

Iain Martin, head of Kyros Business Services, assesses the true cost of franchise recruitment

ASSESSING THE COSTS OF RECRUITMENT

WHAT are the true costs of recruiting franchisees, both direct and indirect, and does the franchise fee cover these costs? These are two of the most fundamental questions the franchisor needs to answer.

Let us start with setting the franchise fee - a process often based on what the competition charges and what the market will bear. It should, however, be based on a more scientific approach, which takes into account the likely costs of marketing the franchise opportunity and developing the network. The figure will reveal the cost of building up the franchise over the first few years and this can then be apportioned among the number of franchisees it is hoped to recruit over this period.

As an example, if the maximum number of units to be recruited is 100, then it would be reasonable to take three quarters of this and divide the first few years' costs of development and marketing by 75 - to provide a base figure for a unit licence. In addition, the costs need to be added of any shopping list items for the franchise and the training. This methodology will ensure that the direct costs of franchisee recruitment are recovered. The marketing costs for recruiting franchisees include not only the advertising and other promotional media, but also the marketing materials and their design and updating.

Traditional advertising in the national press carrying franchise features (e.g. *Daily Express* and *Daily Mail*), the franchise-specific media (e.g. *Franchise World*), and the vertical-market media (i.e. the industry-specific press) may be supplemented and enhanced by the web. Enquiries emanating from the web will often have been motivated by press and magazine advertising that has stimulated the reader to click on the franchise's web-site for more information, prior to registering interest.

The costs of marketing materials include those resulting from designing and creating advertisements, web design, and the production of the franchise prospectus, together with any product/service promotional materials. All these tools need regular review and updating. Other avenues of lead generation include exhibitions, both franchise-specific, and vertical-market specific. In terms of cost justification, exhibitions should be viewed as a brand building opportunity which creates market awareness. As a recruitment route, in general, they are not in my view as cost effective as other forms of promotion.

Cost of leads

For most franchisors, the lead generation costs associated with recruiting and signing a franchisee are between £3,000 and £5,000. This is primarily in advertising costs and the figure will be higher if exhibitions are used. Normally, marketing materials are costed on a one-off basis, but they should also be included as part of the total development costs.

In addition to these direct costs, one of the major elements that is often over-looked are manpower and the human input required to deal effectively with franchise enquiries. As a rule of thumb, 85 per cent of the recruitment work load is in dealing with initial enquiries through to the first interview stage. This involves taking the enquiry and screening the applicant prior to sending out a prospectus.

On receipt of a formal franchise application, the candidate will be screened again to confirm the match between its skill set and the franchisee profile. However, this process will not be completed until a face-to-face interview has taken place. Given the industry norm of one franchisee being recruited for every 100 raw leads generated, it is not difficult to see that the true cost of recruiting a single franchisee is very significant.

As a consequence of taking a hard look at recruitment costs, a growing number of franchisors are concluding that outsourcing the process so they only have to deal with highly qualified candidates makes a lot of commercial sense.

Franchiseworld Nov 2006