Using Benchmarking to Improve Success
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BENCHMARKING 101

“The process of measuring products, services, and practices against competitors or peers, identifying the gaps and establishing goals”

• Translates data into actionable information
• Establishes consistent performance measurements
• Value derives from appropriate measurements and valid comparison group(s)
A PERFECT ENVIRONMENT

- Homogeneous peer group
- Natural subset(s) of peers
- Common goals
- History of proven performers
- Wisdom of the crowd
- System rules & culture
BENCHMARKING BENEFITS

• Franchisors
  – Empower franchisees
  – Build camaraderie/competition among franchisees
  – Identify areas that need improvement
  – Define the path to success

• Franchisees
  – Take charge of your business
  – Gain wisdom of the crowd/experience
  – Plan for success (1 year, 5 years, 10 years)
  – Get the complete formula
TAKING IT TO THE NEXT LEVEL

- Develop educational programs based on known areas of franchisee weaknesses
- Enhance field representative meetings for more productive coaching, training and development
- Facilitate focus groups for franchisee peer mentoring
- Broaden franchisee rewards beyond purely sales and revenue goals
- Educate franchisees who might not have a strong business background
- Empower franchisees who want/can take charge of their businesses
- Share a broad range of success stories
- Establish a proven recipe to increase the value of your system
TYPICAL BENCHMARKING CATEGORIES

- Revenue
- Expenses
- Staffing
- Operations
- Procedures
- Adherence to brand standards
WHAT TO MEASURE?

• Look at your industry
  – Use established KPIs, ratios and metrics

• Within your franchise system
  – Look at the common traits of your most successful franchisees
  – Measure the elements that make your brand unique
  – Define the key ratios and metrics that contribute to success
  – Include performance measurements outside of sales and revenue numbers
  – Consider your reward program and include those measurements
IMPLEMENTATION CONSIDERATIONS

– Does a web-based solution work for your system?
– Build or buy?
– How frequently do you want to collect and compare data?
– Can you automate data population?
– Do you use a Standard Chart of Accounts?
– Do you have a standard POS system?
– How will your field/area representatives use it?
– How will you promote usage?
NEVER TOO EARLY & NEVER TOO TOO LATE

• Newer brands
  – Empower franchisees during heavy sales cycle
  – Build a framework for your recipe
  – Establish network for sharing information and success

• Established brands
  – Build upon your defined measures, ratios, and KPIs
  – Share wisdom of the crowd
  – Use your demonstrated path to success
  – Identify goals/achievements for years one, five and ten
BENCHMARKING IS FOR ALL BRANDS

Create culture of information sharing
Build framework for others to follow
Empower franchisees
Facilitate mentors and peer groups
Build teamwork
Open lines of communication
Replicate the proven path
Share success stories

Small
Large
Newer
Established
Tilted Kilts Benchmarking Experience

• What are the key steps to implementing a successful benchmarking program within your restaurant franchise system.
• Steps to implementation to be “aware” of
  – Top down “buy in”
  – Expense
  – Identify early adopters
  – Research end user expectations
  – Over communicate to the system
  – Give Beta users plenty of time to buy in and use the system
  – Set realistic roll-out schedules
Tilted Kilts Benchmarking Experience

- Tilted Kilt Franchisee Expectations
  - Manage franchisee expectation by over communicating the platform capabilities
  - Make sure timelines are clearly communicated and realistic
  - Betas users have the time and are willing to ask questions, don’t pick people who just want to please corp.
Why we chose to benchmark vs. traditional reporting

- Growth
- Customizable
- Detail at an appropriate level
- Diagnostics for TK
- FDD
Review the projected benefits of having the platform.

- Look at the common traits of our most successful franchisees
- Define the key ratios and metrics that contribute to TK success
- Include performance measurements outside of sales and revenue numbers
- Satisfy Franchisees desire for performance information
Welcome to Tilted Kilt’s Franchise Benchmarking! This program is built around the TKFO detailed Chart of Accounts, Prime Cost worksheet and 4, 4, 5 period calendar. All areas except Profile collect data for a 4, 4, or 5 period. Click here to see the calendar and the open dates for each period.

**Profile-annual**
- Location Information
- Pub Stats

**Expenses-by period**
- Cost of Sales
- Operating Expenses

**Staffing-by period**
- Employee Breakout
- Day Part Employee Breakout
- Labor Costs
- Training

**Promotions-by period**
- Entertainment
- Marketing

**Sales-by period**
- Overall Sales
- Guest Details
- Sales by Day Part
Draft Beer, Net Sales for the period

Values

25th Percentile  Median  75th Percentile

My Pub (33rd Percentile)
Franchise Benchmarking

Compare Pubs > Sales-by period

Fiscal Year: 2011  Month: September  View: Current Month

Breakout of Liquor, Beer and Wine Sales

- Liquor, Net Sales for the period
  - $33,471
  - $23,817 (0th)
  - $53,081

- Draft Beer, Net Sales for the period
  - $68,370
  - $68,833 (33rd)
  - $91,718

- Bottled Beer, Net Sales for the period
  - $10,711
  - $5,732 (0th)
  - $17,400

- Wine, Net Sales for the period
  - $1,108
  - $925 (0th)
  - $1,855

- Total Liquor, Beer and Wine, Net Sales for the period
  - $116,210
  - $99,307 (17th)
  - $136,496

Amount is automatically calculated.
Tilted Kilts Benchmarking Experience

–What we learned not to do at The Tilted Kilt!
Jeff Moody, CFE  
Vice President of Operations  
*Mr. Rooter Plumbing*

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*Twitter:* jeffmoodywaco  
*Linkedin:* Jeff Moody - CFE

Saunda Kitchen, CFE  
President  
*Mr. Rooter of Sonoma County*

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*Linkedin:* Saunda Kitchen, CFE

52nd Annual Convention  
February 11-14, 2012 | Orlando, FL
Performance Enhancement Toolbox

A Series of Tools to:

• Initially understand the long term goals of a franchisee
• Provide analysis while monitoring performance
• Identify performance gaps
• Drive franchisees to the systems in order to successfully correct performance gaps

IFA
52nd Annual Convention
February 11-14, 2012 | Orlando, FL

Franchising Building local businesses, one opportunity at a time.
Performance Enhancement Toolbox

Determine Goals For:

• Net Operating Income
• Wealth Accumulation
• Debt Reduction
• Business Valuation
• Capital Re-investment
• Residual Cash Income to the Franchisee
Performance Enhancement Toolbox

Financial Prosperity Tool:

A macro level view of the company, and the goals projected to be achieved over time.
PET: Cash Flow Tool

Helps a franchisee quickly understand their monthly or weekly break even sales and deposits needed to cash flow.
# Cash Flow Break Even

## Variable Costs
- **Cost of Goods Sold Percent (from P&L)**: 52.05%
- **Gross Profit (should balance to P&L)**: 47.95%

## Fixed Costs
- **Total General & Administrative (from P&L)**: $84,578.00

## Other Costs Not Included in G&A
- **Note Payments (Principal + Interest)**: $5,250.00
- **Owners Draw or Living Expenses**: $6,000.00
- **Other Expenses**
- **Total**: $95,828.00

## Cash Deposits Needed to Break Even
- **Total**: $199,861.94
PET: The Big Board Evaluation Tool

Mr. Rooter scoreboard rolled up from all franchisees to determine averages of:

- Truck Sales
- Closing Ratios
- Job Averages
Use Previous Year’s Financials to:

- Develop a budget
- Input new budget into accounting system
- Monitor on a monthly basis
- Evaluate performance against predetermined goals
<table>
<thead>
<tr>
<th>Expense Category</th>
<th>YTD 10 Months</th>
<th>Monthly Average</th>
<th>Monthly Average Budget</th>
<th>Annualized Budget</th>
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</thead>
<tbody>
<tr>
<td><strong>Salary Expenses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6005 · Salaries - Officers</td>
<td>171,595</td>
<td>17,160</td>
<td>20,000</td>
<td>240,000</td>
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<tr>
<td>6010 · Salaries - Management</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6015 · Salaries - Administrative</td>
<td>114,954</td>
<td>11,495</td>
<td>12,645</td>
<td>151,739</td>
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<tr>
<td>6020 · Salaries - Operations</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>6025 · Salaries - Sales</td>
<td>22,000</td>
<td>2,200</td>
<td>2,200</td>
<td>26,400</td>
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<tr>
<td>6030 · Salaries - Training</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td>6035 · Bonuses</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>6040 · Payroll Taxes</td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>6041 · 941 Taxes</td>
<td>23,301</td>
<td>2,330</td>
<td>3,484</td>
<td>41,814</td>
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<tr>
<td>6042 · Federal Unemployment</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<tr>
<td>6043 · State Unemployment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>6040 · Payroll Taxes - Other</td>
<td>1,802</td>
<td>180</td>
<td>220</td>
<td>2,640</td>
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<tr>
<td><strong>Total 6040 · Payroll Taxes</strong></td>
<td>25,102</td>
<td>2,510</td>
<td>3,704</td>
<td>44,454</td>
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</tbody>
</table>
PET: Profit and Loss Evaluation Tool

Monitors a franchisees performance against the Concept’s averages on variable and fixed costs.
## Mr. Rooter Plumbing
### P&L Evaluation Tool - 2011

<table>
<thead>
<tr>
<th></th>
<th>Your Operation</th>
<th>National Average</th>
<th>Difference +/- Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>YTD</td>
<td>%</td>
<td>%</td>
</tr>
<tr>
<td>Total Income</td>
<td>2,067,403</td>
<td>100.00%</td>
<td>100.00%</td>
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<tr>
<td>5010 Total Material Costs</td>
<td>206,435</td>
<td>9.99%</td>
<td>10.23%</td>
</tr>
<tr>
<td>5110 Total Tech Labor, Burden, &amp; Benefits</td>
<td>679,810</td>
<td>32.88%</td>
<td>26.77%</td>
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<tr>
<td>5510 Subcontractor Cost</td>
<td>7,820</td>
<td>0.38%</td>
<td>1.78%</td>
</tr>
<tr>
<td>5651 Technician Vehicle Fuel</td>
<td>40,522</td>
<td>1.96%</td>
<td>3.22%</td>
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<tr>
<td>Gross Profit</td>
<td>991,260</td>
<td>47.95%</td>
<td>48.67%</td>
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<tr>
<td>6005 Salaries Officers</td>
<td>171,595</td>
<td>8.30%</td>
<td>2.59%</td>
</tr>
<tr>
<td>6010-60 Total G&amp;A Salaries, Burden, &amp; Benefits</td>
<td>237,784</td>
<td>11.50%</td>
<td>12.52%</td>
</tr>
<tr>
<td>6075 Training</td>
<td>18,826</td>
<td>0.91%</td>
<td>0.11%</td>
</tr>
</tbody>
</table>
Series of questions with weighted answers to estimate the multiplier used to value the business.
PET: Key Performance Indicator Tool

- Areas needing improvement
- Turning service requests into sales
- Monthly statistics regarding key areas

Monitors
How likely is it that you would recommend us to a friend?

10 9 8 7 6 5 4 3 2 1 0

Extremely likely

Not at all likely

% - % = NPS

Franchise Summary

NPS  CSR  Technician  Value  Recommend

Completed Surveys via Calls: 302
Completed Online Surveys: 0
Total Completed Surveys: 302
Performance Enhancement Toolbox

- Financial Prosperity Tool
- Cash Flow Tool
- Big Board Evaluation Tool
- Budget Tool
- Profit and Loss Evaluation Tool
- Ratio Analysis Tool
- Business Valuation Tool
- Key Performance Indicator Tool
Using Benchmarking to Improve Success

Questions?