



IFA ANNUAL CONVENTION



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FINANCIAL ANALYTICS: Tools and Best Practices for Franchisee and Franchisor Profitability



Caption

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TODAY'S SESSION:

- Franchisors often struggle to keep a finger on the pulse of profitability and other key financial metrics of their franchisees, as well as the franchisor.
- This session will focus on best practices and success stories among franchisors, who have used financial analytics to maximize the financial success of their franchise.

KEY TAKEAWAYS

- Focus on improving franchisee financial knowledge.
- Collect a higher percentage of your network's financials statements.
- Share best practices of your network's profit leaders.
- Assist franchisees in improving profitability.
- Utilize franchisee data, including leading KPIs to improve franchisor profitability.

FRANCHISEE FINANCIAL REPORTING

- According to the IFA, collecting financials in the franchising sector is by no means a common practice.
- Smaller franchise companies believe they have a good handle on things, because of their personal interaction with their limited franchisee base.
- More established franchise companies might consider it such a monumental task that they don't see how it could be accomplished.

IT STARTS WITH GOOD CLEAN BOOKS!

- All franchisees should have financials and know how to read them.
- Unfortunately, not all franchisees have a solid business background or may not understand how to read the financials.
- Running a business without reviewing its financials is similar to driving in the dark.

THE FASTSIGNS FOUR KEY STRATEGIC OBJECTIVES:

- Further Improve Franchisee Profitability by 25%
- Increase average center sales to \$1 million
- Increase the value of the FASTSIGNS Brand
- Continually improve already high Franchisee Satisfaction

FRANCHISEE FINANCIAL REPORTING

- What percentage of your network is submitting their financials monthly?
- How are you presenting financial information for your Item 19?
- Does your franchise agreement require franchisees to submit their financial reports on a regular basis?

FRANCHISEE EDUCATION

- What percentage of your network is submitting accurate financials?
- Not all franchisees are CPAs!
- There should be a strong focus on financial performance from initial training
- What training do you provide your franchisees to help improve their financial IQ?

THE BALANCE SHEET AND PROFIT & LOSS

- Is the Balance Sheet or the Profit and Loss Statement (P&L) more important?
- Key Performance Indicators on the Balance Sheet
- Key Performance Indicators on the P&L
- Focus on Cash Flow and not just Net Income

FASTSIGNS KPIs:

- 85% and 15%
- 26% COGS and 26% Labor
- 12% Admin/Overhead Expense (includes royalties)
- 5% Facility Expense
- 5% Advertising (Includes Ad Fund contribution)

POINT OF SALE SYSTEM AND KPIs

- What Key Performance Indicators (KPIs) are you pulling from your Point of Sale System?
- What are the Leading Indicators of high profitability?
- What tools are you using to examine your franchisee's data?

LEVERS OF PROFITABILITY

- What are the biggest drivers of your concept's profitability (typically COGS and Labor)
- Supply Cost Increases & Raising Prices
- Utilizing your Profit Leaders
- Multi-Unit Considerations
- Conversions and Multi-Brands

TOOLS FOR FINANCIAL REVIEWS

- Importance of the Standardized Chart of Accounts
- Methods of collection
 - Hosting Quickbooks Files
 - Utilizing software (ProfitKeeper, ZeeProbe, etc)
 - Centralized email address

TOOLS FOR FINANCIAL REVIEWS

- Excel scorecard:

FAST SIGNS Make Your Sign, Show Your Signs		Center	Franchisee	Date of Financials	Location	
		190101	Max Holmes	12/31/2021	Clive, IA	
Financial Review		Actual	% of Total	2020 STANDARD	Better / Worse	Lost Profits
Key Performance Indicator (KPI)						
In-house Sales	*Percentage of total sales produced/installed "in-house"	\$1,537,099.95	92.3%	80.4%	11.8%	
Subcontract Sales	*Percentage of total sales produced/installed by a subcontractor. Includes inbound shipping/freight.	\$131,145.64	7.9%	18.9%	-11.00%	
Total COGS	*Overall COGS takes in-house and subcontract sales into account. Break down below:	\$402,335	24.1%	28.5%	-4.4%	-
<i>In-house COGS</i>	*COGS for in-house sales only:	\$287,216	18.7%	18.8%	-	
<i>Subcontract COGS</i>	*COGS for subcontract sales only:	\$115,119	87.8%	62.0%	-	
Total Labor(excluding owner)	*Includes salaries, commissions, bonuses, payroll taxes, worker's comp, employee med insurance, and payroll services. Does not include owner salaries/IRA/insurance	\$482,395	29.0%	22.6%	6.4%	\$105,832.30
G&A Expenses	*Includes remaining expenses with the exception of equipment expenses, facility expenses, auto expenses, and advertising expenses.	\$324,558	19.5%	12.5%	7.0%	\$116,282.44
Break-Even Coverage Ratio	*For every \$1 of additional expenses, you need X in sales to cover that expense (Does not include loan principal or additional owner's draw or depreciation and amortization)	\$1.46	-	\$1.56	-\$0.10	
Owner's Discretionary Profit	*EBITDA + Owner's Salary+other Owner Discretionary Expenses	\$275,225	16.5%	21.4%	-3.5%	
Current Ratio	*Measures solvency. For every \$1.00 of current liabilities you have X of current assets to pay them	0.82	-	>2	-1.18	
Quick Ratio	*Measures liquidity. For every \$1.00 of current liabilities you have X of current assets to pay them	0.52	-	>1.5	-0.98	
Average A/R Collection Days	*Your business must wait an average of X days before an invoice is paid	23	-	30 Days	-7	
Average A/P Payment Period	*#of days, on average, before you pay your vendors(will be less if discounts).	40	-	30 Days	10	
Average Inventory Turns Per Year	*Measures the rate at which inventory is used on an annual basis. You are using up your inventory X times per year	12.42	-	10+	2.42	
Total Sales(- discounts)	\$1,666,207.31	Sales Per Employee Benchmarks				
Cash Breakeven Sales	\$111,300.59	Average Center (2020)	Profit Leader (2020)	Total Lost Profits	\$222,114.73	
Sales Per Employee (Annualized)	No Employee Data	\$177,048	\$210,246	Net Income	\$46,934.19	

TOOLS FOR FINANCIAL REVIEWS

- At Risk or when financials don't exist:

Additional Areas to Review during Financial Review and with ALL At Risk or Potential additions to At Risk					
Randall Jones					
Date Reviewed	Items to Cover in Detail	Overall Balance	Monthly Payment	Amount Behind	Comments
6/24	Current with FASTSIGNS on Royalties? YES . If no how much are they behind	\$0.00		\$0.00	Current
6/24	Are they current with their landlord. Yes	\$0.00	\$4,000.00	\$0.00	Randall took out a loan in June (high interest) and paid all back rent with landlord. He's now caught up and is no longer at eviction risk (lease is up in December). He's looking for a less expensive space for Jan. 1.
6/24	Get balance and monthly payments on ALL loans and ask if they are current or have missed any payments	\$298,515.00	?	?	Requested monthly payment amount:
6/24	Are they current on any equipment/vehicle leases	n/a	n/a	n/a	No vehicle
6/24	Are they behind with any vendors or cut off from certain vendors Not Really	\$5,003.00	?	\$5,003.00	Grimco= (allowed to pay down weekly, payment plan, current per Randall)
6/24	Current with Sales Tax? YES	\$0.00	\$0.00	\$0.00	Current
6/24	Did they borrow any money from friends/family?	\$0.00	\$0.00	\$0.00	No
6/24	Get balance and monthly payments on all credit cards and identify both personal and business cards	\$15,744.00	?	n/a	Suntrust = \$13,367. BOA = \$2,377
6/24	Do they have a Line of Credit? YES . Are they paying interest only? What is the balance and how much if any room do they have on the LOC?	\$3,500.00		\$0.00	Current
6/24	What is their current Pay Per Click Budget? Can they Increase?		\$800		Cannot increase at this time.
6/24	Click2Sell ?		Yes		Recommend in-box review, campaign adjustment for recently opened schools
6/24	Current Business Bank Account Balance		\$29,000.00		
6/24	What other sources of funds do they have? (Retirement Plan, Other)		2nd job ghostwriting.		Using personal credit cards as cash flow cushion - \$5k balance +/-
6/24	Have they had any problems making payroll?		None currently.		Made last payroll, still maintaining separate account to insure he covers.

FRANCHISEE PROFITS DRIVE FRANCHISOR PROFITS!

- How do your leading indicators drive budgeting at the franchisor level?
- Are you participating in industry webinars, white papers, etc on budgeting for your business?
- Utilize this time with your peers at the IFA to set best practices and hold one another accountable!
- A focus on your franchisee profitability will have lasting effects on your network's health.

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- Tweet top takeaways and include your twitter handle
- Tweet questions and share statistics/data
- Use **#IFA2022** and tag **@Franchising411** on Twitter and Instagram or **@IFA.DC** on Facebook

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