

# How to Raise Capital Everything You Need To Know To Finance Your Franchise.

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Of all the mistakes new business owners make, the most fatal is failing to anticipate the cost of getting and staying in business. When you begin to explore franchising, you quickly discover that one of its benefits is having franchisors who can help you avoid this common error.

The rules that govern franchisors require them to provide you with a disclosure document outlining, in addition to other information, the details of your initial investment. With a history of new franchise openings and knowledge of how the business typically operates during its initial period, mature franchisors can estimate not only the cost of establishing the business, but also the working capital you'll need.

Keep in mind, however, that the information contained in their disclosure document, while accurate for the franchise system, may not be accurate for your particular location. Much of the system's information is based upon historic averages. Your costs will differ somewhat based upon your market, your costs for real estate and labor and a host of other variables. With the help of an experienced franchisor, local realtors and other professionals, you can identify these market variables and more accurately estimate your total investment. Gaining an accurate understanding of your capital needs is the starting point in beginning your search for funding.

You should have already determined before you began your franchise search how much you had to invest. You should have looked not only at your bank accounts, but your other liquid assets and what they were worth either as collateral for loans (second mortgages on a house) or as saleable items. You may have also had discussions with family and friends to see whether they wanted to invest with you in your new business. Now, knowing what you need, you can start the process of determining where the rest of your initial investment will come from.

Start with your franchisor. They've been through the process with other franchisees before. Many franchisors have internal programs that assist their franchisees in getting into business. These might include:

- ◆ Leasing programs for equipment
- ◆ Leasing programs for your building and/or land
- ◆ Financing programs provided by suppliers to the franchise system
- ◆ Deferral of all or a part of the initial franchise or other fees due to the franchisor

If the franchisor is a manufacturer of the products you'll be selling, they might provide an initial fill of inventory or provide you with longer than standard terms to pay for your initial inventory.

Most mature franchisors have also established relationships with lenders and other financing companies that are familiar with their business and are willing to provide funding for qualified individuals. Some franchisors provide the loans directly; others act as guarantors.

Not all of these programs are available at every franchisor, but it's worth asking about.

At some point, you'll likely turn to your local banker. If you have a relationship with your bankers, speak to them first. If they can't be helpful to you directly, they're likely to know other banks in your community that can be of assistance. Look for banks experienced in lending to small businesses. Bankers are competitive today—a host of Web sites can give you comparative information on banks and interest rates.

Make certain that, before you meet with any banker, you come prepared with the information they need to make a lending decision. Prepare a business plan on your future franchise. Include not only the information provided by the franchisor (brochures, disclosure documents, etc.), but also information about the business you want to establish (investment, competitive information, market information, projections) and about yourself. Ask your accountant for help with preparing a proper business plan and presentation.

Another source of advice on developing business plans and getting started in business are the folks at SCORE. The Service Corps of Retired Executives is a nationally based, nonprofit association with 11,500 volunteer members and 389 chapters throughout the United States and its territories. It's also a resource partner with the SBA. Besides providing business advice for free, the volunteers at SCORE ([www.score.org](http://www.score.org)) have years of experience in helping businesspeople and consequently do a terrific job.

Whether you're speaking with your banker, your accountant or SCORE representative, you're likely to hear a lot about SBA loans. The SBA loan program is not a direct source of money, but rather a source of loan guarantees to the lending institutions from which you'll be borrowing. Most lenders are familiar with the SBA loan programs and can help you complete the information the SBA requires. You can find information on the many programs the SBA offers at [www.sba.gov](http://www.sba.gov).

A relatively new program established by the SBA is the Franchise Registry ([www.franchiseregistry.com](http://www.franchiseregistry.com)). The Web site lists approximately 150 franchise systems that have submitted their franchise documents to the SBA for review and approval. By pre-clearing their documents, the franchisor enables prospective franchisees to get expedited loan approval from the SBA.

Other sources for leasing programs and sources of funding can be found through the International Franchise Association's Council of Franchise Suppliers at [www.franchise.org](http://www.franchise.org).

The money you need to get into business is out there. Make certain you know how much money you really need, and be realistic. Remember, once you borrow money to start your business, you have another mouth to feed: the bank. Principal and interest on the loan has to be repaid, and your franchise needs the cash flow to make those payments.

#### A FEW LAST PIECES OF ADVICE

Forget the stories you've heard about the people who became millionaires by funding their business on their credit cards. When that really happens, the stories are so unusual that reporters have to write about it. Your chances are better in Las Vegas.

Plan to have a cushion of debt-free funds should your business not take off as you expected, in which case you'll need additional money for the business or to live on.

Finally, make certain that, by getting into business, you don't risk your future or the future of your family. Don't use your kids' college fund. It's called the college fund because that's what it's for. Don't gamble with your retirement funds. You may want to retire someday, no matter how great you find franchising to be.