

Growing your business through franchising



HSBC UK

| Opening up a world of opportunity

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Starting a franchise

At HSBC, we know that success in business depends on relationships. Creating a network of support builds trust and that builds business.

Our service for franchisors puts you in control. It connects you to a network of HSBC managers who'll get to know your business inside out.

Franchising could be the ideal way to expand your business, but it's not something to embark on lightly. So if you're considering taking the plunge, we'll help you decide whether franchising is right for you taking you through the steps you need to develop a successful franchise network.

We'll help you decide whether franchising is right for your business – and take you through the steps you need to develop a successful franchise network.

To find out more about our support for franchisees:



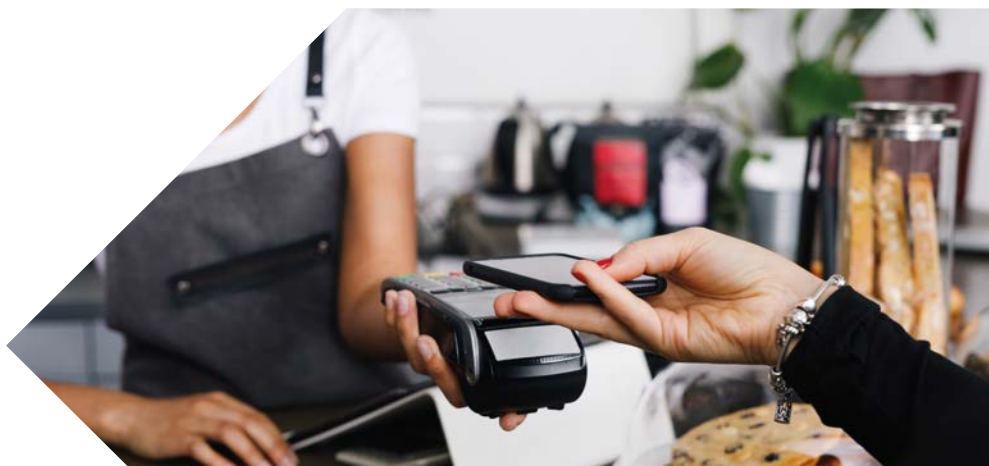
Visit business.hsbc.uk/en-gb/campaigns/hsbc-franchising



Email franchiseunit@hsbc.com



Franchise Unit, 1 Centenary Square, Birmingham B1 1HQ



What is franchising?

Franchising is a 'joint venture' between an independent person (the franchise owner) and a business owner (the franchisor) who wants to expand their business activities.



Business format franchising

A contract (legal agreement) gives the franchise owner the right to operate using the franchisor's trade name/trademark, in accordance with a business format. All aspects of the franchise owner's business are strictly controlled including image, products or service, systems and administration.

Initial expenditure may be high – but once appointed, your franchise owners will pay you a fee, reimbursing your costs. When you're up and running, you'll receive a regular income from each franchise owner by charging a management service fee or by marking up the price of goods supplied.

As a franchisor, you will:

- allow franchise owners to sell your products or services and to use your trade name, logos, business style and format
- help franchise owners to establish their own businesses to a predetermined format
- provide continuing support to help franchise owners to operate their businesses successfully

The advantages and disadvantages

At first glance, franchising might seem too good to be true.

You can create a number of outlets in a relatively short time and you only need a small central organisation with a few highly skilled staff. As franchise owners invest their own money, they're likely to be highly motivated with lots of local knowledge.

However, there are drawbacks. Developing a franchise network can be expensive, in terms of management time and capital outlay. Your investment can't be recovered until franchise owners are appointed and you start to receive fees and then a regular income from them.

As your franchise owners are independent, they can sometimes disregard contract terms relating to dress, décor and marketing methods, try to change the style and direction of your business or even use their in-depth knowledge to set up as a competitor.



Plan ahead

Developing a successful franchise needs careful planning, continuous monitoring and advice, plus support from professionals such as:

- an independent franchise consultant
- accountant
- specialist franchise lawyer
- your bank manager



Is franchising right for you?

Franchising isn't a cure for a struggling business. It's a route towards expansion for an established, successful business looking to grow a network.

You'll need to offer a tried and tested concept – not just a good idea – to prospective franchise owners.

What you need to consider

In our experience, it's crucial to think hard about your business in the following terms. If it doesn't tick all the boxes, you may not be ready to franchise.

- Is your business successful and profitable, with an established base?
- Is there a year round market for your product or service or is it seasonal or 'fashion' related?
- Is there sufficient margin to ensure that both you and the franchise owner are able to make money, while remaining competitive?
- Can you show that your business can be replicated. Do you have additional outlets or offices already in place?
- Is your management team strong enough for you to 'step back' and concentrate on franchising?
- Do you have access to initial funds to pilot and launch your franchise?

Do your research

One of your most important contacts is likely to be the British Franchise Association (BFA). Details of their Franchisor seminars can be found on their website thebfa.org

You could also visit one of the franchise exhibitions supported by the BFA and attend the free seminars there – details are available from Venture Marketing, organisers of the main franchise exhibitions in the UK (see 'Useful contacts' on page 15).

How much could it cost?

The cost of launching a franchise may vary

You'll start to recoup the outlay once you begin to recruit franchise owners – but your initial franchise fee should not contain a large profit element.

Think in terms of the following:

- **General development costs**

Market research, consultants' and solicitors' fees, development and testing of systems and procedures, pilot operations.

- **Franchise package development costs**

The package provides franchise owners with all the systems, procedures and other support needed to operate successfully: training, sales literature and operations manuals.

- **Recruiting franchise owners**

Production of your prospectus, advertising, franchise exhibitions, time spent on selection interviews.



Ask the experts

Taking professional advice is crucial

It can be a good idea to appoint a franchise consultant to help you put your franchise operation together – they'll provide invaluable practical guidance. We recommend that you use a BFA affiliated consultant and research their experience thoroughly. Consultants aren't registered or qualified in the way that accountants and lawyers are, so interview at least three and talk to some of their existing clients.

Make sure the way the consultant works with you is clearly set out. A good consultant will find out about your business and ethos, meet key members of your team and work with you and your lawyer to move the project forward.

We recommend you use a BFA affiliated specialist franchise lawyer to draw up your legal agreement. It's an important document, setting out the terms under which you're agreeing to sell the franchise, your obligations and those of the franchise owners. You'll also need to protect your trade mark and brands.

Your accountant needs to understand franchising and the changes the operation of a franchise network can bring to a business. Your own business plan will need to address the issues of your expansion plan and how it will affect the business. **Be careful not to overestimate growth rates.**

You can contact the BFA for details of their affiliate member consultants, lawyers and accountants. Visit thebfa.org

Set up your pilots

The next step is to set up one or more pilot operations

Often a vital ingredient in the successful setting up of a franchise, a pilot can:

- show that the business is viable on a 'standalone' basis
- enable you to identify any problems and rectify them – franchise owners parting with their money expect to be buying a tried and tested format
- enable you to put together a comprehensive operations manual
- enable you to have a better idea of setting up costs, break-even sales and what level of profits franchise owners may expect
- prospective franchise owners may wish to see the results of any pilot operations

The pilot should replicate the actual running of a franchise as closely as possible – particularly if you're bringing in a concept from overseas.

Pre-launch essentials

Once the pilot is running successfully, you'll be ready to prepare for the launch of your franchise network. Before you launch, make sure you consider:

- becoming a member of the BFA – an invaluable source of support and information
- prepare a clear, accurate prospectus to attract suitable franchise owners and have it checked by a franchise lawyer
- draw up a training programme for your franchise owners, to include practical experience in other outlets if necessary
- if appropriate, establish sales areas or territories for each franchise owner – again, checking with your franchise lawyer
- decide on the initial franchise fee, management service fees, advertising fees, mark-ups and any other payments from the franchise owners
- prepare 'typical' cash flow forecasts and profit projections based on your pilot operations (take care not to promise franchise owners they 'will' make certain amounts of money)
- prepare an operations manual covering all aspects of the day-to-day operation of your business



Your next steps



Choose your franchise owners carefully

When you're selecting franchise owners, make sure you choose people with the right experience and attitudes. They'll need all the skills and the capital you're looking for.

A good web presence is essential – many franchisors say they get most of their enquiries from this source. BFA members also get many enquiries via their entry on the BFA website.

Other recruitment methods include attending franchise exhibitions and advertising in local and national press, specialist franchise magazines and industry sector publications.

Take care if using a third party to recruit on your behalf – they may not be the best judge. You need to consider the essential skills and experience a franchise owner will require for your network.



Training and ongoing support

Your training programme is an important aspect of a good franchise. Your initial training course should equip the franchise owner with the necessary skills to operate the business – as well as ongoing training.

Training for your own staff is also invaluable

Do they understand franchising? Franchise owners are not managers of company owned outlets, they are owner operators who have invested their own money and so can't be treated in the same way. You'll need to make sure that both new and existing franchise owners are able to call on you and your team helping them to grow their businesses.



Franchise owner finance

Depending on the start-up costs, franchise owners will probably need to borrow in order to buy your franchise. Banks may lend them around 50% of the start-up costs. Once a franchise network is established, the banks may lend up to 70% of the start-up costs.

One of the key roles of the HSBC Franchise Unit is supporting our managers when they're considering a request for finance from one of your franchise owners, so they have a better understanding of the business they're in.

Your franchise owners need to establish exactly how much they can invest in the business – consider the following:

- how much will they be able to borrow? Prepare a full list of personal expenditure, including asset and liability statement
- what security can they give to support their request for finance?
- start preparing their business plan (working with their chosen franchisor)
 - it's vital if they need finance from their bank
- prepare clear and accurate cash flow forecasts for the first couple of years of the business.



International franchising

Franchising your business overseas or bringing a concept into the UK from abroad, can be complex – professional advice is vital.

As with domestic franchising, it should only be considered by successful, profitable companies with a track record of growth.

Always consider:

- why you are doing it
- where you intend to start
- potential language and cultural difficulties
- the risk that you will lose focus on the core UK business
- the costs – inevitably higher than anticipated!

Please email franchiseunit@hsbc.com to discuss your opportunities in more detail or to find out more information on our international banking products.



Useful contacts

British Franchise Association (BFA) The BFA was set up in 1977. It established a code of business conduct for franchisors, who make up its membership. The BFA holds regular meetings and acts as:

- the voice for responsible and ethical franchising
- a source of information for prospective or existing franchise owners and franchisors
- an arbitrator if there is a major problem between a BFA member company and its franchise owners.

The BFA offers a comprehensive and informative franchisor guide. It also runs franchisor seminars throughout the year. Visit thebfa.org

Which Franchise is a site affiliated to the BFA, offering advice and guidance to prospective franchise owners. Visit whichfranchise.com

Business Franchise magazine – on news-stands. Visit businessfranchise.com

Better Business Finance – Better Business Finance has a range of resources designed to give you practical help at whatever stage you are at in the development of your business. Visit betterbusinessfinance.co.uk

Franchise World – by subscription. Visit franchiseworld.co.uk

The Franchise Magazine – on news-stands. Visit thefranchisemagazine.net

The Franchising Centre (formerly known as Howarth Franchising Group) comprises six specialist businesses serving the franchising community; The Franchise Development Centre; The Franchise Training Centre; The Franchise Support Centre; The Franchise Sales Centre, The Franchise Careers Centre and The International Franchising Centre. Visit thefranchisingcentre.com

Venture Marketing Group – organisers of the main franchise exhibitions in the UK. Visit franchiseinfo.co.uk

Accessibility

If you need any of this information in a different format, please let us know. **This includes large print, braille, or audio.** You can speak to us using the live chat on our website, visiting one of our branches, or by giving us a call.

There are also lots of other options available to help you communicate with us. Some of these are provided by third parties who are responsible for the service. These include a Text Relay Service and a British Sign Language (BSL) Video Relay Service, to find out more please get in touch. You can also visit: [hsbc.co.uk/accessibility](https://www.hsbc.co.uk/accessibility) or: [hsbc.co.uk/contact](https://www.hsbc.co.uk/contact).

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