliminate or reduce their marketing and advertising expenditures. How do you make sure franchisees don't fall into that trap? What can you do to maintain market presence and improve the reach of your marketing strategies?

Allocate a portion of your national marketing fund for reimbursement to franchisees that are doing local area marketing or advertising programs.

Assess whether the guidelines for using national ad funds are appropriate for today's environment. Do you designate portions of the fund for spending at local levels? Is that portion appropriate?

Create a culture that says it is important to market. Make sure your own marketing efforts are stellar in this business environment.

Emphasize the aspects of your product or service that will sell well in this environment – that is, show that it is smart to spend with your company because there is a good return for the dollars spent. People will spend in a down economy – they just want to know that they are spending wisely. This means marketing angles like “new and improved”, smart or affordable are likely to be well-received by consumers.

Quality matters – consumers are less likely to accept mistakes or substandard quality in a down economy. They want to know that they are spending wisely and will drop services quickly if reliability or quality come into question.

Verify that franchisees are meeting their contractual obligations for marketing investments that are in excess of National Ad Funds. For example, if your franchise agreement requires additional local advertising investments, have support staff review and discuss the activities. Focus the conversations on helping franchisees make good investments in direct mail, call center, pay per click, or whatever the appropriate focus is for your model.

Review the marketing pieces you make available to franchisees. Make sure they are easy to access and easy to use. Make your marketing support “turn-key” for franchisees.

Local ad co-ops: Encourage your franchisees to participate in local co-ops. Provide them with resources that make it easy for them to be an effective co-op. Consider making an allowance of national ad funds available to the co-ops as a way of enticing more franchisees to get on board with the local groups (such as a match of the first \$X spent by the co-op, or 25 cents on the dollar up to Y).

Track your costs per inquiry to assess effectiveness of marketing efforts. Ask field support to collect that information from franchisees and share it back with others – either formally or informally.

One franchisor reported that the franchisees in their network that don't make their required minimum marketing spends are deemed out of compliance with their agreement. At this point the franchisee is *required* to enter a new system of marketing (a turn-key process of local marketing). This is offered as a way to get back in compliance with the agreement. This sends a message from the top, and establishes a culture that marketing is important to the success of the business model/brand.

Ask your advertising agency to make special franchisee packages available that are competitively priced, effective and efficient to produce and distribute.

Digital Marketing

Online presence is a significant part of brand building and marketing strategies for many franchise systems. The results from digital marketing activities are easily measured and optimized with proper planning of activities.

Make sure you're getting the most value from your Search Engine Optimization efforts and expenditures. Is your market development fund investing appropriately in this?

Are you measuring the return on your SEO investments? It should be fairly simple to do. Measure it, set a goal for improvement, implement change and measure it again.

Consider using social networking activity to maximize SEO. Develop a social networking plan/strategy. Where (what sites) would you like them to be active? How could you increase your franchisees' use of social networking? Do they understand how they could improve SEO for the brand by being appropriately active in social networking sites? Would your network benefit from a webinar on the topic?

Getting feedback from consumers online is a way to maximize SEO. It adds hits and is also a good tool for reputation management. Is consumer feedback part of your online strategy? Part of your SEO strategy?

Marketing through text messaging – Depending on your target market, this may be a viable marketing channel. Give customers the chance to opt in to these types of programs and offer them (your most loyal and connected customers) special deals. Driving more business from your existing customers can be a cost effective way to increase sales.

Discounting as a marketing strategy

Franchisees will do marketing in their own way and many will be tempted to discount price to attract new business. Discounting has the potential to devalue the brand. You may want to assure that franchisees fully understand the impact that discounting has on their business: on margins, profit, and required sales.

Educational sessions that help them get comfortable using break even analysis in their marketing and cost control decisions can be an effective strategy for franchises faced with pricing pressures.

Break even analysis is possibly the most important tool franchisees can have to understand how discounting impacts the volume they must produce to make the same profit. Linking the lessons of break even analysis to marketing strategies can help franchisees make better strategic decisions. Break even can also encourage franchises to focus on higher margin programs in the market place.

You can also use break even analysis to show the importance of up-selling – that is, getting more sales from existing customers. One roundtable member reported that bundling products or services into special packages is working well for them.

Leveraging the impact of field support

Franchisees need more support when times are hard which can put a big burden on field support. One participant commented that they are able to coach franchisees more efficiently by getting them together in support groups. With these groups, franchisees help each other resolve problems, set goals and keep each other focused on commitments to improve their businesses.

Overall - Don't lose your feeling of optimism

The roundtables were attended by the today's leaders of franchising and all held to their underlying belief that there is reason for optimism for 2009. With risk comes reward, and with change comes opportunity. Somebody will win in this game. How will you make sure that it's you?