Protecting the Brand: Conducting Brand Compliance Audits

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Speakers:
- Brian Balconi - VP & General Counsel, Little Caesar Enterprises, Inc.
- Tabassum Mumtaz - Multi Unit Franchisee of Long John Silver & KFC
- Dennis Parker - Marketing & Sales - Nuvek
Why?

• Protect goodwill
• Prevent bad publicity
• Ensure compliance with franchise agreement
• Maximize franchisee profitability
• Impact of one franchisee’s poor operations on all

Purpose of Inspections/Audits:

• Improve Operations
• Identify Problem Areas
  – Additional Training
  – Up or Out
Roles of Franchisor and Franchisee:
- Franchisor provides Trademark and System
- Franchisee must follow the System
- Franchisor has right to inspect to protect Brand
- Franchisor has obligation to police Brand
- Franchisor interest in protecting royalty stream

Franchisee’s Stake in and Contribution to Brand Compliance
- Fulfillment of contractual agreement
- Potential to grow unit sales and number of units
- Can use dispute resolution process, if necessary
- Feedback for improvements through appropriate Franchise council members
- Profitability
- Customer satisfaction
- Issues faced by multi-unit operators

Both Parties Have a Role
- Who is responsible: franchisee or franchisor?
- Where interests are aligned with those of franchisor
- Where interests diverge
- Techniques employed to address these issues
Types of Audits

1. Financial Audits
   – Coach Franchisee
   – Detect Underreporting of Sales
     • Deterrent Effect
     • Uncover Opportunities to Grow Sales/Profitability

Audit Process:

• Typically Advance Notice – Gather Records
• Review Financial Records
• If “red flags” – review further

Franchisee Perspective

• Responding to franchisor audit notice
• Auditing your own operations
• Controlling theft and other financial issues
• Role of technology
Types of Audits

2. Quality Assurance
   – Cleaning Procedures
   – Storage and Handling Procedures
   – Hazardous Critical Control Points
   – Food Safety
   – Food Quality

General Operations

• Following Procedures
• Clean Location
• Unapproved Products
• Uniforms

Types of Audits

3. Customer Experience
   – Mystery Shoppers
   – Guest Satisfaction Surveys
Documentation:

- Franchisor perspective:
  - Photos!!!!
  - Possible later dispute – prevent “he said, she said”
  - Document recidivism of franchisee
  - Protect against discrimination claims

Franchisee perspective:

- Unannounced vs. announced inspections
- Right to be present at inspection
- Self-policing processes

Types of Audits

4. Regulatory Issues
   - Americans with Disabilities Act (ADA)
   - Fire Safety
   - Right to Know – MSDS compliance
   - Hazardous Waste – storage and handling
   - Local Authorities

- Challenge: Technical Expertise Needed
- Who is responsible: franchisee or franchisor?
End Game

“Begin With the End in Mind”
Stephen Covey

Typical Breaches:
30 Days to Cure is Common

- Operational issues
- Examples:
  - dirty location
  - not following proper procedures

24 – 72 hours: Serious Issues but Curable

- Health or safety hazard
- Examples: food safety or infestation
Immediate Termination of Franchise Agreement

- Breach of trust – irreparable harm
- "Toothpaste is out of the Tube"
- Examples:
  - Fraud
  - Intentional underreporting of sales

Franchisee perspective:

- Is there anything that cannot be cured?
- Issues for multi-unit owners

Where do most problems arise?

- When sales are low
- Unclear communication
- Improvements that require financial investment
- Lack of alignment between Franchisor and Franchisee
- Geographically dispersed locations
- Frequent turnover of field representatives
Where do most problems arise?

- Compliance, Safety & Quality Assurance issues are ignored
- Labor factor - Never enough time, not my job
- Lack of Training
- Franchisee attitude
- Scattered documentation - Reports are difficult to generate

What new technology/tools are available to franchisors to address compliance issues?

- Web Based Software and Hardware Technologies are being used to:
  - Improve Performance Management
  - Generate Common Operating Platforms
  - Drive Standardization – Operations & Compliance
  - Automate Audit and Inspection Processes
  - Enhance Follow-Up (On-Line and In Real Time)
  - Generate Automated Reporting

Technology improves field visit effectiveness and efficiency:

- Replace paper inspection forms with electronic audits
- Eliminate manual reports, spreadsheets and emails
- Automatically dispatch corrective action items
- Archive results in a business intelligence repository
- Automatically email everyone who needs to know about an issue
- Automatically generate management reports; compare locations and highlight trends
- Enable each unit to perform customized, periodic self-inspections
Audits – Inspections

• 80/20 – the most important issues
• Line Item Photographs and Signatures
• Line Item Attachment Capabilities
• Signatures – All Online and in Real Time

Be Proactive and Prepared…

• When governmental or other agencies show up for audits:
  - OSHA
  - Fire Marshall
  - USDA
  - FDA
  - HAZMAT
  - Insurance Co. Auditor
  - Workers Comp.
  - EPA
  - Other

  • Technology assists you with:
    - Verification of “up to date” compliance activities
    - Substantiation of future scheduled efforts
    - Records showing histories of Proactive Inspections and self audits
    - Work order histories showing proactive corrective action
    - Instant and convenient data retrieval
    - Customizable reports to meet & exceed audit requirements.

Measure

• Inspections
  - Inspection & Audit Forms can be customized to reflect:
    • Any number of Line Items
    • Score Types
      - Pass/Fail
      - Yes/No
    • Score Values
      - 1 to 5
      - 1 to 100%
      - A,B,C,D,F

  • Dispatch Inspection Results By Email:
    - To your appointed Respondents
    - Technician, Supervision & Management
Suggested Periodic Tasks & Inspection Forms

- Compliance:
  - Fire Protection
  - Safety
  - Risk Management
  - OSHA
  - MSDS
  - Right to Know
  - HACCP
  - HAZMAT
  - Hazardous Waste Disposal
  - Licensing
  - Other

- Maintenance:
  - Custodial
  - Landscape
  - Equipment
  - I.T. Systems
  - Vehicles
  - Hazardous Waste Clean-up
  - Parking Lots
  - Roofs
  - Fences
  - Others

Improve

- Notice of Default
  - Deficient Inspection Line Items
  - Creates work order & automatically dispatches it through Email.
- Notices Provide
  - Description of issues
  - Due Date
  - Assignments
  - Photo & other attachment capabilities
  - History including status and comments

Reports

- Generate Reports
- Customizable Reports
  - Inspection Reports
  - Work Order Reports
  - User Defined Reports
User Capabilities

- Traditional PDA’s
  - Inspections uploaded
  - when synced to desktop
- On or Off-Line Laptop/Tablet PC
  - Uploads when internet is available
- Printable Paper Check List
  - Data may be entered manually into VEKTR™

Optimal User Device Capabilities

- Smart Phone:
  - Works on Palm & Pocket PC “Windows” Format
  - Picture Attachment Capability
  - Upload your completed inspections
  - Emails and or Text Messages dispatched in real-time

Issues that Arise

- Franchisor or 3rd party performs audit?
- Announced or Unannounced
- Comprehensive or keep it simple?
Issues that Arise

• If problem, how do you follow up?
• How subjective is the inspection form?
• How often should a franchisor perform an audit?
• Role of Advisory Councils, if any?

Thank You!!!

Questions