

Snap-on Tools

My Business Magazine

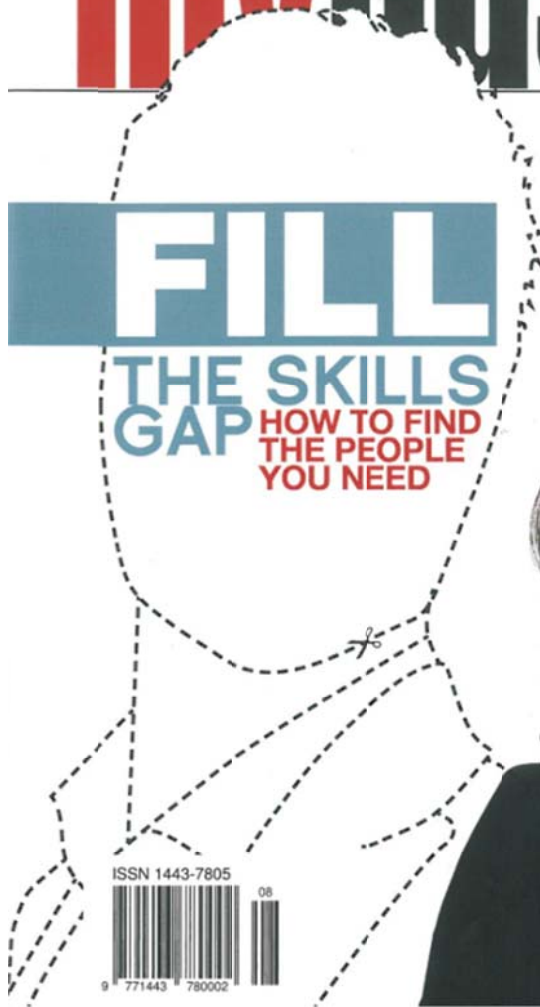
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WHY SPORTSWEAR BRAND SKINS LAUNCHED WITHOUT A BUSINESS PLAN

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FRANCHISING

to a lack of collateral, we may consider providing vendor finance. Commercially this is a sensible exception for us as we are intimately acquainted with the key collateral asset – the business – and therefore may apply a higher security backing to the asset than a bank would.”

Helping hand

There are plenty of financial services companies ready and willing to help franchisees (and franchisors) solve their finance woes. If you're having no joy finding finance by yourself, it may be worth your while to seek help. Nathan Keating describes what he does: "I assist franchisors to develop standardised lending processes for franchisees, including developing bank submissions for accreditation. We also assist individual franchisees with credit applications, introducing them to the right people in the right bank and ensuring that they tell the bank the right things to maximise the likelihood of gaining financial support."

Letters from America

Anthony Sullivan, Director of Lawler Partners Chartered Accountants, has spent time in the US studying franchise systems, and believes Australia has a lot to learn. For starters, the US has a government agency, the Small Business Administration (SBA), dedicated to providing support to small businesses, including those trying to access finance.

"The franchising community in the US has been a significant beneficiary of SBA loans. It has facilitated growth amongst very successful networks that otherwise might not have had the opportunity to grow."

Sullivan argues that the Australian government needs to get serious about supporting small

business. "Small business is the backbone of the Australian economy. Franchising is a big part of it. Australia is the most franchised country in the world on a per capita basis. There is a simple reason for this and that is it works!"

"If you study the US system they have provided access to finance to millions of people who would never have been able to access finance. The key reason is because they have taken away the collateral barrier – if the loan makes sense, the borrower can meet the repayments and the business looks likely to be successful the loan is approved, even with no

collateral. Yet their default rates on these loans are very low. The Australian economy is missing out big time. I would estimate that every franchise system in Australia would have at least five worthy candidates that cannot secure finance. 1,000 franchise systems x 5 x \$200,000 in average borrowings = \$1,000,000,000. And I think that estimate would be conservative, as with franchise industry turnover at \$125 billion that is less than 1%. It could easily be \$10 billion in missed opportunity – We should consider our own Small Business Act, and pick up some of the billions of dollars we are missing out on." ■

When in doubt, DIY?

Franchise system Snap-on Tools has taken matters into its own hands, launching its own credit program for franchisees. While Snap-on is accredited by the franchise lending programs of the major banks, franchisees have nevertheless found the loan process increasingly difficult. The advantages of the franchisor finance program are that the process is much faster, the lending and payment plans are specifically designed to work with Snap-on's business plan and cash-flow model, plus – and this is probably the most attractive feature to prospective franchisees – security for loans is limited to the assets of the franchise. As this is a new initiative, it's too early to assess its success, but it will be interesting to see whether other franchisors follow suit.

