The Franchise Budgeting Playbook: Your Roadmap to Unit-Level Profitability

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BUDGETING PLAYBOOK

The purpose of this document is to suggest steps a franchisee could take to plan and build a budget and to monitor actual performance compared to budget.

Since franchisors have their own budget templates, we assume a spreadsheet template is in place, and that franchisees will use the template provided by the franchisor. For assistance developing or refining your template, contact Barbara Nuss at Profit Soup.

The Budgeting Playbook was commissioned by FranConnect. Its steps can be automated within the FranConnect Operations module, enabling support teams to efficiently monitor franchisee engagement in the budgeting process.

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Questions? We're here to help!

Budgeting Templates and Financial Training	Franchise Management Software
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SECTION 1: PLAN IT

Take the Self-assessment:

What is Your Planning IQ?

Take the Planning IQ test to discover things you can do to improve your planning process. Read each statement and if you agree that it is true, check the box. If not, leave it blank. Be honest with yourself. Be a hard grader. Then count the checked boxes and record the number of positive responses at the bottom.

#	✓	PLANNING TOPIC
1		I have a long-term goal for the wealth I aim to build through my franchise ownership
2		I have a long-term growth plan that would create the wealth I aim to build
3		I know my company's breakeven sales amount on a monthly and yearly basis
4		I have a plan for how much debt I will repay in each of the next 3 years, and how much additional financing I may need for expansion, equipment, facilities, or improvements
5		I have a written budget that details monthly forecasted sales and expenses for the coming year
6		I have budgeted for adequate sales and marketing activities and I have not cut out costs that impair salespeople's ability to sell
7		I compare my actual income statement to the budget each month
8		Each month I discuss how the business is trending as compared to budget with my leadership team/trusted advisors/field business consultant.
9		I know how much cash my business will need in the next week, month and three months and have taken appropriate action so these cash needs can be met
10		I pay all federal, city and county taxes on time
11		I take all trade discounts available and/or pay all invoices within the stated terms
12		I do not use credit cards to finance business expenses for more than a month
13		My banker knows what is happening in my business because I keep him/her updated with financial statements that we discuss regularly
14		I understand what is on my balance sheet
		TOTAL Boxes Checked

Did you check all the boxes? Based on your responses, describe what you will do differently in the coming year to improve your score.

____

____

Prepare a Breakeven Analysis

Tracking expenses in the breakeven format (in which costs are classified as either fixed or variable) builds an intuitive sense of how costs change in relation to volume. This is especially helpful when preparing a budget. You can more accurately predict costs if you have a clear understanding of your cost structure. That is, your variable costs percentage and your normal monthly fixed costs.

You can also use breakeven analysis to test your sales goals, or better yet, to set a sales goal based on a targeted profit. Here are the steps to using breakeven analysis in your budgeting process.

STEP 1 - CLASSIFY YOUR COSTS AS FIXED AND VARIABLE, THEN TOTAL EACH CATEGORY

Using a recent income statement identify each expense as either fixed or variable based on how the cost behaves. Then determine the total variable costs and total fixed costs for the period under review.

Tips for Classifying Costs

- *Sales cause variable costs.*
- *Fixed costs do* ***not vary in alignment with sales.***
- *Variable costs occur because a sale is made. Fixed costs occur because of a decision* ***you*** *made.*
- *If your sales go down, your variable costs will also go down.*
- *As sales increase, variable costs remain a fairly constant percent of sales. The dollars increase but the percentage (the costs relationship to sales) stays the same.*
- *As sales increase, fixed costs decline as a percent of sales. The dollars stay the same but there are more sales, so the percent of sales decreases.*

STEP 2 – COMPLETE THE WORKSHEET

	$ Amount	% of Sales
Number of units________		
Revenue	**$**	**%**
Variable Costs	$	%
Contribution Margin	**$**	**%**
Fixed Costs	$	
Profit/(Loss)	**$**	
Calculate Breakeven Sales	<u>Fixed Costs</u> Contribution Margin %	$

STEP 3 - DETERMINE THE PROFIT GOAL

In the long run you must earn enough profit to reinvest in assets, pay back debt and pay a reasonable return to the owners. Use the worksheet below to formulate your goal for the coming year.

Profit Goal Worksheet

HOW MUCH PROFIT WILL YOU NEED?

Required reinvestment in assets	+ $ ______________
Less: Amount financed	($ ______________)
Plus: Principal payments to make on loans	+ $ ______________
Plus: Profit to distribute to owner (ROI)	+ $ ______________
Equals: Total Profit Goal	**= $ ______________**

STEP 4 - DETERMINE THE SALES NEEDED TO EARN THE PROFIT GOAL

Fixed Costs plus Targeted Profit $______________ + $ ______________ =$____________________

Divided by Contribution Margin % Sales Needed

RECAP THE BIG PICTURE

	GOAL	
	$ Amount	**%**
Sales Needed		
- Variable Costs (VC% x sales)		
= Contribution Margin		
- Fixed Costs		
= Profit Goal		

This analysis is one of many things to consider when formulating the sales goal for the budget.

START UP TIP

Use the most recent month or quarter if you have not been in business for a full year. If pre-opening, use budgeted figures for this analysis and discuss your assumptions with your field business consultant or your fellow franchisees.

NEED HELP WITH BREAKEVEN?

The Profit Soup Online training series "Breakeven Plus: Your Profit Planning Power Tool" fills the knowledge gaps. Contact Barbara Nuss for special pricing for FranConnect clients.

Analyze Past Performance

Review Recent Performance Metrics

(Link to recent financial performance reports if available. Sample layout below.)

PROFIT AND LOSS	CURRENT YR $	CURRENT YR %	PRIOR YR $	PRIOR YR %	VARIANCE $	VARIANCE %	BENCH-MARK
Sales	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%	
Direct Labor	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%	
Materials and Other Direct	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%	
Total COGS	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**	
Gross Profit	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**	
Sales & Admin Staff Costs	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%	
Marketing	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%	
Facilities	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%	
Other Operating Expenses	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%	
Operating Profit	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**	

KPIs	CURRENT YR	PRIOR YR	VARIANCE	BENCH-MARK
Leads/Inquiries				
Conversion Percent				
# Customers				
Net Gain				
Average Transaction Value				
NPS				
Sales Growth				
Sales per Employee				
Inventory Turnover				
Accounts Receivable DSO				

Review your [report name] with your leadership team and complete the Business Improvement Planning Worksheet (on the following page):

Start Up Tip

If you are lacking past results for your own franchise to assess, speak with your field business consultant, mentors and fellow franchisees to gain their perspective and refer to system-wide benchmarks to gain an understanding of recent performance trends.

YOUR BUSINESS IMPROVEMENT PLANNING WORKSHEET

Completing this worksheet with your leadership team to identify what you must do differently in the coming year.

ASSESS

HOW ARE YOU TRENDING

Compare your own results with what you achieved last year. What has changed? Why?

HOW DO YOU COMPARE TO THE BENCHMARKS?

Compare your results with benchmarks from the franchise system	
In what areas are you doing well?	What areas are you *not* doing so well?

PRIORITIZE

WHAT ARE THE MOST IMPORTANT AREAS TO WORK ON?

What are your priorities today? Sales management? Growth? Margin? Marketing? Staffing? Expense control? Debt reduction? Management and leadership?

BRAINSTORM

WHAT DRIVES SUPERIOR PERFORMANCE IN YOUR PRIORITY AREAS?

Considering your priorities, what drives superior performance? What gets in the way?

MEASURE

WHICH METRICS SHOULD BE MONITORED? WHAT TARGETS WILL YOU SET?

Which metrics would provide financial focus on your priorities?	What is Your Target?
Priority #1:	
Priority #2:	
Priority #3:	

ENGAGE

WHAT ARE THE MOST CRITICAL ELEMENTS OF YOUR ACTION PLAN?

Select Financial Goals

Set Targets to Use as a Framework for the Budget

PROFIT AND LOSS	CURRENT YR $	%	PRIOR YR $	%	VARIANCE $	%	BENCH-MARK	BUDGET $	%
Sales	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%		$X,XXX	X.X%
Direct Labor	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%		$X,XXX	X.X%
Materials and Other Direct	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%		$X,XXX	X.X%
Total COGS	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**		**$X,XXX**	**X.X%**
Gross Profit	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**		**$X,XXX**	**X.X%**
Sales &Admin Staff Costs	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%		$X,XXX	X.X%
Marketing	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%		$X,XXX	X.X%
Facilities	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%		$X,XXX	X.X%
Other Operating Expenses	$X,XXX	X.X%	$X,XXX	X.X%	$X,XXX	X.X%		$X,XXX	X.X%
Operating Profit	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**	**$X,XXX**	**X.X%**		**$X,XXX**	**X.X%**
KPIs	**CURRENT YR**		**PRIOR YR**		**VARIANCE**		**BENCH-MARK**	**BUDGET**	
Leads/Inquiries									
Conversion Percent									
# Customers									
Net Gain									
Average Transaction Value									
NPS									
Sales Growth									
Sales per Employee									
Inventory Turnover									
Accounts Receivable DSO									

Indicate your financial targets and then use this framework to build out your detailed budget using the [franchise system] budgeting template.

Start Up Tip

If you are lacking past results for your own franchise to assess, speak with your field business consultant, mentors and fellow franchisees to gain their perspective and refer to system-wide benchmarks to gain a sense for reasonable targets for a franchise like yours.

Top 3 Goals

GOAL #1			
Describe what you want to achieve.			
Metrics and Targets			
Metric		Target	
Describe the ratio or measurements		What numbers are you shooting for?	
Describe the Timeline			
What are your priorities today? Sales management? Growth? Margin? Marketing? Staffing? Expense control? Debt reduction? Management and leadership?			
Action Plans		**By Whom**	**By When**

(Repeat for Goal #2 and Goal # 3)

Design Note: You may wish to allow them build out a user-determined number of goals. Still there is an argument to limiting to 3, forcing focused commitment.

Need Help Analyzing Financial Statements and Setting Financial Goals?

The Profit Soup Online training series “Building a Business Improvement Plan” fills the knowledge gaps. Contact Barbara Nuss for special pricing for FranConnect clients

SECTION 2: BUILD IT

Prepare Your Budget

Your budget is the monthly financial pathway to the year's financial goals set in Section 1. It details the expected revenues and expenses *by month*. With a *monthly* budget, you can regularly compare actual monthly income statements to the targets. Don't wait until the end of the year (when it may be too late) to assess whether you are on track. Comparing actual results to the budget each month allows you to react quickly if things do not go according to plan.

#	✓	PREPARE YOUR BUDGET
1		Obtain the recommended budget template for the business.
2		Follow template instructions to complete the template. Be sure to incorporate your financial goals and priorities as determined in the planning phase.
3		Print a 12-month income statement for the most recent 12 months to use as a point of reference (single report includes a 2 columns for each month - $ and % of sales, and total $ and % of sales for the year).
4		Allocate your annual sales goal among the months based on the most likely pattern, considering your growth goals and the seasonality of your business (if applicable).
5		Estimate monthly variable costs based on the expected percent of monthly sales.
6		Estimate required fixed costs based on expected monthly dollar spend.
7		Estimate discretionary fixed costs (such as optional marketing investments, new technologies or services) based on expected monthly dollar spend.
8		Verify that all costs related to your action plans are incorporated.
9		When done, compare the budgeted financial results to financial goals set in the planning phase.
10		Challenge your assumptions and refine the budget (CHALLENGE YOUR ASSUMPTIONS checklist below)
11		Prepare additional budgets based on alternate scenarios (such as with/without additional salesperson, best/worst/most likely case, etc.) so you can gain additional perspective.
12		Consider whether you should also prepare a cash budget (see ASSESS YOUR NEED FOR A CASH FLOW FORECAST checklist below).
13		Enter your final approved budget figures to your accounting system so you can easily run reports comparing actual income statement to budgeted amounts.

Challenge Your Assumptions

When you have prepared your initial budget draft, challenge your assumptions to determine whether refinements are needed. Schedule time to review the draft with your field business consultant, mentor, or peer group. Use these questions as a framework for the conversation.

#	✓	CHALLENGE YOUR ASSUMPTIONS
1		Determine the year-over-year sales change. Budgeted Sales minus Prior Year Sales = % increase (decrease) Prior Year Sales
2		What must you do differently to achieve the sales target?
3		What are the most promising opportunities for growing sales? Are you chasing them?
4		What additional investments will be needed to achieve the sales target? Verify you have budgeted for the costs in the proper months.
5		Does your marketing budget allow for enough investment to drive the leads/inquiries necessary to support the sales goal? Verify you have budgeted for the costs in the proper months.
6		What are the most promising opportunities to improve profitability? Are you chasing them?
7		Will you need to hire additional staff? Prepare a list of positions to fill complete with related costs and timeline. Verify you have budgeted for the costs in the proper months.
8		Does your staff cost budget allow for compensation increases, benefits, recruitment, and training that align with your action plans? Verify you have budgeted for the costs in the proper months.
9		Determine the year-over-year change in gross profit percentage. Budgeted Gross Profit % - Prior Year Gross Profit %
10		What must you do differently to achieve the gross profit margin target? Change prices, products, target markets, efficiencies, suppliers? What is the plan?
11		What are the most significant changes impacting your profitability in the past 6 months? Have you adequately incorporated them into your budget?
12		How will you improve on areas in which the business was not performing to brand standards or benchmarks? Have you incorporated the financial aspects of those actions into your budget?
13		What upgrades or improvements will you make to your facilities in the coming year? Verify you have budgeted for the costs in the proper months.
14		What additional equipment will you need to purchase? Verify you have budgeted for the costs in the proper months and that you have planned for financing if needed.
15		Do the budget figures ($'s and % of sales) align with the targets you set in the planning phase?
16		Prepare a breakeven analysis using budgeted figures. How does your cost structure compare to what the analysis you completed in the planning phase?
17		What could go wrong? How can you be ready to limit your risk?
18		Does this draft represent the best, worst or most likely case scenario? Should you create alternative scenarios before finalizing the budget? How would they differ from the draft?
19		Are you thinking big enough? Are you totally unrealistic? What have you not considered?"

Assess Your Need for a Cash Flow Forecast

There are many things beyond sales and expenses that impact cash. Loan payments, owner draws, equipment purchases, inventory investments and changes in accounts receivable can have a significant impact on cash flow and are NOT accounted for in the typical budget.

If these items are significant or if cash reserves are low, you may benefit from having both an income statement budget and a cash flow forecast. The cash flow forecast predicts the cumulative impact of all activities on the bank balance. If cash goes negative, you will need to plan for funding the deficits through bank financing or equity contributions from owners.

Simple Cash Flow Forecast

A simple cash flow forecast tracks the cumulative balance of cash and accounts for some common things that impact cash but are not in the budget. Example Simple Cash Flow Forecast*

#	✓	REASONS TO PREPARE A SIMPLE CASH FLOW FORECAST
1		The budget includes depreciation expense
2		The budget shows that some months will not be profitable
3		The business is required to make monthly loan payments that are not in the budget
4		The business will need to purchase fixed assets during the budget year
5		The business may not have adequate cash reserves
6		The business will make distributions to the owners that are not in the budget

If you checked one or more of these, you should consider preparing a simple cash flow forecast.

Comprehensive Cash Flow Forecast

A comprehensive cash flow forecast includes all the elements of a simple cash flow, and also accounts for the cash impact of fluctuating current assets and liabilities. Example Comprehensive Cash Flow Forecast*

#	✓	REASONS TO PREPARE A COMPREHENSIVE CASH FLOW FORECAST
1		Inventory turns less than 12 times per year
2		The business benefits from extended dating terms from suppliers
3		Accounts receivable take more than two weeks to collect on average
4		Sales are growing rapidly, and the business carries accounts receivable
5		The business has significant seasonal swings
6		Sales mix is changing to require different inventory items
7		Customer mix is changing to require more accounts receivable

If you checked one or more of these, you should consider preparing a comprehensive cash flow forecast.
**Want the full macro-enabled cash flow workbooks? Email to Barbara.Nuss@ProfitSoup.com.*

SECTION 3: MONITOR IT

Stick to a Monthly Review Routine

DEFINE YOUR MONTHLY REVIEW ROUTINE

Identify the Review Team.

Check the individuals who should be engaged in regular reviews and progress updates.

#	✓	BUDGET/GOALS REVIEW TEAM	NAME
1		Owner	
2		Franchise Business Consultant	
3		General Manager	
4		Sales Manager	
5		Department Heads	
6		Accountant/Bookkeeper	
7		My Peer Group Members	
8		Others (list):	

Determine Meeting Must-Have's

Check the reports to be distributed before each meeting and select recurring agenda items.

#	✓	REPORTS DISTRIBUTED IN ADVANCE OF MEETING
1		Income Statement Actual Compared to Budget
2		Current month compared to current month budget, including variance
3		Year to date compared to year to date budget, including variance
4		Year to date compared to total year budget, including % of budget (actual year to date divided by total year budget)
5		KPI reports that demonstrate progress toward goals (list specific reports and KPIs)
6		Other materials or reports – list:
#	**✔**	**RECURRING AGENDA ITEMS**
1		Report on last meeting's Calls to Action (CTAs)
2		Goal updates – progress, wins, roadblocks, ideas
2		Celebrations and recognitions of successes
3		Brainstorm corrective actions needed when falling short of goal and identify key initiatives
4		New CTAs – TO DO's prior to next meeting (for each CTA note what, by when and by whom)
4		Other recurring agenda items (list):

Determine Meeting Cadence

The budget review team shall meet each month on the ____________ (second, third, fourth week) _______________ (day of week) at _______ (time of day). The meeting shall be scheduled for ______________ (target time, e.g. 30 minutes) to occur at ________________(location or virtual meeting connection). _____________ (person accountable) will distribute the necessary reports by ____________ (cadence for reports, e.g., one week to meeting).

START UP TIPS

Speak with your field business consultant, mentors, and fellow franchisees to gain their perspective and refer to system-wide benchmarks to gain a sense for reasonable budget assumptions. Consider that as a new business starting from no sales, your performance will differ from the system-wide norms.

- Expect your productivity ratios to be lower due low volume and inexperienced staff and leadership.
- Staff costs may be high due to higher turnover until you get into the groove of hiring/on-boarding the right people

As a new owner, you will have a lot to deal with for the first year or so. Budgeting, forecasting, monitoring, and managing performance is an essential process that you must prioritize.

We all know that time invested working “on” the business versus working “in” the business reaps dividends in terms of financial performance. But it can be easy to get suck into the day-to-day firestorm of running a new business.

It is tempting to put off a review of how your company is performing compared to goals, especially when the numbers aren’t what you want them to be. Even more reason to safeguard this time!

Your task - consider:

- How can I set up a structure to support me in this role?
- Who can help support me?
- What can I delegate?

Mid-Year Review, Reflect, Revise

After half of the year has passed (or earlier if unforeseen events cause the budget to be unattainable), determine whether revised goals, action plans or budgets would better guide the team.

- Schedule extra time for your mid-year budget review.
- Consider inviting your field business consultant
- If you belong to a Peer Group, consider asking your group for their ideas and input
- Use these questions as a framework for the conversation.

Review

- Compare actual results to budget. What are the major variances? What caused them?

Reflect

- Are your action plans are having the desired impact?
- Which goals are you on track to achieve? What have been your most significant wins?
- What have been your most significant roadblocks or challenges?
- Which goals seem unlikely to be met? Why?
  - Wrong goal? Is the initial goal still realistic?
  - Wrong plan? Should you take a different approach to achieving the goal?
  - Lack of follow-through? Is the planned approach right, but the follow through lacking?

Revise

The dynamics of the business environment can mean you may need to modify plans and strategies during the year to keep your business on the best possible pathway. If something big happened that you did not anticipate, you may be better to change your plans and possibly even your financial goals mid-year than to continue focusing on an unworkable scenario. While there are times when revising goals and budgets is the right approach, always challenge yourself first and consider whether the goal can still be achieved if you work harder, smarter or change your action plan. This may be a good time to check in with your CEO peer group members or some trusted franchisees for their advice. Here are some questions to challenge your team:

- What will you do to get back on track?
- What goals should be revised?
- What are the new action plans?
- What budget revisions are needed to align with the new goals and action plans?

ENGAGING FRANCHISEES

Playbooks for the Best in the Business

The most successful franchisees carefully plan and review their finances. They use financial statements and KPIs to assess performance and identify priorities. They manage with eyes wide open – fully aware how their decisions and actions have shaped their past financial outcomes. They look to the past to understand how to adjust the future game plan. Their budgets describe that game plan in terms of dollars and cents, and provide important guideposts for measuring progress. For many companies, business budgets represent the single most important item in management's tool set.

And still budgets get a bad rap.

They have a reputation for being difficult and time consuming to prepare. And since nobody can predict the future (especially during a pandemic), they are not accurate. Still, budgets ***create the financial roadmap for investing resources in profitable opportunities***. Written budgets provide clarity on the financial outcomes of the plans. If you don't like what you see, it's not too late to change course with a new plan.

And still many choose to drive their business without a roadmap.

With the many distractions of daily operations and passing pandemics or initiatives, it's no wonder budgets find their way to the bottom of franchisees' priority lists. How can you escalate their importance?

1. Lead: Create a system-wide planning culture. Don't just talk the talk, walk the walk.
2. Resource: Provide franchisees with tools such as benchmarks, budget workbook templates and playbooks that are specifically suited for your business model.

Done. The expectation is set that every franchise location has a budget and you have provided the inspiration and resources to make it easy. Still, many franchisees fail to complete the project.

What's missing? Skills and support.
It's what the best in the business do.

Financial Acumen	Technology Solutions
It's a fact. Lack of financial acumen keeps franchisees from achieving all they could. Financial education is an essential foundation for high-performing franchises. Does your franchise system deliver ongoing training to build competencies with KPI analysis, financial statements, benchmarking, breakeven analysis, and budgeting? Quality, targeted learning should be available on demand. Profit Soup can help.	Beyond training, coaching and support is needed to ensure franchisee success. Field support teams fill the essential, time-consuming role of helping franchisees develop goals, budgets, and action plans. Does your technology make their efforts scalable? Have you provided playbooks digitally, in a centralized location, where support teams and franchise executives can immediately assess the franchisees' progress? Scalable operations support takes technology and structure. FranConnect can help.