

ter fiscal control of line clearance programs.

Despite these problems and challenges I anticipate a long and successful future for herbicides in vegetation management.

*(Detailed specifications for herbicide solution sampling and testing may be obtained by requesting them from the author. ED.)*

## References

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# MAKING THE BEST USE OF YOUR BANK<sup>1</sup>

by G.W. Arnold

The central theme of this presentation is making the best use of your bank. I am assuming that most of you people will be independent businessmen who represent small to medium sized businesses. Your requirements and expectations of a bank, then, vary from that of the private citizen, who is interested strictly in consumer-type banking services. Similarly, your banking needs will also vary from those of the large multi-national corporation. Banking systems have the flexibility to cater to various individuals and groups and provide tailor-made services for all sectors. The banking industry is heavily committed to supporting independent business. Let us consider the various ways in which a small to medium sized business may be financed. Almost every business, no matter what its size, needs some form of financial help from time to time. It may need money to get the business started, perhaps it involves financing to expand to meet new market opportunities or to meet increased demand in good times but, unfortunately, it also may mean seeking funds to keep going when times are tough.

Very often the independent businessman who has many things to worry about, doesn't place his financing situation on a very high priority. The

businessman may wait until financial crises develop before approaching a lender and the lender may have only limited or sketchy financial information on the business. Our first advice is that the more professional the businessman can be in presenting his case and in planning and forecasting his needs, the more confidence and support he can expect from his banker and the financial community. It is interesting to note that there are two instances where the financing of a business often becomes of acute importance. One is when the business needs more money because it is expanding rapidly and the second is when the business is faced with hard times and struggling to survive. Both situations, of course, demonstrate the need for logical financial planning.

As an independent businessman, before approaching a lender, you should be prepared to answer the following questions.

1. Should I be seeking professional assistance in building my financial plan?
2. What type of financing is best suited to my needs?
3. How much do I need?
4. When is the best time for me to borrow?

<sup>1</sup>Presented at the annual convention of the International Society of Arboriculture in Toronto, Ontario, Canada in August of 1978.

5. What repayment terms can I handle?
6. What kind of security do I have to offer?
7. What kind of information will a potential lender want to know about my business?

Finding the answers to these questions is an important exercise. To answer them adequately, you are going to have to lean heavily on your accountant. The services of an accountant is a wise and almost essential requisite for the small businessman.

The second person who is well qualified to help answer the questions is your banker. Establishment of a sound working relationship with him will serve you in good stead in good times and bad. A good banker will take a personal interest in your business and he will help you develop and grow in a sound and orderly manner.

What are the sources of money for the businessman? Generally speaking, there are four: 1) equity financing, 2) loans, 3) trade credit, and 4) profits.

Equity financing may be one of those phases you keep hearing but never understand. Equity financing involves the form of ownership which you might choose. It could be a sole ownership, if you have the resources to start your business and keep it going. These may come from personal savings, securities, real estate, or other assets. A second form is a partnership, which you might choose if you alone haven't enough money to get started. The third form of equity financing is the formation of a limited company or corporation with a number of people putting up funds and owning shares in your company.

Before you decide which form of equity financing is best for you, not only in regard to your resources but also for tax purposes, it is best to consult your lawyer and your accountant.

The second source of funds, and the most familiar to most people, is through the taking of a loan. While you have to repay your loan, be it to a bank or another financial institution, there are advantages over equity financing in that you don't have to share your profits and you don't have to share control of your company with someone else.

Trade credit, the third source of funds, means getting credit from your suppliers of merchandise

and equipment. Terms vary from 30 to 60 or more days depending on what is normally done in your particular business. Most businessmen rely on this form of credit as part of their day-to-day financing.

Once you get your business growing, the profits you hopefully generate become an important source of financing. A knowledgeable businessman sets aside each year, a portion of his year's profit for reinvestment in his business. This has the advantage of building equity and provides a ready source of capital to meet new operating or expansion needs.

Let us say that you have decided to borrow as your source of financing. Most people understand the basic mechanics. You pay back what you borrow plus an added amount of interest, which is basically rent for the use of the money. The rate of interest is decided by the degree of risk that underlies your particular deal. Different types of lenders are willing to accept different degrees of risk but, at the same time, they demand a higher rate of interest. Here, for example, are some of the usual places a businessman may go for financing.

1. The chartered bank. A bank will expect moderate risk and the interest rates will also be moderate. Repayment is usually geared to the cash flow of your business or to the earnings. Banks offer a variety of types of financing, ranging from operating loans, secured by receivables, inventory and other assets; to term loans for capital purposes; factoring, which is the selling of trade accounts as a discount; and equipment financing.

2. Life insurance companies. In general, only low-risk ventures are backed and the loans are to insurance policy holders at comparatively low rates of interest.

3. Commercial finance companies. These institutions will accept a moderate to high risk with comparable interest rates on certain types of loans.

4. Federal and provincial loans and incentive programs. Interest rates are moderate for those who qualify by virtue of locating in areas where the government wishes to promote employment and industry.

5. Federal business development bank. This

organization is operated by the federal government and formerly was known as the industrial development bank. This agency provides assistance to new or existing businesses at moderate rates of interest. Applicants must have been refused by a conventional lender before being considered.

In addition to the above, there are various term lenders, leasing companies, factoring companies, and others. Equipment suppliers are also a source of intermediate term financing, although interest rates are generally higher than with more conventional sources.

As I have described the various lending sources, I have indicated some of the advantages and disadvantages. For the most part, the greatest disadvantages are in the higher interest rates that you would be charged. In comparing chartered banks and other lending sources, I would say that the main advantage of the banks is in the wide variety of services and package deals that they can offer. Interest rates at most banks are moderate and these institutions are convenient. Historically, banks have been short-term lenders, however, in more recent years, they have branched off into the intermediate and longer term field. At the present time many of the banks would offer businesses, such as you people represent, term loans of up to 10 to 15 years. One of the greatest advantages of dealing with a chartered bank is your access to the wide range of financial services which they provide. The particular institution which I represent offers over 30 services to the public ranging from safety deposit boxes through charge cards to preferred rates for senior citizens.

How should you go about obtaining a loan? The first thing to remember is that it hasn't been a sin to take a loan for many years. You need not arrive in your banker's office feeling he is going to do you a favor. After all, he is in the business of lending money. If he doesn't make sufficient numbers of good loans he is not doing his job as well as he could be. Therefore, it is a business discussion you are preparing for. You know your business and you have a good idea of how much money you need to borrow, but before the banker can assess whether or not this is a good loan, you

have to communicate to him all of the information that you have.

The best way to do this is to be prepared. The lender will want to know three basic facts: 1) how sound is the management of your business; 2) a capsule history and description of your business; and 3) all the pertinent facts and figures.

The banker wants to be assured that you are an effective manager and that you know your business well. He wants to know in a concise and easily understood manner what your business is all about and he needs to have some historical financial statements presented in a professional manner in order to assess your business.

Your lender will also want some form of security on which to base the loan. It will probably need to be more than your good name, but that too, is a form of collateral. Be prepared to discuss the kind of assets you are prepared to pledge for your loan.

In summary, you as the small businessman, have many sources for funds and they come in various kinds from different types of institutions. You and your accountant must first decide what kind of collateral you have to offer. After that it is a simple matter of putting your case together and approaching the lender of your choice.

We, at the Royal Bank, have produced a series of books which businessmen have found to be of value. Any of you who are interested in procuring one, or a series of these booklets, may do so by writing to me. There are now eight books in "Your business matters" series and they include: Pointers to Profit; Good Management — Your Key to Survival; Exporting-Importing; Financial Reporting and Analysis; Control Over Direct Costs and Pricing; Planning and Budgeting; and Control Over Investment. This series of bulletins has been designed with people such as yourselves in mind, and we will be only too pleased to respond to your request.

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