



# Optimizing Franchise Performance

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## Introduction

Are you, the franchisor, satisfied with the performance of all your franchisees? 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 based on recent scientific breakthroughs that consistently and systematically increases 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. As a result of new methodology, franchise organizations have seen a significant improvement in morale and financial performance such as:

- A women's apparel chain increased sales 10% in six weeks
- 15% increase in net policy count for independent insurance agents in six months
- A quick service restaurant chain paid off their investment in the methodology in 4 weeks



## 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 moves 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 experience 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 judgements 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.

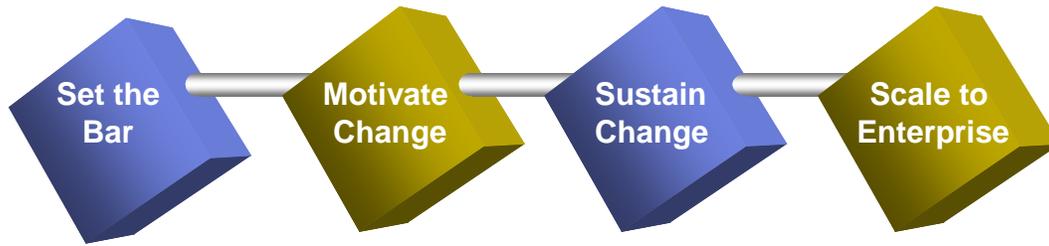
As the franchise organization grows, the knowledge required to be a successful franchisee must be standardized to serve many more franchisees in many different situations and, as a result it becomes more organized, rigid and "official." Standardization into manuals and training courses using traditional 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?

Recent scientific breakthroughs in the areas of positive deviance, fair process, neuroscience and mass customization, as well as the emergence of a new technology (persuasive technology), give franchisors new and particularly powerful tools that ensure the effective application of the system by the franchisee. This new science has led to the development of a 4-step change model (Figure 1) that consistently produces extraordinary franchisee performance.



**Figure 1: Steps to Franchise Success**

### **Set-the-Bar for Franchisee Excellence**

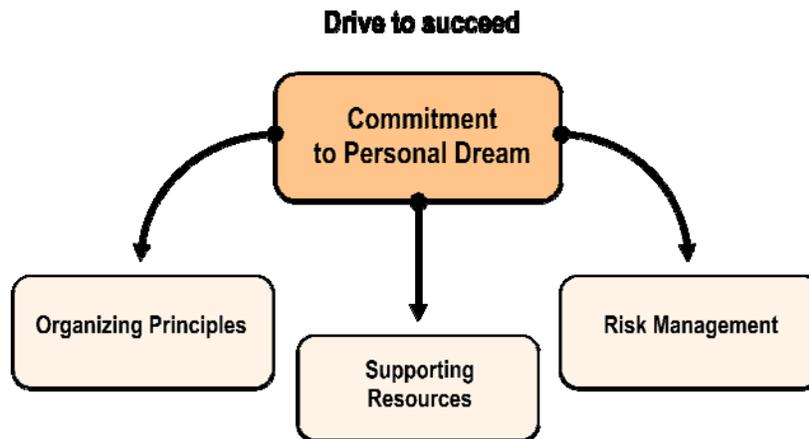
Franchisee success is directly dependent on the quality of the franchisor's system so it is critical that the franchisor system is complete, easily understood and effective. While all franchisors have a system, as discussed above, its sophistication and comprehensiveness often lags at least a little 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.

The best way to develop a great, widely accepted system is to combine the broad knowledge of top franchisor personnel who work directly with franchisees with the expertise of "positive deviant" franchisees. Positive deviants are the franchisees that consistently and systematically outperform the others. As such, the positive deviants have a disproportionate amount of the true "tribal wisdom" of the organization. They, more than any others, know how to make the system work. By combining the best of both the franchisor and franchisee perspectives the system will encompass the 'real' story of what it takes to develop and manage a successful franchise. Using the positive deviants and producing a real story produces instant credibility and acceptance with other franchisees.

A simple, 3-day "Wisdom Discovery" workshop with the franchisor and 8-10 positive deviant franchisees can generate a comprehensive, detailed version of the most successful applications of the franchisor's system. This realistic definition of the well-proven franchisor system typically 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, or "big steps," for how to understand and use the system (with supporting details about the meaning and desired outcomes of the step)
- The learning and operational experiences they had that taught them optimum use of the system (including effective use of the franchisor's supporting resources such as operations manuals, training and field consultants)

- Risk Management including risk detection and appropriate responses to problem conditions



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

Because the content generated during wisdom discovery 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. As a franchisee in a carpet chain put it: “Whoever put this together really knows what it is like to be a franchisee.”

### **Motivating the Franchisee**

As anyone who has worked with franchisees knows, their entrepreneurial spirit can sometimes make them resistant to completely adopting the franchisor’s system. Motivating franchisees to proactively embrace the entire system is critical for both franchisee and franchisor success.

In this methodology, franchisees are almost immediately motivated to embrace the system because the positive deviants that generated the best practices are highly respected peers – not corporate or outside consultants. For example, when the vice-president of an insurance company introduced a significant change to agency operations and sales by naming the positive deviants who created the program, the group of previously hostile agents leaned forward and asked “What did they say?” They were instantly interested because the best practices came from people they respected.

In addition, recent breakthroughs in fair process and the neuroscience of positive visualization give franchisors the ability to significantly increase franchisee willingness to whole-heartedly adopt the franchisor system. Fair process research shows that treating a franchisee in a way that



increases their personal sense of honor and dignity promotes willingness to use the full franchisor system. Conversely, learning and management approaches that diminish their self-esteem, such as occurs with strongly compliance focused methods, creates resistance to change.

When the franchisor provides the franchisee with an opportunity to interact with the positive deviant's vision of the possibilities created by being a franchisee – particularly the focus on using the franchise as a means to achieve a personal dream -- the franchisee feels honored that they are expected to be as effective as the positive deviants. In sharp contrast to the compliance approach used by many franchisors, franchisor overt support for the franchisees' greatness and personal dream contributes to creating extraordinary franchisee performance.

The effects of fair process are further reinforced by applying some of the learnings from recent neuroscience research on the power of positive visualization on motivation. Neuroscience has shown that people who see themselves in positive terms, such as being as successful as the positive deviants, experience a release of chemicals in the brain (called a "dopamine squirt") that significantly enhance people's openness to new ideas and ability to learn. Furthermore, research has shown that when these positive images are written down and discussed with a small group of peers neural resources are transferred from fear centers in the brain to portions of the brain associated with a sense of empowerment, suppressing resistance to the best practices, and still more neural chemicals are released that further promote learning. When all of these occur together, there is an obvious spike in the franchisees willingness to embrace and use the franchisor system.

A simple, effective process called "Group Coaching" has been developed that systematically applies this science to franchises development. Group coaching, which is usually led by the FC or equivalent, is a short (6-hour) structured discussion of the positive deviant wisdom with a small group of franchisees. During the session the franchisees review key aspects of the positive deviant purpose, especially the focus on the personal dream, discuss it and write their own purpose. As a result, the franchisor's system is seen as a means of achieving a personal dream, which is a powerful motivator.

In addition, during the initial group coaching, the franchisee is guided to understand, at a high level, all of the major components and steps in the system; when they are applied, who does them and how to do them. Finally, they develop a specific work plan for how they are going to further develop their capabilities. At the end of the group coaching session, franchisees are always highly motivated to completely adopt the franchisor system, though they usually still wonder how it will truly work out.

### **Sustaining Franchisee Performance**

In order to completely internalize the franchisors system, franchisees must consistently practice the desired attitudes and behaviors. However, franchisees have many pressures on them and



can be easily distracted from a focused effort to become great. In order to be effective for franchisees, the practice exercises must be real, obviously valuable and short. Recent breakthroughs in the neuroscience of learning have provided methods for creating learning activities highly tuned to the franchisee environment.

Neuroscience research has shown that the fundamental basis of all learning is “neurons that fire together wire together.” When people learn something, their neurons pack together more tightly, until they are very closely packed, forming what is commonly called a “habit.” The best way to create a new habit is short bursts of highly realistic, personalized and applied learning activities over several months (i.e. not long, overwhelming classes filled with Powerpoint slides!). Fortunately for franchisors, science has shown to be the best way to learn in general fits the franchise learning style particularly well.

More specifically, as we described above, one of the components of positive deviant wisdom is a list of the experiences they had that taught them how to optimize use of the franchisor system. This list of real experiences is easily converted into a series of short (1-hour), simple learning activities, each of which is designed to proactively provide the learning franchisee with experiences similar to the positive deviants. From this list, each week, the group has a short “homework assignment” that is usually a combination of:

- A specific informational stimulus, such as watching a video of a positive deviant talking about a relevant topic (e.g. creating long-term employees), reading an article or reviewing a section of the operating manual
- An analysis assignment such as “identify 3 learnings from the video that could be directly applied to your franchise”
- A application assignment such as “apply these learnings to your franchise”
- A evaluation and reinforcement assignment such as “write an email to a peer about the results of the application assignment (i.e. what happened when they tried the work)”
- Each week, in a continuation of the group coaching, the franchisees share all of the work and learning from these learning tasks, learn from each other, and record the enhanced learnings.

Even though the assignments themselves usually take an hour or less, and the group discussion is only an hour, they are so practical, applied, and consistent with the neuroscience of learning, that the cumulative effective is the franchisee adopting the complete franchisor system. For most franchise organizations, these weekly learning activities span approximately six months and result in 98% of franchisees functioning at the same level as the positive deviants.



## Scaling to Many Franchisees

When franchise organizations are small, many of the above processes can occur informally. But when there are 50 or more franchisees, the franchisor has a much harder time ensuring complete adherence to the system. Here too recent scientific breakthroughs in two areas – mass customization and “persuasive technology” -- give franchisors new tools to ensure extraordinary franchisee performance even if there are thousands of franchises spread around the globe.

Mass customization is a methodology, originally developed by IBM for its manufacturing facilities, that enables mass production of a single unit. It has all of the benefits of mass production, such as economies of scale, quality standards and performance consistency as well as all of the benefits of localization such as flexibility, speed and the ability to adapt to local markets. As such mass customization is ideally suited to the franchise environment where the franchisor requires mass adherence to the system while the franchisee demands unique treatment.

The positive deviant version of the franchisor system is the “mass” component of the program while the drive for local application of the learning is the local, “customization” portion. For example, in a franchised quick service restaurant chain with 1400 restaurants, the purpose and development steps were virtually identical in all of the restaurants (the mass portion) while the learning tasks and specific applications were different by region and restaurant (the customization portion). When done correctly, both perspectives thrive. The franchisor gets what it wants – consistent complete use of the system – and the franchisees get what they want -- significant local autonomy.

A new technology has recently been developed called a “persuasive technology” that makes scaling the system usage much easier for franchisors. Persuasive technology, which has been used with thousands of people in hundreds of organizations, is designed to leverage the positive deviant content, guide the initial group coaching, drive the weekly learning experiences through automatic e-mail prompts and reinforce the internalization by being a repository for the franchisee’s recorded learnings. In a sense, the persuasive technology acts like a great FC who is available to everyone, anywhere no matter how many franchisees there are or where they are located.

Persuasive technology has one other feature that is critical to the franchisor – simple summarization and visibility into franchisee progress, from anywhere in the world to anywhere else in the world. Good persuasive technology enables franchisor executives, regional managers, FCs and others to see the progress of literally every franchisee in their organization at the click of a button. For example, a franchisee based in Louisiana was able to monitor, in real-time, the progress of strategy to develop outlets in China. The executives could see online what each local



operator was learning and doing. This gives franchisors an unprecedented ability to lead their organizations.

Thus, thanks to new science and technology, franchisors can have their franchisees operate in a completely closed-loop system that the franchisees like and ensures everyone's 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 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 anyone 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 methodology presented here. First, the franchisor develops and offers a more advanced system for franchise growth based again on the positive deviants. This system creates as predictable an opportunity for success as the original system, but starts from the assumption of substantial franchise experience and accounts for what is most likely a different competitive environment than before. These are often called "good to great programs."

The Wisdom Discovery process can be applied directly to this problem. By assembling and gathering 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, gives the franchisee the knowledge they need to continue to grow, whenever they are ready for it.

Second, the franchisor must motivate the franchisee to want to grow again. Here too, 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. In this situation, the methodology guides the franchisee to think about and revive the focus on their dreams, re-energizing the relationship between the dreams and the franchise performance. 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. A retiring franchisee will often want to increase the value of the franchise 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 elements in this methodology that promote success then come into play. FC coaching 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 four 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.

## References

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