

## **Why A Franchise Buyer Should Use A Broker**

1. A broker educates the buyer on the franchise industry.
2. A broker analyzes the buyer's qualifications so that he/she doesn't waste energies on franchises that are not right or that he/she is not qualified to purchase.
3. A broker provides valuable insight on franchises that the buyer would probably never find on his/her own.
4. A broker helps the buyer present his/her qualifications to a franchisor.
5. A broker is paid by the Franchisor, but if he/she doesn't provide excellent service and present the right opportunities, then the buyer won't buy.

## **Franchises Stand the Best Chance for Success**

1. If you're considering a business, one of your safest bets is to invest in a franchise.
2. Franchises are a popular way to launch a new company because they are highly likely to succeed.
3. According to the U.S. Department of Commerce, 95% of franchises are still in business after five years.
4. The likelihood of success with a self-launched business that it will still be operating after five years is 47%.
5. Buying a franchise more than doubles your chance to survive as a business owner.
6. And, if you pick the right franchise, your chances can increase beyond 95%.
7. You will receive a good deal of support from your franchise company in the process of getting your operation up and bringing it into profitability.
8. The franchise company has a vested interest in your success, since the company needs your success in order to grow.
9. It can't survive too many failures along the way if it expects to make its franchise program successful.

## **Are you ready?**

### **Is Entrepreneurship For You?**

In business, there are no guarantees. There is simply no way to eliminate all the risks associated with starting a small business - but you can improve your chances of success with good planning, preparation, and insight. Start by evaluating your strengths and weaknesses as a potential owner and manager of a small business. Carefully consider each of the following questions.

### **Are you a self-starter?**

It will be entirely up to you to develop projects, organize your time, and follow through on details.

**How well do you get along with different personalities?**

Business owners need to develop working relationships with a variety of people including customers, vendors, staff, bankers, and professionals such as lawyers, accountants or consultants. Can you deal with a demanding client, an unreliable vendor, or a cranky receptionist if your business interests demand it?

**How good are you at making decisions?**

Small business owners are required to make decisions constantly - often quickly, independently, and under pressure.

**Do you have the physical and emotional stamina to run a business?**

Business ownership can be exciting, but it's also a lot of work. Can you face six or seven 12-hour workdays every week?

**How well do you plan and organize?**

Research indicates that poor planning is responsible for most business failures. Good organization of financials, inventory, schedules, and production can help you avoid many pitfalls.

**Is your drive strong enough?**

Running a business can wear you down emotionally. Some business owners burn out quickly from having to carry all the responsibility for the success of their business on their own shoulders. Strong motivation will help you survive slowdowns and periods of burnout.

**How will the business affect your family?**

The first few years of business startup can be hard on family life. It's important for family members to know what to expect and for you to be able to trust that they will support you during this time. There also may be financial difficulties until the business becomes profitable, which could take months or years. You may have to adjust to a lower standard of living or put family assets at risk in the short-term.

**Raising Capital for Your Business**

One key to a successful business start-up and expansion is your ability to obtain and secure appropriate financing. Raising capital is the most basic of all business activities. But, as many new entrepreneurs quickly discover, raising capital may not be easy; in fact, it can be a complex and frustrating process. However, if you are informed and have planned effectively, raising money for your business will not be a painful experience. This discussion focuses on ways a small business can raise money and explains how to prepare a loan proposal. This information can also be found on the [IRS](#) website.

**Finding the money you need.**

There are several sources to consider when looking for financing? It is important to explore all of these options before making a decision.

**Personal savings:** The primary source of capital for most new businesses comes from savings and other forms of personal resources. While credit cards are often used to finance business needs, there may be better options available, even for very small loans.

**Friends and relatives:** Many entrepreneurs look to private sources such as friends and family when starting out in a business venture. Often, money is loaned interest free or at a low interest rate, which can be beneficial when getting started.

**Banks and credit unions:** The most common sources of funding, banks and credit unions, will provide a loan if you can show that your business proposal is sound.

**Venture capital firms:** These firms' help expanding companies grow in exchange for equity or partial ownership.

### **Borrowing money**

It is often said that small business people have a difficult time borrowing money. This is not necessarily true. Banks make money by lending money. However, the inexperience of many small business owners in financial matters often prompts banks to deny loan requests. Requesting a loan when you are not properly prepared sends a signal to your lender. The message is that your loan would be a high-risk one. To be successful in obtaining a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it, and how you will pay it back. You must be able to convince your lender that you are a good credit risk.

### **SBA loan maturities**

Loan programs from the Small Business Association (SBA) are generally intended to encourage longer term small business financing, but actual loan maturities are based on the ability to repay, the purpose of the loan proceeds, and the useful life of the assets financed. However, maximum loan maturities have been established: 25 years for real estate; up to 10 years for equipment (depending on the useful life of the equipment); and generally up to seven years for working capital. Short-term loans are also available through the SBA to help small businesses meet their short term and cyclical working capital needs.

### **Types of business loans**

Terms of loans may vary from lender to lender, but there are two basic types of loans: Short-term and long-term. Generally, a short-term loan has a maturity of up to one year. These include working-capital loans, accounts-receivable loans and lines of credit. Long-term loans have maturities greater than one year but usually less than seven years. Real estate and equipment loans may have maturities of up to 25 years. Long-term loans are used for major business expenses such as purchasing real estate and facilities, construction, durable equipment, furniture and fixtures, vehicles, etc.

## **How to Write a Loan Proposal**

Approval of your loan request depends on how well you present yourself, your business, and your financial needs to a lender. Remember, lenders want to make loans, but they must make loans they know will be repaid. The best way to improve your chances of obtaining a loan is to prepare a written proposal.

A good loan proposal will contain the following key elements:

### **General Information**

Business name, names of principals, Social Security number for each principal, and the business address.

Purpose of the loan - exactly what the loan will be used for and why it is needed.

Amount required - the exact amount you need to achieve your purpose.

### **Business Description**

History and nature of the business - details of what kind of business it is, its age, number of employees and current business assets.

**Ownership structure** - details about your company's legal structure:

**Management Profile** - Develop a short statement on each principal in your business. Provide:

Education

Experience

Skills

Accomplishments

### **Market Information**

Clearly define your company's products as well as your markets.

Identify your competition and explain how your business competes in the marketplace.

Profile your customers and explain how your business can satisfy their needs.

### *Financial Information*

Financial statements balance sheets and income statements for the past three years. If you are starting out, provide a projected balance sheet and income statement. Provide personal financial statements for all principal owners and including yourself of the business. Collateral you would be willing to pledge as security for the loan.

## **How Your Loan Request Will Be Reviewed**

When reviewing a loan request, the lender is primarily concerned about repayment. To help determine this ability, many loan officers will order a copy of your business credit report from a credit-reporting agency. Therefore, you should work with these agencies to help them present an accurate picture of your

business. Using the credit report and the information you have provided, the lending officer will consider the following issues:

Have you invested savings or personal equity in your business totaling at least 25 percent to 50 percent of the loan you are requesting? (Remember, a lender or investor will not finance 100 percent of your business.)

Do you have a sound record of credit worthiness as indicated by your credit report, work history and letters of recommendation? This is very important.

Do you have sufficient experience and training to operate a successful business? Have you prepared a loan proposal and business plan that demonstrate your understanding of and commitment to the success of the business?

Does the business have sufficient cash flow to make the monthly payments?

### **Financing Basics**

Poor management is generally cited as to why businesses fail. However, inadequate or ill-timed financing is a close second. Whether you're starting a business or expanding one, sufficient ready capital is essential. But it is not enough to simply have sufficient financing; knowledge and planning are required to manage it well. These qualities ensure that entrepreneurs avoid common mistakes like securing the wrong type of financing, miscalculating the amount required, or underestimating the cost of borrowing money.

### **Before inquiring about financing, ask yourself the following:**

**Do you need more capital or can you manage existing cash flow more effectively?**

**How do you define your need?** Do you need money to expand or as a cushion against risk?

**How urgent is your need?** You can obtain the best terms when you anticipate your needs rather than looking for money under pressure.

**How great are your risks?** All businesses carry risks, and the degree of risk will affect cost and available financing alternatives.

**In what state of development is the business?** Needs are most critical during transitional stages.

**For what purposes will the capital be used?** Any lender will require that capital be requested for very specific needs.

**What is the state of your industry?** Depressed, stable, or growth conditions require different approaches to money needs and sources.

Businesses that prosper while others are in decline will often receive better funding terms.

**Is your business seasonal or cyclical?** Seasonal needs for financing generally are short term. Loans advanced for cyclical industries such as construction are designed to support a business through depressed periods.

**How strong is your management team?** Management is the most important element assessed by money sources.

**Perhaps most importantly, how does your need for financing mesh with our business plan?** If you don't have a business plan, make writing one your first priority. All capital sources will want to see your business plan for the start-up and growth of your business.