

# Running a successful franchise starts with a business plan

Many, if not all, start-up businesses face the challenge of insufficient capital. For those looking to open a franchise this challenge is still a reality, but perhaps less of an obstacle as financial institutions base financing decisions on a strong business plan and security - "both of which have a significantly higher chance of being accepted if backed by a successful brand," said Richard Mukheibir, MD of Cash Converters.



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"There's no chance you'll get financial backing without a sound and detailed business plan," he said. "It makes sense that if the business plan is based on an established model with a good track record there's more chance of securing the finances needed."

The plan starts with comprehensive research and Mukheibir says that this is where a franchise solution really makes sense. In general the franchisor will assist a potential franchisee with the business plan that can then be presented to the banks to secure a loan.

"The business plan is a document that needs to encapsulate what the business owner currently has and the execution of a plan to get a desired result. It's important that it includes where things currently are, where they are going and the resources needed to get there. It needs to be realistic and achievable with the right skills on hand. In essence, it's the foundation of the business, a combination of a map, binoculars and compass, so to speak," said Mukheibir.

The second aspect is security. "Bearing in mind that banks will not consider granting a loan without the necessary security, this needs to be a pertinent part of the business plan. In many cases, those wanting to start a business often aspire to more than they can afford. The reality is that according to Bloomberg, eight out of 10 entrepreneurs who start businesses fail within the first 18 months - a whopping 80% crash and burn.

Realistically then, if you don't have enough collateral you need to rethink your business proposition. It is unwise to start a business with more than 50% debt. Ideally you need to be able to put down at least 50% in cash and borrow the other half. It's then viable to be able to pay back the debt and your application will generally be successful."

## Size is definitely a factor

Limiting risk is critical so in start-ups size is definitely a factor. "Rather first start by finding a business on a smaller scale to cut your teeth on. The principles of running a business are the same irrespective of size. Principles including managing customers, accounts, administration and so on are all pieces that make up a business, regardless of the size of the business, so rather start small, be successful and in three to five years you may be able to sell the business for two to three times what you initially invested in it and now have the collateral and business experience to start something bigger," he said.

It is very rare, almost unheard of, that banks will lend to "the guy with nothing but a good idea". Giving people money without surety and experience is a recipe for failure. It is also very rare that businesses that are given handouts become successful, because every business will go through tough times and unless the guy in the driver seat knuckles down and is motivated to do so, he'll probably walk away. A prerequisite for success is getting through the hard times. "It also helps if the business you started has multiple revenue streams to buffer you from the bad times," said Mukheiber. "All businesses run into problems at times, but if you can think and move quickly, 'fail fast' if you're going to fail at all, and nail your business model, this significantly improves your chances of success."

Finally, be prepared to stay involved. Mukheiber says when it comes to the type of business owner they will back, certain characteristics are key. "To be a Cash Converters owner, for example, you need to be a very specific type of person. You need to understand that the business needs to be run on a full-time basis - our stores are owner-operated businesses. Because we deal in the retail sector, you need to interact with customers and staff continuously. Understanding the clients' needs and providing solutions as well as motivating staff to meet these needs is paramount. We are also traders, so our franchisees need to be motivated to trade in household goods. We always ask the question: 'Does this character fit with our business model?' If not, there's very little chance of success and we won't encourage or back this type of applicant.

Generally, any new business owner needs drive and motivation. Motivation is defined by Brian Cumins, founder of Cash Converters, as "the amount of energy input needed to get you from where you are to where you want to be".

"If you combine all of these ingredients together you've got a great chance of mitigating your risk and building a successful business," concluded Mukheiber.

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