

BUILDING STRONG RELATIONS WITH YOUR BANK

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Small business owners often feel uneasy when dealing with their bankers. Limited experience, knowledge of banks and training in financial planning may make them feel hesitant to discuss business matters with their bankers. Efforts to establish a sound relationship with a bank can be highly rewarding to agribusiness firm owners in the retail, wholesale and service businesses. The following guidelines will help small business firms establish good lender-borrowing relations with banks.

There are three main reasons why a strong bank-customer relationship is helpful. First, a bank familiar with its customers and their business can supply faster and better services. Second, a bank informed about its customers' business can give better financial advice. Third, credit needs can be better planned when the bank-customer relationship is on a solid foundation.

To build strong bank relations, a borrower needs to (1) select a bank that can and will meet the firm's needs; (2) know the banker and earn his respect; and (3) share with him business plans for the future.

SELECTING A BANK

An advantage of using the same bank for your business account as you have used for your personal account is that you already know one or more of the bank's officers on a personal basis. However, your personal bank might not offer the services needed by a growing retail or service agribusiness firm. Ask your banker if he can supply business services such as (1) credit references, (2) financial and investment advisory services, (3) the type of loans needed in your business, (4) discounting accounts and notes payable, (5) check certification, (6) safe deposit boxes, (7) night depositories, (8) collections of remittances (lock boxes), (9) payment

of freight invoices, (10) check reconciliation services, and (11) payroll accounting services.

If the services offered don't match your needs, discuss it with your banker! Banking is a competitive business, and bankers are anxious to give service to meet their customers' needs. Just as you shop around for other business needs, explore the available alternatives in bank services.

Whether you are checking your present bank or shopping around, you will want to look at the following three things:

Size of the Bank

Unless you need large loans, the bank's size may not be important to your business. As your business grows, your loan needs are going to grow. Ask your banker what is the largest loan he can make to one business. Will this limit pose problems as your business grows?

Requirements for Loans

Before you open an account or need to borrow, find out the bank's requirements and policy on the type loans you will need. Ask questions such as these: Will the bank make the type of loan that you will need? Is collateral required? If so, how much collateral? How long does it take for loan approval? What repayment terms are available? What reports and supporting information do you have to make? Will the bank give a "line of credit"? Must you maintain a compensating balance in the bank? All are important questions that should be asked before a loan request is made.

Knowledge About Your Type of Business

Choose a bank that is familiar with your business. Local banks often develop a substantial amount of information about the kinds of businesses in their area. This knowledge helps them to understand and evaluate the financial requirements and financial status of businesses more quickly.

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KNOWING AND EARNING YOUR BANKER'S RESPECT

Earning a person's respect is a key to having good relations with anyone—including your banker. A banker's respect is earned by:

- ... Showing good faith—keeping promises. One of the most important factors in earning respect is keeping promises. When you say that you will make a payment at a certain date, do it; or stop by before payment is due and explain the reason for delay.
- ... Providing the bank necessary financial data. Banks are in the business of lending other people's money, and to do a good job of this, they need good financial information from borrowers. Providing the needed information makes their job easier and helps earn their respect.
- ... Inviting your banker to your business. Asking the banker to visit your business is a good way to get to know him—and for him to know you. During visits he can observe your strengths as a manager. He will also learn more about your business so he can offer more sound financial advice to you.
- ... Introducing the banker to your assistants. This shows the banker that there is a “back-up” management in the business. It will also make it easier for your assistant to conduct banking business while the manager is gone.

PLANNING THE FUTURE

Financial planning offers yet another way to build strong relations with a banker. Bankers greatly respect the small businessmen who make the special effort to plan. Bankers prefer dealing with small firms that plan their financial needs. Such men are usually considered good credit risks because they know what to expect from their business.

Many small retailers and service operators do not adequately plan their financial operations and

cause themselves, and their bankers, problems. Lack of plans or poor planning gets their firms into financial crises. For example, some business owners run into financial trouble when their firms' sales expand more rapidly than anticipated. The reason: the cash flow generated by the increased sales is not sufficient to pay for their increased stocks, parts inventory, and other current expenses. Often the banker's reaction to such cases is “If only you had planned for these increased expenses, it would have been easier to help you.”

Basically, financial planning involves four things: (1) accurately estimating the level and timing of sales for a fixed future period—(that is, 3, 6, 12 months); (2) estimating as nearly as possible the expenses connected with those sales; (3) determining whether the business will need financing to cover cash deficits and to pay its bills on time; and (4) scheduling repayments on a line of credit.

Planning can help reduce the cost of financing. Knowing your needs beforehand gives you time to build your case for the necessary financing and time to shop around for it. Proper loan request documentation may also cut down on the interest charge for the loan.

Progressive small business firms also make long range plans. They try to estimate their financial situation for the next 3 to 5 years. Discussing such plans with their banker further strengthens their relations with him.

Good data are essential in making financial plans. Your accountant should work up financial information such as profit and loss statements and balance sheets. Also, analysis of your operations such as expenses in relation to sales, inventory turnover, and your break-even point should be prepared. In addition, cash flow forecasts, income and expense budgets, and capital budgets are necessary for complete financial planning. Showing this type of information to your lender will be helpful to him—and will show him that you are on top of your business!

Reference: See Fact Sheet L-1103, “What Should My Financial Report Tell Me?” for information on how to prepare financial statements for managerial control. The same type of information is useful in building strong bank relations.

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