

COMMERCIAL BANKING

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# FRANCHISING YOUR BUSINESS

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How we can help you grow



**LLOYDS BANK**

# Our services for franchisors

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## Developing your franchise business

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We are proud to support the growth of ethical franchising in the UK. We are committed to helping your business grow and succeed. It is essential that you receive professional advice if you're considering franchising as a method of developing your business. Our team is available to assist with your research on how to franchise your business.

Franchising could well be the right option for you; however, it is a decision that should not be taken lightly. We can provide you with impartial support and guidance to help you make an informed decision about franchising and the alternative options that may be available to you. Developing your business through franchising will require a considerable amount of preparation and upfront capital investment before you will be in a position to recruit franchisees.

Banking services and flexible financial options are available to help you achieve your plans. We can also develop a package of support for potential franchisees looking to invest in your franchise opportunity. Your next step on the road to franchising your business should be to speak with our franchise team who are available throughout the UK.

### Contact us

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- Email: [franchising@lloydsbanking.com](mailto:franchising@lloydsbanking.com)
- Website: [lloydsbank.com/franchising](https://lloydsbank.com/franchising)

# An introduction to franchising

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## How it works

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### Business Format Franchising

Business Format Franchising is the granting of a licence by a business owner (franchisor) to another individual or company (franchisee) which entitles the latter to set up and develop their own business using the trademark, name, know-how and business systems of the franchisor. You can only franchise an established successful business and not an idea. Franchising should only be considered by those who can demonstrate a viable business opportunity with a successful track record.

### British Franchise Association

The British Franchise Association (bfa) is the self-regulatory organisation that oversees franchising in the UK and their website [www.thebfa.org](http://www.thebfa.org) is a valuable source of information. The bfa accredits membership to franchise systems and professionals that meet their entry standards and who adopt an ethical approach to franchising. Lloyds Bank is an affiliate member of the bfa.

### Advantages

Franchising offers the franchisor a number of benefits which need to be balanced against the disadvantages to help you make an informed decision. You can expect franchisees to be highly motivated to maximise growth and profitability and they usually outperform managers employed to run outlets who do not have a personal financial investment in the business. Franchisors provide a head office support structure but do not face the costs and operational issues associated with running their own individual outlets, as the franchisee has that responsibility. You can expand your business more rapidly using the capital of your franchisees.

There are a wide variety of franchise opportunities available in the UK across a broad range of industry sectors. Potential investors are attracted to a tried and tested business model as well as receiving initial training and ongoing support. Once the franchisee network is well established other benefits may include brand recognition and the collective buying power that a network of businesses can bring.

### Disadvantages

Upfront investment costs and management time can be considerable. Selecting suitable franchisees can prove difficult and it may take several years to recover your capital investment. You generate your revenue, once the franchisee's business is up and running, from management service fees and possibly the mark-up on any products or services provided. As you need to invest from the outset in the franchise infrastructure you will not be able to cover your franchise running costs until your network grows and generates sufficient fee income.

The franchisor's success is closely linked to the way the franchisees in their network operate their businesses. Enforcing the terms of the franchise agreement can be time consuming and serious breaches may incur legal expenses. The reputational damage to your brand from a rogue franchisee can be considerable and the time and effort monitoring the franchisee's performance should not be underestimated. The loss of a franchisee's motivation can have a negative impact on your network.

# Building a winning franchise

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## The foundations of success

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### Brand

- Is the brand distinctive?
- Is there a clearly defined image?
- Has the brand been protected?
- Will your product or service stand the test of time?

You must own your brand or intellectual property and ensure that it is protected with appropriate trademarks. You will have an obligation to your franchisees to take the necessary actions against those who damage the brand. Threats can come from other businesses that copy your brand or individuals within your network who operate outside the terms of the agreement and who could damage the reputation of the franchise.

### System

- Can the business be easily duplicated and learned?
- Have you produced an operations manual?
- Have you operated a pilot scheme?
- Can you introduce a robust monitoring system?

The system will have been proven over a reasonable period of time through operating your own business as well as demonstrating through one or more pilot operations that the business can be successfully replicated elsewhere with appropriate training and support. Any pilot scheme will allow you to fine tune the system and operations manual. The operations manual contains your know-how and sets out the duties of the franchisee covering all aspects of the business. You want your franchisees to follow your systems which have already proved successful for you.

### Support

- What will be covered in your training programme?
- What ongoing support will you offer?
- Who will deliver the training and support?
- What happens if franchisees experience difficulties?

A major attraction to investors interested in franchising is the provision of initial training, ongoing support and guidance from the franchisor. Most investors will have little or no experience of running a business, therefore, training and continuing support are essential. Franchisees will require more support in the early days establishing their business; however, they should also expect guidance and support from the franchisor throughout the life of the business. Franchisees may start to resent paying the management service fees if they do not feel that they are getting value for their money.

### Agreement

- What terms do you wish to include?
- Are the terms clearly defined?
- Who will draw up the agreement?
- Is it enforceable?

The franchise agreement needs to protect the franchisor's brand, know-how and franchisee network, therefore, it will be weighted in your favour. It should at the same time be fair, reasonable and enforceable. All franchisees should be on the same terms and therefore the major terms of the agreement should not be negotiable. It is advisable for the agreement to be drawn up by a lawyer with franchising expertise who is affiliated to the bfa.

# I need to be sure that franchising is right for me

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## What it takes to succeed

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The franchisor provides support and motivation to their network of franchisees and, in turn, benefits from their ultimate success through a share of the income. The franchisor is likely to benefit from quicker expansion than they would otherwise be able to achieve operating their own outlets. They will have less hassle from the involvement in the day-to-day operation of running outlets which will be the responsibility of the franchisee.

Franchising a business takes a substantial investment in both time and money. There are many pitfalls along the way and managing a network of franchisees brings its own unique challenges. The rewards, however, can be significant if the franchise is developed successfully.

You need to look at the pros and cons and consider whether you have the required skills and attributes to develop your business through the franchising route. It requires meticulous planning before investing your money and making a commitment to proceed. Don't just copy others, make sure your business has a competitive advantage or unique selling point which will attract prospective franchisees. At some stage you will reach a point of deciding whether you wish to maintain your core business and recruit a team to manage the franchise network for you or to become a franchisor and to bring in a manager for your existing business or even sell it to a franchisee.

As a franchisor you must stay ahead of the game, which means continual research and development of your products or services. Testing new developments in your own outlet before releasing them to the franchisee network is advisable. Don't expect everything to be plain sailing. You may encounter many challenges from underperforming franchisees, disputes and even terminating franchisees that seriously breach the terms of the agreement. Think long and hard – do you have the commitment, determination and energy to face these challenges and maintain a positive outlook? If you have any doubts, then franchising may not be the right step for you.

## Ask yourself the following

- Are your goals realistic and attainable?
- Do you have the patience, tenacity and self-discipline to succeed?
- Can you develop and sustain relationships with many different personalities?
- Are you ready to sacrifice some of your present independence by working with franchisees?
- Is it the right time to develop a franchise? Are you up for the challenge?

## Points to consider

- Concepts must be successfully proven through the existing business and setting up pilot operations.
- There should be a distinctive brand and clear operational systems set out for franchisees to follow.
- You are committed to developing your franchisees through training and ongoing support.
- The franchisor and franchisee must both generate a reasonable return for their investment.
- There is a mutually beneficial dependency between the franchisor and franchisee.
- Recruiting good quality franchisees can be a major issue for franchisors as they look to develop.
- Developing a franchised business takes a considerable amount of time and capital investment.
- Seek expert advice from professionals with franchising experience, preferably bfa affiliate members.
- Can you achieve your goals through alternative methods such as licensing, agencies or distribution?

# Costs of setting up a franchise business



As each business is individual there is no set cost for franchising a business. Some franchises are more complex than others and will require more time and professional support to get them ready to launch. Initial set-up costs could be in the region of £50,000; however, remember that you need to budget for sufficient working capital. The profits from the pilot operation may be able to support the franchise programme; however, if they don't it will take time to recruit franchisees and for them to generate sufficient fee income to cover your franchise operating costs. In some instances it can take several years to achieve profitability and you need to be realistic about your franchisee recruitment objectives.

There are no short cuts to reducing your capital investment. Potential investors will thoroughly research a franchise opportunity before making a commitment. Banks will not finance the prospective franchisee unless they are happy that the franchise is viable and has been set up in the right way. It is essential for you to take professional advice and produce a feasibility study and development plan before proceeding. We can provide financial support to assist you with the development of your franchise, subject to status and a full business review.

Development costs will include market research, the successful operation of a pilot unit, professional consultancy fees, operations manual, training programme, support structure, brand protection and legal costs. Recruiting franchisees is usually an expensive process. You will need to design and produce a prospectus to attract suitable investors and a variety of advertising will be required. The Internet has become a major recruitment tool; however, exhibitions, trade magazines, local and national press and recruitment agencies are also worthy of consideration. Following up enquiries, eliminating unsuitable candidates and conducting selection interviews are time consuming and need to be built into the budget.

Selecting suitable franchisees is vital as the future of your business and reputation depends on it. A franchisee may not necessarily require previous industry experience as you will be providing the appropriate training and support; however, they must have the right skills, attitude and sufficient capital to invest in your business. Don't compromise on your selection criteria to meet your growth objectives.

## Income

The initial franchise fee covers the cost of the recruitment and training of franchisees and it should not be a major profit line for the franchisor. Your profits will come from the management service fee or sometimes a mark-up on the goods and services supplied to your franchisees. The management service fee is usually a percentage of the franchisee's gross turnover although, in some cases, a fixed monthly fee may be charged. The fee is not usually linked to the franchisee's net profitability as that figure can be manipulated by the franchisee and their accountant to reduce what they would need to pay you.

An advertising or marketing fee is often built into the agreement as the franchisee's contribution to the national advertising of the brand. These funds should be held separate from other fees collected and accounted for so that your network understands where the funds have been spent. To help you set an appropriate initial franchise package fee and ongoing fees, it's essential that you receive expert advice from a bfa-affiliated franchise consultant. With the franchise there should be a balance between the franchisor's income and the ability for the franchisee to make a decent living from the business. If there isn't that mutually beneficial relationship then the franchise will not work.

# Professional Advice



Before deciding whether franchising is the right step for your business it will be advisable to carry out careful research. Attending a bfa franchisor seminar and purchasing their guide is a good starting point. It is essential that you receive expert support from a consultant who is experienced in developing franchise business as they can offer practical guidance and advice.

We recommend that you use a bfa-affiliated franchise consultant to assist with your franchise planning. Take the time to research their suitability and experience.

The franchise agreement should be drawn up by a lawyer that has franchising experience who is affiliated to the bfa. This is an important document which will be tailored to your specific business and sets out the terms under which you are licensing your franchise opportunity. Cutting costs will create problems down the line which could prove expensive to remedy so selecting the right legal advice is vital to protect your brand.

Your accountant should also have a good understanding of franchising to be able to advise you initially and as your franchise network develops. The bfa also accredits accountants that have demonstrated their expertise and experience in the franchise sector. For a full list of professionals affiliated to the bfa visit their website or contact us for an introduction to the appropriate professional adviser.

## Useful contacts

### British Franchise Association

Tel: **01235 820470**

Web: **[www.thebfa.org](http://www.thebfa.org)**

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### Franchise World

Web: **[www.franchiseworld.co.uk](http://www.franchiseworld.co.uk)**

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### Franchisor News

Web: **[www.franchisornews.co.uk](http://www.franchisornews.co.uk)**

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### Making Money/What Franchise

Web: **[www.makingmoney.co.uk](http://www.makingmoney.co.uk)**

Web: **[www.whatfranchisemagazine.co.uk](http://www.whatfranchisemagazine.co.uk)**

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### Business Franchise

Web: **[www.businessfranchise.com](http://www.businessfranchise.com)**

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### The Franchise Magazine

Web: **[www.thefranchisemagazine.net](http://www.thefranchisemagazine.net)**

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## Useful websites

**[www.whichfranchise.com](http://www.whichfranchise.com)**

**[www.franchiseinfo.co.uk](http://www.franchiseinfo.co.uk)**

**[www.selectyourfranchise.com](http://www.selectyourfranchise.com)**

**[www.gov.uk/browse/business](http://www.gov.uk/browse/business)**

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## Our service promise

If you experience a problem, we will always try to resolve it as quickly as possible. Please bring it to the attention of any member of staff. Our complaints procedures are published at **[lloydsbank.com/business/contactus](http://lloydsbank.com/business/contactus)**

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# I want to franchise my business

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 Visit [lloydsbank.com/franchising](https://lloydsbank.com/franchising)

 Call your relationship manager

 Email  
[Franchising@lloydsbanking.com](mailto:Franchising@lloydsbanking.com)

Please contact us if you'd like this information in an alternative format such as Braille, large print or audio.

If you have a hearing or speech impairment you can use Text Relay (previously Typetalk) or if you would prefer to use a Textphone, please feel free to call us on 0845 601 6909 (lines open 7am–8pm Monday to Friday and 9am–2pm Saturdays).

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## Important information

Your call may be monitored or recorded in case we need to check we have carried out your instructions correctly and to help improve our quality of service.

Please remember we cannot guarantee security of messages sent by email.

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