



AN ENTREPRENEUR LENDER

IT'S ABOUT MORE THAN PR

By Robert D. Katz, CTP, MBA, CPA

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**Robert D. Katz,
a managing
director at
Executive
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offers tips to
lenders who
want to appeal
to entrepreneurs.**

If an entrepreneur or serial entrepreneur is generating operating profits and cash flow, they are likely to select the lender which provides the best pricing. However, for those whose world revolves around asset-based lending and working with entities to improve performance, rarely, if ever, is the decision to select a lender purely about pricing. In fact, for many, pricing becomes one of the lesser important considerations.

So, when it's time to find a new lender either by choice or by force and as the calendar turns to 2013, what will be the most important and critical considerations for companies selecting a lender? After all, and yes, it is a cliché with everybody's money being green, what are the differentiating factors?

While there are many different considerations, here are seven that immediately come to mind that should be driving the entrepreneur's decision-making process:

- ▶ Creativity and Differentiation
- ▶ Flexibility
- ▶ Responsiveness
- ▶ Structure
- ▶ Support your company's platform
- ▶ Competitiveness
- ▶ References

Creativity and Differentiation

There is rarely anything vanilla about a company's situation that asset-based lenders or their customers face. After all, if a company were generating multiples of EBITDA or cash flow, they wouldn't need any of our services.

A lender that is creative and aggressive without being reckless will be able to substantially differentiate itself from others. Many say they are creative but, as a lender, you will have to truly differentiate yourself in areas that are critical to business entrepreneurs. Consider what your borrowers want and need; what are the most critical parts of the lending relationship and what are the special needs of a particular situation?

Lenders must be able to answer the borrower's questions honestly and fully; otherwise, it will be difficult for them to properly and effectively narrow down their selection.

Flexibility

When special circumstances arise, borrowers will want to know that you are able to adjust and meet the needs of the special situation. Assure your prospects of this in advance. For example, one of our clients had received an unexpected opportunity to manufacture for a new and well-respected customer that would provide added sales growth of approximately 10% with good margins. The customer had special terms throughout the industry. Our client's new lender provided flexibility to support the company's ability to service the new customer. Not only did they support the initial order, but put additional metrics in place to support future and repeat orders for the same customer. It was not only important to be flexible, but acting quickly was just as critical. If the lender didn't respond quickly, the opportunity may have been lost.

Responsiveness

In today's environment of immediate response and gratification, yesterday is rarely soon enough. Being able to turn a request around quickly is critical. Lenders should be able to quantify how long it will take to respond to a request and execute on it.

Borrowers will want to understand the decision-making structure and the layers of approval needed. This will provide great insight as to how quickly a request can be turned around and how soon or how long it will take to implement. And, as we all know, once a customer is disappointed it is extremely difficult to get a second chance.

Structure

When talking real estate, it's about location, location, location. When the business owner assesses its lending

relationship, it's about structure, structure and structure. A lender willing to provide an extra 5 or 10% on the accounts receivable or inventory advance, reserve a bit less on concentrations, provide additional support for in-transit inventory or additional seasonal advances could have a significant material positive impact on a business and ability to meet customer demands; similarly, the opposite is true if additional restrictions are implemented.

Platform Support

Entrepreneurs want to be sure their operating and financial stakeholders and partners are comfortable with their business and industry. As a lender, this means you must understand the nuances and uniqueness of the business such as its seasonal nature or inventory-build seasons. Entrepreneurs will be reassured if a lender finances similar companies in their space. A true partner invests the time to become as familiar with a business as possible, as well as with such things as Porter's Five Forces that could affect the business. A lender that makes such an investment demonstrates interest in an entrepreneur's long-term success.

Competitiveness

It is plain and simple – any business owner wants to insure they are receiving a competitive offer from a lender. However, pricing is only part of the package. In certain cases, cash management services can be a factor. Borrowers will want to understand who will be managing their account and get to know that person. Certain companies need letter of credit facilities with the opportunity to exchange currency easily. Prospects will also take into account the field audit fees, collateral monitoring, unused line fees, origination fees, appraisal fees and environmental assessment fees in their decision-making process. Circling back to a lender being able to be creative: being flexible on spreads and

in all other areas demonstrates to a prospect that you want their business.

References

In the heat of competition it is human nature to believe and say that one can provide all the aforementioned factors. In order to be sure what they are being told is accurate, we advise clients to ask prospective lenders for references. Nothing may provide them with better insight than talking to some of the lender's current customers, so be prepared to provide a list. Borrowers should ask "How were you treated in a time of difficulty?" Hopefully your references will have a positive answer to this. After all, anybody can be brilliant when things are going well, but the best insight will be how they were treated when they hit that first rough patch. The answer will provide exceptional insight.

A Closing Thought

If you are near my age, you remember the Fram Oil Filter commercial, where a mechanic is holding up an orange Fram Oil filter, standing next to a car with a blown-out engine, and says "You can pay me now (holding up the \$29 oil filter) or you can pay me later (pointing to the \$5,000+ blown engine). Creativity and differentiation, flexibility, responsiveness, structure, support the company's platform, being competitive and requesting and speaking to appropriate references are all ingredients and prudent steps for a business owner to provide the right lender in narrowing their search.

As a lender with the sole desire and spirit to continue to grow and expand your client base, meeting the needs of borrowers and being flexible as things change is integral to your success. **TSL**

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