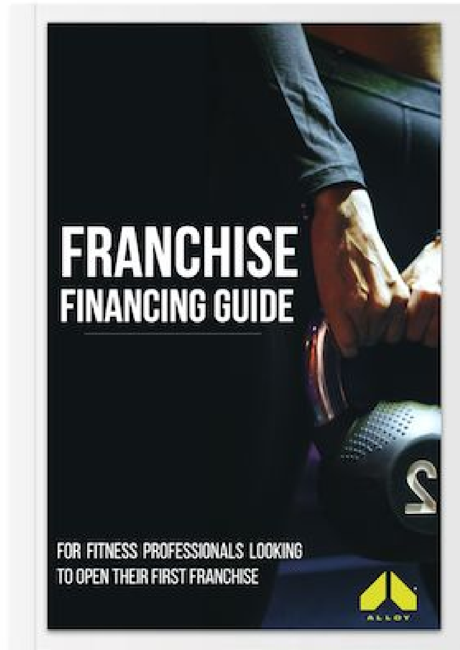
A Financing Guide For Fitness Professionals Looking To Open Their First Fitness Franchise



So you've been a fitness trainer, personal trainer, or group fitness instructor working for a chain of health clubs or gyms. Maybe you are a gym manager, assistant manager, regional manager, or executive for a fitness brand and you've been thinking about going into business for yourself.

Of all the mistakes new business owners make, the biggest is failing to anticipate the cost of going into, and staying in, business. When you begin to explore franchising, you soon learn that one of its benefits is having a franchisor who can help you avoid this mistake.

Franchisors are required to provide you with a disclosure document (the "FDD") outlining, in addition to other information, the details of your initial investment. With a history of franchise openings and knowledge of how the business operates during its initial period, franchisors provide estimates of not only the cost of opening the business, but also the working capital you will need.

Remember that the information contained in a disclosure document provides ranges, which will vary for your particular location. Your costs may differ somewhat depending on your market, your costs for real estate, and labor, along with other variables. With the help of your franchisor, realtors and other professionals, you can identify these variables and more accurately estimate your total investment. Having an accurate understanding of how much money you will really need is the starting point in seeking financing.

You should prepare a personal financial statement that evaluates not only your bank accounts but your liquid assets as well to know what they're worth either as collateral for a loan or as saleable items. As we will discuss later, you may have had some preliminary discussions with family, friends, and even clients to see whether they are interested in investing in your new franchise.

The money you need to get into business is out there. Make certain you know how much money you really need, and be realistic. Offering both the flexibility and independence of being a small business owner, a franchise can be a great idea for anyone interested in becoming an entrepreneur, particularly fitness professionals who have experience and want to have their own business. Opening a franchise requires an investment of capital. Remember, if you need funding for your franchise investment, it will take some time and effort to navigate the various options available.

Fitness Franchise Financial Resources

In addition to your franchisor, another source of advice on developing business plans and getting started in business is SCORE. The Service Corps of Retired Executives is a nationwide nonprofit association with 11,500 volunteer members and 389 chapters around the United States. It is also a resource partner with the SBA. Besides providing business advice for free, the volunteers at SCORE have years of experience in helping business people like you and as a result do a great job giving advice.

Other sources for leasing programs and funding can be found through the International Franchise Association's Council of Franchise Suppliers.

Let’s break down the four most popular franchise financing options for franchisees.

1. Traditional Bank Loans.

A common way of financing your franchise is through a traditional term loan from a bank. A term loan is what most people think of when they think of any form of loan financing, particularly if you have ever taken out a student loan or a mortgage on your home. In this case a bank offers you a lump sum of cash up front, which you then repay, plus interest, in monthly installments over a set period of time.

When you apply for a commercial bank loan to purchase a franchise, your lender will want to review your business plan and personal credit history. The lender will use these documents to assess your creditworthiness. Essentially, through this process, the bank is trying to determine whether or not you can reasonably afford to repay the loan you’re requesting, and how likely they are to get their money back. Generally you can assume that the stronger your financial history and the higher your credit score, the better the terms and interest rate will be for your term loan to finance a franchise.

2. SBA Financing.

Considering all the loan products on the market, one of the best options for franchisees tends to be an SBA loan. SBA loans are partially backed by the U.S. Small Business Administration and funded by their lending partners.

These loans follow a very similar model to traditional loans from a bank or even an alternative lender. Because the SBA reduces the risk to lenders by guaranteeing a portion of the loan amount, lenders are incentivized to offer more loans with lower interest rates and longer repayment terms than they would otherwise.

Whether you're speaking with your banker, your accountant or a SCORE representative, you're likely to hear a lot about these SBA loans. Most lenders are familiar with the SBA loan programs and can help you complete the information the SBA requires. You can find information on the many programs the SBA offers at http://www.sba.gov.

A relatively new program established by the SBA is the Franchise Registry. The Web site lists franchise systems that have submitted their franchise documents to the SBA for review and approval. By pre-clearing their documents, the franchisor enables prospective franchisees to get expedited loan approval from the SBA. Alloy Personal Training franchise participates in the Franchise Registry.

The SBA loan can be a great option for financing a franchise. If you have the financial strength and credit score to be eligible, this is something you should apply for. Remember that qualification standards can be stringent, and the application process can take a little time.

3. Other Types Of Alternative Financing.

If you need money to fund your franchise or want to get additional money to supplement your commercial or SBA loan, you may want to consider applying for franchise lending through an alternative lender.

Alternative lenders have less stringent requirements. They offer a variety of loan options like equipment financing, business lines of credit and some term loans. Alternative loan products can be more expensive, offer shorter repayment terms and lower loan amounts. However, it may be worth considering if you need to supplement your existing financing, can't qualify for a bank or SBA loan or need capital quickly.

4. Family and Friends.

One of the most common ways to finance a franchise is by borrowing from your friends and family. In the fitness industry many loyal clients have backed their personal trainers to open their own fitness franchise.

Whether you choose to borrow money, ask for a gift, or bring a friend or family member on as your business partner, this type of financing can be very flexible. If you go this route be certain to write up a contract that includes repayment terms and expectations. If everyone understands the agreement before signing, breakups and disagreements will be less likely later on. Seek some legal counsel on exactly what to do.

Becoming the owner of a franchise is a great chance to become an entrepreneur. You get to become a business owner with the support of a knowledgeable franchisor behind you. Understanding these financing options will help you get your fitness franchise up and running in short order.