



Finance for franchising

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Pension payouts? Business loan? Home equity? A look at the options to consider.

It has been well reported in the media that unemployment figures in Britain are high, with many seeing a solid career end abruptly in early retirement or redundancy.

If you have found yourself out of work and ready to set out on your own, buying into a franchise could afford you the tools to succeed, while giving you the benefit of working under a recognised brand with established working practices.

But with purse strings tighter than ever, how can you go about financing a franchise?

Redundancy or pension payouts

If you have received a lump sum redundancy or pension payment, this may be enough to fund the purchase of a franchise.

In many ways, this is the best way to finance a franchise purchase as there are no associated interest payments or credit terms. However, while a franchise can prove a very profitable investment, be sure to keep enough money back to see you through the start-up phase.

Business loan

If haven't got have the cash to invest, you might consider financing your venture with a loan. Some high street banks offer specific packages for franchises, and it worth making those your first port of call as they will generally be more amenable to your requirements.

In order to qualify for a business loan, you will need to produce a business plan and prove that the business is financially viable. However, you should be aware that, since the onset of the credit crunch, securing finance has become much more difficult, so you will need a compelling plan, impeccable credit history and impressive references.

If you're successful, you will usually be asked to personally guarantee the loan, which could place your home at risk, so it's vital to ensure that you would be able to meet repayments during the start-up phase.

Small business loan guarantee

If you're low on assets or struggling to secure the amount you need through a standard business loan, you may qualify for the Enterprise Finance Guarantee scheme. This is where the Government agrees to guarantee 75% of the loan amount, thus making it more likely that lenders will agree to the loan. However, a convincing business plan must be in place in order to successfully secure funding.

Home equity

If you can't secure a business loan, you may be able to mortgage your home. This doesn't require a business plan, but will still require a good credit record, especially since the economic downturn.

It's also worth noting that, due to the recent fall in house prices, you may find that you don't have sufficient equity to secure a mortgage, but if successful, be sure to factor the cost of repayments into your budget for the period preceding your franchise moving into profit, or you could be in danger of losing your home.

Quick lines of credit

If you've kept a relatively good credit record, the chances are that you have lines of credit such as overdrafts and credit cards at your disposal. If you're confident that you can meet the repayments (including interest) associated with this comparatively expensive form of borrowing, it could prove the boost you need to purchase your franchise and start trading your way to profit.

Colleagues, friends and family

If you're unable to gather the funds alone, it may be worth calling on colleagues, friends and family to help you meet the cost. If they have spare capital to invest, you then have the option of either taking the money as a loan, to be paid back with interest, or bringing them on board as partners in the venture. Either way, you should ensure all terms are agreed clearly in writing to avoid any disputes arising further down the line.

Whatever path you choose, remember that buying into a franchise is not a quick route to riches. It takes hard work and commitment to bring it into profit, so any should only be made after careful planning and budgeting.

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