

THE FIVE MOST COMMON MISTAKES FRANCHISORS MAKE WHEN DRAFTING AN OPERATIONS MANUAL

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As the Senior Operations Consultant at Francorp, I am often asked by potential franchisors, “Just how critical is the operations manual to a franchise program?” Whenever I am asked this question, I explain that the operations manual serves many purposes throughout the franchising process. First of all, the operations manual serves as a sales tool when meeting with potential franchisees. Specifically, the operations manual is a concrete representation of the franchise business system and confirms that a franchisor is offering something of value. Moreover, the manual serves as a training tool. Franchisors use the operations manual—along with other tools including, equipment manuals, software manuals, and PowerPoint presentations—to train franchisees on the day-to-day operations. Finally, the operations manual is a reference tool that the franchisees will use to ensure that they are following the system to a franchisor’s specification. These, of course, are the most anticipated responses.

However, there are the less obvious—but more crucial—roles that the operations manual plays in a franchise program. In particular, the operations manual is an extension of the franchise agreement insofar as it is a franchise compliance tool. It is the measuring stick that franchisors use to determine whether franchisees are living up to the franchisor’s standards. As a result, aside from the franchise agreement, it is the document a court will most likely use to impose liability on a franchisor.

With this in mind, this paper will provide current and potential franchisors with constructive suggestions on how to avoid making common mistakes with respect to drafting the franchise operation manual, focusing primarily on organization, presentation, completeness, quality of writing, and utility of the manual as a franchise compliance document.

MISTAKE #1: FAILING TO ORGANIZE THE OPERATIONS MANUAL IN A LOGICAL AND CONSISTENT MANNER

In an attempt to complete the operations manual as quickly as possible, franchisors often will fail to take into consideration whether franchisees will be able to easily reference information in the document. Consequently, many topics—both related and unrelated—fuse together, resulting in an oversight or misunderstanding of the information that was intended to be useable and helpful. Thus, great care should be taken to break the operations manual into easily referenced sections that have sub-headings that naturally fit. It is also important to take the time to create an outline that will guide you through the drafting process. The following restaurant outline is an excellent example of the beginning of an organized franchise operations manual:

- i. Title/Copyright Page
- ii. The Franchise Operations Manual

A description of how the manual should be used and how it will be updated

Statement of Confidentiality

A one-page statement of the franchisee's responsibility to keep the contents of the manual confidential; to be signed and returned by the franchisee

Notice of Policy/Procedure Change

The form used to notify the franchisee of a change in a policy or procedure

Submitting Suggestions to the Franchisor

Instructions for using a form to submit suggestions to the franchisor

Limitations of the Manual

A disclaimer notifying the franchisee of the responsibility to know and comply with local laws and regulations applying to the business

A. INTRODUCTION

Letter from the President

A one-page letter that welcomes the franchisee to the network

History and Philosophy of the Franchisor

A one to two-page description detailing when and why the business was founded, who founded it, how the public has accepted it, and where it is going

Services of the Franchisor Organization

A discussion that briefly describes the services provided by the franchisor (e.g., training, advertising, operations consulting, enhanced purchasing power, etc.), as indicated in the franchise agreement

Responsibilities of an XYZ Franchisee

A list of the responsibilities a franchisee must meet

Visits from the Corporate Office

An explanation of how the franchisor will periodically monitor franchisee compliance with the system and assist the franchisee with operational issues; includes a description of the role of the person who will be conducting visits from the corporate office and the phone number

Field Visit Confirmation Form

A sample form that will confirm that a field consultant has conducted a visit with a franchisee

Franchise Survey Form

An objective and/or subjective form used to assess franchisee compliance with the standards of the franchisor

B. ESTABLISHING AN XYZ FRANCHISEE BUSINESS

Introduction

Your Status as a Franchisee

A reminder to franchisees that they must disclose to the public that they are not agents of the franchisor; based on the provision in the franchise agreement

Required/Recommended Bank Accounts

A discussion on the types of accounts each franchisee should open (e.g., payroll, general operating, savings, etc.)

Selecting and Developing Your Site

An outline of the specific criteria franchisees should apply when selecting a site and the procedure to follow to secure approval of the site from the franchisor

Required Lease Inclusions

A list of the specific lease provisions that must be included in the lease before signing; based on franchise agreement provisions

Required Insurance Coverages

A list of the insurance coverages franchisees are required to obtain

Special Licenses and Permits

A list of the types of special licenses and permits that may be necessary to operate a restaurant

Contracting Utilities and Services

A list and brief description of the utilities and services necessary to operate a restaurant

Décor Specifications

A list of the décor standards with which franchisees must comply to standardize the restaurant's look and image

Signage and Logo Specifications

The list of specifications franchisees must meet to standardize the restaurant's signage

Purchasing Foodservice Equipment and Supplies

A discussion about purchasing the equipment and supplies necessary to operate an XYZ restaurant, including equipment specifications and recommended smallwares and expendables inventories

Food Purchasing Specifications

A list of the required specifications for food purchases, including brand, quality, and quantities

Recommended Initial Inventory

A listing of the recommended initial inventory needed to open an XYZ franchise

Standards of Cleanliness

A discussion about the importance of maintaining standards of cleanliness, as well as a description of those standards

Paying Taxes

A discussion on the federal, state, and county or town taxes each XYZ franchisee will need to pay

Paying Additional Fees

Descriptions of other fees a franchisee may incur during the franchise relationship; taken from the offering circular

C. MANAGING AN XYZ RESTAURANT

Introduction

Scheduling Shifts

A discussion on how shifts are scheduled for an XYZ restaurant

Managing Inventory

A discussion on proper inventory handling procedures, including ordering, receiving, rotating, and storage

Using Approved Sources

An explanation of the requirement that a franchisee use only franchisor-approved sources of supply for obtaining equipment and supplies for the XYZ restaurant

List of Approved Suppliers

A list of all franchisor-approved suppliers, complete with names, addresses, and phone numbers

Request to Change Supplier/Supply

Generating Profit

A discussion on the various ways an XYZ franchisee can actively work to generate revenue and build profits for the XYZ restaurant; topics may include:

Increasing Sales

Inventory Controls

Labor Costs and Scheduling

Cash Controls

Portioning

Smallwares and Expendable Controls

Maintenance Practices and Repairs

Franchise Reporting Requirements and Procedures

As required by the franchise agreement, the weekly, monthly, quarterly, and annual reports the franchisee must submit to the franchisor

Statement of Gross Receipts

A sample of the form the franchisee completes and sends to the franchisor along with the royalty payment

Advertising Activity Report

A sample of the form the franchisee completes and sends to the franchisor with the invoices to prove that the minimum required amount (as noted in the franchise agreement) has been spent on local advertising

Preparing Financial Statements

Introduction to the sample formats that follow

The XYZ Model Chart of Accounts

The Income Statement

A sample income statement format

The Balance Sheet

A sample balance sheet format

D. PERSONNEL

Introduction

Policy on Fair Employment Practices

A full discussion on the EEOC guidelines

Inappropriate Pre-Employment Inquiries

A listing of the questions to avoid when interviewing applicants

Wage and Labor Laws

The federal laws governing wages and hours

Complying with the Department of Homeland Security

How to comply with the Department of Homeland Security

Policy on Sexual Harassment

Definition of sexual harassment and franchisor's policy regarding it

Profile of the Ideal XYZ Employee

A listing of the characteristics and background of a model XYZ employee

The Recruitment and Selection Process

A full discussion on the recommended recruitment techniques (e.g., classified ads, present employee referrals, etc.) and the subsequent interviewing techniques for screening personnel

Sample Classified Ad for Recruiting Personnel

Sample Application for Employment

Protecting the XYZ System

A discussion addressing the advisability of having employees sign a non-disclosure and non-competition agreement

The Non-Disclosure and Non-Competition Agreement

A sample agreement

The Introductory Period

A description of the length of the new employee's introductory period and how this period should be handled

Establishing Personnel Policies

A discussion on the importance of setting personnel policies

Personnel Policy Worksheet

A worksheet of topics that assists franchisees in developing personnel policies of their own

Job Descriptions

Job descriptions for each position in the restaurant

Employee Orientation and Training

General guidelines in this area

Scheduling Employee Work Hours

Guidelines for effectively staffing an XYZ restaurant

Time Reporting Procedures

Recommended procedures for recording an employee's hours

The XYZ Uniform/Dress Code

A description of the specific dress requirements for XYZ employees

Evaluating Employees

A discussion detailing how to conduct employee evaluations, how often they should be done, and the records that should be kept

Discipline and Termination

Appropriate techniques to follow when disciplining and/or terminating an employee, and any forms that should accompany these actions

E. DAILY PROCEDURES

Introduction

Suggested Restaurant Hours

The recommended hours of operation (including holidays off)

Daily Opening and Closing Duties

A list of opening and closing procedures

Customer Service

Franchisor's philosophy regarding customer service and customer relations, and the procedures for monitoring public opinion about the restaurant

Handling Customer Complaints

A list of suggested methods for handling customer complaints

The Features of the Cash Register/Point-of-Sale System

A description of the features of the system for retaining restaurant revenues

Procedures for Accepting Payment

An explanation of the procedures for accepting payment, including cash, checks, and credit cards

Gift Certificates/Cards

A description of the procedures pertaining to the issuance and acceptance of gift certificates/cards

The Daily Cash Report

A description of the method by which the franchisee/manager is to account for the day's revenues

Preparing the Bank Deposit

A description of the procedure for making bank deposits for the business

Food Preparation Procedures (optional)

The recipes and preparation procedures for each menu item

Recipes (optional)

“To Go” Orders

A description of recommended carry-out procedures

Catering

A description of recommended catering policies and procedures

Delivery (if applicable)

A description of recommended delivery procedures

Responsible Beverage Sales (if applicable)

General information regarding the sale and service of alcoholic beverages

Safety Concerns

A discussion on recommended procedures to avoid accidents

Cleaning and Maintenance

A description of the recommended cleaning and maintenance procedures

Injury and Illness

A description of the recommended procedures for dealing with customer and employee injury/illness

Emergency/Security Procedures

A discussion on the recommended policies and procedures for dealing with fire, robbery, burglary, etc.

F. ADVERTISING

The XYZ Advertising Program

A description of the XYZ advertising program, including advertising requirements

The Value of Advertising

A general advertising philosophy

Guidelines for Using XYZ Marks

A list of guidelines to be applied when using XYZ marks

The Grand Opening

A reiteration of the required amount of money to be expended on grand opening activities, as required in the franchise agreement, and a discussion on how the franchisee should go about planning and conducting grand opening activities

Advertising Media

The media forms recommended by franchisor (e.g., Yellow Pages, newspapers and magazines, direct mail, radio, television, Internet, specialty advertising, publicity, etc.)

Sample Ads

Examples of XYZ ads

Obtaining Approval for Advertising Concepts and Materials

The procedures for obtaining approval for franchisee-developed advertising concepts and materials

Ordering Advertising Materials from the Corporate Office

The procedures necessary to order ad slicks, scripts, etc.

Ultimately, the main objective is ensuring that information is presented to the reader in a logical manner.

MISTAKE #2: FAILING TO PRESENT INFORMATION AND MATERIAL IN AN ATTRACTIVE MANNER

Some franchisors will neglect the presentation of the materials found in the franchise operations manual. For instance, franchisors might have a document that starts at page one and continues on to page 950. Thus, readers do not have any sense of where one section ends and another begins.

The most presentable manuals possess the following characteristics:

Master Table of Contents and Individual Section Table of Contents

- A master table of contents at the beginning of the volume
- Individual tables of contents (in addition to the master table of contents) before each section make locating topics simple

Short Paragraphs and Lists

- Text featuring short paragraphs and large number of lists instead of lengthy narratives puts necessary information at the reader's fingertips
- Graphic elements, such as lines, bullets, boxes and the like, used to set off important pieces of information

Pictures and Images

- Pictures and images used to break up and/or support text; they provide a level of concreteness that can only be carried out via a picture or diagram

Headers and Footers

- Graphic headers and footers used to "frame" each page and provide separate spaces at the top and bottom of each sheet for page numbers, copyright notices, page titles, section titles, etc.

Headings

- Headings set off in enough white space to make them easy to see at a glance

- Main headings in the text are centered, capitalized, and set in 14-point bold type; on the tables of contents, they are flush with the left margin
- Secondary headings in the text are also capitalized and set in 14-point bold type, but are placed flush with the left margin; on the tables of contents, they are indented under main headings
- Subheadings in the text are set in 12-point bold type, capitalized, and placed at the left margin; they do not appear in the tables of contents
- Where further distinctions are needed, headings are set in 12-point bold type, upper- and lower-case letters, and are flush left with the left margin

Page Numbering

- Each manual page is labeled with a consecutive number following its section letter: A-1; A-2; A-3; etc.

The professional appearance of the operations manual lends credibility to the documents and ensures that it fills its roles in sales, training, and franchise compliance.

MISTAKE #3: FAILING TO INCLUDE ALL NECESSARY INFORMATION THAT FRANCHISEES WILL NEED TO SUCCESSFULLY OPEN, RUN, AND GROW THE BUSINESS

Far too frequently, franchisors will document what is needed to run the business on a day-to-day basis, but will fail to adequately provide information concerning what is necessary to open and grow the business. Consequently, it is important to note that the operations manual is used to augment or expand the franchise agreement. Thus, it should include—but not be limited to—detailed information in the following areas: accounting, bookkeeping, cash controls and reporting; advertising, promotion and signage; selling, prospect management, and client management; site selection, construction, design, furniture, fixtures, supplies and equipment; management, personnel, insurance, hours of operation; crime prevention and crime reporting; accident prevention and accident reporting.

MISTAKE #4: FAILING TO ENSURE THAT LANGUAGE IS UNAMBIGUOUS AND CONSISTENT WITH THE FRANCHISE AGREEMENT

Too often procedures and/or language in operations manuals are in direct conflict with the franchise agreement. The basic rule is that operations manuals, training manuals (including audio-visual media), and other written standards provided to franchisees should be uniform in message and content. The manual should be clear on areas where the franchisor asserts control over day-to-day operations necessary to protect the uniformity and quality of products and services distributed under the proprietary marks of the franchisor. Similarly, non-essential operating information contained in the manual as an aid to the franchisee should be distinguished from mandatory requirements. These non-essential issues could be characterized as “suggestions” or “better practices” in the interest of communication and uniformity to smooth operations within the system.

Remember that the operations manual should be designed to reduce a franchisor’s potential legal liability. In addition, the franchise operations manual should allow franchisors to set parameters and define the franchisor-franchisee relationship immediately upon the signing of the franchise agreement.

MISTAKE #5: FAILING TO IDENTIFY AND UTILIZE THE FRANCHISE OPERATIONS MANUAL AS A FRANCHISE COMPLIANCE DOCUMENT

Franchisees tend to perceive an operations manual as a wealth of helpful information to assist in the start-up and successful operation of the new business. However, from the franchisor’s point of view, the manual should be a tool of control over the performance of the franchisee. By clearly stating the standards to which the franchisee is expected to adhere, the manual becomes the franchisor’s measuring stick used to determine whether the franchisee is living up to the franchisor’s standards.

To ensure that the operations manual is an effective franchise compliance tool, the manual must address the franchisee’s concerns, making the franchisee completely responsible for the implementation of its procedures at the franchised business. More specifically, topics such as Customer Service, Handling Customer Complaints, List of Approved Suppliers, Safety and Security, etc. are especially important to the franchisee. In addition, the operations manual should address Quality Control by putting the franchisee on notice that from time to time—via announced and unannounced visits—a franchisor representative will visit the franchisee to ensure that the franchisee is in compliance with the franchisor’s standards. The on-site support program should be thoroughly described in the operations manual, and a copy of the franchise evaluation should be included as well. Doing so will allow franchisees to know precisely what will be monitored and how often. This will encourage franchisees to maintain high operational standards

CONCLUSION

In closing, the operations manual serves as the core of every franchise organization. Specifically, operations manuals impact every part of the franchise process, including: (1) sales; (2) training; (3) on-going support; and (4) franchise compliance. In addition, when well written, an operations manual limits the franchisor's legal liability. To this end, this paper not only examines some of the most common mistakes franchisors make when drafting operations manuals, but also demonstrates why it is critical to take great care when developing a franchise operations manual.