

Leading the Change

Transforming the franchise for greater productivity and efficiency

Given the current state of the economy and the unprecedented interest in franchising from all quarters, the key question for any franchise organization and its franchisees is: **Are they the fastest growing and most profitable franchise in their category?** And if the answer is no for any of the above, can the leaders of the franchise organization help lead the transformation that can help them become the best?

In any franchise category, initially system growth (number of franchisees in the system), and at later stages streamlined operational and customer management processes are critical for long-term success and profitability. And to achieve this, having a technology and operational infrastructure that allows you to sell more, optimize your processes and enhance customer satisfaction and profitability is required.

Technology is Key to Growth and Operational Excellence

Whether you are a small franchisor with 1- 20 units looking to grow big, or a huge franchise organization with hundreds and thousands of unit, to be profitable and achieve growth, you have to be smart about using applications that allow you to do more with less. While the strategy and the applications that you may deploy may differ depending on your size, having a streamlined infrastructure is critical.

Small to Mid-Size Franchise Organizations

In smaller organizations, the upfront costs of implementing technology solutions seems so daunting, that most franchisors never get out of manual processing. The end result is that both the system-wide revenue and franchise growth get affected. Since the franchisor never implemented any productivity and sales enhancing solutions, the franchisees feel even a lesser urge to do so. As a result, everyone in the system spends 80% of their time on manual processes. Franchisees try out random marketing attempts without getting proper feedback on their effectiveness. Franchisors try to struggle for leads instead of employing innovative strategies that allow them to filter out leads and directly reach their target audience.

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If you have just started out as a franchisor or are planning to do so, you will be spending a reasonable sum on completing the legal paperwork and hiring staff and marketing your concept. It may be a good idea to keep aside 10% of your budget for technology solutions that allow you to take care of you franchise related processes and assist with franchise sales and customer management. It may also be helpful to introduce a clause for a small technology fee in your franchise agreement that allows you to provide powerful tools to your franchisees as you grow.

For other franchisors that have been franchising for some time, but spend 10 hours a day tied to the existing manual processes, it may be a good idea to define all the paper-based activities that are not contributing to your growth, and look for solutions that can automate them. Creating ROI benchmarks can help in prioritizing and measuring the cost savings you can achieve with the

solutions you implement. Defining a technology budget at the beginning of the year or a technology fund in which franchisees participate can help with the implementation process.

**Figure 1: Technology Practices of Franchise Organizations.
Where do you Fall?**

| | The bottom 80% | The Mid 15% | The Top 5% |
|-----------------|---|---|---|
| Franchise Sales | <ul style="list-style-type: none"> ❑ Leverage traditional desktop sales applications; ❑ Manually enter leads from multiple sources into a database; ❑ Manually create Excel spread-sheet for reporting; Send out hundreds of marketing packages and 100 page UFOC's ❑ Provide a basic contact me form on an average looking website | <ul style="list-style-type: none"> ❑ Leverage a 5-10 user license desktop tool ❑ Leverage online tools for consolidating leads. Some manual entry ❑ Create an automated reporting structure ❑ Provide collaterals through the website ❑ Create an enhanced website with detailed information about the concept | <ul style="list-style-type: none"> ❑ Process oriented tools for managing the franchise sales process from application to opening a new location ❑ No manual data entry ❑ Real-Time reporting ❑ Online Application forms and UFOC's ❑ Cutting Edge professional website |
| Effects | Lost leads and opportunities; huge paper and printing costs; most energy and money being spent on manual processes | Well-defined contact management efforts. However, inefficient communication and collaboration between team members. | Well-defined franchise sales processes. Sales team focuses on building the relationship rather than processing paper. |
| Financials | Collect royalties every month Wait for the franchisees emailed report / faxed report and the check Manually enter them into the local accounting system and have a staff of 3 call-up delinquents Little information on category sales or item-wise breakdown Non-networked cash-registers 2 month long reporting cycle | Collect Royalties weekly Mostly Electronic Reports Custom software for data import into accounting system Pre-defined excel reports for sales data analysis POS Polling enabled | Electronic Funds Transfer (EFT) with a daily to weekly collection schedule Real-Time Data Collection and reporting Complete Analysis of item sales and marketing events Seamless integration with accounting systems |
| Effects | Huge expenses on manual | Well-defined financial | Streamline and |

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|---------------------|---|---|---|
| | processes. Little or late knowledge of franchisee performance. Poor cash flow. Sales reported and royalties paid are often non-accurate. | processes. Reduced number of manual process. Fair idea of category sales. | efficient financials processes. Automated fund collection. Excellent cash flow. |
| Franchisee Support | <ul style="list-style-type: none"> <input type="checkbox"/> Provide phone based and field support <input type="checkbox"/> Send out regular paper based updates to franchisees; Provide an Intranet with franchise manuals <input type="checkbox"/> Provide start-up training and annual training at conventions <input type="checkbox"/> Quarterly or Annual updates to franchisees on sales performance <input type="checkbox"/> Paper based reports for field managers and QA staff | <ul style="list-style-type: none"> <input type="checkbox"/> Provide Internet based support to supplant phone based support <input type="checkbox"/> Provide an interactive Intranet with regular content updates, alerts, messaging, etc <input type="checkbox"/> Organize regular training sessions and online course materials <input type="checkbox"/> Scanned reports or basic reports provided through the Intranet <input type="checkbox"/> Online forms for field managers and QA staff | <ul style="list-style-type: none"> <input type="checkbox"/> Provide a help-desk system to co-ordinate all support activities <input type="checkbox"/> Provide content management and collaboration tools to franchisees (chat, bulletin boards, instant messaging, polling) <input type="checkbox"/> Provide regular web-casts and an online learning management system <input type="checkbox"/> A real-time reporting framework that allows franchisees to view their performance and sales data <input type="checkbox"/> PDA based forms that directly get transmitted to HQ |
| Effects | Ineffective support infrastructure; Huge paper and print costs; ineffective training of franchisees to maintain consistent customer experience; Little collaboration among franchisees | Good support framework; Little or no paper and print costs; Continuous training | 24/7 support system; Enhanced collaboration among franchisees; Continuous training; Real-time feedback on franchisee performance |
| Customer Management | <ul style="list-style-type: none"> <input type="checkbox"/> Franchisees have none or basic homegrown tools for customer management <input type="checkbox"/> HQ has no information about the franchisees customers | <ul style="list-style-type: none"> <input type="checkbox"/> Standard contact management tools/ accounting systems used for managing customer | <ul style="list-style-type: none"> <input type="checkbox"/> Internet based customer management tools allowing easy upgrades and streamlined |

| | | | |
|---------|--|--|--|
| | <ul style="list-style-type: none"> ❑ Ad-hoc lead marketing efforts by franchisees ❑ Little information on customer behavior or the most valuable customers | information <ul style="list-style-type: none"> ❑ HQ has no information about customers ❑ National marketing campaign co-ordination ❑ Basic trend analysis | marketing <ul style="list-style-type: none"> ❑ HQ has complete knowledge of the customers across the entire system ❑ National marketing campaigns; Internet based postal and email campaigns ❑ Complete analysis of customer behavior and knowledge of the most valuable customers. |
| Effects | Lost leads, customers and revenues | Good customer relationships. | Happy customers and improved revenues and profitability; Resale of the franchise becomes more valuable |

Large Franchise Organizations

Larger organizations face a different challenge because of their long established processes and culture and a multitude of departments. Achieving operational excellence, efficiency and profitability in such organizations is directly dependent on the founder or CEO's vision and their focus on implementing solutions that enhance productivity. Given the size of large organizations, even simple solutions can provide huge savings. However, the change and the transformation have to begin from the top.

The challenge is to define measurable steps across all departments within the organization and then implement solutions that provide the best value for money. e.g. upgrading the POS systems across the entire organization to provide better feedback on sales or financials might be extremely expensive and without a proper marketing strategy behind it may not provide the proper benefits. On the other hand, eliminating all the paper associated with supporting franchisees, ranging from collection of field reports, monthly sales reports, paper checks etc to total electronic communications and record keeping may cost very little and yet provide huge benefits. Similarly, automating the sales processes may save a bundle on paper and postage while provide a better filtering of leads.

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Define the holistic strategy – The ideal situation where you would like to be in 3 years. e.g. you may want to select some of the goals from the top 5% column in figure 1 and then start defining the savings and efficiencies from each of these processes. Another key aspect to look into is the underlying infrastructure that integrates processes across the entire organization. e.g. Information from the sales system should seamlessly move to the franchisee information

database, which in turn needs to integrate with the financial system so that you can pull-out real-time reports on franchisee performance, category sales, etc. Similarly, providing franchisees with tools that allow them to manage their operations, marketing efforts and customers while giving them feedback on their performance may do wonders for improving system revenue.

So what's the price for change?

While changing existing process is always hard, and based on how it is implemented, can require some investment, the price for not changing can be immeasurable. Non-optimized and streamlined processes can significantly reduce the profitability, making less money available for system growth and improved customer service. The result is a vicious cycle, which often results in franchise systems remaining stagnant for quite some time.

On the other hand, by being smart about applications and technology tools and with a nominal upfront investment, franchise organization can remove inefficiencies associated with manual processes and focus all their energies on adding new franchisees, improving customer relations and enhancing revenues and profits.