

COMMERCIAL BANKING



FRANCHISING YOUR BUSINESS

How we can help you grow



LLOYDS BANK

Our support for you

Developing a franchise

We are committed to helping your business grow and succeed. It is essential that you get expert professional advice if you're considering franchising as a development model.

Franchising may be the right development option for your business, but it's not a decision to take lightly. We can provide impartial guidance to help you make an informed decision about franchising and the alternatives that may be open to you.

Developing a franchise model will take time, preparation and upfront capital before you'll be in a position to recruit franchisees. Our franchise team will assist you with your own plans, as well as developing a package to support prospective franchisees to help them join your network.

We have partnered with the British Franchise Association (bfa) to develop an online educational programme for business owners looking at franchising as a route to develop their existing business. To fully prepare and to give yourself the best chance of flourishing, it is essential to understand the benefits and pitfalls that franchising can bring. The programme helps you decide whether franchising is right for your business and gives you an understanding of the following:

- How to develop and grow a franchise
- Legalities – confidentiality, deposits and the franchise agreement
- Business planning, financials and banking relations
- Franchise case studies

Follow the link below to complete your Prospect Franchisor Certificate.



<https://bfa-franchisors.trainme.tv>

The Prospect Franchisor Certificate has been designed to be easily accessible on any device, anywhere with an internet connection.

Contact us

franchising@lloydsbanking.com
lloydsbank.com/franchising

An introduction to franchising

How it works

Business Format Franchising

The granting of a licence by the business owner (franchisor) to another individual or company (franchisee). This entitles the franchisee to set up and operate their own business using the trademark, name, know-how and business systems of the business owner. Franchising should only be considered by those who can demonstrate a viable business opportunity with a successful trading track record.

British Franchise Association

We are Affiliate Members of the bfa, the original and largest franchise trade association in the UK. Copycat organisations spring up from time to time and market themselves as trade bodies that represent the UK franchise market. However the bfa is the only one to have a credible voice representing the community in the UK, Europe and throughout the world for more than 40 years.

www.thebfa.org

Advantages

- Franchising is a proven development model for a wide range of businesses across many different industry sectors
- Franchisees are likely to be more motivated than employees, as they have a direct influence and benefit from business growth and profitability
- Franchisees will usually outperform managers as they have a personal financial investment in the business
- Business networks can expand more rapidly using the franchisees capital
- You don't have the operational issues or costs associated with running your own outlets, as this is the franchisee's responsibility
- Franchisee investors are attracted to businesses that are tried and tested, and where they receive initial training and support throughout the life of the franchise
- The collective buying power of an established franchise benefits the entire network.

Disadvantages

- Upfront costs and considerable amount of time to set up your franchise. Return on investment can take several years
- You generate revenue from a share of the franchisee's sales which can take time to build up
- Selecting suitable franchisees can prove challenging
- Poor service performance from a rogue franchisee can have a detrimental impact on the franchise brand and network
- Enforcement of a serious breach of the legal agreement can be time consuming and very costly
- A considerable amount of time and effort needs to be invested in monitoring the network's performance.

Building a winning franchise

The foundations of success



Brand

Your franchise should have a clearly defined and distinctive brand. You must own the intellectual property and ensure that it is appropriately protected. Franchisees expect you to take action should a rival business try to copy the brand in their local territory, or if neighbouring franchisees in your network damage the brand's reputation.



Support

Guidance, training and support is a major attraction to would be franchisees, as most will have little experience in running a business. Franchisees require proportionally more support in the early months and expect guidance throughout the life of the business. Franchisees may start to begrudge paying their fees if they don't feel they're getting the right level of support.



System

You want your franchisees to follow your systems, which have already proven successful for you. The system will have been proven over a reasonable period of time, typically for at least 12 months. Any franchise system should be easily duplicated with appropriate training and support. Piloting the system will allow you to iron out any teething difficulties and fine tune your operating model. You should provide an operations manual that contains your know-how and sets out the duties of the franchisee covering all aspects of the business.



Agreement

The legal agreement together with the operations manual protects the brand, know-how and network. It favours you as the franchisor, but it needs to be fair and enforceable. All franchisees should be on the same terms and the agreement generally shouldn't be negotiable. The agreement should be drawn up by a lawyer with franchising expertise and preferably someone affiliated to the bfa.

Is franchising right for you?

What it takes to succeed

Franchising your business will require a substantial investment in time and money. Trying to do so without the guidance of experts is an unwise and reckless approach. There are many pitfalls along the way and meticulous planning is essential.

Becoming a franchisor

You will provide support and motivation to your network. In turn, you will benefit from the success of your franchisees through a share of their income. You will be expected to stay ahead of the game which means continual research and development of your products and services. Testing new developments before release to the network is advisable.

Initially it may mean you adopting multiple roles; running your own business whilst becoming a franchisor responsible for training, support, development, motivating, monitoring, marketing, social media and recruitment. As the network grows your team will expand to take on some of these support functions.

Not everything will be plain-sailing and you can expect to manage under performance, disputes and even terminating franchisees that seriously breach the terms of the legal agreement. You'll need resilience, commitment, determination and a great deal of energy to face these challenges and maintain a positive outlook. If you have any doubts about your ability to manage these tests, then franchising may not be the right step for you.

Ask yourself these questions

- Are your goals realistic and achievable? Can you better achieve them through alternative methods such as organic growth, licensing, agencies or distribution?
- Do you have the patience, tenacity and self-discipline to succeed?
- Is it the optimum time to start your franchising journey?
- Do you have enough capital to develop your franchise model?
- Can you develop and maintain good relationships with several different personalities?
- Are you ready to sacrifice some of your independence by working with franchisees?
- Can you operate a pilot franchise to demonstrate that you can train and support someone to successfully replicate your business model?
- Do you have a distinctive brand, competitive advantages and robust operating systems to attract prospective franchisees?
- Can you commit to training and supporting your franchisee network so they can develop and grow?
- Are you up for the challenge?

Points to consider

- There is a mutual dependency between you and the franchisee to build a successful network so you both must be able to generate reasonable profit margins
- Recruiting high quality franchisees may prove to be challenging and you'll need to ensure that you have a reasonable budget to promote the opportunity to potential franchisee investors
- Developing a franchise brand will take a considerable amount of time and capital investment before you can expect to see a significant return
- Seek expert advice from professionals with franchising experience, preferably those affiliated to the bfa
- Undertake the Prospect Franchisor Certificate educational programme
- Talk to us, as we can offer you and your franchisees invaluable guidance and support.

Costs of developing a franchise



Setting up

Developing a franchise model is bespoke to each business and therefore costs vary depending on the complexity and the professional support required. To reach a stage where the franchise is ready to launch may cost up to £50,000. You will also need a marketing budget of at least £1,000 per month to recruit potential franchisees. It will take time to recruit franchisees and for them to generate sufficient income to cover your franchise operating costs. Your original business needs to be trading profitably to absorb the franchise development launch and running costs for several months and possibly the first few years.

Lenders will not finance the set up and working capital requirement for new franchisees unless they are satisfied that the opportunity is viable and has been set up in the right way. It is essential that you take expert advice from reputable and experienced professionals before starting your franchise development journey. Our franchise team can provide you with the contact details of consultants, accountants and solicitors that specialise in the franchise sector, who are affiliated to the bfa and have demonstrated their knowledge and understanding of the market.

There are numerous tasks to complete before you'll be ready to start recruiting franchisees and this development may include the following:

- Research and business planning
- Brand protection – trademarks, copyright
- Launching a pilot operation
- Sourcing initial stock and equipment
- Franchise consultancy
- Legal documentation – confidentiality, deposit and franchise agreements
- Operation and training manuals
- Training programme
- Support structure
- Franchising website
- Social media
- Marketing documents
- Franchisee recruitment costs – exhibitions, adverts, referrals
- bfa membership.

Growth

Recruiting new franchisees can be a challenging and costly process. You'll need to design and produce a franchise prospectus and website to attract suitable investors into your network. A range of advertising can be used which include franchise focused websites, social media, exhibitions, trade magazines, local and regional press and franchisee recruitment agents. Following up initial enquiries, eliminating unsuitable candidates and conducting interviews can be time consuming and needs to be built into your budget.

The success of your franchise ultimately depends on the quality of individuals you recruit into your network. Previous industry experience may not be necessary but, they will need appropriate transferable skills and a comprehensive training programme. Don't compromise on your selection of high-quality franchisees just to meet your growth objectives.

Income

The initial franchise licence fee covers your recruitment and training costs but shouldn't be a major profit line. Your ultimate profitability comes from a share of your network's income through a management services fee and sometimes a mark-up on goods and services provided. This ongoing management fee is usually a percentage of the franchise's sales, although occasionally a fixed fee may be more suitable.

A marketing fee is often built into the agreement as the franchisee's contribution to national advertising of the brand. You ensure that these funds are accounted for separately from the other fees collected and your franchisee network understands how these funds are spent.

Setting fees at the right level requires expert guidance from a bfa affiliated advisor. This is to ensure that your revenue covers the cost of franchisee training and support, whilst providing you with a profit, as well as the ability of the franchisee to make a decent income from the business opportunity.

Professional Advice



Before deciding whether franchising is the right step for your business it is advisable to carry out thorough research into the feasibility of the opportunity for your own business and whether it's likely to achieve your goals.

It is essential that you seek expert support from a reputable and experienced franchise consultant who has earned affiliation of the bfa through demonstrating their knowledge of the sector. Trying to franchise 'on the cheap' without the support of appropriately accredited franchise professionals is a recipe for likely failure.

In conjunction with the bfa, we have developed online educational programmes for both franchisors and franchisees providing expert guidance. To gain a better understanding of your journey towards franchising your business and that of a potential franchisee these programmes are an invaluable free and convenient resource.



<https://bfa-trainme.tv> <https://bfa-franchisors.trainme.tv>

A list of knowledgeable and experienced franchise professionals such as consultants, accountants and solicitors is available from the bfa's website or contact us for guidance.

Useful contacts

British Franchise Association

Tel: **01235 820470**

www.thebfa.org

Business Support Helpline

England: **0300 456 3565**

Scotland: **0300 303 0660**

Wales: **0300 060 3000**

www.gov.uk/business-support-helpline

Useful websites

www.lloydsbank.com/franchising

<https://bfa-trainme.tv>

<https://bfa-franchisors.trainme.tv>

www.gov.uk/search-for-trademark

www.whichfranchise.com

www.franchiseworld.com

www.what-franchise.com

www.businessfranchise.com

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 for businesses with an annual turnover of up to £25m are published at lloydsbank.com/business/contactus and for businesses with an annual turnover of £25m or more they can be found at commercialbanking.lloydsbank.com/contact-us/

I want to franchise my business

 Visit lloydsbank.com/franchising

 Call your relationship manager

 Email
Franchising@lloydsbanking.com

Please contact us if you would 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 Relay UK. More information on the Relay UK Service can be found at: relayuk.bt.com/

Important information

Calls 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 note that any data sent via email is not secure and could be read by others.

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Eligible deposits with us are protected by the Financial Services Compensation Scheme (FSCS). We are covered by the Financial Ombudsman Service (FOS). Please note that due to FSCS and FOS eligibility criteria not all business customers will be covered.



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