Unit 3 – Finances, Benchmarks and Data

Contents

- Understand the LERN Financial Format and the key finance benchmarks
- Learn how to use the two most important Contract Education key formulas
- Find out the data to collect, analyze and report so you are making data-driven decisions

Contract Education Finances

Are you making money in Contract Education? Do you really know? Imagine that your Contract Education program is your very own business and that, like all businesspeople you have to make a profit. You have to pay for space, supplies and instructors. You have to do everything you do now, and make ends meet. Would you do things differently? Where would you trim and what would you use for financial benchmarks?

The good news is that the ability to be a consistent financial contributor to your institution means that you will be thought of and treated as a relevant and valuable part of the institution.

LERN has crafted a simple set of financial benchmarks by which you can gauge your financial health on an individual contract, or program-wide. These benchmarks are specific to Contract Education programs.

You may find that your institution needs you to track your income and expenses in a different way. In that case, you’ll keep two sets of books. The tracking of a few numbers will tell you where your margins are, where you need to improve efficiency or better control costs, and how to create a stronger program, over time, without exerting undue extra effort.

The LERN Financial Format

In the business of Contract Education, there are three big costs:
Promotion: The monies spent marketing contracts.
Production: The monies spent delivering contracts.
Administration: The monies spent operating your Contract Education program.

A Contract Education program that generates enough income to cover these three costs would be considered financially self-sufficient.

To compare financial performance of Contract Education programs, as well as other types of lifelong learning programs, LERN developed the LERN Financial Format. There are seven components of the LERN Financial Format.

<table>
<thead>
<tr>
<th>Income</th>
<th>Promotion</th>
<th>Production</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Direct Costs</td>
<td>Operating Margin</td>
<td>Administration</td>
</tr>
<tr>
<td>Net</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

They are:

- **Income.** The revenue or sales you generate.
- **Promotion.** The amount you spend marketing (think lead generation), such as a sales kit, digital marketing, website, and events.
- **Production.** The amount you spend delivering your contracts, such as instructor fees, materials, food, and product development.
- **Direct Costs.** If you add promotion and production together, you get direct costs; the costs directly related to selling and delivering contracts.
- **Operating Margin.** If you subtract your direct costs from your income you get your operating margin; the money left over to support administration costs.
- **Administration.** The amount you spend operating day-to-day, such as staffing costs, staff benefits, office supplies, and staff training. It should be noted that the cost of salespeople is an administration cost, not a promotion cost.
• **Net.** If you subtract your administration costs from your operating margin you get your net. This is the money left over when you have paid all expenses.

When analyzing your Contract Education program’s overall finances, you include administration and figure out your net. When analyzing one contract or a group of contracts, you are more concerned about the operating margin. If you sell a contract for $9,500 and your direct costs are $4,750, then your operating margin is $4,750 or 50 percent.

**Contract Education programs finance benchmark numbers**
Contract Education programs have the potential to financially outperform other types of lifelong learning programs. Successful Contract Education programs can generate an operating margin of 55 to 60 percent and a net of 20 to 25 percent.

<table>
<thead>
<tr>
<th>Component</th>
<th>Cost</th>
<th>Target percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Promotion</td>
<td></td>
<td>0 - 5%</td>
</tr>
<tr>
<td>Production</td>
<td></td>
<td>35 - 40%</td>
</tr>
<tr>
<td>Direct Costs</td>
<td></td>
<td>40 - 45%</td>
</tr>
<tr>
<td>Operating Margin</td>
<td></td>
<td>55 - 60%</td>
</tr>
<tr>
<td>Administration</td>
<td></td>
<td>35%</td>
</tr>
<tr>
<td>Net</td>
<td></td>
<td>20 – 25%</td>
</tr>
</tbody>
</table>

**Important:**

1. Promotion costs are 5 percent or less because sales are generated by salespeople, not promotional campaigns. The promotion monies are primarily used for lead generation.
2. Production costs should never exceed 50 percent. So you should not spend more than $4,000 delivering an $8,000 contract.

**Controlling costs**
Keeping direct costs under control is important. A few tips:

• Negotiate your production costs. Do not automatically pay an instructor what they want to be paid. Make sure the fee is fair for you.
• Make sure you have staff focused on revenue generation. All too often in Contract Education, too many staff get bogged down by developing and delivering contracts and no one is selling.
• Don’t waste money on promotion whose primary purpose is not generating leads.
• Do not develop products or services you can only sell once or a limited number of times.

Building a budget
Each year you need to build a budget. Using the LERN Financial Format can help. Take the following steps:

Step #1. Look at your sales for the last three years. Come up with your average percentage increase (or possibly decrease) and add to your present year’s numbers. So if your budget this year is $100,000 and the last three years your increase has been 10 percent, then project $110,000.

Step #2. Decide on your net. If your desired net is 15 percent, then the dollar amount is $16,500.

Step #3. Project your direct cost percentage. This is done by reviewing your performance the last three years. If the average has been 45 percent, then you can project $49,500.

Step #4. You can now build your budget.

Income = $110,000
Direct Costs = $49,500
Operating Margin = $60,500

Income - Direct Costs = Operating Margin (100,000 - 49,500 = 60,500)
Net = $16,500
Administration = $44,000

Operating Margin - Net = Administration (60,500 - 16,500 = 44,000)

So you have $44,000 or 40% to spend on Administration
Contract Education Formulas

Prospects, leads and contracts
First, it is important to understand the difference between prospects, leads and contracts.

- A prospect is all existing clients and potential clients you can sell.
- A lead is all existing clients and potential clients who have shown some level of interest in purchasing.
- A contract is when an existing client or potential client purchases by signing a contract.

So prospects become leads and leads become contracts.

Key formulas
Although there are seven different Contract Education formulas, the two most important are:

Average Income per Contract

Total Contract Income/Total Contracts Sold = Average Income per Contract

$100,000/20 = $5,000

Leads: Contract Ratio

Total Leads Generated/Total Contract Sold = Leads: Contract Ratio

100/20 = 5:1

With this information you can figure out the number of leads you need to generate and contracts you need to sell to reach your income goal.

Income Goal: $150,000
Average Income per Contract: $5,000
Lead: Contract Ratio: 5:1

$150,000/$5,000 = 30 Contracts X 5 = 150 Leads

Data to Collect, Reports to Run

Besides your financial reports, there is other data to collect, analyze and report on.
For each contract sold you should collect the following data:

- **Salesperson**: Who sold the contract.
- **Client**: What client purchased the contract.
- **Industry**: What industry is the client part of.
- **Category**: What grouping of product or service, such as Soft Skills.
- **Contract Generated**: Repeat, referral or new lead.
- **Discussion Started**: What day did discussion start with client.
- **Contract Date**: Date contract was signed.
- **Contract Price**: Price of contract.
- **Prospects**: Total prospects during the quarter to be analyzed.
- **Leads**: Total leads during the quarter to be analyzed.
- **Instructor Cost**: How much was instructor paid.
- **Sales Cost**: How much did it cost to sell the contract (normally salesperson time).
- **Participants**: How many people participated in the contract.
- **Development Cost**: Cost of developing curriculum.
- **Materials Cost**: Cost of the materials to deliver contract.
- **Other Cost**: Any additional contract costs.
- **Quality**: The client (not participant) quality rating.
- **Contract Benefit**: The benefit the client incurs from contract.
- **Cancel**: Did the contract run or was it cancelled.

With this data, the following are some of the reports you can generate:

<table>
<thead>
<tr>
<th><strong>Data</strong></th>
<th><strong>Report</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>Contract Operating Margin</td>
<td>Income – Direct Costs</td>
</tr>
<tr>
<td>Contracts Sold</td>
<td>A contract may have multiple trainings as part of it, so think in terms of signed contracts</td>
</tr>
<tr>
<td>Average Income per Contract</td>
<td>Total Contract Income/Total Contracts Sold</td>
</tr>
<tr>
<td><strong>Data</strong></td>
<td><strong>Report</strong></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>---------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Total Prospects</td>
<td>Any present or potential client you have attempted to contact</td>
</tr>
<tr>
<td>Total Leads</td>
<td>Any present or potential client who has shown interest</td>
</tr>
<tr>
<td>Leads: Contract Ratio</td>
<td>Total Leads Generated/Total Contracts Sold</td>
</tr>
<tr>
<td>New Products/Services</td>
<td>New Products and/or Services/Total Products and/or Services Sold</td>
</tr>
<tr>
<td>Percentage</td>
<td></td>
</tr>
<tr>
<td>Return on Investment</td>
<td>Contract Benefit/Contract Benefit-Contract Cost</td>
</tr>
<tr>
<td>Days to Close Sale</td>
<td>The number of days from when the discussion was started until the contract was signed</td>
</tr>
<tr>
<td>Development Costs</td>
<td>Costs to develop curriculum</td>
</tr>
<tr>
<td>Average Participants per</td>
<td>Total Contract Participants/Total Contracts Run</td>
</tr>
<tr>
<td>Contract</td>
<td></td>
</tr>
<tr>
<td>Repeat Rate</td>
<td>Clients Purchasing in Year One and then Purchasing in Year Two/Total Year One Clients</td>
</tr>
<tr>
<td>LifeTime Value</td>
<td>1/(1-Repeat Rate) X Average Income per Contract</td>
</tr>
<tr>
<td>Cancellation Rate</td>
<td>Total Cancelled Contracts/Total Contracts Sold</td>
</tr>
<tr>
<td>Quality Scores</td>
<td>Normally a rating of 1-5 (1=Poor and 5=Excellent) by the client purchasing the contract</td>
</tr>
<tr>
<td>Contract Type</td>
<td>Normally training or consulting</td>
</tr>
</tbody>
</table>

*Industry benchmarks*

The following are industry benchmarks you can measure your Contract Education program up against:

- Operating Margin. 55%+
- Average Income per Contract. There is not benchmark, but you are always wanting to increase this number. It takes as much energy to deliver a $500 contract as it does a $5,000 contract, so if you are selling $500 contracts you have to do ten times the work it takes to sell one $5,000 contract.
- Repeat Rate/Referral Rate/New Lead Rate. 50%, 25% and 25%
- Leads: Contract Ratio. 4:1
- Quality and Customer Service Scores. 4.2 out of 5
- Cancellation Rate: <5%
- Salesperson. A salesperson who can spend 75% or more of their time selling should be generating 6- to 20-times their salary with 12 as the average.
Client Requests. Ideally requests should be responded to in the same day, but at the longest, 24 hours.

Quarterly analysis

Normally Contract Education programs operate on quarters, so it is important to generate quarterly reports. The following is a template for quarterly reports:

Quarterly Analysis

<table>
<thead>
<tr>
<th></th>
<th>1st Quarter</th>
<th>2nd Quarter</th>
<th>3rd Quarter</th>
<th>4th Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Margin</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Contracts</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average Income per Contract</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prospects</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leads</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Leads: Contract Ratio</td>
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</tbody>
</table>

Summary

Using the LERN Financial Format, you can easily track finance data and determine where you can improve finances. The key formulas and data collection, analysis and reporting helps you with planning, as well as matching up with industry benchmarks.