



# RAISING FINANCE FOR YOUR BUSINESS



Project part-financed by  
the European Union

## 1. Introduction

A well-run business has a medium to long-term strategy running which ensures that it is sufficiently capitalised to enable it to pursue its business development plan. If this is not the case the business can find itself in a number of difficulties. Examples:

the business operates at a level where its entire capital base is insufficient to cover a loss which, in turnover terms, is relatively small (over trading)

the business is unable to respond to customers demand because it is unable to afford inputs such as labour or raw material (cash poor)

the business is unable to respond to new opportunity because it cannot afford to expand its productive capacity (under capitalised)

## 2. Defining how much you need.

There are three main areas to consider. These are:

- €# Fixed capital investments
- €# Long term investment in invisibles
- €# Working capital.

### 2a. Fixed capital investments.

This is the purchase of capital goods, which will be retained within the business and form the core of the productive capacity of the business, along with its people. The defining characteristic is that these are required by the people to carry out their work. Capital goods can include improvements to property, fixtures and fittings, trademarks and patents, as well as machinery.

Whether any individual investment is a good idea can be assessed through a calculation of Return on Capital Employed (by how much does the value of increased production or reduced cost (of labour or external purchasing) exceed the cost of purchase over its useful life, and does this rate of return exceed the cost of borrowing the capital). This is the ROCE test.

The proper business attitude to the purchase of capital goods is very different to the proper attitude to the purchase of capital goods in private life. In our private lives we tend to feel that we should purchase capital goods like cars or freezers when we can afford the money. In business the purchase of capital goods is not spending money, it is merely changing the form in which the money is held from liquid to fixed asset and we do this in order to be able to produce, thereby being able to afford our costs. The more that we can appropriately invest in capital equipment the more productively and profitably we are able to work. The proper business attitude to purchasing capital equipment is not "we will buy it when we can afford it" but "we must be able to afford it as soon as we predict that the ROCE test will be proven".

## **2b. Investment in invisibles.**

Invisibles include training, market research, marketing planning and production of marketing materials, product research and development where these are not routine ongoing work but geared to the launch of a business or its re-launch into a higher turnover bracket or different market, the benefit of which will be realised over the years ahead. The same means of calculation as for fixed capital investment is appropriate to test viability of such investments. They are more problematical for a business because they cannot be shown as assets in the balance sheet of the company and look like cash flowing out instantly instead of gently over time by the mechanism of depreciation. For this reason under capitalised businesses often under invest in their people, their product and their marketing.

## **2c. Working Capital.**

If we look at the cash to cash cycle of the typical business, we see that cash is paid out on staff costs and material costs before it is received back from customers. The money which is tied up in stock and work in progress plus what is owed by customers for earlier deliveries is the working capital requirement of a business. The more a business expands the greater its turnover and the greater the working capital requirement will be. Many businesses have failed because they have missed this simple point and despite operating profitably and marketing successfully have been unable to raise the cash to pay for inputs, thus entering a tail spin of dislocation, low productivity, and loss making.

## **3. Calculating the ongoing capital requirement.**

A business should seek to have in place a capital sourcing and investment strategy to cover its needs in the above areas for some years ahead. This will obviate the need for recurring panics every couple of years and the casting around for emergency (and usually expensive) sources of funds. It will also enable a business to form long-term relationships with sources of investment in which both parties feel secure. A business which expects to be profitable should not expect to be immune from the need for outside financial backing. A profitable business may well wish to expand faster than it can provide finance through retained profits. Those who run the business may wish to have some of the profits distributed. There is something to be said for jam today as well as jam tomorrow.

Someone should therefore be addressing the issue, how much will we need to invest each year for the next five years and where is it coming from?

Of course this person will be operating with very little guidance if there is no business development plan and no forecasts of future turnover to work from.

### **3.a. Assessing fixed capital requirement**

What increases in production are expected (this question works equally well for a new start business, the increase is merely from zero). Could production department give guidance on what additional equipment will be required to churn it out? Could they provide specification, get quotes? How many more workers will be expected to come on stream and when? Will they require desks, computers? Can the IT manager provide information on what expenditure will be required to ensure that the system does not fall over under the strain? Budget setting is a process by which each part or department of a business, probably with the help and guidance of the Finance Department/Worker assesses its financial needs to hold its end up in meeting the targets set by the overall plan. Capital budget is a part of this.

### **3b. Investment in invisibles.**

Broadly the same as above, but the calculations tend to be more difficult since they involve estimates of time commitment as well as external purchasing. It is also necessary to ensure that people are not double counting in their budgeting process by counting time invested in research and development again in the general costs of production element of their department.

### **3c. Working capital requirement.**

There are two methods and it is probably best to use both to check one another.

#### **The first is:**

prepare a cash flow projection which shows income based on sales as that income is expected to be received and

expenditure on inputs such as material and sub contractors as it is necessary to spend to meet costs of production at those required levels

expenditure on overheads like premises cost, core staff etc. but not counting depreciation (this is a cost of business in profit and loss terms but not a cash expenditure)

capital expenditure as it is necessary to invest to create the capacity and infrastructure to meet these levels of activity

investment in invisibles

add in sufficient investment income to pay for the investment in fixed capital and invisibles as those investments fall due and

the expected schedule of repayments, interest payments and profit distribution read off the bottom line of closing balances.

These may well be negative showing a need for a cash flowing or working capital facility. If this cash flow projection is on a month by month basis it is necessary to add on a safety margin to allow for "swing on account", meaning that the way the bank account behaves may not mirror this exactly. It is

possible that payments out are made before payments in are collected and the full safety margin would be to add a months expenditure onto the worst negative figure on the cash flow, though some businesses, particularly retail businesses with daily cash inflow can reduce this safety margin substantially.

One extra warning. Remember that time spent on invisible investment (research and development, special marketing initiatives, setting up time on new equipment) cannot be spent on production or fee earning work. This may not reveal itself in the cash flow as additional labour cost if it is achieved through redirection of existing staff time. However, it should be allowed for in both projected cash flow and projected profit and loss as a reduction in maximum potential sales turnover.

**The second is:**

Work backwards round the cash to cash cycle working out the amount of cash tied up at every stage.

For the level of business projected,

multiply the sales value of the average daily output by the average number of debtor days (the length of time it takes the customers to pay you) thus arriving at an average value for the amount of money tied up in debts owed to you by the customers.

add the amount of completed stock at input prices (cost of production including target contribution to overheads but not profit) which the business needs to carry to support the projected sales volume.

add the value of the work in progress which will be needed to ensure that stock levels of finished product or uninterrupted supply to the customer which will be required (costed on the same basis as finished goods)

add the value of material stocks that will be required to ensure that work can be carried on without disruption.

for retail businesses the last three headings will all be the same, for service businesses there may well be no material stock or finished stock but there will certainly be work in progress.

deduct the amount of credit that will be extended by suppliers on this stock or by sub-contractors on their part of work in progress.

This will give a figure for the amount of working capital tied up in the business on average. An allowance for variation should be added on a similar basis as for swing on account under the cash flow method.

The second method will be the more accurate in assessing how much working capital is required by the business, the first will be more accurate in assessing when it will be required allowing for seasonal factors, and the balancing of investment in fixed assets and invisible assets with the drawing down of

investment finance. Which ever gives the worst result at any period in time is the one to work with.

## **4. A balanced investment strategy.**

### **4.1. Balanced use of capital**

The fixed capital investment part of an investment strategy tends to be the most obvious and the most easily quantified. It is also the easiest to raise finance for since investors can be shown the results and their investment can to some extent be secured against these capital goods. For this reason these investments tend to receive an undue share of attention when it comes to raising finance. The result can be an unbalanced investment strategy with investment in productive capacity under-utilised because under investment in invisibles means there is insufficient skill to make full use of it or insufficient market development to keep it fully occupied while under investment in working capital means that there is no cash to purchase the inputs required to feed it. As with most aspects of business management, a good investment strategy is about balance, harmony, synergy. It is better to do a small amount well and thoroughly than a large amount in a costly and unbalanced fashion likely to lead to an imbalance of resources with bottle necks not addressed.

### **4.2. Balanced introduction of capital**

Similarly an investment strategy should be phased in a way which makes it easily assimilated by the organisation and suit the growth pattern of the organisation. This requires a strategy which is balanced over a period of years. Long term planning does help minimise mistakes which often occur when businesses allow their investment strategies to be dictated by reaction to apparent bottle necks, one by one on a case by case basis. Often the result of such investments is to reveal a further weakness elsewhere rather than increase productivity thus realising little or no return on capital employed.

## **5. Rechecking - Do we really need it and alternative strategies?**

Having decided what is needed to establish or develop the business we should ask ourselves whether it is necessary to have this in house and therefore whether the investment is down to us at this stage.

We should go back to examine our business aims. It may be that it is important to make sure that every opportunity is used to expand the size of the operation, either to achieve critical mass, allow for specialisation or to create jobs, but equally this is not a necessary truth. For example it often pays to have work out-sourced until it is proven beyond doubt that moving that function in house will save money. This minimises investment risk and maximises the case to outside investors, cost reduction through substitution is probably the easiest investment case to prove.

Another alternative is to look around for another small business in a related field to work with, leaving a share of the investment to them. The guiding

principle here is that the job, the whole job, must get done and we must do what we are best at and can make a critical quality contribution to. It is not necessary that we do everything or retain absolute control over everything. One of the great things about co-operation is that it can generate co-operative rather than paranoid and competitive solutions to business problems. A variety of tools for joint purse arrangements for project delivery are available.

## **6. Sources of Investment.**

### **6.1. Reinvestment of retained profits.**

Clearly the optimum. A business which is making profits can reinvest them to further improve profitability and balance sheet strength. In business to them that hath more shall be given and to those that hath not even that little which they have had better be ploughed into pulling their socks up but quick.

Before forming an investment strategy which relies too heavily on this source, recheck and discount the basis upon which profit forecasts are made. If this is a new business what exactly is the confidence level of the projections, very few business make profits in the first two or three years of trading which is usually spent learning the trade and finding the market. In fact many businesses fail just as they prove that they have a product, a market and potential for profit making simply because they have under equipped themselves with working capital. More mature businesses can look back on their own record of actual against predicted and base estimations on the emerging pattern (usually an uphill struggle through break even point over three or four years and then on to modest but gradually improving profits).

There are decisions to make about the level of reinvestment from profits as they are generated. Sharing profits is one of the ways businesses justify their existence and retain the loyalty of members. 100% reinvestment for ever means there is no financial reward for good performance.

### **6.2. Member investment**

Member investment is good for the business. It shows faith and commitment, important in the assessment of other investors. It goes right down the bottom of the page on the balance sheet and makes the gearing ratios look much safer. Actually it makes the gearing ratios safer, it is the next best thing to retained profits, and they take time to accumulate. It reduces dependency on outside investors and does wonders for your credit rating with suppliers.

Of course there is a lot of resistance to investing actual cash on the part of people who are also investing vast quantities of sweat equity which they cannot put on the balance sheet. There are also problems over the distribution of psychological ownership among members according to money invested. Phooey, frankly. On the matter of making investment one has to ask where one's priorities lay, strong business or another batch of CDs or newer car. Invest, invest its your future.

Particularly in the start up or early stages of business development this can be a critical part of the equation of a balanced investment strategy. When funds are to be levered one has to start somewhere, to have something to ask the first outsider to match before turning to the second to match again. One recent start-up was staffed by four unemployed people each of whom reckoned they had zero pennies available to them. Three boot sales of accumulated life debris, one sale of a caravan, one downgrading of a car and the sale of a gold bracelet later there was £6,000 in the pot. Other start up and expansions have been financed by

- £# three months of window cleaning
- £# dinner parties where the guests paid restaurant prices
- £# mortgages on life insurance policies
- £# personal loans from the bank
- £# digging a trench (and I got fit at the same time)
- £# doing work for other co-operatives who held the pay back until it was required.

A note about the ability to accept loans from members without losing democratic ownership: there is a risk of a member owed a larger sum of money being able to exert undue influence over other members leading to a loss of democracy. This is an assertiveness issue (in common with most things about successful business management). If we work hard, make the money and meet the interest payments everybody wins. No problem.

### **6.3 Sweat equity.**

This has to be the largest source of investment in many co-operatives. Members work for below market wages or work unpaid overtime, or take on management responsibilities without reward, usually all of the above. Of course the "correct" way of accounting for this is to pay the workers what they are worth and then for them to lend the money back to the co-operative or to invest the money in shares (depending on the corporate structure utilised).

The problem is that this is expensive because income tax and national insurance is levied on the way. If there is an expectation of investment being made in this way, there are systems, which have been developed to reflect these investments in ways that do not result in published negative profit and loss accounts and balance sheets. These generally involve the accumulation of credits, which can be utilised in the calculation of profit distribution when these are made, even if they are made some way in the future or even after the worker has left the co-operative. Obviously these commitments to future profit distribution have an effect upon the assumptions that can be made about the contribution of retained profits to future investment plans.

### **6.4. Loan stock.**

Most often used by co-operatives formed with an avowed social purpose of community benefit and providing a low cost route to small-scale investment by supporters, but probably under-utilised by co-operatives generally. Often members of co-operatives feel a problem about this approach to raising investment. It just feels too much like begging or there is an added tension

about taking real live peoples' money and gambling with it beyond taking a financial institution's money and gambling with it. This is another assertiveness issue. Many people have a legitimate interest in the establishment of development of a co-operative business. These include potential customers looking for a new or alternative source of supply, potential suppliers looking for a market, potential project partners looking for a strong ally. Many other people would welcome an opportunity to make an investment at a few points better rate of return than a bank would offer them whilst supporting local enterprise and local people. Long term loan stock has a disproportionately healthy effect on the look of a balance sheet. The ICOM Finance pack includes a model document that can be used. Particularly when dealing with people with a personal connection it is important to have these things dealt with on a business-like and professional basis, properly recorded and documented. Soft loans are not soft loans if the lender thinks that they have a right to ask for the money back because it is Christmas, and surely they made that clear when they emptied the jam jar and handed the money over did they not?

### **6.5. Capital Partners.**

The standard relationship is between a small business, which has proved product and market but is unable to finance establishment or expansion and a venture capitalist looking for high profits. The high profits are justified by the risk that investors in small businesses take. The few that are very successful generate enormous equity growth, so the venture capitalists are trying to pick winners in a high-risk environment. They usually require:

- €# a well balanced and qualified management team (preferably experienced in their trade and in working together)
- €# a seat on the board
- €# a large stake in the enlarged equity created by adding their cash to the balance sheet (often 50%)
- €# the right to cash in their stake after a few years
- €# a system of valuing that equity stake related to the performance of the company
- €# ceiling on salary increases
- €# the right to take control of the company if the existing management does not deliver the performance targets specified in the business development plan

All the above adds up to loss of control, surrender of all cash profits generated for the foreseeable future and a problem in raising buy out funding in a few years time and is broadly unacceptable to co-operators. It is really geared to the aspiration of small business owners who are looking to the possibility of say an OFFEX flotation in a few years time, or the search for the Holy Grail or some such self delusion (statistically speaking).

Before we dismiss the idea of capital partners altogether, there is always the thought that we could come up with our own set of criteria for capital partners. Here are the criteria set recently by a new start co-operative (ICOM standard rules had to be adapted somewhat):

- ⌘ no more than 25% of members to be capital participants
- ⌘ one member one vote
- ⌘ at least 75% of members to be worker members
- ⌘ minimum investment to qualify for membership as investor member £10,000
- ⌘ minimum term of investment five years, withdrawal of investment must be accompanied by resignation as member
- ⌘ investors to receive expenses for attendance at Co-op meetings
- ⌘ investors to receive payment for work done on behalf of the co-operative at agreed salary rate
- ⌘ investors to receive agreed rate of interest
- ⌘ investors additionally to share in profit distribution at the average rate for worker members per £10,000

and yes, investors did come forward.

This idea has raised intense philosophical discussions in many co-operatives since it moves away from total worker control to a wider "stakeholder" approach. The balance between inside control, outside control, usage of outside resources, enfranchisement and disenfranchisement is not easy to get right. The best process is probably to decide what would be best for our own co-operatives and then offer it to see if anyone salutes it. You never know until you ask.

## **6.6 Share Issues.**

First of all your business has to be a company limited by share or convert to be one. There are two kinds of share issues: private and public. Private means that you have to prepare a list of direct contacts and limit the invitation to buy shares to them. Public share issues entail a sort of equal opportunity approach with a sensible attempt to offer the shares widely and a published prospectus describing the status of the shares, what will be done with the money and how lovely it will all be for everyone.

There are many kinds of shares but for the sake of simplicity broadly falling into two general kinds: ordinary (voting) shares and preference (non voting shares with marginally better likelihood of realising some of the investment if the company stops trading and goes into liquidation). In practice, of course, in the small business world this is a very marginal possibility indeed. Preference shares simply mean no vote. This means that in a situation where the workers have the voting stock, investors have no say what-so-ever in whether the workers will vote any money raised by the business into worker bonuses or leave any to be distributed to share holders. Similarly the market in the shares is likely to be a bit slack since very few of the sharks on the trading floor will be fighting each other to pick them up. Some co-operatives who have used this device have felt a moral need to make some sort of commitment to target profits and to cashing up people's shares, should they so desire, at a future date. It may sound an unlikely strategy but there have been spectacular successes, ask the Centre for Alternative Technology and the Industrial Common Ownership Fund.

Great brains in the Co-operative movement are working on developing instruments to be used in a quasi share market. Well, if the capitalists can have futures markets and derivatives (which no-one understands but which are traded at values that make the "real" economy where goods and services are actually produced and traded look like a bit of a side show) why cannot we have funky things like NOVARRS. NON-voting Value Added Residual sharing Renewable Shares They have a variable yield but are non-voting except in restricted circumstances. The firm's "value added" (sales minus all non-labour costs or, equivalently, pay plus profits) is split in a predefined way between workers and investors, both groups receiving variable rewards. NOVARRS offer investors four main forms of protection instead of normal voting rights:

Subject to minimum wages, profit per share is a specified fraction (VARF) of the value added (1/3 of profit is paid as dividends if sufficient funds are in profit & loss account); workers get the rest.

Every year, to allow for changing circumstances, the shares are "renewed". The VARF is renegotiated or can be reset (to move the rate of return on capital towards a target).

Shareholders have voice and information rights, and limited consultation rights. Any shareholder can propose resolutions or stand for election by the workers as a director.

If things go badly wrong for the firm, the shares get "emergency" voting rights.

The NOVARR is yet to be used in anger and Guy Major their inventor is working with legal specialists to make sure the detail is right. It is offered here as an example of lateral thinking about how to extend the capital market to a point where it can reach the investment opportunities that our sector offers.

### **6.7 Co-operative Sector Specific Funds**

The Industrial Common Ownership Fund offer a lending service specifically to co-operatives. They have two standard products. The term loan with loans of up to ten years with regular capital repayments, usually after a "holiday" period and the investment loans where deferred interest payments accumulate over an extended capital repayment holiday. Loans are usually in the range of £5,000 to £50,000 and security is usually in the form of a legal charge over the assets of the business and personal security is not requested. ICOF usually require start up businesses to secure other investment as well. ICOF 227c City Road, London, EC1V 1JT, (T) 020 7251 6181 (F) 020 7336 7407 [www.icof.org.uk](http://www.icof.org.uk)

Triodos Bank is a bank which lends exclusively to the social economy and a high proportion of its customers are co-operatives. Loans are generally between £20,000 and £2,000,000 with repayment period of one to ten years, twenty five for a commercial mortgage. Security is on the basis of legal charge on non-residential property of the business or wide spread personal

guarantees at around the £2,000 level per guarantor. Triodos Bank, Brunel House, 11 The Promenade, Clifton, Bristol BS8 3NN 0117 973 9339

### **6.8 Use specific lending sources/grants**

When purchasing fixed assets like plant, IT equipment etc. it may well be worth getting the supplier to source finance. Most suppliers have working relationships with Finance Companies. Selling anything that costs more than 45p nowadays entails having easy purchase plans available to help the customer. Obviously it will be necessary to read the fine print of easy payment plans through third parties and hire purchase agreements and the rates of interest are likely to be higher than through lenders such as those mentioned above. As mentioned below, however, spreading the borrowing is a good idea.

There are finance companies which specialise in advancing lump sums to enable companies to source plant. They will make their own evaluation of purchases or purchasing plans and advance a sum which reflects a conservative estimate of resale value. There are some circumstances, such as a worker buyout in a closure situation where the amount that these companies are prepared to loan is actually more than the liquidator needs to ask, or the value of in-house built plant is greater than the cost of making it, thus generating working capital as well. Where a business has already paid for its plant, re-mortgaging it can bring asset value down from fixed assets into liquid assets where it might be more use.

Through Training and Enterprise Councils, Local Authorities, Rural Development Councils, Rural Challenge Partnerships, Regeneration Partnerships, Regional Development Agencies there are grants available where you are able to meet their out-put requirements of new facilities built and equipped, jobs created, unemployed people given a job, induction and training plans created and completed. The money is the best kind, the sort that does not have to be paid back. It also comes specifically for those investments in invisibles for which is most difficult to raise investment. The schemes change on an annual basis. Get yourself on these organisations' mailing lists, be assertive enough to ask dumb questions like "Our co-op is interested in taking a couple of people off the dole and training them to be rocket scientists, how do we get money out of you to help?"

Examples of assistance include:

Smart. Smart is a Government scheme which provides assistance to small businesses to research and develop new products and processes involving a significant technological advance.

Regional Selective Assistance provides companies in assisted areas with a subsidy of fixed costs where it can be demonstrated to create or safeguard jobs.

New Deal will grant aid the employment of people under the age of 25 to the tune of £60 per week for 26 weeks and £750 towards training costs.

There is help with setting up for workers with disability contact the Disability Rehabilitation Officer through your local Department of Employment.

### **6.9 The Banks.**

Still the number one source of lending to small businesses. Of course, usually they ask for joint and several guarantees from directors which in real life they are borrowing money from the person with the largest personal asset, such as a house, at nil interest and then lending it to the business at a very healthy interest rate. In general terms our hero guarantor would be better off raising a second mortgage and lending the money to the co-op themselves. Some banks, particularly the Co-operative Bank can actually be persuaded to forego these guarantees if sufficient assertiveness is demonstrated and there is genuine financial strength in the business. Others can be persuaded to at least accept individual guarantees of limited amounts adding up to the total, again with sufficient assertiveness.

### **7.0 Cash flow management as a source of finance.**

Working capital can be kept to a minimum through good management. Again, work backwards around the cash to cash cycle to see where you can make an impact.

**Credit control** on debtors is obviously a very important area of work. The key elements are: clear terms of trade, negotiate special small supplier status with the corporate customers, cultivate a good relationship with workers in the finance department of customers while making sure that they know they will get polite yet determined follow up if they go over time. Discounts for prompt payment (built into the original price of course) and penalties for late payment (all backed by the terms of trade documentation).

In trades where large invoices are issued and the trade norm is for a long period of time to elapse before payment it may be worth considering factoring. A factoring company will pay a large proportion of invoice value (normally around 85%) immediately and then collect the money from customers forwarding the balance after fees are deducted. This removes credit control from your concern and hands it over to experts, it also brings a lot of the debtor balanced straight into cash where you need it. It costs money. The improvement in cash flow is once and for all, the cost goes on for ever because you never dare drop out of the system and lose a month's cash flow. Think hard before getting addicted.

**Invoicing** can be a make or break area also. Obviously, accuracy is important since overcharges will usually be spotted, lead to customer dissatisfaction and delayed payment whilst undercharges will also be noticed and cause loss of image but will generally not be brought to your attention thus wiping out your profits. The way in which invoicing is carried out can make an important difference to the cash balances. Is the liaison between the person in charge of the project and the person who generates the invoices perfect. Does the person who raises invoices always know the minute that the project is finished, the goods despatched, whatever, and is getting the invoice out

immediately their highest priority in life. It has been known for invoices to go out have languished on the desk while co-op members have received pay cheques late. Does the person who raises the invoice have good information about when stage payments can be invoiced for? Time is money and cash flow is king.

**Finished stock** or stock for sale. Is it sufficient to meet demand (you cannot make profits on what is not available to sell) or is it too much (there is a right and proper rate at which a product should turn over or it should not be held in stock and existing examples should probably be turned back into money even at a discounted stock clearance price, and there is a right and proper level, based upon demand versus rate of production or ordering time for the stock level of any item. To go beyond this is laziness and the result is money tied up in wasting space. Of course management time also costs. A simple computer programme or home-made routine might help.

**Work in progress** is more difficult to interfere with from a financial point of view since production management have consideration about the best use of human power, equipment, space which requires enough juggling without our interference. If the message that getting jobs out and invoiced is one of the priorities worth entering into the juggling equations can be got over the cash flow implications can be enormous.

**Stock holding** of inputs is often an area of weakness. Get everybody to understand the JIT (just in time) principle - that a supply should be there when you need it but that it doesn't help having it hanging around because you will need it sometime. Carrying material stock is often a sign of lack of effort in organising things to arrive when they are needed or of ordering in quantity to save having to do it again in a few weeks time. The discount is usually not worth the space it takes up never mind the cash it ties up.

**Creditor management** is an area of activity as important as debtor management. A co-operative should always endeavour to be an honourable customer and pay accounts as they fall due. Ethical behaviour is actually appreciated and makes good business sense. You will receive attention before the naughty businesses. However, we should be assertive in obtaining the best possible terms of trade from suppliers and these should be kept under review.

**A few extra ideas.** Get everything dealt with on account as much as possible, for example an account with a local garage rather than filling up the tank cash. If people have to travel on business give them a company credit card, this means that travel bills, hotel bills can be paid over a month in arrears rather than issuing cash up front.

**The Bank is your friend.** Cash flow support is what they are really good at. They know that you have money going into your current account all the time and they know that they can stop it going out anytime they want to. They are therefore a lot less sticky about overdrafts than loans. Smoothing out the cash flow is what overdrafts are for. They are an expensive way of getting core

borrowing. If you are overdrawn more than half the time then you are proven not to have a good investment strategy. Always give notice of your requirements, never spring it on them late. That means bad management and makes them twitchy. Always act like it is the most natural thing in the world to expect, they tend to share your confidence levels. Ask a jockey. You believe the horse can make the jump and it will, allow a doubt to creep into your mind and the darn thing will find a way to fall over. Make sure that the relationship is not limited to the times you need a bit of cash flow support, building a relationship through techniques like dropping them a copy of the quarterly management accounts and a compliments slip with the edited highlights like "trade up 40% year on year again" scribbled on is a good one. You do not have quarterly management accounts? Well never come to me for a loan.

## 8. Collective Solutions

Co-operatives are allowed to co-operate with each other. Among the ideas that could be worth pursuing:

**Collective buying** of capital items that everybody wants but no one co-operative can justify for themselves alone (e.g. training equipment)

**Setting up Business Credit Unions.** Actually this is a misnomer because businesses cannot belong to credit unions but you get the idea. A saving and borrowing club. Invest your surplusses, draw down loans when you need to re-equip.

**Setting up local loan schemes.** Give local people the opportunity to invest in a scheme which lends to local co-operatives, thus spreading their risk while allowing them to do the right thing with their money.

**Setting up Mutual Guarantee Schemes.** These collect small regular savings from members into a pool. The pool is then used to guarantee loans given to members by a Bank. Since the risk is spread the pool fund can be used to guarantee many different loans at the same time thus making many times the amount of deposits available as secured borrowing to members.

**Finding common needs and making applications as a group** to the dti, Training and Enterprise Councils, European Funds to obtain finance to meet those needs. Especially useful for schemes to obtain training, employing people from excluded groups or to support product development, especially innovative, high TEC products

So support your local Co-operative Development Agency and get them to sort out all the above.

## **9. How to apply for and get your loans.**

9.1. You need to have a plan for the development of your business and you need to have one at all times. This requires an annual revisit and reworking to keep the plan looking forward into the medium term. It should set targets over five years and a sensible level of detail over the next two.

9.2. The finance plan is a sub set of, and geared to, the business plan. You need to know how much, when and what for.

9.3. If you know how much, when and what for you can decide who is the appropriate supplier or rival potential suppliers for each element. Spread the requirement around more than one source. Start talking to targets in advance, prepare them for the fact that you are going to give them an investment opportunity and that they are gratefully going to accept it.

9.4. Having talked to the target enough to establish rapport and learn their predilections and methodology present them with the facts in the order most suited to their needs. Take a customer centred approach. What are their needs? What do they need to know and what is merely noise and distraction, what do they need demonstrated or proven and what is time wasting pedantry. Remember the customer's concerns are: can these people do what they say, can a good enough income stream be generated to make the repayments, is there sufficient excuse for me to feel relatively secure?.

9.5. Answer the main concerns. Concentrate on the most important thing, the ability, qualifications and spirit of the team. If the business has a track record then ensure that its achievements are properly explained. Demonstrate that the strategy has been thought through. The business plan will ideally mention that calculations such as return on capital employed, and income generated against repayment schedules have been looked into and met the demanding criteria laid down by the co-operative's management. Ringing endorsements from customers are highly persuasive.

9.6. Invite them to visit and/or meet with you. When they do, use the opportunity to illustrate your story. Your story is of course about where you are coming from, where you are going to and why you are sure you can get there. All presentations, all answers to questions should be geared to this story.

9.7. Always remember that people like you are very, very important. You are among the few people who can use money wisely and well. If no-one can use money it has no value and ceases to exist. Therefore all the money which is realised from previous investments and new savings must constantly search for people like you. Go on, be a sport, let them give it to you to look after.

**For further information on appropriate finance for co-operatives and social enterprises or assistance in applications, contact:**

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