



White Paper

A Guide to Accounting for Property Management Franchises

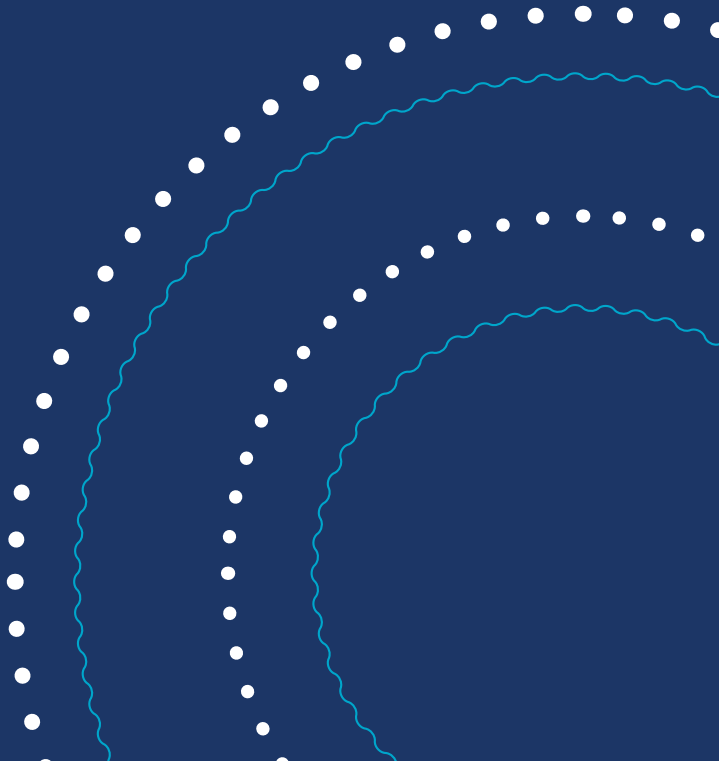
Take a deep dive into the complexities of accounting for franchise property management companies and shine a light on modern financial solutions.



Sage Business Partner

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Introduction

Why franchise property management companies are unique

Just like it sounds, a franchise property management company (PMC) is one that offers professional property management services through a franchise business model. Out of the estimated 300,000 property management companies registered in the United States, several thousand are likely operated through a franchise.

Franchise property management companies make up a unique segment of the short-term rental market.

Franchisees benefit from a pre-existing customer base, brand recognition, access to technologies and proven business practices. At the same time, franchisors benefit from the ability to expand the organization quickly with significantly lower overhead costs compared to traditional methods.

In order to successfully manage the contractual obligations involved in running a franchise PMC, leaders need to have a comprehensive strategy around the financial systems and processes that will be implemented across the entire organization.

What you'll learn

The purpose of this white paper is to provide leaders of these organizations with the knowledge to achieve financial accuracy, streamline accounting and reporting functions, and implement a scalable framework for sustainable growth.



Accounting Challenges for Franchise PMCs

Corporate accounting

At the top level, corporate accounting for a franchise PMC encompasses all of the basic accounting and finance functions found in most organizations. In this sense, it is comparable to the accounting requirements for an enterprise organization with multiple divisions. This includes tracking revenues and expenses, processing accounts payable, managing payroll, maintaining regulatory compliance, developing budgets, and overseeing the company's financial performance, cash flows, debt, and tax strategy.

Perhaps the biggest challenge to address at this level is maintaining visibility across the entire organization with consolidated financials. This is largely due to the fact that collecting all of the necessary data across multiple channels and departments requires seamless processes and on-time delivery from every supporting unit.

As a leader of a franchise property management organization, understanding your company's accounting gives you more power to solve problems and control over your company's financial performance.

Overall, these issues can be grouped into three branches of accounting: corporate, franchise, and trust accounting.

Franchise accounting

Next, franchise accounting is the organization's primary avenue for tracking and collecting revenue. Franchisors need to be able to track the income (typically received as royalties or membership fees) from their franchisees in addition to recording and issuing reimbursements for a portion or all of their expenses, depending on the contractual agreements in place.

The biggest challenge associated with this by far is standardizing accounting and reporting practices companywide. Since franchise data feeds into consolidated financials at the corporate level, implementing a standard method ensures that leaders can compare and aggregate this data easily to perform analysis, budgeting, and planning exercises.

Errors or delays in this process have a ripple effect, impeding visibility and decision making at the top level. Therefore, it's crucial to ensure that franchisees have accurate internal accounting processes and adhere to the same reporting criteria across the board.



Trust accounting

Finally, franchise companies with a focus on short-term rental property management need to factor in trust accounting. While not legally required in every state, trust accounting is widely held as a best practice in the short-term rental management industry because it provides a framework for tracking funds due to owners separately from the property management company's operating funds.

Since only a portion of the revenues received from guests is owed to the property management company, holding these funds in a trust account protects the homeowner's investment and prevents misappropriation of funds. Property managers then need to track expenses that will be deducted from the owner's portion - like channel fees, cleaning fees, or damage waivers - and distinguish unearned revenue from earned revenue.

Unearned revenue typically consists of guest deposits that are received months or weeks before the actual check-in date. Depending on the property's cancellation and refund policy, those revenues could be reimbursed back to the guest before the cutoff date.

It's easy to see how these processes can become extremely intricate as the business expands, which is why it's crucial for every franchise to follow consistent protocols for trust accounting and revenue recognition.

Like a set of Russian dolls, the success of a franchise PMC relies on all of these parts fitting neatly into each other. By proactively working to implement the right systems and processes at each level, leaders can ensure that the organization has the right infrastructure to support its goals.

Additional services offered

Some organizations also provide services to franchisees, such as marketing or accounting. This can be an added value for franchisees, because it helps reduce the need for additional staff and can lower their overhead costs, while ensuring their business follows the correct processes and protocols.

However, this adds another layer of complexity to your financial reporting. If you provide a service, it's important to track how that service is being used, its costs, and any fees that are collected from franchisees in exchange for the service.



Consider these 5 factors

To determine the best approach to manage your franchise PMC's financials, there are five key things to consider:

1. Internal resources:

First and foremost, you'll need to assign and allocate resources to manage the accounting and finance processes. Even if you outsource the day-to-day accounting, it's a good idea to have an internal CFO, Controller, or a Director of Accounting that oversees the company's financial performance and strategy. If you plan to offer additional services to franchisees, you should also identify the resources (internal or outsourced) that will be required to fill that role.

2. Ownership structure:

Second, understand your company's stakeholders and their level of involvement. Are there owners outside of management? How are responsibilities distributed between corporate and franchise owners? The answers to these questions will shape your company's reporting schedule, influence capital and investment planning, and lay the groundwork for corporate governance practices.

3. Reporting requirements:

As mentioned in the previous section, reporting serves an important function for franchise companies. Financial reports from the franchisees provide vital information that guide decisions at the top-level. So, companies need to set parameters around reporting frequency, formatting, and specific metrics that should be included.

On top of standardizing reporting at the franchise level, you should also consider how financial data will be used by the organization's leadership. For example, if you want to view performance data by region or some other characteristics, this should be factored into your framework.

4. Growth targets:

Everything mentioned up to this point revolves around your company's growth strategy. Do you have a specific revenue target you want to achieve within a certain timeframe? What is the company's anticipated business volume? Will the company's property portfolio be relatively homogeneous or diversified? How will the business be distributed geographically? Each of these decisions have financial implications and impact your company's accounting infrastructure.

5. Technology stack:

Finally, proactively thinking about the technology your organization needs to run efficiently will help you avoid ending up with incompatible systems or running into data quality issues. The goal of creating a technology stack is to select software that integrates, saves time, facilitates key business processes, and supports growth.

Plus, knowing in advance which apps work best greatly reduces the time and effort of setting up new franchises and makes it easy to roll out services by simply replicating existing workflows. Some of the key technologies that specifically tie into financial procedures include the property management system, accounting system, payment processors, bill-pay and expense platforms, and payroll software.



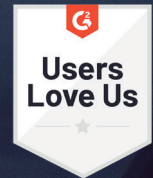
Modern solutions for corporate & franchise accounting

So far, we have discussed the main accounting challenges involved in franchise property management along with the five key factors to consider for successful growth. Taking all of this into account, you might be wondering where to start.

In this section, we're going to highlight a few of the reasons why Sage Intacct is ideally suited to master the complexities of corporate and franchise accounting and maintain a connected financial ecosystem that can adapt to the evolving needs of your business.



Sage Intacct has remained a consistent leader in customer satisfaction on G2 Grid reports since 2015. Sage Intacct is also the only cloud-based financial software preferred by the AICPA.



Multi-entity

Sage Intacct gives business leaders the ability to manage financials across multiple business units and entities within one environment. This means you can easily roll multiple levels of financial data up into a single, top-level view and maintain a single chart of accounts, providing greater visibility and streamlining financial processes across the board.

It's also useful for organizations with diversified portfolios. For example if you also operate a cleaning, interior design, or real estate development business, you'd be able to automate any due-tos and due-froms between these entities and centralize all of the data between them. Moreover, Sage Intacct offers subscriptions and configuration specifically tailored to support franchise business models, which allows franchisees to use the software for a fraction of a typical subscription cost.

Integrations

Sage Intacct is a cloud-based platform with a vast marketplace of integrations and a robust open API, so you can keep all of your business applications tied into your accounting processes. Plus, with Sage Intacct as your single source of truth, you can continue using your preferred apps for billpay, payroll, and operations while reducing errors and improving visibility across all of your accounts.

Unlike traditional, on-premise solutions, Sage Intacct keeps you connected to every aspect of your financial data without the need for manual workarounds or tenuous middleware. This allows you to choose the best technology stack for your organization, improve reporting accuracy, save time, and help your business evolve.

Rental Commissions \$55,505 This year to date ↑ -\$3,351 vs. prior year	Operating Expenses 22,867 This year to date ↑ +22,867 vs. prior year	Net Income \$274,022 This year to date ↑ -\$36,378 vs. prior year	Profit Margin as % of Rents 0% This year to date no change vs. prior year	Cash \$170,451 This month ↑ +\$24,126 vs. prior month	Rental Commissions \$7,715 This month ↑ -\$567 vs. prior month
Operating Expenses \$1,375 This month ↑ -\$75 vs. prior month	Payroll & Related Expense 11,159 This year to date ↑ +11,150 vs. prior year	Net Income \$35,540 This month ↑ -\$2,258 vs. prior month	Profit Margin as % of Rents 0% This month no change vs. prior month		

X - Profit & Loss - YTD by Month (VRM Co.)
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	Month Ending 01/31/2019	Month Ending 02/28/2019	Month Ending 03/31/2019	Month Ending 04/30/2019	Month Ending 05/31/2019	Month Ending 06/30/2019	Month Ending 07/31/2019	Month Ending 08/31/2019	Month Ending 09/30/2019	Month Ending 10/31/2019	Month Ending 11/30/2019	Year to Date
Rental Revenue, Net	4,390	8,883	10,950	13,021	18,651	16,730	17,245	21,062	19,511	23,939	24,521	149,563
Revenue	5,854	9,178	14,630	17,362	25,135	23,942	21,420	68,117	25,601	30,395	32,923	249,110
Expenses	1,464	2,295	3,680	4,341	6,284	7,212	4,175	19,055	6,090	6,399	6,402	67,258
Net Income	2,926	6,883	10,950	13,021	18,651	16,730	17,245	21,062	19,511	23,939	24,521	149,563

Reporting capabilities

When it comes to flexible, in-depth reporting for large organizations, Sage Intacct is best in its class. Dimensions and tagging allow you to track custom fields and automatically tag transactions to specific locations and departments, while interactive charts and tables make it easy to navigate all this data.

Create and customize reports and build role-based dashboards on the fly that you can filter, hover to enhance the details, and click to drill down into the source data. Data is updated in near real-time, so leaders maintain visibility across the entire organization and gain invaluable insights into the health of the organization when it's needed most.

Rather than spending days or weeks to consolidate, clean, and assemble financial statements, Sage Intacct allows you to access time-sensitive information to drive faster, clearer decision-making.

Sage Intacct Budgeting & Planning

For teams who want to grow quickly and leverage even more robust forecasting, Sage Intacct Planning is an optional add-on that eliminates reliance on inflexible spreadsheets and replaces them with an agile, cloud-based tool for collaboration.

Overcome budgeting frustrations, quickly compare and model different scenarios, and incorporate custom formulas to free up time to focus on strategy and analysis.

Plus, the Intelligent Planning Wizard will sync your chart of accounts and walk you through the steps to start building a custom plan in minutes. This module also includes a report-builder, rolling forecasts, and collaborative dashboards to help visualize the impact of key decisions, obtain buy-in from other departments, and quickly course-correct.

Dedicated partner ecosystem

Finally, one key benefit of Sage Intacct that is not a feature of the software itself but should not be overlooked is the ability to work with an accounting firm that specializes in serving hospitality organizations with Sage Intacct.

Property management franchise leaders can leverage Sage Intacct's **partner ecosystem** to receive industry-focused onboarding, training, and a configuration tailored to your company's specific requirements and objectives.

This personalized approach ensures that you get the most out of the software, enabling you to streamline your operations, improve efficiency, and make more informed business decisions.

Franchise PMC Accounting 101:

PRIMARY ACCOUNTING CHALLENGES:

Corporate Accounting

Standard company accounting: tracking revenues, expenses, income, cash flows, distributions, etc.

Franchise Accounting







Processing transactions between franchisees and the company, such as royalties and reimbursements.

Trust Accounting

Management of owner funds, withdrawals, and payments for short-term rental properties.

PLANNING CONSIDERATIONS:

ACCOUNTING CHECKLIST:

 Internal Resources	Who is going to be in charge of the accounting?	<input type="checkbox"/> Multi-Entity	Consolidate accounting resources
 Growth Targets	How quickly will you scale?	<input type="checkbox"/> Franchise Model	Built for your entire organization
 Ownership Structure	Are there stakeholder requirements?	<input type="checkbox"/> Software Integrations	Keep your systems connected
 Reporting Requirements	Formatting, frequency, controls	<input type="checkbox"/> Reporting Capabilities	Drill down with custom analytics and dashboards
 Technology Stack	Efficient, compatible, industry proven	<input type="checkbox"/> Budgeting & Planning	Strategize future scenarios
 Additional Services	Will you provide services to franchisees?	<input type="checkbox"/> Accountant Network	Find experts in your industry



Now that you have a better understanding of the core challenges of accounting for a franchise PMC, let's explore the ways that an outsourced accounting firm can help you manage all of these aspects at scale and create additional value for franchisees and stakeholders.

Accelerate with accounting services

Skip the learning curve

Every company experiences a learning curve associated with accounting and finance, especially given the complex nature of short-term rentals and franchise organizations. As your company evolves, new challenges will always crop up, and outsourcing with a team that's already familiar with the industry allows you to skip the learning curve and instantly adopt best practices without the need for trial and error.

Experienced team

Bringing on and training new employees requires significant time and resources, which can slow down productivity, increase the potential for errors, and of course cause disruptions in the event of turnover. For a function as crucial as accounting, these types of setbacks can create significant bottlenecks.

An outsourced team, on the other hand, is trained before they ever come into contact with your business, and there is always coverage. So, you won't have to worry about putting a day's worth of work on hold because someone is out sick.

Access to professional software

We mentioned the importance of having an integrated, fit-for-purpose technology stack, and this on its own can be a significant undertaking. Luckily, when you work with an outsourced accounting firm, by default you also gain the benefit of using technology that has been thoroughly vetted and configured to your business.

In many cases, working through an accounting firm also grants you a discounted rate to use the software for your company as well as your franchisees.



Prompt financial reporting

When teams are spread thin, it's not uncommon for financial reporting to take a backseat as more pressing action items take priority. However, this usually means that financial reports only rise to the top of the to-do list when there is an urgent need for them. Leadership that's stuck in a reactive mode leads to missed opportunities, hinders the company's ability to adapt, and stifles long-range thinking.

Accounting firms that provide routine financial reporting can help your team continue to focus on operational targets without losing sight of key performance indicators. This adds value for leaders and stakeholders by staying ahead of potential threats and capitalizing on market shifts.

Offer additional value to franchisees

Up to this point, we have primarily focused on solutions for the franchisor, but franchisees need just as much help. Since they will encounter similar pitfalls around trust accounting, owner statements, expense management, and reporting,

offering accounting services is a way to create additional value to your members.

You can achieve this by working with an accounting firm to offer a pre-packaged scope of services specifically tailored to their needs. This not only creates a compelling value proposition for new franchisees and removes barriers to growth, but it also ensures that accounting is done accurately and up to your standards at all levels of the organization.

Overall, outsourcing these functions with an experienced accounting firm is a great option for leaders who want to benefit from a wealth of industry-specific knowledge, enhance your processes with professional software, and manage your back office operations efficiently for successful growth and expansion.

Summary

Just like the business itself, accounting for a franchise property management company is multifaceted.

Rather than bolting on different systems and processes over time, the ideal solution is to have one financial management system that keeps leaders plugged into finance and operations across time and space.

Sage Intacct offers an ideal solution for franchise and corporate accounting with a scalable digital infrastructure, flexible integrations, and rich reporting capabilities, all supported by a vast partner ecosystem.

Work with a Certified Sage Partner

Let Ximplifi's dedicated staff guide you through the implementation and onboarding process, provide training for your team, and if needed, manage everything from trust accounting and owner statements to monthly reconciliations, payroll, lodging tax reporting, accounts payable, and financial reporting.

From software configuration to fully outsourced accounting and CFO advisory, Ximplifi has years of experience helping property management organizations and franchises solve their accounting and finance challenges.

To learn more about Ximplifi's accounting services for franchise hospitality organizations, **get in touch with our team today at www.ximplifi.com.**