

A Wealth of Franchise Financing Options

Franchise investments can range from a few thousand to several million dollars. The types of investments are relative to the investor's financial situation and interests. One fact remains: more than 85% of future franchise business owners do require financing of some sort to help realize their dream. Traditional bank loans or SBA (Small Business Association) loans remain an option, but other institutions are capitalizing on this growing demand.

It is inaccurate to assume that getting a secured loan in today's market is impossible. Qualification depends on equity, credit score, business acumen, and maybe who you know at your local bank. Nonetheless, the type of business and the Franchisor's success rate will certainly play a key role in first being considered. Some Franchised businesses have a long history; others are unknowns. Obviously, a solid business plan and well detailed pro forma is a requirement. When a Franchisor is willing to share their financials and earnings statements (found in the FDD), this makes a big difference in qualifying.

Some (very few) people can fully fund a new business venture with their own liquid capital. Even though it may be an option, is it a good one?

To find out "How You Can," as opposed to "Why You Can't" own your own franchise read on:

Using someone else's money always seems advisable. Your liquid funds will be needed for unforeseen costs and to help you "float" the business through the initial start up phase until the business becomes profitable. Also, these funds may be necessary to pay down any debt service associated with the leasehold or FF& E loans. It is also consider equity to borrow against---cash is still king and it's certainly a coveted asset.

Bottom line - a prospective franchisee needs to borrow money. When looking for the best places to start, ask "Who (besides yourself) may have a vested interest in the future success of your Franchise?"

- 1- Propose a business plan and outline the cost/ benefit to family and friends (the obvious first choice). They know your abilities, your past success, and any "risk" factors can be overcoming more readily. They may even want to help in other ways. It can be structured as a formal loan, just maybe some more favorable terms.
- 2- Ask the Franchisor. Some Franchisors have in- house financing or they may sponsor other financing programs. They certainly have a vested interest in your success. It will mean their success as well. If you selected the right company, they will be your extended family (At least for the term of the Franchise Agreement)
- 3- Don't discount the prospective Landlord/ Developer. If renting space in a retail center, the commercial developer may be open to granting a "leasehold loan". This loan is structured by a private entity with terms that are as negotiable as your lease will be. If the franchise concept is strong and well branded, your business will drive traffic into their center, thereby increasing the value of the other vacant spots. They also have a vested interest. Note: this is separate from negotiating any rent discounts, abatements, CAM caps, and other ways you can save on rent related fees that will preserve initial cash flow.

- 4- If a large part of the startup requirement is in FF & E (Furniture, Fixtures and Equipment), the company “selling” the product may offer financing options to the prospective new business owner. This would allow for a substantial portion of the initial costs to be borrowed and even payments deferred until a certain point in your operations. Just as the Franchisor has a vested interest, so do these vendors (usually designated or preferred by the Franchisor). If they are large enough, these companies could have a plan in place. This could be up to 50% or greater of your total start up costs.

- 5- Lastly, consider the potential purchase of an existing company or franchise location. If profitable, this may be a more costly option, but will have a better history of success. Also the owner may be willing to do “owner financing” or “lease purchase” options. Can’t hurt to ask! Maybe the location is good but the management or other factors will encourage the Franchisor or Franchisee to sell at a discount. Weigh the pros and cons of this option heavily as you may be buying someone else’s problems or you may be in the right place at the right time for an existing purchase agreement.

Despite the nay-sayers, there has never been a better time to get started in a Franchise business. Options are boundless and commercial real estate rents are at an all time low. Most importantly, companies with capital are getting creative with lending options as they can perform their main business and also act as lenders to collect “passive” income. It can be a win-win for them ---and for you!

Many websites are geared specifically towards new business loans and specialize in strategic and creative options to help fund your new career. A Google search will bring up many. Do your homework on them as there are the good, the bad, and the ugly!

Here is a list of several unique financing options to further investigate. Some may carry higher interest rates than traditional bank or SBA (government backed) loans, but options are plentiful.

- 401 K Loans
- Hedge Fund Financing
- Mezzanine Loans
- Venture Capital
- Angel Investors