

Ready Set Grow

Season Three

Special Event Webinar

Session Summary

De-Mystify Your Banker

November 16, 2010

Presented by:



Technology Marketing
Resource Centre



Canadian Innovation Centre

In association with:

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Introduction

The Ready Set Grow series presents webinars featuring subject matter experts and Canadian tech execs discussing topics of interest to the executives of young Canadian technology companies.

On November 16, 2010, Ready Set Grow looked at how new and growing businesses can build an effective relationship with their financial institution. In particular, the session looked at the process of applying for a business loan or line of credit.

The session featured a presentation by Rony Israel of the Business Development Bank of Canada (BDC), and a panel discussion featuring Rony Israel and Jasmin Ganie-Hobbs of BDC, Philip Murad of Philip and Henry Productions and Diego Casco of Casco Design. The session was moderated by John Foreman of the Technology Marketing Resource Centre.

This document captures the content of this session.

Speakers

Rony Israel,
Partner, Consulting
Business Development Bank of Canada

Rony Israel joined BDC Consulting in October 2003, and became a partner in June 2004. Mr. Israel brings over 30 years of experience in business coaching, sales, marketing and general management. He is a graduate of Politecnico of Milan, Italy where he received a Ph.D. degree in Electronics Engineering in 1971.

Jasmin Ganie-Hobbs,
Senior Manager, Loans – Entrepreneurship Centre
Business Development Bank of Canada

Jasmin Ganie-Hobbs has been with BDC since January 2004. She brings over 15 years of experience in finance, marketing, sales, and sales management with technical companies. She is currently a senior lender with BDC, and has worked with hundreds of tech companies. She has an MBA and is known as a top-notch networker.

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Philip Murad,
Founder and CEO
Philip and Henry Productions

Philip Murad started out in Montreal as a quiet, shy kid. But that all changed one day with arrival of a most unlikely friend- Henry the ventriloquist dummy.

Philip's brother got Henry for Philip from a friend for \$5, and it may have seemed like a very minor thing at first, but after bringing it to his class for show and tell, Philip was inspired to take up ventriloquism. Soon he was wowing kids all over town with his talent and personality, and building a reputation as a local celebrity. By 13 he decided to study magic as well, and made it the subject of his intense focus. He continued to do shows throughout his youth, even when studying for his BA in Film and Communications at McGill.

After many years in the magic industry, Philip Murad found his second passion- business- and combined it with his first to make magic shows even more accessible to the average person. In honor of his background, he started his own company and named it for himself and his magical partner. His flare for perfection has driven the company to new heights and developed a far-reaching network that extends over the United States and Canada.

Successfully using Magic as a tool for education and entertainment Philip Murad and his team have propelled the company into a new era of global expansion.

Philip is now married, with two children, and resides in Vaughan, Ontario. Philip still takes time to find pleasure in performing for his own children and occasionally for television.

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Diego Casco,
Founder and CEO
Casco Design and Communications

Creative Director Diego Casco is the driving force behind the growth of Casco Design and Communications. In 1999, Diego moved to Canada from Costa Rica, seeking new experiences, training and design opportunities. In 2002, Diego founded GraphicPoint Design, which re-launched as Casco Design and Communications in late 2008.

His strategic thinking, applied to both technical and marketing issues, and entrepreneurial approach bring added value to every project he undertakes. Diego's infectious enthusiasm for compelling design, and his unwavering commitment to client satisfaction have been the hallmark of his 16 years in the industry, attested to by the steady growth of his studio and professional career.

Today, Casco Design and Communications boasts a portfolio comprised of: comprehensive corporate identities, advertising, promotional materials, websites and signage projects for prestigious clients, including governments, professional organizations, chambers of commerce, and private entities and prosperous small businesses.

Moderator

John Foreman,
President,
Technology Marketing Resource Centre

John Foreman is the founder and President of the Technology Marketing Resource Centre, a firm which helps technology companies accelerate their growth. He has over 25 years experience in the telecommunications and information technology industries. John has been involved in the marketing of technology in Canada and internationally since 1994. John is also on the Board of Directors for the Canadian Advanced Technology Alliance (CATA) and the Advisory Board of the Canadian Innovation Centre.

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De-Mystify Your Banker

Your Banker: Necessary Evil or Angel in Disguise

Research has established that, for most people, having to give a speech in public is their greatest fear, followed by fear of dying. However, fear of reviewing a loan application with your banker can't be too far down the list. Any business person who has lived through the experience of sitting across the desk from a banker with a loan application in their hands, knows how it feels to badly want to be somewhere else.

All businesses need a relationship with a bank. Most businesses make use of bank products and services, such as lines of credit, loans and credit cards, as part of the financial management of the company.

Dealing with bankers is thought of by many as a necessary evil, to be avoided whenever possible. However, it doesn't have to be that way. In fact, truth be told, your banker is actually on your side and can be a great aid to your business.

"Your banker is your champion within the bank. They are on your side."

Rony Israel
BDC

The trick is to establish a strong working relationship with your banker. And the two keys to having a successful relationship with your banker are to understand the banker's world and give them what they need to help you.

When to Go To The Bank

It may seem obvious that you need a relationship with a bank, but what you actually need from the bank varies depending on your business situation.

All businesses need money to operate and many businesses need additional money to fund growth. Most businesses seek financing from external sources to meet these needs. In fact, using "other people's money", while a necessity for many, is actually a sound business principle.

There is a spectrum of external financing options, and it can be ordered according to the degree of control you retain over your business.

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At one end of the spectrum, is your own personal investment. Virtually all new businesses involve personal investment from the founder. In this case, you retain full control over the business. Many new businesses also involve "love money" - investment from family and friends. These investments do not usually involve surrendering any control over the business.

Next on the spectrum are financing tools from the commercial banks, such as lines of credit, loans, and credit cards. Credit cards, while ubiquitous, are rarely a good financing tool as the interest rates charged are punitive. Never charge anything to your credit card that you can't pay off when the statement arrives.

To finance the gap between the issuing of invoices and the collection of the revenue, a line of credit is the best choice. To finance larger and longer term requirements, such as land, equipment, staffing, a loan is the best tool.

With bank products, you still retain a high degree of control over the business. Bankers are very patient lenders. So long as you continue to service the debt, they do not want to be involved in the day-to-day running of your business.

Bank loans are usually of modest size, say between \$25K and \$500K. If your needs are greater than that, you need to look at equity financing. Angel investment is often the first step on the equity financing ladder.

Angel investment is usually in the \$50 - \$250K range. The angel investor will want some level of control over your business. They may be looking to play an active role in your business or they may want certain approval authority or veto power. In any case, you lose some control. (Note - there is also a plus side, as angels are often successful entrepreneurs themselves with a lot of experience that can help your business).

Next on the ladder are venture capital investors. In Canada, venture capital (VC) financing would typically cover needs in the \$1M - \$10M range. If your business requires more than \$10M, you must usually look at U.S. based VC firms.

VCs will usually insist on a place on your board, so in effect, you now work for them. They may also want to put key people whom they trust into your

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operation. Like you, they are motivated by the success of the business, but with VCs involved, you have definitely lost a large degree of control.

Bottom line –the use of bank financing products is a part of your overall financial plan. You will use the bank primarily to finance short term operating requirements and for operating or expansion capital requirements of modest size.

Now that we know what we want, let's look at how to get it.

Understanding your Banker

The banker and the entrepreneur are different in many ways. Entrepreneurs tend to be intuitive and passionate. Bankers tend to be logical and methodical. Entrepreneurs deal in visions and opportunities. Bankers deal in tangible facts and numbers. Entrepreneurs are creative and flexible. Bankers are process-driven. And yet these two extremes must somehow meet in the middle.

Understanding the perspective of your banker, and working with them, instead of fighting them, will lead to a more successful relationship.

The first point to understand is that bankers are not investors. Your banker is in the business of making profit from lending money. Naturally, they would prefer to lend to someone who has a good probability of paying the money back (with interest), or in banker-speak "servicing the debt".

The second point to understand is that your banker wants to lend you money. They get rewarded for issuing loans, in fact, they have a quota. If they don't process enough loans, they don't get rewarded. However, to grant a loan, they have to get it through the credit department. The credit department's focus is risk, or rather, avoiding risk. They will only approve loans which have an acceptably low level of risk.

A typical loan officer will likely see about 15 loan applications in a month. On average, they will get 2 or 3 of them approved. They get those loans approved by convincing the credit department that those businesses are good risks. Therefore, your banker is your champion, pitching your case to the credit department. Yes, that is right; your banker is on your side.

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So your challenge, as a business person seeking a loan, is to provide the banker with the pitch and the information required to convince the credit department that you are one of the 2 or 3 loans that should be approved this month.

Case Study: Casco Design and Communications

Casco Design and Communications provides marketing communications services with a personalized, entrepreneurial approach. Established in 2002, the company has quickly grown from a one-man operation to a bricks and mortar shop with a team of professionals led by founder Diego Casco and a trusted roster of specialized contractors and service providers.

According to Diego, "For most of the company's existence, we have been able to fund our growth organically, but when times get tough, we have had to put other financial tools in place, such as a line of credit. I met BDC through Enterprise Toronto. In addition to financial products, they were able to provide me with valuable advice to help deal with the recent recession."

What Bankers Look For

In order to get a loan approved, your banker needs to know about your business and about you. They will want to know about:

- Your personal profile
- Your project's viability
- Your financial strength
- Your investments and collateral

Personal Profile: Your banker will want to know a lot about you, in particular, about your personal and business credit history. They are interested in your personal credit history because the statistics say that entrepreneurs will bring the same discipline to paying off business debts that they demonstrate with personal debts.

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Your banker also wants to know about the skills and knowledge that you bring to the venture. Do you have all the skills required to succeed or is it necessary to supplement yours with another source (possibly a partner or advisor)?

Project Viability: They will want to know about your business. They will want to understand your business model and your industry. There must also be evidence that there is a ready market for your products or services. Signed customer contracts and existing revenue are best, but letters of intent are an alternative.

They also want to know if you have the wherewithal to execute your business strategy. Is it implementable with the assets you will have available to you?

Financial Strength: Your banker wants to see that your business has a good probability of being profitable. They want to see that it can generate the

Case Study: Philip and Henry Productions

After many years as a magician, Philip Murad found his second passion-business- and combined it with his first, starting his own company to make magic shows even more accessible to the average person. He named it for himself and his magical partner, Henry, the ventriliquist's dummy. His flare for perfection has driven the company to new heights and developed a far-reaching network that extends over the United States and Canada.

But when Philip needed financing to expand his business, it was perseverance, not magic, that produced results. "I approached my bank, who I had dealt with for many years," explains Philip, "but they said they were not doing commercial real estate loans at that time. Fortunately, I kept shopping my business case around. I put my case in front of BDC and was able to get the funds I needed."

Philip is also a big believer in the value of BDC's consulting services. "I've used BDC consulting many times. They were instrumental in helping with our expansion into the U.S. and it's great to be able to run my business plan by them as the business evolves."

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cash to service the debt. A robust financial model, which shows profitability under all the most likely scenarios, is a plus.

Investments and Collateral: Your banker wants to see that you have invested in the business. “Sweat equity” doesn’t count – they want to see that you have put cash into the business (“skin in the game”). After all, if you haven’t invested in the business, why should they?

They also want to see your personal ability to repay the loan if the business can’t. They will look at your personal net worth and the collateral that you can bring to the table, such as your house.

Preparing your Proposal

A solid business plan is a must-have document. It does not need to be long, 15 – 20 pages is enough, but it needs to capture all of the information that your banker needs to assess and champion your business.

The most important element of the business plan is the executive summary. This is the part of the business plan that influences the banker the most. Although it comes first in the document, it is actually the last thing you write. In one or two pages, you have to capture the essence of the business and include all of the essential information required to establish the credibility of your proposal.

This includes information about:

- The industry
- The business – what the company does
- The management team and what they bring
- Investments made to date
- Funds requested and what they will be used for
- Financial projections

The business plan is not just words on paper – it is the embodiment of your business. In fact, far more valuable than the document itself, is all of the work and planning that you have done to build your business plan. This is where you have identified and addressed all of the issues necessary

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for the success of your business. The job of the business plan is to communicate the plans and strategies you have developed.

There are many sources to go to for help with business plans, including the bank, but at the end of the day, no one can write it for you, because, ultimately it is your business.

In addition to your business plan, you will need to bring a presentation package on your business proposal that you can walk your banker through. Also bring all of the documentation required to establish your credibility and the solidity of your business proposal, such as personal financial records and letters of intent from customers.

Meeting your Banker

When you meet with your banker, remember; they want to lend you money – you just have to give them the reason to. Be open and honest, but professional. Talk about the issues and challenges. Be passionate and compelling but don't exaggerate or embellish. Don't think you can fool them - they see many entrepreneurs and can read you better than you can read yourself.

Deal in facts. Get into the details and specifics of your business proposal. Avoid broad generalizations that might weaken your credibility. Demonstrate that you really know your stuff and have the wherewithal to deliver.

There are certain key business ratios that bankers want to see, such as working capital ratio, profit margin and net sales per employee. You should be comfortable with the ratios that apply to your business and have the data at your fingertips.

Business Plan Contents

- ✓ Executive Summary
- ✓ The Company
- ✓ The Management Team
- ✓ The Products and Services
- ✓ The Marketing Plan
- ✓ The Human Resources Plan
- ✓ Financial Planning
- ✓ Appendices

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Common Financial Ratios

Working Capital Ratio → Assets/Liabilities

- ✓ 1.0 to 2.0 is good

Profit Margin Ratio → Profit/Sales x 100

- ✓ Long-term performance vs. industry

Collection Period → AR/Sales x 365

- ✓ Time to get paid vs. industry

Return On Assets → Income/Assets

- ✓ Earning capacity vs. industry

Inventory Turnover → COGS/Inventory

- ✓ Obsolescence

Net Sales per Employee → Sales/# Employees

- ✓ Productivity vs. industry

Let your banker know what you really need. Ask for the lowest amount that you can live with. Your mission at this time is to get your loan approved. It is not time to negotiate yet. Keeping your request low increases the probability of acceptance.

Note that one approach that will not be well received is to request a loan so that you can take money out of the business. That is not what loans like this are for. They are much more likely to be approved if the funds are to be used for building up the business.

Be responsive if they ask for more info – it is to strengthen their discussion with the credit dept. They don't want to be turned down either. The extra information is to strengthen your case.

There is a significant chance that your banker will say "no" to your proposal. This can be discouraging, but it should not be regarded as the end of the

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line. It is important to find out why they said "no", as there are many possible reasons and many of the underlying issues may be easily addressed.

For example, they may have said no because that particular bank or banker is not comfortable with your industry. A different bank may produce a different outcome.

Or they may want to see you put more personal money into the venture. They may qualify you for a personal loan instead of a business loan to allow you to do this.

"When your banker says "no" to your loan application, it really means "not now". Be sure to find out why. Ask them what it would take to get approved".

Jasmin Ganie-Hobbs
BDC

It may be that they had a rush of very high quality loan applications that month and yours didn't make the cut. However, a different month or a different bank might produce a different result.

Perhaps they want to see more evidence of market acceptance – something in writing from potential customers.

The bottom line is that "no" does not mean "no", it just means not as presented at this point in time. Thinking positively, a "no" is an opportunity to strengthen your proposal before submitting it again, either at the same or a different bank.

On the other hand, if the answer is "yes", your work is not over either. When you receive a letter of offer it is time to negotiate.

There are several things that you can negotiate, such as a decrease in interest rate or an increase in the size of the loan. It is also worth a try to ask for a deferral of repayment of principle for at least 6 months, as this gives you a greater ability to put the money to use in the business to generate profits.

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Putting your Banker to Work for You

As a new or growing business, you are inevitably going to need the services of a bank. Banks do not provide all of the financial services that a business needs, however they do provide some very useful services such as credit cards, lines of credits and loans.

Although dealing with bankers can be intimidating, it is important to realize that they are actually on your side, providing that you put a good business case in front of them. Providing the business plan and other materials requested by the bank may seem like a pain, but it is important to remember that developing a strong business case that meets the bank's criteria also benefits your business, reducing risk and improving the likelihood of success.

Once you have established your credibility and the value of your business, the bank becomes a very valuable resource, providing not only financial services, but sharing knowledge.

By building a strong working relationship you can ensure that access to the services you need will be there when you need it. In fact, by making effective use of your relationship with your banker, you can put them to work for your business.

Profile: BDC – A Different Kind of Bank

BDC (Business Development Bank of Canada) has been helping to create and develop Canadian businesses for more than 65 years.

BDC offers entrepreneurs a variety of financial products designed to help their businesses grow, such as term loans, subordinate financing and venture capital. BDC is also a major player in helping businesses improve their management techniques by providing tailored consulting services through a national network of consultants.

At BDC, our motto is: Entrepreneurs first.

Information about our financing and consulting solutions is readily accessible from some 100 locations nationwide, by calling 1-877-BDC-BANX or by visiting www.bdc.ca

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Results of Real-time Polls

Below are the results of the polls conducted during the webinar:

Poll #1: What stage is your business in? (Choose one)

- | | |
|---|-----|
| <input type="radio"/> Concept or planning stage | 13% |
| <input type="radio"/> Seeking initial financing | 18% |
| <input type="radio"/> Newly launched | 12% |
| <input type="radio"/> Steady state | 0% |
| <input type="radio"/> Seeking expansion capital | 35% |

Poll #2: What are your most pressing financial needs? (Choose all that apply)

- | | |
|---|-----|
| <input type="radio"/> R&D financing | 50% |
| <input type="radio"/> Launch financing | 21% |
| <input type="radio"/> Working capital | 29% |
| <input type="radio"/> Expansion capital | 14% |
| <input type="radio"/> Receivables financing | 14% |

Poll #3: What sources of financing do you currently use? (Choose all that apply)

- | | |
|---|-----|
| <input type="radio"/> Personal | 79% |
| <input type="radio"/> Love money (Friends and family) | 21% |
| <input type="radio"/> Credit cards | 21% |
| <input type="radio"/> Bank loans | 26% |
| <input type="radio"/> VC or Angel financing | 16% |

Poll #4: Has this webinar changed your perspective on the role of bank financing for your business? (Choose one)

- | | |
|--|-----|
| <input type="radio"/> Yes, I will use things I learned today | 43% |
| <input type="radio"/> Somewhat, but I need to learn more | 29% |
| <input type="radio"/> No, I am already doing all of these things | 29% |
| <input type="radio"/> No, they do not apply to my business | 0% |

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Links of Interest

Business Development
Bank of Canada

www.bdc.ca

Philip and Henry Productions

www.philipandhenry.com

Casco Design and
Communications

www.cascodesign.ca

Canadian Innovation Centre

www.innovationcentre.ca

Technology Marketing
Resource Centre

www.tmrc.ca

Canadian Advanced
Technology Alliance

www.cata.ca

Service Canada

www.servicecanada.gc.ca/

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