FRANCHISE RELATIONS

FIVE EARLY WARNING SIGNS OF A DISENGAGED FRANCHISEE

Monday, November 28, 2016

Being able to spot early signs of disengagement while a franchisee is still reasonably engaged and needs counsel is a process worth building or refining.

By Christy Wilson Delk

Running a franchise is much more intense than most franchisees anticipate and the juggling act can be exhausting. Employees, clients, and corporate are all making demands, sometimes simultaneously. Did I make any money this week? (Don’t forget to breathe.) It’s a precarious work-life balance to pull off year after year.

Even with a healthy franchisor relationship and an enviable cash flow, there were moments and weeks that I felt the strong tug of disengagement over the 15 years I owned and operated my Kids R Kids Academy franchise. With so much at stake and so much insested, it occurred to me that some sort of disengagement safety net or proactive process that identified early on-set disengagement would be useful and cost effective. I enlisted the opinion of two highly respected brand representatives and drew from my own experience before plunging in. Here are five warning signs — not in order of importance — that may not all apply to your particular brand.

1. It's in the Numbers- But Which Ones?

Numbers don’t lie; however, they don’t shout “disengagement” until your franchisee is experiencing a significant problem. A decreasing revenue trend is a lagging indicator of disengagement which is why it's hard not to miss. You have to dig deeper to identify disengagement in the early stage.

Every franchise space has at least one early and statistically reliable numerical indicator. If you know what it is, the next step is to find a way to measure it and then address it as quickly as possible.

Robert McDevitt, Senior Vice President of Franchise Development for Golden Corral Buffet & Grill, explained one measurement the company tracks as a solid early indicator is the rate of turnover for both hourly staff and management.

McDevitt said, "A spike in turnover is a signal that there is something wrong, especially if it's higher than average for two or more rating periods." He noted that in "the restaurant space, turn-over is a sensitive measurement and well worth tracking for that reason."

At Golden Corral, when one or more indicators point to disengagement, the quarterly Franchise Service Consultant visit is scheduled as soon as possible. The FSC visit, armed with genuine concern and additional numbers, is frequently all it takes to avoid disengagement.

In my personal experience in the early childhood education field, enrollments, specifically active waiting lists, were solid indicators of potential disengagement. Decreasing enrollments led to cutting payroll hours which led to staff turn-over. A decrease in revenue was among the last indicators of disengagement.

2. A Change in Attitude

When a franchisee who normally tracks in line with average indicators or high-performers starts to display average numbers shows a shift in attitude or other types of resentment towards the franchisor, that is a sign of early disengagement. Because franchisors receive an inordinate amount of franchisee feedback, the challenge is to discern from the noise those voices that may be communicating a cry for help.

Bob McDevitt’s 30 thirty years of experience tells him “that an engaged franchisee may even be so over-worked that they don’t see what is going on around them. All they know is that they are working harder than ever but not making progress."

A shift in attitude could be a sign of a bad management hire or the need to add an additional manager. It could mean that there are problems at home, or a major health issue has been diagnosed. Something has preceded the attitude shift, even if the franchisee hasn't identified it personally or even asked for your assistance. The franchisee may even be unaware of becoming quietly disengaged. This happened in my local market when a new competitor, a former franchisee, opened across from a neighboring Kids R Kids franchisee. When I learned the competitor had plans to open a second franchisee in my backyard, I got busy making my competitive expansion plans. Unfortunately, the other franchisee went through a long period of disengagement. My franchisor, by giving me the approval to expand, may have kept my disengagement at bay.

3. A Change in Participation

In most systems, a fully engaged franchisee is typically also a high performer. The outward signs of full engagement include being a communicative, willing participant for mentoring and conference panels and serving as a reliable source for strategic feedback. Disengaged franchisees are simply not present. They don’t ask questions, show up at conferences or engage in dialogue with the corporate office. If their revenue stays consistent and they’ve operated that way for years, a franchisor may choose to leave them alone. This is fine, so long as it’s confined and doesn’t spread or negatively impact your brand. (Incidentally, the competitor I mentioned above was this type of franchisee.)

Brad Fishman, CEO of Fishman PR with 20 years of industry experience, believes franchisees most often become disengaged because they continue to pay royalties and perceive they are receiving reduced support. Fishman also finds that “franchisees often feel strongly that they know their business better than the franchisor, particularly in their home market” which manifests into reduced participation or other signs of disengagement.

Identifying early disengagement under this category requires field representatives with a watchful eye, good listening skills and a finely tuned intuition. Early disengagement signs will be there, but they’re just harder to spot. Many franchisors use third party services to measure satisfaction. I’m in the camp that disengagement is not always directly correlated to satisfaction, but from my personal experience, my level of participation, enthusiasm and communication were. Sometimes I just got bored. I was satisfied, but bored and therefore borderline disengaged.

4. A Change in Neediness

As business owners, franchisees are hard to figure out. We take credit when business is good, but blame franchisors when it starts to slip. We want to run our own business, but want the franchisors there when we need them, and not a minute before. An increase in neediness or blaming is an early indicator of disengagement. Home-based franchises can be even more challenging and may require a different approach.

A serious conversation may be more in order when franchisees have not had a lot of previous business experience and business starts to slip in order to avoid a quick slide into. Al Patino, Director of National Accounts for Jani-King International and a 20- year industry veteran, shared his thoughts on franchisee disengagement. He pointed out that Jani-King takes a lot of the heavy lifting off the franchisee by investing in making sure the Jani-King brand is front and center in target business markets.

This approach generates leads which are then distributed to the local market franchisees. When the leads aren't as plentiful, or a franchisee perceives that he isn't getting his fair share, disengagement can soon follow. Jani-King takes that as a cue to re-educate the franchisee about the franchise model and with respect, remind them that revenue generation is the franchisee's responsibility, and "this is how you do it."

Holding the hand of your franchisee long-term is not a business strategy. Speaking frankly about your business model is fair game and necessary when franchisees become disgruntled. A well-crafted response to this type of early disengagement, especially if it includes an opportunity for re-training, can get franchisees back on track. Kids R Kids had a period of mass disengagement over paying royalties on a specific component of our revenue. It wasn't until the franchisor spoke frankly about the issue that the dark cloud finally passed. I for one was grateful that he did.

5. Negative Client Surveys and Independent Verifiers

Best practices tell us that surveys and independent verification are solid ways to check the quality of service and performance of franchisees. It's also a good way to spot disengagement. When repeated client surveys indicate that a franchisee is not performing to brand standards, it's a sure sign that something is wrong, and unfortunately, probably not in the critical early stages.

An independent verifier or secret shopper can be contracted to visit a specific franchise and easily assess the cleanliness of the business, courtesy of the staff and quality of the service. If the franchisor is not on site and the franchise scores are miserably low, you know you have a disengaged franchisee. If two reports, spaced months apart, are just so-so, you know it's time to act quickly.

If you don't use an independent service or trust client surveys, steal this play from Bob McDevitts's playbook and just pick up the phone. Bob will personally call a franchise location during normal business hours and ask to speak to the owner. A franchisee who is engaged is, you guessed it — there! When coupled with the data you already have, you can draw your own conclusions. I love the simplicity of that intelligence tactic; it's easy, quick and cheap.

A Process Worth Refining

Considering what's at stake for franchisors and franchisees, being able to spot the early signs of disengagement while your franchisee is still reasonably engaged and needs your experienced counsel is a process worth building or refining. And if they're just a little bored, sell them a second or third unit. That worked with me.

Christy Wilson Delk is Adjunct Business Professor of Entrepreneurship at Rollins College in Winter Park, Fla. and contributing business writer. She has previous experience with Xerox and Plantronics and 15 years of franchise ownership with Kids R Kids Academy.