

IS YOUR BANK A STAKEHOLDER OR THE ENEMY?

With insolvencies continuing to rise, SME owners and directors need to ask themselves if they're being proactive in managing their banking relationship, both in good times and in bad.

BY DOM DEL BORRELLO

It is crucial for SME businesses to revisit their strategies for managing their relationship with their bank or banks.

Most SMEs present a good picture to their bank when they need to increase or extend their facilities due to business expansion, or when a loan matures. However, once the facilities are in place, it is quite common for SME clients to be unprepared and reactive rather than proactive when the bank wants questions answered.

Let me be blunt – if the only evidence of your relationship with your bank is an annual review, it's not a healthy or productive relationship. Managing your bank as a stakeholder in your business requires you to maintain regular contact, similar to what you develop with your key customers or suppliers.

This involves scheduled meetings to keep the bank updated on your business performance and industry trends that are relevant to your business. Regular meetings also provide an opportunity to openly discuss any risks and

HOW A BUSINESS BANKER CAN HELP YOUR BUSINESS

Over the last few years, Australian banks have put experienced business bankers back into branches and business centres around the country. These local business bankers have been recruited specially for their small business experience, with many having run businesses of their own. So they're not only experts on finance, they also understand the issues you face in your business every day.

By making your business banker a key member of your business support team, you can tap into a wealth of free financial expertise. You'll also make it easier to access extra cash when you need it, by helping your bank to understand the strengths that make your business a compelling candidate for a loan, rather than approaching them when money is already tight.

Among other things, your business banker can help you to:

- Anticipate and avoid future cashflow problems
- Plan for future growth
- Get paid faster by your customers
- Save time and cut administrative overheads by automating payments and receipts
- Reduce bank fees
- Start selling online for less
- Choose the best financing option to access the funds you need, while keeping borrowing costs down
- Maximise your chances of getting finance when you need it.

—By Matt Comyn, Executive General Manager, Local Business Banking, the Commonwealth Bank.

opportunities in the business, including external factors. This style of discussion will demonstrate that you have “line-of-sight” on the key business issues and are managing the risk factors.

BIG BROTHER IS WATCHING

It is important to recognise that your bank most likely already remotely monitors your business performance and sector performance well before you address any problems or challenges with them. When you submit your financials or management accounts, the banks have tools that perform analysis on the underlying results. Banks are incredibly well informed and have a good insight into how a business is performing and if it is on an upward or downward trend, as well as how it is faring relative to other customers in similar sectors or segments.

Remaining proactive with your bank highlights to them that you are managing your business. Most banks and relationship managers are not just fair weather friends. They are in banking relationships for long-term benefits, including incremental income through add-on products and services. It is important for SME borrowers to understand that it is costly for banks to lose them as customers through churn and poor relationships. Banks are equally motivated to keep hold of their good customers.

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performance or an external shock event, managing and motivating your bank as a key stakeholder becomes *incredibly important* during the business turnaround phase.

Our experience with SME clients during the business turnaround phase has been to ensure that the key issues for the bank and their strategic imperatives are understood by the business.

Once these are known, the SME has an ability to establish a position to negotiate. We then recommend that the SME works towards achieving a consensus resolution with the bank and only commit to what is achievable.

On too many occasions we find that what has led to some of the management issues and frustration from the bank is when SMEs in distress over-commit on deliverables, or are inactive or refuse to engage with the bank. You should only ever commit to what is achievable and be realistic.

Treating your bank as a stakeholder in your business, and not the enemy, is likely to result in a sustainable, mutually beneficial relationship for both parties. **DB**

—Dom Del Borrello is Client Director, Vantage Performance.

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TOP TIPS FOR A SMOOTH BANKING RELATIONSHIP

Tips for SMEs on how to manage your bank as a stakeholder:

- Schedule regular, quarterly meetings to provide an update on your business.
- Provide good management information flow, including management accounts on a quarterly basis, and deliver them in a timely manner.
- Deliver annual tax returns and accounts in a timely manner.
- Provide timely 12-month forecasts for future revenue and EBITDA, including associated ratios/KPIs relevant for your small business.
- Understand your security structure with the bank (i.e. fixed and floating charge and covenants). During periods of strong business performance your bank may be open to relax these; and in the challenging times your bank may want to strengthen their position. It is important to understand where you sit.
- Monitor bank covenants on a monthly and quarterly basis. If you breach covenants you are in a position to engage with your bank early and agree on remedial action rather than receive a default notice after the event.
- Highlight that you have trusted advisors and involve them if necessary in meeting with the bank, early on.
- Ensure that your leadership team (including, for example, your CFO or financial controller) is known to your bank, as this demonstrates that you have management depth.
- Recognise that your relationship with the bank will be longer than your relationship with an individual banker. It is normal for relationship managers to move around to different roles as part of their development.
- Diversify your banking relationships (e.g. one bank for trading accounts and overdraft; another for leasing/hire purchase or trade). Having competitive tension in annual reviews is important for both parties. It shows you are regularly benchmarking pricing and terms, and not solely dependent on one bank. It also shows you have diverse funding sources.