GUIDE TO

Streamlining Franchise Operations

Franchise operators are the key to the restaurant industry's broader recovery. As the industry tracks toward what the **National Restaurant Association predicts** will be a record $898 billion in total revenue for 2022, both franchisors and franchisees have played an instrumental role in recouping lost locations, revenue, and jobs.

Enterprise and franchise operators aren't only instrumental in refilling the proverbial reservoir; this important part of the industry is also leading the way in innovation after making strategic and operational changes that will define how restaurants provide excellent service and sustainably profit and grow in the short and long-terms.

First, let's look at recovery. The International Franchising Association's (IFA) **2022 Franchising Economic Outlook** confirmed significant losses across various metrics in both the quick service (QSR) and table/full service (FS) segments in 2020. That year, the number of QSR and FS locations fell by 6.7% and 6.5%, respectively. Employment slumped 8.7% and 17.4%, while revenues dropped 10.1% and an unprecedented 27.1%.

Recovery, however, came charging back as growth-focused operators and entrepreneurs met pent-up consumers eager to both emerge from lockdowns and support the hard-hit industry. At QSR, revenue bounced from $241 billion in 2020 to $261.2 billion the following year. At full-service restaurants, employment rose from 923,097 in 2020 to 1,060,736 in 2021, according to the IFA. Improvements are expected to continue apace in 2022, with the output of full-service restaurants predicted to rise 5% to $76.4 billion.

Behind the numbers is a bevy of strategic and tactical adjustments both QSR and FS restaurants have made to stabilize their operations and set them up for success in a new and often uncertain reality. Among those spearheaded by the franchise and enterprise industry are shifting menu prices, new sales and revenue channels, advanced technology to boost efficiency and improve guests' experiences, and compensation and benefits increases to meet a new labor market.

Enterprise operators seeking to maintain and expand upon their operational and financial strengths and gains can look to various tools and strategies to help them understand and adjust their strategies and tactics in response to any internal or external situation. This guide will examine the three primary ways this can be done. They include investing in centralized, scalable solutions such as a Restaurant Enterprise Management (REM) system, controlling food, cost, and labor across all levels of the business, and creating the right reports for managers at all levels. By implementing and adhering to these three measures, managers will have the data to understand what's happening at both the individual store and corporate levels and the ability to drill down and spot where challenges are arising or leaders worthy of emulating are emerging.

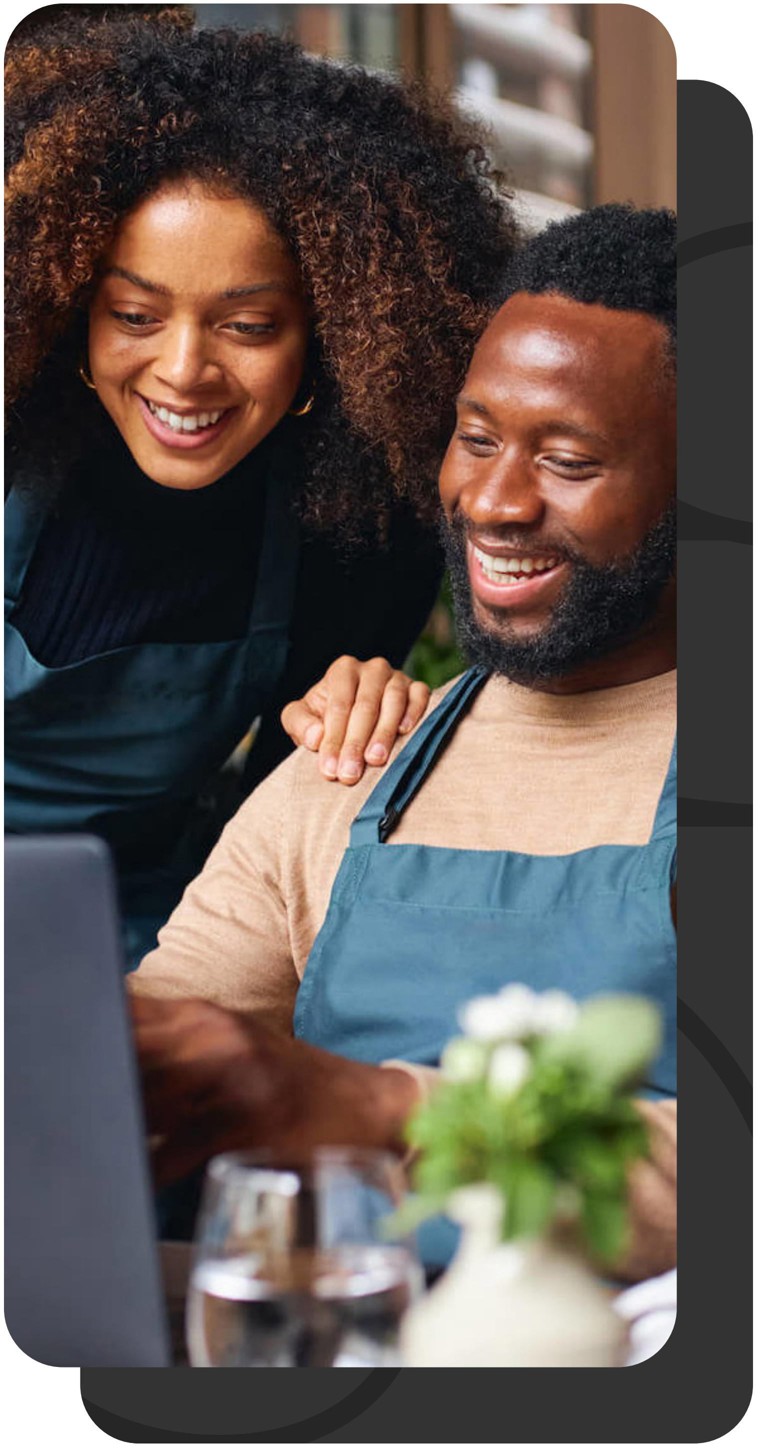
Invest in Centralized, Scalable Solutions

The primary and perhaps most challenging part of running a franchisee or enterprise restaurant group is managing the complexity of many individual locations and all the variables involved in the day-to-day operations of each. This can be most easily understood by looking at several key business functions involved in restaurant management, tasks like inventory, scheduling, and calculating key metrics like food costs and Cost of Goods Sold. Suppose each location has its own methods of taking inventory, assessing staffing needs and setting schedules, and producing reports on their timelines with differing metrics. In that case, it becomes nearly impossible for corporate leadership teams and above-store managers to get an accurate picture of how each location is performing and how the company is faring overall.

With centralized, scalable solutions, both above-store and store-level managers work from the same playbook that ensures the entire company, at all levels, is speaking the same language and using the same processes. With a centralized solution that integrates easily with service providers, suppliers, and point-of-sale (POS) systems, operators can easily understand their business, have the data needed to make critical decisions, and plan expansion without unnecessary complexity or confusion.

Manage Items & Recipes Like a Pro

As a franchisee or enterprise operator with several locations and potentially several concepts, you know how hard it can be to keep track of everything that comes in and out of the door. It's challenging for a single location, which may have to keep tabs on hundreds of items. With different concepts across different geographies, that number can increase exponentially, leading managers to order incorrect items that lead to waste while making it impossible for above-store teams to get an accurate picture of each location's performance and how it impacts the entire business.



The first piece of the puzzle is called location groups. This organizational system can only exist within an integrated, centralized restaurant management system and allows leaders to see, modify, and control individual items at the location, region, or concept levels. This tool lets management teams easily control what store-level managers see in their overall product matrix. This first saves store-level managers time by eliminating the need to create, delete, or edit items individually and removes the possibility of error through duplication. Secondly, it enables highly flexible in-depth reporting that should be mandatory for franchise operators with many stores under a single concept or those operating two or more concepts, each with its own set of locations.

Next, and connected to corporate managers' need and ability to see and control individual items at a higher level, is the ability for leadership to guide managers to control overall food costs. By identifying the financial impact of issues like supply shortages or wholesale price increases, managers can quickly and unilaterally lead changes that will preserve profitability and quality, and guest experiences.

Corporate leaders can take that control even deeper with a centralized tool that allows them to implement measures like menu item separation. With this, users can customize how menu items, pulled from their preferred POS system, are grouped and analyzed. This, of course, requires a restaurant management platform that seamlessly integrates with your POS, allowing for easy visibility into menus and sales. Items could be categorized by either geographic location or legal entity, making it simple to break down the sales of individual items or recipes in ways that allow for deeper analysis.

Optimize Costs Across The Board

By being able to centrally see, manage, and control all items and recipes individual managers are working with, leaders can analyze the overall profitability of their menu, each location, and even each ingredient.

The first avenue is above-store actual versus theoretical analysis (AvT). With AvT, restaurant leaders, operators, and managers develop a database of their menu, each item's ingredient, and how much of each ingredient should be in a single dish. By attaching the most accurate cost of each ingredient to this matrix, operators have a theoretical, or ideal, picture of the cost of producing each dish. Operators can spot which items present hidden challenges using sophisticated restaurant management software to compare this theoretical figure to the actual purchasing and sales figures. Perhaps a vendor charges more for a specific item, or a line cook requires additional training to prevent excess waste. For enterprise operators overseeing several locations, spotting these challenges at a high level offers an opportunity to stave off significant expenses or uncover hidden savings or sales opportunities presenting a significant competitive advantage.

These same cost and performance figures allow companies with a brand or several brands to establish a baseline, best-performing menu that can be implemented confidently across the network. While guest preferences can change depending on multiple variables, a baseline menu with strong margins can, with data, be strengthened across all locations.

Control Food, Costs, and Labor

Managing costs is among the most critical foundational parts of effective restaurant management. Alongside BOH and FOH execution, management of Prime Cost, the combined cost of food and labor, will determine whether a franchise restaurant can fulfill its promise to its guests, employees, and investors. For franchise groups operating multiple locations, the need to monitor and manage Prime Cost is even more important, as runaways in food or labor can compress the business' already thin margins. An unresolved issue at one store could potentially spread throughout the entire company, even dragging down high performers.

Luckily, today's technology solutions empower above-store operators and store-level managers with tools and visibility to proactively manage these often-dynamic costs and to boost efficiency, margins, and profits in ways once hidden under the vastness of the data generated by a multi-unit restaurant group.

Ensure Visibility

The first step to controlling Prime Cost at both corporate and store levels is solidifying consistent access to accurate Prime Cost data. This is a classic case of simple, not easy. In the past, accessing Prime Cost data was a cumbersome task that required careful coordination between store managers and accounting teams. Standardized inventory counts needed to be taken on an ongoing basis, and all that data needed to be fed back accurately to a home office. Then, managers or accounting teams needed to pull sales data from POS systems before undertaking the daunting task of processing it all through Excel to understand the restaurant's food cost and CoGS. Labor costs were even more complex, especially without any predictive budgets or forecasts. In both cases, the results took far too long to produce to be useful operationally.

Today, franchise operators can solve this problem by implementing an integrated Restaurant Enterprise Management platform that aggregates their operations' disparate data sources under one umbrella.

That data is vital, and after implementing an industry-specific REM system that integrates with your POS and syncs seamlessly with your accounting function, the only wildcard left is inventory. Of course, cloud-based inventory that prevents duplication and can be taken by multiple team members on a mobile app is an integral part of any growth-minded restaurant company. Properly counting inventory is a critical task that must be taught, retaught, enforced, and audited to ensure that your data is as accurate and current as possible.

Immediately start training your entire team on regular inventory cadence and processes, set expectations, and communicate the importance of inventory to the big picture. The more you count inventory, the better your data for ordering and other food-related decisions. Consistent manual counts on the same day of the week at the same time can generate helpful, comparable numbers. If you're starting or looking to get more granular data, consider a regular "micro-inventory" of the top 20 products you use. For most restaurants, 80% of their food cost is tied up in the top 20 ingredients and knowing the shifting prices of those ingredients can go a long way toward helping you reduce CoGS and boost your margins.

By implementing a robust inventory cadence and connecting your POS, suppliers, and other partners to a complete restaurant-specific platform, above-store managers and accounting teams can immediately access the data needed to provide up-to-the-minute performance reports to all managers.

Empower Managers

Accessing overall company performance and individual store performance, whether sales, labor cost, or Cost of Goods Sold, is the first piece of the puzzle. It's critical that those reports, with the correct level of detail, be regularly shared with or easily accessed by store-level managers. Ideally, reports are automatically generated and sent to managers with key areas for attention highlighted. The process should be so seamless that your managers don't even feel like they're using software. Instead, they have clear, concise guidance and a path toward fixing any growing issues or jumping on any opportunities.

Communication and information sharing is the second element of manager empowerment. With a REM platform, managers and above can easily share information. As a company leader, you can empirically identify your best-performing locations and can, with that manager, drill down into what's making that location successful. With performance data and best practices in hand, you should be able to share it with managers across your organization efficiently. This is how a successful franchise operator turns its C locations into Bs and boosts those Bs into As.

Offer Guidance with Controls

The last element that helps franchise operators control costs is the ability to, at the corporate level, set best practices in the form of dollar-value guidelines and boundaries that each store cannot exceed without setting off notifications. Restaurant management can be a complex, unpredictable set of challenges, and sometimes something can happen that, if left unchecked, can slowly drag down the profitability of an individual location and the company. By setting a framework around standard metrics, operators can continue to grow with the confidence that nothing unexpected will ever grow so large that it will create a lasting negative impact.

This starts by setting corporate-level guardrails. These could include above-store actual versus theoretical variance limits. Again, your theoretical food cost is what your food cost should be given the cost of ingredients and assuming perfect usage. Your actual food cost is how much you spent for the same period, accounting for issues like food waste, improper portioning, and invoice mistakes. Comparing your AvT food costs reveals where you may have issues like unnecessary food waste, theft, unaccounted-for price increases, or vendors charging incorrect prices.

You may also consider using a restaurant management platform to establish acceptable average costs on individual ingredients across locations, concepts, or companies and maximum cost per ingredient or dish. You should also have the option to create locked order guides or purchase orders so that no manager, perhaps in the weeds on a high-volume holiday week, makes an ordering mistake that pressures margins and shrinks profits. With the robust reporting of a REM platform, managers and operators can be alerted in real-time when any location is beyond the pre-established guidelines and quickly assess and fix the problem.

Create The Right Reports for Every Level

On average, restaurants in 2021 spent a mere 1.97% of their gross annual revenue on technology, according to Hospitality Technology's 24th annual technology study. By comparison, the average small company spends 6.9% of its annual revenue on technology, according to TechTarget. While the restaurant industry is full of intangibles like artistry, hard work, emotional intelligence, patience, and passion, it is also an industry replete with data. Every single product that enters a restaurant, every sale, and every task can be assigned a dollar value that can and should be recorded, analyzed, and reported. By doing so, restaurants can clearly define and contextualize the true meaning of improvement. With data, restaurants can improve service as well as guests' experiences, they can grow their audience of potential customers, they can better understand their cost of doing business, their profits, and where a disconnect between the two squeezes the industry's already razor-thin margins.

The information franchise operators and store-level managers need to bolster guest experiences, margins, and profits aren't complicated, although they have long been too difficult to access. By leveraging an all-in-one, integrated system operators have the ability to centralize all of their data with a single platform, use automation to analyze it and form easy-to-access and understand reports, and then quickly share those reports with key team members who can make data-driven decisions that help the company perform better as a whole. Below are a few key reports, and report functionalities that many franchise operators like yourself are already using to help all of their locations improve to become on par with their top-performing peers.

P&L Comparison Report

In its simplest form, a restaurant profit and loss statement, otherwise known as a restaurant income statement, is a financial report that gives an overview of a restaurant's revenue, costs, and expenses during a specific period of time. This tool helps you understand your net profit or loss.

As a franchise operator, it's critical to easily access and understand your corporate P&L and each location's P&L. Even more valuable is the ability to create a P&L of all of your locations side-by-side. This is the foundation of your efforts to identify your best-performing stores bring all those that aren't doing as well up to a higher level.

The P&L Comparison Report, for example, can show you as the operator and your managers which locations are performing the best across various revenue categories and spending the most on operations. The power here lies in the ability to anonymously, if need be, identify leading and lagging performers, and dig into what's driving the success or shortcomings across any number of key performance metrics. In the simplest case, one location could generate higher overall sales, with beer and wine sales double that of another's. By analyzing what the higher performing location is doing, whether in the back-of-house or externally, such as marketing and promotions, and sharing that information with peers, your organization can move toward improvement with data-driven confidence.

Operations Statement

The operations statement is the franchise operator's bread-and-butter. This is a four-week trailing report divided on a weekly basis that compares performance during the period to date, to budget, and the prior year. Having a report like this sent out weekly is a powerful tool to ensure that store-level managers, above-store managers, and accounting teams are working off of the same numbers toward the same goals.

Custom Reporting with Location Groups

As a franchise operator with a complex operational infrastructure, you want to be able to see whatever information you need in whatever format you and your team require. With an end-to-end restaurant-specific platform that includes easy-to-manage location groups and the ability to easily generate custom reports, your team can access any permutation of the data they need in whatever form they need.

By leveraging a platform that enables franchisees and enterprise business owners to organize all of their operations according to location groups, reporting becomes highly customizable, allowing data to be spliced, analyzed, and compared in almost limitless combinations, including by menu item or ingredient, as well as by individual store. The latter is particularly valuable for franchise operators with many locations for whom period-closing has long been an overly time-consuming task. With custom reporting bolstered by pre-established location groups, operators can select the concept they're working on, select all the stores they operate within that concept, and generate dozens of P&Ls with a single click.

Conclusion

Today, in recent years, and for the foreseeable future, restaurant owners and operators of all shapes and sizes, and especially multi-unit, multi-concept, and multi-region enterprise operators, have more than enough to deal with on any given day. Simply managing through the ongoing labor crunch, wildly fluctuating ingredient prices, unpredictably shifting consumer behaviors and preferences, and whatever else might come leaves barely any free time. There's even less to spend on manually managing the ever-more complex, de rigueur back-office tasks that are critical to sustainable success. While the accounting function is a must that keeps franchise operators moving, there's a better option than generic solutions with cumbersome manual processes that often produce incorrect results long after they could be valuable.

By leveraging an intelligent, integrated solution, enterprise operators and their teams at all levels can eliminate countless hours of legwork thanks to automation. At the same time, they can generate accurate, real-time insights to empower store-level managers to put their teams, and the overall company, on a path toward delivering guests better experiences alongside rising profits and margins that pave the way toward growth.

If you're a growth-focused franchise operator or owner, empower your team with back-office tools that will help every player in every part of your organization become better at what they do. **Restaurant365 is the industry's leading all-in-one, cloud-based Restaurant Enterprise Management platform** that integrates and manages all the people, products, technologies, vendors, and spaces that contribute to a restaurant's final product: unforgettable guest experiences that generate profit and growth. R365 enhances daily and long-term restaurant management with restaurant-specific accounting, inventory, scheduling, payroll, and HR applications that reduce manual workload and increase accuracy. Frictionless integrations with hundreds of leading partners allow Restaurant365 to connect with nearly every POS provider, vendor, and bank for accurate, timely reporting that provides actionable insights into operations.

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