

# International Franchise Excellence Research Report

The proven path to high performance

*Valuable new  
data and trends to  
recruit, support and  
lead franchisees to  
success*



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# Contents

<b>Acknowledgments .....</b>	<b>4</b>	<b>Chapter 8: The relationship between attributes and franchisee satisfaction .....</b>	<b>54</b>
<b>Chapter 1: The search for franchising excellence .....</b>	<b>5</b>	Making the link between attributes and satisfaction .....	54
<i>The Franchisee Success Study</i> .....	5	How each attribute impacts on satisfaction .....	55
FRI's mission .....	5	<b>Chapter 9: Impact of background and demographic factors on performance and satisfaction .....</b>	<b>58</b>
<i>The Franchisor Wheel of Excellence</i> .....	6	Does gender make a difference? .....	58
Research questions to be answered .....	7	Does age make a difference? .....	59
<b>Chapter 2: How the research was conducted .....</b>	<b>8</b>	Does a person's length of tenure in the franchise matter? .....	60
Use of psychometric scales and data .....	8	Is education important? .....	61
Defining and measuring franchisee performance .....	9	<b>Chapter 10: Impact of work patterns and family involvement .....</b>	<b>63</b>
Defining and measuring franchisee satisfaction .....	10	Does it matter if franchisees are "hands-on" or not? .....	63
Defining and measuring psycho-social attributes .....	10	Do hours worked per week make a difference? .....	65
Defining and measuring bio-data .....	11	Does spouse involvement make a difference? .....	67
How the data were gathered .....	12	Family involvement – is it helpful? .....	69
<b>Chapter 3: Profile of a typical franchisee .....</b>	<b>13</b>	Does prior business experience make a difference? .....	70
Response rates .....	13	Does the type of motivation to join a franchise influence performance and satisfaction? .....	72
Industry profile of sample .....	14	<b>Chapter 11: What encourages franchisees to be advocates .....</b>	<b>74</b>
Representativeness of the sample .....	15	Why do franchisees want to purchase more units? .....	74
Demographic profile of franchisees .....	15	What makes franchisees want to stay in the system? .....	78
Motivational profile of the typical franchisee .....	18	What turns franchisees into Promoters? .....	80
The "average" franchisee .....	19	<b>Chapter 12: How do multi-unit franchisees differ from single-unit franchisees? .....</b>	<b>86</b>
<b>Chapter 4: The current state of franchisee satisfaction .....</b>	<b>20</b>	Differences in performance .....	86
Franchisee satisfaction on 10 measures .....	20	Differences in satisfaction .....	87
Work Enjoyment .....	21	Differences in the success attributes .....	87
Satisfaction with Franchisor .....	22	Conclusions .....	88
Financial Performance .....	23	<b>Chapter 13: Putting the pieces together .....</b>	<b>89</b>
Network Satisfaction .....	23	How the attributes contribute in different ways .....	89
Satisfaction by Tenure – <i>The Franchise E-Factor</i> .....	25	The three cogs of franchisee happiness .....	91
<b>Chapter 5: The relationship between psycho-social attributes and performance .....</b>	<b>27</b>	The Franchisee Wheel of Excellence .....	93
Making the link between attributes and performance .....	27	<b>A final comment .....</b>	<b>97</b>
How the attributes impact on overall performance .....	27	<b>Appendix A - Franchise Performance Ratings Survey .....</b>	<b>98</b>
How the attributes impact on the "Select Again" measure .....	28	<b>Appendix B – 'The Technical Appendix' .....</b>	<b>100</b>
Top eight predictors of franchisee performance and suitability .....	31	Implications of the restricted range in the sample .....	100
<b>Chapter 6: How the 16 attributes impact on specific aspects of performance .....</b>	<b>32</b>	Definition of a significant finding .....	100
<b>Chapter 7: The franchisor perspective on poor performers .....</b>	<b>50</b>	Tests of reliability and validity .....	100
The failure rate of franchisee selection .....	50		
Reasons why franchisors would not select franchisees again .....	50		

## ► Acknowledgments

There is so much in life we take for granted. The computer I am writing this on, the office I am sitting in and the coffee I am drinking – these things didn't appear from nowhere. An army of people have worked on creating, harvesting or producing these things. The same I dare say is true for almost everything we use today.

Before you read this *International Franchise Excellence Research Report* I wanted to acknowledge the army of people who helped with the creation of *The Franchisee Success Study* on which it is based, harvest the findings and produce this report. We are particularly grateful to the thousands of franchisees who put their hands up to contribute to the study and trust us with so much of their personal information. We are also thankful to the many franchisor executives who got behind the project, encouraged their franchisees to complete the questionnaire and then worked with us to gather the franchisee performance data we needed to bring the findings to life.

Several franchise industry associations and consulting groups were also instrumental in helping us to get the word out about the study. In particular we appreciate the support shown by Steve Wright, CEO of the Franchise Council of Australia, Lorraine McLachlan, CEO of the Canadian Franchise Association, Graham Billings, Executive Director of the Franchise Association of New Zealand, and Lindy Barbour and the team at Franchise Directions in South Africa.

We are a private enterprise and not privy to the many grants and resources available to universities and government institutions. As you can imagine this project has required a huge investment of resources. So I want to especially acknowledge the amazing work by the Franchise Relationships Institute team who have been wonderful in their commitment to this huge undertaking, especially Nicole Simpson, putting in enormous intellectual and practical effort to dig deep into the data, often into the early hours of the morning. And special thanks to our CEO, Karli Furmage, for sharing our faith in the power of good research and allocating so much of our precious funds and resources to this project.

We have also appreciated the wise guidance of our R&D advisers, Professor Chris Jackson, Head of School of Management at the University of NSW, Dr Stacey Parker, Lecturer in Organisational Psychology at the University of Queensland and Dr Philippe Lacherez, Statistical Adviser at Queensland University of Technology.

The many significant and interesting findings you are about to discover are only possible because of the generosity of these, and many other people, too many to name individually, including our suppliers and colleagues.

This report contains a lot of data and information. While we could have "dumbed it down" we decided to leave the details in, as what may be unimportant for one reader may be useful and interesting for another. So here it is, our newest contribution to the franchising sector, the *International Franchise Excellence Research Report*.

I hope you find it useful.



**Greg Nathan**  
**Founder**  
**Franchise Relationships Institute**  
November 2012

## ► Chapter 1: The search for franchising excellence

### The Franchisee Success Study

This Research Report presents the findings from *The Franchisee Success Study*, a large global research project conducted by the Franchise Relationships Institute (FRI) in 2011/2012. The goal of the study was to understand why some franchisees perform better, or are more satisfied, than others, and what franchisors can do to improve the performance and satisfaction of their franchisees.

This is an important topic because the sustainability of a franchise system depends directly on the performance and satisfaction of its franchisees. (If you are a franchisor, try growing a franchise network when existing franchisees are doing badly or hate you.)

Someone once said, “For every complex problem there is a simple answer, and it is inevitably wrong.”

There is not one, but many answers to the question: “Why are some franchisees happier or more successful than others?” Success is complex – there is no magic bullet or simplistic formula. We think you will find the information you are about to read refreshing because it is based on sound research and dispels some of the myths about franchisee success and satisfaction such as “If they’re making money they’re happy” or “If they just work harder they’ll be more successful”.

The reality, as you will find as you progress through the report, is that success is linked to a range of factors; some are to do with attitude and personal characteristics; some to do with family circumstances; and others to do with background and experience. And yes, while hard work makes a difference, as you will learn in Chapter 10, too much hard work can prove to be counterproductive. Similarly satisfaction is the result of many factors and interestingly, as you will find out in Chapter 11, financial achievement is not the most important one.

*Why are some franchisees happier or more successful than others?*

The power of *The Franchisee Success Study* lies in its size and rigour. For this International study<sup>1</sup>, 2,401 franchisees were surveyed using an in-depth 210 item questionnaire. After completing the survey we probably knew more about these people than they knew about themselves!

Without revealing any of the personal information we had gathered from these franchisees, we went to their franchisors and had them complete performance measures on each franchisee. We then completed an in-depth statistical analysis of the data to determine the relationships between the personal characteristics of the franchisees, their performance and their satisfaction. This is a standard psychological research technique.

### FRI's mission

While the collection and analysis of the data have taken over 12 months, this has been part of a longer journey which goes back to when the Franchise Relationships Institute (FRI), was founded 23 years ago. We believe you will gain more value from these findings by understanding how the study fits into FRI's broader work, particularly our work on franchising excellence, so some further explanation is in order.

The mission of FRI is to help franchisees and franchisors create profitable partnerships. In practice this means conducting relevant, applied research into the drivers of success for franchisees and franchisors. Then developing useful tools and practical workshops, backed by research, to help franchisees and franchisors perform at their peak.

<sup>1</sup> Data has been collected from franchisees in Australia, New Zealand, the United States of America, Canada and South Africa.

This research, as with all our work, is led by a dedicated and talented team of psychologists and franchise practitioners who constantly seek new and innovative ways to uncover, simplify and impart principles essential for success. To ensure rigorous quality control, we draw on the expertise of a team of experienced university academics, who assist with research design and statistical analysis. In many ways we see ourselves as scientist-practitioners, bridging the world of academic rigour with the realities of hard headed business.

## The Franchisor Wheel of Excellence

In this spirit, three years ago we set out to pull together everything we had learned to date about franchising excellence and created a simple model for our clients, something to remind them about what's important. The decision to conduct the *Franchisee Success Study* and write this report was inspired by this model. It's called *The Franchisor Wheel of Excellence*, shown below in Figure 1, and it has five interlocking pieces.

Don't be deceived by its simplicity. This model is built from solid research into what the best franchisors do to maintain a competitive advantage through their people.

► **Figure 1: The Franchisor Wheel of Excellence**



The top piece, *recruit quality franchisees*, is to remind franchisors that a franchise is not a product to be sold; it's a business relationship that runs for many years. A quality franchise relationship starts with recruiting suitable people who have realistic expectations and enough of the right attributes to succeed in running the business while working collaboratively with the franchisor team.

The second piece, *mentor franchisees for performance*, focuses on the importance of franchisees receiving ongoing support to keep them performing at a high level so that they may continue to grow their businesses. Mentors can be field consultants, franchisor executives, suppliers or other franchisees.

Successful franchisors ensure they *listen to franchisee feedback* because they understand this is the only way to get relevant information on how well they are supporting and servicing these people. Franchisees need to

feel respected. Genuine listening is one of the most powerful ways to demonstrate this respect and to keep the franchise relationship fresh and constructive.

Because franchisors don't deal directly with customers, the only way to ensure customers are consistently receiving the right experience is to *engage franchisees with the brand*. For this reason the best franchise systems invest significant resources into ensuring everyone in the network, from the Marketing Director to the car park cleaner, not just the franchisee, has the same sense of pride and connection with the brand.

Finally, the best franchisors *lead with credibility*, not through old fashioned command and control techniques. They certainly don't try to achieve compliance using legal threats. Building credibility is the most effective form of franchise leadership as it draws its power from influence, not control. Franchisees who believe their franchisor is trying to dominate them will actually resist and fight, creating an environment of negativity and distraction.

## Research questions to be answered

When we released The Franchisor Wheel of Excellence, feedback was positive. But franchisors wanted more than just a model. They wanted answers to questions like:

- ▶ If we want to recruit quality franchisees, what should we be looking for?
- ▶ How do we get existing franchisees to actively recommend our franchise to suitable prospective franchisees?
- ▶ What attributes are most important for a franchisee's success and can these be trained?
- ▶ How can mentors most effectively motivate franchisees to improve their performance?
- ▶ How can we keep franchisees happy as they move through their journey, from starry eyed rookies to seasoned, worldly wise operators?
- ▶ Why do some franchisees hate us no matter what we do? And is there anything we can do about this?
- ▶ Why do some franchisees refuse to comply with the system they have bought into, and how do we keep them committed to running their business in the right way?
- ▶ Why do some franchisees engage with the brand so enthusiastically while others don't? And does it really matter that much?
- ▶ The world is changing and we need to get franchisees to buy into new initiatives for their own success. How do we get them to follow our lead?

All these could really be summed up into two questions:

*What factors make a significant difference to franchisee performance and satisfaction?*

*What can franchisors do to more effectively recruit, train, support and lead their franchisees?*

It is these two questions we set out to answer in *The Franchisee Success Study* and we are pleased to now be able to share a number of interesting and significant findings. While some of these were anticipated, as they were based on our previous research, other results have surprised and enthused us. All these findings are translatable into practical strategies that will help franchisees and franchisors achieve greater success.

Before we delve into the nitty gritty of what we did and what we found, some good news. As a result of the findings from this study we have developed a complementary model of excellence – a *Franchisee Wheel of Excellence*. You'll find this in the last chapter. It answers the question, "Given what you have discovered from this research, what do franchisees need to focus on to achieve excellence?" This franchisee wheel complements *The Franchisor Wheel of Excellence* and reminds us that, to achieve a profitable partnership, both franchisor and franchisees need to work together focusing on different but complementary things.

## ▶ Chapter 2: How the research was conducted

- ▶ Franchisees were invited to complete a 210 item online questionnaire which measured a range of personal characteristics, demographic factors and how satisfied they are with being a franchisee.
- ▶ The performance of each franchisee was then independently assessed by their franchisor using measures of financial achievement, delivery of the customer experience and constructive participation in the network.
- ▶ Scientific research methods were used to investigate how these personal characteristics and demographic factors impacted on performance and satisfaction.
- ▶ All psychometric scales used in the study comply with the rigorous scientific and research standards.

The goal of any legitimate research project is to identify basic truths that explain how and why things happen. Our goal in this study has been to identify why some franchisees perform better, or are more satisfied, and how franchisors can use this knowledge to improve the performance and satisfaction of *their* franchisees.

This chapter explains how we went about the study, starting with some important definitions and measures. While some of the concepts are technical in nature, we felt it would be better to include these because as an understanding of these concepts can only help you gain more value from the rest of the material presented.

### Use of psychometric scales and data

Before investigating differences in franchisee performance and satisfaction we first needed to define and measure these concepts. This is not as simple as it sounds. Success and failure mean different things to different people depending on their values, and, as will be demonstrated later in this report, not everyone is primarily motivated by money. Similarly a person's level of satisfaction will largely be determined by their internal expectations and not just by the external circumstances in which they find themselves.

Our first challenge was to come up with a way of defining and measuring the concepts we wanted to study including franchisee success, franchisee satisfaction, as well as the personal attributes and beliefs we predicted would be associated with success and satisfaction.

### Psychometric scales

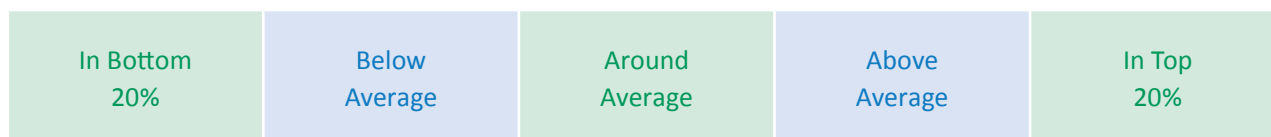
A scientific method for measuring attitudes and performance is to use psychometric scales - clusters of carefully worded questions or statements that people respond to on a rating scale. For instance, to measure satisfaction with the franchisor we asked franchisees to respond to statements such as **"I have confidence in the franchisor team"** or **"The franchisor team are trustworthy in their business dealings"** on the following seven point scale:

Strongly Disagree	Disagree	Mildly Disagree	Uncertain	Mildly Agree	Agree	Strongly Agree
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To measure attributes such as *Conflict Proneness*, franchisees responded to statements such as **"I have been known to have trouble controlling my temper"** or **"I often find myself at odds with others"** on the following seven point scale:

Definitely Not Like Me	Not Like Me	Not Much Like Me	Neither	Somewhat Like Me	Like Me	Exactly Like Me
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To measure franchisee financial performance the franchisor team were asked to respond to questions such as, “How would you rate this franchisee’s profit performance compared with group benchmarks?” using this five point scale:



**Franchisees** responded to 177 items, which clustered into 26 psychometric scales.

**Franchisors** separately responded to 10 items, which combined into three measures of franchisee performance explained below<sup>2</sup>.

## Defining and measuring franchisee performance

Because of the interdependencies in the franchise relationship, where everyone shares a brand, franchisee performance must be viewed in a broader context than just financial performance. While a franchisee that is not profitable will not be able to pay their expenses and will ultimately fail, a franchisee who consistently delivers a poor customer experience is likely to damage the reputation of their own business and the broader brand. Also, a franchisee who is habitually frustrated, rebellious or in conflict, will probably create a host of performance problems for themselves and others.

For these reasons, franchisee performance has been defined and measured in several ways including financial achievement, delivery of the customer experience and constructive participation in the network – what could be referred to as franchise citizenship.

Another common method for defining and measuring performance is to use a *Likelihood to Select Again* rating, based on a person’s past behaviour. This method is often used by recruitment consultants where referees are asked to rate their likelihood to reemploy a past employee. Table 1 lists these performance measures, which will be referred to throughout this report.

► **Table 1– Franchisor measures of franchisee performance**

Performance Measure	Definition of the Measure
Financial Achievement	The extent to which the franchisee is maximising the financial performance of their business.
Customer Experience	The extent to which the franchisee is protecting and promoting the brand through their interaction with existing and potential customers.
Constructive Participation	The extent to which the franchisee fulfils their obligations and behaves responsibly as a member of the franchise community.
Overall Performance	Combination of the above measures.
Select Again Rating	How likely the franchisor would be to select the franchisee again given what they now know about the person.

<sup>2</sup> The psychometric properties of the scales are provided in Appendix B along with a technical explanation on how the scales were constructed.

## Defining and measuring franchisee satisfaction

Previous research by FRI has shown there are common themes as to why franchisees join a franchise network and what they expect from their franchisor. These include doing work they enjoy, trusting the integrity of the franchisor, achieving their financial goals, belonging to a brand they are proud of and networking with a group of likeminded people. Dissatisfaction tends to occur when expectations in these areas are not met.

For these reasons franchisee satisfaction has been defined in several ways including satisfaction with their lifestyle, satisfaction with their franchisor, satisfaction with their financial performance and satisfaction with being part of the network. Table 2 below provides more specifics on each measures of franchisee satisfaction.

► **Table 2 – Franchisee satisfaction measures used**

Area of Satisfaction	Name of Scale	Definition of the Scale
Lifestyle	Work Satisfaction	Satisfaction with the nature of the work they do
	Work-Life Balance	Whether the business allows them an adequate balance between their work and family life
	Burnout	The effect that owning their business is having on their health and wellbeing
Franchisor	Franchisor Integrity	Whether they believe the franchisor team is trustworthy and treats them fairly
	Franchisor Competence	Whether they believe the franchisor team is competent to lead the business
	Franchisor Care	Whether they believe the franchisor team is genuinely concerned about their success
Finances	Financial Performance	Whether they are satisfied with the financial performance of their business
Network	Advocacy	Whether they would recommend the franchise to others
	Intention to Stay	Whether they want to remain as part of the network
	Conflict	Whether they feel in significant conflict with the franchisor
Overall Satisfaction		The above 10 measures combined

## Defining and measuring psycho-social attributes

Psycho-social attributes are defined as knowledge, attitudes, skills, interests, values, social factors and habits, in other words any psychological or social characteristics of a person, that influence their behaviour. Past research by FRI, and extensive applied experience in the field by FRI's consultants, supports the idea that certain psycho-social attributes are important to franchisee performance<sup>3</sup>.

In the current study we first set out to refine the psychometric properties of the scales used to measure these attributes, and then to determine their impact on performance. The 16 psycho-social attributes are shown in Table 3 below. These all pass accepted standards of quality control<sup>4</sup>.

<sup>3</sup> Greg Nathan, Chris Jackson and James Allen, Psycho-Social Predictors of Franchisee Success and Implications for Selection, Proceedings from International Society of Franchising 22nd Annual Conference, 2008, Saint Malo.

<sup>4</sup> See Appendix B for an explanation of these quality control measures.

► **Table 3 – The 16 Psycho-Social Attributes used in the Study**

Attribute Name	Definition
Brand Passion	Having pride and a strong belief in the brand
Business Acumen	Having a grasp of business and financial issues
Comfort with Technology	Having a willingness to engage with new technology
Conflict Proneness	Tendency to be suspicious and hostile towards others
Emotional Resilience	Being emotionally steady in the face of stress and pressure
Family & Social Support	Having a network of supportive people
Health	Being healthy without problems that could affect performance
Intrinsic Motivation	Being motivated by continuous improvement and excellence
Leadership Potential	Having a preference to lead and motivate others
Personal Organisation	Being systematic and well organised
Positive Outlook	Having hope and a belief in the future
Pro-activity	Being action orientated and results focused
Relationship Skills	Having a preference to be part of groups and network with others
Reliability	Being trustworthy, straightforward and reliable
Sales Orientation	Being comfortable in sales or promotional roles
Vigour	Having high levels of energy

## Defining and measuring bio-data

In addition to the psycho-social attributes mentioned above, FRI's previous research has shown background demographic factors, work patterns, family involvement and factors such as age, hours worked and previous business history also influence a franchisee's satisfaction and performance. For this reason franchisees were asked 33 questions relating to the areas in Table 4 below.

► **Table 4 – Types of Bio-Data collected**

Type of measure	Details provided
Gender	Male or female
Age	In years
Tenure in franchise	In years
Education	Highest level completed
Business experience	Franchised or independent
Prior success	Level of success for all prior ventures
Size of business	Number of business units and numbers of staff
Intentions to expand	Desire to invest in additional units - Yes, Maybe or No
Role in business	Level of involvement – passive investor, hands-on or overseeing
Hours	Average hours worked a week
Family involvement	Partner or family involvement - part or full-time
Motivations	Reasons for going into the franchise
English Literacy	Level of literacy and whether English is a first language
Perception of support	What franchisor provides that is most useful or valuable

## How the data were gathered

### Franchise companies targeted for participation

FRI's experience working with hundreds of franchise networks is that, in the early days as they are establishing their systems and recruiting their initial batch of franchisees, there can be relatively higher levels of volatility and unpredictability in patterns of performance and satisfaction. Because the goal of the study was to identify predictable trends in franchisee performance and satisfaction, franchise companies that had been franchising for at least three years and had a minimum of 30 franchisees were targeted for participation.

### Franchisee Profile Survey

Participating franchisors introduced their franchisees to the study and encouraged them to complete the online survey. As an incentive to participate, franchisees who completed the survey received a personalised Business Improvement Profile outlining their strengths and opportunities for improvement, along with a generic Success Strategies Report. The survey included 210 questions and took franchisees between 10 and 25 minutes to complete.

*Ratings were completed by an operations executive with first-hand experience working with the franchisee*

### Franchisee Performance Ratings

Franchisors were independently asked to complete a Franchisee Performance Rating on each participating franchisee. Typically these ratings were completed by an operations executive with first-hand experience working with the franchisee and familiarity with the franchisee's performance. Franchisors were not given access to any data from the franchisee surveys, just the name of the franchisees who completed the surveys.

In summary a range of measures thought to be related to performance and satisfaction were collected from franchisees so these could be compared with their actual performance and satisfaction. The rest of the report presents our findings.



## ▶ Chapter 3: Profile of a typical franchisee

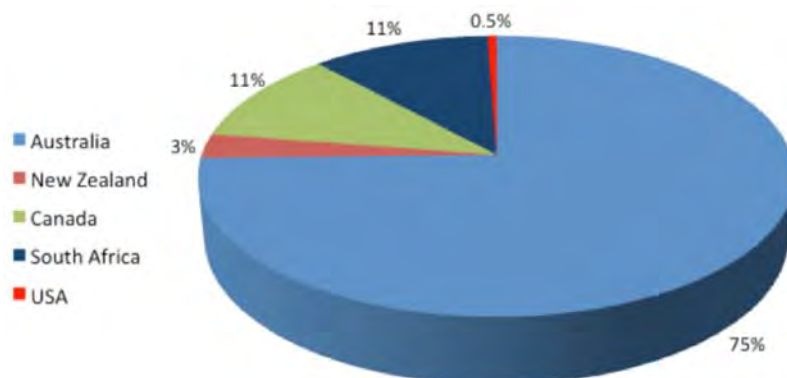
- ▶ 2,401 franchisees from 74 franchise networks completed the survey. Performance data were also collected on 2,083 of these people from their franchisors.
- ▶ Franchisees belonged to a cross section of industry types including 55% Retail, 39% Mobile and 6% Business to Business.
- ▶ The size and breadth of the sample suggests it is representative of the broader franchise sector.
- ▶ 61% were men and 48% have run a business before. The average tenure was 6.7 years. 22% were multi-unit operators with an average of 3.5 units each. 50% of franchisees had completed university studies.
- ▶ 37% of franchisees work over 50 hours a week and 41% have their partner involved in the business.
- ▶ Most franchisees are primarily motivated by either money or flexibility of lifestyle.

In the previous chapter we explained the research methods used to ensure the findings of the study can be interpreted with a high degree of confidence. In this chapter we explore the size and nature of the sample of franchisees that completed the survey. This sample has also given us a profile of the typical franchisee.

### Response rates

A total of 74 franchisor companies with 7,328 franchisees signed up for the study. Of these, 2,401 franchisees completed a survey giving a 33% response rate. Figure 2 shows the distribution of franchisee respondents between countries.

▶ **Figure 2 – Franchisee Profile Survey Respondents by Country**



The data from the franchisee surveys were then matched with 2,083 performance ratings completed by the franchisors of these franchisees. Being able to match the franchisee data to the franchisor data is what has given the study its power. Response rates are shown below in Table 5.

▶ **Table 5 – Response Rates for International Sample**

Participating franchise systems	Ave size of franchise systems (# franchisees)	Total franchisees invited to participate	Franchisee Profile Surveys completed	Franchisee Response Rate (%)	Performance Ratings completed by franchisors	Franchisor Response Rate (%)
74	99	7,328	2,401	33%	2,083	87%



## Industry profile of sample

Franchisee respondents were classified into one of six categories, based on industry type and the nature of the work they do. Table 6 shows the industry framework we developed for this purpose.

► **Table 6 – Industry framework used to categorise franchisee respondents**

Industry Category	Definition	Examples
Retail Food	Sells food from premises with employees	Fast food Bakery
Retail Service	Delivers a service from premises with employees	Travel Beauty care
Retail Product	Sells products from premises with employees	Home wares Pharmacy
Mobile Sale	Sells or delivers a one off product or service usually at a higher cost	Real estate Mortgage broking
Mobile Service	Delivers a low cost or ongoing service or product	Gardening Pet care
Business to Business	Sells a product or service to other businesses	Printing Recruitment

Figure 3 shows the distribution of franchisee respondents by industry type. Broadly speaking, the breakdown was 55% Retail, 39% Mobile and 6% Business to Business.

► **Figure 3 – Franchisee respondents by industry**

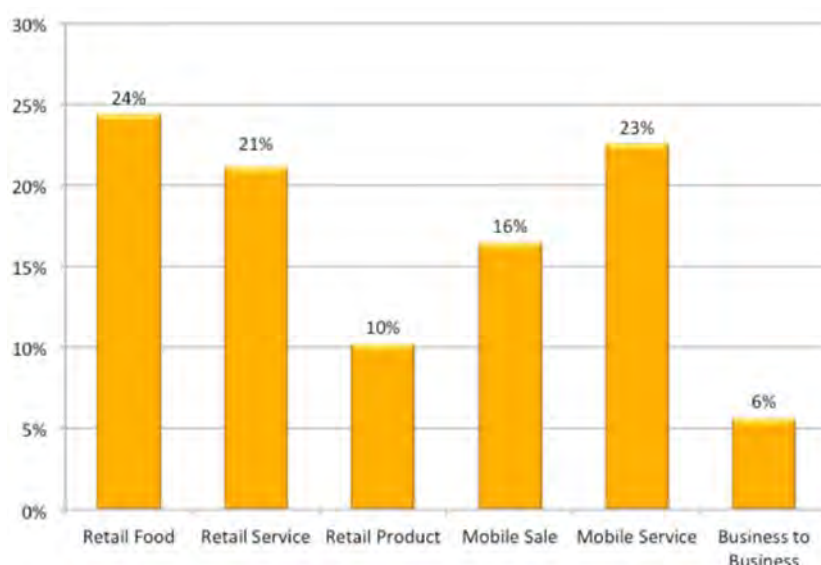


Table 7 breaks this down further to look at the distribution of franchisee respondents by industry and by country.

► **Table 7 – Franchisee respondents by industry, by country**

Industry Category	Australia	New Zealand	Canada	South Africa	USA
Retail Food	21%	6%	44%	31%	0%
Retail Service	20%	12%	23%	31%	0%
Retail Product	10%	2%	2%	14%	100%
Mobile Sale	22%	3%	0%	0%	0%
Mobile Service	20%	69%	31%	23%	0%
Business to Business	7%	9%	0%	1%	0%

We can see the spread of franchisee respondents across industries is not consistent between countries. For example, Canada, USA and South Africa (who together make up 23% of the overall international sample) have virtually no respondents from the Mobile Sale or Business to Business industries. This presented a problem in considering differences between countries, as we could not be sure if any differences between countries were actually due to industry representation differences. For this reason we decided not to report on differences between countries in this study.

## Representativeness of the sample

The size of the sample, 2,401 franchisees, is highly respectable. The 74 franchise networks included in the study also represent a balanced cross section of industries that reflects the broader characteristics of the franchise sector. With regard to organisational culture, some companies rated significantly higher on various franchisee satisfaction scales while others rated significantly lower; again indicating a broad cross section representing the realities of franchising.

A 33% franchisee response rate is an acceptable representative sample of franchisees from the various companies involved and should capture a balance of franchisee experience, views and perspectives. FRI has been conducting franchisee satisfaction surveys for over 10 years, sometimes for separate franchise companies and sometimes across the franchising sector, and our experience has been that people of all inclinations like to contribute their views.

In conclusion, we believe this to be a representative sample of franchise companies and franchisees, from which sound conclusions can be drawn.

## Demographic profile of franchisees

Using the data collected, Table 8 provides a snapshot of the demographic profile of franchisees included in this study.

► **Table 8 – Profile of franchisee respondents, internationally**

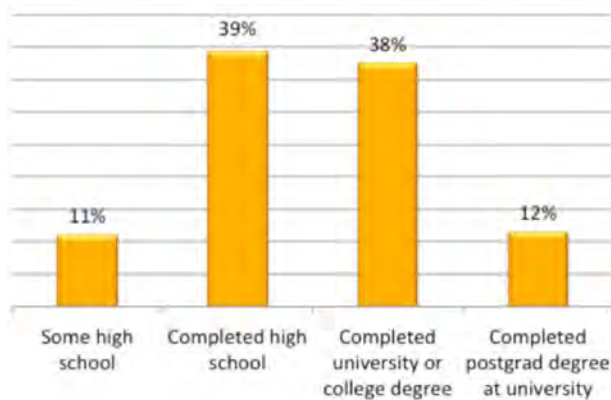
Gender	Male	61%
	Female	39%
Average franchisee age	46.2 years	
Average tenure	6.7 years	
Average number of franchise units owned (whole sample)	1.6	
Average number of staff employed by franchisee	11.9	
Percentage of multi-unit franchisees	22%	
Average number of units owned by multi-unit franchisees	3.5	

The average age of a franchisee is around 46 years and just over a third are women. The 6.7 years tenure is quite significant given that the average tenure in a job today is around four years. In this sample 22% of franchisees are multi-unit operators with an average of 3.5 units each.

### Education levels

Figure 4 shows the highest level of formal education completed by franchisees.

► **Figure 4 – Franchisee education levels**

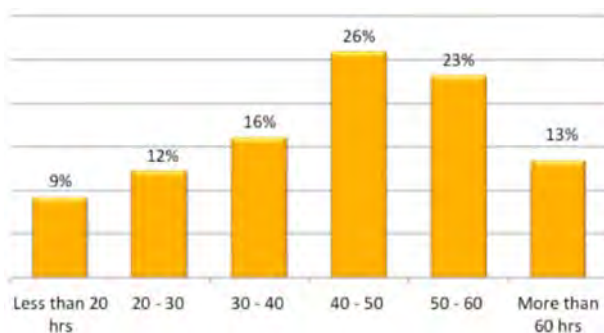


While most franchisees completed high school, an almost equal proportion have gone on to complete a university or college degree, and a smaller number to complete postgraduate qualifications.

### Hours being worked a week

Figure 5 shows how many hours, on average, franchisees report they work each week.

► **Figure 5 – Franchisee hours per week worked**

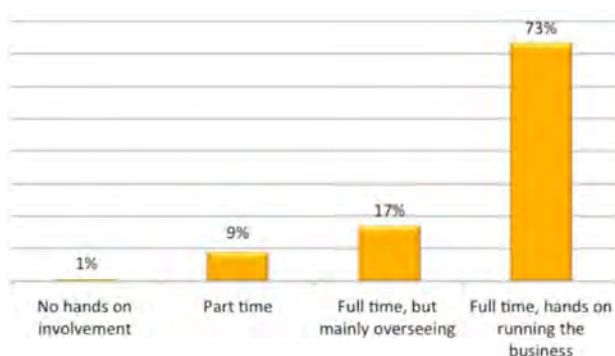


The majority are working 40 to 50 hours a week with a total of 62% working over 40 hours. Only a relatively small proportion of this group are working over 60 hours a week. In Chapter 10 we will explore the impact of hours worked on performance and satisfaction.

### Franchisee involvement in the business

Figure 6 shows the level of involvement franchisees reported having in their business.

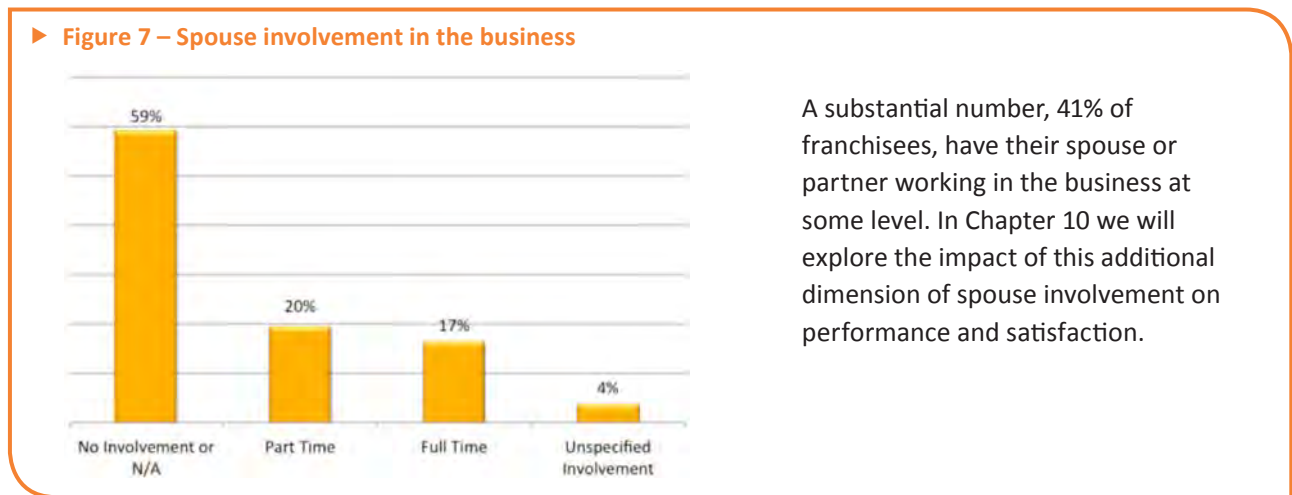
► **Figure 6 – Franchisee level of involvement in the business**



The majority are working in the business full time in a hands-on capacity. Later in this report we will explore the impact of type of business involvement on performance.

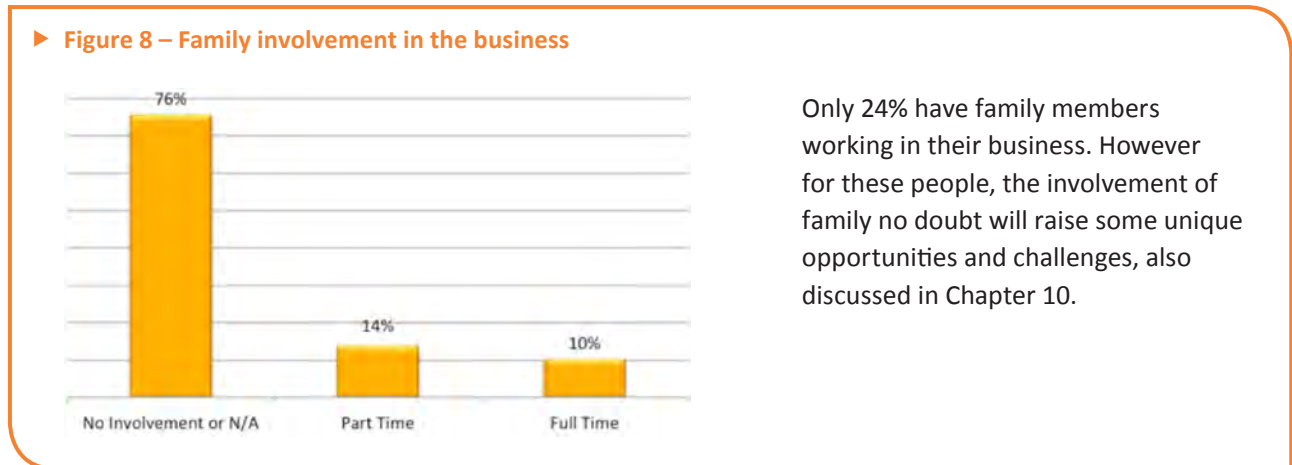
### Spouse involvement in the business

Figure 7 shows the type of spouse<sup>5</sup> involvement in the business.



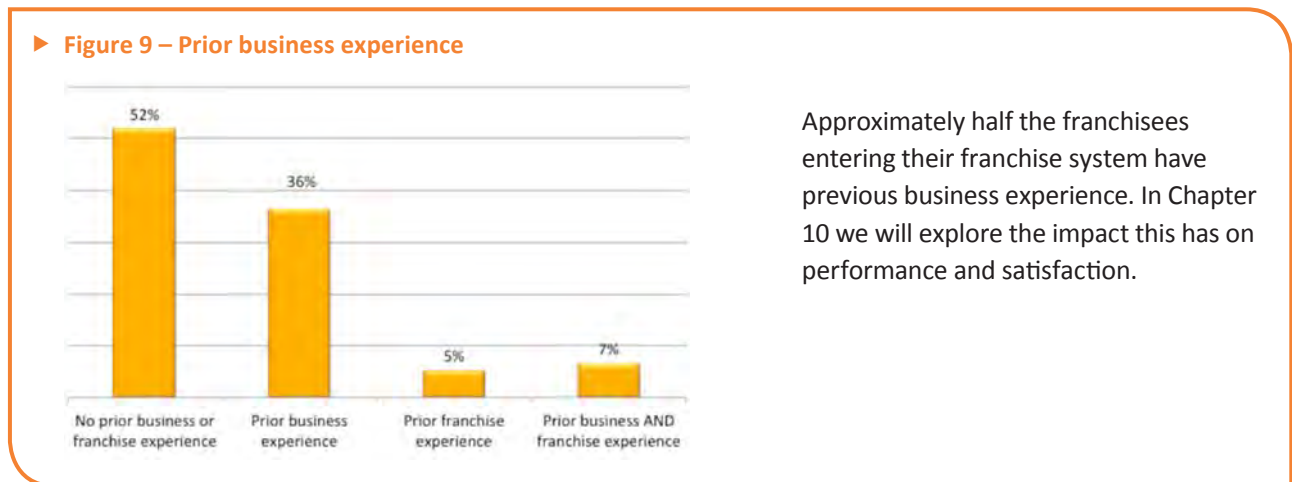
### Family involvement in the business

Figure 8 shows the percentage of franchisees with members of the family involved in the business (other than a spouse) and the nature of this involvement.



### Prior business experience - franchise and non-franchise

Figure 9 shows the percentage of franchisees who have previously run a franchise or independent business (or both).

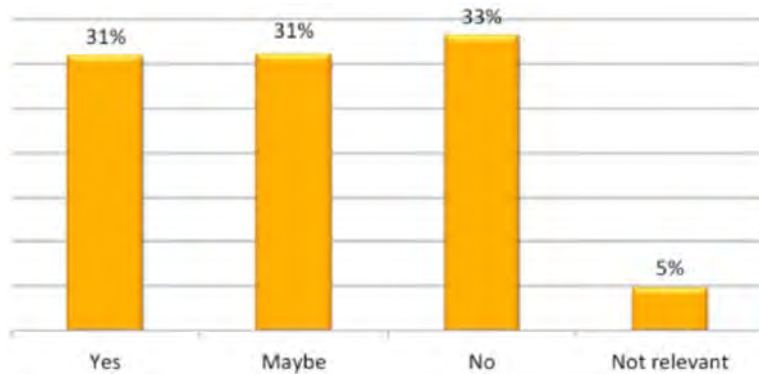


<sup>5</sup> Spouse refers to a personal or domestic partnership.

## Willingness to invest in additional franchises

Franchisees were asked “Given the opportunity, would you invest in additional units within this franchise system?” Franchisee responses are shown in Figure 10.

► **Figure 10 – Would you invest in additional units within this franchise system?**

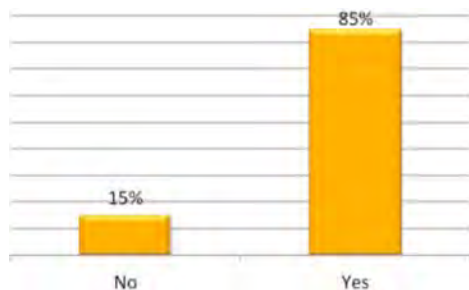


As can be seen 62% of franchisees are open to purchasing additional units. In Chapter 11 we explore the factors which lead to a greater willingness to invest in more franchise units.

## English as first language

Because in some countries, franchise systems are attracting increasing numbers of franchisees who have English as a second language (ESL), franchisees were asked to indicate if English was their first or second language. Figure 11 shows franchisee responses to the question ‘Is English your first language?’

► **Figure 11 – Is English your first language?**



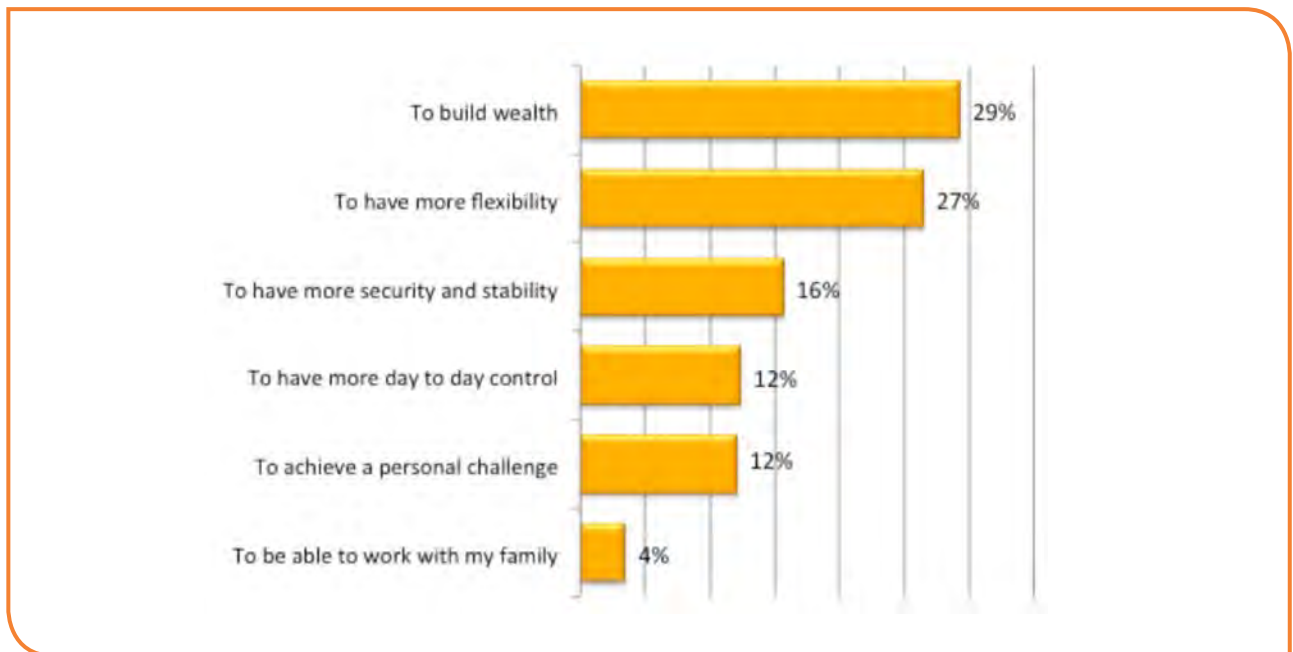
While the clear majority of franchisees in this study do have English as a first language, we suspect there may have been a bias in responses as the survey was in English. The number of ESL franchisees in the wider franchising sector is thus likely to be higher.

## Motivational profile of franchisee respondents

Franchisees were asked to rank the following six possible reasons for originally joining the franchise, in order of importance to them (from 1 as the strongest motivator to 6 as the weakest).

- To have more flexibility in how I live my life
- To have more day to day control over the way I work
- To be able to work with my family
- To build wealth
- To have more security and stability
- To achieve a personal challenge.

Figure 12 displays the percentage of franchisees that ranked each motivating factor as their strongest, i.e. as a 1.

► **Figure 12 – Franchisee motivations for buying into the franchise**

While the highest proportion of franchisees are primarily motivated to build personal wealth, almost as many are primarily motivated to have more flexibility in how they live their life. These two motivating factors account for 56% of the sample. Another 40% are relatively evenly divided between wanting security and stability, more control over how they do their work and to achieve a personal challenge. A relatively small number primarily want to use the business as a vehicle to work with their family.

## The “average” franchisee

If there were such a thing as an “average” franchisee, he would be a 46 year-old male, working hands on in his business for 40 to 60 hours a week, and managing a team of 12 people. He would have bought into his single-unit franchise around seven years ago, after a 19-year work career, which may well have included running an independent business. He probably completed high school and may have gone on to complete a university degree. His motivation for joining the franchise was either to build personal wealth or have more flexibility in his life.

These demographic characteristics of the “average person” will seldom exist in the one person and there are many people for which only a few of these descriptors will apply. For instance while 61% of franchisees are men, 39% are women, a significant number. And while 78% may only own one business, 22% are multi-unit operators. Many of these characteristics do appear to impact on performance and satisfaction, as we will see.



## ▶ Chapter 4: The current state of franchisee satisfaction

- ▶ Franchisee satisfaction is relatively positive with franchisees overall reporting a favourable Net Promoter Score of +39.
- ▶ 77% of franchisees say they get the practical support they need from their franchisor, 80% feel they are treated fairly and 76% think the franchisor team are competent to run the franchise system.
- ▶ Over a third of franchisees report feeling emotionally exhausted by the day to day hassles and pressures of their business.
- ▶ High levels of franchisee stress are to a certain extent buffered by high levels of work enjoyment with 88% of franchisees saying they get a lot of satisfaction from running their business.
- ▶ Satisfaction with financial performance is relatively lower than satisfaction in other areas, with a third believing their business is not a financial success.
- ▶ 70% of franchisees feel they could honestly recommend the franchise to a friend or colleague. Only 20% say they would not buy the franchise again if they had their time over.
- ▶ 16% of franchisees feel in some level of conflict with their franchisor but only 3% strongly feel this way.
- ▶ Trends in the data validate *The Franchise E-Factor* model of franchisee satisfaction, which predicts a drop in satisfaction over the first few years and then a rebound to about half its original level.
- ▶ Satisfaction tends to be at its lowest around five years into the relationship.

As with most sectors in a society, the franchising sector has various lobby groups making claims to support their own interests. While many of these claims centre around franchisee satisfaction, rarely are the claims backed up with data.

This Chapter provides a snapshot of franchisee satisfaction from 2,401 franchisees in 74 companies across a range of industries.

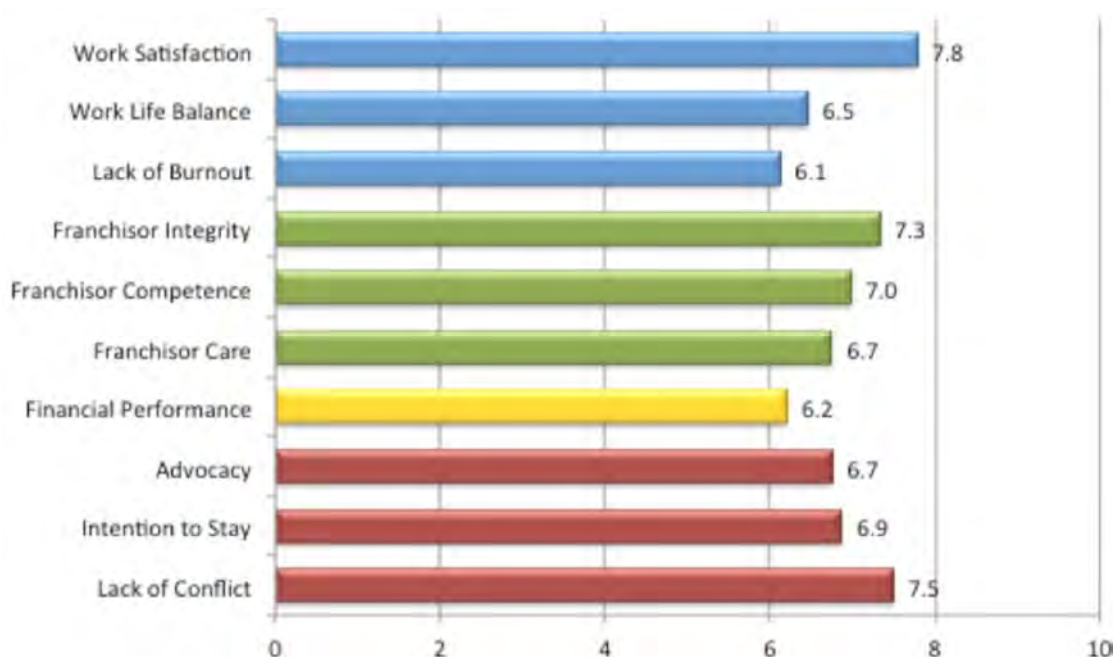
### Franchisee satisfaction on 10 measures

Previous research by FRI has shown that franchisee satisfaction is impacted by a number of factors such as enjoyment of work, perceptions of franchisor behaviour, achievement of financial goals and a phenomenon known as *The Franchise E-Factor*, which will be covered later in the chapter. Figure 13 shows the average level of franchisee satisfaction in 10 separate areas. The blue scales on the figure refer to work enjoyment, green represents satisfaction with the franchisor, yellow is financial performance and red is network satisfaction.

For ease of interpretation average franchisee ratings on each scale have been converted to a score out of 10 using the following guide:

Score	Interpretation
Under 2	Strongly Dissatisfied
Between 2 and 4	Dissatisfied
Between 4 and 6	Uncertain
Between 6 and 8	Satisfied
Between 8 and 10	Strongly Satisfied

► Figure 13 – Ratings on the 10 measures of franchisee satisfaction



## Work Enjoyment

### Work Satisfaction

Work satisfaction measures how satisfied franchisees are with the nature of the work they do. This was the highest rated scale and indicates franchisees on the whole enjoy their work. For example, 88% agreed with the statement “I get a lot of satisfaction from running this business” and 87% agreed “I really enjoy running this business”.

It appears that despite the pressures and uncertainties in running their businesses, there are significant intrinsic rewards for franchisees, for instance, the opportunity to express themselves through their work and make a positive difference to the lives of their staff and their local communities. As independent business owners franchisees can also experience a heightened sense of pride and self-esteem over having more control of their lives.

This is an important finding because enjoyment of work is an effective buffer to the negative impact of stress, which is an issue for many franchisees, as will be shown below.

### Work Life Balance

The Work-Life Balance scale measures the extent franchisees believe the business allows them an adequate balance between their work and family life. While most franchisees appear to be reasonably satisfied with the lifestyle associated with running their business, there was a wide variation in scores on this scale. For instance while 68% agree the business enables them to have the lifestyle they want, a significantly lower proportion of franchisees, 59% to be exact, feel they have enough balance between their work and their personal life. Also 21% of franchisees report their business has had a negative impact on their family or personal life. As would be expected, hours worked had a significant impact on satisfaction in this area. For instance the average Work Life Balance score of franchisees working 40 to 50 hours a week was 6.7 compared to just 4.7 for franchisees working over 60 hours a week.

## Lack of Burnout

The Burnout scale measures the effect that owning the business is having on franchisee health and wellbeing. For consistency, franchisee scores on the Burnout scale have been reversed and reported as a *Lack of Burnout*. This was the lowest satisfaction score at 6.1 and is thus bordering on moving into the “uncertain” range of satisfaction. While only 18% believed that running the business was having a negative impact on their health and wellbeing, a significant 49% found running the business mildly to severely emotionally exhausting and 35% said they felt mildly to severely run down from the day to day hassles of the business.

*49% found running the business mildly to severely emotionally exhausting*

Again hours worked had the greatest impact on satisfaction in this area, with a significant relationship between longer hours worked and higher burnout.

## Satisfaction with Franchisor

### Franchisor Integrity

The Franchisor Integrity scale measures the extent to which franchisees believe the franchisor team is trustworthy and treats them fairly. This scale was the third highest at 7.3 indicating franchisees, overall, trust their franchisors.

For instance 84% agreed they were treated with respect by their franchisor, and 80% felt they were treated fairly, though a lower percentage, 74%, believed the franchisor team was trustworthy in their business dealings. As will be seen later in this report trust emerges as a critical factor in whether franchisees will recommend the franchise system to others.

### Franchisor Competence

The Franchisor Competence scale measures the extent to which franchisees believe their franchisor team is competent to lead the business. Franchisees were moderately satisfied with the capability and leadership shown by their franchisor team, with 72% agreeing the franchisor team has a clear direction for the future and 76% agreeing the franchisor team is competent to run the franchise system.

While this is a show of faith by the majority of franchisees, franchisees with higher levels of education rated the franchisor team lower in this area, probably because their expectations were higher.

Satisfaction with Franchisor Competence was the strongest predictor (out of all the satisfaction scales) of whether a franchisee would act as a Promoter and recommend the franchise to others.

### Franchisor Care

The Franchisor Care scale measures the extent to which franchisees believe the franchisor team is genuinely concerned for the success of their business. Franchisees were satisfied that their franchisor team did care about the success of their business, however this was the lowest of the three franchisor satisfaction scales, with a score of 6.7 (for instance compared to 7.3 for franchisor integrity).

*75% believed their franchisor genuinely cared about their success*

While 77% of franchisees felt they were getting the practical support they needed from their franchisor and 75% believed the team genuinely cared about their success, a lower proportion of 67% believed the franchisor team made an effort to understand what they needed to be successful. Women franchisees were significantly more likely to believe their franchisor cared about their success than men. While it is possible that franchisors are showing more sensitivity to the needs of female franchisees, trends in the data suggest that female franchisees are better at engaging with the franchisor support team and communicating what they need.

## Financial Performance

The Financial Performance scale measures the extent to which franchisees are satisfied with the financial performance of their business, including profitability and return on investment. With a score of 6.2, satisfaction with financial performance was the second lowest of the 10 satisfaction scales. While 70% of franchisees agreed that, all things considered their business was making a reasonable profit, and 65% a satisfactory return on investment, a third of the sample did not consider their business to be a financial success.

There were significant differences in satisfaction with financial performance between different types of franchisees which will be explored later in this report. For instance men and multi-unit operators were significantly more satisfied with their financial performance, as were franchisees with longer tenure and those who had previously run a successful franchise.

## Network Satisfaction

### Advocacy

The Advocacy scale measures the extent to which franchisees would recommend the franchise to others. The Advocacy score was reasonably robust at 6.7 indicating most franchisees would probably be talking quite positively about their franchise network. While 70% of franchisees felt they could honestly recommend the franchise to a friend or colleague, a lower proportion (65%) said they would buy their franchise again if given a choice (15% were undecided on this question).

Passive investors (people not involved in the running of the business) were significantly less likely to be advocates.

### Net Promoter Score

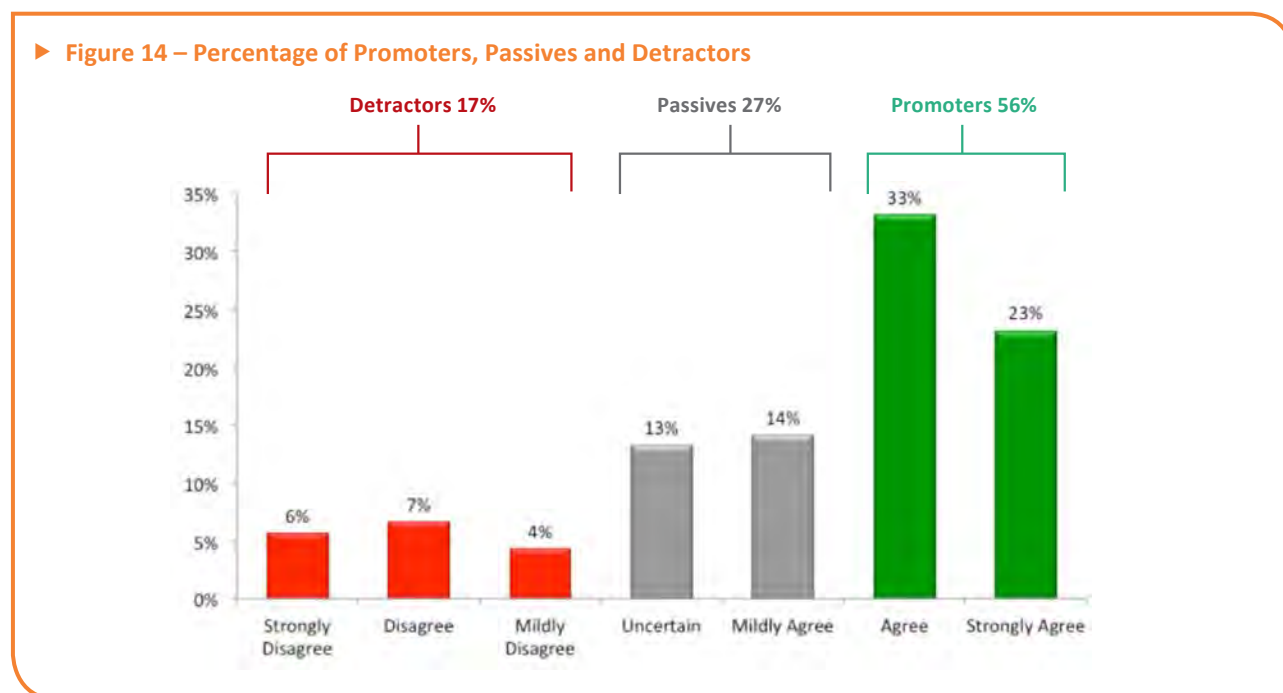
As mentioned above, one of the statements used in the Advocacy scale is “I could honestly recommend this franchise to a friend or colleague”. This type of item is often used in consumer market research to calculate what is known as the Net Promoter Score (NPS), a model developed by Fred Reichheld<sup>6</sup>. This model categorises people as Promoters, Passives or Detractors depending on their likelihood to actively promote or criticise a brand as shown below.



NPS Category	Definition as applied to franchisees in the study
Detractors	Franchisees who are unhappy and may exert a negative influence over the brand’s reputation. <i>Mildly Disagree</i> is included in this category as, these people are likely to make slightly negative comments if asked for an opinion. This may well turn off a potential buyer.
Passives	Franchisees who are not necessarily dissatisfied, but who play a passive role in the growth of a brand. <i>Uncertain</i> and <i>Mildly Agree</i> are included as these people are unlikely to actively recommend a brand. If asked for an opinion, the best they will give is a mild shrug of faint praise.
Promoters	Franchisees who are enthusiastic and positive about the brand and will contribute to its growth. As such, only people who <i>Agree</i> or <i>Strongly Agree</i> with the above statement are included in this category.

<sup>6</sup> Reichheld, F. (2003) The One Number You Need to Grow. *Harvard Business Review*

Figure 14 shows the breakdown of franchisee Promoters, Passives and Detractors in the current study.



The Net Promoter Score is calculated by subtracting the Detractors from the Promoters, in this case subtracting 17% from 56%, giving the franchisors in this study a NPS of +39%. This would appear to be quite positive given the average NPS for the Banking sector is around +17%, and Insurance companies and Internet providers averaging around +4%. The highest ranking well-known brand is Apple with a Net Promoter Score of +71%<sup>7</sup>.

However, within the franchisor brands that participated in the study, there was a large variation of franchisee promoters and detractors. At the extremes, Net Promoter Scores for brands within the study ranged from +63% to -17%.

### Intention to Stay

The *Intention to Stay* scale measures the extent to which franchisees want to remain as part of the network. The *Intention to Stay* score was also reasonably strong at 6.9 indicating most franchisees intend to stay in their franchise. For instance only 15% felt things would be better for them if they left the franchise and 67% said they were intending to renew their franchise agreement at the end of the current term. It should be noted that only 12% said they did not intend to renew with 21% uncertain of their intentions in this area.

Not surprisingly, intentions to leave the system were correlated with the age of the franchisee. In other words older franchisees were significantly more likely to agree with statements such as “I am seriously thinking about getting out of this franchise”. Incidentally 25% of franchisees overall agreed with this statement.

Passive investors also had significantly lower intentions to stay in the system, as did franchisees working over 60 hours per week.

In Chapter 11 we explore further the factors that drive intentions to stay in the franchise.

### Lack of Conflict

The *Conflict* scale measures the extent to which franchisees feel in significant conflict with the franchisor. As with the Burnout scale, the scores have been reversed and reported as a *Lack of Conflict*.

While the franchise relationship does tend to create a culture of creative tension, due to the interdependence of the parties, the level of conflict reported in this study is relatively low. The Lack of Conflict score of 7.5 is the second highest of all the satisfaction scores, with just 16% of franchisees agreeing with the statement

<sup>7</sup> See <http://www.netpromoter.com/resources/article27.jsp>

“I currently feel in conflict with my franchisor”. This percentage is consistent with previous research we have conducted on conflict in franchise systems. While 16% may seem to be a significant number, only 3% of franchisees strongly agreed with the statement.

Passive investors in the business were significantly more likely to be in conflict with their franchisor. Also franchisees whose spouse or partner was involved in the business were more likely to report being in conflict with the franchisor.

## Satisfaction by Tenure – *The Franchise E-Factor*

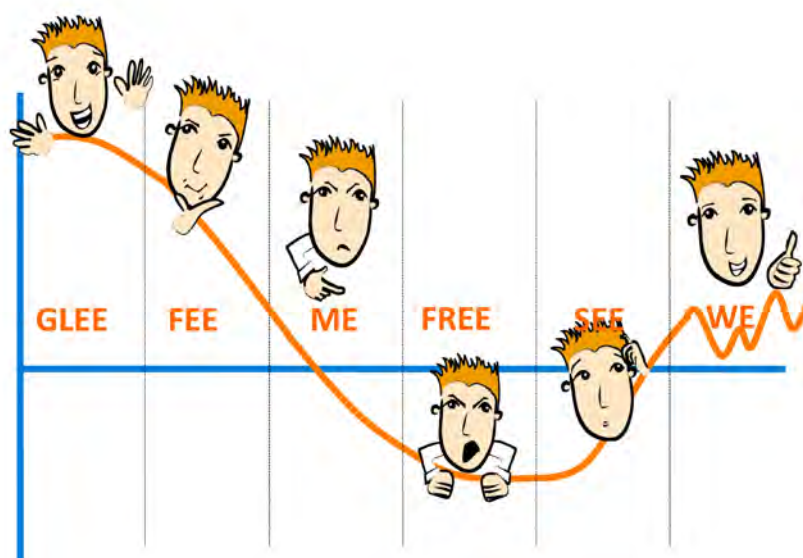
There is a theory of franchisee satisfaction called *The Franchise E-Factor*<sup>8</sup>, developed by FRI’s Founder Greg Nathan, which predicts a franchisee’s satisfaction will move through several stages, starting at a high level but quickly dropping as the franchisee moves from an eager and perhaps naive learner, to a competent sceptic. The model predicts satisfaction will then increase again as the franchisee becomes a tolerant business partner or collaborator with the franchisor.

As part of the study we investigated whether the data collected from this large sample of franchisees support *The Franchise E-Factor* model. Before sharing the findings, a summary of the model is in order (see Figure 15).

According to *The Franchise E-Factor*, the franchisee starts in a state of “Glee” but becomes increasingly disillusioned with their franchisor as they gain more confidence in their ability to run the business. After “Glee” the relationship moves to the “Fee” stage where the franchisee questions the value they are getting for the ongoing franchise fees. Satisfaction continues to decline as they reach the self-centred “Me” stage where they attribute any positive results to themselves, but negative results to the franchisor. The model predicts satisfaction will continue to fall and bottom at what is known as the “Free” stage. This is where the franchisee is most likely to try and shake free of the restrictions they feel from the franchisor or the franchise system. The relationship is also most likely be characterised by overt conflict at this stage.

If a franchisor sets up a conversation of genuine two-way listening and respect, there will be a breakthrough in the relationship. This is called the “See stage”. Finally, if the franchisor demonstrates maturity, empathy and assertiveness to properly address the franchisee’s legitimate needs, while not giving in to unrealistic demands, satisfaction returns to a realistic level of equilibrium, somewhere in-between the “Glee” and “Free” stages, called the “We” stage.

► Figure 15: The Franchise E-Factor



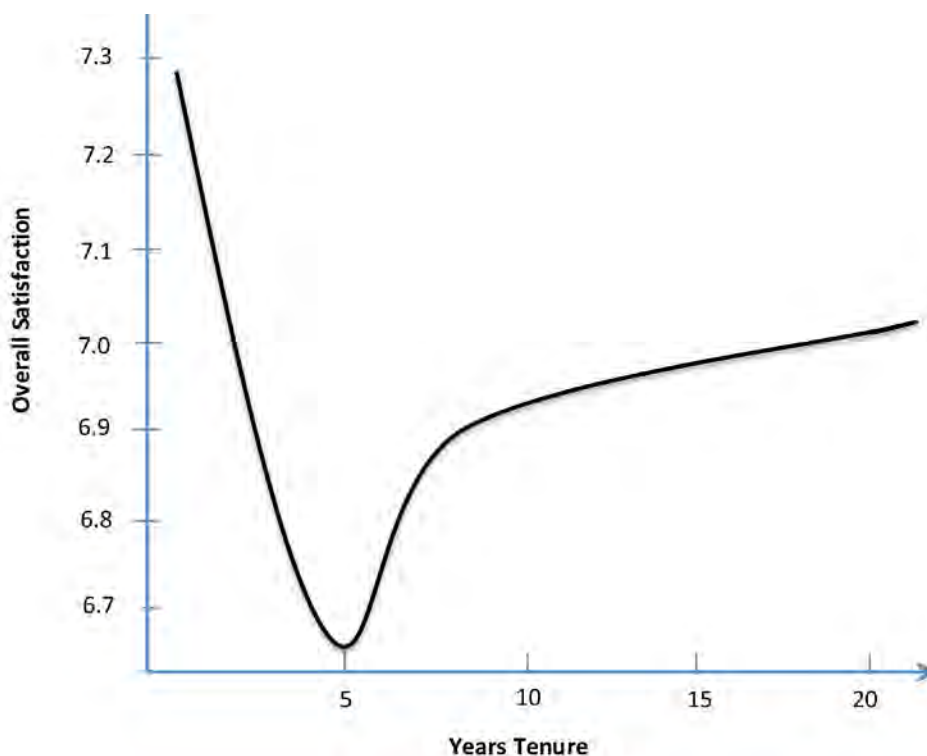
<sup>8</sup> For more details about the model, see *The Franchise E-Factor* by Greg Nathan, available from [www.franchiserelationships.com](http://www.franchiserelationships.com).

## Putting *The Franchise E-Factor* to the test

We decided to put *The Franchise E-Factor* to the test by tracking how satisfaction changes with tenure in the current sample. In theory franchisees in the early stages of the relationship should be more satisfied, but satisfaction levels should consistently be lower as tenure increases. If the model is correct, at some point satisfaction should bottom out and then again increase for franchisees that have presumably moved from the “Free” stage to the “See” and “We” stages.

To test this we first created an overall franchisee satisfaction scale, combining all 26 items<sup>9</sup> from the 10 franchisee satisfaction scales. We then mapped this franchisee satisfaction score against tenure using a statistical technique called a locally weighted polynomial regression. This enables us to create a “best fit” curve for how satisfaction changes according to tenure. Figure 16 shows the curve that emerged from this analysis of franchisee satisfaction over time.

► **Figure 16: Franchisee satisfaction mapped against tenure**



Note how satisfaction steadily drops as tenure increases, until it bottoms out at five years. Satisfaction then increases steadily until the eight-year mark, at which point the increase becomes more gentle, to end up at around half of where it began. It is probable that the shift in satisfaction that occurs at the five year mark is linked to the first franchise agreement renewal, which forces the franchisee and franchisor to come together to renegotiate their relationship. The gradual increase that occurs around eight years is probably a sign that both parties have found a certain level of acceptance in how they are going to work together.

These findings appear to validate the basic *Franchise E-Factor* model, suggesting the challenging “Free” stage will on average take place between three and five years. In a previous study of the model with a larger sample of 4,686 franchisees, the lowest point in the curve was three years<sup>10</sup>.

<sup>9</sup> If you are interested in statistics, the internal reliability for this overall satisfaction scale was  $\alpha = 0.96$ .

<sup>10</sup> Nathan, G. Validating The Franchise E-Factor Model of Franchisee Satisfaction. Paper presented at International Congress of Applied Psychology, Brisbane, 2010.

## ▶ Chapter 5: The relationship between psycho-social attributes and performance

- ▶ *Family & Social Support, Brand Passion and Leadership Potential* emerged as the biggest predictors of overall performance.
- ▶ The Select Again measure highlighted *Brand Passion, Family and Social Support* and *Business Acumen* as being the most important factors in determining whether a franchisor would select a franchisee again.
- ▶ The most important success attributes seem to cluster into the following areas:
  - Having a positive attitude, especially toward one’s work and brand
  - Maintaining high levels of energy and well-being
  - Being proactive to grow the business
  - Building mutually supportive relationships with others
  - Focusing on business metrics and systems

### Making the link between attributes and performance

Table 3 earlier in the report describes 16 attributes measured in this study which we proposed would impact on franchisee performance. An attribute is a characteristic of a person that influences his or her behaviour.

As one of our goals was to empirically test the extent to which these attributes relate to franchisee performance, our starting point was to assess the 2,401 franchisees in the study on each attribute. We achieved this by having them rate themselves on a series of statements using a seven-point scale, from *Definitely Not Like Me* to *Exactly Like Me*. For instance one of the statements measuring the Business Acumen attribute is “I know how to make my money work for me”, while another measuring the Personal Organisation attribute is “I prefer to follow routines”. Franchisee responses were then converted to scores for each attribute.

Performance measures were collected for 2,083 of these franchisees by having their franchisors rate them on financial achievement, delivery of the customer experience, constructive participation in the network and how likely they would be to select the franchisee again (see Chapter 2 for details).

A number of standard statistical techniques<sup>11</sup> were used to identify significant links between franchisee self-ratings on the psycho-social attributes and their performance. To our surprise<sup>12</sup> all the attributes correlated with nearly every performance measure at a highly significant level. As we dug deeper into the data we discovered that different attributes were related to different performance measures in important and interesting ways.

The rest of this Chapter, as well as Chapter 6 will reveal the many significant findings we discovered and their implications for franchise excellence, from the franchisee and franchisor’s perspectives.

### How the attributes impact on overall performance

One simple way to demonstrate how the attributes are related to performance is to divide the sample into two groups – a high performance and a low performance group - and investigate whether the high performers are stronger on each attribute and the low performers weaker. To do this we took the top and the bottom 20% of franchisees, as defined by their Overall Performance scores, and compared how they scored on each attribute

<sup>11</sup> Techniques used included the Pearson correlation analysis, which determine if there is a significant relationship between two measures, and Analysis of Variance which measures differences between groups.

<sup>12</sup> It is unusual in this type of applied psychological research to find so many statistically significant relationships in the data.

against an average benchmark. (This is known as the deviation from the mean). Findings are shown in Figure 17. The green line shows how the top performers have deviated from the mean. The red line is how the bottom performers have deviated from the mean. The gap between the two lines is a measure of how well this attribute differentiates high and low performers.

To use a sports physiology analogy, imagine the questionnaire given to each franchisee was like a blood test to measure if they had higher or lower than average levels of each attribute in their system. The green and red lines report on how much of each attribute the high performance group had in their system compared to the low performance group. For instance, the amount of *Family & Social Support* in the high performance group was at a much higher level than the low performance group.

These differences in the amount of each attribute found in the two groups were all highly significant. The implications of these findings for each attribute are discussed in more detail throughout Chapters 5 and 6.

The eight attributes found to differentiate the top from the bottom performers most are listed in the far left column of Table 9.

## How the attributes impact on the "Select Again" measure

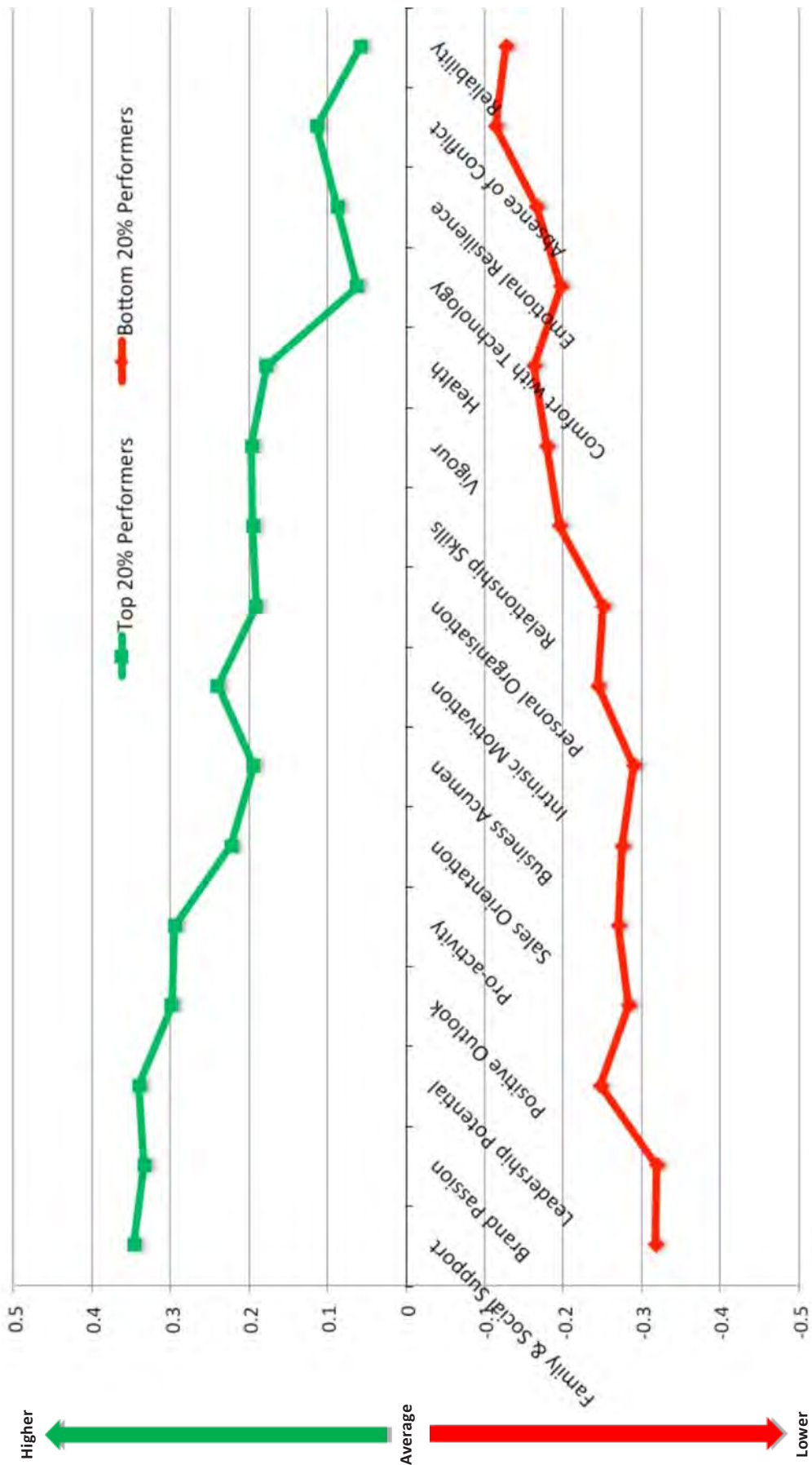
Another way to measure the impact of the attributes on the suitability and performance of franchisees is to assess how they influence whether or not a franchisor would select the franchisee again. Select again measures are commonly used by professional recruiters when reference checking candidates because they pull together a number of factors into an intuitive global rating of performance and suitability for a role.

Figure 18 displays attribute measures for franchisees who would definitely be selected again (green line) compared to franchisees that definitely would not be selected again (red line).

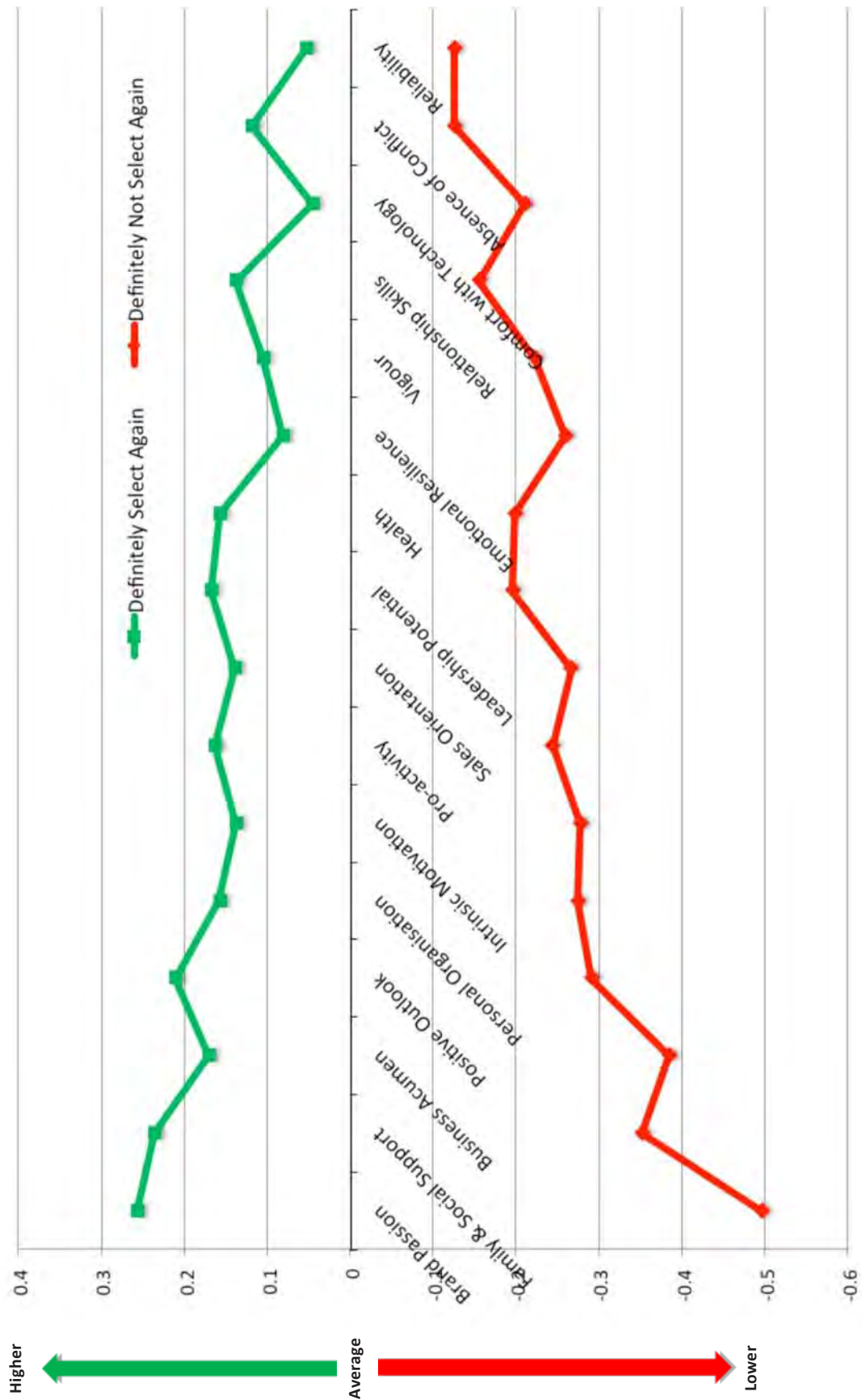
Again we see large differences between the two groups. Franchisees who would definitely be selected again had higher than average amounts of each attribute, while franchisees who definitely would not be selected again had lower than average amounts of each attribute. In this case, the differences between the groups are highly significant for all attributes except *Reliability*.

The eight attributes found to differentiate most between these two groups of franchisees are shown in the middle column of Table 9.

► Figure 17 – Attribute scores for the top 20% and bottom 20% of franchisees on performance



► Figure 18 – Attribute scores for franchisees who definitely would and definitely would not be selected again



## Top eight predictors of franchisee performance and suitability

While most of the attributes were able to differentiate the good from the poor performers, several were particularly robust. By combining the findings from both analyses we can identify which attributes most strongly impact on franchisee performance and suitability across all franchise systems. These are listed below in the far right column of Table 9.

► **Table 9 – Top eight predictors of franchisee performance and suitability**

Attributes best differentiating top and bottom performers	Attributes best differentiating “select or not select again”	Top predictors of franchisee performance and suitability in order of strength
Family & Social Support	Brand Passion	Family & Social Support
Brand Passion	Family & Social Support	Brand Passion
Leadership Potential	Business Acumen	Positive Outlook
Positive Outlook	Positive Outlook	Leadership Potential
Pro-activity	Personal Organisation	Pro-activity
Sales Orientation	Intrinsic Motivation	Business Acumen
Business Acumen	Pro-activity	Sales Orientation
Intrinsic Motivation	Sales Orientation	Intrinsic Motivation

Because of the highly significant relationships found between all 16 attributes and measures of success, we will refer to them from now as the success attributes.

One way of looking at all these success attributes is to cluster them into the following areas:

**Attitude:** Having a positive attitude, especially toward one’s work and brand, e.g. positive outlook, brand passion, intrinsic motivation.

**Health:** Maintaining high levels of energy and well-being, e.g. vigour, emotional resilience, health.

**Drive:** Being proactive to grow the business, e.g. pro-activity, sales orientation.

**Relationships:** Building mutually supportive relationships with others, e.g. leadership potential, family and social support, relationship skills.

**Systems:** Focusing on business metrics and systems, e.g. business acumen, personal organisation.

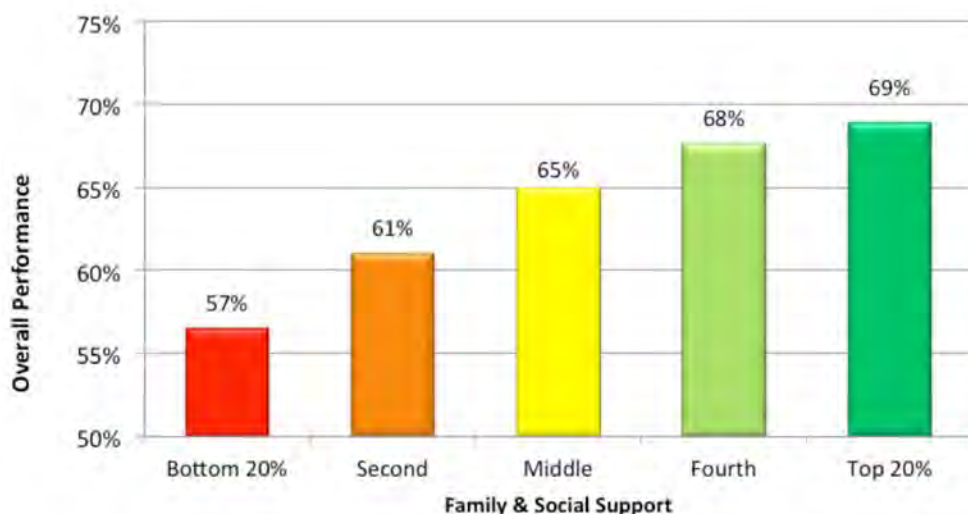
## ▶ Chapter 6: How each attribute impacts on specific aspects of performance

- ▶ Each of the success attributes impacts in unique ways on the different measures of franchisee success.
- ▶ Attributes to do with a person's attitude and mindset, such as *Positive Outlook* and *Pro-activity*, have around the same impact on Financial Achievement as the more business related attributes such as *Sales Orientation* and *Business Acumen*.
- ▶ Franchisees with high levels of *Positive Outlook* are likely to achieve 13% more sales and profitability than those low on this.
- ▶ Questions around whether a person's partner or family is positive about the business are powerful predictors of performance.
- ▶ While *Brand Passion* does impact on financial performance, its main contribution is on how franchisees engage with their customers, the franchisor, and other franchisees.
- ▶ *Business Acumen* has a particularly strong impact on Financial Achievement. Franchisees high on this attribute achieve 15% better financial results than those low on this.
- ▶ Franchisees high on *Leadership Potential* achieve 15% higher ratings on Financial Achievement than those low on this.
- ▶ While franchisees higher on *Reliability* and who try to do the right thing, make better franchise citizens and deliver better customer service, they do not achieve better financial returns.

Having identified that top performers are significantly higher than average on all the success attributes, and poorer performers lower, we sought to understand in more depth how each attribute impacts on performance. To do this, for each attribute we divided the franchisees in the study into five equal groups or quintiles, based on how high or low they had rated themselves on the attribute in question. We then compared the performance of these five groups within each attribute.

For example Figure 19 has divided the franchisees into five groups according to their level of *Family & Social Support* (as measured by the *Family & Social Support* scale) and charted the Overall Performance score for each group. There are approximately 400 franchisees in each quintile group.

▶ **Figure 19 – How Family & Social Support impacts on Overall Performance**



Note that the bottom quintile group on *Family & Social Support* had an average performance score of 57% whereas the top quintile had a score of 69%. Remember, Overall Performance is a combination of three measures - Financial Achievement, Customer Experience and Constructive Participation (see Table 1 for details). In other words, having high versus low levels of *Family & Social Support* impacts a franchisee's Overall Performance by up to 12%.

These are conservative findings as we are reporting on data from a sample of existing franchisees who are all presumably still in business. It would be reasonable to conclude the differences between high and low performers would be larger if the sample also included franchisees who had failed in their business.

We also wanted to analyse whether the impact of the attributes on performance was the same for the three sub-measures of performance, Financial Achievement, Customer Experience and Constructive Participation. For instance does *Family & Social Support* impact equally on a franchisee's financial performance as it does on how well they deliver the customer experience or how well they participate constructively in the franchise system? To do this we compared the bottom quintile with the top quintile group on the three performance measures for each attribute.

This information has implications for the selection, training and development of franchisees. If we know the attribute *Positive Outlook* impacts significantly on the delivery of Customer Experience (as indeed it does), and we want to improve the performance of an individual or group of franchisees in this area, we can focus our attention on developing this attribute.

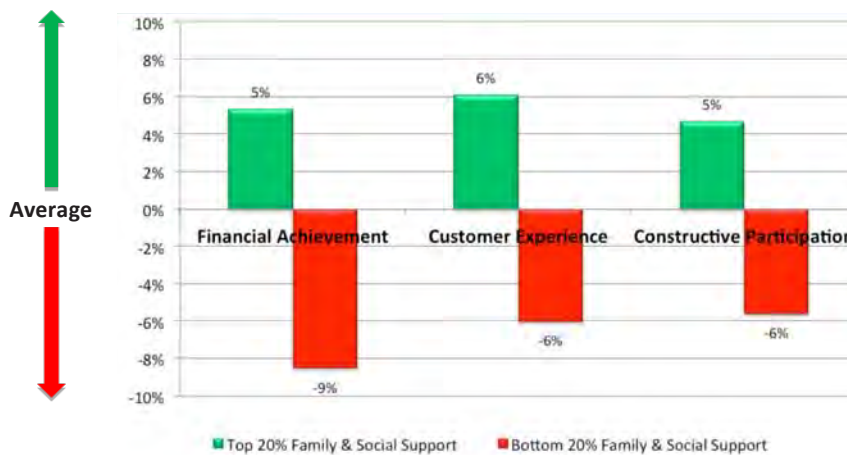
The impact of each attribute on Financial Achievement, Customer Experience and Constructive Participation is presented below. The attributes are shown in order of importance to overall performance. But as will be seen, each attribute contributes to overall performance in different ways.



## Family & Social Support

*Family & Social Support* measures the extent a person has a network of supportive people in their life. Figure 20 displays the difference high or low levels of *Family & Social Support* make to the three performance measures. While this is highly significant in all areas, it is particularly so for Financial Achievement. Franchisees high on this attribute achieve 14% higher sales and profitability than those in the lower group.

Figure 20 – Impact of Family & Social Support on the three types of performance



*Family & Social Support* consists of three factors:

- ▶ The extent to which the franchisee believes they have a network of people in their life that care about them. We call this *Supportive Network*.
- ▶ The level of stability and lack of distressing factors in the home environment, which we call *Home Climate*.
- ▶ The attitude of the franchisee's partner or family towards the business, which we call *Support of Franchise*.

Further analysis of the data indicates **Support of Franchise** has a particularly strong impact on all of the performance measures. Questions around whether the franchisee's partner or family was positive about them running the franchise were particularly powerful predictors of performance.

Franchisees with higher Family & Social Support were more likely to:

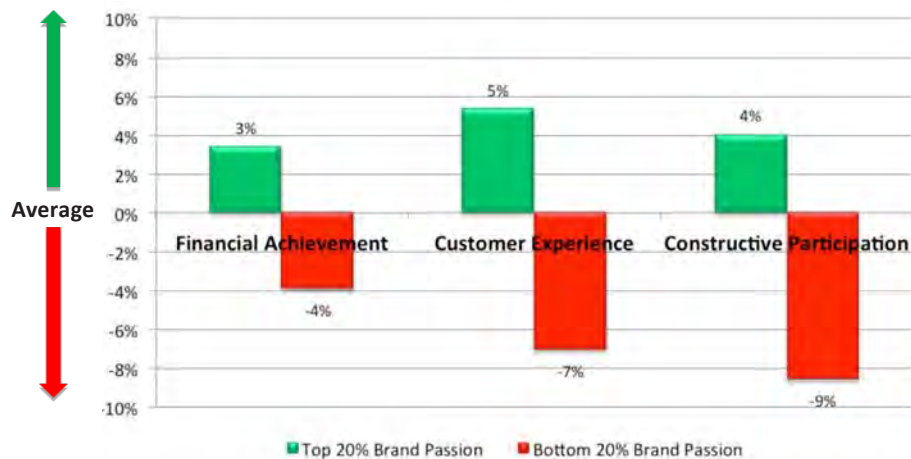
- ▶ Have higher levels of profitability.
- ▶ Comply with operational systems.
- ▶ Promote their business locally.
- ▶ Deliver better customer service.

The partner's attitude to the business was an important factor in shaping these outcomes.

## Brand Passion

*Brand Passion* measures pride, belief and personal identification with the brand. In many ways it measures the extent to which a franchisee has bought into the values and culture of the network. Figure 21 shows the difference high or low levels of *Brand Passion* make to the three performance measures.

► Figure 21 – Impact of Brand Passion on the three types of performance



Franchisees with high levels of *Brand Passion* (green) perform significantly higher on all three measures than those with low levels of *Brand Passion* (red). The difference is particularly significant on Constructive Participation. While *Brand Passion* does impact on financial performance, its main impact is on how franchisees engage with their customers, the franchisor, and other franchisees. In other words *Brand Passion* is a strong predictor of franchisee citizenship. Questions about pride and personal identification with the brand were particularly powerful predictors of performance. For instance, “I am proud to tell people I belong to our brand”.

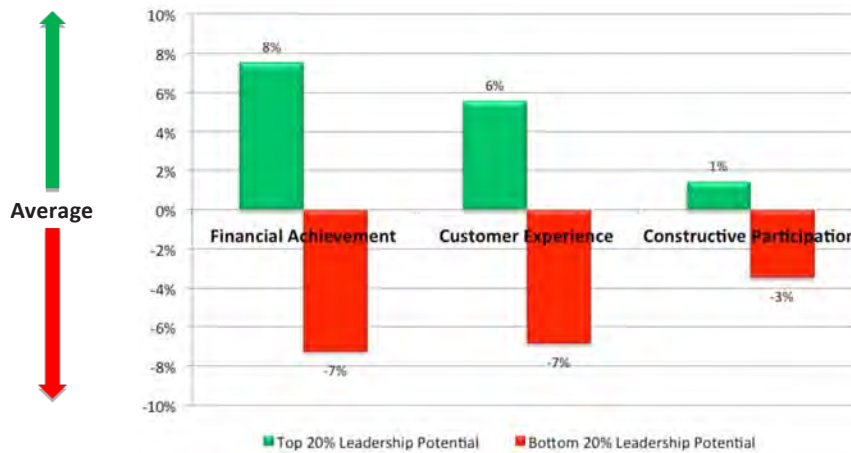
Franchisees with low Brand Passion were particularly less likely to:

- ▶ Participate in franchise network activities.
- ▶ Comply with operational systems.
- ▶ Promote their business locally.
- ▶ Achieve the sales potential of their territory.
- ▶ Have a good working relationship with the franchisor.

## Leadership Potential

*Leadership Potential* measures the extent to which a franchisee is comfortable leading and motivating others towards shared goals. Figure 22 displays the effect of *Leadership Potential* on the three measures of franchisee performance.

► Figure 22 – Impact of Leadership Potential on the three types of performance



Franchisees higher on Leadership Potential were particularly more likely to:

- Have higher levels of sales.
- Have higher levels of profitability.
- Have a good grasp of their financials.
- Promote their business locally.

While franchisees high on *Leadership Potential* performed significantly better on all three measures, the main contribution to their performance was on Financial Achievement.

Franchisees higher on *Leadership Potential* were definitely stronger on business results, especially sales and profitability, but they were not necessarily higher on compliance or trustworthiness. *Leadership Potential* consists of two factors:

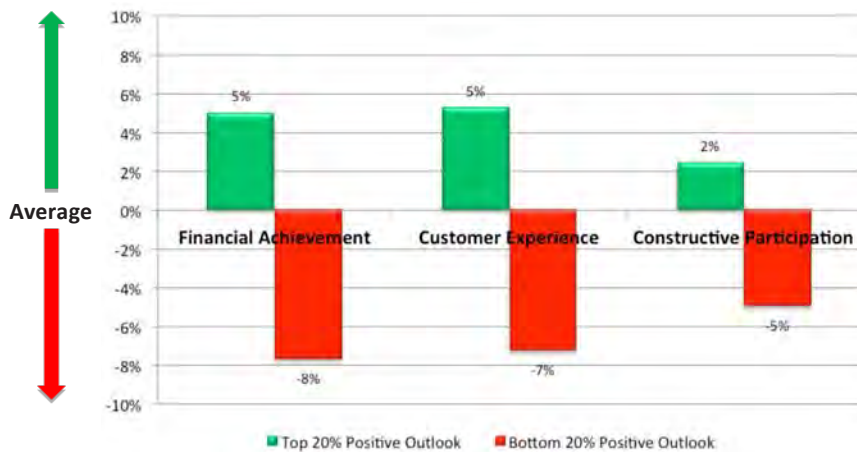
- *Taking Charge* is the preference to be in control of a group.
- *Influencing others* is a preference to influence others to get things done.

In fact franchisees who like to take charge were significantly more likely to have strained relationships with their franchisor, which is why differences in Constructive Participation are not as high.

## Positive Outlook

*Positive Outlook* measures the extent a person maintains an optimistic and hopeful attitude. Figure 23 displays the difference high or low levels of *Positive Outlook* make to the three measures of performance.

► **Figure 23 – Impact of Positive Outlook on the three types of performance**



The impact of *Positive Outlook* is particularly significant on Financial Achievement and delivery of the Customer Experience, with franchisees high on this attribute likely to be 12% to 13% higher in both areas. Questions relating to the franchisee's level of positive expectation and hope toward the future were powerful in predicting performance.

Franchisees with higher Positive Outlook were particularly more likely to:

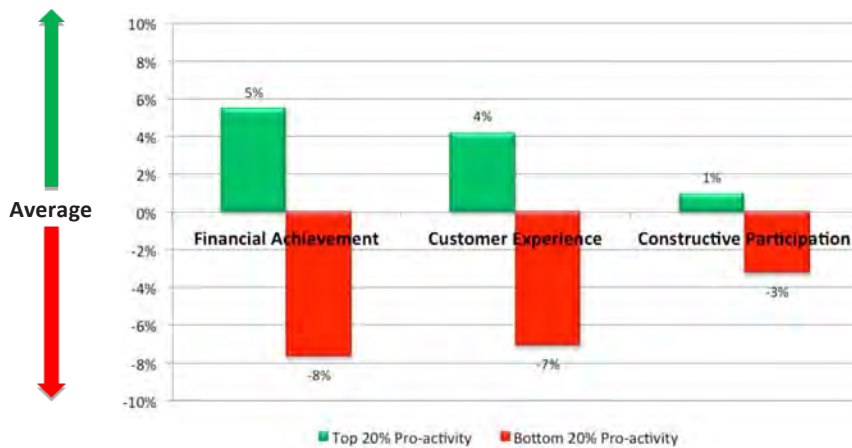
- Have higher levels of sales.
- Have higher levels of profitability.
- Deliver better customer service.
- Promote their business locally.
- Participate more constructively in the network.

This is not surprising as *Positive Outlook* or its related construct, optimism, has been investigated in a number of psychological studies and found to be related to performance in almost every area of daily life.

## Pro-activity

*Pro-activity* measures the tendency of a franchisee to be action orientated, results focused and to take responsibility to make things happen. Figure 24 displays the effect of *Pro-activity* on the three measures of franchisee performance.

► Figure 24 – Impact of Pro-activity on the three types of performance



Franchisees in the top group for *Pro-activity* were 13% higher on Financial Achievement compared to the bottom group. Not surprisingly, *Pro-activity* predicted the tendency to achieve in goal oriented activities such as higher sales and promoting the business in the local community. Franchisees that were more willing to push themselves to improve their performance definitely had an edge in their actual performance. While people high on *Pro-activity* were slightly better at Constructive Participation, this difference was only moderate. Their focus was more on achieving goals than being part of the group. They are also slightly more likely to be involved in disagreements with their franchisor, probably because of their willingness to speak up if something is not working for them.

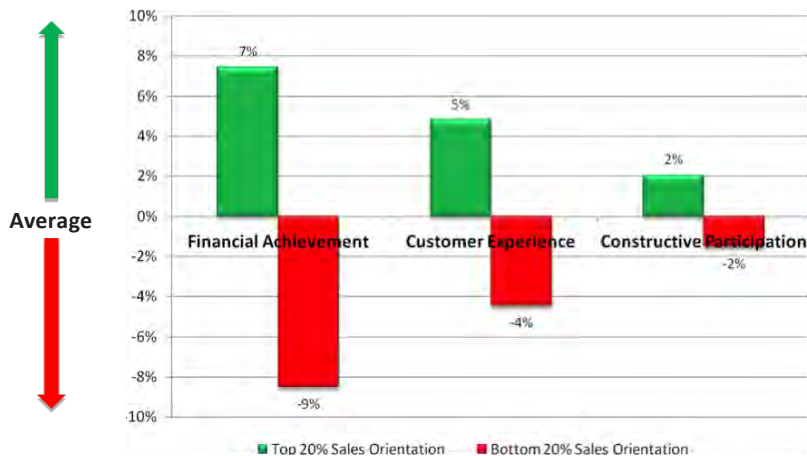
Franchisees higher on Pro-activity were particularly more likely to:

- Have higher levels of sales.
- Have higher levels of profitability.
- Promote their business locally.
- Provide better customer service.

## Sales Orientation

*Sales Orientation* measures the extent to which a franchisee is comfortable in sales or promotional roles requiring them to influence others. Figure 25 displays the effect of *Sales Orientation* on franchisee performance.

► Figure 25 – Impact of Sales Orientation on the three types of performance



Note the particularly large impact on Financial Achievement. Franchisees high on *Sales Orientation* were 13% higher on Financial Achievement than those in the low group. A franchisee's confidence in their ability to sell was a powerful predictor of their financial performance. Interestingly

*Sales Orientation* was not as good a predictor of Constructive Participation, possibly because the focus of a sales person tends to be more on achieving their own objectives than looking after the interests of colleagues. In fact there was a slight, but significant, trend for people high on *Sales Orientation* to feel more in conflict with their franchisor.

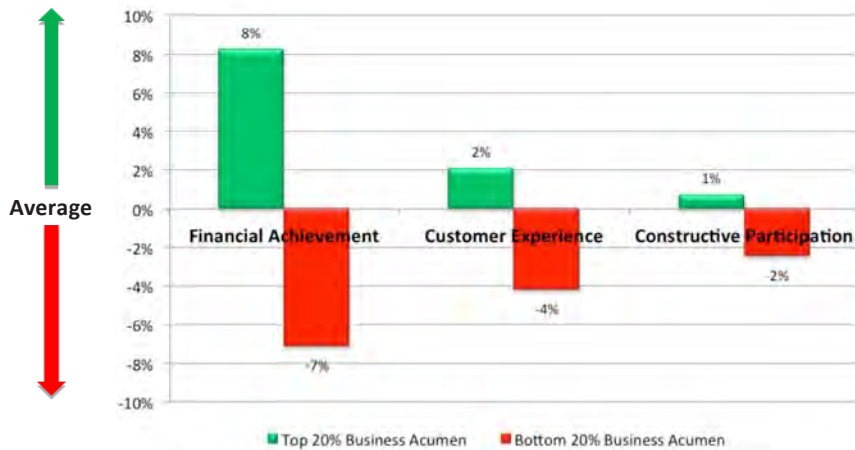
Franchisees higher on Sales Orientation were particularly more likely to:

- Have higher levels of sales.
- Have higher levels of profitability.
- Deliver better customer service.
- Promote their business locally.
- Have a good grasp of their financials.

## Business Acumen

*Business Acumen* measures the extent to which franchisees have a grasp of business and financial issues, for instance reading financial reports and staying up to date with business trends. Figure 26 displays the effect of *Business Acumen* on the three measures of franchisee performance.

► **Figure 26 – Impact of Business Acumen on the three types of performance**



Not surprisingly, *Business Acumen* has a particularly strong impact on Financial Achievement with franchisees in the top group achieving 15% higher than those in the bottom group. Franchisees comfortable in their ability to make their money work for them particularly performed better on profitability. Because franchisees high on this attribute are probably more task than people focused, this attribute was a not as strong a predictor of Constructive Participation or Customer Experience.

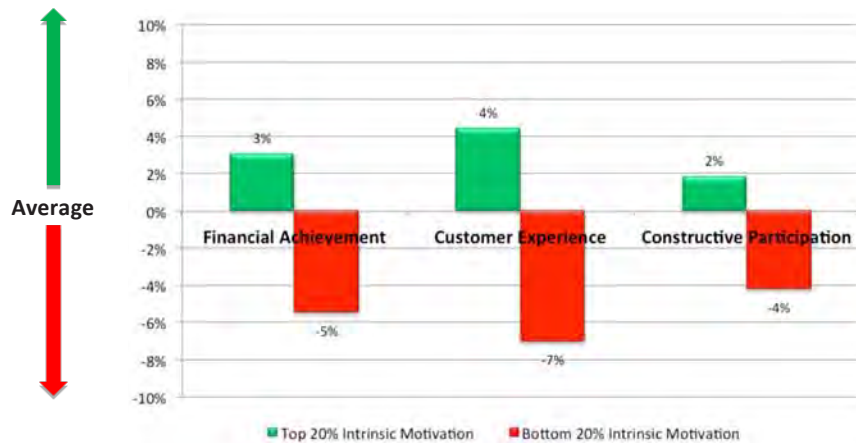
Franchisees higher on Business Acumen were particularly more likely to:

- Have higher levels of profitability.
- Have higher levels of sales.
- Have a good grasp of their financials.

## Intrinsic Motivation

*Intrinsic Motivation* measures the extent a person is motivated by a desire for excellence and continuous improvement. Figure 27 displays the effect of *Intrinsic Motivation* on the three measures of franchisee performance.

► Figure 27 – Impact of Intrinsic Motivation on the three types of performance



The largest difference between people high and low on *Intrinsic Motivation* is how well they deliver the Customer Experience. Franchisees who are particularly motivated by finding new ways to challenge themselves achieve significantly higher levels of performance on this measure. *Intrinsic Motivation* is a strong predictor of a franchisee's tendency to promote their business in the local community and participate in conferences, probably because they value the opportunity to learn.

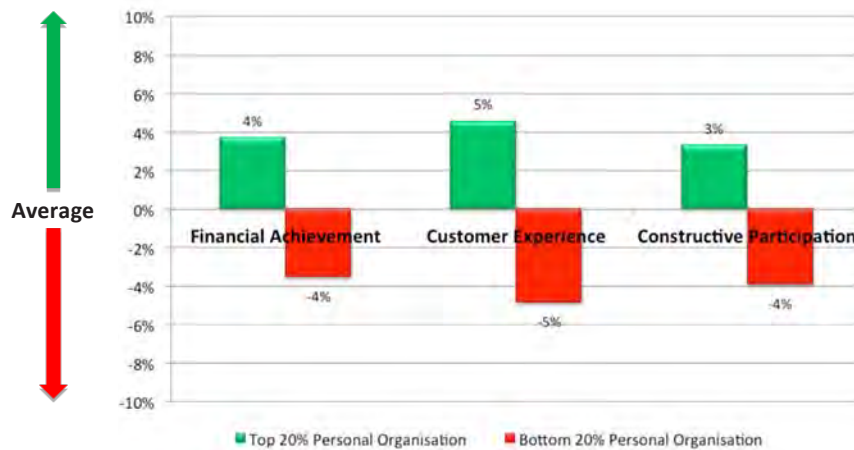
Franchisees higher on Intrinsic Motivation were particularly more likely to:

- ▶ Achieve the sales potential of their territory.
- ▶ Promote their business in the local community.
- ▶ Participate in franchise meetings and activities.

## Personal Organisation

*Personal Organisation* measures the extent to which a person is systematic and well organised. Figure 28 displays the effect of *Personal Organisation* on the three measures of franchisee performance.

► Figure 28 – Impact of Personal Organisation on the three types of performance



Franchisees high on *Personal Organisation* performed significantly higher on all three measures. In particular, franchisees who pride themselves on being personally well presented are particularly likely to have higher overall performance.

Franchisees higher on Personal Organisation were particularly more likely to:

- Be more compliant to systems and procedures.
- Participate in events and meetings.
- Deliver better levels of customer service.

## Relationship Skills

*Relationship Skills* measures the extent a franchisee has a preference to be part of groups and network with other people. Figure 29 displays the effect of *Relationship Skills* on the three measures of franchisee performance.

► **Figure 29 – Impact of Relationship Skills on the three types of performance**



Franchisees higher on Relationships Skills were particularly more likely to:

- Have higher levels of sales.
- Provide better customer service.
- Participate in events and meetings.

Franchisees lower on *Relationship Skills* performed significantly lower on all three measures of performance but particularly on delivery of the Customer Experience. The *Relationship Skills* attribute consists of two factors:

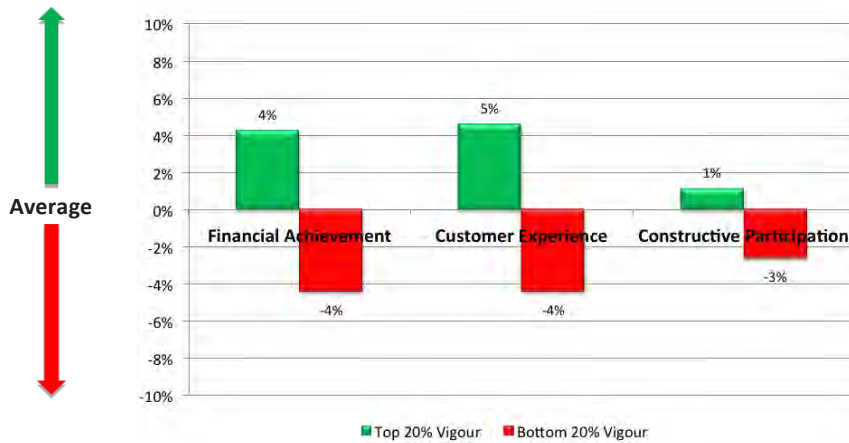
- The extent to which a franchisee is outgoing and likes to meet new people. Termed *Networking Potential*, it is similar to the personality style of extroversion.
- The extent to which a franchisee likes to be part of a group and cooperate with others. We call this *Citizenship Potential*.

Not surprisingly *Networking Potential* impacted more on sales and business performance while *Citizenship Potential* impacted more on customer service and positive relationships with the franchisor.

## Vigour

*Vigour* measures the degree a person has high levels of energy. Figure 30 displays the effect of *Vigour* on the three measures of franchisee performance.

► **Figure 30 – Impact of Vigour on the three types of performance**



Franchisees high on *Vigour* performed significantly better across all three measures, especially on Financial

Achievement and Customer Experience. Franchisees that reported having ‘more energy than most people’ particularly achieved better on the sales measures.

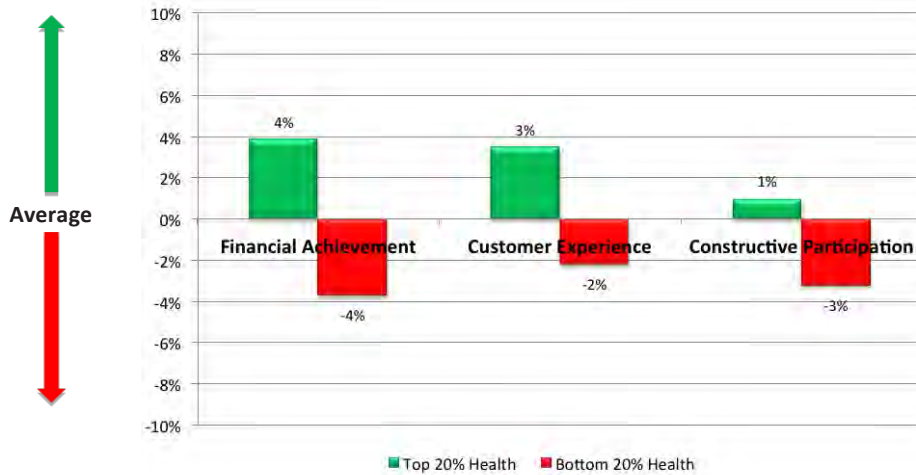
Franchisees higher on Vigour were particularly more likely to:

- Have higher levels of sales.
- Promote their business locally.

## Health

The *Health* attribute measures the extent a franchisee is healthy and does not have health related issues that could impact on their ability to operate the business. Figure 31 displays the effect of *Health* on the three measures of franchisee performance.

► **Figure 31 – Impact of Health on the three types of performance**



The extent to which franchisees were in the top or bottom group on *Health* significantly impacted on their performance on all three measures, particularly Financial Achievement. Franchisees who did have health issues were significantly less likely to score well on all measures, particularly sales and participation in meetings and events.

Franchisees lower on Health were particularly less likely to:

- Achieve the sales potential of their territory.
- Participate in events and meetings.

## Comfort with Technology

*Comfort with Technology* measures the extent a franchisee is willing to engage with new technology. Figure 32 displays the effect of *Comfort with Technology* on the three measures of franchisee performance.

► **Figure 32 – Impact of Comfort with Technology on the three types of performance**



Franchisees higher on *Comfort with Technology* performed significantly better on Financial Achievement and Customer Experience. The difference between the high and low groups is not significant for Constructive Participation. People who are open to, or on the lookout for, relevant new technology tend to have a better grasp of their financial situation and to be slightly more inclined to promote their business locally.

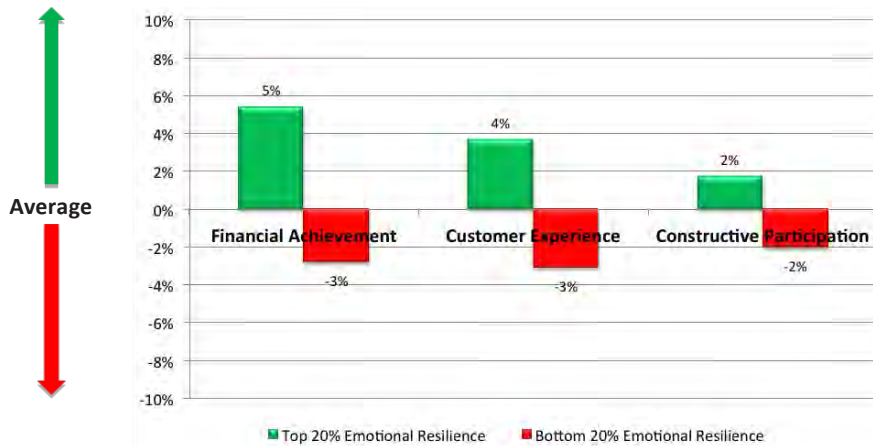
Franchisees higher on Comfort with Technology were particularly more likely to:

- Promote their business locally.
- Have a good grasp of their financials.

## Emotional Resilience

*Emotional Resilience* measures the extent someone remains emotionally steady in the face of stress and pressure. Figure 33 displays the effect of *Emotional Resilience* on the three measures of franchisee performance.

► **Figure 33 – Impact of Emotional Resilience on the three types of performance**



Franchisees higher on Emotional Resilience were particularly more likely to:

- Have higher levels of sales.
- Deliver better customer service.

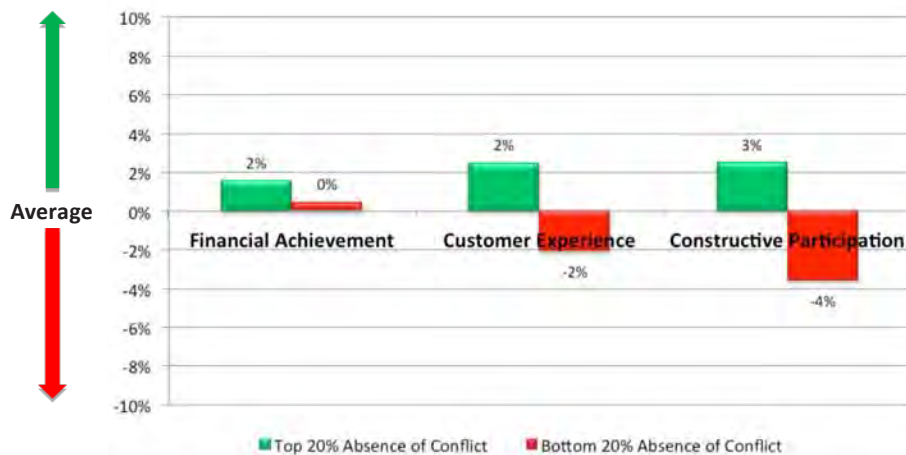
*Emotional Resilience* appears to have the largest impact on Financial Achievement and Customer Experience, however differences between people

high and low on *Emotional Resilience* are significant for all three performance measures. The *Emotional Resilience* measure includes some questions related to a tendency toward depression, such as “I often feel down in the dumps”. These items in particular emerged as significant negative predictors of sales performance. *Emotional Resilience* is closely related to the other attitudinal measures such as *Pro-activity* and *Positive Outlook*.

## Conflict Proneness

*Conflict Proneness* measures the tendency to be suspicious and hostile towards others. For consistency, this measure has been reversed in Figure 34 to display an *Absence of Conflict*. The green bar is franchisees high on *Absence of Conflict* (low *Conflict Proneness*) and the red bar is franchisees low on *Absence of Conflict* (high *Conflict Proneness*).

► Figure 34 – Impact of Absence of Conflict on the three types of performance



Franchisees higher on Conflict Proneness were particularly more likely to:

- Have strained relationships with their franchisor.
- Not be trusted by their franchisor.
- Not participate in events and meetings.

*Conflict Proneness* consists of two sub-scales:

- *Aggression* is the tendency to get angry or push back. Franchisees higher on *Aggression* were significantly more likely to have ongoing strained relationships with their franchisor.
- *Suspicion* is the tendency to be a little paranoid and look for hidden motives in others. Franchisees higher on *Suspicion* were significantly more likely to be rated low on trustworthiness by their franchisor.

There was a smaller but significant relationship between a lack of *Conflict Proneness* and scores on Customer Experience.

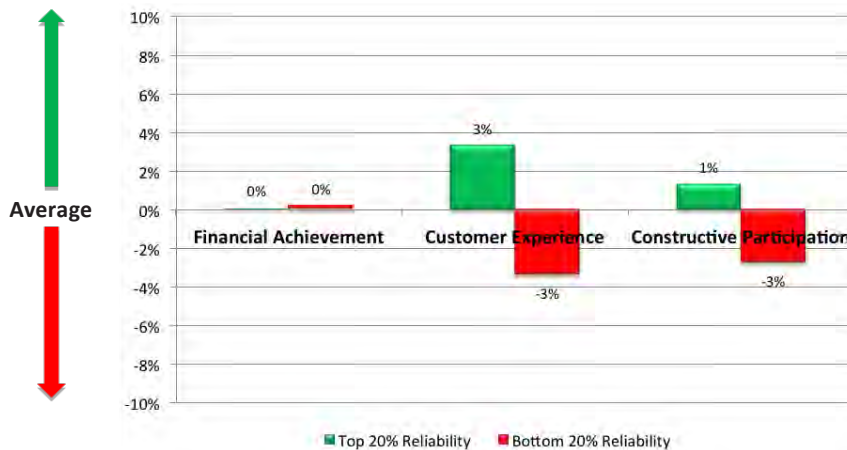
*Conflict Proneness* does not impact on Financial Achievement in a significant way. In fact there was a very mild trend for franchisees higher on the *Aggression* sub-scale to do slightly better on sales and profitability.

In summary, while a franchisee's *Conflict Proneness* has a significant negative impact on a franchisee's level of Constructive Participation and a more moderate negative impact on delivery of the Customer Experience, it does not impact their Financial Achievement and franchisees with a hint of aggression may perform better on measures of financial performance.

## Reliability

*Reliability* is the extent someone is trustworthy, straightforward and reliable. Figure 35 displays the effect of *Reliability* on the three measures of franchisee performance.

► **Figure 35 – Impact of Reliability on the three types of performance**



While franchisees high on *Reliability* perform significantly better on Customer Experience and Constructive Participation they do not on Financial Achievement. In fact there was a very minor, but not significant, trend for franchisees lower on *Reliability* to do better on sales!

In conclusion, franchisees that are more reliable and try to do the right thing do make better franchise citizens and deliver better customer service. However they do not achieve better financial returns. On the other hand, opportunistic behaviour by franchisees does not lead to significantly higher sales or profits either.

Franchisees higher on Reliability were particularly more likely to:

- ▶ Have higher levels of compliance.
- ▶ Deliver a better customer experience.
- ▶ Be rated as more trustworthy.
- ▶ Be better franchise citizens.
- ▶ Promote their business locally.

And less likely to:

- ▶ Achieve higher sales.

## ▶ Chapter 7: The franchisor perspective on poor performers

- ▶ Franchisors say they would select 72% of their franchisees again, given the knowledge they now have of these people.
- ▶ 16 reasons were given for franchisors not selecting 28% of their franchisees again. Many of these support earlier findings that certain attributes make a significant difference to performance. The six most common reasons are:
  1. Lack of hands on operational commitment by the franchisee to make the business work.
  2. Lack of pro-activity or “get up and go” by the franchisee.
  3. Lack of compliance by the franchisee.
  4. Negativity, aggressive behaviour or an unwillingness to work constructively with others.
  5. Lack of business acumen and financial competence to run the business.
  6. Lack of management and leadership ability to build a team.

### The failure rate of franchisee selection

A common measure we all use to judge our satisfaction with something is whether in hindsight we would make the same choice given the same opportunity. This applies just as well to products and services as it does to people. For instance, in this study we asked franchisees to rate the extent to which they would buy into their franchise again if given a choice. The clear majority, 65%, said “Yes”, 15% said “Unsure” and 20% “No”.

Franchisors were asked a similar question: “Based on what you know now, if you had your time over would you select this franchisee into your franchise system?” Their responses are shown below in Table 10.

**Table 10: Franchisor responses to select again question**

Select again options	Percentage Responses
Definitely Yes	33%
Yes	39%
Unsure	13%
Possibly Not	9%
Definitely Not	6%

*This resulted in 28% of franchisees getting the thumbs down*

Often we can learn more from failure than from success. With this in mind, we asked franchisors who did not respond with a “Yes” or a “Definitely Yes”, to give the reason why they would be reluctant to select this franchisee again. We figured, in an environment where franchisors are having trouble finding suitable franchisees, an “Unsure” response was really a vote of no confidence so we bundled this in with the “Probably No” and “No” responses. This resulted in 28% of franchisees getting the thumbs down.

### Reasons why franchisors would not select franchisees again

When we looked at the 355 specific comments from franchisors on why they would not select these franchisees again, 16 reasons emerged, shown in Table 11. The higher the percentage<sup>13</sup>, the more frequently the reason was cited, and the more this would appear to be an issue for franchisors. As we explore these drivers of poor performance you will see many are the negative side of the attributes discussed in the previous Chapter.

<sup>13</sup> This is a weighting calculated by counting the number of times the reason was given, compared to the total number of franchisor responses, and converting this to a percentage. Franchisors may have cited more than one reason, which is why the total of the percentages exceeds 100%.

**Table 11: The franchisor perspective on poor performance**

Theme	Percentage weighting
Lack of operational commitment	28%
Lack of 'get up and go'	17%
Poor compliance	14%
Negative attitudes or behaviours	14%
Lack of business acumen	8%
Lack of management or leadership ability	8%
Poor sales performance	6%
Resistant to change	6%
Personal or family distractions	5%
Not trustworthy	4%
Not smart enough	3%
Poor grasp of English	3%
Disorganised	3%
Not suitable for multi-unit operations	2%
Emotional instability	1%
Retirement	1%

### Lack of operational commitment

*"Started off well but then lost interest and became an absent owner."*

*"Failure to appreciate the work required to run a business. This franchisee is frequently absent from his business and yet expects high returns."*

The most often cited reason for not selecting a franchisee again was a lack of operational commitment to the business. In particular, passive investors or part time operators, who have no real understanding or appreciation of what is needed to make the business work, were frequently mentioned. In Chapter 10, when the impact of franchisee involvement on performance is discussed, hands on operational commitment emerges as having a significant impact on performance compared to part time or no hand-on involvement. There were also a substantial number of comments along the lines that the franchisee's engagement with the business had petered out over time. It appears that commitment levels tend to drop as the business matures.

### Lack of 'get up and go'

*"Not dynamic enough in my opinion, but very willing."*

*"I think this franchisee's heart is in the right place but she hasn't got what it takes to take the business to the next level."*

The second strongest theme to emerge was a lack of pro-activity, drive or ambition. The comment above about the franchisee's inability to take the business to the next level was typical of a sentiment by franchisors who felt these franchisees expected the system to drive itself. This concept of "get up and go" is the attribute of *Pro-activity*, identified in Chapter 5 as the fifth most important predictor of performance.

## Poor compliance

*“Unwilling to comply with the system, always ready to test the boundaries. Although this is now changing it has taken 5 years!”*

*“They spend time chasing ‘shiny objects’ in the belief that this will provide a quick fix/return as opposed to following the proven system they purchased!”*

The third most common reason for not selecting a franchisee again was around a lack of compliance to company standards. Franchisors frequently mentioned that the franchisee in question thought they knew what was best rather than drawing on the proven track record of the business model. Failing to comply with reporting was also commonly mentioned.

Earlier in the report, in the section on *The Franchise E-Factor*, we mentioned this common tendency for franchisees to push back against the system as their confidence grows. The above comment would be typical of this effect, especially as the franchisor mentions this franchisee is only recently changing after five years of being in the business, which fits the data trend shown in Figure 15 where the “See” stage kicks in.

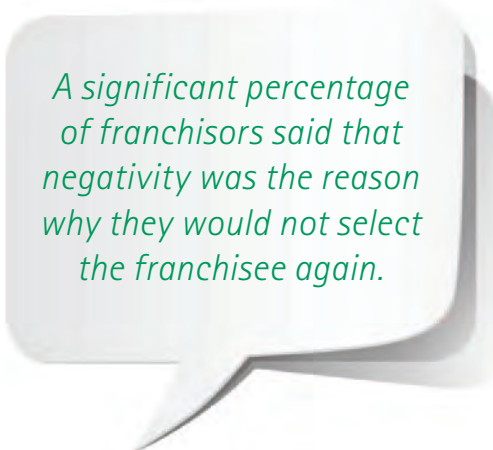
## Negative attitudes or behaviours

*“Very negative and slightly aggressive franchisee. Refuses to accept responsibility or accept help in a situation that eventually left them in bankruptcy.”*

*“This franchisee is out to break the company’s back to make a name for himself. He starts rumours, is absent at meetings and wants to change everything we do to suit him.”*

A significant percentage of franchisors said that negativity was the reason why they would not select the franchisee again.

Franchisees ‘not willing to maintain a professional working relationship with the franchisor or with other franchisees’ was frequently mentioned. Aggressive and combative behaviour was also commonly cited. One of the attributes we have measured in this study is *Conflict Proneness*, defined as the tendency to be suspicious and hostile towards others. While this tendency does not impact significantly on financial performance, it does undermine constructive participation, leads to higher levels of relationship conflict, and, as shown here is clearly a frustration for franchisors.



*A significant percentage of franchisors said that negativity was the reason why they would not select the franchisee again.*

## Lack of business acumen

*“..all the intention and effort... not enough business acumen.”*

*“This franchisee is simple minded and has little or no business acumen. I actually get along well with him as a person.”*

A lack of business acumen was the fifth most common reason franchisors would not select the franchisee again. This included comments that franchisees lacked the business knowledge and financial competence to operate the franchise. An inability to provide the business reports required by the franchisor was also frequently mentioned. This relates closely to the attribute of *Business Acumen*, identified in Chapter 5 as the sixth most important predictor of performance.

## Lack of management or leadership ability

*“Not prepared to take responsibility for many components required to make the business successful.”*

*“The franchisee lacks an orientation towards managing conflict, especially her staff and to a lesser extent with customers.”*

Ineffective leadership and management skills were reasons given by many franchisors for not selecting a particular franchisee again. For instance, the inability of a franchisee to recruit and maintain quality staff was

frequently mentioned. So too were franchisees who did not take the lead in developing their business or in delegating work to others. This is consistent with the findings in Chapter 5 where *Leadership Potential* emerged as a significant driver of performance.

### Poor sales performance

*“Great people who are just not cutting it. They bring no financial benefit to the system and more importantly to themselves.”*

*“Very positive toward our brand but has difficult translating this positivity into sales.”*

Franchisees not meeting sales targets was the next most common reason franchisors would not select them again. Many franchisors felt that, although they wanted the franchisee to succeed, the person’s sales performance was creating problems for the system and themselves. This supports the finding that *Sales Orientation* is an important attribute that drives success.

### Resistant to change

*“Does not always believe in the franchise system and will often resort to old practices. Is often resistant to change.”*

*“She is reluctant to change her habits or break out of her comfort zone, even with coaching support and role modelling from other franchisees.”*

The amount of change in consumer markets means franchise systems increasingly need to modify their systems and practices, which also means franchisees need to adapt and change. It is not surprising that resistance to accepting new standards and practices was a common reason from franchisors for not selecting a franchisee again.

### Personal or family distractions

*“The business was purchased with his partner....but due to a relationship breakdown he is left to operate the business with minimal knowledge.”*

*“Franchisee is experiencing health issues.”*

Reasons relating to personal or family distractions included health problems in the family affecting the franchisee’s performance, family breakdown or ongoing personal problems.

### Other factors

*“English skills are very poor and this makes things very difficult for them when it comes to communicating with customers and franchise support staff”*

Other themes to emerge related to lack of education, lack of English literacy and lack of reliability. Emotional instability and personal disorganisation were also mentioned as reasons why a franchisor would not select the franchisee again.

### Conclusions

Many of the 16 reasons given by franchisors for not selecting their franchisees again support our findings that certain attributes make a significant difference to performance.

In particular *Pro-activity* or “get up and go” has emerged as an attribute franchisors consider particularly important for success. Perhaps franchisors that emphasise the power of their franchise system to create success make a rod for their own backs by underplaying the effort that franchisees need to put in to make the system work.

*Perhaps franchisors that emphasise the power of their franchise system to create success, make a rod for their own backs*

## ▶ Chapter 8: The relationship between attributes and franchisee satisfaction

- ▶ Franchisees high on the success attributes are more satisfied overall than those low on the success attributes.
- ▶ Satisfaction scores for people high on *Brand Passion* are 34% higher than for those low on *Brand Passion*.
- ▶ *Brand Passion* and *Positive Outlook* seem to have a particularly strong impact on how franchisees feel generally in a range of areas.
- ▶ Low scores on *Emotional Resilience* were the strongest predictor of whether franchisees reported feeling burnt out, and physically and emotionally exhausted.
- ▶ A franchisee's satisfaction will be largely determined by their own attitudes and their level of *Family and Social Support*.

### Making the link between attributes and satisfaction

Satisfaction could be defined as the extent to which a franchisee's expectations in areas they value are being met. Franchisee satisfaction is important because it impacts on three vital areas of a franchise system.

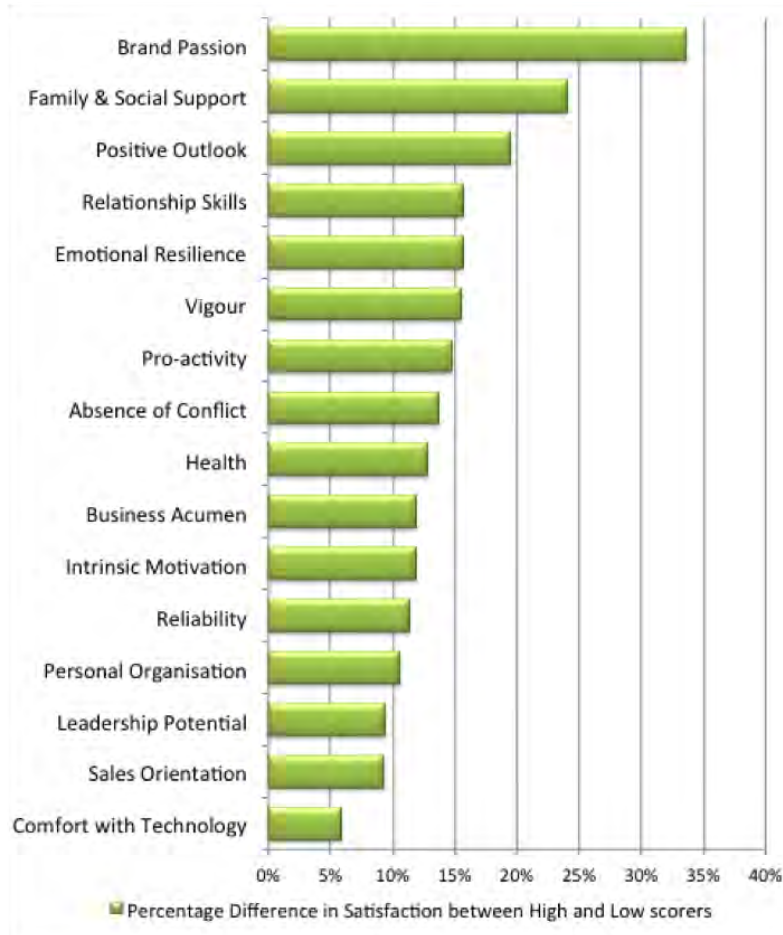
1. Satisfaction directly influences how franchisees treat their staff and their customers, which in turn impacts on the delivery of the customer experience and the reputation of the brand.
2. Satisfaction influences whether franchisees will recommend the system to others and can therefore inhibit or enhance the growth of a franchise system.
3. Satisfaction impacts on the culture and morale of the broader network. For instance, aggressive or unhappy franchisees create stress and job dissatisfaction for members of the franchisor team and can spread a vicious cycle of negativity amongst other franchisees.

For these reasons one of the goals of the study was to identify the factors that have a significant impact on franchisee satisfaction. We did this by asking franchisees to rate their level of agreement with 26 statements. For instance, "I really enjoy running this business", "I get the practical support I need from the franchisor team", "All things considered, my business has been making a reasonable profit."

To explore the impact the success attributes have on franchisee satisfaction we created an Overall Franchisee Satisfaction score<sup>14</sup> and compared the satisfaction scores for franchisees with high levels of each attribute (top 20%) to those with low levels of each attribute (bottom 20%). Figure 36 shows the differences in franchisee satisfaction between franchisees high and low on each attribute. The larger the green bar the more this attribute impacts on satisfaction levels.

<sup>14</sup> This was based on franchisee responses to the 26 satisfaction statements.

► Figure 36 shows the percentage differences in satisfaction for franchisees high and low on each attribute.



As can be seen, the high scorers on all the attributes were also significantly more satisfied. In particular *Brand Passion*, *Family and Social Support* and *Positive Outlook* are highly associated with greater levels of franchisee satisfaction. People high on these attributes are at least 20% more satisfied with their life as a franchisee than people low on the attributes.

While this establishes a clear relationship between the success attributes and satisfaction, the cause of the relationship is not as clear. Are franchisees higher on the attributes easier to satisfy, or do higher levels of satisfaction encourage franchisees to adopt the thinking and behavioural habits associated with the success attributes?

## How each attribute impacts on satisfaction

To better understand the relationship between satisfaction and the success attributes we looked more closely at how each attribute relates to four specific aspects of satisfaction<sup>15</sup> shown below:

1. **Satisfaction with financial performance**, including return on investment and profit.
2. **Satisfaction with the franchisor**, including how they rate the franchisor on competence, integrity and care.
3. **Satisfaction with their wellbeing**, including lack of burnout, achievement of work-life balance and level of enjoyment of their role.
4. **Satisfaction with the network**, including the extent to which they want to stay and recommend the franchise to others.

<sup>15</sup> These four areas of satisfaction are based on the 10 satisfaction scales described in Chapter 4.

Table 12 shows the relationship between each of the success attributes and these four areas of satisfaction. The shaded boxes show where there are particularly strong and significant correlations<sup>16</sup> between an attribute and this area of satisfaction.

► **Table 12 – The relationship between the success attributes and four areas of satisfaction**

	Satisfaction with financial performance	Confidence & belief in the franchisor	Personal wellbeing & life balance	Advocacy & intention to stay in network
Brand Passion	✓	✓	✓	✓
Business Acumen	✓		✓	
Comfort with Technology				
Not Conflict Prone			✓	
Emotional Resilience	✓		✓	✓
Family & Social Support	✓	✓	✓	✓
Health			✓	
Intrinsic Motivation			✓	
Leadership Potential			✓	
Personal Organisation			✓	
Positive Outlook	✓	✓	✓	✓
Pro-activity	✓		✓	✓
Relationship Skills		✓	✓	✓
Reliability			✓	
Sales Orientation	✓		✓	
Vigour	✓		✓	✓

The strong relationship between *Brand Passion* and all areas of franchisee satisfaction, including satisfaction with financial performance, is surprising, because this attribute was not highly associated with actual Financial Achievement scores. It appears that it creates a sort of Halo Effect<sup>17</sup> whereby the franchisee sees everything about the franchise system in a more positive light – even the money they are making!

When examining this matrix, certain patterns emerge. For instance, the attributes that drive higher levels of actual financial achievement such as *Business Acumen*, *Sales Orientation*, *Positive Outlook*, *Family and Social Support* and *Pro-activity* are the ones that correlate most strongly to satisfaction with financial performance. In this case it would seem that these attributes drive financial achievement which in turn drives satisfaction with financial performance.

On the other hand attributes that we would most associate with having positive attitudes toward other people such as *Brand Passion*, *Relationship Skills*, *Positive Outlook*, correlate most strongly to satisfaction with the franchisor.

Finally attributes related to personal vitality and wellbeing such as *Health*, *Emotional Resilience*, *Positive Outlook* and *Vigour* correlate most strongly to satisfaction with wellbeing.

<sup>16</sup> As a rule of thumb all shaded boxes have correlation coefficients of at least  $r > .2$  and are significant at  $p < .001$ .

<sup>17</sup> The Halo Effect is a psychological phenomenon where one specific element of something makes the whole object look better than it actually is. This is often used in relation to the assessment of people where they can create an impression of competence by virtue of a specific quality that has little to do with their actual competence or performance.

► **Figure 37: How attributes drive satisfaction**



We would suggest that the evidence points to the attributes impacting on satisfaction more than the other way around. This is not to downplay the importance of good leadership and a strong, healthy franchise culture in promoting high levels of franchisee satisfaction. The behaviour of the franchisor leadership team will certainly impact on how franchisees feel about the franchise network. But it appears that how a franchisee feels about their personal wellbeing or financial performance will be influenced more by the franchisee themselves, and their own attitudes and achievements.

## ▶ Chapter 9: Impact of background and demographic factors on performance and satisfaction

- ▶ Men franchisees make more money than women franchisees and are more satisfied with their financial performance.
- ▶ Women franchisees make better franchise citizens and are rated higher on measures of constructive participation.
- ▶ Younger franchisees perform better on all measures and have a more harmonious working relationship with their franchisor.
- ▶ Franchisees with longer tenure make more money, and are significantly more satisfied with their financial performance, their work-life balance and their work.
- ▶ Franchisees with postgraduate university qualifications perform significantly worse overall and are significantly less satisfied than franchisees with just a high school education.

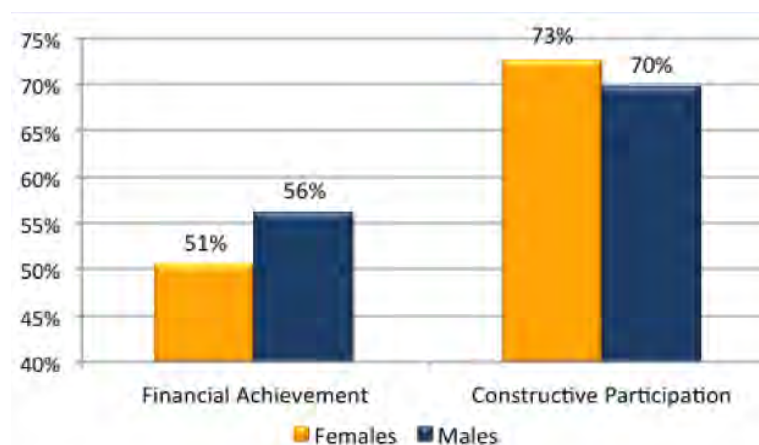
Our previous research<sup>18</sup> has shown that a franchisee's experience, lifestyle and personal situation impacts on their performance and satisfaction. In this current study, we collected information on a range of background factors, including gender, age, education, English literacy, tenure, hours worked, role in the business, staff numbers, family involvement in the business and prior business experience. (See Table 4 in Chapter 2 for details of questions asked).

### Does gender make a difference?

#### How gender impacts on performance

While over 60% of franchisees are men, do they make better franchisees? To answer this question we analysed how men and women scored on the various performance measures. Two significant findings emerged, shown in Figure 38.

▶ **Figure 38 – Relationship between gender and performance**



<sup>18</sup> Greg Nathan, Chris Jackson and James Allen, Psycho-Social Predictors of Franchisee Success and Implications for Selection, Proceedings from International Society of Franchising 22nd Annual Conference, 2008, Saint Malo

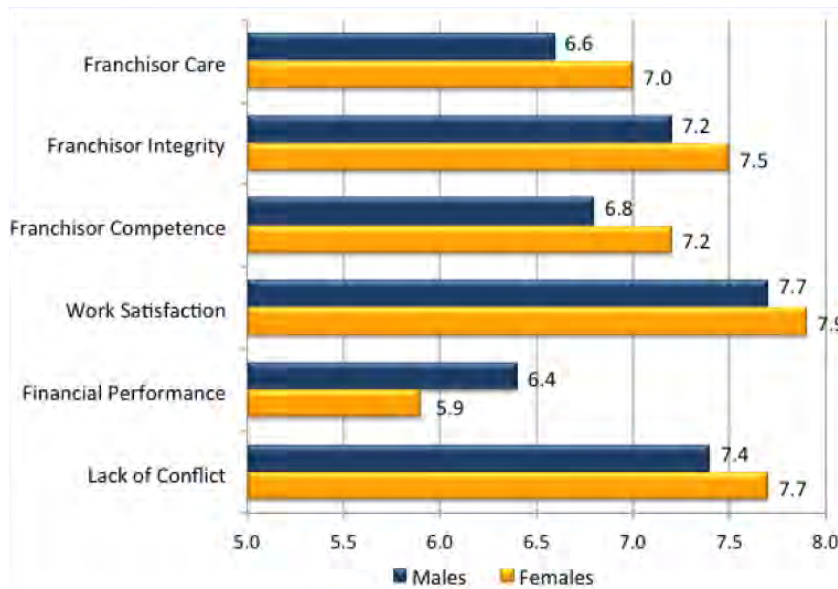
Men scored significantly higher on Financial Achievement. For instance their profitability was 5% higher than women.

Women, on the other hand, scored moderately higher on Constructive Participation. For instance they were rated by franchisors as having significantly higher compliance scores and as having more harmonious franchise relationships.

### How gender impacts on satisfaction

When we looked at whether gender impacted upon franchisee satisfaction, significant differences were found on six scales, as shown in Figure 39.

► Figure 39 – Relationship between gender and satisfaction



Men are significantly more satisfied with their Financial Performance, which is not surprising, given they are also achieving higher levels of profitability and sales.

Women, on the other hand, are significantly more satisfied with the care, competence and integrity shown by their franchisor, are more satisfied with their work, and are less likely to feel in conflict with their franchisor. This is consistent with franchisors reporting more harmonious relationships with women.

It appears that women make better franchisee citizens while men make more money. More specifically women franchisees have higher compliance scores, are more likely to work collaboratively with their franchisor and are more satisfied in their relationship with their franchisor. Men are more likely to achieve higher levels of sales and profitability. While these gender differences are not huge, they are consistent.

*It appears that women make better franchisee citizens while men make more money*

### Does age make a difference?

#### How age impacts on performance

There was a significant statistical relationship between age and performance; younger franchisees performing better on all measures, particularly on sales. Younger franchisees are also significantly more likely to be selected again and to have a more harmonious working relationship with the franchisor.

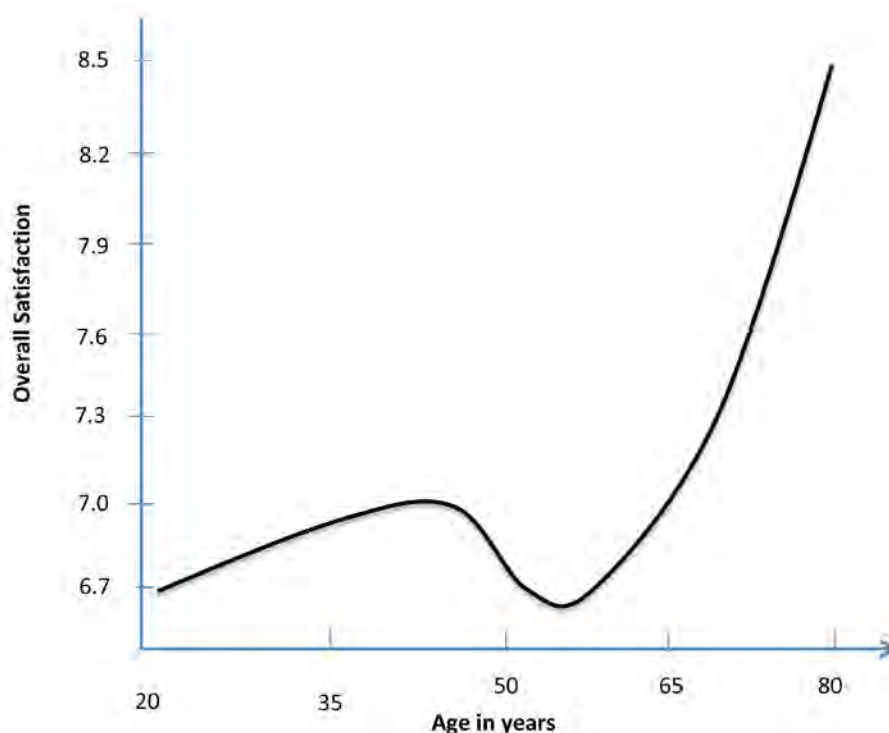
## How age impacts on satisfaction

Some significant relationships were also found between age and satisfaction. Generally speaking, younger franchisees are more satisfied with the competence shown by their franchisor, and are more likely to recommend and want to remain in the franchise system. However, younger franchisees are also more likely to experience symptoms of burnout such as the business having a negative impact on their health and wellbeing.

To examine the relationship between age and overall satisfaction we used a best fit curve created using a locally weighted polynomial regression, as shown in Figure 40.

Satisfaction increases moderately up to age 45 but then drops back over the next 10 years where it “bottoms-out” at age 55. Perhaps franchisees in this age bracket are facing the most stress in their lives and are re-establishing for themselves what they want from life and their business. From around age 60 onwards satisfaction increases sharply.

► Figure 40 - Franchisee Overall Satisfaction mapped against age



## Does a person's length of tenure in the franchise matter?

### How tenure impacts on performance

Tenure has a significant impact on sales and profitability. The longer a franchisee has been in a franchise network, the more money they are making. This is probably due to them building higher levels of competence in running the business and a stronger customer base. Supporting this, longer tenure franchisees were also rated significantly higher on their grasp of business and financial issues.

### How tenure impacts on satisfaction

As well as actually achieving higher levels of financial performance, franchisees of longer tenure are significantly more satisfied with their financial performance, which makes logical sense. They are also happier with their work-life balance and enjoy their work more.

On the negative side, franchisees of longer tenure are less satisfied with the competence of their franchisor.

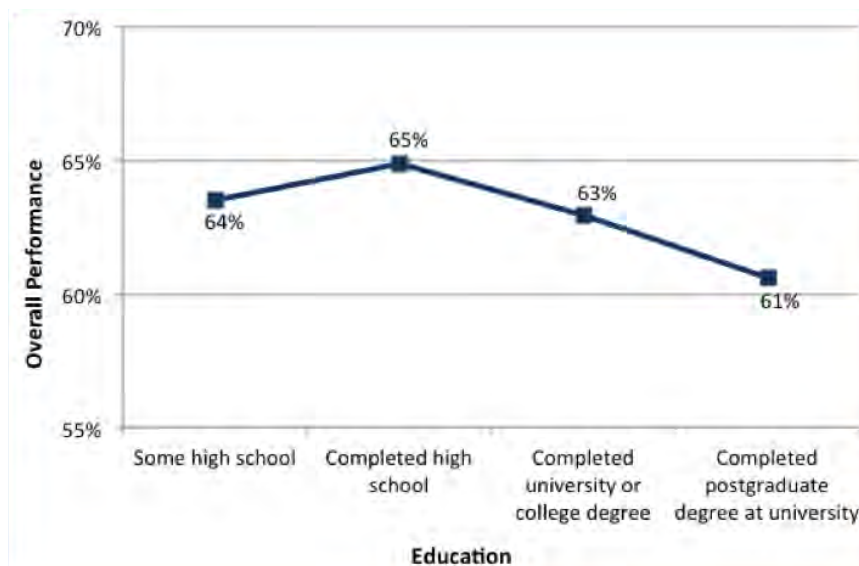
## Is education important?

Earlier in this report we learned that 11% of franchisees had not completed high school, 39% had completed high school, 38% had a university degree and another 12% had completed a postgraduate university degree. The question we address in this section is whether higher education leads to improved performance.

### How education impacts performance

Figure 41 shows the relationship between franchisee education and their Overall Performance.

► **Figure 41 – Relationship between education and performance**



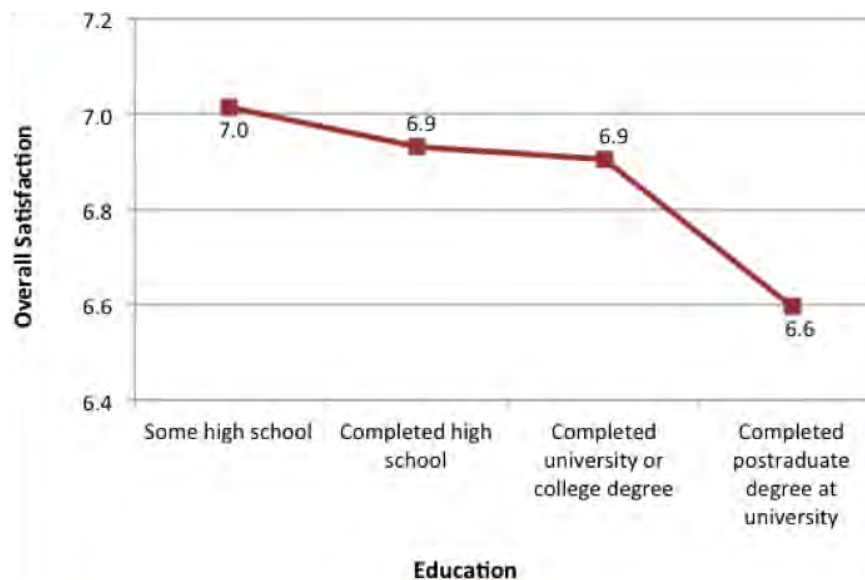
This story is an interesting one. Franchisees that only completed high school outperform franchisees in the other education groups, particularly franchisees with postgraduate qualifications who perform least well. This trend is consistent for all performance measures - Financial Achievement, Customer Experience and Constructive Participation (though it is not significant for Financial Achievement).

The negative impact of higher education is strongest in the delivery of Customer Service. Not surprisingly, franchisors were significantly less likely to want to select people with postgraduate qualifications again.

## How education impacts satisfaction

In the previous section we reported that higher education has a negative impact on franchisee performance. What impact does education have on franchisee satisfaction? Figure 42 shows the relationship between education and overall satisfaction.

► **Figure 42 – Relationship between education and Overall Satisfaction**



Note the pattern - the more education the franchisee has, the less satisfied they are, especially postgraduates. While this pattern is consistent across all the satisfaction scales, it is significant for satisfaction with franchisor competence and satisfaction with financial performance. This makes sense because:

- Postgraduates are actually achieving lower financial results (see previous section) so it follows they would be less satisfied.
- Postgraduates probably have a tendency to ponder and question, and are likely to judge the competence of the franchisor more harshly than franchisees with less education.

In conclusion, there was a robust negative relationship between tertiary education and levels of franchisee performance and satisfaction. This mainly applies to postgraduates. Our experience working with thousands of franchisees suggests that people with higher education are more likely to ask questions and challenge the status quo as this is what a higher education trains you for. This behaviour would appear to not be useful when running a small business, especially in a franchise system which will already have set operational procedures in place. If success in a franchise system requires the implementation of systems rather than the challenging, questioning or reinventing of systems, franchisors need to consider how they will channel the intellectual and creative talents of franchisees with a higher education.

*There was a robust negative relationship between tertiary education and levels of franchisee performance and satisfaction.*

## ▶ Chapter 10: Impact of work patterns and family involvement

- ▶ Franchisees working full time, mainly overseeing the business perform the best on all measures and are also the most satisfied overall.
- ▶ Financial performance decreases for franchisees working more than 60 hours a week. These people also experience lower levels of personal wellbeing.
- ▶ Involvement of a spouse in the business leads to better financial performance; however it also leads to less work-life balance, less enjoyment of the work and more burnout.
- ▶ If family members are to be involved in the business the best results are achieved if they are involved full time, and the worst results if they are involved part time.
- ▶ Franchisees who have previously run an independent business are more likely to be in conflict with their franchisor and to be rated poorly on measures of compliance and profit performance.
- ▶ Franchisees primarily motivated to build wealth make significantly more money but participate less constructively in the network, and are significantly less satisfied.
- ▶ Franchisees primarily motivated to have more flexibility in how they live their life make significantly less money but are significantly more satisfied.

### Does it matter if franchisees are “hands-on” or not?

#### How type of involvement in the business impacts on performance

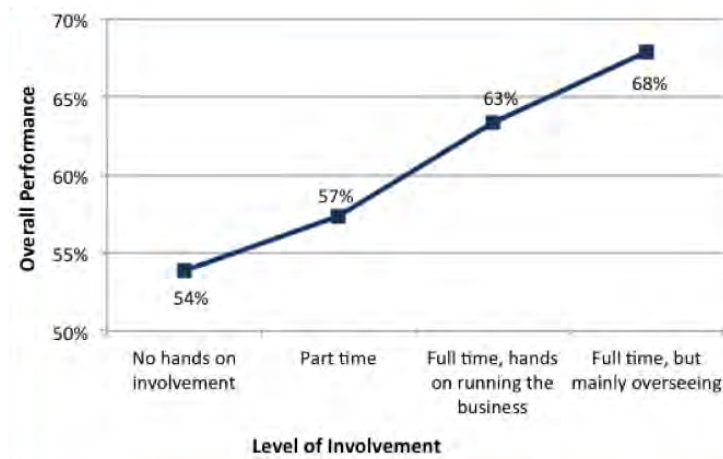
There has been an ongoing debate in franchising on whether franchisors should insist on franchisees being “owner operators” who work full time in their business, or whether “passive investors” are suitable as franchisees. There has also been ongoing discussion about how a franchisee should best position him or herself in the business. For instance is it better to work in the business “on the tools” so to speak, or work “on the business” overseeing operations. We decided to put this question to the test. Franchisees were asked to choose their type of involvement in the business from four options. The options and the percentage of franchisees placing themselves in each category are shown in Table 13.

▶ **Table 13: Franchisee involvement in the business**

Type of involvement in business	% choosing this option
Passive Investor - no hands on involvement	1%
Part time operator	9%
Full-time hands on running the day to day business	73%
Full time, but mainly overseeing the business	17%

Figure 43 shows the relationship between the type of franchisee involvement in their business and Overall Performance.

► **Figure 43 – Relationship between franchisee type of involvement and Overall Performance**

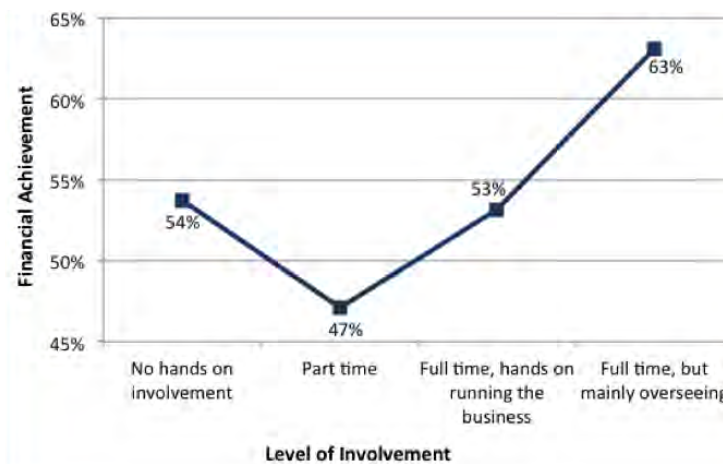


The first thing to note is the low performance of the passive investor group. Performance then improves by around 4-5% for each subsequent group. The highest performing group is the full time overseeing group, which performs significantly higher than the other groups. Nearly half of this group (45%) are multi-unit owners.

This pattern is consistent for the measures of Customer Experience and Constructive Participation, where passive investors had significantly lower compliance scores.

Figure 44 shows how, with Financial Achievement, the relationship between the groups follows a slightly different pattern. In this case, the full-time overseeing group again significantly outperforms the other groups, while the part-time group clearly performs the worst.

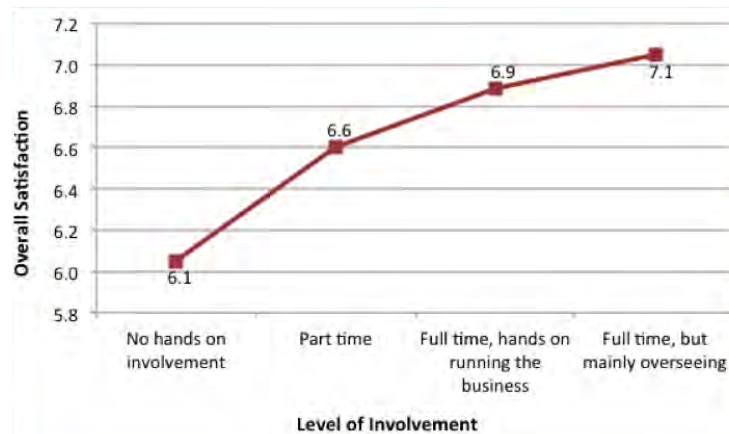
► **Figure 44 – Relationship between franchisee type of involvement and Financial Achievement**



## How type of involvement in the business impacts on satisfaction

While type of involvement clearly impacts on performance, does it also impact on satisfaction? Figure 45 shows the relationship between type of involvement and overall satisfaction.

► **Figure 45 – Relationship between type of involvement and overall satisfaction**



Note that franchisees with no hands on involvement are clearly the least satisfied, while full time franchisees overseeing the business are the most satisfied.

Further examination of the 10 franchisee satisfaction scales reveals the following:

- Franchisees working full time overseeing the business are particularly more satisfied with their financial performance and personal wellbeing, and are more likely to recommend the franchise.
- Franchisees working full time, hands on are significantly less satisfied with their personal wellbeing, particularly their stress levels, work-life balance and feelings of burnout.
- Passive investors are particularly low on advocacy measures such as likelihood to recommend the franchise, and particularly high on the measure 'I currently feel in conflict with my franchisor'.

In conclusion, not only are franchisees who work full time “overseeing their business” more successful on every performance measure, they are also more satisfied with the performance of their business and the lifestyle the business provides them with. Passive investors, while their financial performance is comparable to hands-on operators, deliver significantly lower levels of customer service and constructive participation, are unhappier on almost every satisfaction measure and have more strained relationships with their franchisor.

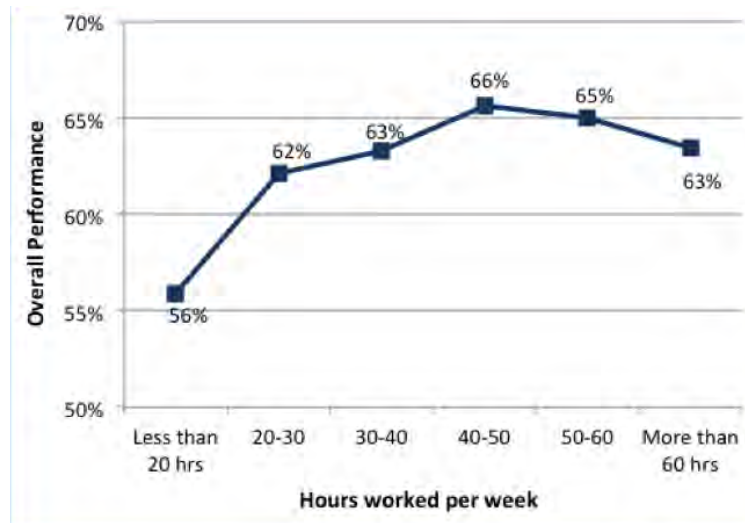
## Do hours worked per week make a difference?

### How hours worked per week impacts on performance

Earlier in this report we learned that a total of 62% of franchisees work over 40 hours a week, with 13% working over 60 hours a week.

In this section we explore the impact of hours worked on performance. Figure 46 shows the relationship between hours worked and overall performance.

► **Figure 46 – Relationship between hours worked and Overall Performance**



As can be seen, performance improves with more hours worked up to 40 to 50 hours a week. Performance then levels off at 50 to 60 hours per week and drops after 60 hours a week. This pattern is similar for all performance measures including Financial Achievement, Customer Experience and Constructive Participation. Franchisees achieving the best financial results are working 40 to 60 hours a week.

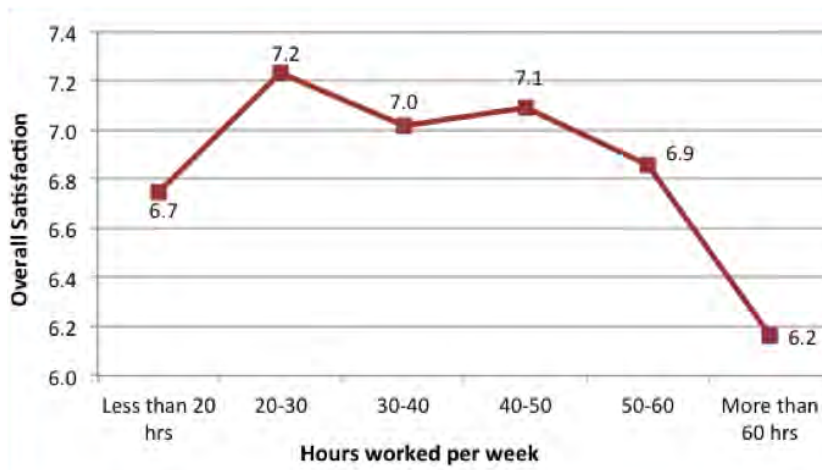
*Franchisees achieving the best financial results are working 40 to 60 hours a week*

It is unclear whether the franchisees who are working more than 60 hours a week are doing so to control their labour costs due to lower profitability, or whether their long hours are contributing to a drop in their ability to effectively manage their business. Either way, chances are they are in a vicious cycle that is neither helping their financial position, or their satisfaction, as we see in the next section.

**How hours worked impacts on satisfaction**

Figure 47 shows the relationship between hours worked and Overall Satisfaction.

► **Figure 47 – Relationship between hours worked and Overall Satisfaction**



Note how satisfaction drops significantly after 60 hours per week. Franchisees working more than 60 hours per week experience significantly lower levels of personal wellbeing, including higher burnout scores and lower work life balance. They are also significantly less satisfied with their financial performance. This may be due to slightly lower actual financial performance or the feeling they have to work longer hours to maintain the profitability of the business.

In conclusion, longer hours at the extreme end of the scale (over 60 hours per week) are related to lower franchisee performance, higher stress and burnout, and lower overall satisfaction. There is an important message here for franchisors to do what they can to assist franchisees who find themselves stuck in this 60 plus hours a week zone. When it comes to hours worked, once we are over 60 hours a week, more is not better. Of course franchisors need to consider why a franchisee is working long hours. Are they trying to save money or do they lack the management knowledge and systems to build a team and delegate? Perhaps in some cases they are working longer hours because they enjoy it. In this case the question is how can the franchisor help guide them to use their time most effectively to work on the business.

### Does spouse involvement make a difference?

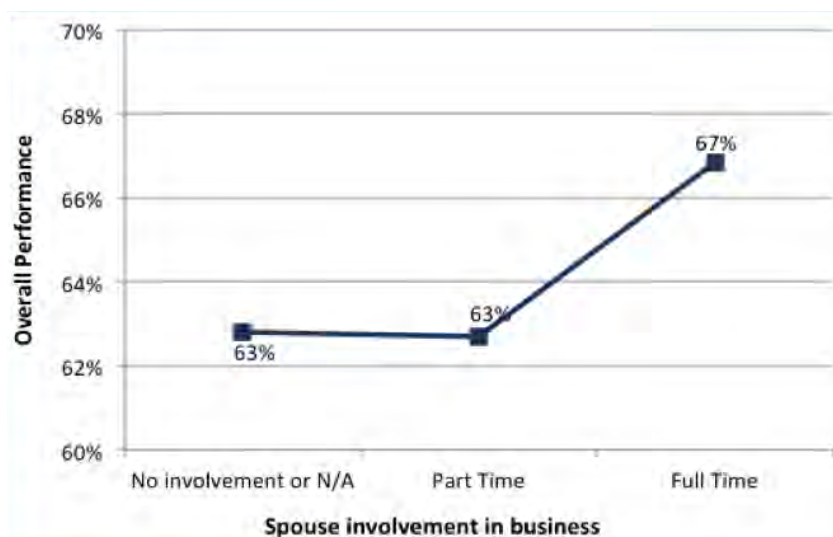
Earlier we saw the significant impact *Family and Social Support* has on performance and satisfaction. While *Family and Social Support* does not necessarily mean friends and family are involved in a franchisee’s business, 41% of franchisees do have their spouse or partner working in the business. With this in mind we now explore the impact of having a partner or spouse working in the business.

*For Financial Achievement, any involvement by a spouse has a positive impact*

### How spouse involvement impacts on performance

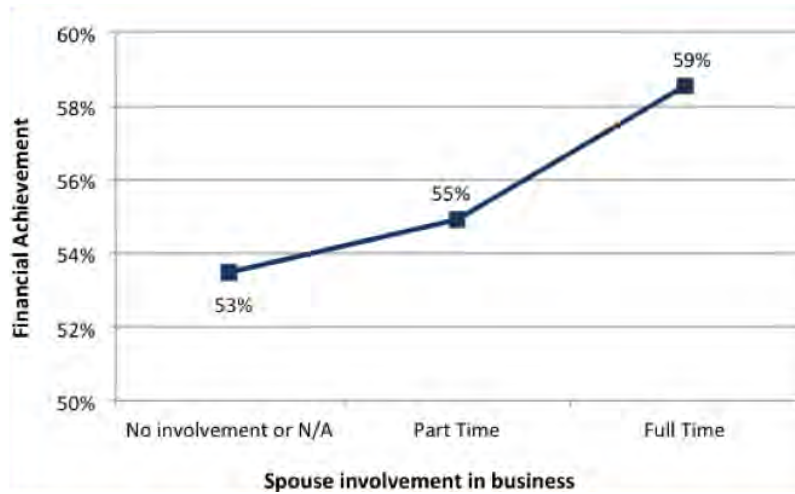
Figure 48 shows the “Spouse Effect” on Overall Performance. Having your spouse involved full time in the business creates a moderate, but significant, 4% improvement to Overall Performance. These benefits seem to kick in more with full time, rather than part time, involvement, which is when ratings significantly improve on customer service, compliance and trustworthiness in business dealings. (It would appear the full time presence of their spouse helps to keep franchisees honest!)

► **Figure 48 – Relationship between spouse involvement and Overall Performance**



Further analyses of the spouse involvement data reveals that, for Financial Achievement, any involvement by a spouse has a positive impact. Figure 49 shows the consistent increase in Financial Achievement as spouse involvement increases.

► **Figure 49 – Relationship between spouse involvement and Financial Achievement**



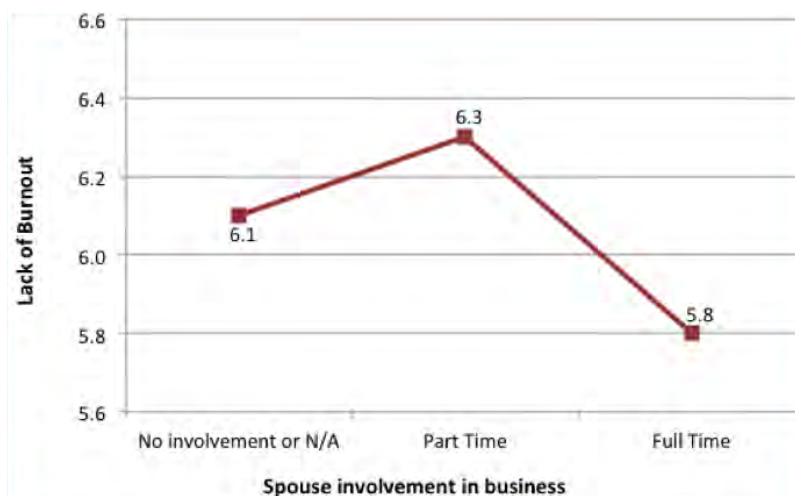
### How spouse involvement impacts on satisfaction

If direct involvement of a spouse helps franchisees to achieve better business results, does the “Spouse Effect” also improve franchisee satisfaction? It turns out the answer is not so simple.

Because spouse involvement improves sales and profitability performance, it is not surprising there is a trend that spouse involvement also increases satisfaction with financial performance – the more the spouse is involved, the more satisfied the franchisee is with their financial performance.

But this pattern flips in the opposite direction for other types of satisfaction, particularly measures of personal wellbeing. For instance, Figure 50 shows the relationship between spouse involvement and burnout. As the spouse becomes involved in the business full time, satisfaction with burnout drops. The same pattern occurs with work life balance and enjoyment of the work (satisfaction decreases).

► **Figure 50 – Relationship between spouse involvement and lack of Burnout**



In conclusion, while 41% of franchisees have their spouse working with them in the business, this is a double-edged sword. On the one hand, franchisees that have their spouse involved full time in their business are more likely to make more money, maintain higher operating standards and deliver better customer service. But there is also a greater likelihood they will be less satisfied with their work-life balance, have more stress and less enjoyment of their work. There is an opportunity here for franchisors to include educational initiatives to help partners who work together maximise the best of both worlds.

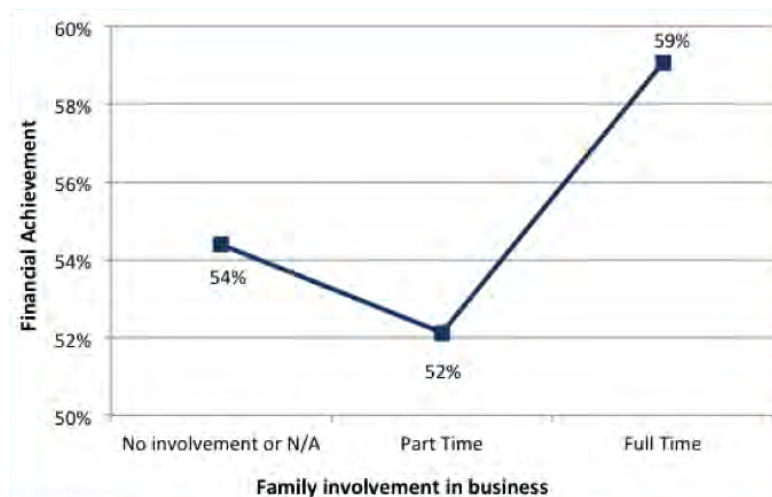
## Family involvement – is it helpful?

The nature of self-employment, with its financial responsibilities and burdens, means the impact on a person's family is generally greater than being an employee working for someone else. In this study, 24% of franchisees had family members working in the business apart from their spouse. In this section we investigate whether having family members involved in the business is helpful.

### How family involvement impacts on performance

The evidence suggests that when it comes to family involvement in the business, no help may be better than some help. For instance, Figure 51 shows the relationship between family involvement and Financial Achievement scores.

► **Figure 51 – Relationship between family involvement and Financial Achievement**

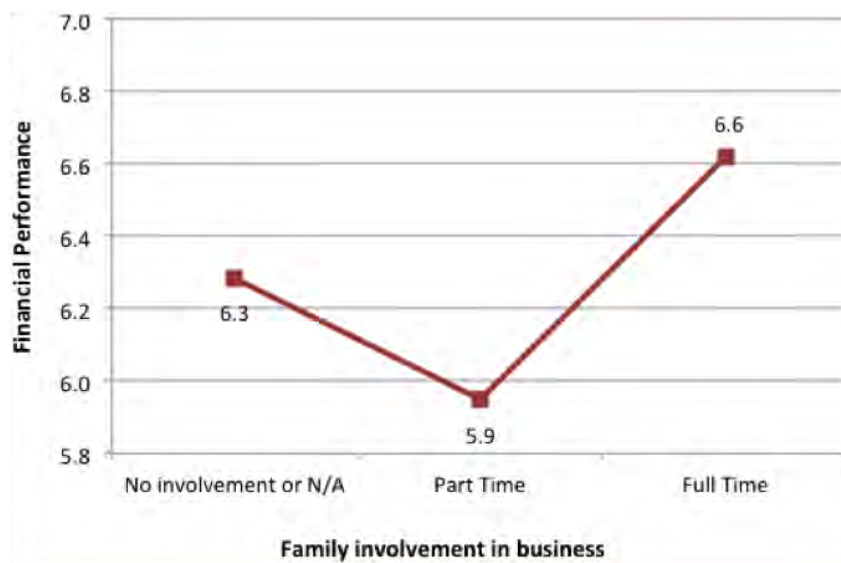


In terms of Financial Achievement, full time involvement by the family delivers the most benefit. This is particularly significant for business profitability which was 9% higher for full time involvement compared to part time involvement.

The Customer Experience scores follow a similar pattern. For instance businesses that have family involved on a full time basis score 7% higher on the delivery of Customer Service than those with part time family involvement, which again is the least effective.

### How family involvement impacts on satisfaction

There is a trend for family involvement to impact on satisfaction with Financial Performance. Again this is highest for franchisees who have family involved on a full time basis and lowest for franchisees who have family involved on a part-time time basis. See for example Figure 52.

► **Figure 52 – Relationship between family involvement and satisfaction with Financial Performance**

In conclusion, when a franchisee's family is involved in the business full time, the impact on overall performance is likely to be positive, particularly on sales and profitability. Franchisees with this type of assistance are also more likely to be satisfied with their financial performance.

If, for whatever reason, family members are not involved full time in the business, the next best option appears to be having no involvement rather than part time involvement as the latter is associated with the lowest performance and satisfaction.

## Does prior business experience make a difference?

There are two schools of thought around the question of whether it is useful for a franchisee to have previous business experience. Some franchisors believe people with previous business experience bring bad habits to the business and are more difficult to manage in terms of compliance. Another school of thought says previous business experience prepares franchisees for what is ahead of them and is a useful predictor of future performance.

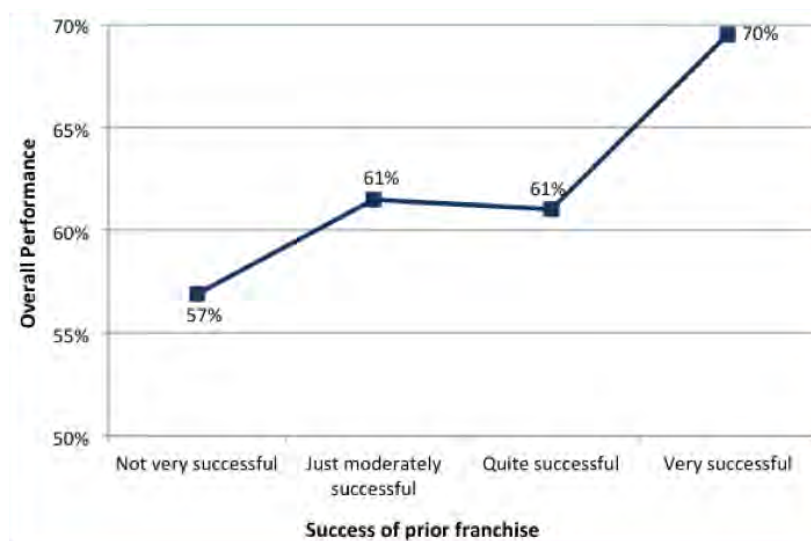
In this section we will try to answer this question by examining the performance patterns of people with and without prior business experience, both within and outside a franchise system. As 43% of the franchisees in our study have run an independent business prior to their current franchise and 12% have prior franchise ownership experience, we figure any clear trends around this issue will have important implications for a franchisor's recruitment, training and support strategies

### Prior franchise experience and performance

The first question we asked is whether franchisees with prior experience running a franchise were more successful. The answer is no, it made no difference to their current performance.

Next we looked within the group who had experience running a franchise to see if their past self-rated success was predictive of their current success. The answer to this question was more interesting as shown in Figure 53.

► Figure 53 – Relationship between success of prior franchise business and Overall Performance



Franchisees who rated their previous franchise as “Very successful” were performing significantly higher on Overall Performance in their current business. This pattern was particularly strong for Financial Achievement. In fact, the difference in profit performance between the group who rated their prior franchise as “Not very successful” compared to those who rated it as “Very successful” was 23%.

### Prior franchise experience and satisfaction

There was no relationship between satisfaction and whether or not a franchisee had previously owned a franchise. However, we found some trends within the group that had previously owned a franchise. The more successful a franchisee rates their previous franchise, the more satisfied they tend to be with their current financial performance. This makes sense as ratings of previous success in a franchise predicted actual financial performance (see previous section).

*Franchisees who had previously owned an independent business had significantly lower profit performance*

### Prior non-franchise business experience and performance

A significant relationship between previous non-franchise experience and Overall Performance also emerged, but in a negative direction. Franchisees who had previously owned an independent business:

- Performed significantly lower on measures of Constructive Participation, particularly compliance.
- Had significantly lower profit performance.
- Were significantly more likely to be in conflict with their franchisor.
- Were significantly less likely to be selected again by their franchisor.

### Prior business experience and satisfaction

Franchisees who had previously owned a non-franchised business were significantly less likely to suffer from symptoms of burnout. Perhaps they were more accustomed to the stresses of running a business. However, the more successful a franchisee rated their previous business, the less satisfied they were with the competence of their franchisor, as seen in Figure 54.

► **Figure 54 – Relationship between success of prior business and satisfaction with Franchisor Competence**



In relation to the question ‘is it a good or a bad thing for a franchisee to have previous business experience’ the answer is, it depends. For franchisees with prior experience running a franchised business, the success of this previous venture will largely predict the success of their current venture. A high level of success in the previous franchise is a positive sign. Franchisors should probe into these issues as part of their recruitment process.

On the other hand, franchisees with prior experience running an independent business are more likely to push back on compliance and be in conflict with their franchisor. They are also less likely to score highly on franchisee citizenship measures or to be selected again by their franchisor. On the positive side these people are likely to be slightly more robust in dealing with the stresses of the franchised business. However, the more successful their prior independent business was, the less satisfied they are with the competence of their current franchisor.

## Does the type of motivation to join a franchise influence performance and satisfaction?

When franchisees were asked to rank six possible reasons for joining the franchise, in order of importance to them (from 1 as the strongest motivator to 6 as the weakest) responses were as follows:

Motivating Factor	% ranking this as #1
To build wealth	29%
To have more flexibility in how I live my life	27%
To have more security and stability	16%
To have more day to day control over the way I work	12%
To achieve a personal challenge	12%
To be able to work with my family	4%

In this section we examine the extent to which these motivating factors impact on performance and satisfaction.

## Impact of motivations on performance


Out of the six motivating factors, four impact significantly on franchisee performance:

**Franchisees primarily motivated to build wealth** achieved significantly higher Financial Achievement but significantly lower Constructive Participation scores. For instance, franchisees choosing this as their highest motivator had on average a 4% higher sales performance score, but were 2% lower on their constructive participation in the network.

**Franchisees primarily motivated to have more flexibility in how they live their life** achieved significantly lower Financial Achievement scores, on average 3% lower.

**Franchisees motivated primarily to achieve a personal challenge** have significantly higher Overall Performance, particularly Customer Experience and Constructive Participation scores. For instance, franchisees with this as their highest motivator had on average a customer service score 4% higher than the rest of the group.

**Franchisees primarily motivated to be able to work with their family** achieved significantly lower Financial Achievement scores. For example, their sales performance was 11% lower than the rest of the group.



*Franchisees primarily motivated to build wealth achieved significantly higher Financial Achievement*

## Impact of motivations on satisfaction

Several significant relationships emerged between motivations for joining the franchise and satisfaction. The first two are virtually a mirror of each other.

**Franchisees primarily motivated to build wealth** are significantly less satisfied on virtually all 10 satisfaction scales, particularly those associated with the franchisor and personal wellbeing.

**Franchisees primarily motivated to have more flexibility in how they live their life** are significantly more satisfied on virtually all 10 satisfaction scales, particularly those associated with the franchisor and personal wellbeing (e.g. work-life balance, low burnout).

**Franchisees primarily motivated to have more day to day control over the way they work** are significantly more satisfied with their work.

**Franchisees primarily motivated by having more security and stability** are significantly less satisfied with their work-life balance.

**Franchisees primarily motivated by wanting to achieve a personal challenge** are significantly more satisfied with their work, and are more likely to recommend the franchise system to others.

In conclusion, franchisees who reported being primarily motivated by intrinsic factors<sup>19</sup> such as personal challenge, control or flexibility tended to be more satisfied as a franchisee. On the other hand, franchisees motivated by extrinsic factors<sup>20</sup> such as wealth or security tended to have lower satisfaction scores.

Franchisees motivated by wealth had significantly higher Financial Achievement scores but lower Constructive Participation scores. Franchisees motivated to have flexibility in their lives had significantly lower Financial Achievement scores. Those motivated to work with their family also had significantly lower Financial Achievement scores. Franchisees motivated by achieving a personal challenge had significantly higher Overall Performance.

<sup>19</sup> Intrinsic factors are motivations that come from inside the person and are usually associated with personal goals and values.

<sup>20</sup> Extrinsic factors are motivations that rely on the external environment and are usually associated with material achievement and recognition.

## ▶ Chapter 11: What encourages franchisees to be advocates

- ▶ Existing multi-unit franchisees, men and franchisees who speak English as a second language are more likely to want to invest in more units.
- ▶ Franchisees who are currently working full time overseeing their business are more likely to want to purchase more units.
- ▶ Success attributes that most differentiate those wanting to purchase more units are *Brand Passion*, *vitality (Health and Vigour)*, *Sales Orientation*, *Family & Social Support*, *Leadership Potential* and *Comfort with Technology*.
- ▶ Franchisees who are more satisfied with the personal aspects of the business, such as work-life balance and enjoyment of the work, are more likely to want to invest in more units.
- ▶ Franchisees who are more satisfied, particularly with their work, work-life balance and financial performance, have higher intentions to stay in the franchise.
- ▶ On the other hand, franchisees primarily motivated to join their franchise in order to build wealth have significantly lower intentions to stay.
- ▶ Franchisees who have higher levels of the success attributes and who have confidence in the franchisor are more likely to promote the franchise network.
- ▶ On the other hand, franchisees working more than 50 hours a week, with a postgraduate university degree or who have low levels of *Brand Passion* are less likely to promote the franchise network.
- ▶ When asked what they most value from their franchisor, the top franchisees mention relevant, responsive support; business systems, models and tools; and a strong brand and effective marketing strategy.

One sign of a healthy, robust franchise network is the proportion of franchisees who are advocates for the franchise network. Advocates are people willing to promote a cause – in this case, joining the brand. Advocacy behaviour by franchisees is the most cost effective strategy for growing a franchise network. And because people tend to mix with others with similar values and attitudes, the franchisees you most want as advocates are your best franchisees. Common measures of advocacy levels are the proportion of franchisees who:

- ▶ Would purchase additional units if given the opportunity.
- ▶ Intend to stay in the franchise.
- ▶ Would actively recommend the franchise to friends, colleagues or family.

In this chapter we present data around these three measures and explore the conditions most likely to encourage advocacy behaviour by franchisees.

### Why do franchisees want to purchase more units?

Franchisees in the study were asked, “Given the opportunity, would you invest in additional units within this franchise system?” Assuming a willingness to purchase additional units is desirable, an important question is, what encourages franchisees to adopt this attitude?

## Impact of gender, language and size

When we examined the data on intentions to invest in more units the impact of three variables was clear:

- ▶ Gender
- ▶ English as a first or second language (ESL)
- ▶ Single versus multi-unit ownership

Table 14 shows franchisee responses for the full sample and for these three variables.

▶ **Table 14 – Franchisee responses to question on investing in more units**

	Willing to purchase additional units	Yes	Maybe	No
Full Sample	Full Sample	32%	33%	35%
Gender	Men	35%	33%	32%
	Women	28%	32%	40%
English Literacy	English as a Second language	41%	31%	29%
	English as a First language	31%	33%	36%
Single vs. Multi	Single-unit owners	30%	33%	36%
	Multi-unit owners	41%	29%	30%

The largest difference between men and women was 8% more women said “no” to purchasing more units. Women appear more conservative when it comes to investing in more units.

The largest difference between franchisees with English as a first or second language was the percentage of English as a Second Language (ESL) franchisees that said “yes” to purchasing more units - 10% more. There is evidence that ESL franchisees tend to have more family involvement in the business, so it is possible they intend to use family members to assist with this expansion.

Multi-unit franchisees were also more likely to want to purchase more units, with 11% more of this group saying “yes” to the question.

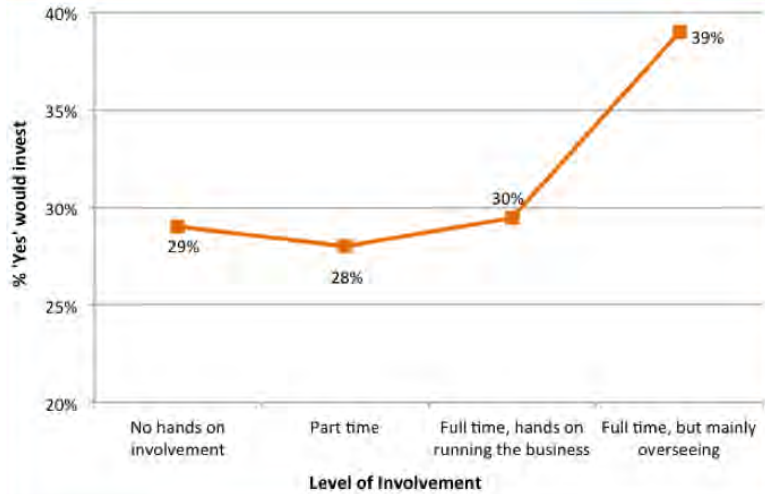
## Impact of age and tenure

Results also showed significant relationships between franchisee age and tenure, and willingness to invest in more franchise units. Younger franchisees and franchisees with shorter tenure are significantly more likely to want to invest in additional units.

## Impact of business involvement

The level of involvement a franchisee has in the business also makes a difference to their willingness to invest in more units. Figure 55 shows the pattern.

► **Figure 55 – Percentage of franchisees saying “Yes” to investing in more units**



Franchisees who work full time overseeing the business are significantly more likely to want to invest in additional units than franchisees with other levels of involvement.

**Impact of motivations to join the franchise**

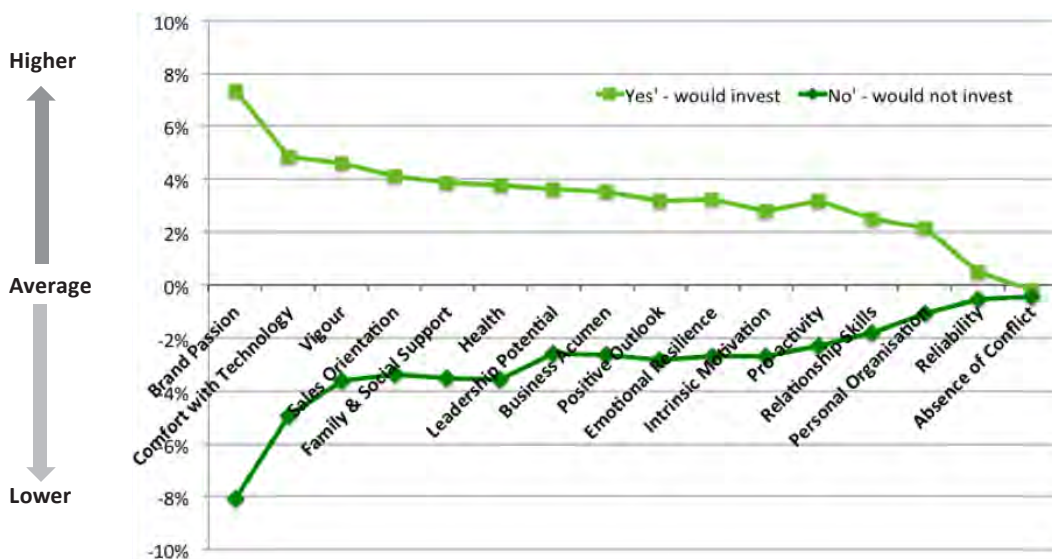
Two significant relationships were identified between motivations for joining a franchise, and whether a franchisee would invest in additional units. Franchisees motivated to have more day to day control over the way they work were significantly less likely to want to invest in further units. Perhaps these people see multi-unit ownership as taking away their sense of control. On the other hand, people primarily motivated to achieve a challenge were significantly more likely to want to invest in further units, most likely for the additional challenge!

**Impact of psycho-social attributes**

Highly significant correlations emerged between most of the psycho-social attributes and a franchisee’s willingness to invest in more units.

Figure 56 shows the attribute differences between franchisees who said “yes” or “no” to being interested in investing in additional units, by comparing their average scores on each attribute to the averages for the whole sample.

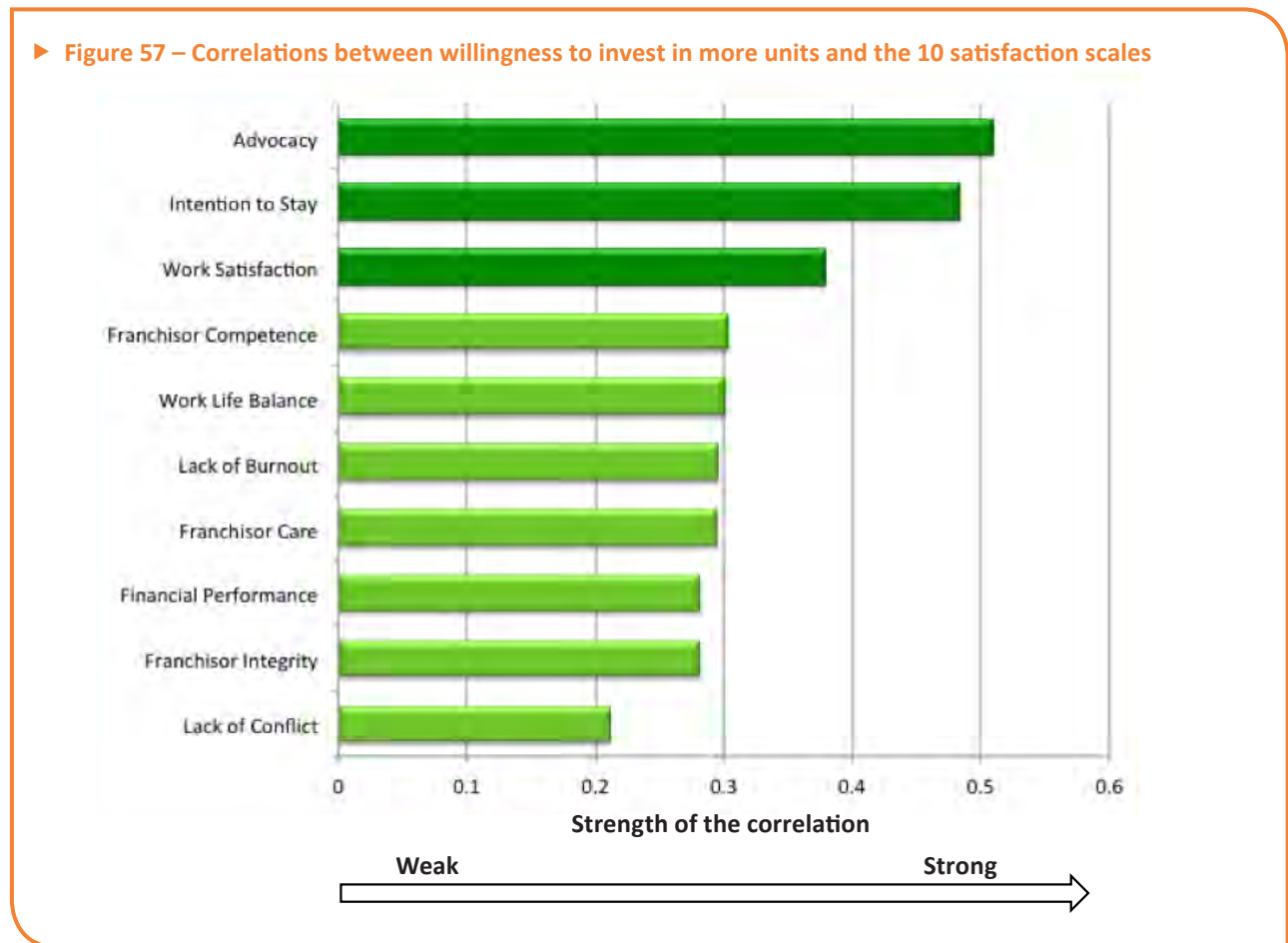
► **Figure 56 – Attribute scores for franchisees who would or would not invest in additional units**



Franchisees with more *Brand Passion* are clearly more likely to invest in more units, as are those more comfortable with technology, with more energy and sales orientation. Looking at the trends that most differentiate the two groups, the most relevant characteristics are related to high energy, leadership, business focus, technology and having a support network. The only attributes not significantly related to wanting to invest in more units are *Reliability* and *Conflict Proneness* (Absence of Conflict).

### Impact of satisfaction

One would assume that a person’s level of satisfaction has a powerful impact on whether or not they are willing to invest in more franchise units. Figure 57 shows the correlation between satisfaction and willingness to invest in another unit.



Not surprisingly the Advocacy scale has the strongest correlation with willingness to invest in more units. (This supports the use of willingness to invest as a measure of advocacy).

As would be expected, Intention to Stay is also strongly correlated, given that willingness to invest by definition means you want to stick around.

The next strongest correlation, work satisfaction, is interesting as this suggests enjoyment of the work is an important driver of investment. In addition to these strong correlations, all the satisfaction scales except Lack of Conflict had at least moderately strong correlations with intention to invest in more units.

## Conclusions

Franchisors wanting to encourage franchisees to invest in more units should consider the following:

- ▶ Younger franchisees (in age) and those with shorter tenure are more likely to want to invest.
- ▶ Men and ESL franchisees are probably more likely to want to invest.
- ▶ Existing multi-unit franchisees are more likely to want to purchase more units. As the best predictor of future performance is usually past performance, consideration should obviously be given to their existing performance.
- ▶ Franchisees who are working full time overseeing their business are more likely to want to purchase more units, probably because they are in a position to manage additional businesses through delegation. This is obviously the best approach when running a multi-unit operation (a topic we will return to in Chapter 12).
- ▶ Characteristics that most differentiate those wanting to purchase more units are a passion for the brand, high energy, leadership, results focus, being technologically savvy and a strong support network.
- ▶ Satisfaction with the personal aspects of the business, such as enjoyment of the work, are important drivers of wanting to invest in more units.

## What makes franchisees want to stay in the system?

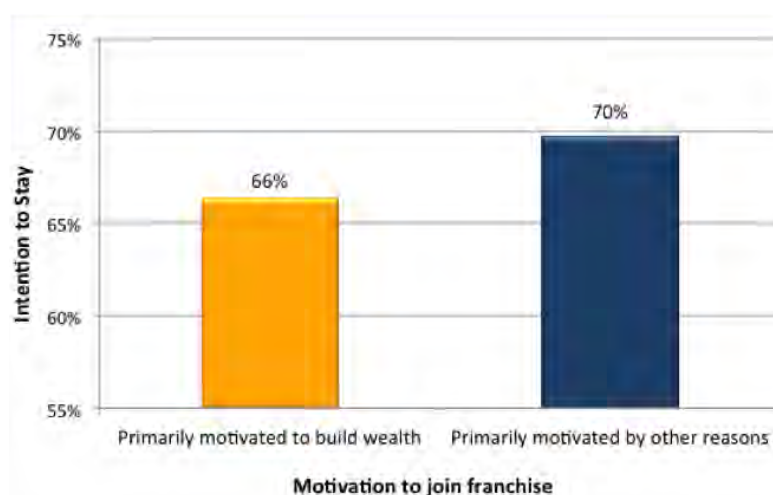
Many franchisors today are interested in understanding how to keep their franchisees in the system longer. Longer tenure means the intellectual capital accumulated by long standing franchisees is kept in the brand. Longer tenure also means franchisors can focus their recruitment efforts on new sites rather than replacing existing franchisees in existing sites or territories.

Franchisees responded to three questions which made up an *Intention to Stay* scale.

### Impact of motivations to join the franchise

One significant relationship was identified between motivations for joining a franchise, and whether a franchisee intended to stay in the franchise system. Franchisees primarily motivated to build wealth had significantly lower intentions to remain in the system, as seen in Figure 58.

▶ **Figure 58 – Relationship between franchisee primary motivations to join franchise, and Intentions to Stay**



## Impact of psycho-social attributes

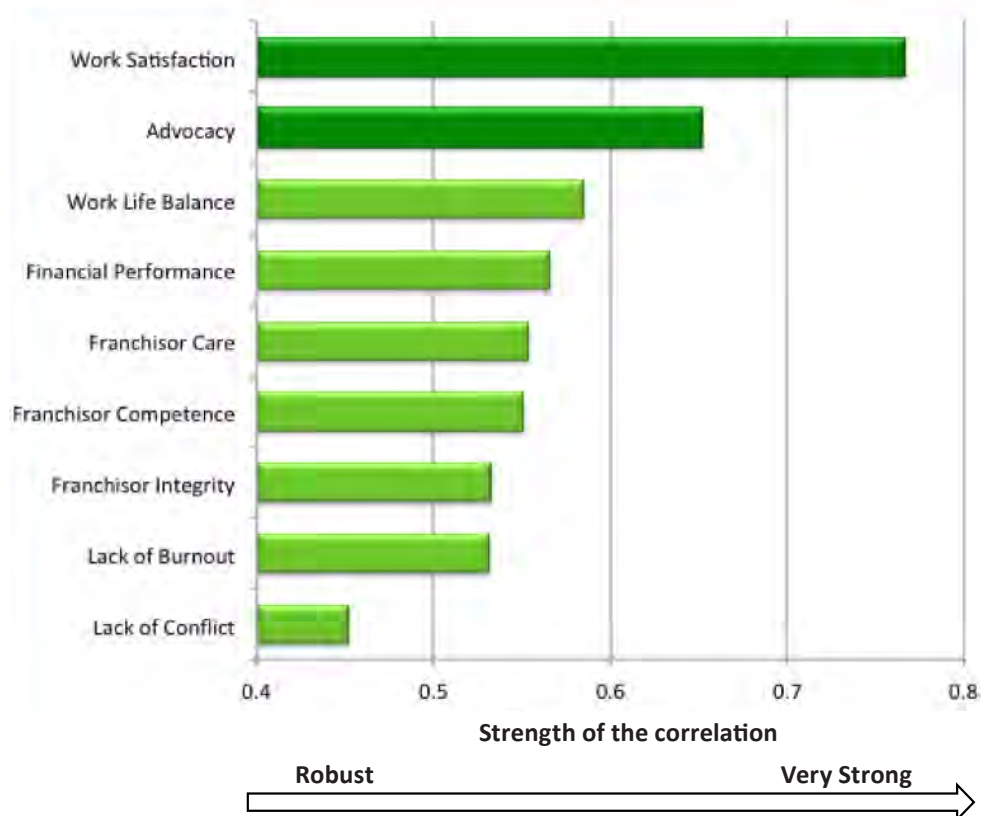
All 16 success attributes correlated significantly with franchisee intentions to stay in their franchise. That is, the more of the success attribute franchisees possessed, the more they intended to remain in the system. The strongest predictors of franchisee intentions to stay are:

- ▶ Family & Social Support
- ▶ Positive Outlook
- ▶ Relationship Skills
- ▶ Pro-activity
- ▶ Emotional Resilience

## Impact of satisfaction

Similar to investing in more franchises, we would assume a franchisee's level of satisfaction has a powerful impact on whether or not they intend to stay in their franchise. Figure 59 shows the correlations between satisfaction and *Intention to Stay*.

▶ **Figure 59 – Correlations between Intentions to Stay, and the nine other satisfaction scales**



All correlations are highly significant and moderately strong to very strong.

Work Satisfaction is the most strongly correlated with intentions to stay in the franchise. It makes sense that franchisees who enjoy their work are more motivated to continue with it. As we'd expect, Advocacy is also strongly correlated with intentions to stay.

The two next strongest correlations are work life balance and satisfaction with financial performance. It seems once enjoyment of work is out of the picture, the next most important things to people are achieving a work life balance, and making money. Note that work-life balance emerged as slightly more important than making money!

## Conclusions

The following are the most clear and significant predictors of whether a franchisee will want to stay in their franchise:

- ▶ Happier franchisees will be far more likely to want to stay in their franchise. Of particular importance is satisfaction with their work, their work life balance and their satisfaction with the money they are making.
- ▶ The characteristics differentiating franchisees intending to stay in their franchise include a strong family and social support network, emotional resilience and a positive outlook, pro-activity and relationship skills.
- ▶ Franchisees primarily motivated to join their franchise in order to build wealth have significantly lower intentions to stay in their franchise.

## What turns franchisees into Promoters?

### Definition of a Promoter

Earlier we explained the Net Promoter Score or NPS, a common method for measuring customer advocacy toward a brand. The NPS can be adapted as a useful measure for franchisee advocacy and is calculated from franchisee responses to the item “I could honestly recommend this franchise to a friend or colleague”. Table 15 shows how we have categorised franchisees as either “Promoters”, “Passives” or “Detractors”, depending on their response to the above statement.

▶ **Table 15 – Percentage responses to item “I could honestly recommend this franchise to a friend or colleague”**

Response	Percentage Responses	NPS Category
Strongly Agree	23%	Promoters 56%
Agree	33%	
Mildly Agree	14%	Passives 27%
Uncertain	13%	
Mildly Disagree	4%	Detractors 17%
Disagree	7%	
Strongly Disagree	6%	

Franchisors wanting to grow their networks need to maximise the number of Promoters amongst their existing franchisee ranks. With this in mind we set out to discover what influences franchisees to become Promoters.

### Impact of age and gender

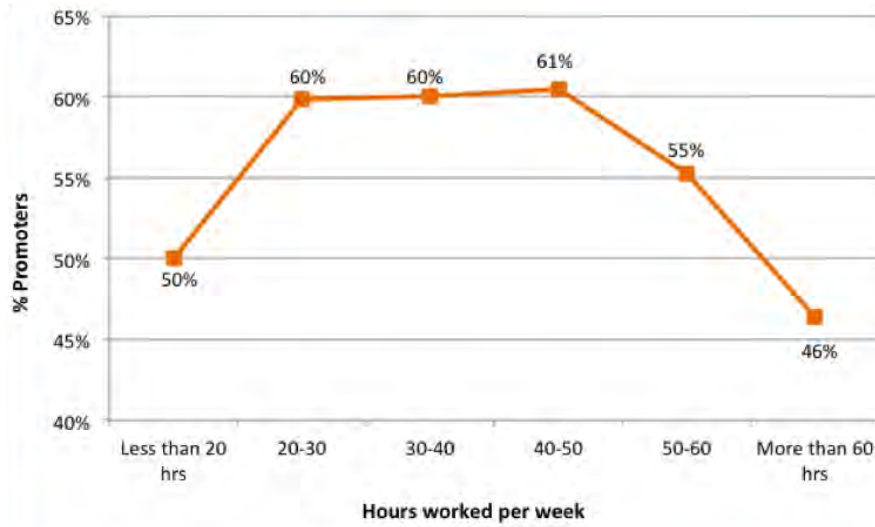
There is a small but significant relationship between age and Promoter tendencies, with younger franchisees more likely to recommend the franchise.

Gender also played a role, with female franchisees slightly more likely to be a Promoter compared to males.

### Impact of hours worked

Figure 60 shows the relationship between hours worked and Promoter tendencies.

► **Figure 60 – Impact of hours worked on promoter tendencies**

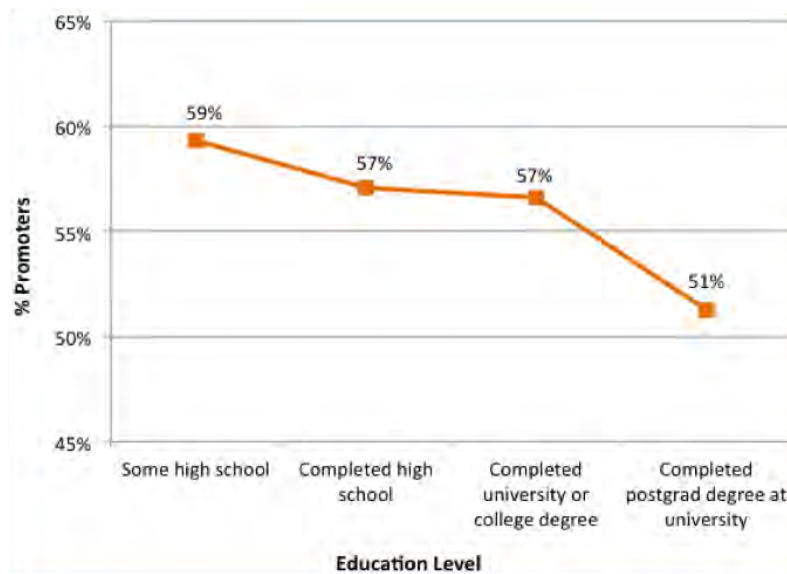


Franchisees that are most likely to be positive about the franchise are those working 20 to 50 hours a week. While 61% of franchisees working 40 to 50 hours a week are Promoters, this drops by 6% to 55% for franchisees working 50 to 60 hours, and by another 9% to 46% for franchisees working over 60 hours a week. Hours worked clearly have a significant impact on Promoter tendencies.

**Impact of education level**

Figure 61 shows the relationship between level of education and Promoter tendencies.

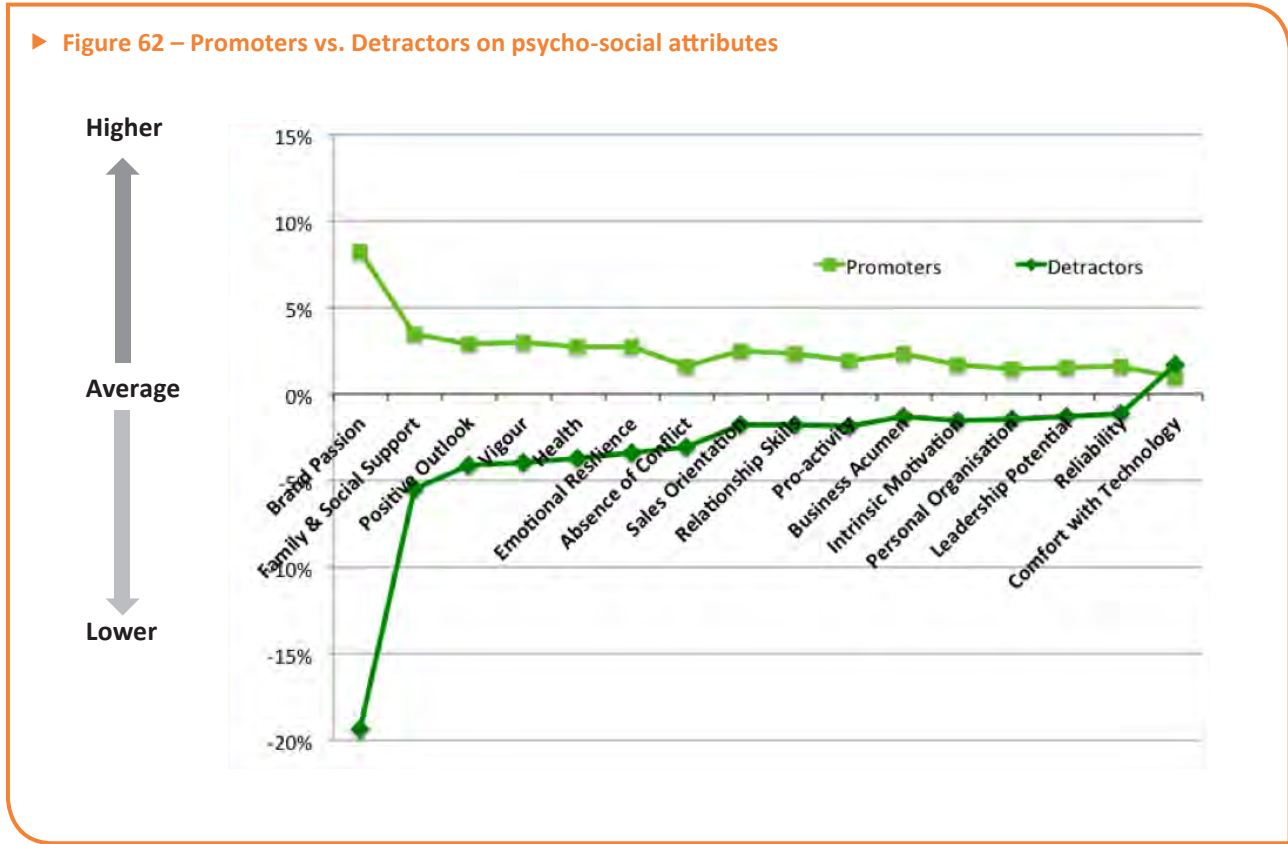
► **Figure 61 – Impact of education on promoter tendencies**



Earlier we learned that franchisees that have completed a postgraduate university degree are significantly less satisfied with the financial performance of their business and the competence of their franchisor. So it is not surprising this group are significantly less likely to be Promoters – around 6% less likely than the rest of the sample.

### Impact of psycho-social attributes

We also examined the impact of the various attributes on Promoter tendencies by comparing the average scores of Promoters versus Detractors on each attribute, and the averages for the whole sample. Figure 62 shows the results of this analysis.

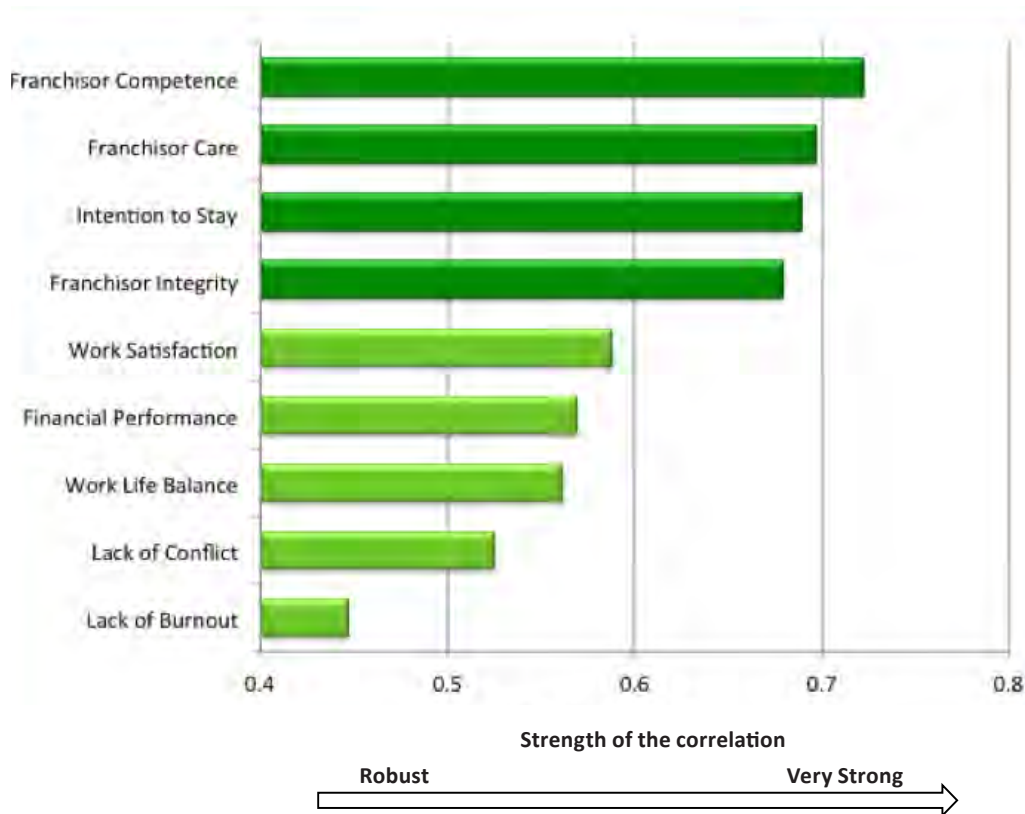


The Promoter group have significantly higher levels of all attributes compared to the Detractors, except for *Comfort with Technology*. Note the particularly low scores on Brand Passion for the Detractors, 19% below the average for the whole group.

## Impact of satisfaction

Results show franchisees who are more satisfied are more likely to recommend their franchise. This relationship is significant for all satisfaction scales. Figure 63 displays the strength of relationship between the various satisfaction scales, and promoter tendencies.

► **Figure 63 – Strength of relationship between satisfaction and promoter tendencies**



All satisfaction scales are strongly correlated with Promoter tendencies, in particular the three scales that measure satisfaction with the franchisor's competence, care and integrity. In other words the more franchisees believe the franchisor team is competent, trustworthy and interested in their success, the more likely they are to be a Promoter for the franchise system. Interestingly, satisfaction with their financial performance or wellbeing was not as important (though these were more predictive of their intentions to stay in the system, as seen earlier on in this chapter).

In conclusion, franchisee Promoters are likely to recommend others to join the franchise system and are therefore an extremely important asset to a franchisor.

Franchisees most likely to be Promoters:

- Show higher levels of the success attributes, especially Brand Passion, Family and Social Support, and Positive Outlook.
- Have more confidence in the competence, care and integrity of their franchisor.

Franchisees least likely to be Promoters:

- Are working more than 50 hours a week.
- Have completed a postgraduate university degree.
- Have low levels of *Brand Passion*.

## What the best franchisees want from their franchisor

High performing franchisees drive sales, consistently deliver on the brand promise and contribute to a healthy, collaborative culture. As such they are a franchise system's most valuable asset. The most powerful strategy for keeping these high performers engaged in a franchise network is to give them more of what they value. With this in mind we asked franchisees in the study to respond to the following open-ended question: "What does your franchisor provide that is most useful or valuable to you?"

We then analysed the responses of 417 top franchisees in the sample, defined as those with the highest 20% Overall Performance scores. Overall Performance includes scores on Financial Achievement, Customer Experience and Constructive Participation.

A content analysis of their responses revealed 11 themes, which are shown in Table 16, along with a percentage weighting calculated from the proportion of franchisees who mentioned each theme. Franchisees may have referred to more than one theme in their response to the question, which is why the total percentage of comments relating to the various themes exceeds 100%.

The higher the percentage, the more the theme was mentioned and thus the more important it could be considered to this group.

► **Table 16: What top performing franchisees say is most valuable to them**

Theme	Percentage weighting
Relevant, responsive support	29%
Business model, systems and tools	21%
Strong brand and effective marketing strategy	20%
Products, suppliers and innovation	9%
Technology systems and support	9%
Ongoing training	8%
Honest, competent leadership	8%
Sense of respect, care and belonging	8%
Opportunities to interact with other franchisees	5%
Personal growth and lifestyle	5%
Effective field consultants	4%

### Relevant, responsive support

*"They are always available to help in any way. If there is something I need, it will be done quickly"*

The strongest theme, making up almost a third of all responses was relevant and responsive support from the franchisor team. Although these franchisees were top performers, they still clearly appreciate the ongoing guidance they receive in a range of areas such as helping them to refine their ongoing business systems. The two words, relevant and responsive, are both important. Relevant means the support is appropriate to their needs, which will change over time. Responsive means the support is there when they need it.

### Business model, systems, and tools

*"Back office programs and reports"*

The second main theme to emerge was the value they place on systems, models and tools. Top performers place a high importance on a solid business model with effective and proven systems. Access to benchmarking and performance data was clearly of value to this group.

### Strong brand and effective marketing strategy

*"A brand that is strong and well trusted"*

Strong branding and effective marketing was one of the top three themes to emerge. In particular, franchisees

appreciated having the power of a recognised brand behind them. Just as importantly, these top performers also frequently referred to having a clear marketing strategy. While assistance with local area marketing was frequently mentioned it was not as important as the brand strength and the marketing strategy.

### Products, suppliers and innovation

*“Product improvements/new product launches”*

Top performers value purchasing power and the group buying benefits. There was frequent reference to having a broad and well-structured product range which was continually evolving. Competitive trading and payment terms were also frequently mentioned.

### Technology systems and support

*“Technology tools to keep our competitive advantage”*

Interestingly, technology emerged as a category on its own with comments frequently referring to the specific software and technology provided by the franchise system. IT support was also repeatedly mentioned as being of value to them.

### Ongoing training

*“Ongoing training which allows me to improve my knowledge and service”*

Even though this was a high performing group of franchisees, ongoing training was frequently mentioned, both for their ongoing development and for the development of their teams. The franchisees clearly appreciate the fact that training was available to them and that they were given the opportunity to take part, when needed.

### Honest, competent leadership

*“They have a clear vision and mission of who they are and where they want to go and they drive the systems to go along with it to help us grow in return!!”*

Many franchisees mentioned the value they place on the competence and honesty of the franchisor team. Clearly, high performing franchisees expect to be led by a high calibre, trustworthy leadership team.

### Sense of respect, care, belonging

*“Strong sense of partnership and alignment, a lot of quality people to work with who care”*

Many of the comments referred to the value placed on being treated with respect. Many comments also referred to appreciating the genuine care shown by the franchisor for their success and the sense of inclusion they felt within the franchise network.

### Opportunities to interact with other franchisees

*“Providing opportunities to attend conferences, where a lot of learning and motivation takes place, providing the opportunities to meet with other franchisees”*

Top performers value networking and being able to interact with other franchisees. There was frequent mention of the value they gain from regular conferences and meetings. Specifically, they valued the opportunities these networking events provide in building close working relationships with other franchisees.

### Personal growth and lifestyle

*“The chance to travel and see new locations in the world and a nice lifestyle”*

As we have discovered from other findings within this study, many franchisees are motivated by personal goals and lifestyle. There were a significant number of franchisees who appreciated having the opportunity to pursue their personal aspirations.

### Effective field managers

*“Individual franchise business manager to work regularly in stores”*

A good field manager clearly makes a difference to top performers. There were many specific comments referring to the value of their franchise field consultants and other members of the operations support team.

## ▶ Chapter 12: How do multi-unit franchisees differ from single-unit franchisees?

- ▶ Multi-unit franchisees are currently achieving higher levels of financial performance than single-unit franchisees and are more satisfied with their lifestyle, work and financial performance.
- ▶ Multi-unit franchisees are also more likely to stay in the franchise and to recommend the franchise to others.
- ▶ Multi-unit franchisees have significantly higher levels of almost all success attributes compared to single-unit franchisees.

The maturing of franchise networks, and difficulty attracting new franchisees, has more recently created strong growth in multi-unit franchising across the world. In the USA, where multi-unit franchisees outnumber single-unit franchisees,<sup>21</sup> many new franchisees start out as multi-unit operators. In Australia, South Africa and Canada, where multi-unit franchising is still evolving, most multi-unit operators are existing franchisees, growing incrementally from within the same network.

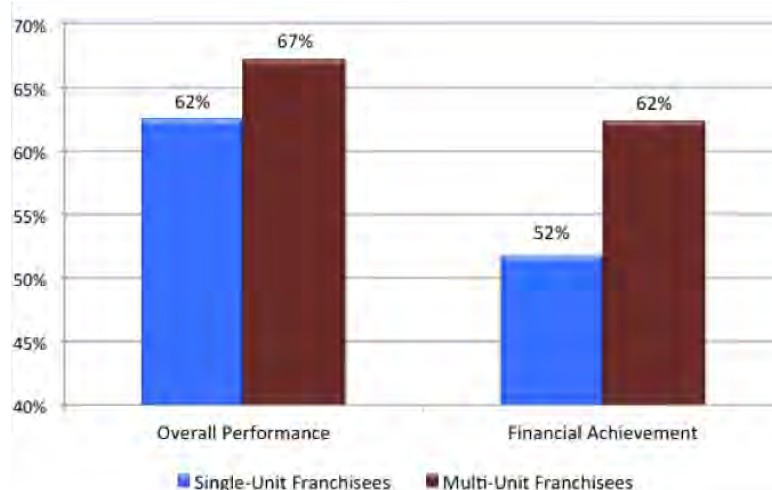
Data from the current study suggests the proportion of franchisees in these markets who are multi-unit operators is around 22%. While this is still moderate, based on current trends, we predict multi-unit franchisees will become an increasingly important group to understand from the point of view of good selection and support practices.

In this section we explore the significant differences between multi and single-unit franchisees by separately analysing the data we have collected on the 529 multi-unit franchisees in the sample.

### Differences in performance

The first thing to emerge from the data was that multi-unit franchisees were performing significantly higher than single-unit franchisees in most areas, especially in sales and profitability per unit. Figure 64 shows the Overall Performance and Financial Achievement scores of single versus multi-unit franchisees.

▶ **Figure 64 – Performance for single vs. multi-unit franchisees**



<sup>21</sup> From 2010 Frandata USA franchise sector survey.

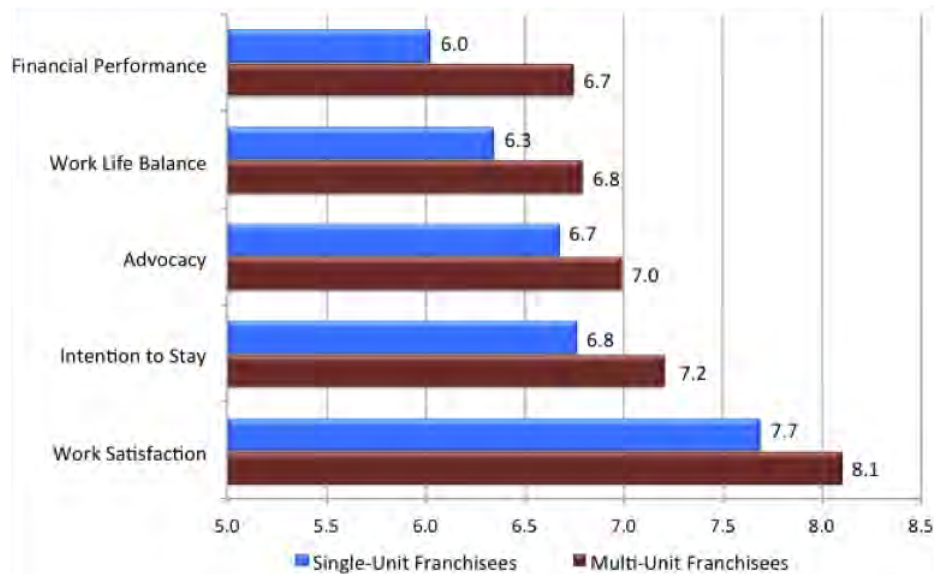
As can be seen multi-unit franchisees performed 10% higher on Financial Achievement. Interestingly, they also received significantly higher scores on delivering the Customer Experience, mainly due to them being more active in promoting their businesses in the local community.

The only area multi-unit franchisees were not performing better than single-unit operators was in Constructive Participation where there was no significant difference.

## Differences in satisfaction

When we looked at the satisfaction scores of single and multi-unit franchisees, some interesting findings also emerged. Figure 65 compares satisfaction scores on five scales that had significant differences.

► **Figure 65 – Satisfaction for single vs. multi-unit franchisees**

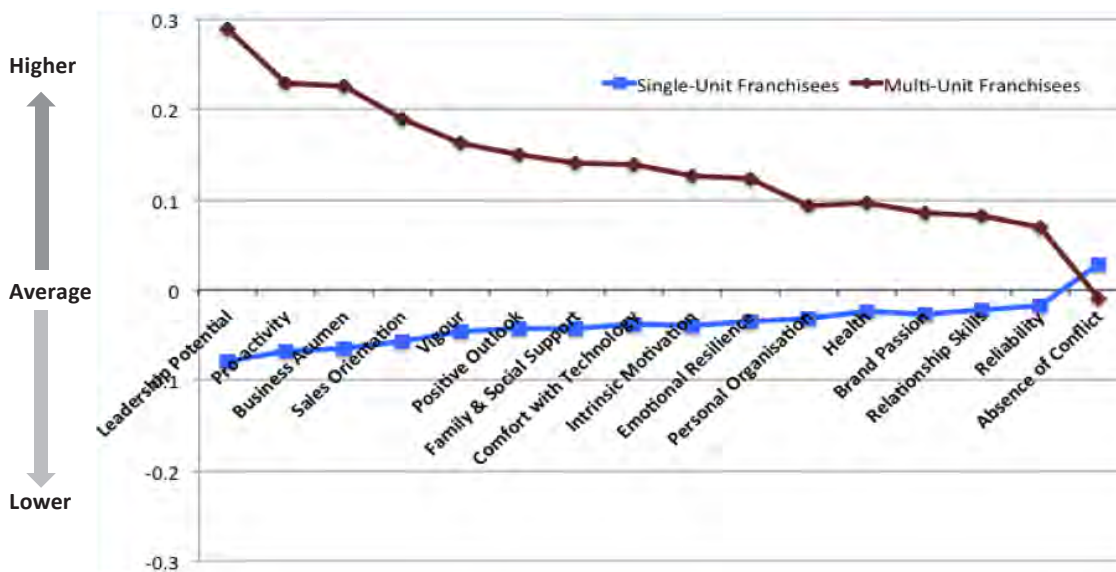


- Multi-unit franchisees scored significantly higher on satisfaction with Financial Performance.
- Multi-unit franchisees scored significantly higher on Work-Life Balance and Work Satisfaction, meaning they enjoy running their businesses and say the business impacts less on their personal lives than the single-unit franchisees.
- Multi-unit operators also have higher Intention to Stay and Advocacy scores, meaning they are more likely to want to recommend the franchise and continue in the franchise for as long as possible.

## Differences in the success attributes

The next question we considered was this. “Do multi-unit franchisees have a different attribute profile to single-unit franchisees?” To answer this we mapped the average attribute scores for each group against the average for the whole sample. The findings are shown in Figure 66.

► Figure 66 – Single vs. multi-unit franchisees on psycho-social attributes



Multi-unit franchisees clearly have higher levels of all the attributes<sup>22</sup> except Absence of Conflict, which is the only attribute where multi-unit operators are lower. The attributes where multi-unit franchisees are particularly high include *Leadership Potential*, *Pro-activity*, *Business Acumen*, *Sales Orientation*, *Vigour* and *Positive Outlook*. This makes sense, given multi-unit franchisees have bigger financial responsibilities, are leading larger teams, and need to ensure their revenues are keeping up with their added infrastructure costs.

## Conclusions

Our findings indicate multi-unit franchisees are performing significantly better than single-unit franchisees in sales and profitability, and in the promotion of their businesses in the local community. They are also more satisfied than single-unit franchisees with their lifestyle, work and financial performance. This is a positive sign given the increasing trend for franchise groups to encourage multi-unit operations.

We suggest that one reason why multi-unit franchisees are performing so well is they are significantly higher on many of the attributes related to franchisee success.

<sup>22</sup> All these attributes scores are higher at statistically significant levels except for Absence of Conflict, Relationships Skills, and Reliability.

## ► Chapter 13: Putting the pieces together

Discovering what drives franchisee performance and satisfaction has been like putting together the pieces of a puzzle. We have systematically analysed over a half a million pieces of data containing the personal characteristics, performance scores and satisfaction ratings of 2,401 franchisees. We have also analysed over 2,000 qualitative comments, some written by franchisees on what they most value from their franchisor, and some written by franchisors on why they would not select certain of their franchisees again.

Each time we analysed the data and painstakingly reviewed the findings, a new piece of the puzzle revealed itself. Some findings were expected, some were surprising and some even made us chuckle.

In this chapter we introduce some frameworks and new models we hope will help you put the pieces together into a meaningful framework you can use for franchisee recruitment, training and ongoing support.

### How the attributes contribute in different ways

The 16 psycho-social attributes we studied have emerged as significant predictors of performance. Different attributes seem to contribute in unique ways to the three elements of performance – financial performance, delivery of the customer experience and being a constructive participant in the franchise system.

#### Attributes that most drive financial performance

Figure 67 shows the attributes that contribute most directly to financial performance, each conservatively making 13% to 15% difference<sup>23</sup>.

When presenting this data to franchisors we have been asked if these percentages are additive. In other words if a franchisee is in the top group for all six attributes, will they perform 73% better than a franchisee in the low group on all these attributes. While the data predicts there would be a large difference in the financial performance of these two people, the attributes are not totally distinct so the additive effect is not cut and dried. Think of them like foods that have some unique dietary benefits but also share common vitamins and minerals. For instance to be a good sales person you need a certain amount of pro-activity. And good leaders tend to also have a positive outlook which helps them impact positively on the attitudes of their teams.

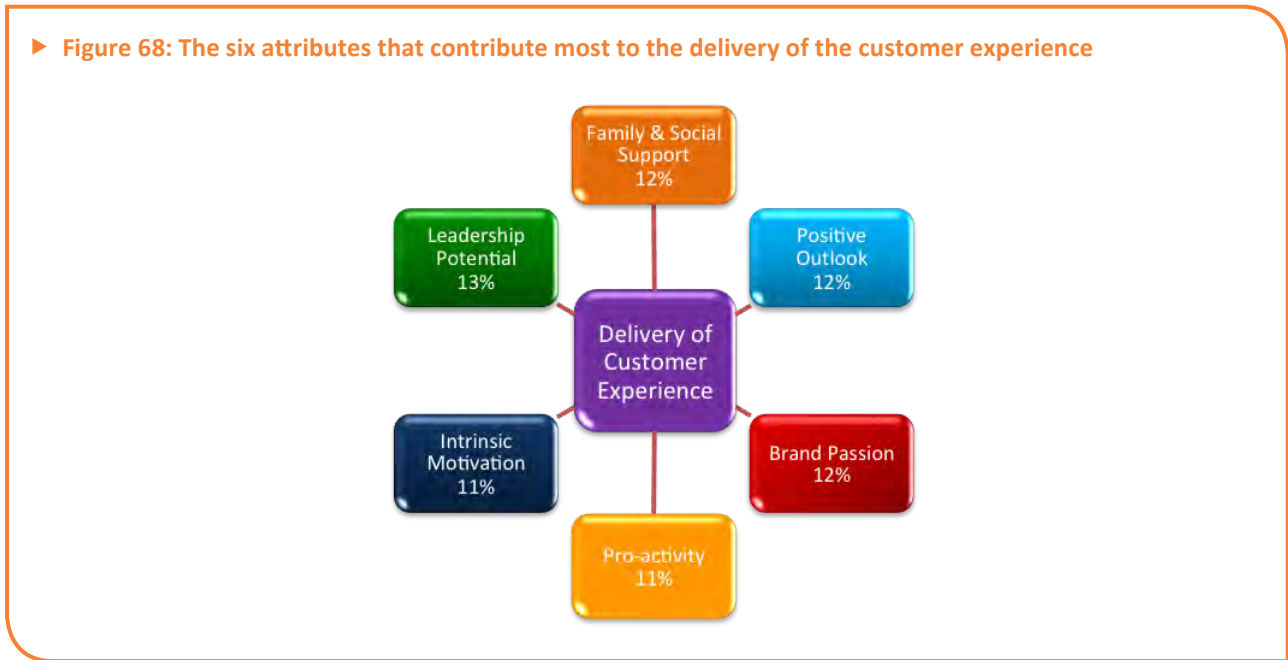
► **Figure 67: The six attributes that contribute most to financial performance**



<sup>23</sup> These percentages are the differences between the top and bottom quintile for each attribute, as reported in Chapter 6.

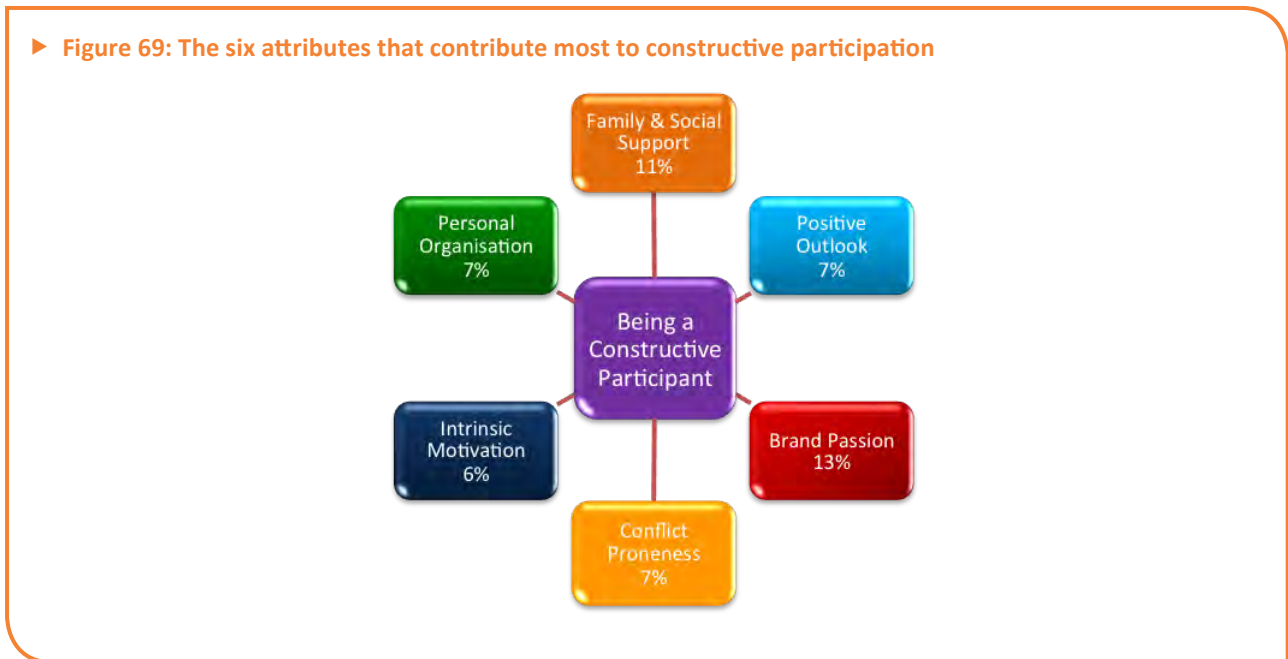
### Attributes that most drive delivery of the customer experience

When it comes to delivering on the brand promise or what we have called, delivering the customer experience, two new attributes emerge as being important – *Brand Passion* and *Intrinsic Motivation*. The six attributes that contribute most directly to delivery of the customer experience are shown in Figure 68, each of these conservatively making 11% to 13% difference.



### Attributes that most drive constructive participation

Finally when it comes to being a constructive participant another two attributes emerge as being important – *Personal Organisation* and (lack of) *Conflict Proneness*. The six attributes that contribute most directly to a franchisee’s constructive participation in the franchise network are shown in Figure 69, each of these conservatively making 6% to 13% difference.



In summary, while all 16 attributes do contribute in some way to performance, some are clearly more important than others, depending on the type of performance we are looking at. When working with franchisees, it can be a good idea to ask the question ‘Do you want to improve sales, improve delivery of the customer experience, or improve constructive participation?’

## The three cogs of franchisee happiness

In addition to understanding what influences performance, an important part of this research has been to understand the factors that drive franchisee satisfaction. Figure 70 shows the three areas that make the most significant difference<sup>24</sup>. We have referred to these as the three cogs of franchisee happiness.

► **Figure 70: The three cogs of franchisee happiness**



While the three areas are interconnected, the blue cog which relates chiefly to the franchisee - their *Brand Passion, Family & Social Support* and *Positive Outlook* – is the most important driver of satisfaction. The green cog, which represents the level of conflict the franchisee feels with the franchisor, is an important mediator to overall satisfaction. Finally the orange cog contains the three attributes of franchisor leadership that most influence franchisee satisfaction.

These are each explained below along with some tips on how franchisors can bolster franchisee satisfaction.

### Brand Passion - the “Brand Halo Effect”

People with high brand passion had satisfaction scores 34% higher than those with low *Brand Passion*. This feeling of pride with the brand seems to create a “halo effect” making everything connected with the brand, including their relationship with the franchisor and the money they are making, glow with goodness.

There are many things franchisors can do to promote Brand Passion in their franchise network. The most important is to ensure top leadership are clear on the values of the brand and are setting the right example of these values through their own behaviour and priorities. Involvement of the brand in worthwhile community projects also helps to build a sense of pride. Franchisees who have developed friendships and feel a personal connection to their peers in the network are also more likely to have stronger Brand Passion.

### Family and Social Support – “I get by with a little help from my friends”

When people feel supported they cope better with pressure, rebound more quickly from disappointment and are more likely to take responsibility for their performance. On the other hand, when people feel pressured and

<sup>24</sup> These factors were each chosen because of their highly significant correlations with key satisfaction measures such as whether the franchisee would recommend the franchise to others.

disappointed, they may attribute blame to others and can take on a victim mentality. People with high levels of *Family and Social Support* had satisfaction scores 24% higher than those with low *Family and Social Support*.

Again, franchisors can make a positive difference here by creating a culture that celebrates community and by facilitating activities that encourage franchisees to engage with, and support each other. Educating franchisees on the importance of building a strong support network can also help them to pay more attention to this important area.

### Positive Outlook – the “Pollyanna Effect”

A decade of psychological research into optimism, what we have termed *Positive Outlook*, has shown that people who are more optimistic live longer, are healthier, have better relationships, are happier, earn more, get sick less and, when they do get sick, tend to recover from ill-health more quickly<sup>25</sup>. Our research was partly inspired by these findings and, as we have seen, *Positive Outlook* did indeed have a highly significant impact on performance. But this effect goes much further. Franchisees who feel more positive about themselves and about life in general have satisfaction scores 20% higher than those with low *Positive Outlook* scores.

*Research has shown that people who are more optimistic live longer, are healthier, have better relationships, are happier, earn more and get sick less*

In the book *Pollyanna*, a little girl inspires a whole town through her practice of a game taught to her by her father, called the Glad Game. The game is to be played whenever a person is feeling frustrated or unhappy and involves finding as many things as they can to be glad about. There is now considerable scientific evidence to show the Glad Game works and it is a technique commonly taught by psychologists to help people improve their mood and satisfaction with life. Techniques such as Solution Focused Coaching<sup>26</sup> are useful tools for field managers as they use the power of focusing on the positives to move franchisees into a more constructive frame of mind.

### Conflict – nip it in the bud

As we learned in Chapter 4 some conflict is inevitable in a franchise system and a typical franchise network can expect to have around 16% of its franchisees feeling mildly to strongly in conflict with their franchisor. When a franchisee experiences a sense of unresolved conflict their level of *Brand Passion* drops significantly and so does their satisfaction with everything else connected to the franchise system<sup>27</sup>.

While no-one likes to face up to conflict, it is much better to acknowledge and deal with it than let it sit unresolved. Franchisors need to ensure their executives are skilled to tackle “difficult conversations” with franchisees unhappy with an issue. Franchisees also should be trained to “complain effectively” if they feel they have a legitimate grievance, rather than stewing in silence or grumbling to their peers.

### Franchisor Care – do you really love me?

There is a joke about a wife who keeps asking her husband whether he really loves her. Not convinced with his answer she asks, “Would you die for me?” He thinks for a moment and says, “Mine is an undying love!”

Franchisors need to have an undying love for their franchisee’s success and profitability, and express this regularly. For a franchisee to be an advocate for the franchise system they need to know the franchisor team genuinely cares about their success. Taking time to listen to a franchisee’s goals and aspirations, responding promptly to their calls or emails and linking new initiatives back to their success are just a few ways franchisors can communicate this sentiment.

<sup>25</sup> For an overview of this research go to [www.authentic happiness.org](http://www.authentic happiness.org).

<sup>26</sup> For an overview of this technique see the book by Paul Z. Jackson and Mark McKergow, *The Solutions Focus*. This technique is taught as a core part of FRI’s Field Management Workshops and field managers report it delivers fantastic results in their work with franchisees.

<sup>27</sup> According to our data, franchisees with little or no *Brand Passion* have three and a half times more conflict with their franchisor than those with high levels of *Brand Passion*!

## Franchisor Integrity – can I trust you?

Without trust a relationship has no foundation and franchisors will find it difficult to maintain credibility in the eyes of their franchisees. Transparency and disclosure of information builds trust so franchisors need to be mindful of sharing the rationale behind important decisions. Most franchisees are street smart and can sense when a franchisor is trying to cover up mistakes or distort information.

Under stress, people naturally become more suspicious and on edge, so franchisors need to make an extra effort to open up lines of two-way communication if they know franchisees are anxious about an issue.

## Franchisor Competence – do you know what you're doing?

It is not unreasonable for people to expect their leaders know what they are doing. In the franchise relationship, the franchisor is clearly the leader. Because the franchisor holds most of the formal power, there is also a reasonable expectation by franchisees that this power will be used justly and wisely.

It is vital that franchisors have a competent leadership team with clearly thought out systems and strategies for every element of the business. While franchisees will forgive one, and maybe two poor strategic decisions, three poor decisions will destroy a franchisor's credibility and significantly depress the satisfaction levels of their franchisees.

## The Franchisee Wheel of Excellence

In Chapter 1 we shared the *Franchisor Wheel of Excellence*, a culture-driven model to help franchisors achieve franchising excellence. The five pieces of the model interlock and are designed to focus franchisors on the things that matter:

1. Recruiting quality franchisees
2. Mentoring franchisees for performance
3. Listening to franchisee feedback
4. Engaging franchisees with the brand
5. Leading with credibility

As a result of the findings from this research, we have introduced a companion model for franchisees, called the *Franchisee Wheel of Excellence*, shown in Figure 71.

► **Figure 71: The Franchisee Wheel of Excellence**



As we trawled through the data in this report, the pieces of the *Franchisee Wheel of Excellence* gradually emerged.

You may notice the absence of a separate piece dedicated to leadership. The reason is, every piece of the wheel contributes something unique to the special quality of effective leadership.

*The most important job of a franchisee who employs staff is to build their commitment and capability*

## Build Supporters

Life is a team activity and those who learn to play well with others are the winners. *Build Supporters* is about building the commitment of the people on whom your business depends.

Supporters are people who willingly invest their time, energy or money into helping the franchisee's business succeed.

For instance, the most important job of a franchisee who employs staff is to build their commitment and capability, and to inculcate in them The Owners Eye<sup>28</sup>, where they treat the business with the same care and enthusiasm as if it were their own. Franchisees with high *Intrinsic Motivation* and *Leadership Potential* are more likely to inspire their staff to strive for this type of excellence.

As we have learned from the study, the support of family and an extended network of well-wishers also plays a critical role in a franchisee's success. We called this *Family and Social Support*. The more a franchisee has the support of family, friends, colleagues and mentors, the more successful their business will be. Attributes such as *Relationships Skills* and *Positive Outlook* are also useful here.

Members of the franchisor team can be particularly valuable supporters, as can be key suppliers. Successful franchisees understand they must build constructive working relationships with these people so they will be more inclined to go out of their way to support the franchisee when help is needed.

And of course there is the most important group of all – customers. Without their advocacy and continuing support there is nothing. In a world where people are increasingly purchasing products and services online, the franchisee's ability to build a loyal customer base is going to become more important than ever. This is why we put *Build Supporters* first.

## Engage with the Brand

There is a traditional story about three bricklayers working on building. One is cranky and miserable, one is working quietly and efficiently, and one is whistling, clearly enjoying his work. A young boy, fascinated by the different demeanours of the three men, asks what they are doing. "I'm laying bricks, what does it look like!" growls the first man.

The second man glances over at the boy and continues to work. "I'm building a wall, but I can't talk as I need to get it finished."

The third man puts down his trowel and beams at the boy. "I'm building a hospital so that if you ever get sick you'll have somewhere that will help you get well again." Years later, the boy, inspired by this brief encounter, becomes a bricklayer.

Passion has been mentioned many times in this report because of its power in driving success and satisfaction. Franchisees with high levels of *Brand Passion* were making more money, delivering better service and contributing more to their franchise community. They were also 34% more satisfied overall as a franchisee.

*Passion has been mentioned many times because of its power in driving success and satisfaction*

<sup>28</sup> This term is borrowed from the book, *Jumpshift*, by Michael Sherlock.

The fact is, the more a franchisee engages with a brand, embraces its values, tells their supporters how great it is, not just in words but in the tone of their voice, the more successful they will be. Great leaders have passion for their work and this infects others to believe in the work as well.

## Drive Growth

A man bought a donkey for a very good price. Wanting to keep the maintenance costs to a minimum, he set about feeding the donkey a little less every day, until eventually he was pleased with himself as he had the donkey's rations down to nothing at all. At this point of course, the donkey died.

There is a saying, "You cannot save yourself into prosperity". The unfortunate truth is that costs are going to continue to rise and, while basic cost control must be a vital part of every franchisee's focus, if sales are not rising at least by the same amount as costs, the business will be going backwards.

This is something franchisors are concerned about. Remember the second most common reason franchisors in this research gave for not wanting to select a franchisee again was a lack of pro-activity in driving growth. Remember also that the most successful franchisees are those with high levels of *Pro-activity* and *Sales Orientation*.

There are several specific benefits to having a growth focus, besides improved profitability. Firstly, it helps the franchisee to maintain a fresh approach to their business as they seek out new opportunities, new customers and new ways to promote their products and services. Secondly, people like to be challenged and to feel they are part of something that is growing. *Drive Growth* will help to attract and retain good people. Thirdly, a franchisee that is driving growth will be in a better position to reward his or her team for their hard work and support, which is why *Drive Growth* is also a critical component of good leadership.



*Drive Growth will help to attract and retain good people*

## Maintain Vitality

One of the fundamental ingredients for success in small business, and indeed life in general is vitality. *Maintain Vitality* is a particularly important piece of the wheel given 36% of franchisees work more than 50 hours a week and 49% say they find running their business mildly to severely emotionally exhausting.

*Maintain Vitality* is not just referring to physical vitality, it includes mental vitality – clear, solution-focused thinking. It also includes emotional vitality – the ability to absorb disappointment, and be grateful for what is going well and the support we are receiving from others.

When we feel full of vitality and have that spring in our step, problems are more likely to appear as challenges to be overcome. However, when our vitality is low, even the simplest business hassle is likely to get under our skin.

Because culture always starts with the leader, high levels of vitality also help to build a positive, vibrant culture. Effective business leaders inspire others, not only through their intelligence or their skills, but also through their vitality.

*Maintain Vitality* is the fuel a franchisee needs to *Drive Growth* and *Build Supporters*. It is no coincidence that the successful franchisees in this study were all higher than average in *Vigour*, *Health* and *Positive Outlook*. These are all qualities of people with high levels of vitality.

## Master What Matters

While delivering products, looking after customers and paying accounts are important, these operational aspects of a business will not guarantee a prosperous, long-term future. *Master What Matters* means thinking strategically, raising oneself out of day to day issues and focusing on the bigger picture. Asking questions like: Why did I buy this business? What is the most important thing I need to focus on to guarantee the growth of this business? How can I ensure my team will continue to perform at their best when I am not there to supervise them? How can I use this business to help me achieve what I want in life?

*Master What Matters means thinking strategically, raising oneself out of day to day issues and focusing on the bigger picture*

One of the characteristics of the most successful franchisees in this study was they were working full-time, mainly overseeing their business – in other words, working “on their business”. These people were achieving 10% better financial performance than those who were full time working hands-on “in the business”. Remember also in the analysis of what the top performing franchisees said they most valued from their franchisor, the second most mentioned category related to systems they could use to help them run their business more efficiently.

To *Master What Matters* franchisees need to have in place a routine for measuring Key Indicators that tell them if their business is on track for success or not, similar to a pilot’s use of navigation tools to check they are heading in the right direction. *Master What Matters* also means having written systems in place so all staff understand what they are supposed to do, when they are supposed to do it, and to what standard they are required to do it to.

The litmus test for whether a franchisee is practising *Master What Matters* is whether they can leave the business in the hands of their team, knowing it will perform just as well, if not better without them around. This is essential for franchisees wanting to expand their business or take the next step into multi-unit franchising.

Franchisees wanting to *Master What Matters* need to build their *Business Acumen, Comfort with Technology* and *Personal Organisation* because it takes personal discipline, good technology and an interest in finances to keep a business on course when you are not physically there to run things.

A final point. Franchisees who worked more overseeing their business, were not only making more money, they had less stress and were happier with their lifestyle. For this reason, *Master What Matters* is possibly the most important piece of all!



## ▶ A final comment

Thanks for reading this International Franchise Excellence Report. We hope the data, insights and trends have been useful. We recommend you use the *Franchisor Wheel of Excellence* and *Franchisee Wheel of Excellence* to evaluate your current business and also as a tool to assist with your strategic planning.

The team at the Franchise Relationships Institute are constantly looking for ways to better serve the international franchise community so please call on us if you think there is anything we can do to support your company.

Our website, [www.franchisere relationships.com](http://www.franchisere relationships.com) has excellent publications, resources and materials on how to achieve excellence in franchising. Many of these are free so please make use of this.

We wish you well on your journey to franchising excellence.