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How's The Financial IQ of Your Network? A Summary of Franchise Executives' Insights

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At the 2011 IFA Business Solutions Roundtable event, franchise executives discussed their strategies for improving the financial acumen of their franchisees and corporate staff. The session was conducted twice. This summary includes comments made during both of the sessions.

Assess your starting point

The basic knowledge or skill level of the franchisees defines the level of support needed. This varies widely between franchise systems, depending on the type of individual that is attracted to the franchise.

For example, a system in which franchisees typically own multi-units and may also have other business interests, owners may be very financially savvy and may not need or want support in the areas of financial management or business planning. Conversely, a franchise that attracts individuals who are new to business ownership could significantly impact unit success by building financial management support features into their franchise business model.

These building blocks for supporting the financial IQ of the system were identified:

- Training
- Systems
- Goal setting and business planning
- Benchmarking
- Coaching and ongoing support

Training, systems recommendations, goal setting, benchmarking and coaching/ongoing support are vehicles for delivering all of the important elements of your business model. Are you using these vehicles as opportunities to improve your network's financial IQ? Take stock of your financial-related deliverables scattered throughout these vehicles. Are the messages, terminology and priorities consistent across the templates and processes you use?

Training

Financial training is commonly delivered through a combination of the following:

- Convention talks
- Webinars
- “Financial statement basics” discussions (live, web or teleconference)
- Reviewing system-wide financial results (benchmarking) – via written reports, talks, webinars, teleconferences, etc.

Common training topics

- Most said that their financial training was P&L focused. Determining the breakeven point and how breakeven analysis can help franchisees make investment or spending decisions is a well received and high impact topic.
- Balance sheet issues are important for some and are frequently overlooked in training. Sometimes this is because trainers don't understand the important concepts. Other times it's because franchisees don't have balance sheet figures at the individual franchise unit level (especially in a multi-unit environment). If accounts receivable, inventory or debt service are important issues in the business, balance sheet topics should be incorporated in financial training and support systems.
- Business planning is a common focus of initial training. The training usually consists of a lesson on how to complete the franchisor-provided forecasting tool (usually a spreadsheet showing revenue and expenses by month for 12 months). While the topic was covered in detail during initial training, many executives felt they had not adequately supported or reinforced business planning skills after the franchisee was up and running.
- Some franchisors provided basic bookkeeping training (typically related to using QuickBooks). This was commonly included in initial training, with follow up provided one-on-one rather than through ongoing educational sessions.

How much of the initial training for franchisees is related to financial topics?

Responses varied from a half-day to 2 days of the first week. Less financial training is offered in franchise models having financially sophisticated franchisees (such as restaurant groups). These types of ownership entities have their own systems in place and are not likely to need or follow the franchisor's advice in this area.

Training for new franchisees typically includes some financial content, but franchisees can get overloaded during initial training and forget much of what is covered. Retraining after franchisees are established is critical, especially with financial topics. With operational and marketing issues, franchisees seek support if they don't feel effective. With financial issues, they are more likely to ignore the problems until a crisis occurs. Ongoing financial training can help head off the crisis.

Systems

Financial system recommendations commonly include these things at a minimum:

- recommended chart of accounts
- assistance with payroll processing – in addition to payroll processing and tax reporting, a franchisor should work with their recommended payroll service provider to establish a standard set up for allocating wages among important categories; such as direct labor, sales wages, warehouse labor, administrative wages, etc.
- point of sale
- accounting system

Franchisors don't necessarily provide bookkeeping support or training. Still, if franchisees do a poor job keeping track, everybody's success is compromised. At a minimum the franchisor should understand the needs of franchisees, assess whether deficiencies exist, and direct them to resources to fill those needs.

Goal setting and business planning

The business planning process is critical to success. There are significant advantages when field people possess a "planning mentality" and clear expectations for business planning are built into the field support role. Continual reinforcement makes it stick. Field support is the franchise's primary reinforcement tool. Do your field support people have the skills to help your franchisees better manage the financial side of their businesses?

Most franchise systems have a template for business planning or financial forecasting that is used to help start up franchisees, but many fail to maintain a focus on planning once things are running smoothly. Roundtable participants agreed that a planning or goal setting model that *gets used* is key to long-term success. It is also a great tool for support staff, helping them keep their conversations focused on the things that produce results.

Focusing on quantifiable goals helps to make performance assessments objective. The numbers aren't personal – either franchisees are meeting their goals or they aren't. When field support are armed with a combination of good coaching skills and a consistent, objective goal setting process, they can keep conversations productive and head off defensiveness from franchisees.

How important is it to have a detailed budget?

Many CFOs are frustrated that their franchisees don't use a detailed budget to monitor their sales and costs. They can't imagine running a business without such a tool. Still, for franchisees who are not very financially sophisticated, it may be better to have clear and simple financial goals and regularly assess their progress than to spend time developing a detailed spreadsheet that they don't understand.

Focusing on how to make more money helps motivate people. Working with spreadsheets and lots of numbers can be de-motivating to individuals who don't describe themselves as "a numbers-person". Think of the results you're after. Is it really important for franchisees to spend time crunching a lot of numbers? Would some clear goals for sales and gross profit margin and one or two other items be more motivating?

This doesn't imply that budgets aren't useful and necessary in some situations. Complex business models require more detailed plans. For example, those that require significant equipment investments, have inventory that is difficult to manage or have seasonal fluctuations may need more detailed plans and budgets than a simple service business, where the key to success is to drive sales.

Benchmarking

Franchisees want validation. How much money can they make? A franchisor who can't give *real* answers is disadvantaged for development. It starts with the FPR. Prospects now have higher expectations for disclosure of financial information. The results published can be based on any *real* scenario or composite, such as a sampling of existing franchisees, company owned locations, just certain locations or all locations, so long as you disclose the actual makeup of the profile.

Results for segments of the network such as the "top performers", franchises grouped by size of facility, sales volume ranges or age of the franchise can be useful in identifying achievable targets for franchises at varying stages of maturity. These are particularly useful in helping franchisees identify reasonable goals, an important starting point for any business planning process.

What to benchmark

Measuring the actual results of franchises and making average results available to the network demonstrates what can be achieved. Benchmarking should include at a minimum some guidance for reasonable expectations for:

- Sales growth
- Cost of goods sold/gross profit margin
- Controllable expenses
- Operating profit

Having an active benchmarking process in a network increases the financial IQ of franchisees and corporate staff alike. It provides an opportunity to practice using financial information so people get more comfortable with it. It also gives information in a consistent format that can generate important discussions that lead to actions that improve results.

Still you must always balance the benefits with the costs. Would important details that are current be more valuable than a comprehensive analysis that is outdated? Tax extensions cause delays in collecting financial statements. For many business models, if a franchise drives sufficient sales volume they've won 90% of the battle for survival. In these situations, it may be more valuable to

provide instant feedback about sales and just a few other metrics that can be easily gleaned from a point of sale system, rather than make too big of a project out of collected a long, comprehensive survey that includes year-end financial statements. Because of tax extensions, by the time you get year-end information, it may be too late to act on it.

Today's technologies can easily collect regular (weekly or monthly) feedback on sales and other metrics that come from point of sale systems. For many business models, this is adequate benchmarking.

Getting franchisees to play

When implementing a financial benchmarking initiative in an existing system, there may be some resistance by franchisees who don't want to provide their financial statements. While most franchise agreements require that financial statements be submitted, many systems have not enforced the requirement so they still find it difficult to collect information.

One executive shared that when they began collecting financials, "nobody" submitted the information. He observed that implementing the process was like managing any other change in a network. The franchisees must want the change. Providing valuable information and focusing the message on "How you get rich" was helpful.

To motivate franchisees to participate, many choose to withhold certain reports or extra attention, services or discussions from franchisees that don't share their information. This could be considered a "negative reinforcement" approach. Some believed that providing the benefit to everybody helped educate the non-players on the benefits. In the end, a franchisee who sees great value in the process will participate. Sharing the study results may help the non-participating franchisee understand the real value of contributing their information for future benchmark projects.

It is important to make it easy to submit financials. Capturing information online may help to make it easy if there is a user-friendly interface. This can drive higher participation in the study. Still, the most important factor in raising participation levels is to give back information of value. Answer the question "What's in it for me?" Providing yet another report that isn't used isn't exciting to people. To sell the benefits of benchmarking, you must deliver something that is useful *and that gets used*.

Coaching franchisees by using benchmarks and goals on a day to day basis gives benchmarking "reach" into the management process, adds value and makes the initiative stick.

Other issues discussed that help improve participation/compliance include:

- Confidentiality and trust must be earned or in place.
- You must provide a benefit that *really is* valuable to the franchisee.
- Focus messaging on "we're here to help you"; not on compliance "we need it," but on why we need it and how we can better help you if we have it.

- Consistency matters. If you've done it from the beginning it's easier - either from the inception of the franchisor, or at the very least being consistent with expectations for new franchisees.
- Continual reinforcement makes it stick.

Delivering the information - does it motivate people to achieve more?

Delivering the benchmarks is often delegated to the CFO because the topic is financial. Unfortunately, that person may not necessarily be a great presenter. The goal of the delivery is to encourage franchisees, including non-financial people, to embrace use the information to drive improvement in their business. When reviewing the figures, it is critical to link the numbers to the actions that drive success. Otherwise, the benchmarks may not motivate people to achieve more. An experienced presenter from outside the system can be an extremely effective way to deliver *information and motivation*, helping you to leverage maximum value from your investment in financial benchmarking.

Other thoughts

Banks' recent requests for information have revealed the cost associated with a lack of system wide benchmarking. Even with a nice looking package it's hard for franchisees to get financing in today's tough credit market. Having system wide financial benchmarking helps franchisees negotiate for loans because it helps bankers better understand how the unit economics work. A franchise system that is sophisticated in its financial IQ support demonstrates to lenders that their franchisees have resources that give them competitive and management advantages. Bankers are looking for this level of franchisor commitment when they bank franchisees.

When field staff have regular action-oriented financial conversations with franchisees, compliance and franchisee satisfaction both increase.

When it comes to benchmarking, the consensus of executives was clear. "Get started. Wade in. Do something."

Coaching and ongoing support

Here are some practices that executives believed were important:

- Field staff should have a great deal of experience with the business model *including experience with evaluating store-level P&L reports* and business planning processes.
- To get started, each field support person must go through franchisee training.
- Develop and cultivate a planning mentality. Store support is the frontline to building this culture.
- Assign special designated operations team members to new franchisees for the first 6 months. Each week, review the prior week's profitability. Weekly breakeven is the basis for the regular discussions.
- To be effective at turning information to action, field staff also needs basic coaching skills.

The coaching discipline is well-developed and growing as an industry, and there are many resources for individuals who wish to improve their coaching skills. Franchisors who invest in the coaching skills of their field support staff reap great benefits.

Group coaching

Many organizations use board groups or peer groups to make coaching more cost effective. In these groups, one coach or facilitator coaches many franchisees. The facilitator's effort is supplemented by franchisees coaching and supporting each other. With these groups, the actual impact on the network for the hours invested is far greater than one-on-one coaching can provide. A byproduct of this approach is that franchisees take responsibility for helping each other, and themselves.

For peer groups to effectively raise financial acumen, the members of the group must be comfortable sharing financial goals and actual financial results. This requires trust between peers.

Using a standardized reporting template for benchmarking makes peer groups more efficient. This should be developed for groups, even if there is no system wide benchmarking done for the network. Involving the expertise of a third party to develop the reporting template and meeting format can be very helpful.

Best practices panels developed for a task force or meeting presentation can also deliver the benefit of sharing franchisee experiences. These panels are made up of franchisees that have successes to share. The practices shared can be documented or recorded so they can be further distributed and communicated.

Intrigued?

Profit Soup can help assess and supplement your financial support resources in all five areas: education, systems, goal setting, benchmarking and coaching. If you'd like to learn more about *how*, [contact us](#).