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Countdown

Our columnist's 10 best franchise finance occurrences of 2010

By Dennis Monroe

Each year I reflect back on the high points of the previous year and look at the ideas, transactions and developments I think had the greatest positive effects on financing for the franchise community. In reverse order, here is my list of the 10 best things that have happened in 2010 for franchise finance:

10. Extension of the Bush Tax Cuts. As we all know, there was a great debate over which small businesses should continue to receive the tax benefits enacted during the Bush administration. The good news is the franchise community definitely benefited from the extension of the Bush tax cuts, and this extension provides some certainty for the tax environment surrounding franchising.

9. Small Business Jobs Act. The passing of the Small Business Jobs Act provided incentives for the franchise community with faster depreciation write-offs and other provisions that will continue to put additional cash in the pockets of the franchise owner.

8. SBA. The Small Business Administration loosened its rules in 2010, making allowances for larger franchisees and provided a broader scope for its loans. Since many banks moved loans to the SBA, additional credit was freed up. And SBA loans became a major funding source for franchises.

7. GE working through a number of its problems. GE has been a major source of funding for the franchise community. In prior years there was uncertainty as to what would happen with troubled situations. In 2010, GE did an effective job of working through a number of troubled situations which then gave franchisees a second chance and allowed them to move their businesses ahead.

6. Private equity. A number of private equity firms returned to investing in the franchise industry in 2010. Additionally, several new private equity players began investing in franchise concepts. Both franchisees and franchisors did a number of transactions in 2010, and we also saw some major acquisitions of franchisors by private equity groups.

5. Landlord participation. With the glut of available commercial property, it became necessary for landlords to participate in their prospective tenant's financing. In many cases these prospective tenants were franchise business owners. The necessity to provide financing turned into a very good source of growth money for franchisees. I still see this trend continuing as store vacancies remain high, though this will eventually end due to the lack of new construction. Take advantage of this opportunity while you can.

4. New ownership for Burger King. Over the past few years the Burger King system has experienced a lot of challenges. A change of ownership and a new perspective will certainly help this iconic brand. Hopefully, they will now take a more positive (and less adverse) approach toward their franchise community, restore their iconic brand appeal and help their franchisees succeed.

3. Private Investors. With the low rate of investment return in public markets for private individuals, I saw an influx in 2010 of private investor money. These investors are often called "angels" and are family and friends or private individuals who are looking for an above-market rate of return.

2. "All-in" financing. 2010 saw the emergence of the one-stop-shop for financing for franchisees (in terms of equity, mezzanine financing and debt). One group that has lead the way for this type of financing is CapitalSpring. This one-stop-shop approach is filling the necessary void in the franchise finance world, and I have now seen financial groups getting into this approach.

1. Participation by Franchisors in the Financing Process. As has been addressed often in this column, it is not a question of whether the franchisor will help its franchise community with financing, but how the franchisor is going to help. We have seen franchisors participate in every possible way — from making introductions to lending sources to actual direct loans. This approach has allowed franchise systems to grow through a very tough credit market.

All in all, I believe 2010 was a tipping point for franchise financing. We saw a positive attitude at the Restaurant Finance & Development Conference in November 2010, and the mood in this new year seems to be strong. It appears we have more available funding than we have had in a long time. Though funding is still not at the levels I would like to see, relatively speaking, 2010 was a good year. FT

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