



# 2015 Franchise Sales Trends Report

Courtesy of FranConnect®

# FOREWORD

**Keith Gerson, President of Global Operations, FranConnect**

Welcome to the **2015 Franchise Sales Benchmarking Study**. Over 4,000 franchise CEOs and sales executives were selected to participate anonymously in our annual survey. FranConnect has collected and analyzed the responses to provide you with the latest in franchise sales trends and a look back at 2014 successes. We've pulled some interesting insights into franchise size and industry focus as well. Discover:

Average sales base salary  
Most effective lead gen channels  
Commission ranges  
Cost per lead  
**RESULTS**  
Outsourcing versus brokers  
Social media success  
Greatest franchise challenges

Benchmark yourself against franchising best practices to identify strengths and weaknesses in your sales operations. Then leverage this critical information to guide not only your strategic vision but your day-to-day tactical activities. Read on for FranConnect's exclusive analysis on these and other vital sales success metrics. And as always, we are here to help. Feel free to contact me at [keith.gerson@franconnect.com](mailto:keith.gerson@franconnect.com) or give me a call at 703-390-0900 x159 to discuss opportunities for you to enhance your franchise sales. We wish you the utmost in sales success!

All the best,



Keith Gerson  
President, Global Operations  
FranConnect

## SURVEY PROCESS

Over 4000 franchise CEOs and sales executives from a broad cross-section of industries were selected and invited to participate in the 2015 Franchise Sales Benchmarking Survey.

Responses were to remain anonymous and reported in aggregate to identify trends in franchise sales and allow organizations to benchmark their sales processes.

A wide array of questions were asked in order to capture and understand factors that were impacting results, organizational structure, budgets, and best practices to help franchisors continue to meet and exceed their franchise development objectives and unit share.

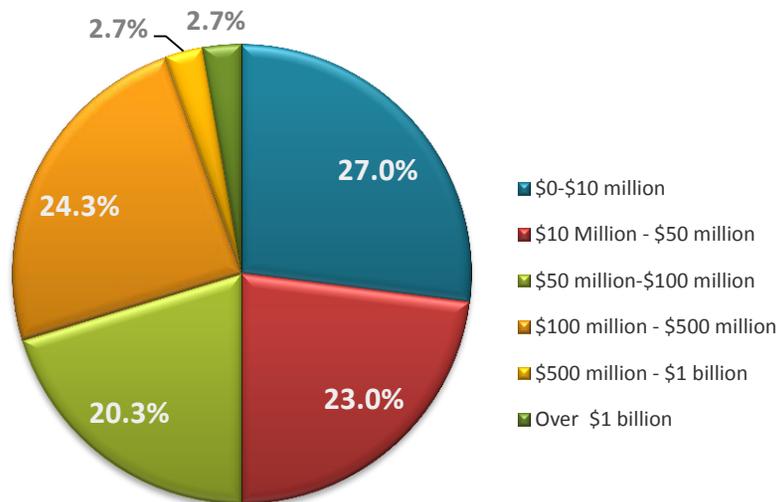
Please read on for our exclusive results and analysis of the 2015 Franchise Sales Benchmarking Survey.



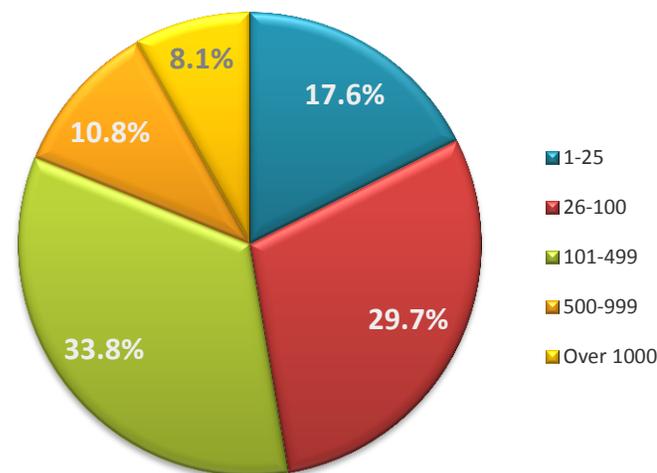
## SALES APPROACH DIFFERS BY SIZE

It makes sense that size can impact a franchise’s approach to sales. You can see below where the survey respondents fell on the spectrum of system wide sales and number of units. The respondents were split 50-50 between \$0-\$50 million in sales and \$50 million plus. What is interesting is how franchises within your relative size answered each of the questions. Read on to see the statistics throughout the survey.

**SYSTEMWIDE SALES**



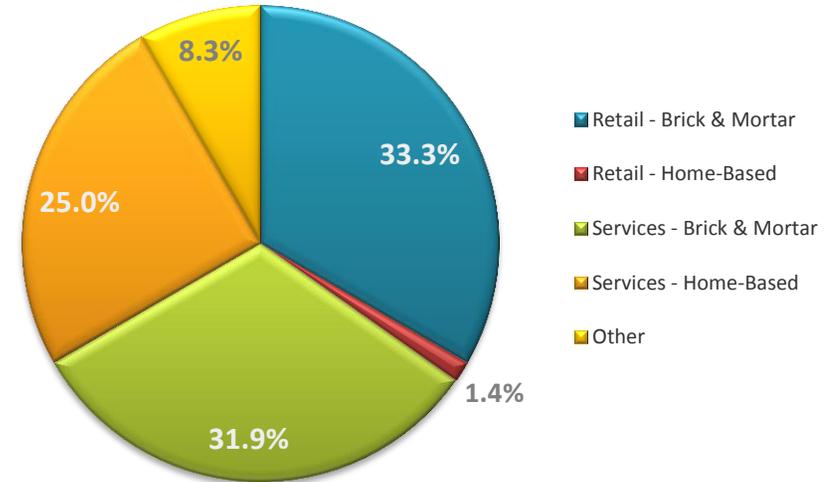
**NUMBER OF UNITS**



## WHAT TYPE OF BUSINESS IS THIS?

Over 65% of the franchises participating in this survey were brick & mortar, hailing from a variety of industries, such as restaurants, senior care, fitness, real estate, and creative arts. Data shows sales approach can differ for home-based versus physical store locations. Of those who answered “Other,” most had a combination model. We’ll take a closer look in the coming pages.

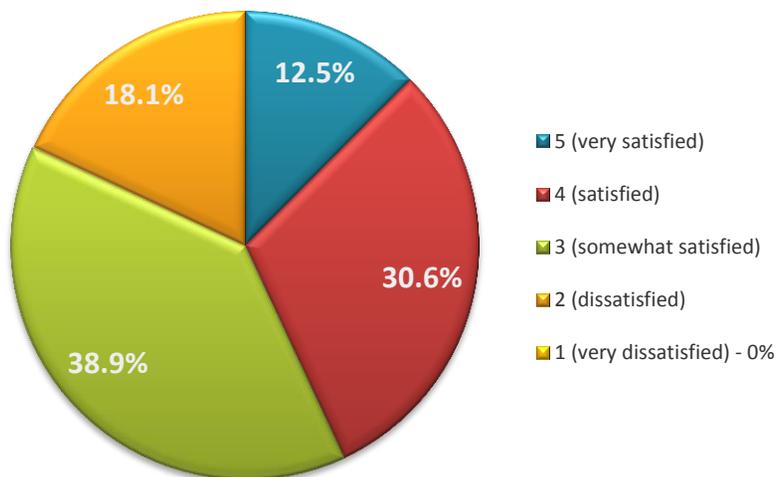
### HOW DO YOU OFFER YOUR PRODUCTS/SERVICES?



## HOW SATISFIED ARE YOU WITH THE RESULTS OF YOUR 2014 FRANCHISE SALES STRATEGY?

57% of respondents felt that their franchise sales strategy could have been improved, while 43% were relatively happy with their results. It is interesting to note that of those who were satisfied and very satisfied, 87% used a CRM system.

### 2014 FRANCHISE SALES STRATEGY RESULTS

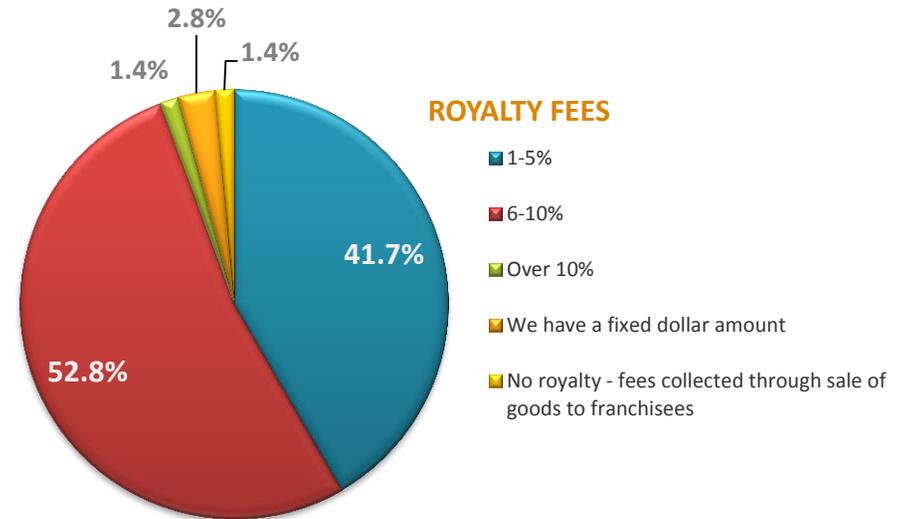


How can you achieve  
higher satisfaction  
with your  
results?

## WHAT IS YOUR ROYALTY FEE?

As you can see, over 52% of franchises charge royalty fees between 6-10%. But it's even more interesting to break down the percentages by size.

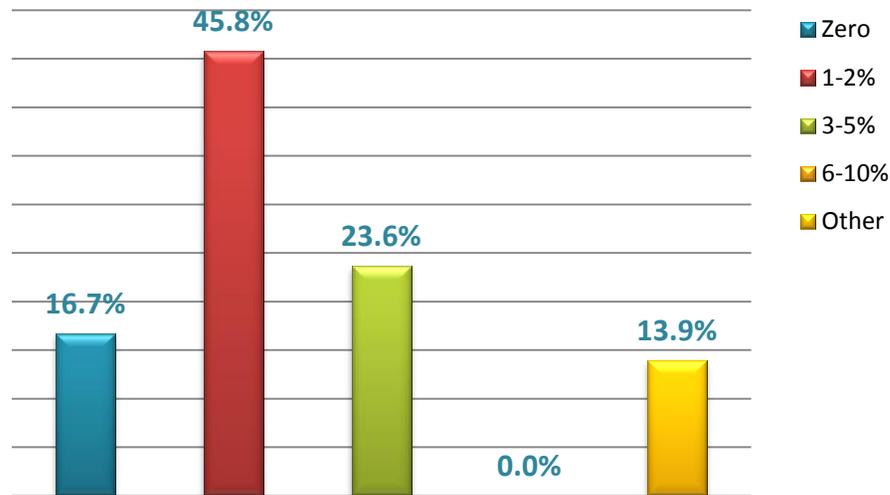
- 1-25 units – 25% charge 1-5%, while 67% charge 6-10%
- 26-100 units – 39% charge 1-5%, while 52% charge 6-10%
- 101-499 units – 50% charge 1-5%, while 46% charge 6-10%
- 500-999 units – 63% charge 1-5%, while 38% charge 6-10%
- Over 1000 units – 17% charge 1-5%, while 83% charge 6-10%



So we see that the smaller franchises and the very largest tend to lean towards the 6-10% royalty fee.

## WHAT ARE YOUR ADVERTISING AND MARKETING FUND FEES?

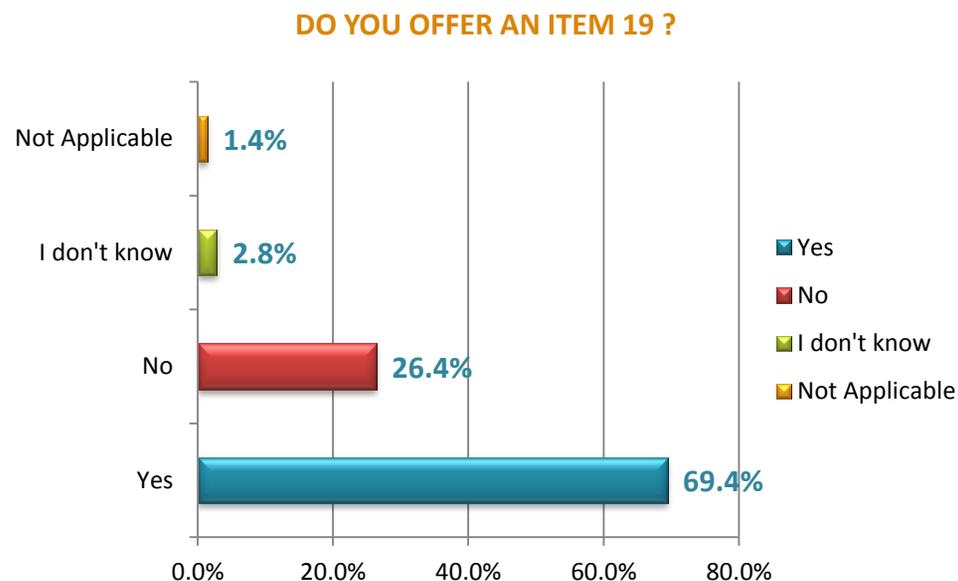
2015 ADVERTISING & MARKETING FUND FEES



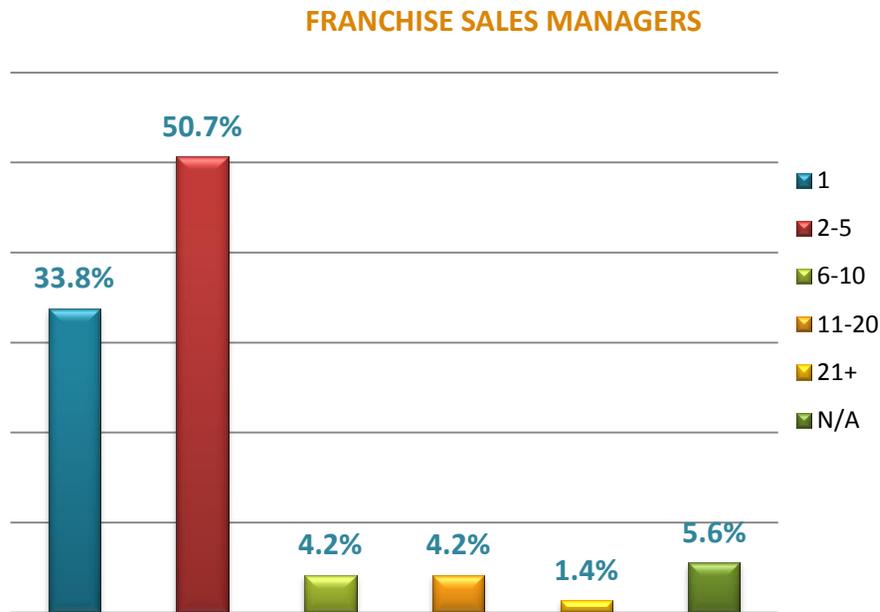
Compared with last year's results, advertising and marketing fund fees have increased. Last year, 63% paid 1-2% and only 11.1% had fees of 3-5%. This year, we see that only 45.8% paid 1-3%, down 17.2%, while those with fees between 3-5% went up 12.5% to 23.6%. Of those who used other models, most were fixed monthly fees.

## ITEM 19: FINANCIAL PERFORMANCE REPRESENTATION

The Item 19 is not optional to compete in today's marketplace, and we've seen a further increase in those who either currently offer one or plan to in their 2015 filings. Of those who don't have the Item 19, 31.6% plan to file, up 7.2% over last year. The biggest concern was that "average performance can be misleading," but as more and more franchisors are making their franchisees' unit level performance available through their FDD, making your results available earlier in the process can help you out-execute your competitors.



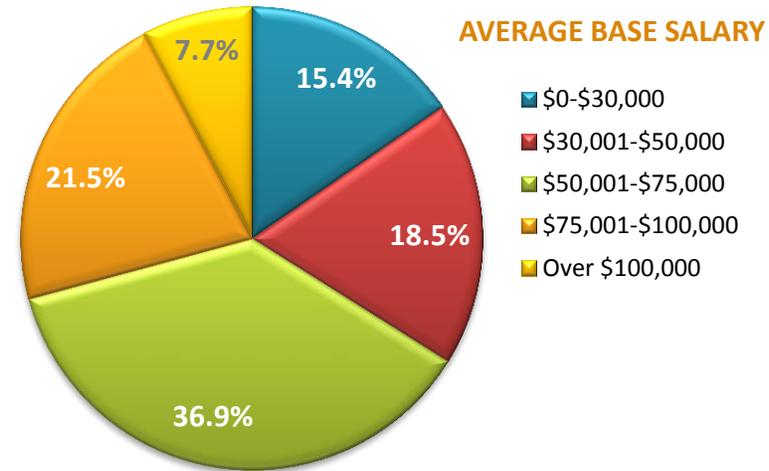
# HOW MANY FRANCHISE SALES MANAGERS MAKE UP YOUR SALES DEPARTMENT?



We know that the size of a sales department can, of course, be affected by size and the numbers are very similar to last years' percentages, so there hasn't been much change. What you might find interesting, however, is that 58.3% of franchises with over 500 units operate with between 1-5 sales managers. How do they do this? They have systems in place that help them track, implement, and manage their sales activities.

## BASE SALARIES: ARE WE SEEING A SHIFT?

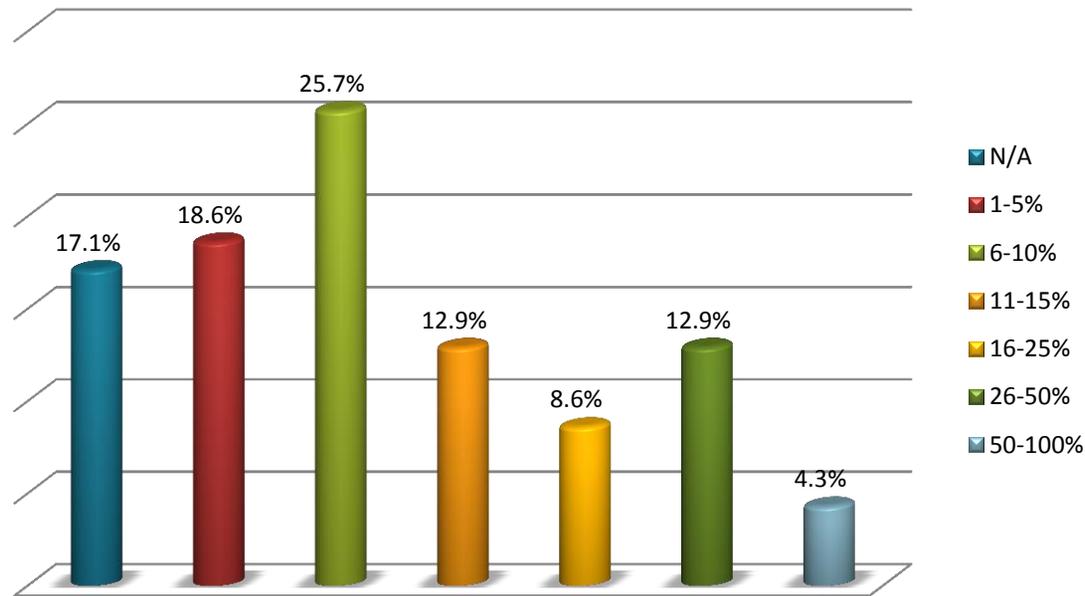
Base salaries seem to have dropped over the past year with salaries at \$75,000 plus decreasing by 9.3% while salaries between \$0 and \$50,000 increased 12.7%. So does that mean franchises are trending toward a more commission-heavy structure? Let's find out...



## COMMISSIONS: THE MODEL IS CHANGING

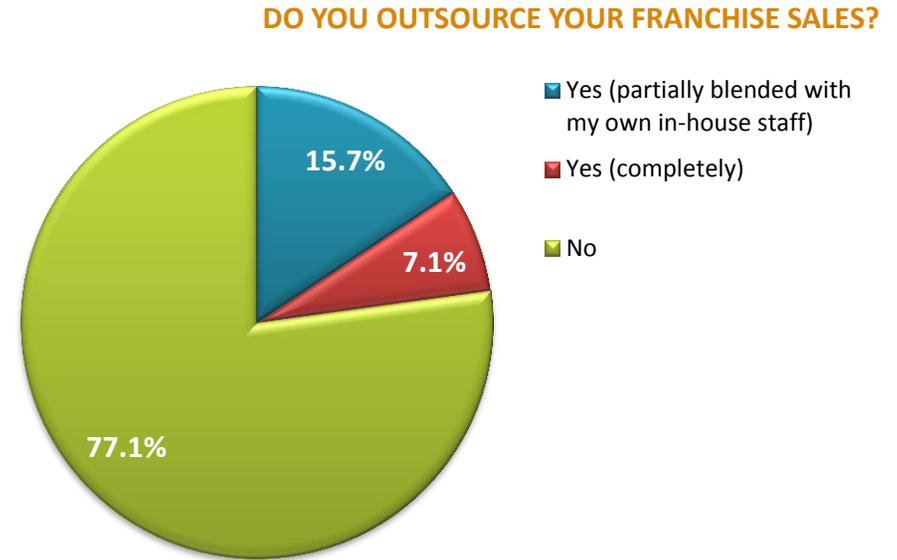
Commissions in the 50-100% range have gone up from zero in 2014 to 4.3% in 2015, so we're definitely seeing a paradigm shift here, albeit not dramatic. However, the 26-50% range has increased almost 75% over last year, indicating a higher expectation for sales results, while everything in the 6-25% range has decreased year over year.

WHAT IS THE AVERAGE COMMISSION RANGE PER SALES MEMBER?



## EXTERNAL SALES SUPPORT: TO DO OR NOT TO DO?

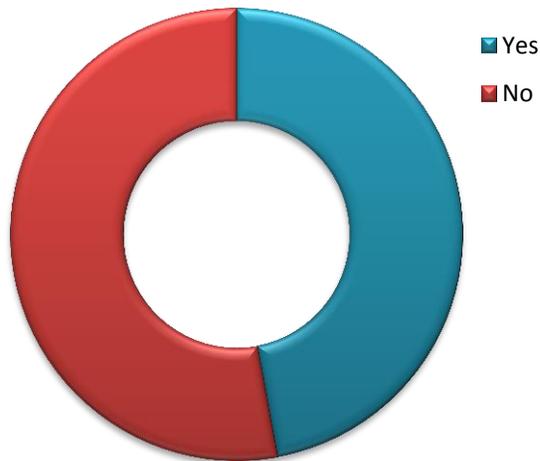
This question delved into outsourcing outside of sales brokers – which we address on the next page. At over 77%, there is a strong bias against outsourcing. The survey shows a slight increase (6.1%) since 2014, but as we will see, the model is still predominantly focused on sales brokers rather than other outsourcing options.



## SALES BROKERS: YET ANOTHER PARADIGM SHIFT?

Interestingly, although sales brokers are still widely used, we saw a 14% decrease in the outsourcing of sales to brokers. Our data shows us that your CRM systems are critical even when using the brokers to demonstrate that you are on top of any leads that they are feeding to your sales team. Brokers look to cultivate relationships with sales executives who have defined processes in place, respond to referrals within two hours of receipt of lead, and keep detailed notes on all communications with the leads.

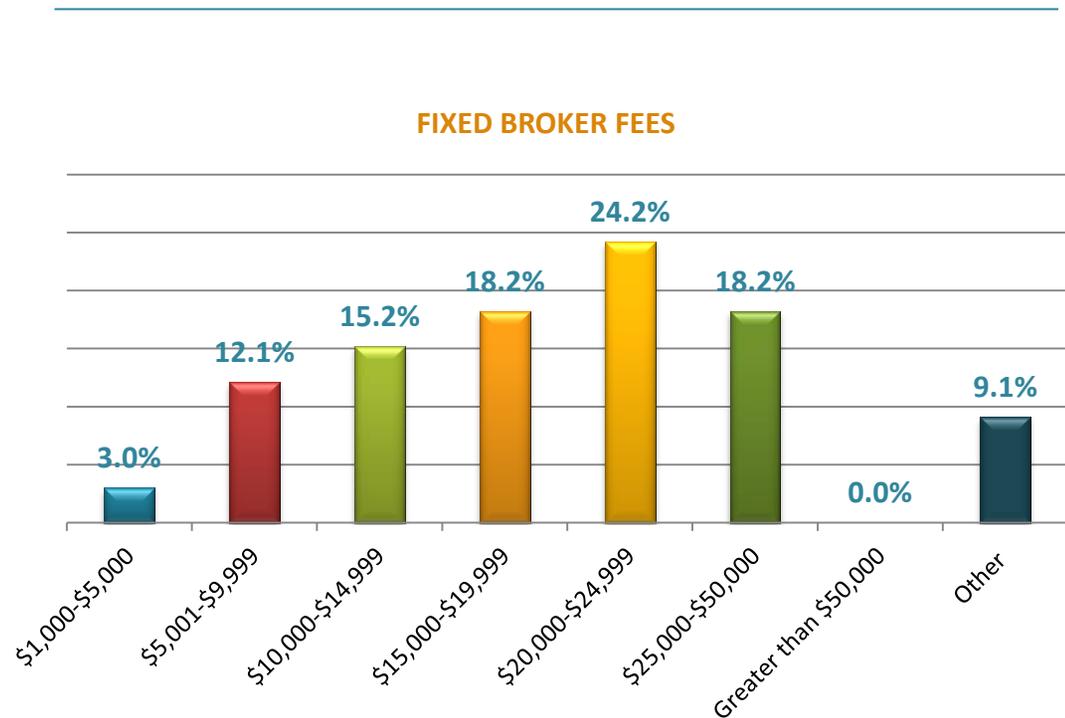
### DO YOU USE OUTSIDE SALES BROKERS?



We saw a **14%**  
decrease in  
outsourcing to sales  
brokers

## WHAT DOLLAR AMOUNT OF THE INITIAL FRANCHISE SALE DO YOU PAY A BROKER?

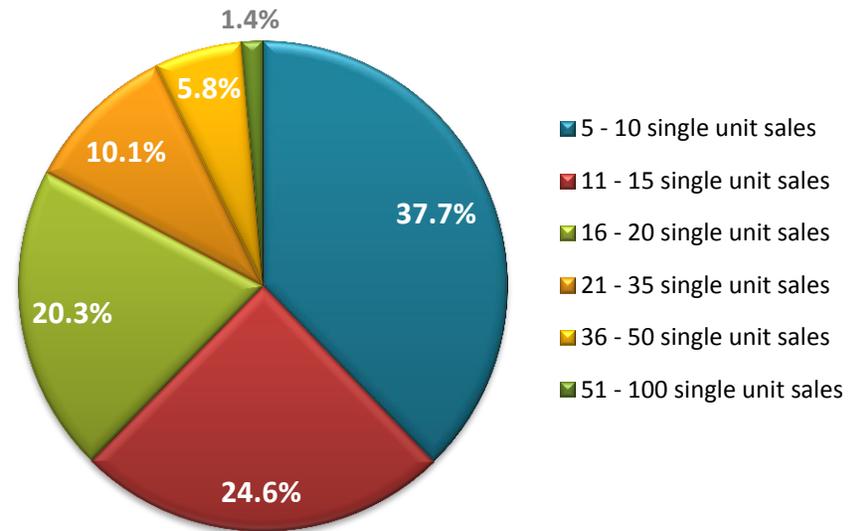
Our survey shows that the amount paid to sales brokers has decreased significantly, which demonstrates a shift in power to the franchisors. Nobody spent over \$50,000, and the number of respondents who pay \$25,000 to \$50,000 in fees has dropped by half in the past year. Meanwhile, the respondents paying between \$15,000 and \$24,999 increased by 75%, and those paying between \$1,000 and \$14,999 increased by 42.9% year over year from 2014 to 2015.



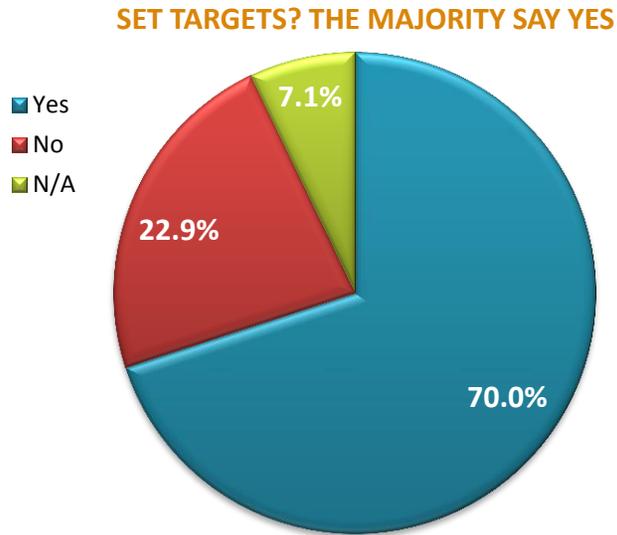
## HOW MANY SALES UNITS DO YOU EXPECT A FULLY COMPETENT SALES MANAGER TO CLOSE IN 2015?

These numbers did not change dramatically from 2014 to 2015. Expectations are still very much targeted to between 5 and 20 unit sales, although there was a 6% drop in the 11-20 range and a 7.8% increase in the expectation of sales managers to hit between 21 and 50 unit sales. Expectations of closing over 100 units, however, dropped to zero.

2015 EXPECTED SINGLE UNIT SALES



## DO YOU HAVE QUOTAS OR SET GOALS FOR YOUR FRANCHISE SALES TEAM?

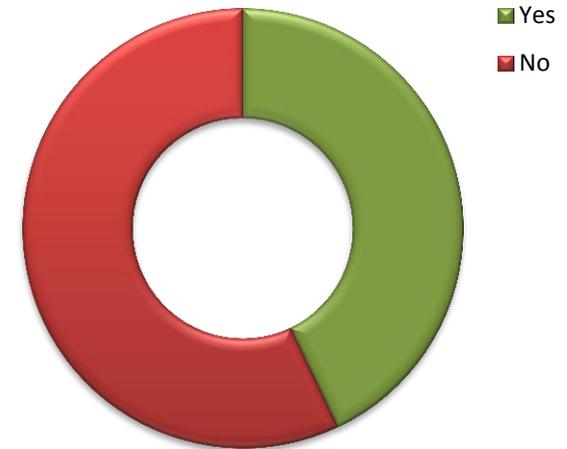


There are still significant requirements for sales teams to hit their quotas (70%), however, there has been a dramatic drop since last year – 15.2% fewer franchises are requiring their sales team to hit specific quotas. As we'll see later, real-time access to franchise sales reports allows managers to adjust course as necessary, which allows them to approach the idea of quotas differently.

## DO YOU HAVE A FORMAL FRANCHISE RE-SALE PROGRAM?

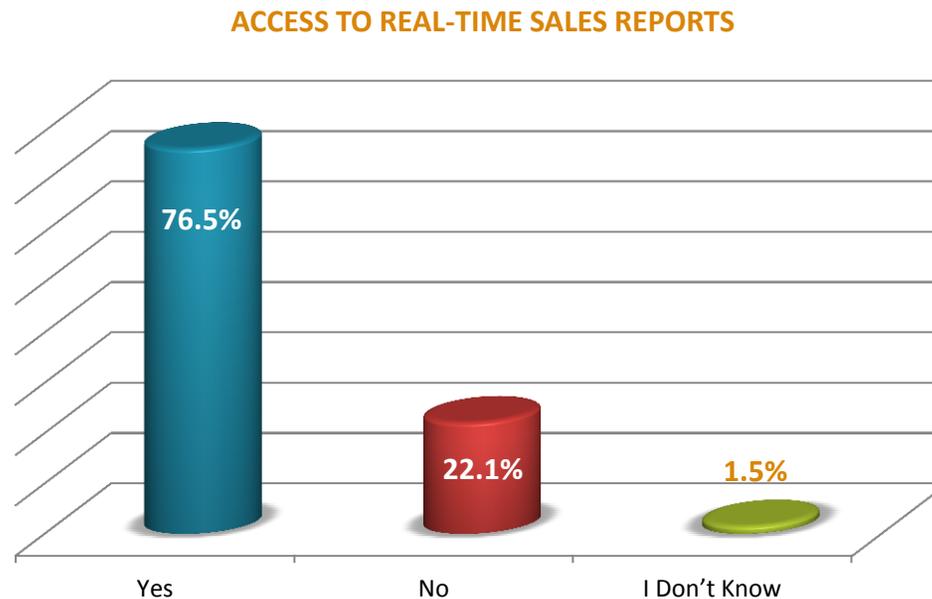
Although there has been almost no change in the percentage of franchisors with formal re-sale programs, what we are seeing is a 9% increase (to 80%) in the sales team handling both new sales and re-sales. So although there may not be a formal re-sale program, more franchisors are leveraging existing new sale processes to support re-sales as well. We expect that trend to continue as a means to ensure that poor performing franchisees are turned over to someone who is more engaged and has a higher chance of success.

DO YOU HAVE A FORMAL FRANCHISE RE-SALE PROGRAM?



## DO YOU HAVE REAL TIME ACCESS TO FRANCHISE DEVELOPMENT SALES REPORTS?

With almost no change since last year, over 76% of respondents have the ability to track opportunities in the pipeline, including details such as response times to initial inquiries, projected close dates. etc. Sales reporting is critical to understand the big picture and increase close success. Siloed information is often times just as detrimental as the inability to track what is going on with your recruiting.

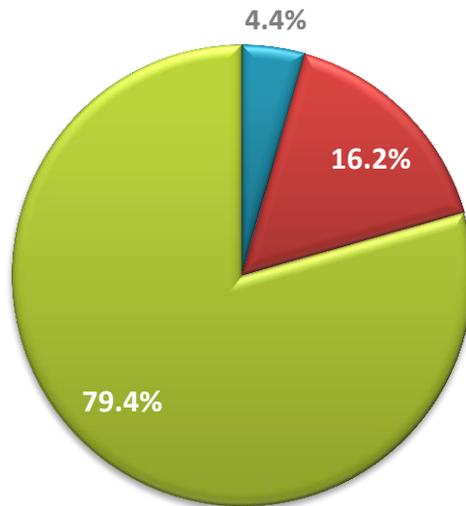


## HOW DO YOU MANAGE YOUR FRANCHISE SALES LEADS?

Not surprisingly, almost 80% of respondents are using a Customer Relationship Management (CRM) system to manage the recruiting leads. What does astound us, however, is the high percentage who do not use a CRM product – over 16%. Data has shown that effective CRM systems can not only significantly improve sales numbers by allowing franchisors to track current franchisee profiles and allow them to generate new strategies for recruiting based on their existing top franchisees. It also helps establish better outreach channels to optimize communications to recruits and improve the chance of a sale.

### DO YOU USE A CRM SYSTEM?

- I don't know
- No
- Yes

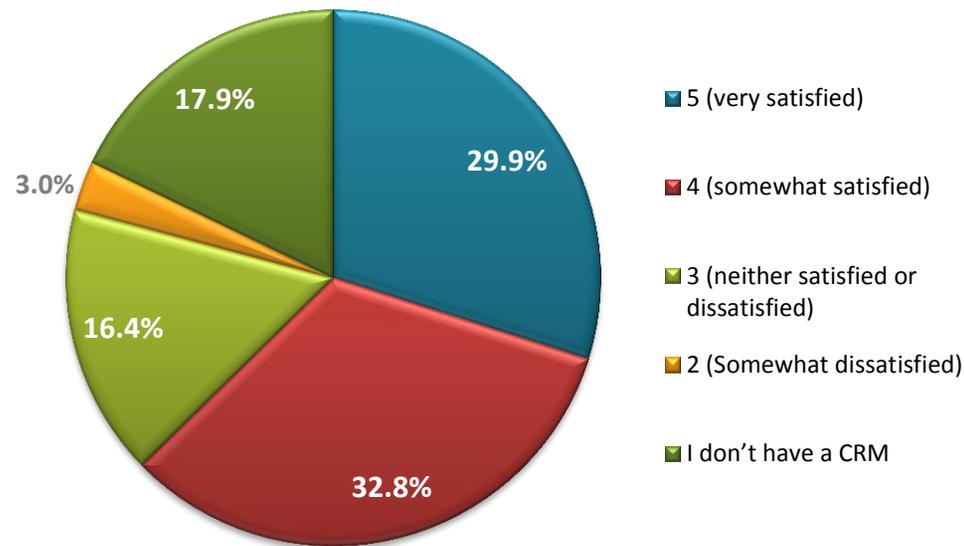


Effective **CRM**  
makes a world of  
difference

## HOW SATISFIED ARE YOU WITH YOUR CRM SYSTEM?

Interestingly, none of the respondents were completely dissatisfied with their CRM systems – indicative of the fact that these systems have been proven to ultimately increase sales. Over 76% of those who have CRM systems are somewhat to very satisfied with their CRM systems.

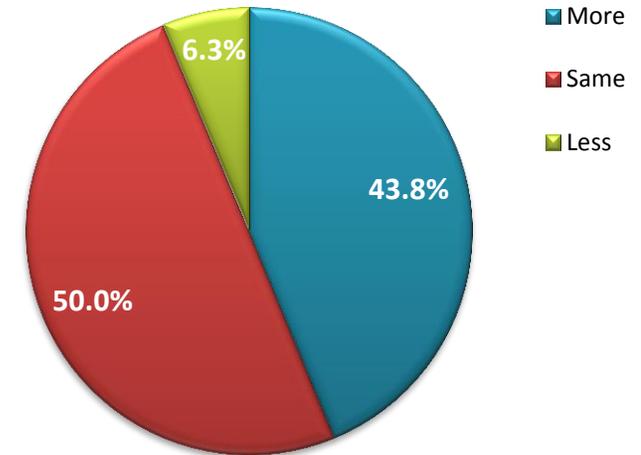
HOW SATISFIED ARE YOU WITH YOUR CRM SYSTEM?



## 2015 BUDGET: FRANCHISE SALES AND RECRUITMENT

Over 93% of franchisors are planning to spend the same or more than they did in 2014 on pure lead generation activities (excluding broker fees). In the under 100 units size category, the range of spend went from \$0 to \$250,000 with an average of \$63,000. In the 100-499 unit franchise size, the range went from \$0 to \$1M, with an average of \$213,000 – clearly brought up by the \$1M outlier. Without that, the average was only \$175,000. In the 500 plus unit category, the investment ranged from \$10,000 to \$500,000 with an average of over \$205,000.

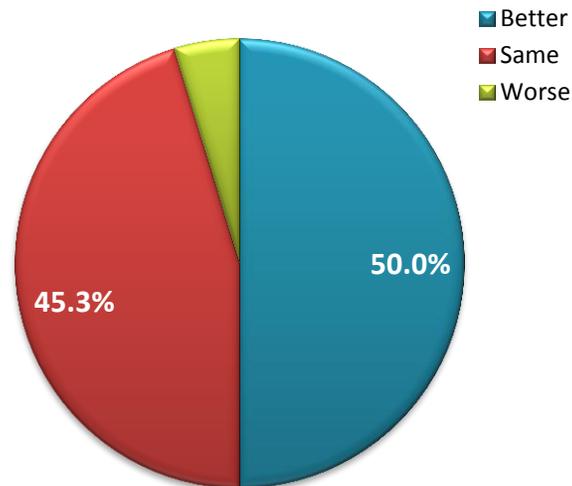
ARE YOU SPENDING MORE, THE SAME, OR LESS THAN YOUR 2014 ANNUAL BUDGET?



## ARE YOUR LEADS UP OR DOWN?

31% of respondents said their leads were the same as the previous year, while a full 67% said their leads had increased over last year. If we take a closer look, we see that the franchisors with a smaller number of units (1-25) saw big leaps in their lead numbers, in most cases running anywhere from a 25% to 50% increase. And as we see in this chart, 50% felt that the leads were higher quality. We see the market improving even more in 2015 and expect the lead quality to improve further as franchisors implement the proper systems.

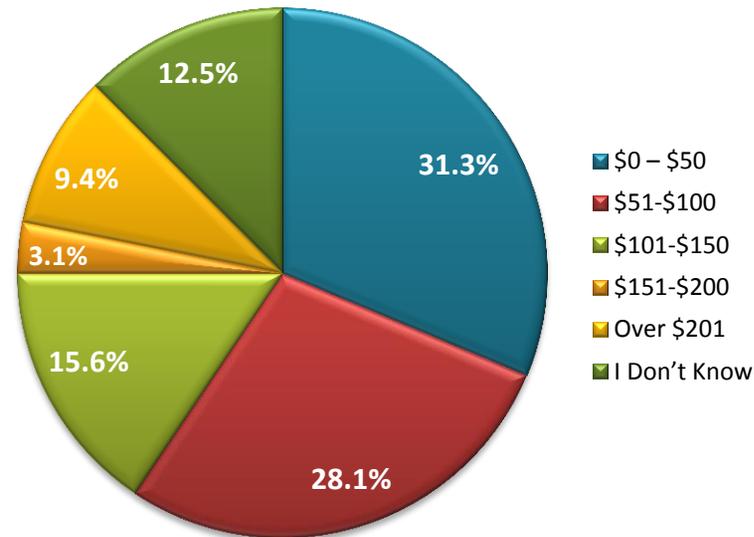
IS THE QUALITY OF LEADS BETTER, SAME AS OR WORSE IN THE LAST YEAR?



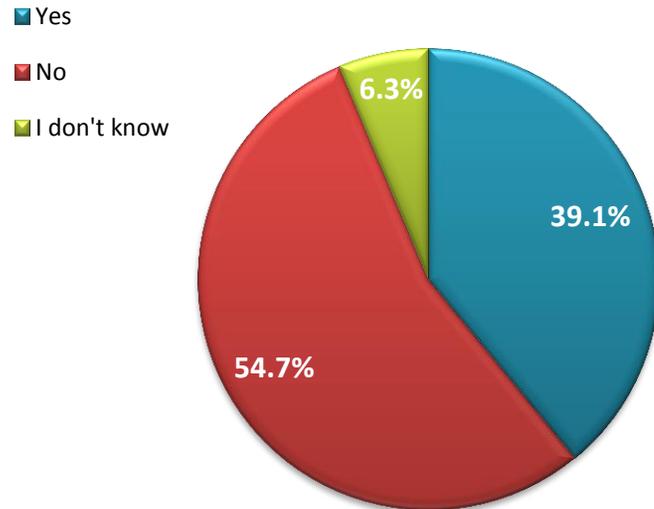
Leads: quantity  
and quality are  
**UP**

## WHAT IS YOUR ESTIMATED COST PER LEAD?

So how much are the right leads worth to franchisors? Almost 60% of franchisors are currently spending under \$100 per lead. That's a 14% increase over last year, which means cost per lead is trending downward. With lead quality improving as CRM systems continue to evolve, we expect to see this lower cost per lead trend continue.



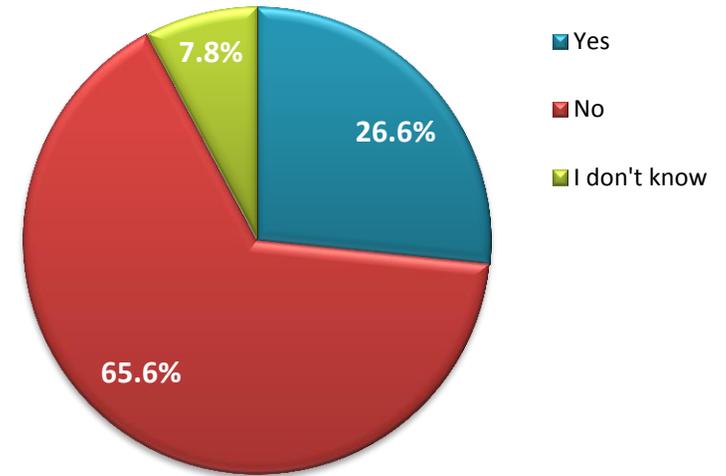
## DO YOU TRACK YOUR COST PER INQUIRY?



Tracking your cost per inquiry is another way to look at how effective your sales strategy is. We expect to see more franchisors starting to look at these numbers moving forward. Of those who track cost per inquiry, the results are all over the map right now and do not seem to be impacted by the size of the franchise. The range went from \$0.35 to over \$500.

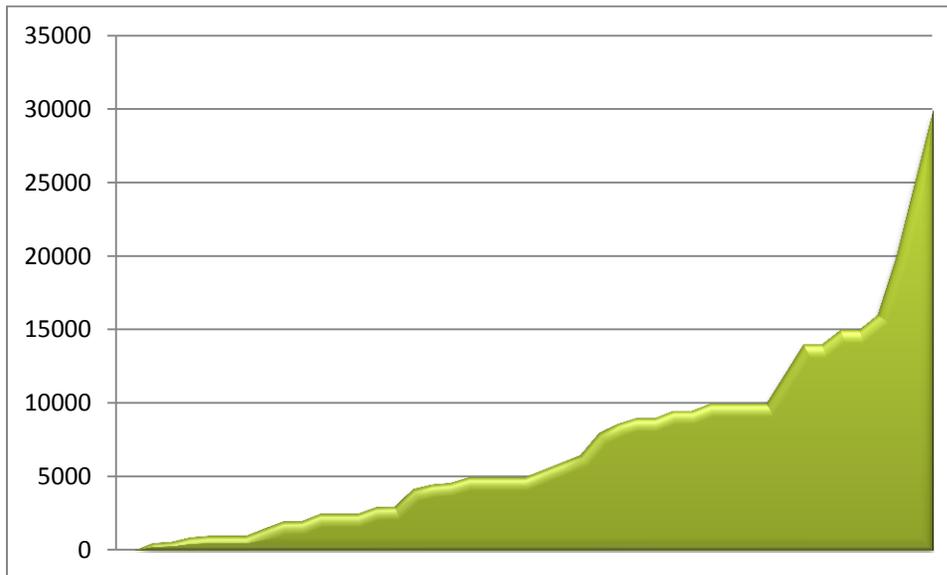
## DO YOU TRACK YOUR COST PER APPLICATION?

Over 65% of respondents said that they do not track cost per application. The importance of this metric is that you want to identify recruits who have a higher chance of success before they get to the application process. With cost per application ranging anywhere from \$50 to \$8000, this could potentially be a number too large to ignore.



## WHAT IS YOUR ESTIMATED COST PER SALE?

Excluding the cost of sales brokers, we asked respondents to tell us how much their cost per sale was. Again, there was a wide variation in the responses with no apparent connection to the size of the franchise. Ranging from \$1,000 to \$30,000 and many points in between, the next thing franchisors need to look at is what their return on investment is from each of these new franchisees that cost them a fair amount to acquire. The better your recruiting strategy and the more comprehensive systems you have in place to ensure that you attract the right franchisees, the better your ROI.

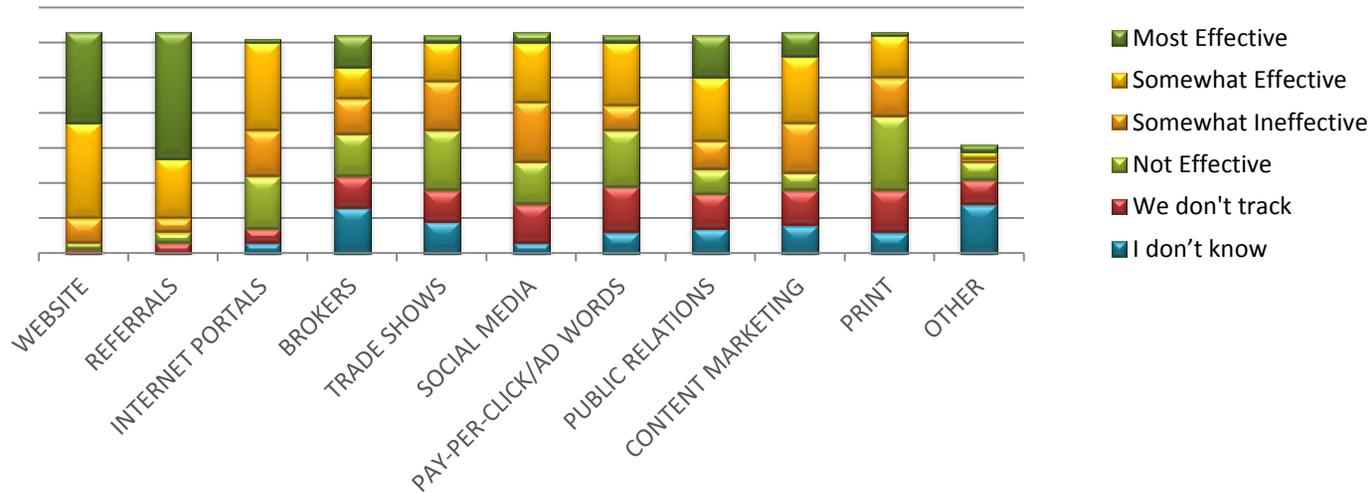


**Cost per sale ranges**  
from **\$1K** to  
**\$30K**

## WHAT ARE THE MOST EFFECTIVE LEAD GEN TECHNIQUES?

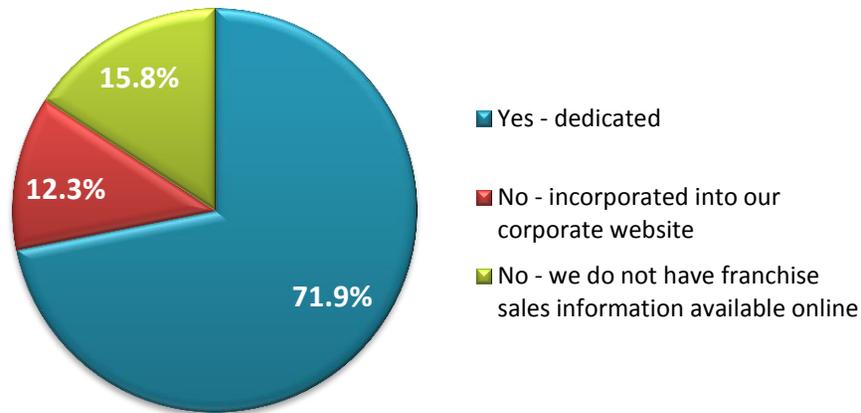
Where should you be focusing your efforts in order to generate the most high quality leads? According to the 2015 survey respondents, referrals are far and away the most effective source, followed closely by website. This underscores the importance of well-planned communications and outreach, as well as the significance of having an effective online presence. Although we see that social media has not been seen as wildly effective, anecdotal evidence shows that ignoring social media can be a huge mistake. Reputation management has a huge impact on your recruiting, and it is critical to ensure that you have the right systems in place to handle your digital image.

HOW EFFECTIVE ARE THE BELOW LEAD GENERATION SOURCES ?



## DO YOU HAVE A DEDICATED FRANCHISE SALES WEBSITE WITH ITS OWN URL?

As we have seen, websites are the second most effective lead source. Your customer facing website does not address the needs of your recruits, making the importance of a dedicated franchise sales website that much higher. Almost 72% of franchisors now have a dedicated recruiting site, up 4% over last year. Incorporating franchise sales into your existing corporate website can often backfire as the message gets lost. Potential franchisees need to know they have your attention and can get to the information they need quickly and easily. Target your messages to that audience and watch your leads grow.

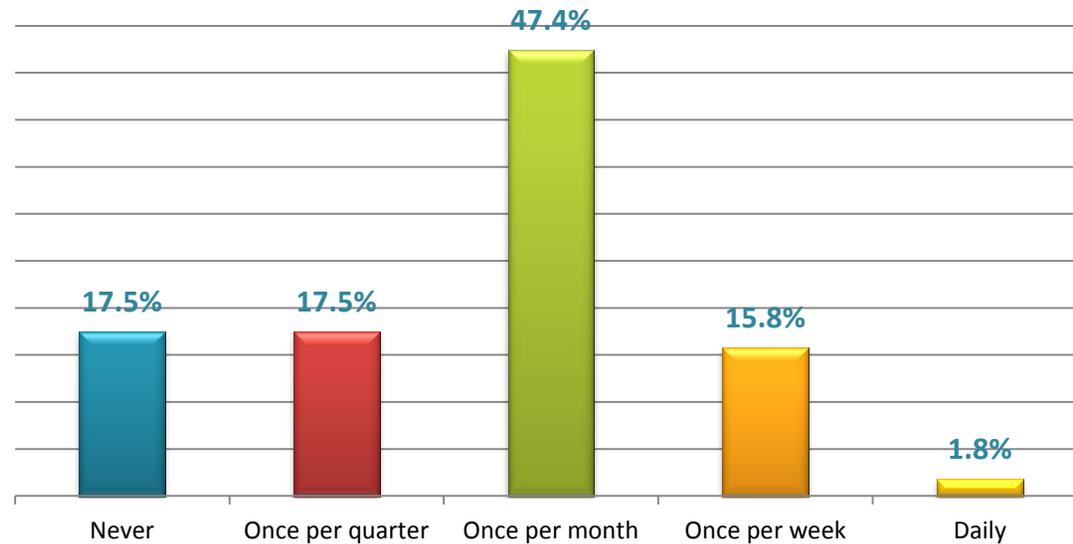


Almost **72%** of franchisors have a dedicated recruiting site

## GOOGLE ANALYTICS: HOW OFTEN DO YOU TRACK IT?

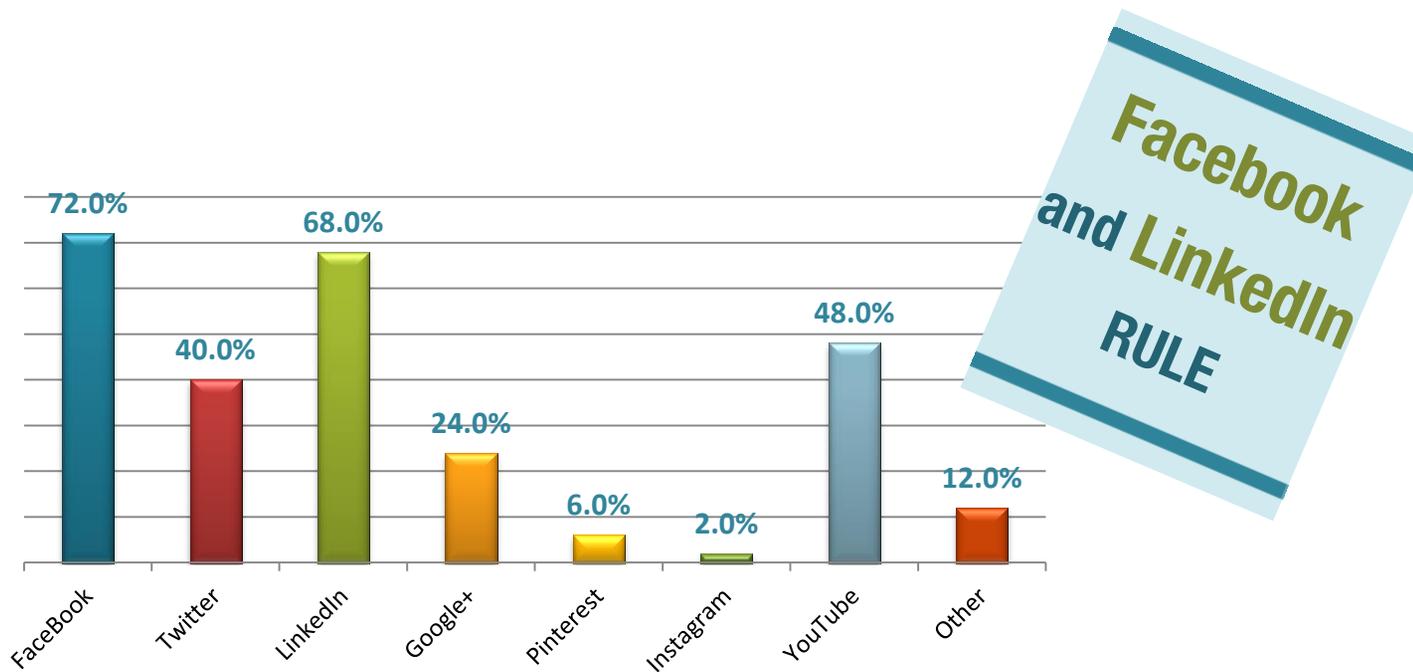
The franchising market recognizes the importance of measuring how effective a website is, and we have seen almost 10% growth in the use of Google Analytics over the past year. Franchisors are becoming even savvier on how best to leverage Google Analytics, as we've seen daily tracking drop over 10%. Understanding the traffic to your site can help you make adjustments to your marketing, site content, and enhance your SEO.

TRACKING GOOGLE ANALYTICS ON YOUR FRANCHISE  
OPPORTUNITY WEBSITE



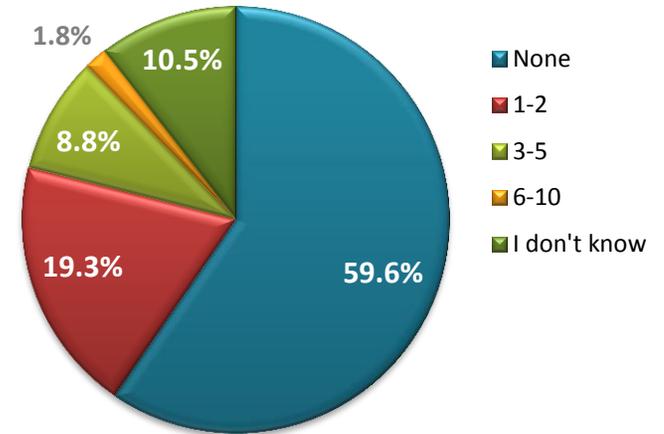
## WHAT TYPES OF SOCIAL MEDIA HAVE YOU USED FOR FRANCHISE RECRUITMENT?

We asked respondents to check all social media that they are currently using for recruitment. Although the use of Facebook has dropped slightly, we have seen increases in Twitter, LinkedIn, and YouTube. Other channels have been focused on the idea of content marketing through blogs and articles.



## HOW MANY DEALS IN THE PAST YEAR CAN BE ATTRIBUTED TO SOCIAL MEDIA?

More respondents are actually tracking the effectiveness of social media than last year as franchisors recognize the importance of metrics in the online space. Although there are still a large percentage who have not seen direct deals come in, brand reputation can be made or broken in the social media arena. We expect the success of social media programs to continue to improve in the coming year as franchisors put tools in place to make the most of their online presence and engagement with recruits.



# THE TOP THREE GREATEST FRANCHISE SALES CHALLENGES

It's no surprise that the greatest challenge franchisors face is the same as last year: lead generation. Lack of budget, closing effectiveness, and franchisee validations are also concerns, the latter two of which can be addressed through proper strategies and implementing systems that can make the process more effective and efficient. Budgets are always a concern, but continue to track your ROI on all of your lead generation activities, leverage technology to improve the quality of your leads, and as you achieve higher levels of recruitment success, you'll have more to invest in business growth strategies.

