



SUPPLIER SOLUTIONS ROUNDTABLE  
IFA 2011 CONVENTION - LAS VEGAS, NEVADA  
FEBRUARY 16, 2011

TOPIC: BENCHMARKING FRANCHISEE PERFORMANCE  
FACILITATORS - Jerry Bell, Zee Wise & Don D. Smith, Servant Systems

This summary of the conversation is based on notes taken by roundtable attendee, Barbara Carper of Profit Soup. The comments have been grouped into topics to give the summary a logical flow. For this reason, the comments don't necessarily appear in the order they were shared.

**Do you think the performance of the system can be improved by using Benchmarking?**

Yes. Franchisees need and want to know how who's the best, worst, and where they stand on a variety of fronts, including financial results, sales, selling activities and customer service metrics.

**Why should you benchmark your franchisees' results?**

To help drive success by demonstrating what the top performers are doing.

**How many KPI's do you benchmark?**

Most reported that they shared many different metrics, as many as 30. Out of the 30 shared there are a top 5 or 6 that are key to focus on.

**What information do you benchmark?**

Some collect financial statements and commented that even though it is required by the franchise agreement, it is hard to get everybody to do it or like it. It would be nice to get more utilization and consistency.

Some have found it easier to not collect a complete set of financials. Instead, they collect selected figures that they consider to be the critical items through their company intranet.

When financial trouble hits, balance sheet issues matter, so these metrics become important; such as cash flow, and financial strength measurements.

Operational measures mentioned

- Sales calls
- Activities
- Conversions
- Bill ratios
- Cancellations
- Time to bill

### **How often do you share information, and what information do you share?**

One franchisor reported that they share revenue and gross margin on a weekly basis. Doing it early on was key to developing the culture of participating. They've always done it so getting people to participate is not a problem. They have come to expect it.

Sales and selling activity metrics as well as customer satisfaction metrics are typically shared frequently (like weekly or monthly). Benchmarking of financial statement information is typically less frequent (some do monthly or quarterly, some only annually).

### **How can you leverage the value of benchmarking to get real improvement?**

Using benchmarking as criteria for franchisee awards is motivating, especially if the measurement is on a level playing field. For example, when evaluating sales success, a franchise in a small market that does extremely well can have lower sales than a franchise in a large market that does poorly. If the benchmark is sales, the high performer goes unnoticed. To level the playing field, sales and some other benchmarks can be calculated per capita. Measuring utilization – or percentage of capacity is another way to even the playing field.

To motivate improvement, results within certain ranges can be given a status that supports an award system. For example, platinum level, gold, silver, bronze etc. Recognize the status of the franchisees publically at conventions, in newsletters or communications, with award plaques they can display in their stores, etc.

The numbers are good to have, but it's what you do with them that actually helps franchisees to improve. "We tie benchmarking to goals and follow up on performance. We must be very diplomatic about communicating what the numbers are saying, but we find that if results are falling, customer service is probably falling also." Benchmarking serves as an early warning signal that a franchisee may need more of your help.

To maximize the benefit

- Education – improve the financial acumen of franchisees and field consultants
- Measurement/benchmarking – measure the things that matter and share them with franchisees
- Accountability – connect measuring to goals and help franchisees hold themselves accountable for improvement

Field support can use benchmarking information as a starting point for important conversations. For example, going over sales metrics with franchisees can start important conversations about sales management and refocusing of activities.

### **Is it motivational or de-motivational to see the rankings?**

Several franchisors said that they share each store's weekly sales including the franchisees' ranking in the group. Some do this anonymously, but others reported reaping benefits from sharing location names. Franchisees want to know who is doing well. By disclosing the leaders, it can build competitiveness (in the example shared, among the top 50) and position top performers to be effective and respected spokespeople for best practices.

### **Do you disclose names with numbers?**

"If we're reporting sales or activities, yes, we typically share the names. If the information is more sensitive or confidential like salaries and net profit, we typically do not share the names."

Once you have system-wide data, it can be valuable and motivating to share what others have accomplished. Still you must be careful when positioning system-wide averages because franchisees typically want to be compared to others that are more similar to them. For example, they may wish to see how they compare to others that are within their market size instead of the group average. Comparing to the right peer group can be motivating. If it's not the right comparison group, it can be de-motivating because franchisees feel they are at an unfair disadvantage in the comparison. This can make them defensive, and less accepting of benchmarking as a management tool.

One franchisor reported that they benchmark results in groups by

- Product mix
- Customer type

- Business model (multi-unit, single unit, mobile unit, etc)

Still, franchisors are disappointed when franchisees focus on the average. Shooting for average may be setting your sights too low. We don't want our franchisees to be average. Average reflects the best of the worst and the worst of the best.

### **What other alternatives (other than average) make good comparisons?**

Many systems identify their top performers, and share the results for them. How do you define top performers? By sales? By profit? By something else?

- Use sales if sales is the driver of success for the business model. Especially if they are not likely to have a problem of not managing expenses (such as a home based or mobile business that has little overhead)
- Use gross profit if cost of goods sold is key to success
- Use bottom line if expense management is important

### **Communicating results: How do you know if they read it?**

What once was a fax-o-gram is now an email blast. And it seems just as easy to ignore as ever. Information that is sent frequently, regularly and routinely can get stale and overlooked. Having award systems as described earlier helps keep franchisees interested. You'll also always need to answer the question "what's in it for me?" You may also wish to send the information through a system that can track whether the franchisee actually opened or read the correspondence.

### **Benchmarking and disclosure: What can (or do) you put into item 19?**

For US franchisors, responses vary, from nothing, to revenue per location to a full earnings claim. Some disclose detailed average financial statements for the entire system or a segment of the system (company-owned stores, mature stores, etc). You must disclose the details of what types of franchises were included in the figures presented.

It was reported that Australia requires full financial performance disclosure for franchising, so it is not an issue. Everybody must do it.

### **Is confidentiality an issue?**

- Relates to culture of the organization
- Trust within the organization

- Nature of ownership (holding companies versus working owners)
- Nature of competition among the owners

Some franchisors collect significant information and analyze it internally, but still don't share any benchmarks with franchisees.

### **What other things can make benchmarking and sharing information more acceptable for franchisees?**

Acceptability is higher if they're asking for the information.

Utilize a pilot group to launch—it can be the Franchise Advisory Council or a hand selected group of operators that are respected in the system and are good flag wavers.

Involving the Franchiser Advisory Committee (or a franchisee group or task force) in development decisions helps to get a better program in place and leads to better acceptance by franchisees. Enlist their feedback as to what to benchmark, what to share, how to manage the process, etc.

Share the vision of WIIFM before you ask. Show them what they will get.

Education—the franchisees need to understand what the number means or they won't benefit from the process.

One final question/thought...

- How can we use benchmarking to know what a franchise is worth during a sale?
- Can we benchmark selling price for franchises?

This is very difficult because there are so many variables that create impressions of value. Still, a franchise that outperforms its peers is less risky to acquire, and therefore more valuable.