VOLUME 6: PERFORMANCE, REPORTING AND FINANCE

Operations Manual

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Attachments

1 Performance

1.1 Minimum Performance Criteria

Flip Out Franchisees must always strive to achieve the best possible results.

Minimum performance criteria are the lowest level of performance acceptable to Flip Out. These criteria are not targets or objectives. Franchisees should always aim to achieve higher levels of performance. Flip Out will monitor performance and assist Franchisees should their performance fall below the minimum performance criteria.

However, although Flip Out will assist Franchisees that fall below this criteria, the primary responsibility for improving business rests with the Franchisee.

1.1.1 First year

During the first year of operation, Franchisees are expected to:

- Carry out all local area marketing and promotional activities as specified by the Head Office.
- Achieve the sale targets for the various product categories that Head Office specify.

1.1.2 Second and subsequent years

During the second and subsequent years of operation, Franchisees are expected to, at a minimum, achieve the criteria established for the first year of operation and:

- Achieve Gross Sales of at least 90% of year 1 level.
- Achieve an acceptable result on any mystery shopping program implemented by the Franchisor.

1.1.3 Failure To Meet Minimum Performance Criteria

Franchisees, whose business fall below the minimum performance criteria are required to work with Flip Out management to bring their business back on track. Head Office will assist by analysing their business and establishing a plan to remedy the situation. Access to the Franchisee's Xero bookkeeping account must be given to Head Office so that analysis of the situation can be made. Further, Head Office will provide support and assistance with the aim of improving the performance of the business.

Franchisees may be required to attend additional training and implement programs or strategies that the Franchisor deems appropriate. In the unlikely event that performance does not improve after such efforts, and the minimum performance criteria is still not met, Flip Out may take steps to terminate the Franchisee's Franchise Agreement.

Franchisees are urged to contact Head Office regarding any concerns of their performance or the operation of their business. The sooner contact can be made, the better.

1.3 Performance Evaluation

Flip Out will support Franchisees by regularly monitoring and evaluating businesses. These comprehensive evaluations provide Franchisees with useful information to improve their business, as well as aiding in the development of the entire network. By monitoring all franchises in the Flip Out network, Flip Out is able to gather best practice information, improve procedures and convey these to all Franchisees.

1.4 Using Roller Reports to Improve Performance

1.4.1 Roller Reports

The sales data collected by Roller is of immense value to the Flip Out business. In using Roller reports, Franchisees can gain insights into which products are selling well, the average transaction cost, popular times, discount code usage and invoice repayments. As mentioned in Volume 3, Roller is the only approved POS system and must be used. This is a contractual obligation as stipulated in the Franchise Agreement.

1.4.2 Transactions By Products

One of the most useful Roller reports is the transaction by product. This can be found in in Roller, under Reports. Here Franchisees can select product to see how well they are selling. This is especially useful to see which Café products are selling well, and can assist in ensuring that products are ordered to a correct levels to avoid food wastage.

1.4.3 Discount Code Usage

Discount Code Usage reports allow Franchisees to see if discount codes are being used. This allows Franchisees to see how promotions or advertisements are performing.

2 Managing Finances

2.1 Monitoring Daily Bank Balances

Bank balances should be monitored on a daily basis. Cheques and cash deposits and other payments should be reconciled on a daily basis and any discrepancies should be acted on immediately. Daily reconciliation will make the end of month bank reconciliation quick and easy.

A daily ongoing cash balance should also be kept of the operating bank account to ensure that there are always sufficient funds for payments.

2.1.1 Accounting Software

It is required that Franchisees use Xero as their accounting system. Franchisees are required to list and separate their charter of accounts into the following categories:

- General Entry
- Online General Entry
- School Groups
- Café
- Summer Promotion
- Winter Promotion
- Groups
- Private Hire
- Party Deposit
- Party Balance
- Ninja Registration Fee
- Ninja Paid in Full
- Ninja PAYG
- Playgroup
- After Dark
- Fundraiser
- Other Promotions
- Other

2.1.2 POS Software

It is mandatory that Franchisees use Roller as their POS and online booking software. It is the only approved POS software.

2.2 Bank Reconciliation

Bank reconciliation, as the name suggests, is a method of reconciling financial records with bank records.

When comparing financial records with bank records, two discrepancies can be found:

- Items appearing in the bank statements but not in records, such as bank charges, interest and automatic deductions.
- Items appearing in records but not in the bank statements, such as cheques

issued but not yet recorded on the bank statement.

Bank reconciliations should be conducted when bank statements are received for each month. A process for reconciliation is outlined in the Xero accounting package. Xero has help files and tutorials which will outline the whole reconciliation process and can walk Franchisees through the necessary steps.

2.3 Budgeting, Cash Flows And Forecasting

2.3.1 Budgeting

Successful businesses use budgets. Franchisees must organise and control their business, and should prepare monthly and annual budgets. The objectives of budgeting are to:

- Determine what funds are required for the business.
- Determine when funds will be required.
- Determine when the funds can be expected.
- Assist with the evaluation and performance of your business.
- Set attainable performance targets.
- Set expenditure guidelines.

Arenas must use a budget. This can be self-created, or tracked using the attached **BUDGET TEMPLATE**. This template allows for easy budgeting. Franchisees simply need to add the months revenue target and the first date of the month. As the month progresses, the revenue received each day should be added to its respective day. The spreadsheet will calculate the average amount required per day and week to hit budget.

Financial mismanagement is often the determining factor behind small business failure. Consequently, a budget must be used as:

- The reputation and goodwill of a business is largely dependent on its ability to meet financial commitments.
- The relationship with bank manageros will improve if the Franchisee is able to demonstrate they have planned and prepared a budget and cash flow forecast.
- It serves as a benchmark against which future performance can be compared to.

2.3.2 Cash flow

The preparation of a budgeted cash flow provides the means by which Franchisees can best control and monitor the flow of funds. The budgeted cash flow should be carried out on a monthly basis and covers a full 12 month period. Xero Accounting software has the templates required to achieve this. It is difficult to make reasonably accurate estimates beyond this time frame.

2.3.3 Cash Flow Variance

As a rule of thumb, variances of 10% or more should be investigated. For most expenses, negative variances will be favourable to businesses. For revenue however, negative variances will generally be unfavourable. Be aware that this is not always the case.

After determining the reasons for the variances, Franchisees may need to:

- Drive sales to budgeted levels using additional marketing, promotions or alternate product strategies. Head Office is able to assist with this.
- Exert tighter control over expenses and stock wastage.

2.3.4 *Causes of Cash Flow Variance*

Franchisees should pay particular attention to favourable variances to understand why these occurred. The underlying cause should be investigated, not just the effect. For example:

> *Cash flow analysis shows revenue is above budget by 7%. It is discovered that a greater number of socks were sold last month than predicted. It is assumed that the number of socks sold is the reason why revenue increased.*

It is here that many people fall prey to the fallacy that they have discovered the cause of revenue variance. In this example, selling more socks is not the underlying cause. It is still unknown what caused customers to purchase more socks. Marketing, new promotions, holiday periods or weather could all be potential underlying causes.

Once discovered, Franchisees should attempt to replicate positive causes and reduce the occurrence of negative causes. For example, if a new promotion is discovered to be the underlying cause behind the increased sock revenue, the Franchisee may consider extending the length of the promotion.

After completing analysis, the budget should be adjusted where necessary – some targets may have been unrealistic, while others too pessimistic. The next budget should be as accurate as possible.

2.3.5 *Other Uses of Cash Flow Budget*

Another use of the cash flow budget is to identify the differences between planned income and expenses. As such, it is an excellent planning tool. A cash flow budget may help identify:

- Times when additional capital is needed to meet payment obligations to suppliers. Identifying such periods early will give sufficient time to organise the financing needed. As a result, late payments and damage to Flip Out's reputation can be avoided.
- Times when more cash has been retained in the business than needed. In this case, cash may be invested as required. Of course, Franchisees should seek professional advice when making any investment. Franchisees may be limited in the investment or purchase of other businesses by the franchise agreement.

2.3.6 *Accountants*

Some small businesses try to operate without the services of a qualified accountant due to the cost involved. This is false economy. A good accountant will provide immense value and assistance in the preparation of sales and cash flow budgets.

2.3.7 *Forecasting*

No forecasting method is 100% accurate. Experience in the business will assist in the ability to accurately forecast. Franchisees should aim to familiarise themselves with trends in the business. This can include seasonal trends, public holiday knock-on effects and school term trends.

To help with the understanding of the business on an ongoing basis, Franchisees should keep records of:

- Peak sales periods; on a daily, weekly, monthly and yearly basis
- Clientele
- Products and supplies

Historical data is always useful when developing a forecast. Roller allows Franchisees to easily view how much each product is generating.

To view revenue by products, log into Roller, click on Reports, then Transactions by Product. Select the desired time frame, and the product for analysis. This allows Franchisees to see total revenue received for each product, the number of products sold and other information.

Once received, this information can be used to accurately predict future transactions. For example: If, during one week of the Winter promotion, 60 additional socks were sold, it would be illogical to forecast 100 additional socks sales for the next week. Other factors can effect this such as holiday periods or weather. When forecasting, Franchisees should ask themselves what factors will cause the next period's forecast to be different from the previous period's result.

2.4 Creditor Control

Creditors are those businesses and people who provide goods or services to the Franchisee and allow them to pay for the goods or services sometime later.

When dealing with creditors:

- Ensure all transactions are checked against invoices and statements.
- Ensure that all discount prices, promotional allowances and other discounts are clearly marked on invoices and statements.
- Enter invoices, payments and receipts into the Xero accounting on a regular basis, so that amounts owed to creditors and amounts that have been paid can be determined at any time as required.
- Ensure creditors are paid within agreed terms. Further, some creditors offer discounts if their bills are paid on time which is recommended where available.

Suppliers should be contacted as soon as an error on an invoice, statement, or any other documentation is discovered.

3 Reporting Requirements

3.1 Reports To The Franchisor

In order for the Franchisor to monitor performance and provide advice or support if necessary, periodic reports to the Franchisor are required to be submitted at stipulated dates.

3.1.1 Weekly Reports

The **<u>FRANCHISEE ROYALTY REPORT</u>** is to be uploaded via the Flip Out Intranet by midday every Tuesday. This includes:

- Details of daily gross revenue.
- Details of weekly gross revenue.

3.1.2 Monthly Reports

By the 10th of each month the following must be uploaded to the Flip Out Intranet:

- A Profit and Loss Report downloaded directly from Xero. This must not be altered in any way. Information on how to download this can be seen at: central.xero.com/s/article/Profit-and-Loss-New
- The **<u>LOCAL MARKETING REPORT</u>**, containing all local marketing information.

3.1.3 Yearly Reports

By September 30 after the end of each financial year, detailed financial statements for the business for the previous financial year including:

- Balance Sheet
- Profit and Loss Statement
- Source and Application of Funds Statement

These should be prepared by the Franchisee's accountant to certify that they are true, correct and are an accurate view of the business. Only revenues and expenses related to the operation of the business should be included. Other income or expenditure should not be included, unless they are directly attributable to the Flip Out business.

3.1.4 Local Marketing Report

The Franchisee must by the 10^{th} of each Month submit a local marketing report detailing activity conducted within the previous month, including dates, media details, locations, budgets, results and visual proofs of activity. The **<u>LOCAL MARKETING REPORT</u>** is to be uploaded to the Flip Out Intranet and can be found as an attachment to this volume

3.1.5 Ad Hoc Reports

From time to time, the Franchisor may also reasonably request for ad hoc reports. These must be submitted in the time frame provided. This includes, but is not limited to, access to live Xero accounts, access to payrolls, bank statements, POS devices and receipts.

3.2 Delivery Of Reports

Reports requested by the Franchisor will be delivered in the format required by the Franchisor. Reports will often require submission via the Flip Out Intranet, but may also be requested to be sent via email, Basecamp, courier, post or another method.

3.2.1 Late Reporting

Failure to report on time inhibits the work of Flip Out. If reports are not submitted by their designated due date, any fees required to prepare for financial reports that the Franchisee was obligated to provide but has not provided will be charged to the Franchisee. Late royalty reporting will be charged at a minimum of $50 +GST to account for time spent collecting revenue information.

4 Record Keeping

4.1 Record Keeping Requirements

Franchisees are required to keep:

- Complete transaction records.
- Accurate and up to date business records.
- Books of account that conform to accepted accounting practices.
- Bookkeeping, accounting, inventory control and statistical records and systems, which conform to our reasonable requirements.
- All business and transaction account records for at least seven years.

If Franchisees do not comply with the record keeping obligations under the franchise agreement or fail to keep the required records and systems:

- Flip Out may provide services and systems considered necessary for the business.
- Head Office must be provided with all requested data and documents.
- Flip Out may prepare financial reports and statements for the business based upon the data and documents provided.
- The Franchisee will have to pay all costs associated with providing the services, systems and preparation of reports.

4.2 Inspection Of Records

Flip Out may, at any time, inspect all Franchisee businesses and financial records. Flip Out may also appoint an auditor to inspect the records of franchise businesses. In the event that the audit identifies an understatement of gross revenues by more than 3%, the costs of the audit and any outstanding monies resulting from an adjustment to the figures must be paid for by the Franchisee.

Flip Out may, at any time, also inspect payroll records, bank statements, POS devices, live Xero files and other miscellaneous records.

Flip Out may remove records so that they can be examined and/or photocopied. Any records removed will be returned promptly. Franchisees must fully co-operate with us during any inspection. This process is in place to ensure fairness and equality throughout the franchise network.

5 Payment Terms

5.1 Payment To Franchisor

5.1.1 Franchisee Royalty Report

The **FRANCHISEE ROYALTY REPORT** is a form that is submitted by Franchisees to Flip Out every week by midday on Tuesday. Franchisee's must accurately report their end of day cash takings, EFTPOS totals, online booking and all other revenue for each day in the previous week period. The form calculates the royalty and marketing fees payable each week as stipulated in the Franchisee's franchise agreement. These are reviewed and compared against Roller to ensure accuracy.

Failure to submit the report by midday on Tuesday will result in royalties for that period being levied at the full percentage stipulated in the franchise agreement, regardless of any discounted percentage previously offered. Continuous failure to submit the report by midday on Tuesday will lead to royalties being charged at the full amount for an extended period of time.

This form also acts as an invoice for the royalty fees and marketing levies.

5.1.2 Royalty Fees

Franchisees are required to contribute royalty fees as stipulated in the Franchise Agreement. This payment will be directly debited from the indicated account each week. Prior to commencing business, Franchisees must provide Flip Out with all the necessary signed forms so we can execute these payments as direct debits. Franchisees must note that:

- Royalties are direct debit before midday on Wednesdays.
- Failure to pay royalties on time is a serious matter and constitutes a breach of obligations under the Franchise Agreement.
- Therefore, Franchisees must ensure that there are sufficient funds in the nominated account to cover the royalties owed.

5.1.3 Marketing Levy

Franchisees are required to contribute a marketing fee as stipulated in the Franchise Agreement. This payment will be directly debited from the nominated account each week.

The Marketing Levy is not a form of income for Flip Out. Flip Out has a legal obligation to spend the monies contributed to the marketing fund on legitimate marketing activities.

The marketing fund monies are kept separately from other monies received from Franchisees. They are banked into a separate account, which has conduct requirements placed upon it under the Franchising Code of Conduct. An auditor will audit the marketing fund and prepare annual financial statement within 3 months of the end of the financial year.

Flip Out may use the marketing fund to pay for the costs identified in the Disclosure Document and Franchise Agreement, such as:

- Developing and conducting advertising and promotional campaigns.
- Customer database development and management.
- Research into customers or products.
- Developing a customer loyalty program.
- Public relations activities.

- Engaging advertising agencies or marketing consultants.
- Developing websites and eCommerce capabilities.
- Administrative, occupancy and labour costs of managing the Flip Out marketing program.

. Franchisees must note that:

- Marketing levies are direct debited before midday on Wednesdays.
- Failure to pay marketing levies on time is a serious matter and constitutes a breach of obligations under the Franchise Agreement.
- Therefore, Franchisees must ensure that there are sufficient funds in the nominated account to cover the marketing levies owed.

5.1.4 Other Payments

From time to time, Flip Out will provide Franchisees with services and assistance. Payment for some of these items is included in the royalties. Franchisees may have to pay for some additional items we provide such as:

- Renewal fees and other costs related to the franchise agreement
- Training and seminars (including travel and accommodation)
- Training costs for employees
- Assignment fees if the Franchisees business is sold
- Interest on late payments
- Liquidated damages if incurred
- Costs associated with financial audits where such an audit shows a discrepancy between actual and reported revenue of more than 3%

Franchisees should be aware that this is not a comprehensive list of the additional costs that have to be paid for.

5.1.5 Payment Mode

Most payments to Flip Out Head Office shall be by direct debit. Other payments may be via invoice or via credit card. Payments are to be received prior to dispatch of merchandise or equipment. The payment schedule is as indicated below. To avoid any late payment penalties, Franchisees must ensure that that they have sufficient funds in their bank account to effect the payment.

- Royalties – Wednesdays
- Marketing Levies – Wednesdays
- Supply of products – Prior to dispatch of good
- Other services, such as freight charges – Upon receipt of invoice

5.1.6 Late Payment Penalties

If payment is not received by the stipulated payment date or Flip Out is unable to obtain a direct debit from the nominated bank account, Flip Out will levy a late payment penalty as dictated in the Franchise Agreement.

5.2 Payment To Other Suppliers

Franchisees should always pay Flip Out and other suppliers within the terms negotiated. Often, suppliers will print their trading terms on invoices and other trading documents. The Franchisee is responsible for dealing with outside suppliers in the operation of the Flip Out business. When doing so it is important to be diligent and make timely payments.

Late payment of accounts reflects badly on the whole network. It can also effect agreements and rebates that are negotiated between with the supplier.

5.2.1 Invoicing errors

To ensure that invoices are not over-paid Franchisees should:

- Double-check all deliveries and packing slips against orders placed.
- Double-check all invoices against orders, deliveries and packing slips.
- Tick off the items on the invoices once they have been checked to ensure that all items have been received.
- Check weights on applicable items.
- Sign and date the invoice to acknowledge correct receipt of the items.

Discrepancies in any of the paperwork from suppliers should be noted immediately and followed up straight-away.

5.2.2 Dealing with suppliers

When dealing with suppliers always be polite. If an error has been made it's almost certainly not the fault of the customer service representative on the phone.

Always try to quote the supplier's invoice numbers, to assist suppliers in finding the relevant documents quickly.

5.2.3 Unresolved Discrepancies

If a discrepancy cannot be resolved over the phone or before the invoice is due for payment, Franchisees should:

- Pay the supplier only for the goods and services received
- Send a letter to the supplier stating that the invoice has been short paid and explain why. Such a letter should read:

"Payment of <your payment amount> is enclosed against your Invoice: <the supplier's invoice number> for <the invoice amount>. I have short paid this invoice due to short delivery of <delivery advice or packing slip reference> on <date> as discussed with your customer representative, <name of customer representative>, on <date issue raised>. Please raise a credit note for the difference.

<Flip Out Franchisee>"