



BUSINESS PARTNERS

PLAY THE FIELD

Many sources of finance

EXISTENCE AND PRESENT

Accountants offer diverse services

LEGAL AND FEASIBILITY

What is necessary from legal firms

POINTS OF PROFIT

How consultants benefit bottom line

Play the field

Despite banks' prominence in the business loans market, owners who need financial assistance may have more options than they think. Report: Anthony Sibillin

● Like desperate singles, small businesses make two common mistakes when choosing financial partners. One is to hook up with the first person who shows an interest. The other is to cast too narrow a net.

In the case of small business owners, this means falling for the first bank manager offering money, or approaching only banks and not other types of investors as well.

With competition returning to the business banking market and private investors keen to put lazy piles of cash to work, owners looking for a bank or investor to partner with have more options than they think. However, to take advantage of them, owners will need to push aside the grumpiness and hopelessness that have characterised small business attitudes to banks, particularly since the global financial crisis.

Fewer than two in three with a large bank told Roy Morgan Research in December that they are satisfied, compared with almost three in four big-bank customers overall.

For better or worse, National Australia Bank, Commonwealth Bank of Australia, Australia and New Zealand Banking Group and Westpac Banking Corporation command most of a loan funding pot diminished by the financial crisis. Prospective borrowers will have to hold their noses and turn on the charm.

"It is a matter of putting your best case forward," says Sue Prestney, a principal at the accounting firm MGI Melbourne and the Institute of Chartered Accountants' small business spokeswoman.

"Years ago, funding applications were things that were done with enormous care and detail. As funds became a lot freer in the past 10 years or so, a lot of that formality has gone away," she says. "Now you have to go back to basics – do your business plan, do your budgets and make sure the whole thing stacks up."

KEY POINTS TO A SUCCESSFUL FINANCIAL PARTNERSHIP

- The big banks are dominant but it is still worth shopping around for a loan.
- Not all bankers are the same, even at the same bank. Find one who will fight to get your loan approved.
- Match the type of loan to the asset being financed. So consider an equipment loan for a new car and invoice financing to improve cash flow.
- Don't forget about equity funding, especially from friends and family.

Jim Rice

Encouragingly, thorough loan applications are likely to get a better hearing than they would have a year ago as banks, facing a slowdown in mortgage sales, look to their business lending books to take up some of the slack.

Banks are reportedly discounting interest rates and relaxing loan criteria in a bid to woo the roughly one in five business customers that Westpac research suggests are looking to switch lenders.

Even those sticking with their bank can benefit from playing the field, Prestney says. Owners should "shop around" within the same institution "for a business relationship manager whom you feel comfortable with, whom you feel will go into bat for you, and whom you feel is interested in your business".

Small and medium enterprises can also improve their chances by applying for several – not just one – types of loan, she says.

"It is relatively easy to get leasing finance. So if you are buying a business with property and equipment, rather than try and get all commercial bills, you might get a commercial bill on the property, but get leasing finance on the equipment so that you're using as much easy capital as you can."

Small businesses should also look outside banks to family, friends and private investors for potential financial partners, experts say.

Last year, a CPA Australia survey of 1125 businesses with fewer than 20 employees in Australia, Hong Kong, Malaysia and Singapore found that Australian small businesses were half as likely to tap friends and family for funding as their Asian counterparts.

Because family and friends place more store in character and circumstance than a detailed business plan, they may provide debt or equity funding to a child, sibling or friend who has been turned away by a bank.

"We suggest that businesses seeking finance from family and friends treat the relationship as a business relationship," CPA Australia business policy adviser Gavan Ord says. "You are asking family and friends to invest in your business and therefore they should make the decision to invest on business grounds and go into such an investment with their eyes wide open."

Business angels, venture capitalists and other private investors make up another potential source of equity funding. For between \$8000 and \$15000, Wholesale Investor will put small businesses in need of seed, early-stage or expansion funding in front of about 5400 wealthy subscribers to its monthly magazine.

Accountants can also be a good source of private investor leads, Prestney says. "Your accountant will have relationships with financiers, and can access financial channels that you couldn't on your own." **BRW**

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Take the initiative

Accountants can – and should – offer services beyond simply the ticking off of compliance boxes. Report: Agnes King

● Brisbane entrepreneur Rob Nixon changed accountants three years ago. Now he is paying 18 times more than previously.

Fees to his accountant have increased from \$4000 to \$73,000 a year. For a relatively small enterprise employing 15 people, that is a huge jump.

Nixon, however, couldn't be happier. "It's become the catalyst for the most productive three years I've had in business," he says. "With my previous accountant I was paying for compliance-only services."

He's paid more than \$200,000 to his new accountancy firm Elliotts in the past three years, but the majority of the sum was for strategic planning and advice.

The chief reason financial advisers lose clients is because they're not approachable and don't take the initiative, Elliotts partner Matt Schlyder says. "Often, accountants think they have to make a dollar from every interaction with clients. They have a very time-based focus on the relationship and there is a perception among clients that they're indifferent to the relationship."

Being reactive is the death knell of accountants these days, the senior partner at boutique business advisory firm Knight Partners, Peter Knight, says.

Recently approached by a potential client with \$4 million-a-year turnover and offices in Sydney, Brisbane and Melbourne, Knight ran through a standard checklist to see what services the current accountant was providing.

"I got to the end of the checklist and every box was ticked," Knight says. "Their accountant was filing everything on time – tax returns, Australian Securities and Investments Commission filings, fringe benefits, business activity statements – and they were responsive. It wasn't obvious to me what the problem was."

Finally, he just asked. "The client was frustrated that she always had to initiate contact. Yes, the accountant returned her calls but she always had to come up with the ideas about tax planning or whatever and run them past him."

A common failing among accountants is to look at a company's accounts in isolation from the business owners or manager's personal life and aspirations, Schlyder says. This context is essential for a proper needs analysis of where clients are now, what's important to them and where they want to get to – before working backwards to the steps of how to get there.

"Particularly for small and medium enterprises, personal lifestyle and professional goals and performance are intrinsically interwoven," Schlyder says. "If something happens to them, is their family taken care of? Are they extracting the appropriate amount of cash out of the business to invest for retirement without starving the operation of capital for growth?"

"They're the main income earner in the family, relentlessly driving the business, but is their partner [husband or wife] meeting their goals, so they feel good about what they're doing?"

Most executives don't expect to discuss these issues with their accountants. However, Schlyder believes it's central to a good client-supplier relationship. "Most client decisions are not made on a purely financial basis. They're made on feelings," he says.

This is not always true. In the past 12 months, mid-tier accounting firm BDO has been fighting off raids on its audit clients by the big four firms – PricewaterhouseCoopers, KPMG, Ernst & Young and Deloitte.

The cheaper rates were too great a temptation for one large audit client. It moved knowing the prices being quoted by the big four were unsustainable – they were half the going rate for an audit of this size. The company director rationalised the call, saying he would be almost negligent if he didn't accept.

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