

Synergy Franchise Group, LLC



"Furthering Franchising Through Education & Communication™"

Succeed Again in 2010!

What Are Your Real Numbers?

What is the real cost to recruit franchisees?

This question is a great one and one with as many answers as there are franchisors, consultants, brokers and franchise sales teams combined.

At the end of this article I have put some examples using numbers presented during the Franchise-Update Leadership and Development Conference in Chicago (which any franchisor; new, young or mature, should be attending). It was reported there are over 100 different portals available. I would suggest there are probably many more when you include sub sites and cross linking techniques.

The best portals are the ones who do or are willing to commit money for you in your particular industry and/or segment to generate "leads" you feel could be potential franchisees for your system.

Additionally, to the second part of the question, there are hundreds of newspapers, dozens of magazines and a few trade show promoters.

The best magazines, newspapers and other media to consider are again those who are targeting people you are looking to attract. In magazines it may be running an ad in a month where the editorial focus may attract more readers who fit the criteria you are looking for in a franchisee. In newspapers it could be running small ads in a particular city you are looking to expand or introduce your brand in (hint; there is rarely a need to run more than a 5- 7 line ad in most papers).

One method often overlooked and under used is public relations, whether done in house or engaging the services of a PR firm, specializing in franchising.

To figure out which methods are best for you (and it will most likely be a combination of several, if not all, of the above) you will need to know **your real numbers**. Here is a formula to use as a guide.

Take the number of franchisees you are looking to recruit in 2010; divided by your cost per sale (include only the "lead" generation portion. If you do not know it, drop me a line and I will help you figure it out); divided by your recruitment budget for 2010 (again only the portion you apply to "lead" generation) and the answer will be the number of franchisees you can expect to recruit based on the budget you set up. These should be **your real numbers**.

You will also need to know the cost per “lead” of each “lead” generation method you employ in order to find the most cost effective and result producing methods to continue employing.

If the number of franchisees you are able to recruit is not more than or at least equal to your goal; you will need to make some decisions; a higher budget, reduce your goals or maximize the use of your financial resources to make sure you are getting the best bang for your money. I feel this is the best approach.

It is critical to know and use **your real numbers** because figures released at the Franchise-Update Leadership and Development Conference in Chicago will most likely not apply to any one franchisor and should be looked at only as snap shots.

At the conference the “median” cost per lead (if you do not know what a “lead” is defined as, I would be happy to help you so you can determine your costs more precisely) were \$43 and the “average” cost \$70.

The median recruitment budget for 2010 presented will be \$88,000 (down a whopping \$50,000 from 2009) and the average will be \$162,000 (down \$36,000 from 2009).

The 2009 **median** cost for sale as reported was \$7200 and the **average** reported was \$8200

If you take those figures through the recruitment process you would take the budget, \$88,000 or \$162,000 and divide it by \$43 or \$70 (median/average cost per “lead”) and the resulting number would fall between 2000 and 3700 “leads” generated with those budget numbers depending how you use the median and average figures and how you define a “lead”. (I will be happy to help define “lead” for your system)

If your “closing” rate is 1% of generated “leads” you should recruit 20 - 37 new franchisees. If your “closing” rate is 2% the number of new franchisees should be 40 - 74, 3% the number is 60 – 110 and so on. Then divide the number of franchisees recruited into the \$88,000 median 2010 recruitment budget, you will get a cost per sale range of \$4400 for each of the 20 franchisees recruited and \$800 for each of the 110 franchisees recruited. For the \$162,000 average recruitment budget the cost per sale range would be \$8100 for 20 franchisees recruited and \$1470 cost per sale for 110 franchisees recruited. This represents a cost per sale spread of almost \$3600 using the \$88,000 median 2010 recruitment budget and over \$6000 for the \$162,000, 2010 average recruitment budget. Depending on how you “use” the numbers, you can see the gap can be quite significant. You can clearly see how vital it is to know **your real numbers**.

The following examples use the median numbers, meaning half of franchisors would be above those numbers and half of franchisors would be below those numbers. Using averages would be very distorting; and besides when asked who thinks they are average (vs. good or great) few ever want to admit to being average.

Example 1:

$\$88,000$ (median budget for 2010) / $\$43$ (median “lead” cost) = 2046 “leads” generated with the budgeted amount.

Example 2:

$\$88,000$ (median budget for 2010) / $\$7000$ (median cost of sale) = 12 (franchisees recruited)

Example 3:

2046 (“leads” generated using median cost per lead) x 1% (“closing” rate) = 20 (new franchisees recruited in 2010).

2046 (“leads” generated using median cost per lead) x 2% (“closing” rate) = 41 (new franchisees recruited in 2010).

2046 (“leads” generated using median cost per lead) x 3% (“closing” rate) = 61 (new franchisees recruited in 2010).

Example 4:

\$88,000 (budget) divided by 20 (franchisees recruited using 1% “close” rate of 2046 leads) = \$4400 (recruiting cost per sale)

\$88,000 (budget) divided by 41 (franchisees using 2% “close” rate) = \$2146 (recruiting cost per sale)

\$88,000 (budget) divided by 61 (franchisees using 3% “close” rate) = \$1442 (recruiting cost per sale)

Which of these examples, if any, best represents the numbers you can or should use for recruiting franchisees in 2010? I would suggest again, if the number of franchisees you are looking to recruit in 2010 does not equal or exceed your goals when using **your real numbers**, you will need to make decisions to bring your expectations in line with your situation.

Other numbers presented at the conference said 116 franchisors (number of survey respondents) planned on adding another 5360 franchise units in 2009. Applying the **median** numbers we have been using, **each** of the 116 franchisors will recruit an additional 46 franchisees in 2009 (5360 divided by 116)

Applying the median numbers again, you would come up with; 5360 (new zees) x \$7000 (median cost per sale) = \$37,520,000 (yes million, total recruitment costs of the 116 franchisors) and divide that by the 116 (franchisors responding) = \$323,448 (recruiting budget per franchisor). This is 367% of the median recruitment budget and double the average (\$162,000) franchisors are planning to spend on recruitment in 2010.

The bottom line as it relates to recruiting franchisees in 2010; every franchisor needs to know what their goals are, what their “closing” rate % is; the number of “leads” required based on the “closing” rates to reach their goals; the cost per “lead” as each franchisor defines one; and the amount of money needed (the budget) to generate those “leads”.

Knowing **your real numbers** will go along way to putting you on the right path towards achieving your 2010 goals.

If Synergy Franchise Group can be of any assistance or you have any questions, please feel free to contact us.

Remember: Succeed Again in 2010!

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