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How to Build a Successful and Sustainable Franchise System: It's All About Unit Level Economics

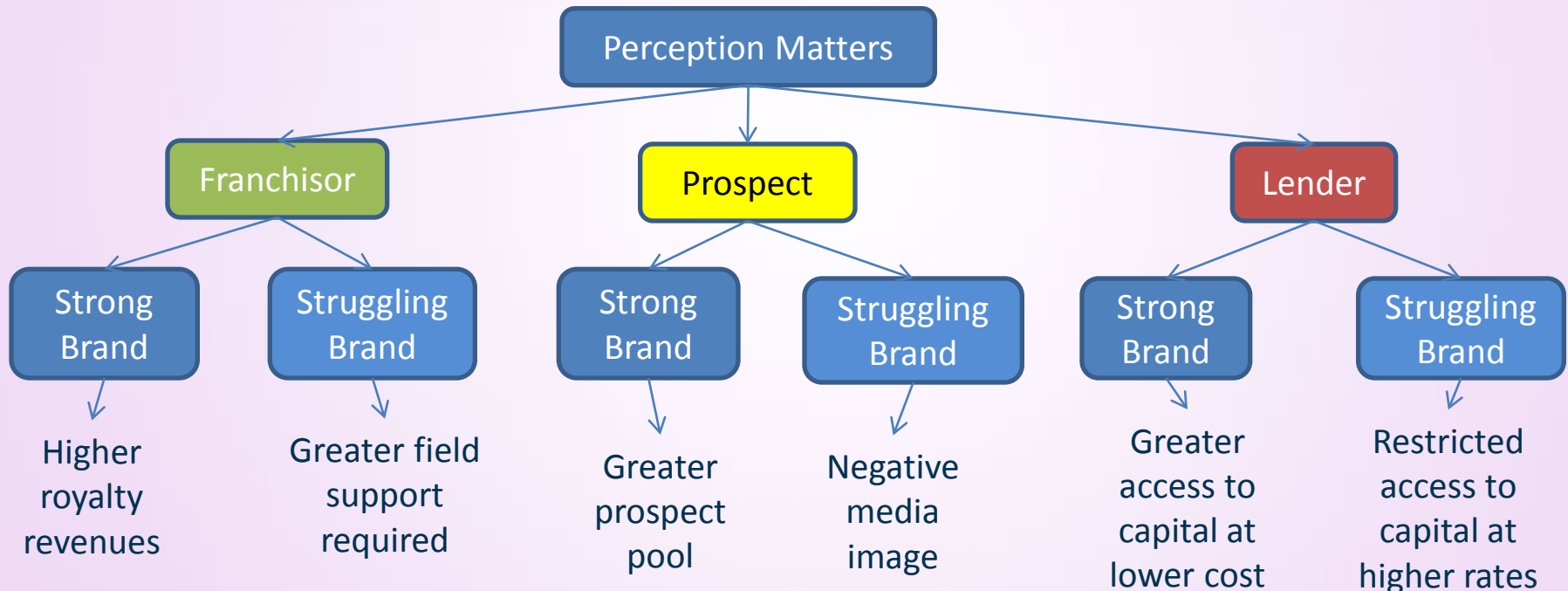
- Speakers: Saunda Kitchen, Owner, Mr. Rooter of Sonoma County
Tony Gioia, CEO, Togo's
Steve White, COO, PuroClean
- Moderator: Brian Schnell, Faegre Baker Daniels

Today's Objectives

- Identify best practices for successful and sustainable growth at both the franchisor and unit level
- Distinguish what separates those franchisors and franchisees that “get it” and those that don't
- Suggest steps that can be taken in the next 60 days to MAKE A DIFFERENCE

Performance Matters

- There is no rising tide for all, so performance matters
- An underperforming franchisee will influence not only how you manage your brand but how it is perceived:



Source: FRANdata Research

Leadership: Evaluate Right Outcomes

Measurables

- Selection process and unit continuity
- Unit profitability
- Franchisee profitability
- True failure rates
- Training benchmarked to peers and unit continuity
- Site selection program relative to unit continuity
- Distressed unit program relative to failure rates

Leadership: Measure Franchisee vs. Average Unit Performance

- Analyze unit level economics historically and currently
 - Unit P&L
 - Break-even point
 - Payback period
 - Unit financial ratios
- Assess the profile of franchisees based on qualification criteria used historically and currently
 - Selection criteria
 - Cost of acquiring and source for acquiring
 - Success in the system
- Review movement of franchisees into and out of the system
 - Agreements up for renewal
 - Historical agreements not renewed
 - External factors affecting system unit growth

Leadership: Measure System Performance

- Relationship between franchisor and franchisees – morale and health of organization
- Unit continuity rates, real failure rates, and causes
- Historic and projected franchise system performance from a bank credit risk perspective to determine capital access, system perceptions
- Franchisor support needed for capital access

Leadership: Measure Franchisor Performance

- Royalty-self sufficiency relative to G&A
- People and money spent on development, training and field support relative to expected outcomes
- Scalability of internal functions relative to growth plans
 - Historical growth
 - Projected growth plans in terms of units
- Correlation between operations and results
 - Internal systems and ability to support current and projected growth
 - Franchisee Recruitment
 - Initial training
 - Ongoing support
 - New program and product development
 - Franchisee compliance monitoring
 - Underperforming franchisees
 - System-wide information sharing and tracking systems

What separates franchisors who talk about the importance of unit level economics and those who have a passion for it and obsess over the franchisees' bottom line?

What Separates Franchisors on Unit Level Economics

- Starts at the top... the CEO [owner] sets tone. Then hire the right people at all levels who embrace franchisee success, most importantly at the emotional level
- Develop benchmarks with the input of franchisees and industry experts
- Publish those benchmarks on a regular basis, including how they are measured
- Bake progress against those benchmarks into company goals and compensation plans
- CASH IS KING! Set goals. Measure results. Constant calibration to get better.

What Separates Franchisors on Unit Level Economics

- Develop relationships that encourage compliance so that you can help educate your franchisees with the benchmark tools that they should be utilizing in their business
- Establish franchisee forums that share best practices (examples, new unit build-out costs; operating margins)
- The franchisor should operate the business model too. “Skin in the game” approach
- Be results driven. Compensate franchisor employees for improving franchisee profitability
- Franchisor should only have one source of income - royalties from sales, with no other income streams at the expense of the franchisees

How do those franchisors who obsess over unit level economics engage their franchisees so the franchisees are brand champions and instill the same attitude in their employees to make a difference in the customer experience?

Franchisee Engagement and Attitude That Make a Difference

- Begins with bringing in those franchisees who get it. Weed out those who don't
- Easy to train competency, but very difficult to train for leadership and passion for CREW/EMPLOYEE and BRAND success
- Crews/Employees are front-line soldiers with your guests/customers. Get them to passionately provide best-in-class service and products. Moving the needle here will drive unit level economics more than anything else
- Hire right. Train right. Motivate right. Reward right. If done right, this will yield higher retention; better service and better profits

Franchisee Engagement and Attitude That Make a Difference

- Captivate with the WIIFM - What's in it for me - all the way to the front line
- Give awards based on economic benchmarks; put those award winners on panels at conventions and regional meetings
- Hold contests at the CREW/EMPLOYEE level. Have some fun with it/recognize and reward for CREW/EMPLOYEE greatness
- Provide intranet portal for employee chatter. Share ideas
- Use Facebook/Twitter/Instagrams for crew/employee engagement and to be brand ambassadors

How do franchisors effectively lead their organizations and networks through system-wide change that is endorsed and implemented effectively rather than resisted by franchisees at the unit level?

Effective System Change

- Embracing change is a culture; not a process. Leadership sets the tone, expectations and accountability
- Give the franchisees ownership in the change process; do franchisees think they have a voice? Do you view them as stakeholders in your brand?
- Establish the change process with the input of the FAC and allow FAC members ample time to consult with peers
- Document and publish the progress of change along the way

Effective System Change

- Have franchisee forums to share best practices and to test programs and products
- Let franchisees have a few wins by looking for ways to say “yes” rather than always saying “no”
- Celebrate and share success. If there’s a mistake, recognize it and deal with it. Full transparency between parties
- Engage key vendors with the change process. They have skin in the game too

How can a franchisor who is struggling in some of these areas begin to make meaningful change in their system that will have a positive effect on unit level economics?

Get Started Now

- First, get very clear on defining the franchisor's purpose.. make money; franchisee success; higher purpose...whatever it is... Then, the leader must communicate it every day... every waking hour
- Align yourself with your best franchisees (not necessarily the highest sales franchisees) and offer transparency. Get them engaged and give them a voice. Don't assume you are aligned
- Start with a few very meaningful unit level measurements that are difference makers and then work at being the BEST at it (for example, operating profitability & cash management)

Get Started Now

- Create forums for peer discussion about the key unit level measurements and how to improve performance
- Time is money. Don't let "great" get in the way of "good"
- Can't do everything. Saying "no" is sometimes better than saying "yes"
- Keep discussions about the progress of the franchisees separate from discussions about the progress of the franchisor
- PASSION. FOCUS. COMMITMENT. RESULTS.

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- Follow along with the instructions.

It will take just a minute or two but will help us for future programming! Thank you!!