

Franchise Central

Financing Your
FRANCHISE

The path to financing your franchise may not be easy but if you know what lenders are looking for, you are well on your way.

Okay, so you've read the literature, with due diligence, considered the statistics on success, and know that a franchise is how you want to get into business. But! Before you sign on the dotted line, answer this question: Where will you get the money to finance the franchise, royalty fees, inventory and working capital?

For some, investing in a franchise is the beginning of a long and prosperous road to financial security. For many, dreams and a strong work ethic won't open the doors to a franchise when you lack capital.

In fact, finance can be the only intimidating obstacle between you and your dream of opening a successful franchise. The very word is enough to

send prospective franchisees screaming into the night. Don't panic. If you know lenders' secrets it may be easier to obtain that elusive finance.

Finding money for that coffee franchise is harder than finding a mortgage for your house. You can however improve your chances by knowing your options, understanding how the lending process works and knowing what questions to ask.

The Lending Process

It's important to recognise that financiers sort prospective franchisees into two groups:

1. Existing and Skilled Operators

This group consists largely of individuals who already have significant hands-on business experience and are looking to purchase an existing, moneymaking franchise. Lenders evaluate such opportunities in the same way they assess non-franchise businesses. They look at objective measures of the business's health, such as its cash flow, growth rate and profitability. They then try to assess, based on your resume and financial history, whether you are likely to keep the franchise on course. If you and the franchise have good records, you can almost count on banks to court you. Nothing makes a lender happier than a proven cash flow and customer base!

2. Start-Ups

This group has little or no entrepreneurial track record and is looking to establish a new franchise business, from scratch, in an unknown location, or both. These situations are much more difficult for lenders to evaluate and thus are considered high-risk. Many banks want nothing to do with them, and virtually all others will require the borrower to put up collateral, preferably shares or real

estate, to the value of at least the full amount of the loan.

There it is in a nutshell. You are now fully aware of the process that traditional lenders go through when assessing your application.

Useful Hints And Tips For Seeking Finance

Before you race out to see a lender, here are some tips to put you on the right track to getting your franchise financed:

1. Your Personal Resources: Conduct an assessment of your own resources before you sign up for a franchise. First, prepare a personal financial statement (on a spreadsheet or by using your personal accounting software). You'll use it over and over as you line up your financing. Also make copies of your tax returns for the past two years - the lender providing the finance will want to see them.

2. Your Accountant: If you don't have an accountant, it's time to get one. Ask for references from friends and family, and find an experienced one who has handled small businesses. Arrange a preliminary interview, discuss your plans and show the accountant your personal financial statement, the investment estimates from the franchisor and the earnings claim information. Talk to your accountant about how you can calculate a cash-flow picture of the business, your planning and how much financing you need.

3. The Bank, Finance Broker or Specialty Franchise Lenders: It's fair to say that every small business needs a solid banking relationship. Even if you don't get finance from your local bank, you'll need to build a day-to-day service relationship. The place

Franchise



to start is the bank where you do your personal banking. Talk to a banker about your plans and explore their programs.

4. Vendor Financing: While it is more of a common scenario in the United States, we are increasingly seeing this form of finance being used in Australia. Vendor financing is where franchisors may offer some form of financial assistance to franchisees to help start the business. There are two very different kinds of vendor finance. One is direct financing of franchisees by franchisors; the other is indirect, where third parties are actually providing the finance.

Finance For The Life Of Your Franchise

When people make the decision to buy a franchise, they often only consider immediate start-up costs. Don't forget that if you are starting up a new franchise, a lot of money often goes out of the business before it starts coming back in. You need to consider finance that covers insurance, rent, wages inventory purchases and general working capital requirements. It is essential to have available finance for day-to-day running of the business (working capital) and short-term finance.

Day To Day Finance/ Working Capital

Managing cash flow fluctuations can be difficult even for established franchises. An overdraft might be a good option. With no fixed repayment schedule and variable interest rates, you can enjoy more flexibility in managing your day-to-day finances. For cheaper working capital, a commercial card might be better, and it is also a convenient payment tool.

Debtor finance is another tool that franchisees can use. This gives you access to funds on the strength of business credit sales. So, instead of waiting for your debtors to pay within your normal trading terms (generally 30-90 days), you can have cash in hand faster. This helps accelerate cash flow and puts you in a far better position to manage your accounts.

Short-Term Finance

Just as you need to consider your day-to-day finance, you also need to consider short to medium term finance. This type of finance does depend on the franchise and the owner. A specified lending term suits some, while others may prefer an on-going, more flexible arrangement. If the franchise owner requires flexibility in repayments and the capacity to pay principle and

interest at different times according to cash flow, a fully drawn advance might be the solution. This also allows the owner to borrow at a fixed or variable rate.

Some franchise owners know exactly how much they need, and for how long. In this case, an interest-only loan - where you pay a fixed rate through the term, and principle only at the end - might appeal to some owners for the control it provides.

Leasing - To Free Up Working Capital

For some franchises, leasing plant and equipment is one way of freeing up working capital for the business. A commercial leasing arrangement is particularly useful where the business has a number of electronic goods - allowing the franchise to get its hands on the latest, most effective technology with no upfront deposit or capital outlay.

Where To From Here

For sorting out the larger financing decisions, discussing your options with a mortgage broker or bank is always best. This way they will be able to walk you through the different options available and help to determine which form of finance best suits the needs of your particular franchise.

Do the research, plan thoroughly, and arm yourself with everything you need to know to give yourself the best chance of finding finance for your franchise.

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'bringing the best together'

Franchise Central is familiar with the challenges faced by Franchisors when helping Franchisees set up their business. That's why we have sourced finance packages that can assist with your franchise. Franchise Central assist with franchisees dedicated specialist support, great rates on business loans and fast decisions.

For further information please contact Franchise Central on 1300 558 278 or via email: finance@franchisecentral.com.au