

**THE EXECUTIVE'S  
GUIDE TO  
FRANCHISING  
TECH  
IN 2022**

**- CFO EDITION -**





As the world of franchising continues to evolve, so does the role of the franchise brand's Chief Financial Officer. To keep up in this ever-changing landscape, top franchise CFOs need new ways to work smarter, not harder, which is leading to a greater adoption of financial technology and business automation.

With that in mind, FranConnect created this guide to help franchising CFOs determine which technology tools and features they should be looking to adopt in 2022 and beyond. We encourage all CFOs to leverage these technologies and use them to their full potential, from cloud-based accounting software to automated reporting platforms. We believe certain tech tools will empower franchise CFOs to work smarter and more efficiently for years to come.

With the right tech in place, CFOs can gain visibility, enable better strategic decision making, and automate recurring tasks. And as technology frees up their time and energy, CFOs can focus on strategic initiatives to help drive success in their businesses.

## Four Tech Challenges for the Franchising CFO

We talked to dozens of franchising CFOs and surfaced four common challenges that keep them up at night:

- Collecting and getting visibility into sales data;
  - Calculating royalties using the data collected; and
  - Invoicing franchisees and ultimately collecting payments.
- Once these steps are complete the final piece to the puzzle includes reporting on this data and making sure that the supporting business processes are well-documented and running efficiently.

Let's take a deeper look at each of these challenges.

### 1st Challenge: Automating Sales Data Collection

Automating the process of sales data collection can be difficult, but doing so provides critical insights to inevitably collecting royalties and managing funds for your brand as a whole.

With sales data often dispersed throughout different departments in your company, it becomes a constant challenge to ensure that all your siloed departments remain in communication. Brands sometimes try to address this challenge by procuring dedicated data warehousing systems for their entire companies, just to enable the transfer of information and to keep royalty cash flowing in.

## 1st Challenge: Automating Sales Data Collection (Continued)

In order to effectively collect the royalties franchisees pay to license your brand, it is important to have a clear understanding of all sales data. This can be a challenge, as different departments may store data in different formats or locations. It is equally important to ensure that all sales data is accurate and up to date, which can be difficult to achieve if data is entered manually, updated irregularly, and stored in multiple locations. **Inaccurate or outdated data can lead to major problems, including incorrect royalty payments being made!**

Calculating royalty payments can be a complex and time-consuming task, especially when sales data is spread out across multiple locations. Keeping all sales data in one central location can make calculating royalties easier and having all data in one place also allows you to see patterns and trends more easily and to spot errors and discrepancies more quickly. Modern software makes it possible to automate the collection of the data, and a franchising-specific software provider will also have experience in gathering and managing franchisee sales data. They can help you set up a system to automatically collect the pertinent sales data you will need to effectively calculate the royalty payments that are due to you.

Another challenge is that all your data needs to be collected from whichever ERP system you use. It can then be loaded into your franchising or royalty software; however, this may require someone to perform manual data entry or file loading depending on the integrations available to you. This brings the “human” factor into the equation which leaves room for error. By eliminating this factor and having a direct integration with your POS system, you can bypass the franchisee and bypass manual entries. Using technology that integrates together will keep things streamlined and simple when trying to collect sales data to use.



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## 2nd Challenge: Calculating Royalty Fees

Any well-seasoned franchisor knows that one of the most important aspects of maintaining a successful franchise is making sure that all franchisees are up to date on their royalty payments. In the past, this was a manual process that was time-consuming and often resulted in errors as mentioned above.




Using an out-of-the-box solution that is specifically made for collecting royalties can be more cost effective than building one from the ground up.

Today, with the advent of franchising royalty software, calculating royalties owed to the franchisor has become a much simpler task. Software like this considers the individual terms of each franchisee's contract, as well as the franchisor's own fee schedule - to calculate the royalties due. In addition, franchising royalty software can also track when payments are made and alert the franchisor if any payments are late. As a result, this type of software can help to ensure that all payments are made on time and reduce the chances of any late payments. There are technology platforms that can help you integrate sales data and calculate your payments; however, this often requires a customized system setup which can be costly. **Using an out-of-the-box solution that is specifically made for collecting royalties can be more cost effective than building one from the ground up.**

A technology platform specifically made for calculating your royalty payments should be able to specifically integrate the terms from your franchise agreement (ie: Are the royalty payments based on gross earnings or YTD numbers?). It should also be able to take into account additional flat fees that may need to be paid from time-to-time like bulk text messaging or simple "tech fees". Other use cases, which can be extremely beneficial for your franchise and can all be calculated within a royalty application are:

- Tax calculations
- Specific data for real estate concepts
- Additional items to be invoiced
- Late fees
- Negative categories
- Non-financial items like KPIs
- Promissory notes



*\*Example: The franchisor wants to loan the franchisee money to buy equipment with an agreement for them to pay back the money within one year. The system would be able to calculate (and then charge them) what the franchisee would need to pay over X amount of months' time, including interest if needed, in order to pay back that money by their one-year deadline.\**



### 3rd Challenge: Invoicing Franchisees and Payment Collection

One of the most time-consuming aspects of being a franchising CFO is invoicing the franchisees and collecting payments. This task can be even more challenging if payments are made in different currencies or if the franchisee is located in a different country. To make this process easier, it is helpful to have a system in place that can automate the creation of invoices and payments based on the calculations made by the system. This will help to ensure that all invoices are accurate and that payments are made on time. It is also helpful to have a system in place that can track payments and notify the franchisor if any payments are late. A good invoicing and payment system will help to keep the CFO's time free for more important tasks.

**A key function for technology tools within this scope is being able to customize the balances of invoices that are automatically being sent out and the frequency at which they are sent.** While some franchisors choose to send out monthly invoices to their franchisees, there are use case scenarios where the franchisor may want to invoice the franchisee daily based on their sales volume for the day – something that can only be done via an automated invoicing and payments system. Your system should allow for a custom cadence to be set per individual franchisee. Setting a custom schedule will alleviate some manual work for your accounting team and adding access to an EFT process can ensure transactions flow smoothly via automation. The franchisor can then provide a file with all the relevant transactional information and upload it to their bank so the bank can execute the transactions for your department.

But what happens after these challenges are addressed? What other sources of stress for the franchising CFO?

### 4th Challenge: Process Efficiency – Tightening the Bolts on Your Processes

#### Procure to Pay (P2P)

At the heart of the business, an additional challenge is how the franchising CFO procures their brand's supply chain – or thoughtfully named "Procure to Pay" (P2P). The procurement of goods and services can be a long process, from when a unit first requests them to the time they receive their purchase order. The P2P process is still primarily manual and paper-based for many companies. When the volume of invoices increases, these procedures begin to struggle because they were not designed with such high volumes in mind. This all becomes obvious when the accounting department is trying their best to keep up, but things just aren't going as smoothly anymore!

Common problems created by P2P:

- Lack of control over spending
- Manual invoice processing
- Human errors and inaccuracies
- Murky visibility of payables

## Procure to Pay (P2P) (Continued)

As a CFO you know that each new unit being opened under your brand's franchise means an entire list of supplies and inventory that the unit owner will need. While all these supplies could be provided by the franchisor supply chain system, there are also instances where brands create ongoing cash flow and profit from these purchase orders. If the CFO changes the margin over a purchase, it creates a difference in the system and an additional need to calculate margin. When looking towards technology to streamline this process we must think about how multiple systems are intertwined and interdependent.

The purchase order goes into the supply chain cycle, over to the ERP cycle as a payment activity, and then inevitably through Accounts Payable – so having a technology platform that can interconnect all these systems is crucial to being able to manage this supply chain process. **Automation of P2P processes can be a great way to increase productivity and save money, and automation tools can give the CFO greater visibility, while also giving company executives greater control over the business' financial operations.** It's no secret that using a technology solution to automate the P2P process can save money and reduce the risk of errors, but it also ensures that invoices are matched in multiple ways across multiple systems. This not only saves time for our company but also provides employees with valuable opportunities to focus on higher-value activities than before by reducing their workloads significantly via automation.

Ultimately, these factors all relate back to the General Ledger accounting – which leads us to an additional source of stress for the franchising CFO.



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## Plan to Perform

CFOs are under constant pressure to make accurate and informed decisions that will have a positive impact on the bottom line. In order to make the most effective decisions, CFOs need to have access to reliable data that can be easily analyzed. BI tools can provide CFOs with the insights they need to make sound decisions. By collecting and storing data from multiple sources – (like the integrations from your royalty manager), BI tools give CFOs a 360-degree view of the company's financial health. Creating seamless integration between treasury bridges, banking systems, and payment systems will help you accurately report on and analyze data in real-time. With your BI tool pulling information from your royalty software, you gain the visibility to be able to gauge where you are versus plan or over X period of time. It can help CFOs identify trends and patterns that may otherwise be difficult to spot. As a result, **BI tools can give CFOs the information they need to make informed decisions that will help improve the bottom line.**



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As a CFO, you have a lot of responsibility when it comes to making sure your company is profitable. One of the ways you can do this is by carefully choosing the right BI tools. There are a few considerations you should keep in mind when shopping for BI tools. First, you need to make sure the tool can handle the volume of data your company generates. Second, you need to ensure that the tool can be easily integrated into your company's existing systems. Finally, you need to make sure that the tool provides timely and accurate reporting. By taking these factors into consideration into account, you can be sure to choose a BI tool that will help your company stay profitable.

## BONUS CONTENT - Legal

As a franchising CFO, it is essential to have a reliable legal hub to ensure accuracy when drafting invoices. This is because any inaccuracies could lead to misunderstandings or disputes between the franchisor and franchisee. Having a legal hub to access information (especially contracts) can help ensure charges being sent out are accurate. When shopping for an overall technology tool, keep in mind that any integrations with document signing software, tax calculation, or even a e-filing system can aid in ensuring there are no discrepancies in reporting or even accounts payable functions.



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