How to Harness the Power and Money of a Crowd Through Crowdfunding

You don't have to be rich, succumb to ever-growing interest rates, run the risk of your bank collapsing or use your house as collateral to build a franchise. All you have to do is find the right crowd.

BY **KENNY ROSE** • MAY 31, 2023

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The word "recession-resistant" is all the rage, with endless tips on pivoting your savings, career and even leadership skills. This puts me in a difficult spot since those who select and manage franchises wisely reap recession-resistant benefits. Look no further than our friends at Teriyaki Madness, who rocketed themselves from a new kid on the block to 20% systemwide growth during the Great Recession in 2008 while other franchises enjoyed similar recession booms. The COVID mini-recession brought more of the same, as Teriyaki Madness saw 18% same shop growth in 2020.

It makes sense, though. Recession or not, people will still go out to eat, get haircuts and buy gas. That's why I don't envision this growth ending anytime soon, if ever. With numbers like these, it's no wonder franchisees want to pursue the ultimate dream: a sprawling portfolio, beautifully expanded and diversified. The only hurdle? You've got to finance it.

An overlooked opportunity with one-of-a-kind upsides

There are plenty of franchise financing options, and while different routes can be right in different situations, there's one you likely haven't considered: crowdfunding. I always say franchising is the most overlooked industry that exists. Well, crowdfunding is the most overlooked opportunity to expand your empire.

Like personal crowdfunding, franchise crowdfunding involves lots of people investing small amounts of money without collecting any repayments or interest fees. But there's a twist: instead of simply donating money, these crowdfunders receive equity.

These crowdfunders are typically raving fans of your existing franchise. They live close by, they're regular customers, and now they become part of the business. Whether you're trying to open Franchise #2 or Franchise #20, they'll be there, not just offering money but cheering you on and encouraging the rest of the community to support you too.

The result? Financing and invaluable marketing at the same time. Those are two of the unique benefits of crowdfunding — you can see interest-free investments pile up immediately, and all of that evangelism can help generate a healthier bottom line well into the future.

In the three years I've been on the front lines of franchise crowdfunding, I've seen this excitement firsthand. Even a $500 or $1,000 investment emotionally invests them in the business' success. No other investor reacts this way. To them, you're just another line item on their portfolio.

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Why crowdfunding is the king of franchise funding

Crowdfunding is one of the least-talked-about franchise financing options – largely because there haven't been platforms to accommodate it. As that changes, let's evaluate it against the usual suspects:

1. A bank loan — The bank is likely where you received financing for your first franchise, and many franchisees don't realize that it can work against you. Odds are you're still paying off that loan, and banks don't like that — no matter how successful your franchise is. Financing for Franchise #2 can be harder because the bank assumes Franchise #1's success is a fluke.

Getting a bank loan is never easy — especially now, with an emerging credit crunch and spiking interest rates — but what they consider a red flag translates into a lot of extra red tape. I always warn franchisees that the bank simply views them as a row on a spreadsheet. With crowdfunding, you don't get bogged down in red tape or need personal collateral.

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2. An SBA loan — Having a loan guaranteed by the SBA is a popular franchise funding tool because the guarantee increases your odds of approval, and these loans come with better repayment terms and interest rates than traditional bank loans. "Better" doesn't mean "good," though. The SBA 7(a) loan, franchisees' most popular choice, currently has rates as high as 16%.

Plus, SBA loans require personal collateral because your existing franchise's success doesn't count. Making things more frustrating, you may not get approved for a level of funding that meets your needs — a threat that looms even larger during a credit crunch.

Crowdfunding gives you the power to ask for as much funding as you need. Unlike an unknown startup, franchises come with predictability in returns based on the previous success of other locations and a built-in brand identity, which gives you ready-made fans who are excited to invest — making it easier to hit your goal.

3. Rollover as a business startup (ROBS) — Some franchisees use their retirement funds as a down payment on an SBA-backed loan. On the surface, it's tempting. The capital is sitting in your 401(k), begging to be used, and with a ROBS, you can tap into it without the taxes that come with regular withdrawals. Why *wouldn't* you use your financial future to fund your financial present?

Because it comes with the risk that falls into the keep-you-awake-at-night category, with crowdfunding, you get capital without risking your nest egg.

4. Online business loans — Many online lenders are aimed at small businesses, armed with more flexible requirements and faster approvals than their traditional counterparts. That flexibility and speed come at a price in the form of higher interest rates and shorter repayment terms. That whooshing noise you hear as money flies out the window doesn't exist in a crowdfunded world.

5. Private equity funding — A franchise's established brand and proven business model can make it more appealing to private equity firms, which can be a path to rapid expansion. However, private equity firms typically have a minimum investment threshold of $30 million, meaning the vast majority of franchisees never land on their radar.

I like to think of crowdfunding as a more realistic option to private equity — virtually any franchisee can give up a small stake in the business in exchange for interest-free money that funds their expansion dreams.

6. Franchisor discounts — While some franchisors offer discounts on franchise fees, they don't provide loans for what's needed to invest. Instead, they refer you to a partner lender, which comes with the same requirements and red tape as any other bank.

Now is the time to gather your crowd and expand

Diversification increases opportunities and reduces risk, and past recessions tell us the demand for franchise goods and services is undying — making now the perfect time to double down. You don't have to be rich, succumb to ever-growing interest rates, run the risk of your bank collapsing or use your house as collateral. All you have to do is find the right crowd.

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