How do we assess a Franchisee? Are some more equal than others?

You get bottles of Scotch every Christmas from one Franchisee, but another is a pain in the proverbial. But who is the better Franchisee? Setting objective measures is critical in deciding who are the best Franchisees and how they should be managed.

Continually we are told by Franchisors that a person is a good Franchisee, or a poor Franchisee, and the relationship with the Franchisor is reason. Is this a good judgment call, and can we be misled?

“In my past life (20 years with Caltex Australia), it was amazing how the ‘office talk’ goes on about who is a good Dealer (Service Station Franchise Operator) and who is poor” says Peter Buckingham of Spectrum Analysis. “We can be very much influenced by a strong character putting over their point of view forcefully, compared to someone who just toes the line. Some Dealers would be excellent at looking after the Field Staff (lunches, dinners etc) and I always felt that they then enjoyed the preferential treatment such as when a tanker delivery was made. Normal Dealers who just quietly ran their business received only what was owed to them in terms of normal service levels.”

The self promoters do very well for themselves, often at the expense of other franchisees, but from the franchisors perspective, they may not be helping the brand.

A key benefit of being a franchisee is access to a proven system with predictable returns for their business. For a Franchisor, the relationship with the customer is of far greater importance than the relationship with the franchisee (within limits of course). The benefit for the customer is a consistent standard of products & services irrespective of the franchisee they buy from. They have little interest in the relationship the Franchisee has with the Franchisor.

It is easy to be swayed by some franchisees with bottles of scotch and smooth talking to give special favours. But is this in the best interests of your business? From talking with Franchisors on these issues, it appears a judgment is often made based on a relationship, rather than the customer / business interface.

<u>What makes a good Franchisee?</u>

“When you don’t set clear goals and targets for your franchisees, you end up making subjective judgments about them” says Greg Chapman of Empower Business Solutions. “While the Franchisor/Franchisee relationship is important, it is not something that is easily measured and may have a weak correlation to other measures such as turnover and system compliance. Any successful

Franchise will have already identified its Critical Success Factors, and from them Key Performance Indicators (KPI's), not only for the franchise as a whole, but also for each franchisee. It is also critical to understand what may be the fault of the franchisee, and what is within the franchisor's control."

For example, one of a franchise's Critical Success Factors may be customer service. Standards may include:

- The greeting
- Well presented uniform and name tag
- Politeness and helpfulness
- A pleasant character and demeanor
- Presentation of public areas
- Service efficiency

How well are these services being maintained? Based on these (and we all may have additional points), we assess the business as being one we are happy to use (or not)! Whether the Franchisee has 10 stores, drives a Rolls Royce, attends Franchise meetings and loves or hates the Franchisor has no influence on customers.

System Compliance is a more general example of a KPI for a franchisee, and would encompass all aspects of their business, not just Customer Service. For each of your KPI's, there must be a way of measuring performance. For system compliance, mystery shoppers, surveys or audits could be used. These types of performance measurement can be expensive, time consuming and disruptive to the franchisee's business, and so a screening process to identify poor performance is recommended.

Franchisee Comparison Performance

The biggest risk when comparing franchisee performance is that you may not be comparing apples with apples. And the single biggest independent factor on franchisee performance is location. Spectrum Analysis undertakes sales prediction modeling for some of Australia's largest Franchisors to take into account location dependence. Whilst it is impossible to build a model to be 100% accurate, comparisons of Actual Sales against Predicted Sales can be made once a geodemographic model has been constructed and validated.

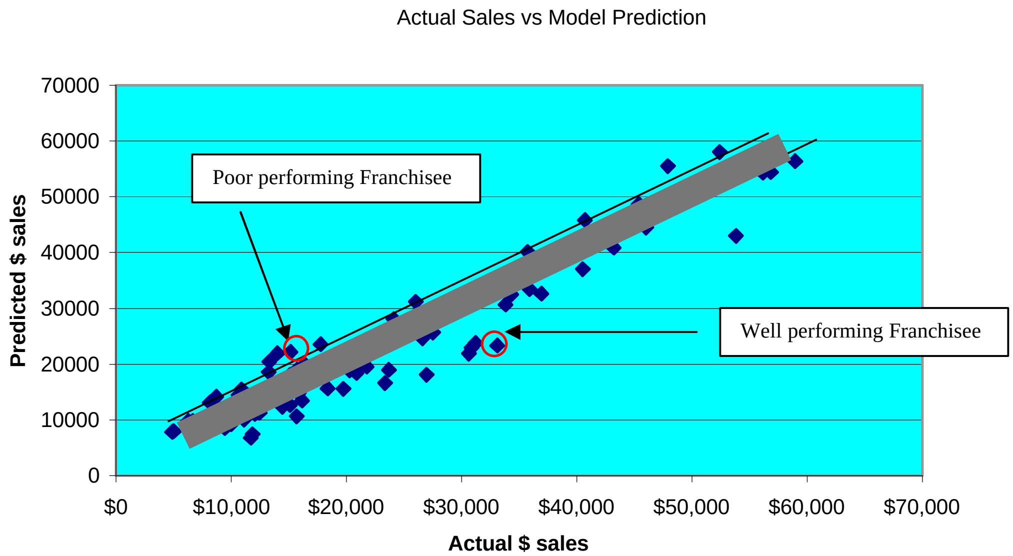


Figure 1. The graph displays all stores in an Australian network, each point showing where that store sits in comparing the actual vs predicted sales. The shaded area shows statistically non-significant variation. The circled franchises had similar predicted sales based on geodemographics, but totally different actual sales.

The difference between a well performing franchise and a poor performing franchise can be significant. In the example in Figure 1, for two franchisees that can be directly compared, with forecast sales of $25,000, the variation is between 40% under and 30% over prediction, well outside statistical variation. Which one of these franchisees plies you with scotch, and which is continually pushing you for help with their new ideas, and can be, at times, a real pain? Those franchisees below the yellow bar in Figure 1 are likely to be operating at the frontier of excellence for the franchise, while those above are most likely at the non-performing frontier..

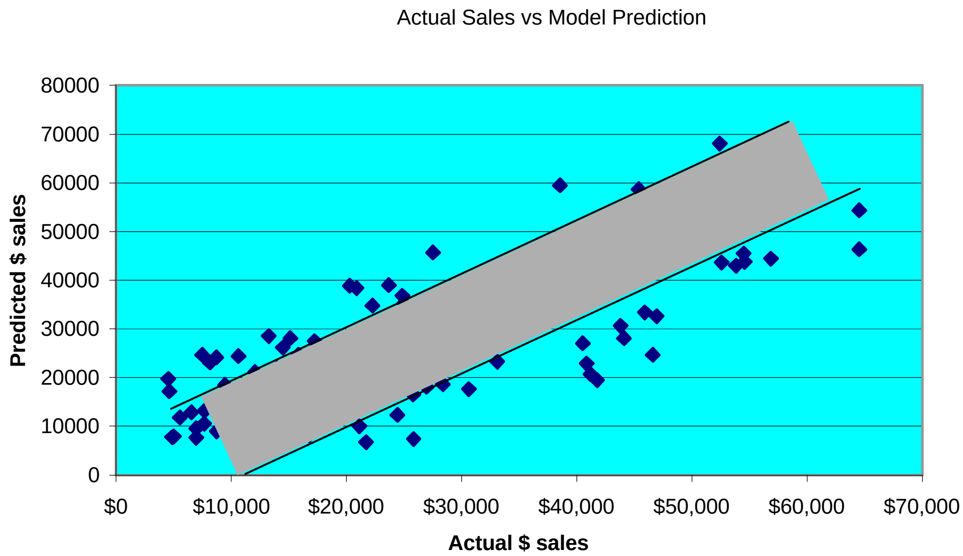


Figure 2. The yellow bar shows the area of statistical non-significance is much wider due to poor consistency in the application of the franchise system.

Another danger is to assume that a low performing franchisee, is a result of their laziness or lack of skill. Comparison of franchisees even with a validated model can be misleading. In Figure 2, the confidence level of the correlation is weak. This could be due to poor system compliance throughout the franchise. In other words, all franchisees are 'doing their own thing' almost as if the owners were all independents. When this situation arises, the fault lies not with the franchisee, but the franchisor who is not providing and maintaining a consistent system. In these situations, more training, improved systems and better compliance systems should be developed. Judgments on under and over performance of franchisees are hazardous when this situation arises.

It is therefore important to distinguish the roles of the franchisee and the franchisor. A good franchisee will:

- Follow the franchisor's system
- Only implement changes in consultation with the franchisor
- Lead by example
- Select good staff
- Train them to how THEY want them to act
- Provide a good working environment

A good franchisor will:

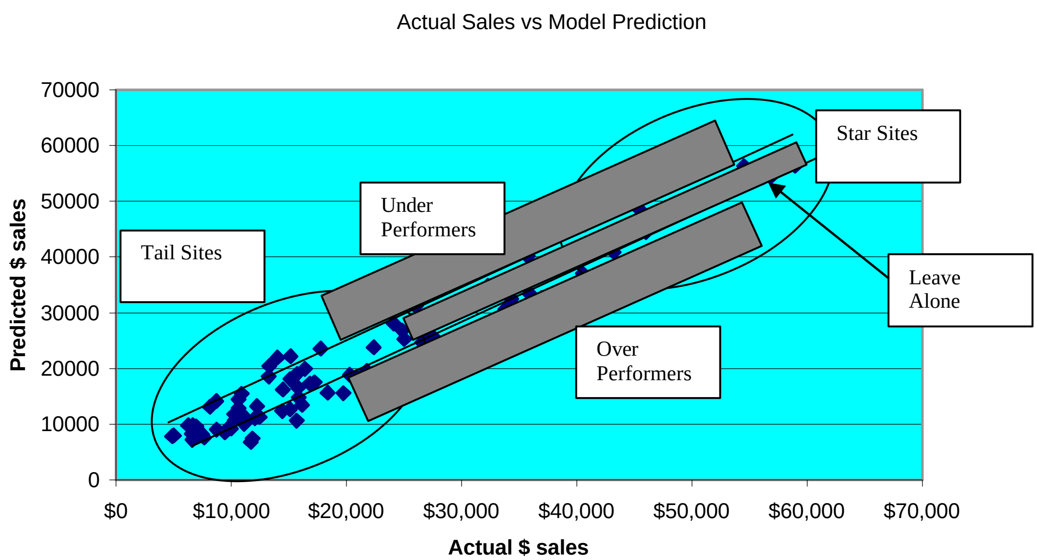
- Provide comprehensive and tested operating systems
- Listen to their best franchisees on how they can improve their system

- Support franchisees in trialing new concepts in a controlled way
- Provide regular systems training
- Monitor system compliance

<u>Franchisee Action Plan</u>

During a Market Analysis, the best sales prediction model that explains current sales is developed, for use in predicting new store sales. A very interesting by-product of this process is to undertake a Franchisee Performance Analysis, to look at how a Franchise is performing compared to their Prediction.

The Franchisee Analysis that follows plots each store into an area for consideration. These can be best described in the graph below.



<u>Definitions of Franchisee Categories</u>

Stars Sites

These are the sites that perform well, almost independently of the Franchisee. They are in the right locations. The characteristics of these locations need to be understood and replicated for all new franchisees. This is the area in which we would like all stores to be located.

Tail Sites

These are stores that show the weakest performance. Even the best franchisees will have difficulty making money here. These stores show little potential to make a satisfactory contribution in their current form and should be divested or significantly upgraded (where dirt strength potential is good).

Under Performers

Even though these stores are in star locations, they are under performing compared with prediction. As a result of their good locations, management may not have identified problems with the franchisee. These sites require closer investigation, especially of their system compliance.

Leave Alone

These stores as predicted. We tend to leave these alone and enjoy the benefits of them performing to expectation and meeting satisfactory continued levels of sales. Under performers can learn from these franchisees. But these franchisees may also be able to learn from the Over Performers.

Over Performers

These franchisees know something that you don't but should, and it is about time you found out what it is. They have found a way to improve on your system. This is something you need to understand, and transfer to all other Franchisees. If you could get all your franchisees to perform in this way, how would your business look? These franchisees are likely to be far to busy focusing on their customers to be sending you bottles of scotch.

As a result of the level of accuracy of Spectrum Analysis' model predictions for networks, many Franchisors use this as part of their Marketing Assessment to plan for the future and to determine the underlying potential of each store. It is also an invaluable tool to identify the Franchisee's (and the Franchisor's) performance.

<u>Summary</u>

A good or poor performing Franchisee definitely has an effect on sales. This can be a + / - of 30% from forecast, after allowing for location. Take care NOT to judge them by the relationship you as a Franchisor have with them, but look at how they perform against their key performance measures as derived from your critical success factors. How they comply with your systems, and what their customers think of them are far more important. Whilst some Franchisees may appear to you to be a real pain – if they score well on these other measures, they are your best franchisees. By contrast a Franchisee may appear very good to you on a personal basis, may be trying to hide their shortcomings as a franchisee.

The very best Franchisee has it together both with the Franchisor, and with his staff, so the customer sees a great operation they want to continually deal with.

Don't be too judgmental because a Franchisee is sometimes seen as difficult, as he may be a perfectionist and wants all facets of his business to be perfect. By contrast do not be sucked in by a show pony who may say all the right words, but the performance at the customer interface is poor, and reflects poorly on your System. But also look to see if your business is acting as a franchise or an independent group of stores. It's not always the franchisee's fault!

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