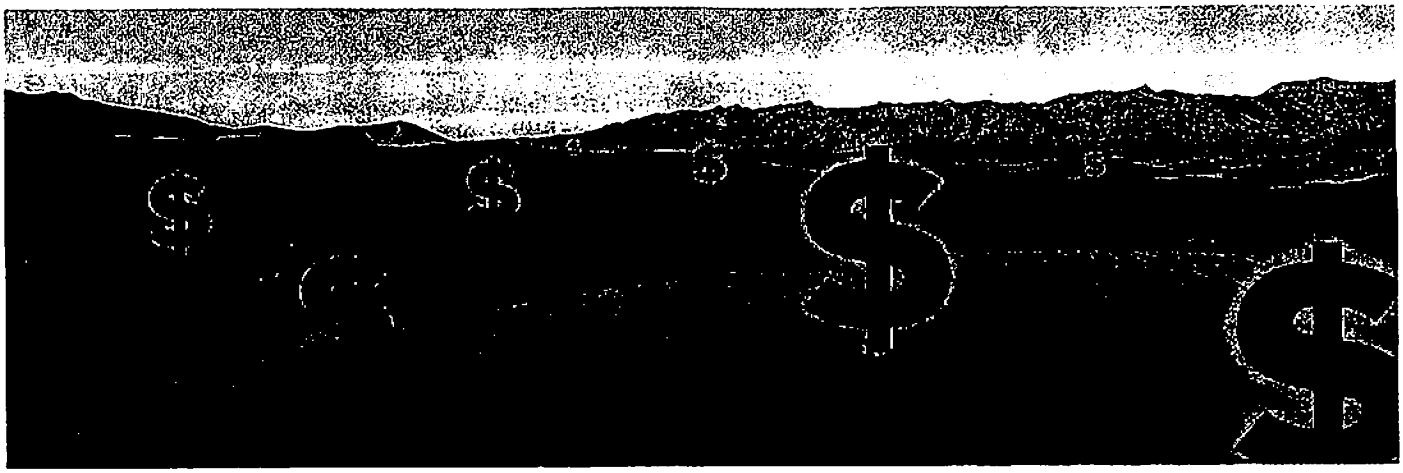
Franchises That Offer



Creative Financing

Programs designed to make buying a franchise easy

RAY DEPOULI, VICE president of franchise marketing for management training franchisor Priority Management Systems Inc. in Bellevue, Washington, has seen a lot of franchise deals come together. And he has seen a lot of investors struggle mightily with the financial aspects of their purchases. "Most people are thinking about the exciting and familiar and manageable aspects of their new business venture, and the last thing they think about is financing it," says DePouli. "Financing should be the *first* thing they think about, but for some reason financing the purchase is always relegated to the back end of the thought process."

The truth is, even if financing is put at the front of the thought process, it can pose a formidable challenge for the most enterprising franchise buyer. The good news is that many franchisors are providing innovative financing programs to ease your way. Consider the approaches of a few companies that have applied ingenuity, drive and business savvy to the financial challenge of financing a franchise.

Church's/Popeye's Gets Its Minority Investment Program in Gear

America's Favorite Chicken ("AFC"), the franchisor of Popeye's Chicken & Biscuits and Church's Chicken restaurants, is actively promoting minority franchise ownership in its ranks through a new program called "PLUS" (Programs Launched Universally for Success). "At our company, we have taken a straightforward approach to encouraging minority investment in our businesses. We have recognized that a significant part of our company's heritage is rooted in minority communities in our country. We have many locations in minority communities and a high percentage of our customers are African-American and Hispanic," says Joe Genovese, chief development officer. "We celebrate that heritage, and we want to encourage growth through franchising with minority ownership. The AFC PLUS program is a concerted effort to encourage minority ownership of restaurants in the AFC system and expand the chain's presence in underserved urban areas. We started AFC PLUS with an abiding passion for those two objectives, an open door, and a welcoming handshake for minority owners willing to be our partners in developing new and innovative Church's and Popeye's restaurant locations.

"In a few months, our program has jumped to 50 commitments, and it could easily quadruple in the next year. The largest single obstacle in quick-service restaurants, of course, is the cost of starting up," continues Genovese. "It can cost as much as $600,000 to $750,000 to build a free-standing restaurant in a high-traffic location. But there has been a dramatic change in the marketplace, and the PLUS program has taken advantage of the change in a unique way."

The AFC PLUS program achieves its goals—and overcomes the financial challenge of new restaurant development—through the use of a single new concept in the franchise marketplace: nontraditional franchise locations. "It is

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known as 'Intercept Marketing,' putting product in the path of the consumer. New franchise locations are now being placed in supermarkets, convenience stores, colleges, travel centers like airports—you name it," explains Genovese. "These locations are not as expensive to build as free-standing locations—they are mostly leased—but a good location can carry a high volume of business. One of our owners who came in with the PLUS program, George Shanklin, placed his Columbus, Ohio, restaurant in a Kroger's grocery store and built his restaurant for about $80,000. His sales volumes are about as high as a full-service, free-standing restaurant for about one-tenth the cost of establishing the location. He now plans to open as many as 10 additional locations in Kroger's stores and is on his way to remarkable success."

The new nontraditional restaurant location is then financed through a variety of traditional sources. "We have very good construction financing with the top names in the financial community, and they have all expressed interest in the PLUS program," claims Genovese. "It comes down to this: Creative financing is always necessary, but without a flexible, open, welcoming franchisor, it won't help where it is truly needed."

Microtel Creates Financing Subsidiary

Financing creates a formidable barrier to buying a hotel franchise. "Finding sources of financing for franchisees has been the most difficult area of franchise development at every hotel company I have been involved with," says Michael Leven, president and CEO of US Franchise Systems in Atlanta, franchisor of Microtel Inn and Hawthorn Suites hotels, and a veteran of the franchised-hotel business. Leven and his company have tackled the problem with a solution that is novel in the hotel industry: forming a wholly owned subsidiary, US Funding Corp., which makes available to its franchisees $200 million in construction and permanent first-mortgage financing.

"By establishing a financing subsidiary to help with this problem, we have taken a major hurdle out of the way of our potential customers and smoothed the way for further growth of our hotel brands," says Leven. "This program will be especially interesting to the multi-unit developer because the rates will be competitive and the funds immediately available."

Requirements for financing are a franchisee equity position that is 30 percent of the total development costs, a 0.5 percent application fee, and a 2 percent commitment/funding fee. Rates for the loans are well tailored to the hotel industry: The construction portion of the loan (as long as 30 months) will be set at prime rate plus 1.5 percent. The construction loans are then converted to permanent 10- or 11-year loans with 20- or 22-year amortization schedules. The rates for the permanent loans will depend on the performance of the property and are tied to current treasury rates. When the program was introduced in the Spring of 1996, the fixed interest rates ranged from 9.15 percent to 10.55 percent per annum.

"Our financing subsidiary will substantially cut down the time it takes a new property to open by reducing the time it usually takes to line up financing with sources unfamiliar with the program," states Leven. "Anything that accelerates the development process will greatly assist our franchise owners."

Logan Farms Equipment Leases Through a National Specialist

Pink Logan is building a fast-growing franchise empire on the strength of his honey-glazed ham products. The Houston-based chain has licensed 25 Logan Farms Honey Glazed Hams and Turkey Breasts Inc.™ shops and is expecting even more rapid growth in the next two years. "Developing a new ham-shop location requires a surprisingly sophisticated approach to financing," says Logan, the company's president and founder, "because our shops feature the highest quality display cases, ham slicers, and other expensive equipment. We have found success in our business working with AT&T Capital Corp. because they specialize in financing packages for the equipment we specify, and then leasing it to our franchise owners. They have also provided construction financing and have tailored interest-only payments with principal payments in January, after the ham-selling holiday season puts us in the best position to pay down the loan."

Equipment leasing is one of the most common financing devices in retail business development, but it is an especially good fit in franchising because the equipment packages in a given program are carefully specified and familiar to the leasing company.

"AT&T Capital Corp. handles a broad range of financing products for franchise systems, such as SBA funding, straight lending, and equipment leasing" says Jean Brooks, vice president of marketing, business finance of AT&T Capital Corp. in Morristown, New Jersey, "but it is equipment leasing that offers so much flexibility for companies like Logan Farms. A franchisee can tailor the financing to the type of equipment being financed. The terms of the lease can be coordinated with the life expectancy of the equipment, and when a franchisor introduces a new product or service, the new equipment can be handled on terms that are attractive to the store owner. Under our lease, we can easily handle equipment upgrades and exchanges. For the franchise owner the equipment lease has several advantages. It works so much better for the franchisee than folding equipment purchases into more general bank financing."

AT&T Capital Corp. makes the process simple for the franchisee. There are no stacks of paperwork to complete; most transactions are handled over the phone and fax. For transactions up to $50,000, they don't even require financial statements, merely that the program have three years of operational experience, and that the applicant submit a credit application, a personal guarantee, and an equipment list or quote from a vendor. Once the applicant signs the lease documents and returns them, the company will contact the vendor of the equipment and arrange for payment. It's that simple.

Logan concludes, "The combination of equipment leasing through a sophisticated financing company and the flexibility to tailor financing to our seasonal business has been great for the steady growth of the Logan Farms franchise program."

Follow the Money

While franchising is designed to ease the entrepreneur's entry into business in so many ways, financing remains a monumental challenge in most systems. "Financing is especially difficult to find for homebased service businesses like ours," says DePouli. "The fact that we offer to finance up to 50 percent of our initial fees is a measure of our experience and confidence in our franchise program."

The challenge is being met by a number of aggressive and creative franchisors who have been there. Knowing the lay of the lending landscape and being willing to put financing at the front of your thought process may be the key to franchising success.

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