

SUPPLIER SOLUTIONS ROUNDTABLE
IFA 2011 CONVENTION, FEBRUARY 16, 2011
TOPIC: IMPROVING UNIT ECONOMICS

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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.

When it comes to improving unit economics, what information do you need from franchisees?

Having a system for assessing actual profitability is the starting point. Items to include

- Top line sales
- Gross Margin (to assess improvements in selling and pricing)
- Labor control
- Other operating costs

Cash Flow - It's easy to forget the importance of collecting receivables.

- DSO (Days sales outstanding) can be tricky to explain so make sure they know it needs to go down (fewer days' sales in accounts receivable).

This metric can be important to include so they focus on cash flow.

Leading indicators versus lagging indicators

- QuickBooks/Accounting = lagging (it measures the past)
- CRM, Leads, Sales, etc. = leading (it measures activities that drive future sales)

People's activities impact the leading indicators. It is those activities that improve the lagging indicators. To make change happen, focus on the leading indicators.

One franchisor reported that the biggest driver of improved performance in their system was driving traffic. To measure traffic you can use traffic counters, or you can use customer count (which is equal to traffic times conversation). That metric is broadcast to the system. Corporate stores are easy to track because they use a consistent point of sale system. Franchisees that don't have consistent POS systems create a challenge. For those, they use manual self-reporting that the CFO compiles and sends back through field support.

Measuring results starts with collecting good data. How do you efficiently get franchisee QuickBooks data uploaded to a database of the franchisor?

- Some franchisors have a robust infrastructure. If not, how do you get started?
- Come to IFA and learn from others' mistakes.

Qvinchy will take the QuickBooks info as a link between QuickBooks and Fran Connect. At this point it Qvinchy does not integrate with QuickBooks online.

EXAMPLE

- 185 QuickBooks files at franchisee location
- Franchisor has site hosted by Unidata
- Franchisee logs in through RDP
- Qvinchy software maps the transactions to another data storage site. It has dashboards that are intuitive.

How important is it for the franchisees to be using a common chart of accounts?

This is an important starting point. If the franchise system starts with everybody using the same chart of accounts, implementing system-wide benchmarking is much easier.

Mature franchises that have not stressed consistency in the chart of accounts find it challenging to get franchisees in compliance with a new chart. Even systems that started with everybody on the same chart can have problems with consistency when franchisees change their charts over time.

Getting compliance with a common chart of accounts is just like other compliance issues in the system – it needs to be reinforced through regular communications, education, field support, management and operating systems, tools, etc.

How do you get the behavior consistent? Give them back information that is actionable. That may take many more touch points than just sending the reports. Build it into your support model just like everything else – through education, systems, planning (goals), benchmarking, and coaching/conversations.

The best reinforcement is to answer the question “what’s in it for me?” If they benefit from having their information in that format (for example, it makes it easier for them to understand their results and how they stack up against others) they will be more likely to care about compliance.

One franchisor shared that their franchisees are required to use QuickBooks online and the franchisor has administrator status. They use a common set up so franchisee financials are all prepared in a consistent format. This requirement is written into their franchise agreement.

With the right technology pulling franchisee information together, it is less important to have absolute consistency with the chart of accounts, because the franchisees accounts can be mapped to the franchisor's consistent format when the data is pulled together.

Another benefit of a consistent accounting system is it is easier to do royalty audits.

How do you keep franchisees interested in the numbers?

Franchisees will give the data if they know and care about “what’s in it for me.”

Frequently sharing their figures including rankings of their performance helps keep them interested. It is helpful to have a way of knowing who accessed the benchmarks (assess whether it is used, were emails opened etc). Then you can follow up with those who aren't using it, or rethink your communication strategy.

Items shared frequently (like weekly) are top line sales, national account revenue, gross margin. Attendees indicated that they put most of the emphasis of weekly reports on the sales side. They look at costs and other metrics less frequently.

Showing rankings can help franchisees get perspective on their own performance.

KPI's shown in charts help make the figures more understandable.

Sharing tip: *Google* documents—*Excel* sheet on the web that people can access.

How do you deal with pushback of disclosing ratios and financial information?

By disclosing performance by franchise it provides recognition for top performers and gives them credibility. They then make good advocates for best practices because their status as a successful business leader is established.

What do you do to change franchisee behavior?

Systems aren't enough. You need to create the culture of talking about financial results.

Establishing a profitability culture in your system is key to success in changing behavior. The culture is reflected by actions of the top leadership, corporate staff and the

franchisees. Recognizing the franchisees that do well and focus on profit helps reinforce the culture. Disclosing results by franchise and award systems are two ways of providing that recognition.

Once the culture of using and sharing the information is established, it becomes expected. “Franchisees like weekly KPI’s. If we’re late they ask for it.” Creating that culture is just like any other shift in your system. It must be important to the leadership and the message of its importance must be consistent from the top down.

You also need education to build skills, and understanding and comfort with financial topics. This skill building is needed for both franchisees and field staff.

What is the level of financial sophistication of field staff? They usually need training in finance and specific issues of the franchise model’s unit economics.

How do you use field staff to drive unit economics? Field staff must know what franchisees respond to, and then must create the will to succeed. Then sharing how and why other franchisees succeed is impactful.

Having a process of regular accountability is also important. This can be done by

- Measuring regularly—write it down
- Doing things with peers
- Providing a credible coach

When using peer groups, how do you decide who is in each group?

These ideas were shared by a franchisor that launched 6 groups at once:

- Top centers were the first group (there were 5 franchises in that group)
- Second tier sales made up the next group – (9 franchises)
- The rest were split into groups considering geographic location so people wouldn’t need to travel as far. We also tried to mix successful idea thinkers and number-thinkers/those with good financial skills. We took personalities into account and assigned groups.

Full disclosure Line 19, earnings claims.

If you’re not making an earnings claim you’re missing an opportunity to impact unit economics. For prospective franchisees they know what they should achieve. It sets the standard of performance.