



Build a business plan: *Benefit from your banker*

Develop a working relationship with your banker and you'll have the leverage you need to expand, when the time is right.

By ROBERT REAVES

Do you know who your broker is? Many banks have merged, leaving you to deal with the "manager of the month." How can you develop a good working relationship under these circumstances? Your "personal" banker will want to see several items before he or she will facilitate a loan. What is the primary thing your banker will look for when you meet? The answers may surprise you, but they start with a solid plan.

Steady date

The basic thing a bank looks for is a long-term relationship with its customers, says Kevin Fowler, consumer banking manager for Norwest Bank Texas, N.A. in Austin. "Surprisingly, the most important thing is not how much money a customer has. Our banks goal is to get all the business of a credit worthy customer.

"It's to the bank's advantage to lend money to credit worthy people. There is no incentive for us not to lend money," remarks Fowler. "It is admittedly harder for a small business to get money, and that's why we ask for a business plan and financial information. A contractor may think his business is just to cut grass, but it's far more. He must have a grasp of his market and financial situation."

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How do you build a strong relationship with a bank? Fowler says relationship building first entails showing the banker how your business cycle works. A prime example is a venetian blind manufacturer. "Until I met with this customer, I would have guessed his business would be busier during the summer months when houses are under construc-

tion." Fowler says it's just the opposite. His busy time is during the fall and winter when houses are decorated.

Talk slowly, explain carefully

What about the landscape contractor business cycle? "Recently, I spoke with a landscape contractor who helped me better understand his business

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Credit crunch!

5 signs you have a financing crisis — whether you know it or not

1. You purchase equipment well in advance of anticipated need. "In our industry, we see something like an impulse buy at the checkout counter in the supermarket," says Brian Burley, vice president of Sheffield Financial Corp., Clemmons, NC. "Contractors will go into a dealer to get a chain saw, and they'll buy a \$10,000 mower. And they don't have the business for it yet! If you have work coming for sure and buy the equipment first, that's smart business. But a lot of people think, 'I'm doing pretty well right now — why don't I go ahead and buy a new mower?'"

2. Your monthly debt payment load becomes more than 50% of your gross income. "This is a pretty liberal standard," says Burley. "Most banks would say 35% to 40% is a problem; when you get up higher than 50%, you're stretching it. You may get into a vicious cycle of borrowing just to keep up with your monthly bills.

While you might be able to get away with it for a couple of months, a snag like a spell of bad weather, for example could put you out of business."

3. Your accounts receivable delinquency is steadily increasing. Burley ex-

plains: "We often call someone who hasn't made their payment in 45 days and they say, 'I've got customers who aren't paying ME.' Now, a customer who pays late on a consistent basis is not necessarily a bad customer. But when it comes to the point where you as a landscape contractor have \$30,000 in receivables a month and \$15,000 of it are consistently late, you need to look at paying someone to start collecting on those people."

4. You pay your creditors 30 days or more past the due date for more than three consecutive months. "There are a lot of people who consistently pay 45 days late — and that's not necessarily a bad customer for Sheffield," he says. The problem is when you go out to buy a house or a car, it shows on your credit report that you're paying two or three different companies more than 30 days late every month. That's not going to help you."

5. You are denied credit when applying for a loan. "If this happens to you, find out why — immediately — and correct it!" he recommends. "Sometimes the credit report is in error — I see it all the time. In some cases you have a real credit problem, but it's easy to fix. For example, you've



been denied because you were late 30 times on your truck loan. The loan is due on the 10th, you mailed your checks on the 10th, and you were two days late, 30 times. Moving up your mailing date to the 5th could make all the difference."

"If you do have several of these bad signs and can't correct them reasonably soon, you may think about bankruptcy," he explains. "Many landscapers do. We've seen bankruptcies go from 10 per year in 1995 to probably 150 a year now. Most of them are making a mistake.

"I recommend you reassess the need for bankruptcy — and talk to someone who's actually filed for it. A bankruptcy stays on your credit records for seven to 10 years, meaning you won't be able to get credit unless you're willing to pay 25 to 30 percent interest. In many cases, the businesses go under soon after filing because they've got to operate strictly on cash. You'd be better off trimming back the business and working with your creditors.

"The best thing to do is keep your creditors informed," he adds. "Call them and say, 'I've got a problem, I need to make some reduced payments for a couple of months. Can you work out a schedule for me?' Most creditors will work with that customer. They don't want you to go bankrupt, either!"

— George Witterschein



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cycle," he adds. "The winter months are the slow time of the year, which means a slower cash flow."

Fowler says every contractor's business will be a little different. That's why you need to explain your specific business cycle. Fowler's list of items will maximize your visit to the bank to get financing:

"Provide a business plan. This is essential for contractors who are asking for loans. It does not need to be elaborate, possibly a few paragraphs. The business plan should:

- ▶ List the objectives of the business.
- ▶ Provide a summary of the management team (experience and talent).
- ▶ Describe products/services. What do you sell?
- ▶ Explain distinguishing characteristics of the business. What sets you apart from your competition?

▶ Tell the banker how much money you need. He or she can't read your mind.

▶ Explain how the loan money will be used. Purchase of equipment? Salaries?

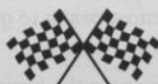
▶ Give a history of the business. When did it start? Who are the current owners? Was it purchased from somebody else?

▶ Provide a brief market analysis. What is the market demand for your business? How will you sell your service and make a profit? Who are your customers? Upscale residential, middle income residential, commercial or a combination? Discuss your marketing strategy and explain why customers should buy from you.

▶ Provide an organizational description of your business. How is the management team organized? This tells the banker who he needs to talk to. If there are key managers in your company, who are they?



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► Disclose financial information. This is important even if you are not asking for credit, because it allows the banker to see your financial status. Bring cash flow records, balance sheets, income statements and tax returns from the last three years.

That 'bad credit' thing

What if a contractor has a less-than-perfect credit history? Although this does make credit more difficult, it does depend on the bank, notes Fowler. Some banks are more conservative than others. Therefore, don't be discouraged if one bank turns you down. Keep trying at other banks.

Where should you bank? It is important to find a bank where you feel comfortable, says Fowler. If you don't like the atmosphere or the people, seek out another bank to do business.

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—The author is with Irricom, a public relations and communications firm based in Austin, TX.

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