

Why You Should Figure Out FUNDING FIRST

BY FRANFUND

When it comes to exploring franchise ownership, there are lots of things you have to consider. Which brand is the best fit? What is the local market potential? Is real estate available? Will you be involved in the day-to-day operations or will someone else manage the business? But, one of the most important things you should think about early in the process is how you are going to pay for the business.

If you have a clear picture up front of your funding options and overall funding strategy, you will be able to take a holistic approach and be much more confident throughout the rest of the franchise purchase process. It may even influence which brand you select, whether or not you start with one unit or multiple units, and how quickly you can get your doors open.

Common Franchise Funding Options

Two of the most common ways to start or grow a franchise business are with qualified retirement savings, which the IRS refers to as Rollover of Business Startups (ROBS) and Small Business Administration (SBA) backed loans. Franchisees also often use a combination of these as a complete funding strategy. Other non-traditional solutions—more often for expansions rather than start-up—include unsecured loans, securities-backed loans, equipment leasing, and refinancing programs.

401(k)/IRA Rollover

Utilizing a rollover program such as FranFund's FranPlan® allows you



to access your qualified retirement savings tax-deferred and penalty-free to invest in your business. This is an excellent option for those looking for a funding solution that doesn't create any debt. The IRS does, however, have strict guidelines regarding the execution and maintenance of the plan. Most reputable funding companies offer the IRS-mandated Third-Party Administration (TPA) service to ensure your plan maintains the IRS compliance requirements.

SBA Loans

The Small Business Administration works with lenders to offer business loans for startup, acquisition, expansion and working capital with values available up to 5 million dollars. The SBA provides a guarantee to banks and lenders for the money they lend to small business owners, promising to pay a portion of the loan back if the business owner defaults on the loan. Business owners who may not qualify for traditional loans often qualify for SBA loans because

they alleviate the risk associated with lending money. Your funding partner's role is to prepare a loan package and then shop the loan to their lending network to get you the best deal.

How to Know Which Options YOU Qualify For

You may have come across interactive funding or pre-approval tools that allow you to input key information about your assets, credit score, investments, available cash, etc., and then they calculate a funding amount for which you qualify. These are great to get a general idea of the options available to you and may quickly eliminate any possibilities that won't work for you. For example, if you don't have a retirement plan, you will not be able to use your retirement savings to help fund your business. But these tools also point to a person to contact for more information, because the only way for you to get an accurate assessment and pre-qualification is to speak to a funding consultant. There are way too many variables that need to be examined in order to rely on these tools to give you a definitive funding solution. You should also keep in mind that some of these variables are specific to franchising. For example, certain lenders have a different approach to approving loans for franchises than they do for other types of businesses. That's why it is advantageous to work with a funding partner like FranFund who uses a franchise-specific pre-qualification, has expertise in the franchise industry, and has relationships with lenders who are comfortable working with the franchise model.

If you are considering franchise ownership, you will save time and a lot of headaches by addressing the funding piece of the equation on the front end with an experienced franchise funding partner. ●