BIZCOMMUNITY

Why financial benchmarking in franchising is essential

By Eric Parker

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Financial benchmarking runs a financial analysis and compares the findings to other franchises in order to assess the competitiveness, productivity and efficiency of an outlet. It is the process of comparing the performance criteria and business processes of a franchise to other businesses within their trade.

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As a franchisor, you should be fully aware of the financial health of each of your franchisees and have plans in place to maximise their profitability. However, many franchisors do not receive monthly financial reports from their franchisees and are therefore unable to assist them to become more efficient and ultimately profitable.

Some ratios that may be benchmarked include average gross profit percentage achieved in a month, labour as a percentage of sales, rent and other expenses as a percentage of sales. By comparing all franchises in a network, the franchisor will be able to establish what the average norms are and identify where franchisees are underperforming when compared to the norm.

The field service consultant should use the franchisee's previous month's financial reports, as the core of his visit and, by using benchmarking, he/she can point out the areas that need attention. The break-even or loss-making franchisees should be placed in 'Intensive Care', where they receive concentrated assistance from the support team.

Introducing benchmarking into your group

Develop a financial reporting template so that all the income and expenditure statements are submitted in a standard format. In some instances, we need to take the franchisee's financial submissions and convert them to the required format.

1. We then take all the submissions and average them so that we can review the average performance of the group.
2. From the average obtained we develop the model financial performance that we want all franchisees to strive for. This can be broken down to large, medium and small franchisees to provide for the fact that they are at different stages in their lifecycle as a franchise.

This exercise is of immense value as the franchisor is now equipped to call on the franchisees and add considerable value to their businesses.

Advantages of benchmarking

From the franchisee perspective:

• It forces franchisees to obtain monthly financial reports and fully analyse their business
• They can compare their performance to their peers and also the goal performance/ratios
• They can set themselves measurable objectives
• They will believe the franchisor is adding value to their businesses
• Problems can be picked up at an early stage and rectified

From the franchisor perspective:

• You are now fully aware of the performance of your franchisees and can help them to maximise profitability. 'A profitable franchisee is a happy franchisee'
• You can add value to your franchisees
• You can isolate problem franchisees and put them into intensive care
• If you pick up an overall problem in the group eg low margins on a high selling item, you can make the necessary changes

ABOUT ERIC PARKER

Eric Parker is a partner at Franchising Plus.

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