

Access to Finance: Tips to Guide SMEs

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Just as cash flow and profit are important to business, ensuring your business has access to the right amount of finance when needed, and that the type of financing is the most appropriate for the purpose, is also essential to achieving financial success.

The following tips are a guide to help improve business access to external finance.

Tip

Current lending conditions are the “new normal” – don’t wait for conditions to shift. Instead, change the way you manage and monitor your business performance, with particular emphasis on increasing cash flow to reduce your need for external finance.

Before you apply for finance

Before applying for finances, ensure you:

- Prepare a cash flow forecast to identify:
 - how much funding you need
 - when you need the funding
 - how the business can repay any loan required
 - how long it will take to repay the loan
- Are sensible about the amount you need to borrow –make sure you can justify it
- Consider how you can best meet funding requirements – financing with a bank is not your only option, there are a number of different types of specialist financing available
- Look at ways to increase cash flow to internally finance any funding requirement, such as reducing stock holdings, collecting cash from customers earlier or extending terms with suppliers

Do your research

- Where you decide to seek finance from external sources, such as a bank, do your research and shop around to find the best form of financing that meets your needs.
- Listen to other people’s experiences with potential lenders.
- Consider the benefits of either consolidating your business with one lender, or having different lenders for different financing to build your credit history and spread funding risk.
- Make sure you are getting the best price on offer.
- Ask potential lenders what banking services and tools they offer. These tools may be helpful to your business.

Get your timing right

- Approach potential lenders well ahead of time. Show them your plans, finances and projections, explain what you are doing, and demonstrate your track record before asking for money.

Project your finance needs

- Keep your expectations and projections realistic. Your business banker may not be very experienced, but they know a “fairytale” when they see it and they have many tools to deconstruct your application.

Build relationships

- Be open and up-front in your dealings with your potential lender – you never know when you might need your relationship manager in your corner.
- Invite your banker to see the business and spend time discussing business plans.
- If possible, get to know the regional business manager and any staff that may have input into loan decisions.

Prepare your application

- Make sure your application is produced to the highest quality. The more times you have to rehash your application the less likely it is to succeed.
- Be aware of lenders' risk appetite for particular industries.
- Use accountants, brokers and mentors to assist if you feel out of your depth.
- Identify which assets you wish to pledge for security. However, if possible, keep some assets in reserve.
- If your application fails, ask why.

Prepare for the interview

- Make sure you are well prepared – the lender is banking on you as well as your business.
- Present your business in the best light. This will mean you're also presenting yourself in the best light.
- Ensure your proposition is sound and your business knowledge and skills are apparent.
- If it will present your business in a sound light, ask your accountant to go to the meeting with you.

Understand the contract

- Understand all the terms and conditions that are included in the financing arrangements.
- Make sure you have processes in place to meet terms and conditions of the loan.
- Comprehend what it takes to service any new loans. Look at all the fees and compliance requirements.
- If you are not sure, ask your accountant to review the contract terms and conditions and explain potential any issues these may have to the operations of your business before you sign.

After you have received finance

Maintain and build relationships

- Understand the decision-making structure within your lender. Seek and develop relationships with a number of people at your lender – not just your relationship manager – including the credit manager, regional manager and front-line staff.
- Always have your numbers ready and invite your lender to your business to share your experience.

Manage compliance requirements

- Implement processes to capture information and prepare reports required under your financing arrangements.
- Keep financials and forecasts, particularly cash flow forecasts, up-to-date.
- Do not over-extend credit lines. There is a point where lenders will draw the line.
- Try not to default on payments. Defaults can make accessing finance difficult.
- Understand the impact on your ability to access finance or refinance when entering into any payment arrangements, particularly those with the Australian Taxation Office.

Checklist for your loan application

<p>Provide short written detail on:</p> <ul style="list-style-type: none"> • What your business does <input type="checkbox"/> • Business history – including information on the business's past successes and depth of experience of the management or, if the business is a start-up, details of the relevant successes and experience of the individuals behind the business <input type="checkbox"/> • Industry information <input type="checkbox"/> • Ownership details <input type="checkbox"/>
<p>Provide personal financial information – such information is relevant as a lender is likely to undertake a credit check of the business owners as well as the business. The types of personal financial information your lender may be looking for includes:</p> <ul style="list-style-type: none"> • A list of personal assets <input type="checkbox"/> • Your tax returns <input type="checkbox"/> • Personal banking details <input type="checkbox"/> • Details of your superannuation funds <input type="checkbox"/>
<p>Provide historical financial information – where a business has been in operation for some time, a potential lender will want to review historical financial information. Ideally, this information should be either prepared or reviewed by an accountant. Information requested could include:</p> <ul style="list-style-type: none"> • Balance sheets for the last three years <input type="checkbox"/> • Profit and loss statements for the last three years <input type="checkbox"/> • Cash flow statements for the last three years <input type="checkbox"/> • Past Business Activity Statements <input type="checkbox"/> • Current accounts receivable (debtors) and accounts payable (creditors) schedules <input type="checkbox"/> • Bank statements <input type="checkbox"/> • All tax returns for the last three years, including the assessment notices <input type="checkbox"/>
<p>Provide forecast financial information. Such forecasts should state any assumptions made, and should be written as if the loan application was successful and could include best and worst case scenarios. Information requested could include:</p> <ul style="list-style-type: none"> • Cash flow forecasts over the term of the loan you are seeking <input type="checkbox"/> • Profit and loss forecasts over the term of the loan you are seeking <input type="checkbox"/> • Budgeted balance sheets over the term of the loan you are seeking <input type="checkbox"/>
<p>Provide details on any sensitivity analysis and/or financial ratios analysis. Your accountant should be able to help you with this <input type="checkbox"/></p>
<p>Provide a detailed description of the purpose for the loan in the application. This purpose will be critical in determining the type of loan you require. Information requested could include:</p> <ul style="list-style-type: none"> • The amount of the loan that you seek <input type="checkbox"/> • Justification for the amount of the loan <input type="checkbox"/> • The term over which you seek the loan <input type="checkbox"/> • Security you are prepared to offer, if security is required (the value of the security should be greater than the value of the loan and the value of that security should hold up over the term of the loan) <input type="checkbox"/>
<p>Provide your business plan, including your marketing plan and references of your major clients and suppliers <input type="checkbox"/></p>

Note

CPA Australia recommends you check the information requirements of a potential lender before starting an application.

Other relevant CPA Australia links:

Applying for a loan fact sheet – cpaaustralia.com.au/loan

Refinancing your business debt – cpaaustralia.com.au/refinancebusinessdebt

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