



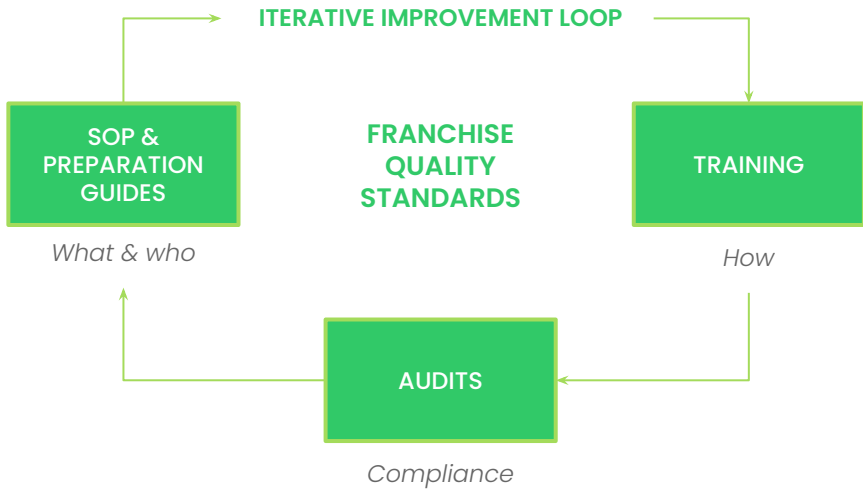
The
Definitive
Guide to

Franchise Audits & Performance



Role of Audits in a Franchise World

Whether you manage a franchise system with four or four hundred outlets, the greatest challenge of any franchise leader is how to ensure that the franchised outlets are executing as per SOP and that each outlet represents brand standards. In order to achieve this consistency across the system, the Franchisor develops a quality standards program that originates from a well-documented SOP, reinforced by a robust Training and Assessment program to implement an Audit program to ensure the outlets are performing according to standards.



✓ This e-book focuses on the Value of Audits and how Audits are an integral part of building a strong and robust franchise organisation.

Definition of Franchising



Franchising is a form of business organisation in which a company which already has a successful product or service (the franchisor) enters into a continuing contractual relationship with other businesses (franchisee) operating under the Franchisors' trade name **and following the Franchisors' Operational Know-how and procedures,** in exchange for a fee.

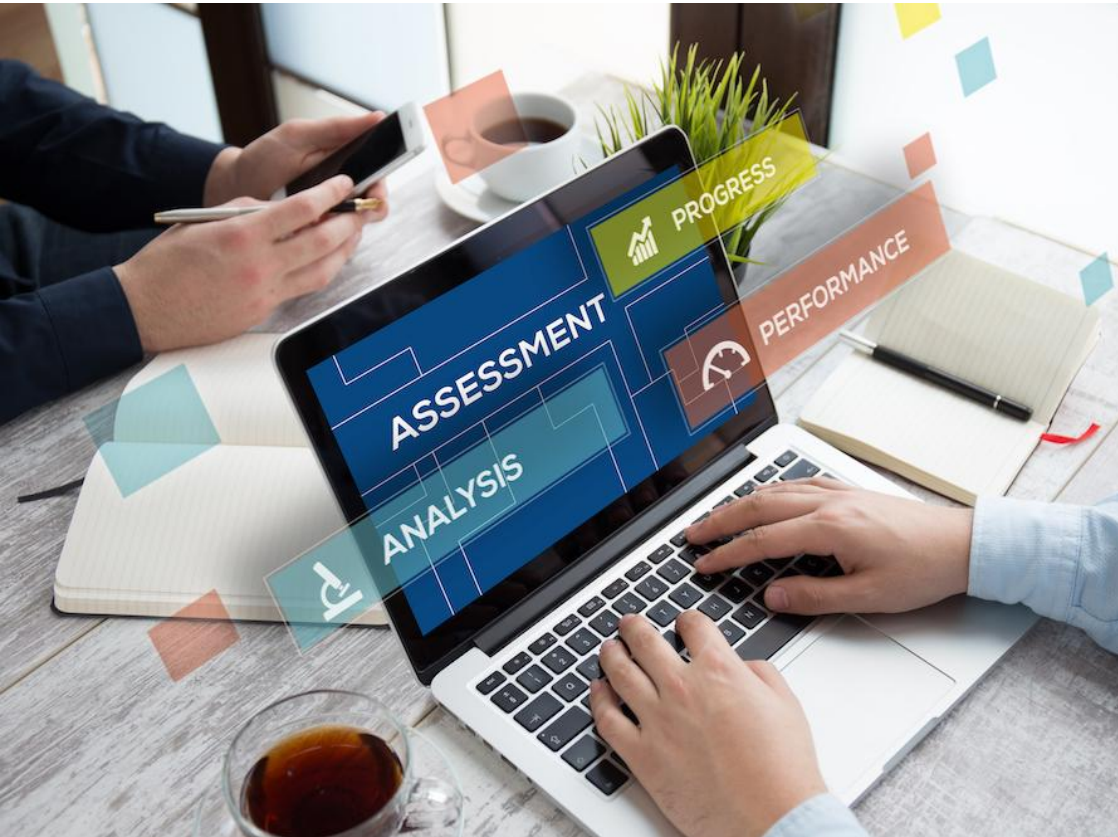
"Following the Franchisor's Know-how and procedures" requires the franchisee to implement the Franchisor's business processes from branding, marketing, merchandising to customer service and quality of product. Franchisors appoint franchise custodians in the form of Franchise Field Managers, Field Operations Managers, to design, plan and execute audits.

Franchise Operation Audits are often looked upon by Franchisees as a burden placed upon them like tests to catch oversights and to find fault. This is, in fact, not true. Only Franchisors who have a vision to build a world-class franchise systems based on consistent operational standards and outstanding performance, will invest the

resources to focus on Franchise Operational Audit Programs. These Audits are the cornerstone for Excellent Franchise Management. Franchise Audits must be treated as a practice integral to the ongoing success and sustainability of the franchise. Well-executed Franchise Audits help franchisors look beyond sales and financial data to take an accurate pulse of how each franchisee is doing. For a Franchisor, getting the right data for actionable insights at the right time to make the right decisions is critical. This can include data regarding different aspects of the unit operations including Product, environmental, safety compliance, customer feedback and quality management

It is through these Audits that franchisees can:

1. Understand the Franchisor's commitment and intent on building a sustainable franchise brand.
2. Receive data-backed feedback on their performance against SOP and a group of franchisees.
3. Leverage ongoing opportunities to improve on the performance of their franchised outlet.



Why Are Audits Important?



1. Protect Brand Integrity across the franchise system. Studies have shown that when Franchisees exactly implement the same brand experience, it can positively impact the revenue by up to 33%.

2. Ensure Training Efficiency. In a franchise system, many personnel are recruited into the system and are trained, passed test and complete OJT programs. However, this does not guarantee that all personnel are applying what is learnt at the store level. These audits can provide feedback and offer continuous improvement at the outlet level. The results of these audits also help franchisors identify great training opportunities at the brand level.

3. Engage Franchisees. When Franchisees know they will be audited in specific areas of their franchise management, they are more likely to be alert and pay attention to requirements. Regular audits serve to reinforce standards and best practices. This also allows Franchisees to know how they are doing compared to the rest of the franchise network.

4. Ensure Franchisees know their SOP and manage expectations. Familiarity with the SOP means that Franchisees are more likely to be aligned in terms of vision and expectations of the franchise.

5. Operational Audits identify new opportunities and growth areas. Are there specific areas that a large group of franchisees particularly excel or are weak in? Are there long queues, slow service time, machine breakdowns or frequent complaints? What are the commonalities? Regular audits can help Franchisors understand where these challenges may be and offer opportunities to value add.



6. Improve Business efficiency. Understanding the weakness in each area can help flag out problems, trigger investigations to uncover reasons for underperformance, encourage changes in policies and procedures where necessary to improve efficiency.

7. Reduce Risks and liabilities. Where standards can affect brand quality and adherence to legal requirements, audits are a formal way to ensure that Franchisees are in compliance. This is especially true in areas where non-compliance can have a great impact on the entire franchise brand like health and safety checks, security, food safety standards etc.

8. Promote accountability and better performance. People perform better when they know someone is watching. Conducting site visits and regular audits communicate the franchisor's care and that the Franchisors are committed to their success. This encourages everyone in the franchise to bring their A game!

9. Financial Transparency. The relationship between Franchisor and Franchisee is bound by a contractual agreement that outlines the financial and non-financial responsibilities of both parties. In order for the relationship to remain robust, in both good and lean times, trust is a key factor that must prevail. Financial audits are necessary in franchise management as it encourages financial transparency.

Key Franchise Audit Areas

Areas that Franchisors focus on can vary depending on the brand's key success areas but in general they cover:

1. Store Management

2. Customer Service

3. Product Execution

4. Merchandising & Environment Audits

5. Brand & Marketing Implementation

6. Training Implementation

7. Financial Audits

Compliance programs in a franchise system should be looked at holistically to include:

- A set of legal compliance parameters documented in the franchise agreement at the Franchisor HQ level that may be conducted annually.
- Ongoing Operating performance audits that may be conducted by field operators like Franchise Operations Managers on a monthly or quarterly basis.
- Mystery shopper audits conducted by trained auditors to monitor the quality of customer experience.
- Store operations checklists that need to be self-reported at the store management level on a daily basis.

Audit Level	User/Auditor	Frequency (Example)
HQ Audits on Outlet	Franchisors/HQ	Annual
Management Field Audits on Outlet	Auditors	Monthly/Quarterly
Self-Reported Outlet Audits	Outlet Manager	Daily/Monthly

Franchise Compliance programs can include a combination of the following types of Audits:

1. Site visits and evaluations
2. Interviews with customers and employees
3. On the Job Demonstrations
4. Surveys
5. Mystery Shoppers
6. Financial Audits

Key Steps to Start Developing Your Own Franchise System Audits

1. **Decide on the structure** of your Franchise Audit.
2. **What are the key objectives and purpose** of the audits?
Establishing objectives, which are based on management Goals and priorities? To establish your objectives, you must consider your products, processes, resources, and customers.
3. **Identify** the key areas that impact your Brand.
4. **Identify** the key areas that impact the performance of the franchise outlets.
5. **Map the standards** stated in the SOP to each key area. An audit that is developed with the SOP as the foundation will allow the auditors to refer to standards that have already been made clear to the franchisees and their team during training and onboarding. Having access to an online SOP will help give the auditor more credibility.



6. Ask specific, measurable, actionable, relevant, and time-bound (SMART) questions. When designing a questionnaire, you should review the characteristics of each question to ensure that the audits are objective and impactful. If a question is vague or addresses too many concerns, it's unclear what is being evaluated. If it's not measurable, then the audit becomes subjective. If it's not actionable, then you won't be able to find fixes for problems. If it is not relevant, then it is extra work that will not be impactful. Finally, questions which aren't time-bound make it unclear as to what time period is actually being evaluated.

- Make sure each question addresses a single concern. A question that addresses multiple concerns makes it difficult for the Franchisee to understand what needs fixing. Example: "Walls, floors tables are clean and the marketing posters on the wall are recent and approved." When faced with a failure on this question, the Franchisee would not be sure what to fix.
- Use an appropriate question/answer format. How you ask questions can impact your outcomes. Question formats such as multiple-choice, text-based or yes/no should be carefully considered when building an audit.
- Eliminate unnecessary or redundant questions. Only ask questions that help to achieve the objectives set. Having extra questions means unnecessary work for the auditor.
- Be Specific. Do not ask generic questions like; Is the floor clean? Is the food of the right consistency? Is the colour of the drink dark enough? Include a reference photo, specific dimensions, and even a colour palette where relevant if you want the audit team to match the conditions in the field with the standard requirements.



7. Organise audits by sections in line with the overall audit flow. Only focussing on the specific audits may sometimes make it very cumbersome for the auditors and the Franchisees being audited as each audit may involve more than one department and should be audited as part of a holistic process and not conducted in isolation. For instance, when checking of food quality, customer service could be incorporated so as not to look at each instance as a siloed situation. Customer service does not happen in isolation and so, the assessment of it should be conducted in as relevant an environment as possible. Matching the audit “flow”, starting either by following a physical flow of the business unit or by departments and ending with a review session at the back can save time and enhance the process.

For example, the audit flow of a restaurant could start the questionnaire with questions relating to the front-of-house about the entrance signages, the welcome, cleanliness of the restaurant's service area, whether the tables are clean, whether the lights are turned on/off, whether the employees are wearing uniforms, then follow up with a questionnaire for the back of house kitchen area, warehouse, and so on. A good category and order of questions will also make it easier for you as an audit report reader. Categorize the questions and arrange the questions in the order of the audit process. You can group questions according to the same audit area or topic. The order of questions must also be adjusted to the audit process to make the entire audit process less painful.

8. Determine the risks of non-compliance in each area

- It is important to make an assessment on the risks associated with non-compliance. Some lapses are non-critical to the immediate business and Franchisees may be given a window to take corrective actions. Some larger lapses can have a huge impact on the outlet and may require attention, yet other non-compliance areas can impact the brand as a whole. The corrective actions should match the importance and associated risks on non-compliance.
- Know when you cannot compromise. Be prepared to set rules for critical, immediate failure questions. There are some audit questions which are so core to the brand that they should have a “critical” marking. For example, in a restaurant that markets itself as a Halal Certified outlet, being compliant with ALL the conditions of the Halal requirements is compulsory. Non-compliance means the audit stops until corrective actions have been taken.

9. Resources needed. The success of an audit program depends on the overall importance the Franchisor places on ensuring the Franchisee and the overall franchise system’s success. Audit programs cannot be executed automatically. No matter how well designed, human resources from both the Franchisor and Franchisee are needed to ensure the smooth execution of the Franchise Audit Program. Depending on the size of the franchise network, the Franchisor may set up an audit team, a Franchise Field Audit and even mentors (Franchise Field Managers or Business Development Managers) to help Franchisees interpret the results and also to track corrective issues. Franchisees should also be willing to invest time to allow their staff to actively participate in the audits and the post audit reviews so as to leverage the learnings gleaned from the process.



10. Schedule of audits. There are different levels of audits, and the scheduling of these audits should reflect the relationship and intended objectives of the audit.

Headquarter-led audits usually happen on an annual basis. These audits usually surround the brand management, overall quality delivery, general customer service and financial audits. Depending on the intent of the audit, it is good to allow Franchisees to prepare for these visits. Some Franchisors think these audits should be surprise audits although showing up for an unannounced major audit may cause some unintended rift in the level of trust between Franchisor and Franchisee.

Monthly operational audits conducted at the Field Manager or Franchise Manager level should also be scheduled ahead of time. Some Franchisors do elect to mix up scheduled and unannounced visits to keep the Franchisee Outlet Managers on their toes. Finally, there are a series of daily or weekly checklists that store managers themselves need to complete to ensure outlets are in operational compliance. These should be completed and submitted on a daily or weekly basis. It is important for the Franchise Field Managers to take note and respond wherever there are lapses to let Franchisees know that the Franchisors are committed to their success.

11. Evaluations and Reports. The outcome of the audit is usually twofold.

- Franchisee performance. Based on the data extracted from the audits, gaps and opportunities are revealed. This presents an opportunity for the Franchise Field Managers to have active conversations with Franchisees and engage them on data backed performance outcomes to set active plans for improvement.
- Franchise system performance. When data across all Franchisees are viewed on one report, Franchisors have an opportunity to understand the strengths and weaknesses in the Franchisees and identify opportunities for system wide improvement. Where some areas reveal wide inconsistency, it could even mean there is an issue with the audit design, in this instance, a revisit of the audit design may be in order.

12. Follow-up actions. Follow-up actions are usually prescribed in the evaluation and report stage. It is not enough to assess the performance of the Franchisee. Rather, the Franchise Manager should be focused on the outcome of the evaluations and follow up of corrective actions. Franchise Field Managers should define a corrective action plan that includes accountability. When a weakness is recognized, it is a best practice to use a corrective action to get it followed-up on by the Franchisee.

Franchise Field Managers must ensure follow-up and recognize the corrective action fulfilment and acknowledge improvements where relevant. This action serves to show Franchisees that Franchisors are committed to their success and also offers Franchisees motivation to know they are improving in the management of their franchise units. Regular audits help Franchisors review processes and standards to address system-wide weaknesses. When exploring system-wide weaknesses, sometimes areas of commonality emerge. When opportunities are discovered, it can be leveraged as a marketing tool. Where system-wide weaknesses are observed, training opportunities emerge to help the entire franchise improve.

Increasing the Effectiveness of An Audit Program



In order for all stakeholders to reap the benefits of the Franchise Audit program, the Franchisor, its management team, Franchise Field Managers, and Franchisees must realize the role of audits in successful franchise management.

Train the Auditor on Uniform Audit Quality Standards

In order for the audit program to be successful, all stakeholders in the franchise system need to trust the legitimacy of the audit outcomes. One of the key components that influence the level of trust in the audit outcome is the reliability and consistency of the audits in which the audits are conducted.

In some cases, when reviewing average scores among auditors, you may notice dramatically different scores. One root cause of this is an inconsistent understanding of what the standards are for each individual auditor. Therefore, in order for the audit outcomes to be meaningful, the audit teams need to be trained on “How to Conduct Operational Audits”.

Franchise Field Auditors need to have a good and clear understanding on the objective of the audit process. Franchise Field Auditors also need to be provided with training on how to conduct equivalent Franchisee Operations audits to ensure that different auditors produce assessments with small margins of difference.

Finally, Franchise Field auditors must follow these principles to produce a legitimate audit report:

Integrity

External pressures must be resisted. Care must be taken to comply legally.

Fair presentation

Results should be presented fairly, along with significant concerns.

Due professional care

Due care, due diligence, and a reasoned judgment must be applied at all times.

Confidentiality

Information must be kept secure. Confidential and sensitive information must be protected.

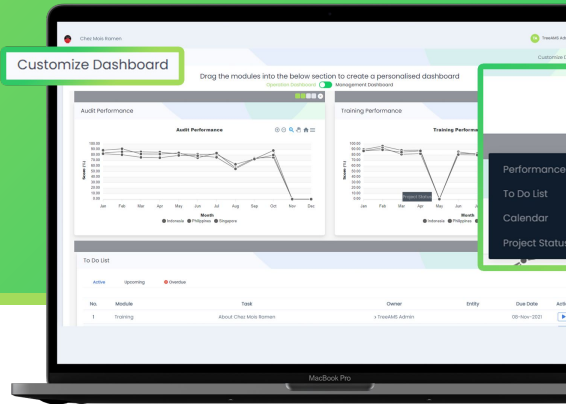
Independence

Impartiality is maintained, with bias-free actions and reporting.

Evidence-based

Reliable conclusions must be realized from a fact-based approach.

Support Your Franchise Audit Team with Technology



Designing the audit is important. Understanding what areas need to be audited help franchisors track the performance in key areas. Designing the flow to help auditors execute the audit is also critical as it helps streamline the audit process. Now we come to the part where we need to physically execute and implement the audits.

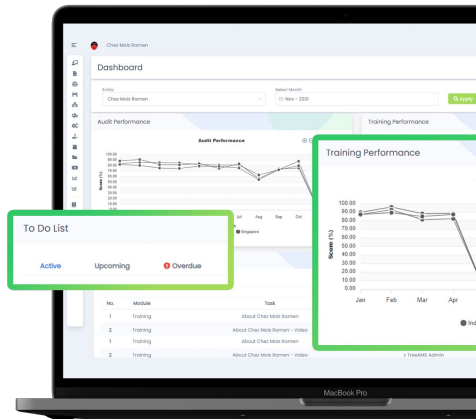
Traditionally, audits were conducted manually with a pen and paper, then keying in data onto spreadsheets for later consolidation. This manual method of audit is simple to set up and easy to correct. However, manual audits means heavy use of paper and manpower to execute every stage of the audit process, take up a lot of time. This means important information can be easily left out or overlooked.

Today, these audits can be conducted digitally, with the audit questions designed and process already set up, audits readily assigned and ready to be executed by the auditor. When audits are completed, the data can be automatically collated and sorted to present the outcome of the audits in a way that can help the Franchisor make strategic decisions in real time.

Digital franchise audit platforms simplify audit design, scheduling, and implementation. It is also used for record keeping and can be configured to produce meaningful reports so Franchise Field Managers can track Franchisee performance across time. In this age of technology, Franchise Field Auditors should be able to leverage operational audit applications to help them easily execute franchise outlet audits across your franchise network. When the amount of paperwork is reduced, your Franchise Field Managers can focus on higher value activities like training opportunities, risk management and seek growth areas.

TreeAMS as your Digital Franchise Audit Partner.

TreeAMS is Franchise Management Platform designed to enable Franchisors to sustainably scale their franchise growth. TreeAMS is designed to offer everything a Franchisor needs to manage their franchise network on one single platform. With TreeAMS, achieving operational excellence in your franchise system could not be simpler and more seamless.



Start developing your Franchise Audits with TreeAMS on our Free Single Unit Franchise account and **scale your business** from there!



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For enquiries on designing your own
audit system, please contact:

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