California Contract Education TAP Boot Camp

Slide 1: Unit 3 – Finances, Benchmarks and Data

California Contract Education TAP Boot Camp. Unit Three: Financings, Benchmarks and Data.

Slide 2: This set of slides covers…

In this set of slides we'll cover understanding the LERN financial format and the key finance benchmarks. We'll learn about knowing the two most important contract education key formulas and this little something about collecting, analyzing and reporting exactly the right data.

Slide 3: Big 3 Costs

In contract education, there are three big cost categories. If you cover these three cost categories LERN will say that you are financially self sufficient. So those three categories are promotion, production, and administration. So promotion is all the dollars that you spend marketing, not including sales. Production is the money you spend delivering. So the way I think of this is if you owned this as a private training business, production are all the costs that you would spend delivering an individual course or program. And administration is the money you spend operating your unit.

Slide 4: LERN Financial Format

LERN developed a very unique financial format. So we look both at the dollar amount, and also the percentage of income that each category takes. So the things that we measure are income. That's all the money you bring in on an individual contract, or in your unit as a whole. Promotion, as I said, your marketing dollars to get the word out. Production: all of the costs that you spend to offer a class. So that would include things like catering, facilities, handouts, that sort of thing. If you add promotion and production together, we call those things added together the direct costs. So that's not a new cost. That's promotion and production added together. When you subtract direct costs from income then the resulting leftover we call the operating margin. From that operating margin, the monies that you spend to run your department are administration category, and whatever's left over, if any, is the net.

Slide 5: Ideal Percentages for Overall Continuing Education Program

These are LERN's percentages for overall continuing education programs. So what I want you to focus on is that in an overall, let's say, including leisure learning and that kind of things program, we expect to get a net of about 5%. That would be quite good.

Slide 6: Ideal Percentages for Contract Education Unit

In contract education, what you see is, of course income is 100% of the dollars that we earn. Promotion, we're only spending zero to 5%. Now, why is this? It's because we don't have expensive catalogs. We spend our promotional dollars primarily generating leads. Production is about 35 to 40% of income. That's what the benchmark that we'd like you to meet. And the direct costs--so that's promotion and production added together--are 40 to 45%, something like that. Operating margin then--the money left over when we subtract direct costs from income--should be around 55 to 60%. And you can see there's a little looseness in these numbers. And it just, you know, depends, But I want you to get an idea of that. Administration is 35%. And look at the net. So if you remember the net, it was quite low in overall continuing education in general. But a contract education unit--because it's not sending out thousands and thousands of catalogs and for some other reasons--because it can charge a little bit more. Then the net we would like to see here is somewhere between 20 and 25%. So if you could get a 50, 55, 60% operating margin, and end with a 20 to 45% net, we would say that's very strong. That's looking good.

Slide 7: Two important points

There's two things really that you need to remember in contract education when we're talking about finances. One thing is that we would like to see your promotion cost 5% or less, because the sales costs are generated by sales people, not promotional campaigns. We're not buying so many billboards. We're not buying television advertising time. We're not sending out 50,000 catalogs a quarter. So primarily we're spending those dollars on lead generation and contract education. The other thing I want you to understand is that production costs should never exceed 50% of the income. So if you've got a contract that you think is going to bring in $8,000, we would like to see you not spending more than $4,000 to deliver that contract.

Slide 8: Controlling Costs

Let's talk about controlling costs. So first of all, one way to control cost is to negotiate for reduced production costs. Your instructors will ask for whatever they think you will give them, whatever they want, whatever they heard, their... your colleagues, their colleagues are paying. Make sure you do the numbers on this and make sure that the fee is fair for you. And the way that I describe this is we have to do it at a rate that's sustainable, so we can all stay in business. The second way that you can control costs is to keep staff focused on revenue generation. All too often in contract education, too many staff are bogged down by developing and delivering contracts. And we don't have anybody out selling. You will not have success if you don't have a dedicated sales person. And of course, you'll have to grow into this in some units. But we really want you to understand it's absolutely key that somebody is out there selling. You can't just wait for your leads to fall out of the sky. Another way to control costs is by not doing wasted promotion whose purpose is on anything other than generating leads. So remember, the way contract training is sold it's relationship based, real world selling, done by person to a person. And then finally, it's helpful if you don't produce products or services that don't have a lifetime of three years or more. The reason for this is if you spend a lot of money to develop a course and you only offer it once, unless you can charge the client for the entire development costs in that single offering, it's not a good option for you. So if you can have it on the shelf for three years or more, and deliver it several times you can spread the development costs out over those offerings. That's a better scenario.

Slide 9: Building a budget in 4 steps

All right, how do you build a budget in contract training? Now let's take a look at this. I like a really simple model for building a budget. So this one is four simple steps. Step one: you look at your sales for the last three years. How much did you make? Where did it come from? And what you want to come up with is your average percentage increase, or in some years it will be decrease, and add that 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%, then you can see you would project perhaps about $110,000 in your budgeting. Second of all, so let me go back to that for a minute. What I want you to understand is that it's not a made up number. Somebody's not just walking in your door and giving you a number. It's actually based on actual performance in the past.

Step two, you decide on your net. So how much money do you want to have left over? You can go back to the table and take a look at that. If you want to see our numbers on that. How much do you want to have left over after you've paid all of the expenses? So in this scenario and step one, we're projecting $110,000 income. If we say well, we'd like to have a 15% net, then the dollar amount of the net would be 16,500. Because 16,500 is 15% of 110,000. Step three, we project our direct costs percentage. So the way that we'd like you to do this--again, you're using real performance numbers to decide how to proceed--you review your performance for the last three years. If the average has been 45% of income as your direct cost, then you would project, well we'd spend about $49,500, to deliver that budgeted amount of income. Now you put all that together, and you've got your budget.

Slide 10: Analyzing Market

Let's talk a little bit about analyzing market. So first of all, we're going to talk about the difference here between three really important words. Number one, a prospect is all existing clients and all the potential clients you can sell. A lead is all existing clients and potential clients who've shown some level of interest in purchasing. And a contract is when an existing client or potential client purchases by actually signing that contract. So prospects become leads and leads, we hope, become contracts. That's the sale cycle.

Slide 11: Prospects, Leads & Contracts

It looks a little something like this, if you like to have it in a visual thing. We start out with lots and lots of prospective buyers, that is people could buy from us, who would maybe buy from us. And we work on those prospects a little bit until they become leads and they're showing some sign of interest at some level. And from the number of leads that we have we'll generate some contracts.

Slide 12: Key Formulas – the most important of the 7

LERN has seven key formulas in contract education. But these two on this slide and the following slide are the most important of the seven to calculate. So the first one is average income per contract. It's really pretty simple. You take your total number of income, let's say for last year, and you divide it by the total number of contracts. So if you had $100,000 income, and you had sold 20 contracts to get that income, of course, your average income per contract is $5000.

Slide 13: Key Formulas – the 2 most important of the 7

The second most important formula is the leads-to-contract ratio. By knowing this ratio, we know how many leads you will need to get the number of contracts you want. And this again is based on past performance, we're not pulling it out of the sky. So you take the number of leads that you had, and you divide it by the number of contracts sold. So the total leads generated, let's say there was 100. And then you look at the number of contracts sold. And you could say this gives us the leads-to-contract ratio, which in the case of 100 leads getting 20 contracts is a five-to-one ratio. What we're really saying here is then probably, all things being the same, if that was our performance recently, it's reasonable to say that in the future with 100 leads, we could get 20 contracts. So what we're saying then if we want to extrapolate that to less or more, we say for every five leads we have, it seems like we produce one contract.

Slide 14: Figuring out the number of leads & contracts you need to reach your goal

So this is a pretty small set of data. But it's really quite reliable. If we have an income goal of 150,000 determined by the way that we talked about it on the budget slide back there, and our average income for... per contract is $5,000, then our lead-to-contract ratio is going to be five-to-one. So 150,000 divided by 5000 gives us five contracts. We need five, sorry, 30 contracts, we need five leads for each one. So 150 leads will help us reach our income goal. Remember, again, the important thing here is that it's based on past performance.

Slide 15: Contract Education Data to Collect…For each Contract

Now, this is a kind of complex slide, and you maybe will do better to look at it in your readings. And it's listed there too. But what this is, is contract education data to collect. This is the right data for each and every contract that you do. So you want to know who sold the contract? Who bought the contract? What industry the contract came from? This is because later we're going to see where does our business come from? We'd like to have categories, you can make these up. So a common category, for example, would be soft skills.

Then we want to know how the contract was generated. Was it repeat? Was it referral? Or was it a new lead? When did we start the discussion? When did they sign it? How much was the value of the contract--the dollar value? How many people participated?

Now we could also be calculating sales costs. That is, how many hours--you know, ballpark--did it take the salesperson to close this contract times their salary? And we'll figure out the sales costs.

What was the instructor cost? Much easier to calculate, of course. What did it cost to develop this class? Remember, you might be spreading that development out over a number of courses, if it's offered many times. Materials costs, anything else, catering, space, technology, anything else.

And then we want to know the quality rating on a scale of one to five and this particular quality metric is not from the participants. This one is from the client, because it's the client who will or won't buy the next contract. So on a scale of one to five, how happy were they?

What's the contract benefit? What was the value to the client in this contract? Really good to calculate this. Also cancel... was the class cancelled? Now we expect a very low rate of cancellation in contract education. But it does happen. Often if it cancels, then we just reschedule.

We also want to calculate leads during the quarter and prospects during the quarter. We want to analyze those. So these are the ones that are are done for it all together. And the ones in red are done for each quarter. And the ones in black are done for each contract.

Slide 16: Decision-Based Data

Now using this data, we make some decisions and we make some analysis of our success. So you can't use data that you didn't collect. And you can't use data that's incorrect. Pretty much everybody knows that, right. But the main thing here is that we want to make decisions based on actual data, not our sense or our feeling of things.

Slide 17: Quarterly Analysis

These are the ones for quarterly analysis. And the reason that I have this slide. So we talked about quarterly analysis a couple of slides back. But I want you to understand that we don't compare first quarter to second quarter, because each quarter will have its unique pattern of business. What we're doing is we're comparing first quarter of this year to first quarter of last year.

Slide 18: Industry Benchmarks to Meet

Now, industry benchmarks to meet. Operating margin. In contract education, we'd like to see it, we'd love to see it at 55% or higher. It's likely that you won't start there in the beginning. So start where you are and look at all the different ways--and LERN has lots of information on this. on how build your operating margin.

The... in the benchmark for average income per contract is not really a benchmark, but you're always wanting to get the average income per contract up higher. And the reason for this is it takes just as much energy to deliver a $500 contract as it does to deliver a $5,000 contract. So if you're selling a lot of little contracts, you're running yourself ragged. So we need to get at least a few, and hopefully, our aim should be as many as possible in the $5,000 or higher range. And of course, we like to have some, a few, that are really a lot more than that. The higher your average income per contract is really in some ways, the less hard you have to work.

Repeat rate, referral rate, and leads--new leads. So we'd like to see a 50% repeat rate. What that means is 50% of the people who did business with you last year, are coming back to do business with you this year. That has to do with their sense of quality. And that also has to do with whether or not you are in the front of their mind. So somebody who's getting a 50% repeat rate is talking to their clients. Referral rate. LERN just wrote a book on referrals. And you should get this manual. It's a little more than 50 pages on how to develop a quarter of your business from referrals. If you're not getting referrals, you're working too hard, because that's where your easy leads come from.

And then about a quarter of your business from new leads. Your lead-to-contract ratio should be four-to-one. For every four leads you have, you should be able to land the contract.

Your quality and customer service scores--now this is from the client's perspective--should be about 4.2 out of five and your cancellation rate should be less than 5%.

Really, cancellations are time consuming and a waste of often time and energy.

Now here's a really important one. This is the benchmark for sales person. A salesperson who can spend--now listen to this--they're spending 75% or more of their time selling. So got that? It's not somebody that's spending 25% of their time. But 75% or more of the time selling should be generating six to 20 times their salary with 12 times their salary as the average.

Slide 19: Summary

So in summary, the best decisions are made by using data. But to to use data, you have to collect it and you have to understand the data that you're collecting. LERN's three big costs: promotion, production and administration. LERN's key formulas are the most important data to collect. And we told you in this slide show the two most important of those seven key formulas to focus on. And it's a good idea I think go ahead and learn and use all seven of the key formulas. And then controlling costs is really important to achieving profit. Fifty percent operating margin is the benchmark for a contract education unit. If you can hit that 50%, we're happy with your work.