

Grooming Breadwinners

A new breed of managers is emerging from the franchise industry, as they receive ongoing training to manage their businesses.

By Mark Story

Imagine Air New Zealand chairman Sir Selwyn Cushing tapping the former deputy at Qantas Gary Toomey (now Air NZ's CEO) on the shoulder and saying, "we think you might make a fist of running our airline. Why don't you come on board, and if you're any good, we'll start paying you a salary after three months. Oh and by the way, you'll have to put most of your own personal wealth into this business and pay us a fee for training you."

It's just not the way things work is it? Yet a growing number of professionals are willingly trading-in careers in the corporate world for a turnkey or prescriptive formula for success. Underpinning the training that all franchise operations provide is the implicit belief that the "manual is king". This means the franchise system and the training provided, go hand-in-glove. In other words, if you follow a prescribed template of systems and processes for running a certain type of business, (especially retail), your success is virtually guaranteed.

A 'cookie cutter' approach typically governs the overarching principles of franchising, says Grant Stapleton, NZ general manager with Bakers Delight. But he says while the manual is a road-map for running the business, it's only as good as its testing and ongoing evolution. "Many aspects of retailing are more art than science. But when it comes to food, it's becoming much more process-driven. Product and price are having less impact on consumer choices. It's now branding issues that are making a significant impact on bread purchases," says Stapleton.

Established in Melbourne 20 years ago, Bakers Delight is a fast-growing franchise operation with 440 outlets across Australasia (24 in NZ). In fact, with a new store opening every four days, Stapleton says within five years there'll be over 1000 stores throughout Australia and New Zealand employing around 60,000 people. Currently holding 9.7 percent of Australia's total bread market, Bakers Delight is aiming to control a 20 percent share within five years.

What typically attracts people to franchising, says Stapleton, is the opportunity to "hit-the-ground-running" in a successful business that's simply been re-cloned elsewhere. So what kinds of people is Bakers Delight looking for to buy their franchises? Over 95 percent of the people joining Bakers Delight have no former experience within the baking industry. Higher interest by better educated people marks a growing realisation that the underlying business model stacks up, says Stapleton. These days, former CFOs, marketing managers, stock brokers and people from the IT and service-type industries are represented within recently-appointed franchisees.

"We look for team players, good communicators and those with fire in their belly, as opposed to nine to fivers. We're always on the lookout for good business operators, but if people can show leadership skills in other areas, for example on the sports field,

they may be able to successfully transpose these qualities into our business."

Before a would-be franchisee gets anywhere near running their own store, they have to satisfy they have "complementary chemistry". With the reputation of a franchise system dependent on the franchisees, Stapleton says it's critical to ensure they choose people most likely to succeed. In fact, results of a National Bank 2000 Survey on Franchising show that sub-standard operators and appointing suitable franchisees are the two concerns most frequently expressed by franchise systems today.

"If you closed your eyes and listened to one of our training sessions, you'd be forgiven for thinking we were part of a religious cult. Being successful within this business means living and breathing the underlying culture. We believe that if people have the core principles of honesty, integrity and trust, they can be trained to franchisee level. Typically only one in every 10 'would-be' franchisees goes through to opening their own store," says Stapleton.

So what are the steps to becoming a franchisee and what training is provided along the way? Before would-be franchisees get anywhere near a training session they're required to call three different franchisees and talk to them about the business. Assuming they're still interested, they move onto a two-day induction programme. There's no better way of testing someone's commitment, says Stapleton, than asking them to roll up their sleeves and check-out the lifestyle of making and selling bread right at the coal face.

Business passion

Assuming the passion for running a small business and extended hours still appeals, would-be franchisees are psychologically profiled for suitability. Having passed this hurdle, the would-be franchisee then spends an initial three weeks of (unpaid) in-store training. A further review is done at the end of that three weeks to see if they want to commit to an intensive 13 modules of training done over a further 13 weeks.

By the time the 13 modules have been successfully completed, the would-be franchisee has paid out \$6000 in training fees and has effectively been out of the workforce for over four months. New store openings are timed to coincide with new graduates as closely as possible. The moment of truth arrives, says Stapleton when a graduate is finally asked to put his or her money where their mouth is. In fact, it's going to cost them \$350,000 to buy their own store. And after an initial two weeks working alongside a franchisee trainer, the new franchisee is left to run their own business.

What management can learn from franchises

Grant Stapleton says:

- Not to underrate EQ as a method of intelligence. "In other words, a person's tool-kit of skills is much more transportable than often given credit for. The rest can be coached."
- How to drive decisions closer to the end customer.
- How to structure rewards so they're closely aligned to the behaviour staff are expected to exhibit.
- How management can lead by example. The willingness of management to walk around on the shop floor can't be under-estimated. Especially within a retail environment where staff are typically from a lower education base.

"Because we train franchisees to think quickly on their feet, they tend to make quicker decisions that are firmer in their resolve. Replicating this 'fire in the belly' is the perennial dilemma for mainstream corporates. The culture within this organisation is such that when you start to live and breathe it, you're acting in ways the company wants it to operate."

From banking to baking

What attracted former investment banker Scott Paterson to Bakers Delight was the level of support services, financing and the cross-guarantee provided by the Bakers Delight franchisor. Assuming the new graduate can provide \$120,000 up-front, a cross-guarantee by Bakers Delight helps to provide the lending bank (in this case the BNZ) with greater security levels. In fact, of the 440 Bakers Delight stores currently operating, there has never been a single default on a bank loan.

As an analyst with broker Ord Minnett, Paterson was charged with performing due diligence on companies prior to them taking IPOs on the main board of the NZSE. He'd been looking to run his own business for some time, and after checking out several options, the Bakers Delight model proved the most convincing. "There are no free lunches in business. You have to offset the costs of getting into this business against future earnings. The prospect of receiving a 20 percent operating profit on \$500,000 annual turnover (35 percent wages, 25 percent ingredients and 20 percent operating costs) is something very few businesses can deliver."

Having left Waitako University with a post-graduate degree in finance, Paterson had been groomed for a corporate career. When he joined Bakers Delight he had virtually no management training. What distinguished his training for the corporate world (from that provided by Bakers Delight) was learning how to manage on the front-line. "In my experience, few corporates actually train their staff with any real specifics in mind. As real-world learning, training to be a Bakers Delight franchisee is much more focused on specific outcomes. There is a buffer for mistakes to be made. But when it's your own money on the line, you have to learn quickly. Having a background in finance, key lessons for me revolved around managing people and the technical aspects of bread-making."

Training modules were arranged so that each individual's weakest area of expertise was tackled first. In Paterson's case, that meant mastering the finer points of baking technology. Subsequent modules encompassed the full gamut of operating a successful small business from staff selection and training, to financial issues like managing GST, PAYE and FBT.

Training modules also cover back-office functions plus dealing with compliances under various statutes like OSH, the Health and Safety Act and the Companies Act. Results from the National Bank 2000 Survey on Franchising showed dealing with government legislation as the third most commonly expressed concern identified by all franchisees. Hence, taking away the clutter and uncertainty in conforming with certain legislation, says Paterson, makes a huge difference in budgeting for otherwise unforeseen costs.

So how do you know when someone has successfully mastered each module? Simple, would-be franchisees can't proceed with further training until they've passed written and practical competency tests. Homework and regular workshops also mean that those comfortable with one set of skills can zoom ahead at their own pace. The hands-on nature of each module, says Paterson, ensures that each new graduate will be able to start their own store with their wheels well and truly rolling. From Paterson's perspective key gems imparted during the training were threefold:

- **Managing people:** Learning how to empower and motivate other staff with the autonomy to be responsible for specific outcomes. Equally important, says Paterson was learning how to select the right staff and get the best out of them. "I learnt how important it is to have a positive attitude about the people who work with me. The training also stresses the importance of openness in communicating how well the business is doing and using incentives to reward, motivate and continually challenge staff."
- **Financial management:** Knowing how to track cash flow against actual budgets, improve cost structure and increase sales. "Franchisees learn that if they want all the percentages adding up, they must stick to the system. For example, weighing-off ingredients properly avoids wastage. Similarly, clever stock ordering systems help to maximise returns and reduce holding costs with excess stock."
- **Understanding baking technology:** Including ingredients and their functions, dough mixing, oven unloading through to production sheets and scheduling.

Now in his third year of running the Bakers Delight store in Auckland's guilt-edged suburb of Remuera, Paterson's staff levels have grown to 11 full-time and 14 casuals. Much of the 60-plus hour weeks spent running the business in the early days were filled making the bread and then selling it across the shop counter. But having delegated the day-to-day running over to a production and sales manager, Paterson is now freed-up to the point where he's spending a third of that time in-store.

It's the continuous support provided by the franchisor, says Paterson, that helps to gravitate the franchisee out of the day-to-day activities into a more strategic role. Believe it or not, franchisees are encouraged to look at acquiring up to 10 stores each. In fact, Paterson is currently looking to rollout his second store within the Auckland area. Also available to Paterson as a franchisee is continuous access to dedicated franchise consultants. Provided as part of the package deal, the franchisor makes technical, financial and marketing specialists available on-tap to its franchise operators.

In exchange for a marketing fee (equal to two percent of total annual turnover), Paterson and his staff also receive access to regular (one to five day) workshops covering aspects of marketing, production, financing and taxation, plus ongoing compliance issues. An additional 6.5 percent of total annual turnover is paid to the franchisor as a royalty fee in exchange for publications and brochures, plus national advertising on radio and TV. Paterson, like other Bakers Delight franchisees is encouraged to spend an additional two percent of total annual turnover on ongoing staff training. But up until now he's been spending double that amount.

Franchising snapshot

(Source: National Bank 2000 Survey of Franchising)

When asked to nominate three challenges facing franchising in the new millennium, the most frequently expressed concerns were:

1) The entry of substandard operators, and the adherence to codes of practice.

2) Finding suitable franchisees.

3) Government legislation, especially in relation to the treatment of contractors.

Fifty percent of the country's franchisors are based in Auckland, as opposed to 62 percent in 1997.

The main causes of disputes between franchisors and franchisees are more likely to be "procedural" (adherence to systems) and communication issues than financial.

The number of franchised units has grown by around 25 percent over the past two years.

The average number of units per franchise system is 22.

- Twelve percent of the franchise systems indicated they'd buy a new franchise, 10 percent said they'd merge with an existing one, and 31 percent planned to create a new one.
- The service sector (property and business and other construction and trade services), followed by retail food and non-food were the most popular avenues for expansion.
- The estimated 300 franchise systems in New Zealand turnover around \$6 billion annually and employ around 41,000 people.
- Sixty-eight percent of franchise operations originated in New Zealand.
- Thirty-five percent of franchise operations started within the last two years.
- Franchise systems need to get better at communicating their modus operandi to accountants, banks and lawyers.

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