



## Optimizing Franchise Performance

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### Introduction

Are you, the franchisor, satisfied with the performance of all your franchisees<sup>1</sup>? If you're like most franchisors, your response to this question is a resounding "No!"

It's rare for a franchisor to be completely satisfied with the performance of most franchisees. Too often, franchisees implement only portions of the franchisor's system, take significantly longer to develop than expected and consistently fall short of financial expectations. In extreme cases, under-performing franchisees create customer dissatisfaction problems that tarnish the entire organization and become disruptive, communicating their dissatisfaction to other franchisees and undermining efforts to attract new franchisees. Under-performing franchisees are a significant problem for a franchisor.

Conversely, high performing franchisees are a tremendous benefit for franchisors. Not only do high performers generate a disproportionate amount of revenues and profits, they are tremendous proof that the franchise system works, thereby facilitating more franchise sales.

This article presents an approach for optimizing franchise performance by increasing the franchisee's ability to operate successfully. More specifically, it discusses the crucial role of the franchisor's 'system' in both promoting franchise sales and franchisee success. It then presents an approach using Digital Coaching Technology (a computer-based system that uses the experience of top performing franchisees to 'coach' new and under-performing franchisees to better utilize and more quickly implement the franchisor's system) to consistently improve franchisee performance. As a result of using Digital Coaching Technology (DCT), franchise organizations have seen a significant improvement in morale and financial performance such as:

- 10% increase in sales in six weeks
- A 10X increase in return on franchisee investment in 2 years

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<sup>1</sup> While we use the terms 'franchisors' and 'franchisees' throughout this article, these same concepts can be applied to similar relationships between your company and other non-employee sales and service providers such as dealers, distributors, or agents.

## It's the System!

The core of any franchisor-franchisee relationship is the franchisor's 'system' for developing and operating a franchise. Effective franchisors have a consistent, repeatable system for operating a franchise. It is designed to produce franchisee success *even if the franchisee knows little about running a business in general or that type of business in particular*. This system usually consists of a comprehensive set of specific guidelines for everything from selecting the best real estate to hiring staff to keeping financial records. As such, franchisors are selling a formula for business success, regardless of the type of business. As one franchisor put it, "I am selling certainty of success. Even if I can't guarantee a specific financial result, I can show that there is a system that has been consistently successful." By religiously following the franchisor's system, any franchisee can be completely successful in operating the franchise.

The predictability of the franchisor's system is, of course, the primary attraction for a potential franchisee. By following the franchisor's system, a franchisee can reasonably expect to become a successful, financially independent businessperson, without the risks of creating a wholly new enterprise. In many cases, the franchisee sees the franchise as a means of realizing some deep underlying dream such as living in a particular place, traveling to exotic locations or simply 'escaping the corporate world.' Thus, buying a franchise is often seen as a relatively low-risk means of achieving a larger personal dream.

The system allows the franchisor to grow by both attracting new franchisees and by enabling each new franchisee to be consistently successful. Thus, the system is the essential foundation of the franchisor-franchisee relationship.

## The Franchise Honeymoon Ends

Not surprisingly, after the franchisee decides to invest and is accepted by the franchisor, there is a period of strong mutual satisfaction and commitment. Both franchisor and franchisee are excited about the new relationship and work hard to make it successful.

But as any franchisor or long-term franchisee will tell you, developing and managing a great franchise is difficult. In spite of intensive communication, substantial work and good intentions, progress is often slower and more difficult than desired or expected, leading to frustration and conflict. Too often, franchisors, in their dissatisfaction, consider terminating the franchise and, as Professor Ye-sho Chen of Louisiana State University has documented franchisees frequently become overtly rebellious, withholding royalty payments and disrupting franchisor progress (See Chen, Y., Hammerstein, S. and Justis, R, 2002). What has gone wrong?

Although there may be multiple underlying causes of these difficulties, the single most critical cause seems to be a breakdown in application of the system by the

franchisees. Both franchisor and franchisee are relying on the system, but the system isn't working, which leads to conflict.

Typically, a franchise system breaks down for one or more of the following reasons:

- The franchisee doesn't understand the system well enough to apply it
- The franchisee resists the discipline of the system
- The system itself is flawed

In many cases, all three of these causes occur, compounding the problem.

### **Learning the Franchisor System**

The better franchisors provide three distinct forms of franchisee training including:

- Several weeks of formal training in a classroom setting
- Several weeks of working in a "training" franchise
- Several more weeks of on-site support by a franchisor field support person, often called a field consultant

The focus of all the training is usually a dense binder of operating procedures. This 'operating Manual' is the heart of the franchisor system, documenting many aspects of how to develop and operate the franchise. The presumption is that any franchisee that follows the operating manual quite literally will be successful in developing and managing the franchise.

However, as anyone who has been through franchisee training will tell you, the operating manual is often so large and complex that it is difficult to assimilate effectively. The classroom training, while valuable, is typically quite overwhelming. There is just too much content to absorb in the training time available and, lacking actual experience with operating a franchise prior to the classroom training, franchisees often have difficulty translating the manual-based procedures into practice. As a result, the system is only partially learned.

Similarly, the live work in a training franchise, while a useful addition to the classroom training, often introduces conflicts with the operating manual. For example, we frequently hear franchisee trainers make statements such as: "Yes, the manual says that, but here is what we really do." Such statements, usually made with the best of intention, subtly undermine confidence in the manual-based processes and, ultimately, in the franchisor's system. After all, how is the new franchisee supposed to know which is more accurate, the personal coaching

or the operations manual? Our experience has shown that in most cases the new franchisee will give greater weight to the personal coaching because it is realistic and practical.

Finally, the live training experience is followed by some on-site support from a field consultant (FC). This too is a good extension of the classroom and training franchise experiences, but introduces many of the same problems as in the training franchise. More elements of “Here is how we really do it” are introduced, creating more deviations from the manual. Furthermore, after the initial on-site support, the FC has moved on to another new franchisee and has only limited time to provide further, follow-up learning.

In the best of circumstances, where all three forms of training occur, the support in the training franchise and from the FC are highly consistent with the manual and the manual is complete, the new franchisee has a tremendous amount to assimilate in a very short period of time. Furthermore, even if all of these experiences are exceptionally effective, running a franchise on your own, with minimal additional support, is very different from being under someone else’s supervision and ‘protection.’ Does the franchisee say to an employee or customer with an urgent problem: “Would you wait a minute while I go check my manual?” This is not a practical response. The sense of personal responsibility is huge and the density of the manual becomes frightening. It is easy to understand how a franchisee might have difficulty learning and applying all of the franchisor’s system.

### **Resisting the System**

All of the above assumes that a franchisee is actually willing to apply the system as it is defined by the franchisor. After all, the system is one of the main reasons for investing in a franchise.

But franchisees are also entrepreneurs and, as entrepreneurs, they are sometimes resistant to the discipline that the franchisor’s system requires. Paradoxically, the system that makes franchising attractive is also something they resist. As one franchisee put it, “Yes there is a system, but I can always find ways to make it work better.” Similarly, franchisees are often convinced that their markets are so unique that the ‘one-size-fits-all’ franchisor’s system doesn’t really fit their particular situation. We often hear franchisees saying, “My market is different. They (the franchisor) don’t know my market like I do.” In their constant efforts to make the system ‘better,’ they can sometimes deviate so significantly from the system that they undermine its effectiveness. From the franchisor perspective, getting franchisees to systematically maintain the discipline of the system is a little like herding cats. The franchisor tries to provide leadership, focus and direction, but the franchisees still scatter in every direction. Thus, even if a franchisee completely learns the system, they may not fully apply it.

## **The System is Flawed**

Of course, if the system is in any way incomplete or incorrect, even if the franchisee learns it and strictly follows it, the franchisee may not be able produce the desired result. The frequently heard “this is how we really do it” discussed earlier suggests that too often the franchisor’s system needs significant additions or corrections to make it more effective.

Our research suggests that the primary problem with a typical franchisor’s system is that it is too much about operating procedures and not enough about the judgements and tradeoffs required to effectively manage a franchise. That is, the system, particularly as it is presented in the manual, is complete and accurate for what it presents, but is missing the subtlety and nuance required to successfully manage the franchise. Consequently, the new franchisee is forced to make too many judgement and interpretations about what the manual actually means, creating too many opportunities for deviation. Thus, the typical franchisor’s system is a solid foundation for success, but is not sufficiently complete to fully achieve success.

Why is such essential information about operating a franchise missing from a typical manual? In most cases, the operating manual is initially created directly from the franchisor’s first-hand experience in developing and managing the franchise. In addition, for the first few franchisees, the franchisor has the time, energy and resources to intensively support them, thereby covering any missing pieces with their personal coaching. However, in our work with early franchisors, it is clear that the franchisor’s unconscious competence in many areas plays a key role in early franchisee success. Consequently, many early franchisors do not completely understand what it is they do that creates success.

As the franchise grows, the knowledge required to be a successful franchisee must be standardized to serve many more franchisees in many different situations and, as a result it becomes more organized, rigid and “official” (See [Harvesting the Expert’s Secret Sauce](#), Seidman and McCauley, 2003). Standardization into manuals and training courses using traditional means of development frequently misses the areas of unconscious competence and communication so critical for success. As a result, what was once as straightforward as: “We just tell them to do it (manage the franchise). It is so simple,” no longer works because many of the subtleties have been lost. In the sense of having insufficient subtle knowledge, most franchisor systems are incomplete.

When any of these conditions occur, the franchise honeymoon ends, conflict emerges and neither party’s goals are met.

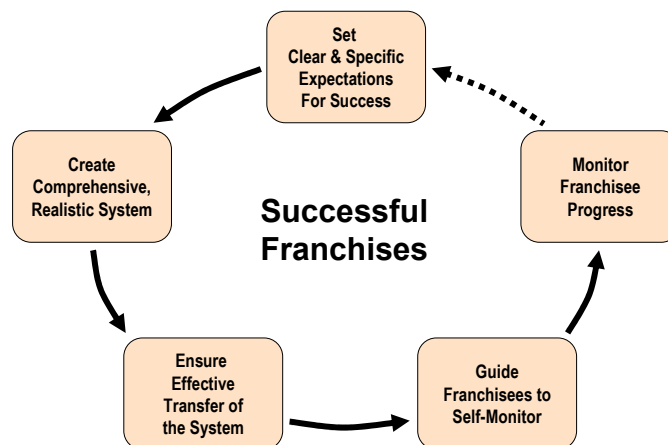
## **Making the System Work**

What can a franchisor do to ensure that none of these conditions occur?

There are five steps (Figure 1) required for a franchisor to ensure the effective application of the system by the franchisee. The franchisor must:

1. Set a clear and specific expectation that the franchisee will take the time to plan for the successful implementation and use of the system
2. Create a comprehensive, realistic effective system
3. Ensure the effective transfer of the system to the franchisee
4. Guide the franchisee to self-monitor the progress
5. Carefully monitor the progress of the franchisee's implementation of the system

All five of these elements are required for success. While most franchisors have some or all of these elements, the frequent problems with the franchisor-franchisee relationship suggest that steps are consistently missing or incompletely executed. Digital Coaching Technology (DCT) has been successfully applied in the franchise environment to ensure that a franchisor completely and effectively executes all of these steps with every new and/or underperforming franchisee.



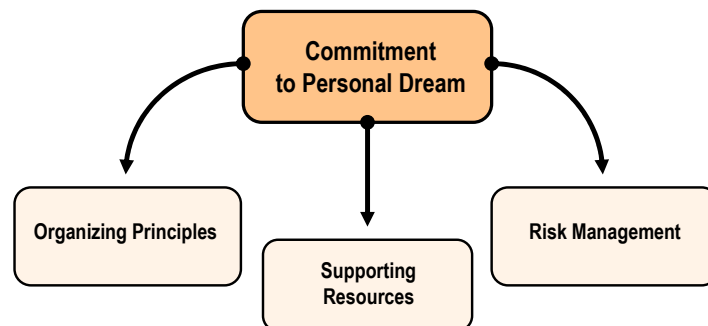
**Figure 1: Steps to Franchise Success**

It is, of course, critical that the franchisor be clear in their expectations that the franchisee develop and follow a systematic, written action plan for implementing and using the system. Such planning causes the franchisee to better learn the system and proactively address many of the issues that might otherwise disrupt its use. DCT provides the franchisor with a screen that shows which franchisees have a plan for franchise success and which are approaching development of their franchise in a more ad hoc manner. This allows the franchisor to intervene quickly if the franchisee isn't planning sufficiently.

It is also critical that the franchisor ensure that their system is complete and correct. While all franchisors have a system, as discussed above, its sophistication and comprehensiveness is likely to lag at least a little behind their growth and, in some cases, may be substantially out-of-date. Anything less than a comprehensive, realistic and effective system undermines the value of both the training and the system's discipline. In order for the franchisor to be successful, the system must include the 'real' story of what it takes to develop and manage a successful franchise, not just the 'official' story.

DCT's knowledge harvesting capability generates a comprehensive, detailed version of the most successful applications of the franchisor's system. More specifically, DCT knowledge harvesting enables a franchisor to comprehensively gather the 'real story' of how to operate a successful franchise from the franchisor's personnel responsible for operational leadership and the franchisees who actually operate successful locations. This can be gathered from as few as 6-8 highly respected, franchisor people and top-performing franchisees in as little as three days. The real story includes (Figure 2):

- The franchisee's mental model including the importance of the personal dream and the relationship between the dream and the system
- The primary organizing principles of the system including major phases, specific understandings and tasks, roles and responsibilities, and typical growth schedules
- Risk Management including risk detection and appropriate responses to problem conditions
- Optimal use of the franchisor's supporting resources such as operations manuals, training and field consultants



**Figure 2: Structure of Top Franchisee Knowledge**

Because the content generated during DCT knowledge harvesting is extremely detailed, comprehensive and realistic (e.g. it can get as specific as where to stand during rush times to maximize sales or what a specific odor means), and because

it came from highly respected franchisees, both franchisor and franchisee are always confident that it truly is the best system for creating sustained franchise success. (See Harvesting the Experts' Secret Sauce, Seidman and McCauley, 2003 for a complete description of knowledge harvesting.)

Once the knowledge is gathered, it must be efficiently transferred. However, before the specific content can be transferred, the franchisee must be motivated to accept the discipline of the system. If the franchisee is resistant to the system, it won't be learned or used.

DCT addresses the motivation issue with its guided coaching capability, particularly the first component, "coaching for engagement." During coaching for engagement, the franchisee is guided to articulate their underlying motivation for investing in a franchise in a way that reinforces the importance of the motivation and connects it to the franchisor's system. As a result, the franchisor's system is seen as a means of achieving a personal dream, which is a powerful motivator. Furthermore, because the system came from highly respected people, it is seen as realistic to expect to achieve the dream using the system. Once the franchisees understand their real motivation and view the franchisor's system as the means of achieving their dream they learn quickly and apply the system with complete discipline. (See 8 Minutes to Performance Improvement, Seidman and McCauley, 2003 for a complete description of coaching for engagement.)

DCT transfers detailed knowledge of the franchisor system through "coaching for organization." During coaching for organization, the franchisee is guided to understand, in great detail, all of the specific components and steps in the system; when they are applied, who does them and how to do them. Emulating the behaviors of a great personal coach, DCT organizes and simplifies the presentation of the franchisor system, making it easy for the franchisee to learn. Typically, the franchisee can use DCT to learn and apply the system to their own situation in as little as 2-3 hours, even without formal training in DCT or the knowledge of the particular type of business. After this period of DCT coaching, the franchisee is completely committed to developing, managing and growing a great franchise and has a comprehensive action plan, based on the expert knowledge required for success. (See The Performance Improvement Multiplier, Seidman and McCauley, 2003 for a complete description of coaching for organization.)

Thus, franchisees tend to quickly accept and initially follow the franchisor's system developed and coached through DCT because the system has great credibility and it is presented as a means for directly achieving the franchisee's personal dream. The franchisee becomes highly motivated to learn and follow the system.

But following the system in the face of daily pressures is a further challenge to franchisee success. Even if the franchisee is highly motivated to learn the system, applying it when there is a constant barrage of problems, such as staff no-shows

and equipment failures, can be difficult. There are many forces that undermine effective implementation of the system. It is, therefore, essential that the focus on the system be maintained in spite of these diversions.

DCT helps the franchisee maintain their focus by simulating how a great coach follows-up on one of their people, asking frequently for feedback and status, and providing support. When posed correctly, these follow-up questions cause the franchisee to reflect, even if only momentarily, on their progress in implementing the franchisor's system. In turn, this DCT guided self-monitoring causes the franchisee to stay focused on their real goals and the importance of the system to achieving these goals. Using DCT, this follow-up and reflection process only requires about 3-4 minutes per week for each franchisee.

Finally, if the franchisor doesn't regularly and systematically follow-up on the franchisee's use of the system, the franchisee will quickly perceive that the franchisor doesn't really care what happens to them or the system. This opens the door for a wide variety of deviations from the system, with all the usual problems.

DCT addresses this by automatically sending the franchisee's self-monitoring responses to the FC and/or franchisor headquarters. In one simple screen, the franchisor can see how recently the franchisees have completed their self-monitor sessions, how they are progressing in the implementation of the system and if they are encountering any of the previously defined risks to their success. This entire process requires about 90 seconds per week for the franchisor to review and enables the franchisor to optimize the impact of their FCs in supporting the franchisee. It also communicates quite clearly to the franchisee that the franchisor is serious about the earlier expectation of following the system. (See [The Performance Improvement Multiplier](#), Seidman and McCauley, 2003 for a complete description of these sustaining behaviors.)

Thus, franchisees are operating in a completely closed-loop system that ensures predictable success. It begins with clear expectations from the franchisor and concludes with their continuous follow-up. Throughout the process the franchisee is guided and supported to optimize the performance of the system, usually with less franchisor support than was previously required.

## **Plateaus**

While the primary franchisor-franchisee issues occur early in the relationship as a result of franchisee difficulties at implementing the franchisor system, another period of conflict can occur when a franchisee achieves sustained success and/or the competitive environment changes. Often, highly successful franchisees are making more money than they ever imagined possible, are not very aggressive at generating further growth and are slow to respond to changes in their environment. As a result, franchisees reach 'growth plateaus,' which, of course, cause franchisor growth to plateau as well. Not surprising, the franchisor's

investors generally become unhappy when the franchisor gets stuck on a growth plateau.

How can a franchisor continue to grow their business if a high portion of their franchisees are on plateaus and are not particularly motivated to move beyond their plateaus?

This situation exists, in part, because for the franchisee, progressing almost always means changing much of what is already working. Typically, franchisors' systems only cover an initial development phase and do not address growth after initial success. As a result, the initial system that produced great initial success becomes a barrier to further growth because the old system must be enhanced to create a new, more advanced system, before growth can resume. It is difficult to convince any one to stop doing something that is successful in order to try something new.

Franchisors can address the plateau problem by using a variation of the DCT methodology. First, the franchisor must develop and offer a more advanced system for franchise growth. This system must create as predictable an opportunity for success as the original system, but it must start from the assumption of substantial franchise experience and it must account for what is most likely a different competitive environment than before.

DCT's knowledge harvesting process can be directly applied to this problem. By assembling and harvesting the expertise of the most forward-thinking franchisor staff and franchisees that have already grown beyond the plateau, a franchisor can develop the next level of their system. These advanced systems often include strategies for adding new units (as occurred with a hearing aid franchise), changing local marketing strategies (as occurred with a group of insurance agents), and/or automating operational processes (as occurred with a quick service chain). The advanced growth system, using DCT, gives the franchisee the knowledge they need to grow, when they need it.

Second, the franchisor must motivate the franchisee to want to grow again. Naturally, the franchisee's dream is the key. Do you think that the franchisee's every dream has been fulfilled? Even though the franchisee may have achieved their initial dream, there is always another one, requiring more money and therefore more franchise success. Franchisees stuck at a plateau usually have forgotten the importance of their dreams (note the plural) and the relationship between their dreams and franchise success. By using DCT coaching for engagement again the franchisee's dreams are revived and the relationship between the dreams and the franchise performance is reinforced. This even works if the franchisee is close to retiring or selling-out, because there is always a dream underlying the desire to exit the franchise. Their retiring franchisee may want to increase the value for their children or ensure a comfortable retirement. The franchisee becomes re-motivated to grow because a larger, more successful, proven franchise is worth more to everyone.

Naturally, all of the other DCT elements that promote success then come into play. Coaching for organization guides the franchisee to understand and apply the new, more advanced system, self-monitoring maintains their focus and franchisor monitoring enables quick and effective support. Thus, in many environments, the franchisor plateau is only a short pause in growth.

## Summary

Would you, the franchisor, be satisfied if every one of your franchisees was deeply motivated to use your system and continuously grow? We think the answer is a resounding “yes!” By following the five steps for effectively developing and implementing your system, and developing an advanced system for successful franchisees, you can substantially improve the productivity of current and new franchisees, thereby attracting more franchisees and increasing your royalty stream.

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