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HOW TO CREATE A FRANCHISE SALES BREAKTHROUGH. **GUARANTEED.**

The Business of Franchising

Franchising is a business unto itself. The second a franchisor decides to use franchising as an expansion strategy, they have entered a second line of business with its own set of strategies, tactics and best practices. All franchisors are materially in the same business: maximizing recurring revenue streams. But not every recurring revenue dollar has the same margin attached to it. Successful franchisees make the greatest contribution to recurring revenue. They also consume the least amount of the franchisor's time and resources.

Successful franchisees are the franchisor's high-margin repeat "customers." They validate the brand, establish a defensible position in the marketplace, create "raving fan" customers and help the franchisor elevate the brand to iconic status. Conversely, underperforming franchisees contribute fewer recurring revenue dollars than their more successful brethren, and they put a heavy burden on the franchisor's infrastructure and financial resources. They often scare away new investors with negative validation and turn customers off with poor execution. They are the franchisor's low-margin and high maintenance customers.

It's your franchise recruitment department's job to accurately and quickly distinguish and predict which franchise candidates fall into which buckets. It's crucial for them to maximize recruitment by choosing candidates who have a high probability of winning and to minimize — or altogether eliminate — franchisees who struggle, or worse, don't make it.

Start with a Strong Foundation

The ultimate goal of every franchisor should be to create a meaningful brand built on the successes of top performing franchisees. This is never achieved by selling franchises to anyone willing to buy one, but by recruiting a high performance team of successful franchisees.

Only franchisors who succeed in recruiting, training, and developing a high performance team of franchisees and work to ensure strong unit-level economics hit breakthroughs.

Franchise Performance Group (FPG) believes franchise sales breakthroughs begin with strong unit-level economics and workable, trusting franchisee relationships.

If you want to create a breakthrough but consistently break down on these foundational pillars, you will need to fix these issues first. Breakthroughs don't happen on a cracked foundation.

With every franchisee you sign, you either strengthen or weaken your brand's foundation and position in the marketplace. As long as your franchise model consistently produces strong returns and franchisees feel valued and execute well, the brand will grow. Once your foundational pillars are strongly in place, shift your attention and apply resources to whatever it takes to drive your franchisee recruitment results.

5 Keys to Creating a Franchise Sales Breakthrough

To achieve a breakthrough, your franchise development team must excel in five key areas. If your team falls down in even one area, your results can be chopped in half or worse. Those key areas are:

1. Lead Generation

How do you intersect franchise buyers who value what you have at their point of interest?

2. Franchise Recruitment Process

How franchise candidate learn about your business over time? How do you determine if you each fit what the other is looking for? *Is the recruitment process consistent with the candidates' franchise buying process?*

3. Effective Franchise Recruiters

How effective is your team at recruiting top quality franchise candidates and avoiding costly franchisee recruitment mistakes? How effective are they at telling your brand story and moving candidates through the process towards closure?

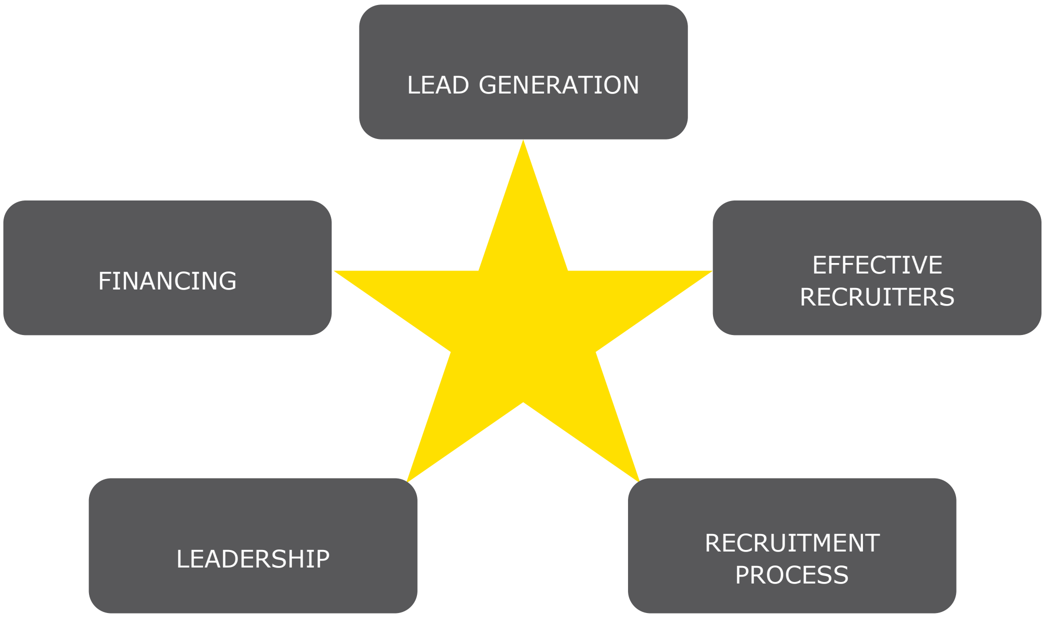
4. Departmental Leadership

How is the franchise development team managed? How does the leader track effectiveness? How does the leader conduct pipeline reviews? What is the culture and philosophy of the department?

5. Financing

Are key banking and financing relationships in place, ready to provide franchisees with easy access to start-up and expansion capital?

Franchisee Recruitment Winning Formula



Key One: Cost Effective Lead Generation

Always Remember, You Don't Leads, You Want Franchises

There are two types of leads: those who buy and those who don't. Franchise buyers behave very differently than non-buyers. At FPG, our sole focus is on attracting qualified franchise buyers. Sure, other leads come along for the ride; they request more information and then fall off the radar screen. It's a natural part of the process. But the goal is to maximize the conversations you hold with qualified franchise buyers who're a good fit for your franchise opportunity.

How Many Leads Does It Take to Recruit a High Quality Franchisee?

It takes only one lead to recruit the right franchisee – the right lead.

FPG's lead generation tools, tactics and strategies are designed to get your story in front of candidates who are a good fit for your business. Specifically, these candidates:

- Are capitalized properly
- Have the right skills, experience and education
- Possess a positive sense of urgency and seek to make a decision within the next 90 days
- Fit the company culture
- Have what it takes to win
- Are willing to do what it takes

That's the difference between "Franchise Buyer Generation," which FPG advocates and practices, and lead generation, which is how most other franchisors and suppliers think. Start by knowing who is a fit and what a successful franchisee looks like. Again, others will come into the pipeline, so you have to be disciplined when you interview, screen and guide prospects so that you can quickly and correctly identify who's who and invite as many potential successful franchise buyers into your pipeline as possible.

Franchise Buyer Generation is Simple

Master franchise buyer generation, not lead generation.

All you have to do is intersect a qualified person who values what you offer at the time they are looking for an opportunity like yours. It's just that simple. But it isn't easy.

Why Yesterday's Winning Formula is Today's Failed Strategy

The 2007 paradigm shift in residential real estate buying behavior is the same shift that is now occurring in franchise buying behavior.

In 2007, the National Association of Realtors (NAR) published a study that clearly pointed out how the internet completely transformed buying behavior in the real estate industry. The real estate agent was fired as gatekeeper of real estate in favor of a more self-directed buying process that relies on websites such as Realtor.com and Zillow. The residential real estate inventory of available homes, once kept under tight wraps in a Realtor-controlled MLS directory, was now available to anyone online. This open access to information altered the buying process forever. After deciding which homes, in which cities, in which neighborhoods and in what price range they wanted to see, home buyers only then contacted the real estate agent. Real estate agents now came into the picture last, rather than first. Agents who couldn't make the transition from "gatekeeper of information and lord of the sales process" to "home-buying facilitator" are doing something else.

A similar phenomenon has happened in the franchise sales industry.

Franchise Sales People are Fired Too

Why is it so hard to reach and engage good leads? You've been fired as gatekeeper of your brand story and replaced with available content on your franchise opportunity website. Unfortunately, many franchisors haven't listened to the market. They're getting left behind.

We tell our clients to think of it this way: You now conduct your first conversations with a franchise candidate on your franchise opportunity website. If the candidate can't tell from that website why your business is unique, profitable, valuable, sustainable for the long haul and a wise place to invest money, they are going to assume it isn't. They'll quickly move on from your website and find one a franchise that meets those criteria. If you don't recruit franchisees in a way that's consistent with how franchisees now investigate businesses, you lose. Period.

Most buyers are ready to sit down and have a robust conversation about the business via the website information. However, many franchisors look at these buyers as if they were walking the floors in a franchise opportunity trade show. These franchisors try to keep the conversations brief by creating skimpy websites, try to grab names and let the franchise salespeople sort through them later.

But this isn't what the buyers want. Too many franchisors are ignoring the new way franchise buyers are making investment decisions. This misalignment kills deals.

If you haven't already overhauled your recruitment tools, processes and systems and retrained your franchisee recruiters to operate inside the new self-directed franchise buying paradigm, you are losing good franchisees to other chains, including your competition.

The Old Way Franchisors Think About Lead Generation (Franchise Salesperson as Gatekeeper)

Old-school franchisors say, "We just whet the franchise buyers' appetite for information, but if they want the story, we make them talk to us." Under this model, franchisors falsely believe they are still the gatekeepers of information in a franchisor-controlled franchise sales process, rather than a role player in the franchise candidate-controlled franchise buying process. Franchisors who think this way forget what the candidate is requesting.

Candidates fill out forms saying, "Request more information," not "Request conversation."

In the new era of franchise buyer generation, you earn conversations with qualified franchise buyers by engaging them with your website content.

If you are going to make a mistake, err on the side of offering the buyer too much information. What's the downside? There isn't one. Some franchise salespeople seem to fear franchise buyers may stay on their franchise sales websites longer and become too informed and too engaged, diminishing their role in the process. But they're shooting themselves in the foot. An informed franchise candidate is much more likely to connect with your brand story, self-qualify, engage with you, and make an investment in the franchise.

The Winning Way to Think about Lead Generation

Think of your advertising budget as little bread crumbs, allowing you to spread your franchisor's value proposition and brand message all over the web and to intersect your target franchise candidate while they're searching for a business like yours. Make it easy for your prospects to get to your franchise opportunity website in one click. Design and write the website in a way that engages and immerses franchise buyers in your brand story.

When a visitor first comes to your franchise opportunity website, consider this your one shot to make a compelling case that explains why your business is unique, defensible against competition, necessary and valuable to your customers, profitable for your franchisees and sustainable for the long haul.

Think about your franchise opportunity website as an executive summary of a business plan. If you were going to raise capital for your franchisor, you would need to write a business plan. The first section would provide potential investors a thorough, high-level overview about how the franchisor makes money. If investors were interested, the details would be behind the summary. You would earn the investor's confidence, consideration and conversation with the robustness of the content you provided about your business.

Your website provides the executive summary. Your recruitment process provides the details.

Lead Generation vs Lead Conversion

A franchise opportunity site is as much a lead conversion tool as it is a lead generation tool.

It's where qualified franchise leads, who first hear about your business through search engines, personal referrals, social media, print media, franchise portals, trade shows, franchise brokers and other advertising and lead generation vehicles, go to dig into details and hear the rest of your brand story.

A strong website with little traffic is not effective. Conversely, a strong lead generation campaign with a website that converts at 2% will produce similarly poor results.

You need both a solid lead generation campaign and an effective franchise opportunity website to create a breakthrough.

A strong website with a well-told brand story creates "pull demand." Rather than having your franchisee recruiters running around chasing leads trying to create call-backs, a strong website with an engaging and well-told brand story makes qualified franchise candidates want to talk to you. They take calls. They return calls. They go further in the process. Most importantly, they invest in franchises and go into business with their eyes wide open.

A strong franchise opportunity website creates "pull demand," resulting in a steady stream of qualified franchise candidates who value what you have and want to talk to you about your opportunity.

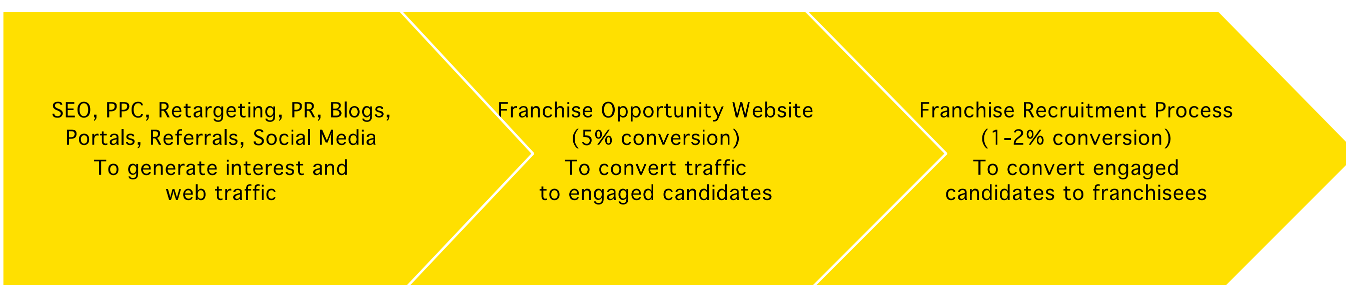
New 'Non-Franchise Broker' Lead Generation Conversion Metrics

High in the sales funnel, franchise buyers want information, not conversation. Content earns conversation.

Therefore, the purpose of advertising is to drive lead generation traffic to your website. The purpose of the website is to convert lead traffic into engaged buyers eager to hold conversations with your franchisee recruiters.

The new deal-flow metrics for non-franchise broker leads are as follows:

It takes approximately 2,000 unique visitors to your franchise opportunity website to generate 100 leads. It takes approximately 100 leads to generate 1-2 Franchise Buyers.

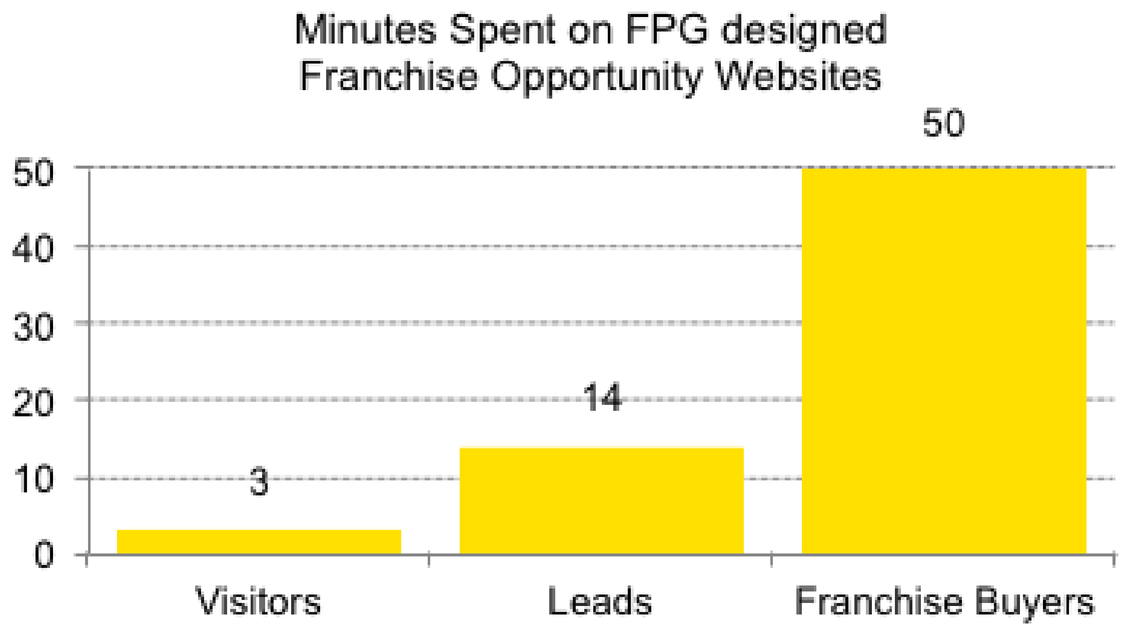


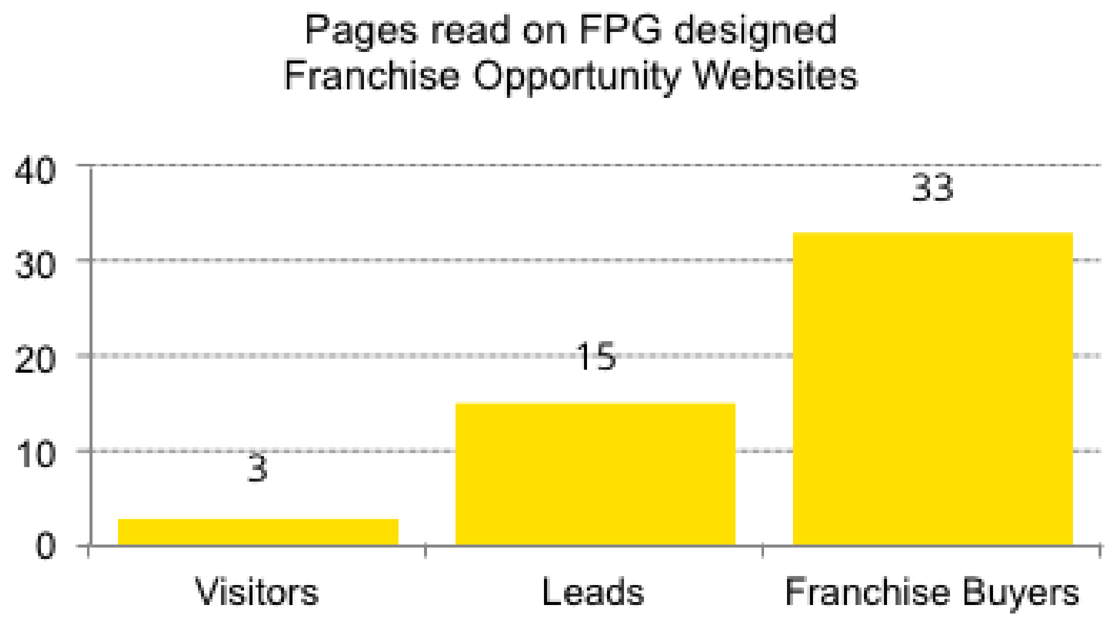
Visitors, Leads and Buyers

All traffic to your franchise opportunity website can be chunked into three buckets:

1. Visitors: those who go to your website but don't leave contact information.
2. Leads: those who leave contact information but don't invest in your franchise.
3. Buyers: those who invest in your franchise. This bucket is the only one you should care about.

FPG tracked individual IP addresses of those who invested in our clients' franchise opportunity websites and studied the differences in behavior. Here's what we learned:


Minutes Spent on FPG designed Franchise Opportunity Websites
50
40
30
20
10
0
3
14
50
Visitors
Leads
Franchise Buyers


Pages read on FPG designed Franchise Opportunity Websites
40
30
20
10
0
3
15
33
Visitors
Leads
Franchise Buyers

Buyers spent more than 3 times the amount of time on a franchisor's website than anyone else.

Many franchise opportunity websites hold enough content to generate leads but not enough to engage buyers.

We also studied reading behavior. Visitors spent 3 minutes on the site and skimmed 3-4 pages, or about 1 minute per page.

Leads spent 14 minutes on the site and skimmed about 15 pages — about 1 minute per page.

Buyers were different. Buyers read over 30 pages and spent about 2 minutes per page.

Buyers Read. Everyone Else Skims.

Go to your site right now. Is it designed for skimmers or buyers? Do you have only 100-200 words per page and simple graphics and bullet points? Or do you have over 1,000 words of well-written content per page that intrigues franchise buyers with a gripping brand story?

Can you see the design implications?

Can you see the copy implications?

Do you see why your website is killing deals?

The Cost of a Poorly Designed Website

Your franchise opportunity website has only one function: to convert visitors to engaged leads who leave contact information with the intention of holding at least one conversation with your franchisee recruitment team.

Therefore, you can evaluate the effectiveness of your site with a single metric: unique visitors-to-leads conversion ratio, or the percent of unique visitors each month who leave their contact information.

Few qualified franchise buyers will bypass your website and opt to talk to a franchise salesperson instead. Almost all leads generated by your advertising spending are first making a stop on your website before they let you know who they are.

A poorly performing website kills deals.

Using Your Website to Create Leverage

Most of the websites FPG designs convert 5% or more of unique visitors who fill out the form and request more information. They are represented in the black band. Most of the sites we replace convert 2% or less, represented in the yellow band. Keep in mind, while the "unique visitor-to-lead" conversion metric skyrockets, the "lead-to-close" ratio almost always remains the same or goes up. This means more leads directly translates into significantly more deals.

Assuming 2,000 Unique Visitors Per Month, what is your ROI?

Unique Visitor-to-lead Conversion rate	Leads per month	Lead-to-close ratio	Number of Franchisees Recruited per year	Franchise Fee Revenue Per year ($30K FF)
1%	20	1%	2-3	$60-90K
2%	40	1%	4-5	$120-150K
3%	60	1%	7	$210K
4%	80	1%	10	$300K
5% (FPG Difference)	100+	1%	12+	$360K++

What is my lost opportunity?

That's not the right question. Use this chart to determine how much is your current website costing you in lost business. *Your lost opportunity is in the red.*

Unique Visitor-to- lead Conversion rate	Leads per year	Lead-to-close ratio	Number of Franchisees recruited per year	Franchise Fee	Franchise Fee Revenue Per year
5%					

To capture your lost opportunity, an investment in an FPG-designed franchise opportunity website which historically converts at 5% or more, is $29,000. Most franchisors recapture their investment through increased franchise fee revenue in less than 6 months.

A well-designed franchise opportunity website is a revenue-generator and money-maker. A poorly designed website is a money pit that costs hundreds of thousands of dollars in lost franchise fees and royalty revenues.

Where to Budget my Advertising Dollars

At FPG we break down ad dollars in two ways: cost effectiveness (how much in advertising dollars spent to recruit one franchisee) and highest probability of a close (most effective use of franchisee recruiter's time).

TOP PRIORITY:

SEO, PPC, PR, content streams, social media, referrals, franchise opportunity website, retargeting, email blasts. With the exception of referrals, franchisors report closing 1-2% of these leads. Referrals can close as high as 4-5%. With the exception of referrals, franchisors can expect to spend $8,000-$12,000 in advertising for each franchisee they recruit.

SECOND PRIORITY:

Franchise Portals. Franchisors report closing approximately .4% of these leads, or one close for each 250 leads. Franchisors can expect to spend an average of $10,000 in advertising for each franchisee they recruit.

THIRD PRIORITY:

Franchise Broker Networks. Franchisors will close 5-8% of franchise broker leads, which, aside from direct referrals, will likely be their most efficient use of time. Broker fees have climbed to the ballpark of $25,000 for a single unit or territory and will escalate from there. These are a franchisor's most expensive deals. This is why FPG recommends that franchisors maximize their organic and paid advertising opportunities prior to engaging franchise brokers. Many franchisors recruit 75% or more of their franchisees through broker networks. FPG is a strong believer in the effectiveness and the quality of candidates of franchise broker networks. We rank them lower simply based on a cost-per-deal basis. We believe in maximizing a franchisor's most cost effective lead generation channels first and then layering in broker networks as an insurance policy. But we do believe most franchisors will benefit from broker relationships. Lowest priority: Franchise Opportunity Shows (IFE), Print, Radio and Seminars. These produce inconsistent results.

Key Two: Effective Franchisee Recruitment Process

The franchise recruitment process encompasses every conversation and form of content from the moment a lead is generated to the time a franchise agreement is successfully signed.

If a franchisor's recruiting process is inconsistent with the franchisees' buying process, deals don't happen. Too often, heavy-handed franchisors make qualified franchise candidates jump through too many hoops before they hold a conversation and answer the candidate's questions.

The best franchisors make their franchisee recruitment process consistent with the candidate's franchise buying process.

Common mistakes include:

1. Slow or Inconsistent Follow-Up.

Leads need to be reached by phone or email on the same day the lead is received and again in 24 hours. Smart franchisors create an automatic content campaign designed to reach and engage candidates and encourage a conversation with their recruitment team. Smart franchisors use a combination of phone calls, texts and emails to create contact.

2. Sales Process Doesn't Resemble the Buying Process.

The franchisor often becomes heavy handed and makes too many demands of the franchise candidate before they engage the candidate on any meaningful level. For instance, one franchisor demanded candidates disclose their personal financial information before they would engage in a conversation. When we challenged the franchisor on this practice, the VP said, "I don't want to waste my time unless I know someone is real," seemingly oblivious to the fact that the candidate doesn't want to waste time filling out paperwork if the franchise opportunity doesn't look real.

3. Too Much Conversation and Too Little Content.

Conversations have little staying power. Smart franchisors design key pieces of content to help educate the franchise candidate about the opportunity, help navigate the franchise candidate through the process or tie down key elements of their business model. For instance, many FPG clients use excerpts from Street Smart Franchising such as How to Read a FDD and Key Questions to Ask Franchisees. In the past we've created tutorial videos of the CFO discussing the Item 19 and reality TV-style videos of sales calls to help dispel any false beliefs that sales-reluctant franchise candidates might have about what it would be like to make sales calls. We also helped one food service franchisor grant franchise candidates internet access to security cameras to watch customer engagement and customer counts during peak hours at their restaurants.

4. Poor Emotional Pacing.

The franchise salesperson sells hard, which causes the franchise candidate to peak too early in the process; they won't have enough depth of information to sustain the emotional high. Franchise salespeople try to get the candidate excited about the product or business rather than simply show how their objectives can be met as a franchisee. Their process seems to be "sell the application," then "sell Discovery Day" and, lastly, "Sell the franchise at Discovery Day."

Elements of a Buyer-Friendly Franchisee Recruitment Process

A well-oiled and buyer-friendly process will often have at least eight steps

STEP ONE: YOUR FRANCHISE OPPORTUNITY WEBSITE

FPG thinks of your franchise candidates' visit to your website as your "first conversation." This is a franchisor's one opportunity to explain why their business is unique, profitable, necessary, defensible against competition and sustainable for the long haul. As we demonstrated earlier, franchise buyers have big appetites for transparent, believable franchise information. Err on the side of presenting too much information.

STEP TWO: PRE-QUALIFICATION

When the lead screener or franchisee recruiter reaches a candidate, they should ask four or five key questions designed to make sure the franchise candidate is a good possible fit for the opportunity. FPG recruiters ask key questions: What are your reasons for looking for a business? What's your timeline? Where is your preferred geographic area? What is your liquidity and net worth? If the candidate is qualified, we invite them into the process, schedule what the "getting to know you" call and send out a meeting invitation.

STEP THREE: GETTING TO KNOW YOU CALL (CANDIDATE INTERVIEW AND OVERVIEW OF THE CONCEPT)

This is a 45- to 60-minute call that breaks down into a 20- to 30-minute interview and a 20- to 30-minute introduction of the franchise opportunity. Skilled recruiters always interview the candidate before discussing the franchise opportunity, correctly understanding that the franchise candidate doesn't really want a business, they want the results. Skilled recruiters ask questions designed to help them understand the candidate's experience, strengths, skills and capitalization. They will then show how these attributes may be translated into success as a franchisee of the concept, creating the possibility of a match. Skilled recruiters know "creating a possibility," not a "delivering a sales pitch" is the glue that holds the process together and keeps candidates engaged. And acting as a facilitator rather than a salesperson is the key to creating credibility and trust.

STEP FOUR: THE WINNING FORMULA

The candidate moves into an educational step where the franchisee recruiter teaches them how the business model works and what levers they need to pull every day in order to win. During this phase, franchise candidates explore tools such as advertising to penetrate new markets and drive revenue, delivery of the product or service to satisfy customers, how to hire and retain good help, how to manage the business according to Key Performance Indicators (KPI) and how the franchisee and franchisor work together to win. We review Item 19 financial performance representations to demonstrate results. These are usually PowerPoint presentations with supplemental PDFs or perhaps video tutorials. Afterwards, franchise candidates fill out the qualification form in order to receive the FDD. If a candidate doesn't submit the qualification form, the process ends.

STEP FIVE: FDD REVIEW

During this phase, the franchise candidate and recruiter review the first 23 items of the FDD. The recruiter points out the most saleable content within the FDD — the bios of the leadership, breakdown of the startup costs, protected territory definitions, little-to-no litigation, no bankruptcies, Item 19 Financial Performance Representations, etc. The recruiter may even point out potential deal-killers and explain why, from the franchisor's perspective, the FDD includes information such as personal guarantees, product restrictions and other strict terms and conditions. The key idea during this step is to take the potential sting or shock out of the document and keep the franchise candidate engaged in problem-solving.

Smart franchisors will be open to feedback and negotiate certain terms to keep a qualified franchise candidate in the game. Too many franchisors dig in their heels and say, "We don't negotiate. Like it or lump it." We find that franchisors' attorneys often go overboard and try to protect the franchisor from every possible calamity. Smart franchisors listen to the franchise candidates feedback and think, "What am I really giving up? What is the likelihood we will need to enforce that protection or clause? What is the lifetime financial benefit of onboarding this franchisee? Is the reward worth the risk?"

Too many franchisors give franchise attorneys too much veto power without really assessing business risk. It's the attorney's job to identify and eliminate risk. They only work the risk side of the ledger, not the reward side, so their feedback is often skewed. It's the leader's job to evaluate the financial risk vs. the potential reward and make an executive decision accordingly. I've never met a franchise attorney whose malpractice insurance covered business consulting. Smart franchisors listen intently to a franchise candidate's attorney feedback in order to create an FDD that provides the franchisor necessary protections but doesn't kill deals in the process. The right balance leaves the franchise candidate's attorney thinking, "I don't like it… but I can live with it."

STEP SIX: FRANCHISEE VALIDATION

Where all the other steps are completed with one or two conversations, the validation step may go on for 1 to 2 months, and the recruiter may talk to a candidate 4-12 times. This is a multi-phase step during which time franchise candidates move away from the franchisee recruiter's hypothetical explanation about how the business works to where the rubber meets the road. They discover how the business works in practice. During this step, a franchise candidate is going to check the following boxes:

- Do financial projections meet or exceed my expectations?
- Will my skills, background, strengths and experience translate into success?
- Do I fit in with the other franchisees? Do I fit the culture of the company?
- Do franchisees appear to have trusting and workable relationships with the franchisor?
- Did I apply for and receive approval on financing?

While the other steps are linear, validation has a tendency to be somewhat nonlinear. The boxes will all eventually get checked, but they often get checked at different times and in a different order.

STEP SEVEN: DISCOVERY DAY

FPG likes Discovery Days. Different franchisors call it different things, like "Meet the Team," "Validation Day," "Orientation Day" or whatever catchphrase meets their fancy. We like candidates to be 80-90% on board prior to coming to Discovery Day. We find the most effective Discovery Days to be 50% presentation and 50% question-and-answer. A Discovery Day event may be the one and only time a franchise candidate can look each leader dead in the eye and ask tough questions about how each department head plans on adding value to their investment. It also gives department heads the opportunity to look each candidate in the eye and ask questions that help the department head see how the candidate will add value to the brand.

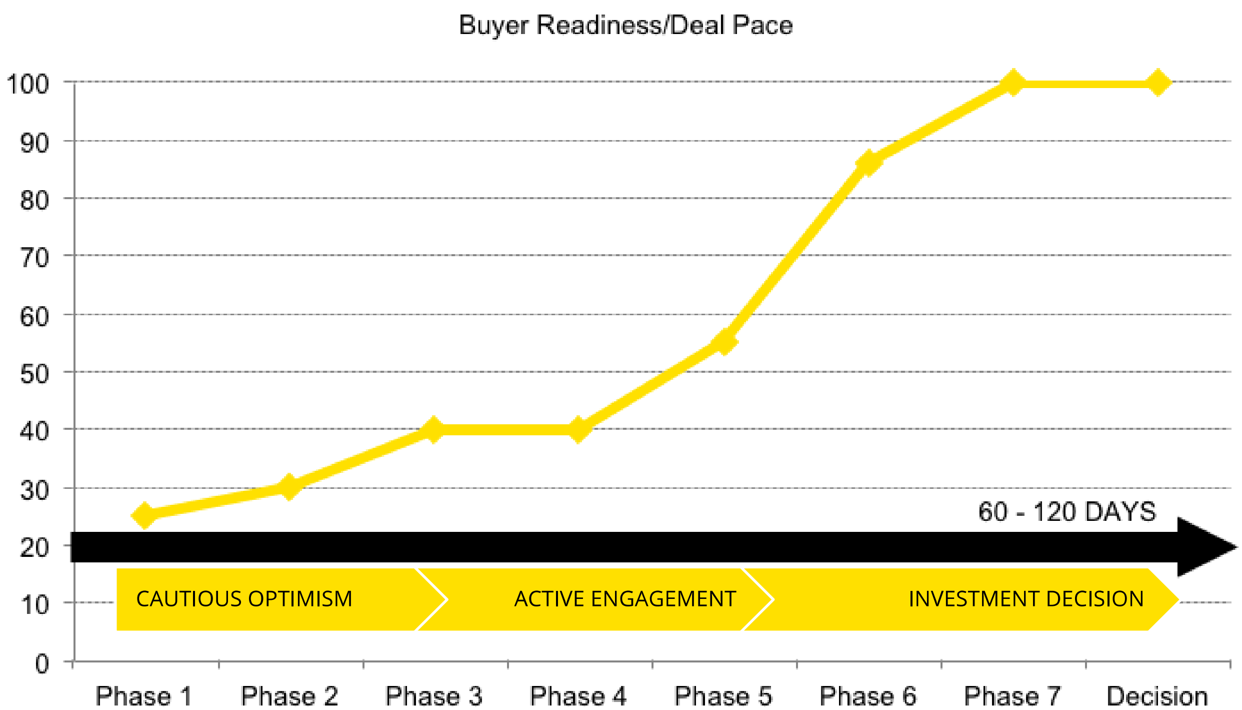
Discovery Day should mostly be a forward-thinking event. The franchisee recruiter should have already covered what it takes to win in the brand's current form. Discovery Day should offer candidates clarity about what the chain aspires to be and where it's going in the future. It should also cover what immediately happens, and who will be involved immediately after a franchise candidate signs a franchise agreement. Only if the franchise candidate appears to be a culture fit for the business — and wants to ride the train to the final destination — are they offered a franchise.

STEP EIGHT: YES OR NO DECISION

Then a final decision. The franchisor and franchise candidate each render a yes or no decision about whether or not to do business together.

Emotional Pacing

Franchise sales is a marathon, not a sprint. Highly successful franchisors understand the art of deal pacing and know how to leave the franchise buyer in the right mental state for each phase of the franchise buying process. They know how to let the process steps build on each other working towards a climax. Here is the correct emotional pacing for most deals that happen.



Franchisors need a franchisee recruitment process and content that creates a support framework to pace out the deal according to the above timeline. Otherwise, the franchisee recruiter needs to have the skills and experience to instinctively create this flow. Most franchisee recruiters we have encountered lack the mastery to consistently create this pace with each candidate. A strong, well thought out process can compensate for less experienced recruiters and increase productivity anywhere from 20-100%. Put another way, an intelligently crafted process will turn a "B Player" into an "A-minus." "A players" will be able to do more deals because the process will systematize what they are already doing, such as sending out articles and content manually. This saves time, allows them to increase their pipeline with more candidates and ultimately brings more candidates across the finish line.

We will look at the skills of the "A player" recruiter next.

Key Three: Effective Franchise Recruiters

Each year, franchisors who attend the Franchise Update Sales and Leadership Conference are "mystery shopped."

Each year, 50% of the franchise salespeople being mystery shopped, all of whom pay thousands of dollars in travel and fees to attend a conference on franchise sales excellence, NEVER CALL THEIR FREAKING MYSTERY LEAD.

There is a talent shortage in franchise sales and a crisis of understanding about what it takes to recruit talented franchise candidates who are a good fit for your brand.

Unskilled franchise salespeople are just that — salespeople. They think like salespeople and use sales language and terms. They appear oblivious to the fact that franchise buyers don't want to be sold a business. Buyers want transparency of information, support, assistance and facilitation. They want a trusted guide to help them make a decision that is going to impact their family situation and financial picture for generations.

The Philosophy of Franchise Recruitment

Several years ago, a skilled recruiter and an unskilled franchise salesperson sat around a table discussing their approach to the job.

The skilled recruiter said, "We make sure the franchise candidate possesses the necessary skills, background, education and capitalization to win according to the franchise candidate's definition of winning. If they don't, the process ends, and we refer them to other franchisors or a franchise broker who may help them find a better fit."

A second franchisee recruiter for a large national automotive franchise chimed in, saying he took a different approach. "It is not my job to qualify anyone in or out. As long as they have the money, I will give anyone their God-given right to fail."

If you were a franchise buyer, who would you want to work with? If you were the VP of franchise sales, who would you hire? If you were to look at those who already occupy those franchisee recruitment seats in your company, **who did you hire? How are they doing?**

The Recruiter's Approach

Recruiting requires franchisors to take a more individualistic approach. It involves interviewing, screening, fact-finding and determining whether or not a franchise candidate is up to the demands of the franchisee's position in the business.

The franchise recruiter succeeds two ways. The first is when a qualified candidate joins the chain. The second is when an unqualified candidate doesn't.

The recruiter sees himself as the protector of both the integrity of the brand and the corporate culture. Additionally, the recruiter accepts personal responsibility for the successes and failures of the franchisees he or she recruits. "If franchisees have my stamp of approval," thinks the recruiter, "then I'm responsible for their successes and failures."

The Salesman's Approach

In the sales approach, little attention is little paid to the candidate as a person, other than looking for their buying signals. The franchise salesperson's focus shifts away from the needs and objectives of the franchise candidate and toward the features and benefits of the franchisor's business opportunity. The franchise salesperson believes he succeeds when he receives the franchise fee check from the candidate and the check clears the bank. While the salesman may verbalize, "We award franchises, we don't sell them," or "Only the most qualified candidates will be offered our franchise," these statements are sales tactics and not factual. They are simply spouting half-truths to create urgency or scarcity. Once the agreement is signed and the check clears the bank, the salesperson believes the candidates are now operations' problem. They absolve themselves of any responsibility of what happens to the franchisee after the ink dries on the franchise agreement. They don't often look back to see how the franchisees they sold are doing. The franchise salesperson moves onto the next deal in the pipeline. The following chart will help you identify which approach your franchise development department uses to onboard franchisees.

The Fundamental Disconnect

If you were to ask franchise salespeople to remember their last several deals and to describe the relationship they had with the candidate, you would hear answers such as, "I was a…

- Facilitator
- Trusted advisor
- Friend
- Helpmate

You absolutely, positively NEVER hear, "I was a salesman."

Then if you were to ask a follow-up question, "When is the last time you felt like a salesperson?" They will almost always answer, "When I felt like I had to…

- Push
- Convince

Put another way, "When the candidate wasn't buying." Why is this important?

A franchise recruiter facilitates a buying process when the process is working and sells a franchise when the process is breaking down.

Franchise sales is a demonstrably failed philosophy.

So why would any sane individual start the process from a place of failure? Why would anyone knowingly sell a franchise if that's what failure looks like? Except THAT IS SEEMINGLY WHAT IS HAPPENING EVERY DAY A FRANCHISE SALESPERSON GOES TO WORK.

What's My Philosophy?

You are recruiting if…	You are selling if…
You pursue only those candidates who match the franchisors' profile of successful franchisees and whose objectives can be met with a high degree of probability using the franchisors' business model.	Franchisor sells franchises to all candidates who demonstrate a willingness and ability to purchase one.
Your focus on whether or not the candidate is a match for the franchise and stands an excellent chance of winning according to the candidate's definition of winning.	You focus the likelihood the candidate will buy the franchise.
You focus on recruiting quality franchisees.	You focus on a high quantity of franchisees.
You seek to eliminate potential failures by either denying marginal candidates a franchise or having an operational plan to compensate for candidates' shortcomings.	You seek to maximize growth by accepting marginal candidates and turning a blind eye to shortcomings.

In addition to implementing the recruitment philosophy, skilled franchise recruiters consistently demonstrate the following skills, traits and characteristics.

20 SKILLS, TRAITS AND CHARACTERISTICS OF HIGHLY EFFECTIVE RECRUITERS

1. Excellent interviewing skills
2. Empathetic listening skills. Gets in the candidate's shoes.
3. Solid understanding of franchisor's business and what it takes to win
4. Thorough understanding of FDD
5. Big picture orientation
6. Laser focus
7. Creative problem-solving
8. Excellent verbal and written communication skills

9. Follows up as promised
10. Ability to influence decisions
11. Presents himself/herself with instant integrity and credibility
12. Ability to "shoot straight"
13. Ability to create "safe space" for the candidate to discuss their issues openly and freely
14. Ability to follow a sales process
15. Organized in thoughts and in notes
16. Responsive to candidate's questions
17. Thoroughly qualifies candidate.
18. Begins conversation with clear objectives for each call.
19. Ends conversations with clear action steps
20. Acts consistently with the combined candidate's and franchisor's best interest.

If your franchise development team doesn't consistently exhibit the philosophy, characteristics, traits, skills, and behaviors, or highly effective franchisee recruiters, qualified candidates who would have otherwise joined your chain and now joining others---perhaps your competition.

How Do I Know Whether or Not My Recruiters Are Effective?

Try mystery shopping them. When FPG mystery shops a franchisee recruiter, we use a two-step approach.

STEP ONE:

We have the franchisee recruiter take us halfway through their franchisee recruitment process and evaluate the recruiter according to the 20 characteristics in the chart on the previous page. We use a 5-point scale, with 1 being "ineffective" and 5 being "mastery level."

STEP TWO:

is to have the recruiter meet with the mystery shopper in order to review their feedback and craft a professional development plan to build up missing skills and fill in the gaps.

A recruiter who is at least average or above in the 20 characteristics should achieve the following benchmarks:

	NONBROKER LEADS	FRANCHISE BROKER LEADS
Leads received	100%	
Leads by telephone, text, email	50%	90%
Leads qualified and entering the process	20%	75%
Leads who fill out an application form	10%	N/A*
Applicants who attend Discovery Day	15%	
Leads who attend Discovery Day		8%
Discovery Day Participants who sign Agreement	85%	85%
Applicants who sign Franchise Agreement	12%	
Leads who sign Franchise Agreement	1.25%	6-7%

*Broker leads are submitted with application information

If a recruiter isn't consistently hitting these objectives, assuming the franchise financial model works and franchisees are satisfied with the franchisor, the culprit will most likely be a function of unskilled recruiters and/or a weak franchisee recruitment process.

The Skills Dividend: Figuring Out Your Lost Opportunity

1. How many leads did I receive from non-broker sources?	
2. Multiple this number by 1.25%	
3. How many franchisees should I have recruited?	
4. How many franchisees did I recruit?	
5. What is my lost opportunity in number of franchisees? (subtract line 3 from line 4)	
6. What is my lost opportunity in franchise fee revenue? (Multiply line 5 by your typical franchise fee revenue)	

Repeat this exercise for broker network-generated leads. Use 6% for line 2 rather than 1.25%.

Keep in mind there is additional lost opportunity in both royalty revenue and equity to shareholders which is not factored here.

Key Four: Effective Departmental Leadership

Chief Development Officers and Vice Presidents of Franchise Sales, of all departmental leaders, need to understand their role in the organization is ensure the onboarding of high quality franchisees who will expertly execute the model consistent with the expectations of brand leadership.

Aside from institutionalizing the recruitment philosophy discussed earlier, the leader is accountable for driving pipeline activity, which would entail expert execution of all five keys to create a breakthrough.

If a breakthrough is not occurring, the first place to look is franchisee satisfaction and unit level economics. This could be an operations problem, with franchise sales merely caught in the vortex of the tornado. Fix these problems first.

If 80% of franchisees answer "yes" to the question, "Knowing what you know now, would you make the same decision again?" and the chain isn't hitting its development goals, then there are only five places to look.

Managing by Metrics

FPG believes franchise sales departments can effectively manage by paying close attention to 3 types of reports:

1. STATUS REPORTS

Status Reports identify every active candidate in the pipeline and specifically what step they are in. These reports are used to predict the recruitment results over the next 30-120 days. The typical franchisor's sales cycle will be 90-120 days. Candidates scheduled for Discovery through Requesting Agreements will make investments within 30 days. A smaller percentage of those in the beginning of the pipeline will make investments within 90-120 days. Over time, conversions will fall into predictable patterns which we will discuss later in this section. Here is what a status report looks like; most CRMs can give you a current status report with one or two clicks.

SAMPLE STATUS REPORT

Candidates who signed agreements

Bob Jones, Karla Banks

Candidates Who Completed Discovery Day requesting agreements

Peter Parker, Tony Starks, Eddie Munster

Candidates Scheduled for Discovery Day

Liza Minelli, Judy Garland, Henny Youngman

Candidates in Validation

Buster Keaton, Viktor Frankl, Lloyd Bridges, Paulie Shore, Erol Flynn

2. ACTIVITY REPORTS

Franchisee recruitment is a marathon, not a sprint. Deals have a predictable beat or rhythm. Often, inexperienced or marginal franchise salespeople or departmental leadership seem to ignore the front end of the pipeline and focus their energy on what they declare "the most closable deals." However, a devaluation of the front end of the process creates an imbalance which kills future deals and may set up short-term, feast-or-famine deal droughts every 90-120 days or so. Every stop of the process is equally important and needs to be skillfully executed or franchise salespeople will interfere with the natural rhythm of the deal instead of mastering it and using it to the combined benefit of the candidate and the chain.

By requiring franchise salespeople to monitor activity and set up weekly targets for each step, departmental leadership can closely monitor whether deals are being built on a rock-solid foundation of consistent information and determine if the team is creating shortcuts or shortchanging franchise candidates in hopes of hitting short putts.

Here is an abbreviated example of a weekly activity report. Reports should be weekly, monthly, quarterly and be compared against previous months and quarters to establish a trend line. Results should also be compared against benchmarks, and major variances need to be discussed.

Meeting	Results	Target
Step One Prequalification	7	10
Step Two: Interview and overview	5	5
Applications received	3	2
Step Three: Winning formula held	3	2
Step Four: FDD review held	2	2
Step Five: Validation completed. Scheduled for Discovery Day	3	3
Step Six: Discovery Day completed	1	2
Franchise Agreements requested	1	1
Franchise Agreements received (deals closed)	1	1

The front end of the pipeline is subject to weekly targets. Because individual franchise salespeople see less activity on the back end of the pipeline (example: Candidates completing Discovery Day and requesting agreements), an individual salesperson's back-end activity shouldn't sound a weekly alarm if the franchise salesperson's activity isn't on target. For instance, a franchise salesperson may be charged with doing 24 deals over the course of a year. It isn't expected they will send out agreements each week. It is expected that they have at least two people a month attend a Discovery Day. However, leadership should examine an aggregated report for the entire department which takes into account all franchise salespeople's activity for that week. The aggregated activity of the department for each step in the process each week provides the leader with enough data to understand the current health of the pipeline and the 90- to 120-day trajectory of the department.

3. *CONVERSION REPORTS*

Conversion reports measure how effective individual franchise salespeople are at moving candidates through the different steps of the process. Conversion reports reveal what is working well and where in the process things may be falling apart. Here are typical ratios of an effective department. Some chains may be more effective at the beginning of the pipeline and others may do extremely well after the application is received. Also, the lead-to-close ratio is almost always a blended rate.

Broker leads, franchisee referrals, or customers tend to close at a rate of 3-7%.

PPC, SEO, PR and organic website traffic often closes at a rate of 1-2% of leads.

Franchise portal leads often close at a rate of .4%. The following chart would describe a typical blended rate.

Please keep in mind, these stats are a general starting point for analysis. Your particular chain may do better or worse depending on the brand awareness, consumer trends, category demand, industry trajectory, leadership position within the category, franchisee validation, unit level economics and a host of other factors.

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*Broker leads are submitted with application information

The Cost to Acquire a Franchise

Aside from the three reports we described, franchisors need to pay attention to the bottom-line effectiveness of their advertising budget spend.

Most franchisors will be able to onboard 10-30 franchisees per year at a cost of $10,000 in advertising spend for each franchisee. This excludes salaries and departmental administrative expenses. This also excludes broker networks, which institute a success fee system of approximately $25,000 for a single-unit franchisee and $30,000-plus for multiunits.

CRM

Every franchisor needs to invest in a CRM. FPG has developed a comfort level with Franconnect. On balance, we give the system a B+ as a franchise sales CRM. We particularly like their content management system, which allows us to create content campaigns for each step in the recruitment process. We are using more "in process" content than ever before, and Franconnect offers a good solution to content management on top of electronic distribution of FDDs. They also recently made significant improvements to franchise sales report templates.

Key Five: Easy Access to Financing

Financing is an obvious and ongoing concern for franchisors and franchisees.

With the financial collapse of 2008, lenders stopped lending as franchisees, franchisors and other companies likewise stopped borrowing. Like other businesses, banks circled their wagons and implemented a survival strategy that included stockpiling cash reserves, increasing bad debt reserves and restricting lending to only low-risk individuals and businesses — mostly meaning businesses that don't need financing in the first place.

Franchisees capable of seven-figure investments continue to leverage their existing success to secure loans. Meanwhile, franchisors whose businesses are in the sub-$500,000 total investment range have slogged through the post-recession years by trudging through the SBA process or circumventing traditional lending altogether using quicker-and-easier-to-access funds like self-directed IRAs.

The dearth of lending in this investment range has created a huge drag on growth. Many franchisors report losing as many as 20% to 30% of franchise candidates who would have become franchisees if financing was more easily attainable when they were ready to sign a franchise agreement. The long and difficult financing process can take the wind out of the franchise candidate's sails, and some check out before seeing the lending process to completion. The resulting breakdown has forced franchisors to spend more money generating leads to make up for the elevated attrition rate.

The Game is Changing

Now, lending is starting to change — and in a big way. Banks are flush with cash to lend, which they need to get to work on behalf of their shareholders and to improve their bottom lines. Franchisors are growing again. The economy is growing again. Franchise candidates, who have learned how to save more and live on less, are better positioned to start businesses than in the recent past.

After many years of what felt like an uphill battle, business is moving again. So why is it still much harder for some franchise concepts to get bank financing than it was in the past? In a nutshell, banks face more regulations and auditing, which has driven up the cost of small business lending and made smaller loans less profitable — and sometimes downright unprofitable — for banks. You will often hear lenders say, "It's the same work and cost to do a $5 million loan as it is to do a $200,000 loan."

This difficulty actually creates a major opportunity for franchise systems. To make a sound loan, banks have to understand the borrower's business model, market position and likelihood of long-term viability, on top of the financial strength of the loan recipient. The banks' underwriting costs of a loan are largely fixed, and when banks need to do reams of homework for each individual loan, it drives up their lending costs and kills margins, and therefore kills potential deals. Franchisors are excellent partners for banks because the bank can study the franchisor and its business model, and they use much of what it learns to speed along the underwriting process when working with franchisees.

The Cost to Acquire a Franchise

Franchise Performance Group is working with top lending executives to streamline the process — making it less expensive for banks to lend to franchisors and their franchisees — and to also create custom financial products that are tailored to the unique needs of franchisors' businesses. At the heart of the arrangement are preferred lending arrangements that provide partner banks deep insights into a franchisor and an understanding of franchisees' needs and performance metrics. By partnering with a franchisor and documenting most of the risk factors upfront, banks are able to better qualify franchisor's opportunities, and therefore issue more loans more quickly. Suddenly, the cash reserves that banks have been eager but unable to lend can begin flowing to franchisees, especially those making investments in the sub-$500,000 category. The loans help both new businesses get started and successful existing franchisees expand.

Case Study

For instance, one FPG client's growth was constrained by the difficulty of getting affordable loans to scale up franchisee operations. College Hunks Hauling Junk franchisees had been purchasing used hauling and moving trucks from various vendors. The vehicles were different makes and models, with little consistency and varying levels of dependability. Truck reliability is critical. In their model, if a truck is off the road, both the franchisee and franchisor stop making money. To get more — and better — trucks on the road, FPG and College Hunks worked with Bancorp, one of FPG's strategic banks, to craft a vehicle leasing program that helps new and existing franchisees lease new trucks for 5 years, fully wrapped with College Hunks graphics, fully warrantied, with no money down. This conserves new franchisees' cash, making them more resilient, and also allows existing franchisees to scale and put more trucks on the road without going out of pocket. Also, Bancorp brought along its strategic partners, such as Electronic Payment Exchange, an industry-leading, tier-one payment processor who was able to significantly lower College Hunks Hauling Junk's payment processing costs.

Thanks to a strategic partnership, College Hunks Hauling Junk franchise candidates can be approved for credit when they submit their franchise candidate application form. The lending process is completed at the time they are ready to sign a franchise agreement, when the candidate is eager and ready to buy and start their business. Delays kill deals. This partnership kills delays.

Don Welsh, FPG principal in charge of financial services, said, "Both franchisors and the banks asked us to help them design financing programs for franchisors and franchise candidates that would result in more new franchise deals and greater acceleration for existing, growth-ready franchisees.

Welsh added, "As domain area experts in franchising, we speak the language and understand the concerns of franchisors and franchisees. We also speak the language and understand the concerns of lenders. We are in a perfect position to help lenders and franchisors work together in unity to meet each other's financial objectives. "

A Better Way to Create Lending Relationships

Under the old way franchisors and banks did business, franchisors would secure one or more SBA lenders for start-up financing, perhaps a second lender to help existing franchisees expand under more favorable terms than a typical start-up, another company to handle credit card processing for mobile payments, perhaps another company for royalty ACH collections, and still another lender for vehicle or equipment leasing. None of these vendors would have a very thorough understanding of the franchisor's business, let alone the ability to leverage synergies by working strategically. These suppliers would settle into a transactional relationship with the franchisees and franchisor. But impersonal transactional relationships are not in the best interest of the franchisor, lender, franchise candidate or franchisees looking to expand.

Smart franchisors are making themselves attractive to lenders by offering more lines of business like ACH and credit card processing. By aggregating their financial services and offering preferred relationships to a lender, franchisors create more purchasing power, translating into a lower cost of money, more personal attention and more available credit for all stakeholders in the brand. These franchisors save themselves and their franchisees hundreds of thousands of dollars each year in interest and merchant fees and at the same time have cheaper, easier and faster access to capital and greater attention by key decision makers within the lending institutions.

The relationship is attractive to banks because it allows them to leverage their knowledge of the franchisor's business model to make more loans without having to do as much paperwork. This translates into fewer man hours to process a loan and therefore higher margins and greater willingness to lend.

Back to the Basics of 'Relationship Banking'

In the post 2008 recovery period, Boefly and indirect SBA loan brokers and packagers offer franchisors a reasonable stop-gap solution in a tight credit market, but they don't solve the real problem – the need for an end-to-end franchisor-focused financing solution. These companies create transactions, but they don't create relationships between the banks and the franchisor. This needs to change. Franchisors and banks need to create their own relationships in order to unleash capital and make rain.

"Smart banks want relationships now – they know times have changed," Welsh says. "They want to talk to the franchisor founder, CEO and the leadership team. They want to know the specifics of the business models and important details about the franchisor such as the strength of their business model, long-term viability in the marketplace, and quality and vision of a company's leadership team. The problem the banks had in the past is they haven't had the time, resources or expertise in franchising to conduct the appropriate diligence on the franchisor. A balance sheet can't tell a bank whether or not a franchisor is at or near a tipping point, nor can it tell them whether the franchisee model has long-term sustainability in the marketplace. Banks are now looking at franchise domain area experts like FPG to know what quality franchisors look like."

Conclusion

Any franchisor that achieved a long-term, sustainable breakthrough in franchisee recruitment did so on a bedrock foundation of workable and trusting franchisee relationships and solid unit-level economics. The franchisor business model is ultimately a two-metric business.

Once this is achieved and firmly in place, the chain is positioned for a breakthrough. This acceleration in franchisee recruitment results will naturally occur if the franchisor develops excellence in five functional areas of franchisee recruitment: lead generation, recruitment process design, skills of the franchise salespeople skills, departmental leadership skills and quick and easy access to favorable financing. Any breakdown or underperformance in any of these five functional areas will automatically result in stymied growth. As long as the unit-level economics and franchisee relationships hold up, a franchisor can always fix their problems and get on an accelerated growth track.

Do you need help achieving a breakthrough?

Franchise Performance Group helps franchisors build iconic brands by helping them improve all phases of their franchise recruitment process, including lead generation, recruitment process design, franchise sales and departmental leadership training and support, and financing.

To start a conversation with us, email Joe Mathews, at Joe@FranchisePerformanceGroup.com

or call 860.309.1484.

About Franchise Performance Group

Franchise Performance Group is consulting firm specializing in franchising, specifically in the area of franchisee recruitment and financing.

Services include:

- Franchise Sales Tactics and Strategy
- Franchise Opportunity Website Design
- Franchise Sales Process Design
- Franchisee Recruiter training and coaching
- Custom financing programs for new and existing franchisees

For more information on Franchise Performance Group, visit our website

www.FranchisePerformanceGroup.com.

About Joe Mathews

CEO and Founder of Franchise Performance Group, Mathews has 30 years of experience with major national chains as Subway. Mathews is a leading authority in franchise opportunity marketing and franchisee recruitment best practices.

He is a regular presenter at IFA conferences and was an instructor with the ICFE (Institute of Certified Franchise Executives). Mathews is also an author/co-author of three books on franchising, *Street Smart Franchising, Franchise Sales Tipping Point* and *Developing Peak Performing Franchisees.*

He has also had articles featured in USA Today, The Wall Street Journal, Business Week, Inc, Entrepreneur and Fortune.

Mathews lives and works in Franklin, TN (Nashville area). He is married with three children.