For Franchise Executives ONLY:

Flying Blind in Franchising

(Why this problem is unique to franchisors…
and the 10 simple secrets to removing the blindfold)

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You wouldn't jump in your car, merge onto the freeway, accelerate to 70 mph, then strap on a blindfold would you? Yet that's what you're doing everyday when it comes to proactively managing (and improving) franchisee profitability and cash flow. This report reveals why this problem is unique to franchisors, why it continues to this day, and how you can fix it – FAST.

Picture this…

You are the CEO or President of a company with 356 locations across the country.

You are an intelligent, business-minded person focused on achieving results. You want to spend about thirty minutes looking at location level financial results to understand the degree to which each location is making money.

You want to understand which locations are leaders in the key performance measures and which ones are lagging behind (and hurting your ability to grow the company).

So you ask your CFO or COO to provide you a report ranking each location on the top five key performance measures you and your management team have agreed really determine profitability in your business.

And, you ask, "Please rank them from best to worst and include a calculation for each location that shows how much additional profit and cash flow each store could put to the bottom line by improving their ranking."

What kind of answer will you get back?

Are You a Franchisor?

The answer you get will vary depending on whether you are in a franchise company or a non-franchise company. Let's look at the latter first.

If you are the CEO or President of a company outside of the franchise community, the CFO or COO would say "Sure thing Boss! I'll have it to you in the morning. I'll ask Traci to put the report in that format and add the profit and cash flow improvement calculation for you. No problem."

If, on the other hand, you are the CEO or President of a franchise company you will get a very different answer.

Your CFO or COO would say something like this "Well, uh, well, I can't really provide exactly what you asked for Boss. Um, many of our locations are making lots of money, some are doing all right, and a number are really struggling. Does that help?"

You mutter something to yourself along the lines of "No, that isn't really the information I'm looking for. I want to see each location ranked according to the five key performance measures we all agreed are the keys to financial success in our business.

With that kind of information I can set specific improvement goals and targets, hold people accountable for results, and I can hold our regional managers accountable as well. I can't do my job if I'm flying blind with respect to location profitability and cash flow."

Now, when can I get the data? Surely I'm not asking too much here, am I?"

Well, Uh, well…

The CFO or COO says "Well, we don't exactly have all the financials by location. I could get you the report with just the sales data included. Come to think of it, we did do a benchmark analysis that might help you. The only problem is that the report went out about six months ago and the financials in the analysis were for the year prior to that. So the numbers are almost two years old now. Also, it only included 43 of the 356 stores. Would that help?"

Now, if this conversation happened at a non-franchise company, the CFO and COO would hear Donald Trump's famous line…

"You're Fired!"

No CEO or President would allow such an important component of managing the financial success of a company to be neglected that way.

And yet, as you and I both know, this happens in the vast majority of franchise companies today.

Here's why this has been such a big problem for franchisors:

…Because trying to get financials from franchisees has been like beating your head against a wall full of sharp razor blades (ouch)!

…Because you quickly found that once you did get some financials faxed to you that it was a painfully slow and incredibly labor-intensive process (not to mention error-prone) to manually enter the numbers into a spreadsheet so you could see the data and try to understand it.

…Because you realized you needed a "common format" for the financial information BUT every franchisee has a different chart of accounts, many use a different accounting system, the reports are all in different formats (some are highly summarized and some are very detailed), and someone on your staff has to make sense of that in order to enter the data in your "common format".

…Because you had a nagging fear in the back of your mind that the data "translation" process was not consistent or accurate. (The fact that you brought in a temp to do the work didn't help your sense of concern, right?)

…Because you quickly realized there was no way you could gather monthly financials from franchisees because this process was way too time consuming and costly to even consider doing on any kind of regular basis.

After living through that experience, you either killed the whole project or did the next best thing. You muscled a few stores into a spreadsheet, called it a benchmark (or franchise leaders, top performers, profitability study, or something like that) and provided it to franchisees as the result of your work.

Unfortunately, the numbers are all at least a year or more old. And you know that you are not going to even attempt to go through that painful process for another year or so (if then).

You also have no visibility into monthly results to see the impact of seasonality and other factors that drive the business each month.

So franchisees have comparison data that is not timely, is only a very small fraction of the locations in your system, is highly summarized, and is in your "common format" (even though their own numbers they will be comparing to the benchmarks are in a different format).

How Do Franchisees React?
And franchisee reaction is something less than enthusiastic. And it's hard to blame them. The information they got was definitely better than nothing. But it's a far cry from the kind of comparative, action oriented data you should expect from being a part of a system of hundreds of locations who are all in very similar businesses.

That leads to the next interesting (but very damaging and somewhat predictable) dynamic.

Franchisees are not at all excited about sending you their financials now because they know they are not getting much in the way of useful

and insightful financial information in return. "Why go through the hassle of sending them our confidential financial information when we get this kind of old, selective data back that is in a different format than our financials?"

Give Franchisees the Profit Improvement Data They Need
Franchisees are starving for easy-to-understand comparisons and benchmarks on the key performance measures to help them become more profitable and improve their cash flow.

They want to see how they compare to other franchisees to see precisely where they need to get better. They want to know that when they cough up their financial statements to you that they will get some really powerful, highly insightful, and action oriented information back in return.

You need them to place a high value on the financial information you provide to them. You want them to say "Awesome. Now that's a tool that will help me make more money… and give me the cash I need to market and advertise the business so I can make even more money. Thank you for making this tool available to me."

The 10 Steps to Success
Here's how you create rankings, comparisons, and benchmarks that franchisees will get excited about:

1. Demonstrate Value in Advance
It's incredibly important that you show franchisees examples of the reports and comparisons they will receive before you ever ask them to submit data. I can't overemphasize how important this step is.

They need to see very clear examples of the rankings, the benchmarks, the key performance measures, and the improvement opportunity

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calculations so they can answer the all important question "What's in it for me?"

In fact, this is a beautiful opportunity to score big with franchisees if you do it right. We have led this kind of introduction to franchisees where the franchisor couldn't believe the result. The franchisor was hoping to get positive feedback on the project. What happened instead surprised them. Not only was the feedback overwhelmingly positive, franchisees were standing up saying it should be required that every franchisee provide their financial data.

So the franchisor was able to turn the tables and say "No, it will not be required of every franchisee. Instead, only those who provide financial data will get access to the reports." And they were able to get incredible buy-in from franchisees as a result.

2. Key Performance Measures

You want to put the focus on the key performance measures that define success in your system. Oftentimes, franchisees are overwhelmed by the financial side of the business. They struggle to distinguish between the important and the trivial.

You become the hero when you help franchisees laser in on the key performance indicators. You're helping them zero in on the target so it becomes easier and easier for them to grow and improve their business.

Your measures could include…

- Average ticket
- Customer retention rate
- Inventory turnover
- Cost of goods sold %
- Personnel cost as a % of sales
- Marketing cost as a % of sales
- G&A cost as a % of sales
- Return on assets

- Return on equity
- And more…

Every franchisor has a little different set of key performance measures. Make sure you think through and determine the measures that are critical to success in your system.

3. Financial and Non-Financial Data

To accomplish the objective we just discussed in step 2, you have to include both financial and non-financial data in your comparison and benchmarking results.

The financial data will include the franchisee's financial statements. The non-financial data will vary depending on your business. For a retailer, data from the POS system is critical for calculating average ticket, average items sold per customer, customer frequency of purchase, customer retention, etc.

One franchisor had almost 90% of franchisees on a POS system where they had central access to the data. They were able to extract that data from the system so we could easily import it into our ranking and benchmarking software.

This really cranked up the value of the reports for the franchisee and the franchisor. Why? Because now the franchisee's had visibility into the key drivers of sales and they could see where they stood on those measures against everyone else.

They were amazed at the levels others had achieved in average ticket and items per ticket. And they could see how even a small improvement in each of those measures would produce an exciting increase in sales. (And increased sales means increased royalties.)

4. Common Format

Now you have gotten franchisees excited about the information they will receive, you've determined the key performance measures, and

you have identified the financial and non-financial data required.

Now it will all break down if you don't have a way to get the data into a common format for analysis and reporting. This is one of the big reasons you have struggled with gathering and providing meaningful financial information in the past.

Franchisees all have a little different (sometimes dramatically different) chart of accounts. And while many franchisees today use QuickBooks, there are still a variety of accounting systems being used throughout the system.

We use software that maintains an internal "map" that automatically maps the franchisee's chart of accounts to your common chart of accounts. That allows for easy importing and makes it possible to create rankings, comparisons, and benchmarks in a common format.

This also makes it possible to calculate and present the key performance measures consistently for everyone.

5. Electronic Format
The old way of getting financial statements over the fax and trying to force certain information into spreadsheets is a dead end process (even if you outsource it). It's labor intensive, prone to serious error and inconsistency, difficult to update and maintain, and takes forever to complete.

You have to have a process that is repeatable and can be automated. And that means you have to be able to gather the data electronically.

The good news is that almost every accounting system today can export financial statements almost as easily as it will print those same

financial statements. (QuickBooks makes it amazingly simple.)

Caution: Getting the data electronically is not the same as asking the franchisee for a copy of their actual accounting system files.

We have seen what happens when a franchisor, for example, asks franchisees to send their QuickBooks file to them. (In effect, the franchisor is asking for access to transaction level data, detailed payroll data, and other transactions that many franchisees will resist providing.)

The good news is you don't need that level of detail to provide the rankings, comparison, and benchmarks.

All you need is the basic financial statements exported from the franchisee's accounting system so you can import the data into your common chart of accounts.

It then becomes very easy to update your benchmark and comparison data every month, quarter, or year (which we will talk about next).

6. Provide Frequent Updates
The formula for creating success in business is to set a goal, monitor performance against the goal, then make any changes necessary to achieve the goal.

The rankings and benchmarks you provide are incredibly valuable in helping the franchisee set improvement goals. One way you can crank up the value you bring to your franchisees is to provide frequent updates to the benchmarks.

That way franchisees can monitor their performance against other franchisees and against consistently updated benchmarks of performance. This is a critical component of the formula for creating success in business.

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A best practice here is to make your process for importing data into the common format available to franchisees if they want it. That way they have the ability to monitor their performance against the targets (and their own improvement goals) every month.
So even if you are updating all the comparisons and benchmarks quarterly, franchisees have the ability to monitor their own performance each month (if they choose).

That also gives them the added advantage of seeing their historical results in the common format of the key performance measures so trends jump out at them.

7. Include 24 to 36 Months of Results

If this step creates a feeling of panic in your gut, don't worry. When you have the financial data in an electronic format and you have a "map" from the franchisees chart of accounts to your common chart of accounts, this step is a snap.

It is just as easy to import 24 to 36 months of financial data as it is to import one full year. QuickBooks is especially good about making the process for exporting results by month an absolute no-brainer. Set one field to the proper value and all the monthly data is in a file ready to import into your analysis tool.

And the insight you and your franchisees tap into is incredible. Now you can see seasonality and trends that would be covered over and impossible to understand if you just looked at annual data.

8. Shine the Light on Cash Flow

In the end, your success in business (and the success of your franchisees) will be measured by the degree to which you (and they) create, and hold onto, CASH. So it is very important

that the rankings, comparisons, and benchmarks help everyone understand what's really going on with their cash flow.

To accomplish that, you MUST have a P&L AND a balance sheet from the franchisee. It's impossible to understand or have visibility into the full cash flow picture with a P&L only.

I will never forget the franchisee of one of our most successful locations during my 10 years as the CFO of an international franchise company. The P&L looked awesome. He was making tons of money.

But things started going wrong. Vendors started complaining, royalties started to be paid late (then not paid at all), and the death spiral began. It turns out that he was pulling hundreds of thousands of dollars of cash out of the business as distributions to the owner and loans to the owner.

You could not see any of that by looking at the P&L because profit or loss is only one component of cash flow. There are five to six other key drivers of cash flow that are incredibly important to monitor and manage.

That's why you must have the balance sheet in addition to the P&L. You have to have a complete set of financials. You can't restrict yourself to just the P&L.

You can then shine the light on the key drivers of cash flow and help franchisees see how they compare to others in the system.

9. Ability to Slice, Dice, and Filter

As you know, there are a number of franchisees who frequently say "But my market is different. My customers are different. My location is different."

The answer is simple. You need to be able to sort, filter, analyze, and present the information based on a number of different ways of looking at location performance.

That allows you to present an almost unlimited number of different views of the results. So in addition to showing the average across the system, you could also show results by…

- downtown locations
- suburban locations
- square footage
- sales ranges
- dates the franchisee attended your training program
- age of location
- number of years the current franchisee has owned the location
- locations that have recently changed ownership
- region
- regional manager
- and the list goes on…

The key is you need the flexibility to look at the data any way you want. That means you can't use a spreadsheet program to collect the financials.

You have to have a robust financial analysis and reporting tool.

10. Calculate Improvement Opportunity
Rankings are the ultimate focus and accountability tool for franchisees when you calculate the dollar value of the improvement opportunity and put it in front of them.

Every time you present a ranking report, you want the franchisee to see how much more money they can put to their bottom line by improving in that category. You want to make it crystal clear the actual dollar amount of improvement that's waiting for them.

So a franchisee sees several rankings and one shows they could improve by $1,000 and another shows the improvement opportunity is $15,000. Now they know exactly where to focus their time and effort. And it gets better.

The next time they see that same ranking with updated information, they will be looking to see the exact dollar amount they were able to realize from their efforts.

If the ranking now shows their improvement opportunity is $12,000, they know exactly how much this new tool helped them become more profitable.

Now there is an easy way to hold people (franchisees and your support staff) accountable for results. Now it is a simple matter to quantify improvement.

That's a critical component of using the power of rankings to create improved profitability and cash flow.

Take Action
The key is to get started – take action. Even if you are not ready to implement each of the 10 steps, take two or three of the steps and discuss them with your support team and with franchisees.

Once you get started your only regret will be "Why didn't we do this five years ago." Franchisees will be thrilled. Focus and accountability will skyrocket. And growing your system will become easier and easier.

SurvivalWare Software

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At Luhring SurvivalWare, we have created the ultimate software tool and service to help you…

- Rank, compare, and benchmark franchisees on the key performance measures
- Put franchisee financials at your fingertips
- Get franchisees excited and motivated to create the kind of improvement and success you know is possible
- Analyze and understand franchisee and location level financial performance

It's software created with the 10 secrets we just reviewed designed right into the product.

You will finally have the visibility you need into financial results. Franchisees will finally have the kind of comparison data they have been begging for.

And you can say goodbye to time consuming, error-prone, and difficult to maintain spreadsheets.

Two Ways to Implement

Here is a brief recap of the two basic approaches to getting started on your new approach to improving franchisee profits and cash flow.

1. **Take Control** – this is the way to go if you want to get franchisee financials in an electronic format for doing rankings, comparisons, benchmarking, etc. and you want to get that data every month.

This is also the approach when you want to strongly urge franchisees to download the software so they can look at their data in the format of your common chart of accounts inside the **SurvivalWare** software and see their key performance measures in the same format.

It's basically a full blown approach to really putting franchisee financial performance at your fingertips.

2. **Put the Results in My Hands** – this approach is one where we import franchisee financials (and any other non-financial data you want loaded) and provide you all the reports about how everyone ranks on your key performance measures.

We import the data (from files that franchisees have exported from their accounting system) so you can see all the comparisons, benchmarks, and other slicing and dicing of the data. This puts the rankings, comparisons, and benchmarking results in your hands without you incurring the expense to buy the software.

In this scenario **a franchisee would not have to spend any money** (although they could choose to the download the basic software for free and just pay a small annual support fee if they wanted to access the power and insight it provides).

This gives you excellent visibility into franchisee and location level financial performance.

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It gives you the information you need to give franchisee's some very insightful rankings, comparisons, and benchmarks they can use to increase their profitability and cash flow.

We will...

- Assist you in the presentation materials to get franchisee buy-in and excitement on the front end (this is a very important step and sets the stage for franchisee excitement and active participation)

- Customize the **SurvivalWare** software with your common chart of accounts and your key performance measures and non-financial data

- Gather electronic files from franchisee accounting systems (you would coordinate the delivery of these files with franchisees or they could be sent directly to us by the franchisees), map their data to the common chart of accounts, and import the data

- Create up to 20 different ranking, comparison, and benchmarking reports

- Provide the resulting reports to you in PDF format and review the results with you

The analysis will contain 24 to 36 months of monthly financial performance information. This is one of the many benefits of capturing the data electronically.

The beauty of this approach is the process can be repeated once a year, once a quarter, or on any other schedule you would like because the data has been "mapped" in **SurvivalWare** and updated results can be imported whenever you choose.

Your Next Step

Remember, procrastination is the language of the poor. You have to take action to make things happen.

Call Rusty Luhring at 703 780 2044 or email **rusty@survivalware.com** to…

- Get answers to your questions

- Schedule an online demo so you can see the software and it's powerful reporting features in action

- Get contact information for franchisors who have taken action so you can benefit from their experience

- Learn about our 100% guarantee that eliminates your risk

Call Rusty at 703 780 2044 or send an email to **rusty@survivalware.com** to ask any questions you have or to arrange an online demo.

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Meet The Principals

Philip Campbell
Experienced Franchise Company CFO

Philip has over 27 years of business experience and has spent 12 years in the franchise world. He was an owner and CFO of a multi-concept, international franchise organization for 10 years.

Philip is a CPA and has served as a controller and as a chief financial officer in a number of growing companies with revenues ranging from $5 million up to $1 billion. He has been involved in the acquisition or sale of 33 companies, and an IPO on the New York Stock Exchange.

What really sets Philip apart from the average financial person you meet is his passion and excitement about helping business owners put their focus on cash flow.

He is the author of the book **Never Run Out of Cash** and the companion Audio CD **The 10 Cash Flow Rules You Can't Afford to Ignore.**

Early on in his franchise career he focused and "preached" so much about the importance of cash flow with management and franchisees that people now call him CASH.

Philip is one of those rare individuals who is skilled in the numbers side of business but who also understands and loves all the different aspects of growing a successful franchise business (and selling it for a nice multiple when the time is right).

Rusty Luhring
Experienced Entrepreneur and Software Architect

Rusty is the creator, architect, and designer of the company's flagship software product **SurvivalWare** software. Rusty is a 30 year software entrepreneur.

His initial software product was a financial modeling package that was the first to bring big computer modeling power to the personal computer. It was sold to a number of larger companies including American Express, Ernst & Young, Marriott, Texaco, and the World Bank.

Rusty made a commitment early in 2002 to take his financial modeling expertise with large corporate customers and bring those same benefits to the owners and executives of small to medium-sized businesses. SurvivalWare was the answer.

The software grew stronger and stronger as Rusty discovered the secrets to helping entrepreneurs use the tool to take their business to the next level. He put the software on steroids (with software you can introduce steroids, hit it out of the park, and do it all legally) when he developed the ability to import financial statements from different accounting systems, with different chart of accounts, and have it all mapped to a common chart of accounts. Some of the graphs and reports are not too shabby either.

Call Rusty at 703 780 2044 or send an email to **rusty@survivalware.com** to ask any questions you have or to arrange an online demo.

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