



WHITE PAPER

NetSuite's Franchisor Add-On Module Serves Streamlined Workflows

For Time-Strapped Restaurant Franchises



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What's the biggest challenge facing franchises today? According to Paul Mangiamele, Owner, Chairman and CEO of Legendary Restaurant Brands LLC, it comes down to a lack of conformity.

"The number one reason for franchise failure, regardless of industry, is that franchisees do not follow the system," said Mangiamele. "They drift further and further away from the core operating philosophy of the franchisor and see constant deterioration of sales and unit-level profitability."

Running a restaurant franchise is a growth methodology, where the franchisor is using the franchisee's investment to grow their brand and standards across a wider demographic. To maintain consistency, it's absolutely necessary for the franchisor to supply a full set of procedures and standards to franchisees.

Franchisors Must Build Trust and Make It Easy to Ensure Consistency

And if consistency is key, the best way to develop it (in addition to providing resources) is to build relationships with franchisees, according to Mangiamele.

There's one missing piece, though. Franchisors can build relationships and deliver ample resources, but if they don't make it easy and straightforward for franchisees to adhere to brand standards, it's an uphill battle. Just ask Mike Smith, former CFO of Garbanzo Mediterranean Fresh.

"At Garbanzo, we required franchisees to report their net sales, prime costs of labor and food costs," said Smith. "But we didn't have a consistent chart of accounts across franchisees, so our financial statements were like comparing apples to oranges."

"Once franchisees have a level of trust with a franchisor, they know that when they receive a remodeling program or menu ideation, those requests have been tested and proved for the incremental benefit of the restaurant."

Paul Mangiamele, Owner, Chairman and CEO,
Legendary Restaurant Brands LLC

Smith also ran into situations like this one: one of his franchise locations appeared to be financially struggling. Although the franchisee was bringing in a high volume of sales, it wasn't clear why that specific location was not profitable.

After digging into the data, Smith found that the restaurant's labor costs were around 40-45%, and abnormally inflated due to a management fee the franchisee was paying himself. He came to the conclusion that this particular location was actually more profitable than others—it just had the strain of the management fee.

Spreadsheets and Disconnected Platforms = Chaos

In order to be profitable, franchisees need to maintain consistency with franchise standards, especially where accounting and other business processes are concerned. They may have a level of trust with the brand and a few tools, but it's not an overwhelmingly straightforward process. A lot happens behind the scenes in manual, disconnected spreadsheets that can't be easily compared when submitted back to the franchisor.

At the same time, franchisors need uniform data sets flowing back from franchisees in order to compare apples to apples and course-correct wherever possible. They don't always have the time to dig into an individual location's high labor costs like Smith did. And they also need the opportunity to spot exceptions quickly. Maybe one franchise is ordering non-logoed cups or another orders produce outside the franchise's distribution chain, both unacceptable practices.

With the [franchise sector making up roughly 3% of U.S. GDP](#) in nominal dollars and growing around 5% per year, the problem will only increase.

So what's the solution? Franchisors need a unified system that seamlessly connects franchisees to standards and procedures, financial inputs, and feedback tools. With everything in one place and a series of uniform processes for franchisees, they can more easily conform to standards and franchisors can provide better support.

NetSuite Restaurant Franchisor Module

In addition to the robust functionality provided by NetSuite for Restaurants, franchisors can now take advantage of NetSuite's Franchisor Add-on Module. Instead of purchasing separate accounting, CRM and project management systems, franchisors can bring all franchisee operations under one central umbrella. Restaurant franchisors can also choose from a variety of other NetSuite add-on modules to support commissary management, advanced revenue recognition and ecommerce.

Franchise Sales Management

One of the key differences between wholly-owned restaurant chains and franchised restaurants is the handling of restaurant sales. Because the franchisee pockets the proceeds, franchisors have restaurant sales on the books that are not cash-posting transactions. A franchisee might have \$10,000 in revenue that the franchisor must declare on sales reporting, but the franchisor never receives cash because it belongs to the franchisee.

Franchisors have long addressed this challenge by requesting sales reporting manually from franchisees or using back-of-house (BOH) systems to track it,

processes that are outside their financial platform. With NetSuite's Franchisor Add-on, franchisors can track franchisee sales in one central location by creating a subsidiary for each franchisee. The franchisor can then report all sales in one place, regardless of cash collections.

Franchise Royalty Management

Franchisors make the bulk of their income from royalties and other fees they charge to franchisees in exchange for the licensing of their products. Ask any franchisor how the fees are structured and they'll give you a different answer. There's no consistent standard.

That means franchisors are dealing with complex royalty and fee schedules, franchisee-specific pricing and billable sales activities to manage. This level of complexity requires multiple transaction types through the sales cycle, from sales order to payment. Manual calculations in spreadsheets invite massive room for error, not to mention security risks. Separate systems to bill and collect payments are disconnected from the whole picture.

NetSuite's Franchisor Add-on offers a single platform to record and calculate royalties and fees automatically and streamline the billing and A/R process. It also ties directly to project management for billing completed projects.

CRM and Sales Force Automation

In order to constantly grow a franchise, franchisors must be able to track franchisee leads. Each stage of the selling process is critical, from lead generation, to assignment and opportunity, to active customer. Managing contacts in spreadsheets or disparate CRM systems limits visibility into pipeline, reporting and upsell opportunities.

Through the Franchisor Add-on, NetSuite's Sales Force Automation captures lead and opportunity data, and automates key functions that calculate sales commissions and generate forecast reporting.

With extensive search functions and customizable reports, franchisors have the information at their fingertips to fine-tune their selling strategy and increase new outlets.

Marketing and Promotion Management

Whether it's promotions or limited-time offers (LTOs), franchisors are constantly running marketing campaigns to promote their brand. It's critical that all marketing campaigns are rolled out consistently, so franchisors can track their success in different markets. They need to demonstrate spend and show ROI to franchisees, given that they're charging franchisees marketing fees for those promotions and LTOs.

Many franchisors use a separate BOH solution, a loyalty provider or even franchisee-reported metrics to get to the data they need. However, results from individual franchises can be delayed or inaccurate if they're self-reported. And there's no ability to track franchisee campaigns that allow opt-outs. In all of these cases, franchisors would have to manually segment the marketing campaign data to demonstrate their accuracy.

With NetSuite's Franchisor Add-on, franchisors can launch promotions, LTOs and other marketing campaigns from NetSuite to track all campaign data in one single location. The Franchisor Add-on provides a segmented campaign dashboard with KPIs and reports to show the overall success of a campaign as well as regional differences.

Pre-built functions allow franchisees to quickly see ROI, and franchisors can track the spend and collection of marketing funds for easy reconciliation to franchisees.

Project Management

Franchisors have standard sets of projects for any given franchisee, like a new store opening, rebrand/remodel or even a training team deployment. For any given project, franchisors must provide project plans to franchisees. Both billable and non-billable costs associated with each project must be tracked and the corporate office needs a way to measure project timeliness against a series of benchmarks.

Spreadsheets and project management tools can help franchisors make do, but they present some unique challenges. Records get out of date and only one user at a time can make updates. Billable costs and record-keeping of internal resources often go missing or unrecorded.

NetSuite also offers a live project tracking tool through the Franchisor Add-on Module. All pertinent franchisor departments and team members can see the progress of any given project, and project managers can ensure the success of every project. Corporate employees can accurately

track time and costs to ensure proper resource allocation, and billable costs can be submitted to the franchisee with no double entry.

Supporting Franchisees to Optimize Sales

The restaurant industry is growing at a mind-boggling clip, and franchised restaurant chains are a large part of that trend. [According to U.S. Census data](#), franchised fast food restaurants make up 54% of all fast food restaurants in the U.S.

At the same time, the complexities of managing a franchise are much greater than fully-owned restaurant chains. Things like royalties and fees, billable costs and sales reporting are non-issues for chains. Franchisors and franchisees have been struggling with these challenges, losing time, misplacing costs and gaining zero visibility in the process.

With the NetSuite Restaurant Franchisor Cloud Service, a SuiteSuccess add-on, franchisors can set up all the processes franchisees require for day-to-day interactions and put them on autopilot. That frees up headspace to analyze data and recommend actions to increase sales and profitability for franchisees and the franchise as a whole.



