# Control your Bank!

## - How to get the credit you want

As an entrepreneur, one may well feel that you need to “get down on our knees and beg” when it comes to working with a bank. But banks live by lending money and they are constantly in competition with other banks to win new customers. So how can we prepare ourselves to go to the bank and to get both the necessary line of credit and the best terms?

As an entrepreneur, it is not uncommon to have a strained relationship with banks. Maybe there are bad feelings towards your bank or all banks generally. Perhaps thoughts like “the bank doesn’t want me as a customer” or that “the bank will try to control and restrict my freedom of action.”

The reality is that all banks are interested in having business customers and lending money. Banks are in the business of facilitating the lending of money and it is how they make a living. The right banker can be your ally, giving you competent and free advice on future investment options.

Harboring feelings such as “my bank does not understand me” begs the question, “do you really understand your bank?” With the right awareness and skills there are good options to achieve a credit agreement with the bank that you want.

### What do banks think?

There is no doubt that banks can certainly improve the way they communicate with entrepreneurs. But while we wait for their communication to improve, we can ourselves become even better at communicating with the banks from our side.

A good starting point for this is to sit in the bank’s office and try to understand how the bank manager thinks, feels and acts. Inspiration for how to do this, is found in the framework above that shows examples of the questions a banker asks themselves regarding potential customers i.e. you and I, the entrepreneur. These questions include questions like “does this investment make sense?”, “How much capital does the entrepreneur really need?” and “Do I trust the entrepreneur?”

> “The better one is at negotiating with the bank, the better one will demonstrate that as an entrepreneur, one is responsible for driving and carrying out business, which ultimately provides a double benefit for the company.”

### Investment Summary

One of the things a bank manager would be interested in is understanding what the loan or line of credit would be used for.

It is therefore important preparation for a bank meeting to make a complete list of all the investments necessary to move the company forward. It is also important to



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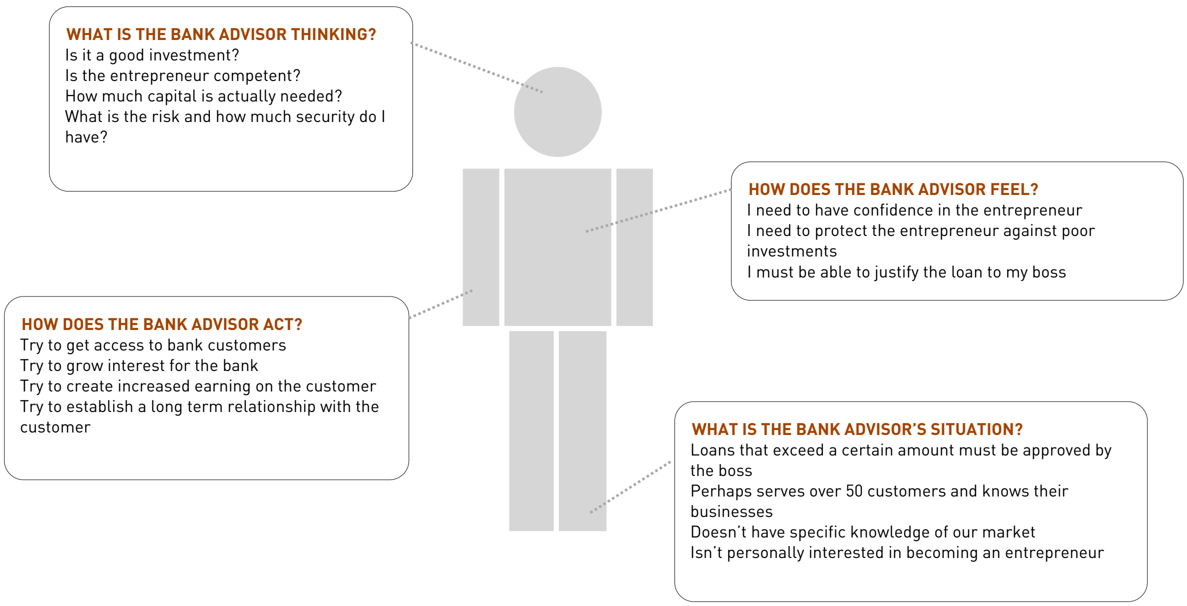
**Bank Relations: Preparing for the negotiations with the bank advisor**

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demonstrate the return each investment is expected to give: the expected Return on Investment or ROI. Whether you invest in product development, manufacturing equipment, new employees or a marketing campaign, it is important that the discussion is always about *investment* and *not expenditure*. The idea is that activities should yield a return. Therefore, it is also a good idea to create an investment statement showing what it would take for an investment to be "paid back" to the company through income. This is what financiers call investment "break-even." Potential future investments should also be included in your investment statement. It serves to highlight future investments, so they will not come as a surprise to the bank. It is also a good way to demonstrate the entrepreneurial vision of the business.

### Do a risk analysis for yourself

Another point which is 'top-of-mind" for a bank manager is the risk the bank has when lending. Here you can anticipate the banks concern yourself by making your own risk analysis, which both identifies the risks that exist in the company, how likely they are to occur and countermeasures in the event that they occur. The types of risks we face depend on what businesses we run, but all businesses have some common risk factors.

We can find general risks associated with typical categories. Looking specifically at the risks associated with customers, there is risk of *inadequate customer acquisition*; *loss of customers* to new competitors; *bad debts*; or even *declining prices* in our market. On the production side, it may be the risk of *quality problems* or *production errors*, including problems with deliveries from your suppliers. It can sometimes also be *increases in costs*, *currency adjustments* or *changes in legislation* that affect our livelihoods. Finally, most businesses run with organizational risk that include *resignation of key employees* – or worse, that *something happens with the entrepreneur* even at a time when the company is still dependent on its founder.

By being prepared and presenting a risk analysis to the bank, describing ways to handle the risk areas, we can demonstrate to the bank that we have a realistic understanding of our company. This risk analysis in itself can create the confidence that helps the bank agree to the deal.

"As a startup company we can have the situation where we in fact have too little debt."

### A Bank Binder with everything

An investment overview, a risk analysis, and a cash budget are some of the most important materials you need to have ready when you meet a banker. But there is much more information we can provide for our bank, which can both provide the bank with a better basis for decision making, greater security and a better impression of the company.

A professional way to deliver this is to produce a single binder – a bank binder – with all of the information collected and organized that would be of interest to a bank. The figure below shows an example of what the bank folder should contain. Here we find everything from basic legal information about the company, to product and customer



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**The Bank Binder - information for the bank**

| | | |
|---|---|---|
| **Company Papers** | Registration Proof :: Statutes :: Corporate Filings | 1 |
| **Company Profile** | Print from website :: CVs :: Press Coverage :: Board Members | 2 |
| **Company Products** | Product Line:: Price Lists | 3 |
| **Company Customers** | Customer List :: Pipeline of Customer References | 4 |
| **Marketing** | Print from website :: Product Sheets :: Brochures | 5 |
| **Risk Analysis** | Risk Assessment :: SWOT Analysis | 6 |
| **Financing** | Investment Overview :: Liquidity Overview | 7 |
| **Private Economy** | Private Budgeting :: Tax Return from Previous Year | 8 |
| **Budget** | Expenditure budget :: Liquidity budget | 9 |
| **Accounts** | Quarterly financial statement :: Last years accounts | 10 |

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information, and examples of company marketing material. The bank binder also contains the various budgets we have made for sales, expenses and cash flow. In addition to this, a personal statement about one's own private budget and financial resources can give a banker the added ability to assess a persons overall economic outlook.

One can imagine the difference in a meeting where you have such a binder, and a meeting without one. Already from the beginning of the meeting the approach is one of confidence and strategy, where we are one step ahead in relation to all the bank issues. The folder puts forward the agenda for what needs to be reviewed at the meeting.

> "It is easier to use most software than it is to use a video machine, even without reading the user guidelines!"

### What needs to be negotiated

With a bank binder in their possession, an entrepreneur is equipped to start negotiating terms. It should be kept in mind that not only is the loan or credit amount to be negotiated, but also a number of other terms.

First and foremost the cost of credit is negotiated in the same way that we would negotiate the purchase of a printer or other large purchase. For negotiating a line of credit, it is the interest rate which is the most critical to determine. The interest rate is the rate at which you can borrow money, or how much you have to pay back in excess of the amount you originally borrow.

However there are a number of processes for building the line of credit which include startup and other administrative fees, provisions for establishing the maximum credit limit and wherever possible, these added fees should be avoided. During the negotiation process it can also be good to discuss the interest rate on savings i.e. the rate on any money kept in the company's bank account.

Finally, one of the main issues to be negotiated, which the bank will most likely request, is a collateral or security for the loan. If you have a limited company, it is best of course that you are not personally liable for the loan, but often the bank will say that it will not take the risk, if you personally do not accept some risk. This is actually very reasonable and as a result, one can often only get the line of credit by adding additional capital to the company's accounts where the line of credit is being established. So it is important that you personally hold a part of the corporate risk.

### Good negotiating skills make a difference

The extent of good financial conditions that can be achieved in your banking relationship depend on several factors, not only on the current economic situation.

The most crucial factor is how good you are at creating confidence in the company and in its management, from the banks perspective. We need to "sell" the company to the bank, as though the bank were a prospective customer. This is best done with the aid of the bank folder and a professional business presentation. Yet, even with all of this, it will still be one's ability to negotiate with the bank which makes the biggest difference. Here one should remember to use the same methods as when negotiating with the company's other suppliers.

As a good merchant, it is important to always make contact with at least two banks / or suppliers generally. And it is only fair to inform the bank that you will obtain several offers, thereby guaranteeing that your agreement represents "conditions at the market level." Just asking the bank for "an offer" proposal shows that you are price aware, and will be also cost-focused in the company's other affairs.

On the whole, the fact is, that the better one is at negotiating with the bank, the better one will demonstrate that as an entrepreneur one is responsible for driving and carrying out the business, which ultimately provides a double benefit for the company.



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### Caring for the banking relationship

The relationship you establish with the bank does not stop after we have our first credit line established at the right terms. It is precisely here, where it starts. The Bank needs caring, just like other important relationships. If our business is to evolve there may soon come a day when we will need an even larger commitment from the bank. This is not because something could go bad, but because future growth often requires capital. Consequently, one must constantly work to increase the bank's trust in the business. This is what some term; adding funds to the "emotional bank account."

This can be done in practice by continuously sending the company's periodic accounts to the bank adviser, and by providing detailed overviews of the company's liquidity. For example, the details of how an overdraft will be used to maintain the business operations. It is important to keep the bank aware of the credit and how the company is meeting its agreement with the bank.

### Debt can be a good thing

When as an entrepreneurs, we don't always feel good about going into a bank to discuss debt. This may be because we basically perceive debt as something negative. Perhaps this is because when you see debt on your books it feels like it is a sign that the business is in a bad situation.

However, debt can also be a good thing for a company, if it is created by good investments which will eventually yield a positive return.

Therefore, as a startup company we can have the situation where we in fact have too little debt. Maintaining little or no debt means that no investments are being made. In comparison, making investments will potentially return or generate profits which exceed the interest rate being charged by the bank for the loan.

Bankers and entrepreneurs benefit from making loans, because both parties make money on the establishment of loans and credits to profitable investments the company should make. It is in this setting we as entrepreneurs go to the bank to get the credit line that is right for the company's development.

**Suggestions for the next step**

- Get an overview of the next profitable investments you would like to make.
- Make a liquidity budget and assess your financing needs in the short and in the long run.
- Create a bank binder that contains the information that the bank needs.

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