

Commercial Bank Loans and Independent Financing Specialists

Franchisees generally have an easier time securing bank loans than their independent business owner counterparts, because they have behind them the established trademark and marketplace experience of their franchisor. Banks generally point to lower default rates on franchise loans. In addition, several lending institutions specialize in franchise loans, catering almost exclusively to franchising, which is experiencing a 10-12 percent growth rate each year.

The Small Business Administration

The U.S. Small Business Administration (SBA) offers competitive rates and generally longer terms than other sources. Loans are typically made by a private bank or other lending institution, with a portion guaranteed by SBA. The agency offers many programs designed to meet a variety of small-business needs, including its popular 7(a) guaranteed business loan program. The low documentation loan program, introduced in 1994 to secure loans of \$100,000 or less, is now the fastest growing SBA loan program.

The Certified Development Company is a private non-profit organization licensed by SBA as a lending source for small and medium-sized businesses that need financing for industrial or commercial buildings, machinery and equipment. Finally, Small Business Investment Companies (SBICs) provide equity capital and long-term debt financing, specializing in particular industries. Local SBA offices, franchisors or banks can help with this financing vehicle.

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Direct financing from the franchisor

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Miscellaneous

There are other financing alternatives available to franchisees, each with its own set of advantages and disadvantages. Business and Industrial Development Corps. (BIDCOs) provide long-term debt financing to small businesses, and are operated under state programs with federal guarantees, but exist in only a handful of states. Venture capital firms generally specialize in certain industries and look for a high-return on investment, short pay-out and a good share of the business, with fixed buy-back terms at a guaranteed price. Family and friends are an important source of financing for many new franchisees, as well.

USA Today: Franchising Today - Financing Your Franchise

NEW YEAR, NEW CAREER: FRANCHISES OFFER VARIETY OF OPTIONS

If your list of New Year's resolutions didn't include "Start a New Career," it's not too late. After all, it's not often you get a fresh, new millennium to play with.

Today, Dallas franchisee James Cassels continues to celebrate the New Millennium even though the champagne has run out and the confetti is in the recycle bin. In July, he launched a new career. In January, he's still tallying the boost his new business got from Y2K partygoers.

After spending eight years running a family-owned aerospace company with his brother, Cassels sold the firm and purchased 11 Gingiss Formalwear stores from retiring franchisee Dick Witt who had devoted nearly three decades to building the enterprise. Gingiss, currently operating 240 U.S. stores, has captured about 10 percent of the \$800 million-a-year formalwear business market, furnishing tuxedos to nearly a million people annually.

One of the biggest advantages of buying a business-format franchise is the "system"—a program for distributing goods, services or both that has been developed, tested and associated with a trademark.

Franchising today spans 75 different industries, reports the International Franchise Association, offering concepts that range from computer services to quick-service restaurants to education and training franchises.

Skipping the Growing Pains

Buying a franchise from a retiring owner rather than starting from scratch offered Cassels numerous benefits. First, the profits that the former franchisee had created were already flowing. "The company was well established, so I skipped all the growing pains that come with starting a business from scratch," Cassels says. "Mr. Witt already had an inventory, a loyal staff and a solid customer base. My role is to get to know everybody, go out there and drum up some new business."

Cassels also has another advantage. Through an employment agreement, Witt has agreed to serve as his mentor for a few years, helping continue the learning process. "I just knew he had what it would take," Witt notes. "When you spend your whole life nurturing a business, you want to see it succeed."

Already planning to expand by three additional stores, Cassels long-term career goal is to grow the business with his wife, Nancy, and then turn it over to their son, Austin, now four years old. "I love working with customers," Cassels says. "For me it's very refreshing. I'm coming from working with nuts, bolts and screws to dealing with pins, needles and people. It's been very positive so far."