MONEY

Top Do's and Don'ts for Restaurant Funding, Financing, and Franchising

Revving up the financial power necessary to get your restaurant engine started can be tough. From restaurant business loans to investors to crowdfunding, taking the first step to funding, financing, or franchising your concept can be daunting. But, if you have the right plan and knowledge, you can stretch your hard-earned dollars toward success.

"You should always start with a business plan because if you go through the process of sitting down and creating a business plan...you'll be able to go through and vet your concept," explains Victor Cardamone, president and CEO of Mise Design Group, "In my world, the moral of the story is plan your work, work your plan. Stay true to what you're going to be and jobs will be in your favor."

Looking to remodel with restaurant equipment loans, expand locations with restaurant franchise funding, or thinking about a small business loan for your prospective concept? These tips will help you make informed decisions before the process becomes stressful and complicated.

Restaurant Financing and Funding Do's and Don'ts

Do differentiate and monitor the market: Paul Mangiamele, owner, chairman, and CEO of Legendary Restaurant Brands, says because of the proliferation of restaurants, owners need to consider their branding, the market, their theme, how each piece of the concept comes together, and the time necessary to get established when they seek funding and financing.

"A lot of times when people are looking for funding, they're more concerned with the cost of the construction, remodel, or furniture, fixtures and equipment to go into it and don't think about the working capital requirement that's necessary for the ramp up period until you turn a corner in profitability," he explains.

Cardamone agrees that restaurateurs need to consider your market, the demand for your product, your costs, what your sales need to hit, and what your margins must be. If you spend your time and effort correctly when detailing your business plan and pro forma, each item's outcome will be easy to see.

Do create a rock-solid business plan and pro forma: "If you're Tony the pizza guy and you need $80,000 for your pizza restaurant and you go to your bank, they're going to say sure, but I need to see your plan," says Cardamone, "If you're going for financing, then any banker or investor or anybody who's going to give you money to do that, is going to require seeing some sort of plan; how they're going to get their money back." Once you've got a clear-cut plan, approach several financial institutions or funding outlets, then review their loans, rates, terms, and conditions.

Do consider out-of-the-box funding: "These days, crowd funding is huge. People, particularly Millennials, rally around the concepts that they feel strongly about," says Cardamone. Greg Flores, president and CEO of Flores Financial Services, also recommends trying investors, but keeping in the back of your mind that they'll continue to take a piece of your pie or may want a controlling percentage in your restaurant.

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Do shoot for the moon: Cardamone tells his clients, "If you're going for funding, shoot for the moon because a bank is going to give you what they want to give you, not necessarily what you ask for. But the stronger your plan, the stronger the case you make for what you're going to do and how you're going to be successful, the likelihood of them getting you what you asked for goes up."

Don't take on unnecessarily costly loans: Extremely expensive loans with high interest rates that also take a cut of your daily credit card processing are a no-go, says Flores. "Be careful of the bad loans; they'll get you in worse shape. Get some advice before you go and suddenly take a loan where the net rate is 20 or 30 percent because it can be that bad," he explains.

Don't underestimate your needs: More often than not, owners tend to plan for exactly what they believe they need, but processes don't always happen how they're planned, explains Cardamone. Build a slight cushion into what you think you need for your financed or funded project as a safety net for the unexpected.

Don't use loans for only new restaurants: Restaurant business loans can be funneled into increasing your number of locations, improving kitchen equipment, offering catering, solving long-standing repairs, or an entire design remodel. Do your due diligence to figure out how much you need to finance and understand that you are taking on more debt in the short-term, but the long-term might see higher ticket sales and profits.

Restaurant Franchising Do's and Don'ts

Do test multiple locations: Two to three locations beyond your flagship are necessary to validate the model and show that the concept can succeed beyond the first restaurant, explains Cardamone. Can you take the model and duplicate it in another area that's different from your original?

Do think about how your franchisee will make money: "Any franchisor that goes into franchising without thinking of 'how does my franchisee make money', is only kidding themselves. They won't last," says Mangiamele, "All the metrics of a good franchise system has to include scalability, geographic, demographic, psychographic in order to prove that this brand will work and can travel whether domestically and in some cases like in ours, internationally."

Do show how the brand is proven to work: If you're the franchisor, you have a responsibility to provide franchisees with a system that works to help them succeed. That includes construction, design, operations, marketing, financing, support, training, and anything else they need to make money for your brand and pay you royalties, explains Mangiamele.

Don't have sloppy franchise agreements: Exceptional legal documentation for your restaurant's franchising agreement is an absolute must, and you need to ensure your franchisees have the same passion to keep the brand alive as you do, says Flores. He recommends ensuring franchisees sign top-notch agreements. Don't leave them hanging by simply collecting royalties without offering franchisees details on expectations because that doesn't work for either party, he says. Write any deliverables or expectations into your agreement so each party is clear about franchisor and franchisee duties and responsibilities.

Don't underestimate your franchisees' intellectual capital: When they're spending hundreds of thousands or millions of dollars to grow you brand, utilize the collective intellectual capital of your franchisees because they're smart, explains Mangiamele. Form advisory councils, include franchisees in decision making, consider how everyone as a team can make the brand stronger, and pick their brains about what they catch in the stores every day.

If you're considering funding, financing, or franchising for your restaurant, whether it's raising capital for more locations, fixing equipment, or planning for the future, communication and planning are critical. Speak with investors, bankers, and franchisees to ensure everyone is on the same page and if you're all speaking the same financial lingo, you'll be headed toward successful monetary growth.

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