Franchise Case Study

by

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Problem Statement

A franchisor approached Accord Management Systems when they realized there was a clear disparity in the level of royalties generated by their franchise owners, ranging from $52,000 per year for top performers to $6,500 per year for poor performers. All of their franchise owners paid the same franchise fee, had the same level of training and support, and had locations that were considered relatively equal. The disparity in royalties was so striking, however, that the franchisor stratified their franchise owners into six groups based upon financial performance levels.

The franchisor wanted greater insight into the underlying reasons for these differences in financial performance, so that they could devise programs to help increase the performance of existing franchise owners, and, if possible, to predict with a greater degree of accuracy how their franchise prospects would perform. The franchisor asked us to study their franchise owners to identify factors that might cause this disparity, and to help them design a program to alleviate the problem.

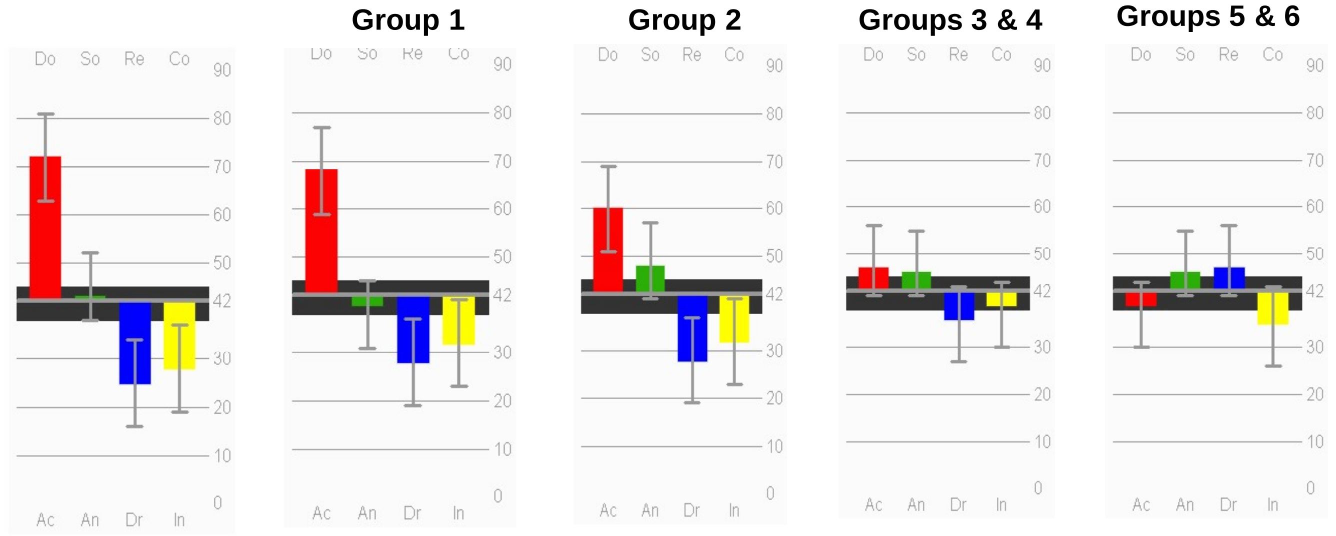
Approach

The first intervention we made was to look at the behavioral profile (personality) of their franchise owners. We created four composite profiles based on the six different groups. We then created a custom-designed **Franchise Owner Opinion Survey** (Engagement Survey), which we stratified to reflect the performance of each group. We then analyzed results based upon the entire base of franchise owners as well as by each group designated by the franchisor. This allowed us to compare each group, and to understand the differences between each other, as well as to the entire set of franchise owners.

The **Franchise Owner Opinion Survey** probed the opinions of each franchise owner based upon 63 detailed opinion and operational questions. Its purpose was to help the franchisor understand how to better improve the performance of their franchise owners on a group by group basis.

Findings

There were three major components to our findings (see the graph entitled "Engagement Survey of a Leading Franchisor" on page 2). First, we found very little variation between the profiles of the members of each group, so that it was very easy to create a composite profile. In fact, groups 3 & 4, and 5 & 6 were consolidated because there was little variation in their profiles. Second, we found a high correlation between the financial performance of each group and its composite profile in relationship to what is considered the optimal franchise owner profile (see graph of "Ideal Franchisee" on page 2). Third, we determined that there were clear steps that the franchisor could take to improve overall performance, and to improve the performance of the specific groups. The profiles are summarized on the following page:



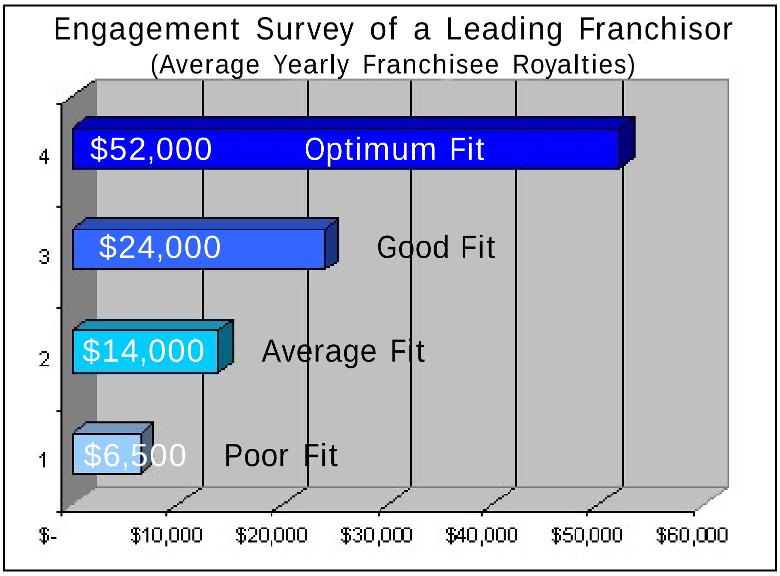
Ideal CEO/Franchisee | **Optimum Franchisee** | **Good Franchisee** | **Average Franchisee** | **Poor Franchisee**

Behavioral Profiles

The behavioral profiles were determined using the McQuaig "Word Survey"™ behavioral assessment. The survey analyzes behavior based upon four factors: dominance, sociability, relaxation, and compliance. Ideal franchise owners typically have what is called a "generalist" profile where they have a tendency to be focused on results, pressure-oriented, high energy, logical, and tough, but fair. Generalist profiles always have a higher than average dominance (above 42 on the scale). The composite for the "optimum franchise owner" profile was almost identical to the profile of an ideal CEO. The "good" profile was close to that of an ideal CEO, but had slightly less dominance and slightly more sociability, which typically meant that they weren't quite as focused on results, and were often more concerned with being liked, at the expense of getting results.

As the amount of royalties decreased by group, we found that the composite profiles diverged further from that of an ideal franchise owner to more of a bookkeeper. For example, the people with the worst financial performance had "specialist" profiles where they liked to have set routines, and were patient, careful in performing their tasks, analytical, task-oriented, and risk-averse. Specialists have below average dominance, and typically have both their relaxation and compliance higher than their dominance. While this profile is well-suited to many jobs in our society, including highly-skilled jobs, such as a surgeon, engineer, or police officer, people with specialist profiles are typically not well suited to being CEOs or franchise owners.

The graph, "Engagement Survey of a Leading Franchisor," summarizes the findings of the survey as it relates to royalty generation by the composite behavioral profiles of each group.



Franchise Owner Opinion Survey

The next step was to create a **Franchise Owner Opinion Survey** to look at other factors that could impact the performance and success of the franchise owners. The survey was custom-designed to focus on the relationship and engagement between the franchisor and the franchise owners. We also included questions on support systems and demographics, including tenure, number of locations, and size of the franchise to look at these factors as a predictor of franchise success.

The survey helped the franchisor correct deficiencies, design strategies, set priorities, and establish initiatives to increase the franchise owners' perception of the value of the relationship with the franchisor.

The Results

The correlation that we uncovered between the different personality types and the amount of royalties generated was so strong that the franchisor can now assess the personalities of their prospects, and predict with a high degree of accuracy how well they will perform if selected. This will help remove prospects with a low probability of success if they use behavioral profiling as a screening tool. The franchisor can also provide enhanced training to their new and existing franchisees, so that they are better prepared to take the actions that are required to improve their performance. Of course, there is a trade-off. By using behavioral assessment to screen franchise prospects, a franchisor will have to reject candidates who do not fall within acceptable limits. While this will result in a loss of revenues over the short-term, it will yield far greater revenues over the long-term through increased royalties per franchise owner.

The Action Plan

Some of the key steps the franchisor made were as follows:

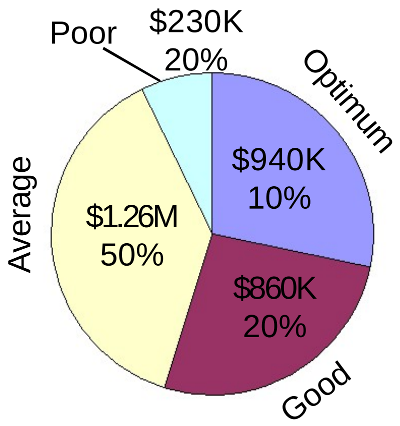
- Include behavioral profiling as part of the selection process for new franchisees
- Create a "Jump Start" program where struggling franchisees use behavioral profiling as a mandatory requirement for selecting their new employees
- Implement training and mentoring programs for existing franchisees to support growth and profitability
- Set up an advisor system so that more successful franchisees can serve as mentors to new and struggling franchisees
- In the future, consider using behavioral profiling as a requirement in their franchise agreement
- Utilize a Franchise Owner Opinion Survey (Engagement Survey), and create a matrix to measure the impact of the various interventions

The Impact

The results of our study have substantial implications for franchisors. Instead of growing strictly by adding any new franchisees who comes along and can fog a mirror, growth can come through improved screening of prospects and by enhanced training of existing franchise owners designed to help them compensate for issues associated with their behavioral profiles. A franchisor that makes incremental improvements in this area can yield substantive financial results, which is shown in the sample action plan on the next page.

Sample Action Plan for Franchisor with 180 Franchisees

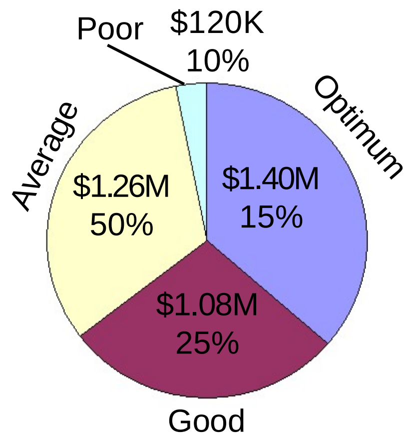
Present Performance



Total: $3.29 million

Here is an example that shows how a franchisor can improve revenues primarily by improving the performance of existing franchise owners. The sample franchisor has 180 franchisees. 10% of them are yielding $52,000 per year, or $936,000 annually. 20% are generating an average of $24,000, or $864,000 annually. 50% are generating an average of $14,000, or $1.26 million annually. The bottom 20% are generating an average of $6,500, or $234,00 annually. As can be seen, there is a substantial gap between optimum and good performers, and poor performers, which leads to a natural strategy of trying to increase optimum and good performers, while decreasing the number of poor performers.

Stage 1 Action Plan

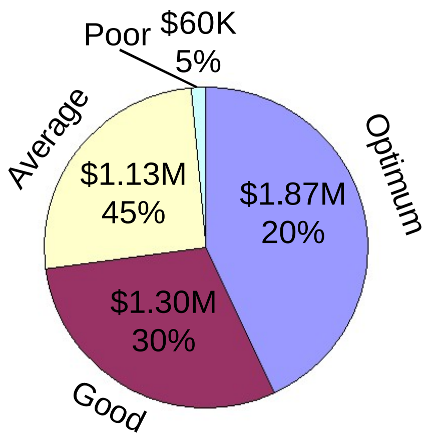


Total: $3.86 million

Increase: 17% or $570,000

In the Stage 1 Action Plan, the Franchisor has a dual strategy. First, increases optimum performers and good performers by 5% each. Second, weed out some poor performers and improve the performance of others, so that poor performers decline to 10% of the total from 20%. The plan is implemented by making the franchisors aware of their profiles, and having them take steps to compensate for their deficiencies. As an example, franchise owners who need to become more aggressive in respect to bottom line results would make a conscious effort to improve in this area. They also should start using profiling in their own hiring. Owners with a specialist profile, for example, should make certain they hire managers with generalist profiles. The franchise owner may also offer buyouts to owners with poor profiles, so that they can bring in owners with a better chance of success. When all is said and done, meeting the improvement goals increase total royalties by $570,000 to $3.86 million from $3.29 million without increasing the number of franchise owners.

Stage 2 Action Plan



Total: $4.36 million

Increase: 13% or $500,000 from Stage 1 and $1.06 million from base

In the Stage 2 Action Plan, the Franchisor continues the process of increasing optimum and good performers, while decreasing poor performers. The strategy is to continue working with franchise owners to work on their own deficiencies, and to also make sure they hire people who have the best chance of success. By continuing the process, the optimum performers and good performers again increase by 5% each, while poor performers drop to only 5% of the total. These improvements increase total royalties by $500,000 from $3.86 million to $4.36 million. In short, without increasing the number of franchisees, royalties increase from $3.29 million to $4.36 million annually simply by working with existing franchisees to improve their performances. Are such improvements unrealistic? We not only believe that they can be achieved, but are already working with a number of franchisors to implement such a plan.
