

Title:

Finance Your Restaurant Business With Someone Else's Credit Card

Word Count:

756

Summary:

Getting funding for restaurant businesses is far from easy. Here's a few ways of financing your restaurant that you should consider.

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Article Body:

If you are in the restaurant business, you certainly won't need me to tell you how tough it can be financially.

While you are building up the reputation of your establishment, money is often tight and one bad night can mean an unprofitable week. As for cash flow - well, the cash certainly flows, doesn't it? You just wish that more of it was flowing in than out. And what about those slow periods? What do you do if they last longer than you anticipated? How do you get the funds you need to get your restaurant business over that hump.

OK, I'm painting a negative picture here, but funding can be a problem for even the most successful restaurant, especially if you wish to expand quickly. The question remains: what is the best way to get financing for your restaurant?

LOANS

A loan may be an obvious way to raise finance for your restaurant business, but look at it from the point of view of the lender.

The 2004 Restaurant Industry Operations Report published by Deloitte & Touche LLP indicates that average pre-tax profit margins range from 4-7%. This means that, from the lender's point of view, even a profitable restaurant is a big risk. The bigger the risk, the bigger the interest payments - that is, if you even get approved for a loan at all. High interest rates, of course, can bring their own problems, particularly for a very low margin business such as the restaurant trade.

Lenders will, admittedly, look more favorably on you if you also own your

premises. However, you need to be aware that funding your business using real estate as collateral means that it is the potential resale value of the property that lenders are looking at. The purpose of the property itself may actually reduce its resale value as there would be a smaller pool of potential purchasers. Thus, many lenders set very high minimum loan amounts, which may not be suitable for your particular circumstances.

If you do decide to go the loan route, then speaking to a specialist lender with expertise in the restaurant industry is essential.

ACCOUNTS RECEIVABLE FACTORING

Factoring is a form of commercial finance where a business can accelerate its cashflow by selling its accounts receivable at a discount. This means that the business doesn't have to wait for outstanding invoices to be paid in order to receive the cash necessary to finance the business moving forward.

For many service based businesses, accounts receivable factoring is an extremely good way of quickly accessing cash. However, restaurants rarely have much business of this kind.

What they do have, however, is a high volume of credit card transactions. By leveraging these, budding restaurateurs can - literally - fund their restaurants with other people's credit cards.

CREDIT CARD CARD FACTORING

Essentially, restaurants can sell their future credit card transactions and receive an advance on that money - usually up to around \$120,000. The money can be used for any purpose - from expanding premises to buying new equipment or whatever you want. This isn't a loan, so there is no personal guarantee needed. It's simply an advance against future credit card settlements.

The company purchasing takes a small, fixed percentage of future credit card transactions until the advance is repaid.

The advance cash can often be made available within 14 days, so - for the restaurant business that is in need of a quick injection of funds - this is a good option. Of course, there are restrictions on who can apply. Generally speaking, a restaurant would have to be running for over 1 year, take over \$5,000 per month in Visa/Mastercard transactions and have more than 1 year left on their lease to qualify.

For the restaurant that has been in existence more than one year, this

represents the best method of further growing your business at minimum professional or personal risk.

COMPANIES PROVIDING RESTAURANT FINANCING

There are a number of companies out there offering financing of this kind to restaurants. The main points to watch out for when selecting such a company are as follows :

i) Application Fee - Companies charging an application fee should be avoided. To be honest, there isn't much paperwork involved in this process, so an application fee is unnecessary.

ii) Closing Costs - Again, companies charging 'closing costs' are best avoided. There are enough companies out there competing for your business.

For the young or established restaurant business, credit card factoring is the most effective way of getting the funds you need to expand your business. So, fund your restaurant using someone else's credit card !