Your Dream – Their Dollars
The Methodology of Borrowing Money to Fund Your Medical Spa

By: Monte Zwang

It's always been your dream and you know now is the right time to make it happen. You have researched and planned and prepared and at this point there is only one thing standing between you and the doors of your medical spa – money. You envision a waiting list of clients, a talented and attentive staff, and because of your success you will be profitable early on and be able to pay back your loans early! You are sure that because your business and marketing plans are so well designed, you will have multiple lenders ready to offer you the money you need to launch your medical spa into business. Isn't this the way it's supposed to work?

Well, not to burst your bubble, but it doesn't work this way. Funding your dream takes more than a great vision for success. It takes a black-and-white detailed financial plan, and the more organized your plan is, the clearer you can present it to a lender which improves your chance of getting financing.

The Pieces of the Puzzle

Prior to determining how you will fund your medical spa, you need to have a clear but flexible picture of what it will look like. Instead of looking at your medical spa as a series of procedures, treatments and services, you need to think in terms of it as a series of financial pieces and you need to put the financial puzzle pieces together. These pieces are: sales, collections, direct costs, gross margin, overhead costs, profit, assets, liabilities and equity. Prior to opening your doors, these financial pieces also include pre-opening operating costs, construction budgets, security deposits, bridge loans and loans from shareholders. To be successful from pre-launch to consistent business you must understand these financial pieces and how to present them to a lender to secure a loan.

Types of Loans

There is no one way to finance a business venture; borrowers need to know there are creative methods of funding. Financing takes many forms and is available from a wide range of sources including banks, credit unions and family members. Lenders loan to credible borrowers with a feasible plan.

Conventional lenders look for good credit, positive income, positive equity and feasible projections. Use a conventional lender if you have an existing business with three years of profitability and positive equity on your balance sheet. If your personal credit score is less than 650, don't waste your time going to a bank for funding; you will be rejected. Do not go to a banker in your eleventh hour of need and ask to have your past three years of financial losses funded, or pay your contractor's overruns – you will be labeled "high risk". These lenders love real estate as secondary collateral and will most likely require a personal guaranty of the borrower as additional security.

Family and friends are known as angel investors. You should view your loan from your aunt the same way you do as a loan from a bank. She may be willing to loan you a portion of her retirement, but that doesn't make it a good lending decision. Sometimes there is limited documentation or agreements or fuzzy terms of repayment involved with a loan from a family member or a friend and this can make things confusing and uncomfortable. If you are borrowing money from an angel investor, be sure to agree to and sign documentation that establishes the terms of the loan.

Revolving Line of Credit is another form of business financing that is secured by accounts receivable or inventory and is available from a bank or an asset-based lender. Credit cards are a form of a revolving line of credit. An asset-based line of credit (ABL) is considered alternative financing and is available to borrowers who may not qualify for lower rate, long term financing.

Construction financing is also known as bridge or mezzanine financing. This type of financing is usually of a shorter term (due faster) than conventional long-term financing (one year or longer). It is a treated as a line of credit that is funded directly to the various contractors once certain aspects of the construction are completed as their liens are removed.

Real estate, equipment leases and notes are other forms of business financing. In these notes the collateral for the loan is the property or equipment itself. Equipment leases allow the borrower to acquire equipment without paying for it up front. There may be a tax advantage to leasing versus purchasing equipment, however be cognizant of the interest rate that is being charged as equipment leasing rates are typically higher than conventional financing.

Venture Capitalists are generally private lenders who seek opportunity in businesses with a strong upside potential. For their investment they get equity and control. You get the benefit of their money, a seasoned business partner and savvy investor. They will loan you money and help guide your business forward. In return, they get equity, typically 51%. This type of lending is called equity financing as the collateral is the future equity of the corporation.

Landlords can be a source of financing. It is not uncommon for a landlord to contribute dollars or rent concessions to the development of a tenant's space. Don’t be afraid to ask. For this loan, the landlord may require a percentage of gross sales’ clause in the lease as repayment

Creative Financing

At times, a borrower is just not strong enough to qualify for a loan. In the event that additional credit strength is required, loan guarantors or borrowing someone's credit may help the borrower qualify for less expensive financing. Be flexible and creative. Your final package may be comprised of several lending solutions that can be consolidated or re-packaged at a later time as the business proves it’s profitability and financial credibility.

Do you really want to do this on your own? Perhaps a partnership with another practitioner is the way to go. Your combined experience, resources, credit and synergy may help the business grow faster and allow different financial options than you may have individually.

The Value of Details

Prior to meeting with a lender, know your credit score and be prepared to answer questions regarding derogatory credit issues before presenting your application. Assemble your information including a completed loan application, an executive summary of your business plan, income tax returns (corporate and personal), financial statements (income statement and balance sheet), personal financial statements, a credit report and a cash flow budget.

Business funding is not difficult if the borrower is organized, informed, creative and realistic. You believe in your dream, now it’s up to you to put the financial pieces together so a lender will believe in you too.

Monte Zwang is a principal of Wellness Capital Management, providing cash flow and financial strategies to businesses in the wellness industry including medical spas and day spas. Monte has been a consultant for more than 25 years, teaching entrepreneurs and company leaders

in health care, real estate, resorts and hotels, and retail industries the strategies of cash flow management. For more information visit: www.WellnessCapital.com

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