

Building Banking Relationships

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Are the relationships that I have with my bank sufficient? Is there a way to improve those relationships? What are my options?

Many times, I ask business owners if they have a bank plan, and I get a question in return: "What's that?" A well thought out banking relationship is crucial for a well run business.

Learn how to choose the right bank for your company. Learn about financing options, and decide which are right for your business – recognizing that needs change over time. If you do need to apply for a loan, come prepared. Conduct an annual review of your banking relationship. And know that over time banks change. You need to keep on top of who you do business with, and periodically adjust.

Build a long term relationship with your bank. Make sure your account manager knows who you are, and keep them in the loop on the progress of your business. Send copies of progress reports. Go to lunch several times a year to get to know each other better. Get to know the account manager's boss – that way if / when the account manager moves on, you'll have an advocate. Ask your relationship manager for help – the bank can be a great source of free counseling. Teach them about your business: your product or

service, how you reach your target market, your financial strategy. The more they know about you, the more likely they can help.

As the relationship with your bank officers matures over time, think about their potential as inside advisor or board member. They may be able to let you know if they think you are financially on track, or heading into difficult waters. If their interest is strong, they will keep an eye on you.

Consider whether it makes sense to do all of your banking at one institution: checking, savings, payroll, retirement plans, merchant credit cards, on-line money management, and letters of credit. An account manager and his or her bank have more incentive to be involved with your business, the more business you do together. You may, however, momentarily find yourself stuck, if a bank suddenly changes direction or is caught up in a merger. Also, a bank may be strong in one product you need, but weak in another area. Don't just drop all of your business off, and hope for the best. Find out what your bank does well, and consider whether you need relationships with one, or several financial institutions.

How do you choose a bank? Talk with your CPA, attorney, other business advisors, and other business owners. Find out which banks other companies in your

industry are working with, and what their experience has been. Make sure the bank has all the services you require, now and in the future. Develop a questionnaire, so you can ask questions about services and keep track of different bank offers. Look for bank relationship officers who can educate and advise you.

There's more to a banking relationship than a rate of interest – whether on savings or debt instruments. Ask about prepayment penalties, loan covenants, terms, balloon payments, reporting systems, tax effects on various options, suggested rates for debt to equity comparisons. Expect to get an education. Evaluate the way the bank responds to your questions. Ask yourself, are they genuinely interested in me? Are they trying to understand my business? Do they understand my objectives? Can they provide the advice I need? Shop around, and be aware that not all banks are the same.

What are some of the tools a bank might make available to your business? On the credit side, savings accounts, money market accounts, sweep accounts, linked accounts, 401ks, business and personal investment advice, and employee benefits such as free checking, direct deposit and Christmas savings, are just a few of the many products banks bring to the

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table these days. Beyond traditional banks, stock brokerage and mutual fund companies are just a few of the players looking to help you manage your assets. Check out the details on each, as offers vary widely from one institution to the other.

On the debt side, lines of credit, term loans, letters of credit, and start up financing are some of the offers you will hear about. Of course, there are options beyond traditional banking, including commercial finance companies, factoring companies who purchase accounts receivable and government sources at the local, state and national level. Many of these alternate sources work in concert with bank relationship managers. Look for an account manager who knows when to introduce you to another party, to help you get what you need to run your business.

One word of caution: never confuse debt with assets. Many times I ask business owners, how much do they have in available cash, and they answer, "I have a credit line I can tap into." That's wrong. Assets produce money, while debt costs money, and has to be repaid. Debt can become a millstone around the neck of the business. If plans go awry, the company's income drops below forecasted levels, cost to service the debt mounts, and the business can end up facing a perfect storm from which it cannot escape.

Finally, keep communications alive. Ask to meet for an annual review. Know all aspects of every account in your statement. Be honest. Be conservative and thorough. Know what your company needs, what the marketplace offers. Be willing to stick with your bank, but ready to change if needed. Ask you bank to be a partner, and be ready to hold up your side of the bargain. And remember, you are in the game for many years, so are many of the people who work in the banking field. Treat everyone with respect, as if you will see them again in the future – you probably will.

Looking for a good book? Try Business Banking by Theodore Platz and Thomas Fitch, and The Dictionary of Banking Terms by Thomas Fitch.

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