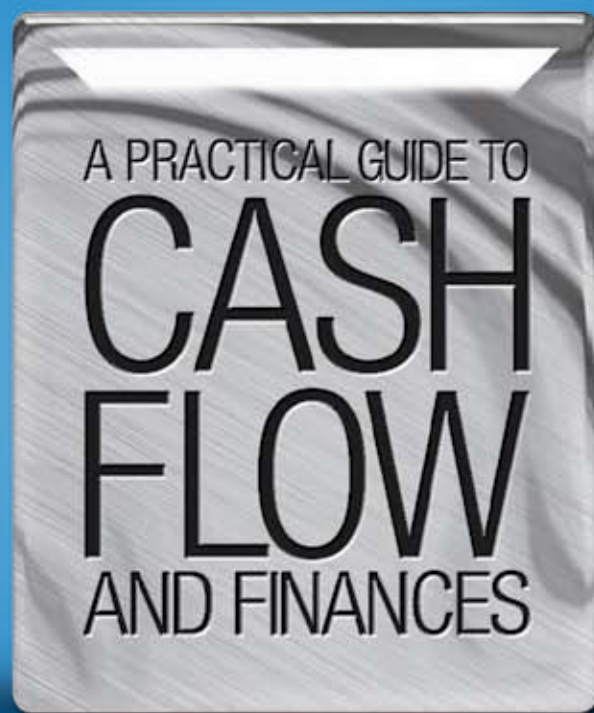


Helping your Business in 2009



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Introduction

At NatWest we understand that right now managing cash flow is the number one concern for many businesses. This guide is designed to help customers gain a better understanding of the importance of maintaining a healthy cash flow and achieving profitability. You'll also be able to get a better understanding of what we look at when assessing any lending decisions.

The four key areas covered within this guide are:

- **Cash flow** – explores having enough cash, the management of debtors, creditors and suggested actions to improve cash flow.
- **Profitability** – discusses cost, margin control and suggested actions to improve profitability.
- **Financial information required by banks** – identifies the top six pieces of information and explains why it is important to you and why we value this information.
- **Signposting for further assistance** – a directory has been compiled to provide you with additional information at your fingertips.

The appendices contain templates to help you with cash flow, creditor/debtor forecasts, profit & loss accounts and balance sheets.

“ Gaining access to finance is critical to the success of any small business. This simple guide not only helps you understand the financial information your bank will look for when assessing your application for a loan, it also explains why you need to look at these yourself to effectively manage your business.

A key focus in this guide is managing your cash flow, helping you to show that your business will have sufficient cash to pay your bills including repayment of any loans provided by your bank. The old adage that ‘cash is king’ remains as true today as it was when I was starting out. This guide provides information, advice and examples to help you to stay on top of managing your cash flow making sure that you always have enough cash to pay your bills.

I am a great believer in keeping everyone you do business with informed. Openness, honesty and integrity with your bank, suppliers and customers is the only long-term way forward for success. ”

Sir Alan Sugar, Government Enterprise Champion

Cash flow

These are the key areas we will look at when assessing your cash flow:

Enough cash to pay the bills

One of the most common reasons for a business to fail is lack of cash to pay bills. In other words, a business fails to stay on top of cash flow. It's important to remember that cash flow is a two-way process: money coming in and money going out. To ensure you are not being squeezed on both sides, you need to manage all aspects of cash flow and remain a low risk for your suppliers.

Therefore, you should make sure you:

- **Know when you are expected to pay** – not all suppliers have clear terms and conditions.
- **Pay on time** – if you can't do so, contact your suppliers to explain why.
- **Protect your credit rating** – don't wait until the start of court proceedings to pay. Once your credit rating is damaged, you may find it hard to get any credit at all.

Debtors/Creditors

The key thing is certainty – knowing when you are going to get paid so that you can adjust your cash flow forecasts accordingly.

- **Review who you are extending credit to** – and how much credit you are extending to each customer.
- **Review how long you are allowing your customers to pay you** – see if this can be shortened.
- **Negotiate longer payment terms yourself** – so you have longer to pay.

Make it easy for debtors to pay by offering as many ways of getting paid as you can. BACS payments are fast and attract lower bank charges. A standing order can be used if they pay the same amount regularly. If being paid by cheque, be particularly wary of late payers using the 'cheque is in the post' excuse.

Set your business terms before starting any business – and put them in writing. You will not be paid in 30 days unless your customer knows that's what you expect. Also check that the customer is happy – there may often be a reason for late or non-payment. Never give a customer a reason not to pay.

- When faced with a late payment that could become a potential bad debt – is it a case of 'can't pay', or 'won't pay'? There may be a reason they have refused to pay. Perhaps there is a problem with the goods or service. Decide how much you need the customer. If this is a valued customer you may want to be more diplomatic to avoid losing their business.
- Something's better than nothing – see if you can get a part payment or staged payments.
- If they won't pay, is it worth the fight? – If you are going to get nothing back, don't waste your time or money.
- If there is a chance they will not pay, consider court action – but send a solicitor's letter first. In around half of cases this works. You can use an online service to send a solicitor's letter 'before action' for as little as £5. If that does not do the trick then you can start proceedings. For debts over £750, you can issue a statutory demand.
- Alternatively, try the Small Claims Track (for debts up to £5,000) or the Fast-track procedure in the County Court (for claims up to £15,000). The Small Claims limit in Scotland is £3,000.

Cash flow

Customers

A lot of smaller businesses rely on just one or two customers and one or two products and services. In an economic downturn, it only takes one customer to move to another supplier or go bankrupt to put your business at risk.

Identify your most profitable customers – then seek to bring in new customers with a similar profile. At the same time, don't neglect your high value customers who make the biggest contribution to your profits.

As a matter of course, always check the credentials and credit status of all existing and potential customers:

- **Know your customer** – for companies a simple check with Companies House can confirm they are who they say they are and enable you to check their accounts.
- **Check they are a good risk** – carry out credit reference agency checks, ask for bank and trade references, search the Registry of County Court Judgements. This can reveal if those running the business are in financial difficulties.
- **Use Business Status Alerts** – available from NatWest in conjunction with Equifax, our Business Status Alerts service protects you by assessing the credit status of your customers and suppliers. It gives you access to credit checks and reports, while alerting you to key changes that may affect a customer's credit risk. It also helps you manage your own credit status.
- **Set clear credit limits for every customer** – to limit potential losses.
- **Consider credit insurance** – it could cover the debts owed to you.

Ensure you have working cash flow forecasts which will help you to manage your business more efficiently.

- See Appendix 1 for an example of a cash flow forecast.
- See Appendix 2 for Aged Debt/creditor lists forecast.
- Download our free business planning software from www.natwest.com/businessplanning

Profitability

When considering your loan application, we need to be sure that your business is generating enough cash flow to meet your monthly repayments. We will also need to know whether your business is profitable. To protect your profitability, you need to consider:

Prices

During a slowdown in the economy, there is an immediate temptation to cut prices to attract customers and drive up sales volumes.

Cost each product or service precisely and don't take on business if it does not make a profit. Look at ways to reduce costs as this will allow you more scope to reduce prices.

Be wary of taking on big orders at a discounted price. This can put too much pressure on both capacity and cash flow.

When considering prices, you should aim to:

- **Think strategically** – will a price cut genuinely help boost sales? Will it help a valued customer through difficult times? If you cannot see a clear benefit, ask yourself if a price cut is really a sensible idea.
- **Make decisions based on the facts** – a 'gut feel' is not good enough. It is only when you see what is profitable and what is not that you can make a decision.
- **Pass on price cuts** – if you are under pressure to cut your prices ask your suppliers to do the same – if you can. If they won't negotiate on price ask for longer payment periods or shop around.

Costs

The flip side of price is cost – you can maintain profit margins even if you are reducing prices, provided you also reduce the cost of your product or service.

Many small businesses only make cosmetic cost cuts, which make very little impact on cash flow or profitability. You need to stand back and make hard-headed financial decisions.

- **Start with non-essential expenditure** – then tackle fixed costs such as utilities, stationery and other outgoings.
- **Don't hang onto things you don't need** – it costs you to store, insure and maintain them.
- **Consider selling surplus machinery or unsold stock** – even if you don't make a profit, you will release some working capital.
- **Avoid getting emotionally involved** – be hard-headed. For example, don't keep a particular office open because it was where you started. Don't maintain an unprofitable product line because you created it. If it's losing money, do what it takes to protect your business.

Making the most of management information is vital for all businesses. Knowing which products are going to sell well and be profitable is vital. It's also vital to know if rising costs are going to eat into your margins.

The key difference between this economic downturn and the recession of the early 1990s is information technology. Businesses have much more ammunition now because they have online banking and spreadsheets giving them information at their fingertips. This technology will help to undertake credit checks online, produce cash flow forecasts and make the most of the information about your market and your competitors.

Review your costs using your management information and make factual decisions based on the information to ensure maximum profitability.

Information at your fingertips

Key cash flow and profitability issues

Aim to ensure you have all your vital business information up to date and to hand when discussing funding with us. Be specific about what you need for your business and provide tangible information to back up your funding proposal/request.

The top six pieces of financial information that we will request will depend on your funding requirements. The precise level of information required will naturally depend on the scale and complexity of your business. For example, we would not expect to see detailed financial projections for an individual contractor, but we would expect you to know when bills need to be paid and when cash will be coming into the business.

Don't worry if you do not have all of the information outlined below. Your Business Manager will advise on the requirements for your business. In addition, they can help make it easier for you by providing access to digital banking which will give you online access to historic bank statements.

1. Cash Flow Forecasts (see Appendix 1)

Why you need them

It is essential for all businesses to know (usually on a monthly basis) when income will be received and bills are going to be paid. This helps ensure that sufficient cash/working capital is available.

Planning your cash flow will help you identify the cash needs of your business. Similarly, it will enable you to review actual figures each month in comparison to your budget. This will help highlight any variances to allow corrective action to be taken if required.

From a co-ordination point of view, decisions made today are almost certain to affect future cash flow. Cash flow forecasts will help you appreciate the impact of your decisions on the business and its financing needs.

What we are looking for

As your bank, we will need simple financial projections detailing payments you need to make and income you will receive.

- Evidence to support your turnover forecast.
- Historic trading accounts, vendors accounts, or (if you are buying a business) new contracts.
- Details of potential and pipeline income and how it has been calculated.
- Details of loan repayments and interest, VAT, dividends, remuneration, drawings, tax etc.

Information at your fingertips

We will assess your cash flow assumptions and consider what might happen if things don't go quite as planned.

- Sales are lower than planned
- Debtors pay later than anticipated
- Bad debts are higher than forecast
- Interest rates rise
- Costs increase

Given the time involved in preparing this data, we strongly recommend phoning us before any meeting to confirm what information we require. After your initial meeting, you may be asked to provide supplementary information to help assess your lending proposal before a formal decision and offer can be made.

2. Aged Debtors & Creditor Lists (see Appendix 2)

Why you need them

To make sure your business is not over-exposed to a single customer and the risk of non-payment, it's vital keep tabs on who owes you money and who you owe money to. You should also consider the risk to your business if, for example, a larger debtor went bust or a major customer switched to a competitor.

Applying terms of trade and undertaking credit checks will reduce your exposure to any one customer. It is also good practice to list the balance per debtor/creditor, showing when the payment is due to be received/paid out. It's a good idea to categorise all debtors and creditors according to settlement timeframes, i.e. 30, 60 or 90 + days.

What we are looking for

We will be interested in the same things you are - when will payments come in and when will they go out? We need to know that the terms you're trading under are realistic given your overall debtor/creditor picture. Be ready to answer the following questions:

- Are settlement terms with debtors/creditors agreed in writing?
- Are there any trends of late/non payment?
- Are debtors outside the agreed terms of trade?
- How do the current month's figures compare with previous months?
- Can you provide an explanation for any changing trends?
- Do you have quality assurance (of product/service) from suppliers?
- Have you run credit checks on customers/suppliers?
- Do you have agreed dispute resolution processes in place?
- Is bad debt insurance in place?

Information at your fingertips

3. Management Accounts/Information

Why you need them

These will outline your business's track record, providing relevant trends and forecasts on which funding decisions can be based. Historic accounts are often used to provide evidence of previous business success or a track record. This is especially useful if you need to talk to us about finance for the first time.

What we are looking for

We will want to see how your business is performing relative to historic trends or projections. We will also compare performance against your last set of certified year-end figures. VAT returns provide a useful way of demonstrating current and more recent levels of turnover.

Items such as depreciation, drawings, directors' remuneration and finance costs need to be included to provide an accurate financial picture. If they are not included, we will aim to factor in their likely impact on your business and on cash flow.

Clearly, the more up-to date your management accounts and information are, the easier it is to evaluate your business for funding.

4. Historic Trading Accounts

Why you need them

These will outline your business's track record, providing relevant trends and forecasts on which funding decisions can be based. Historic accounts are often used to provide evidence of previous business success or a track record. This is especially useful if you need to talk to us about finance for the first time.

What we are looking for

Ideally your trading accounts will cover three years for all parts of your business. For Limited Companies, these should be within the statutory timescales for lodging with Companies House.

We will seek to understand various trends i.e. sales, gross margin, overhead growth/decline. This will create an accurate financial picture of your business and the sector in which it operates.

As part of our discussion with you, we may need to ask you about data such as: year-on-year trends, single notable figures on your balance sheet, remuneration, dividend and/or drawings requirements which appear out of line with reasonable requirements.

For some smaller businesses, Income Tax returns may be used to demonstrate income received if formal trading accounts are not produced.

Information at your fingertips

5. Profit & Loss Forecasts (see Appendix 3)

Why you need them

Profit and Loss forecasts enable you to demonstrate future profitability. This is particularly relevant when a business operates in changeable conditions or is exposed to variations in gross margins or overheads.

What we are looking for

We need to understand the likely impacts of changes to income and costs on your business. This will contribute to building a realistic picture of future profitability.

Profit and Loss forecasts are often produced for just 12 months forward. Where ongoing growth is assumed for the business, projections for 24 months and even 36 months can be useful.

Given the time involved in preparing such data, it's always a good idea to ask us beforehand what information will be needed at your meeting. We can then let you know precisely what is required initially. We may request extra information subsequently – before we make a formal loan decision and/or offer.

6. Balance Sheet

Why you need them

The Balance Sheet provides a summary of:

- What your business owns or is owed (assets)
- What it owes (liabilities)

This in turn shows how the business is funded and how these funds are being used. The Balance Sheet provides a snapshot of assets and liabilities at a given point in time. It is important to be consistent when making comparisons over time – for example, by comparing year-end figures in the current year with year-end figures in the previous year.

What we are looking for

We need to ensure that your business is solvent. We will calculate some accounting ratios in order to assess your business's performance and compare these to previous results and/or industry standards.

The ratio analysis is likely to focus on some of the following areas:

- **Liquidity** – has the business enough cash to cover its immediate liabilities and how is this changing?
- **Solvency** – how much of the business is funded by borrowed capital and how is this changing? The higher ratio, the more vulnerable the business is to increasing interest rates.
- **Efficiency** – how quickly does the business pay its suppliers, how quickly do customers pay and how long is stock held before being sold?
- **Profitability** – what is the return on the capital employed in the business? This could be compared to the return made by investing the capital in stocks and shares or in a deposit account.

This information, together with the Profit and Loss Account and cash flow forecast, will provide a robust picture of the business – enabling a well-informed lending decision to be made.

Further support

Finding the right advice for your business can be challenging and time-consuming. Below, we outline what we believe are the most valuable sources of information, advice and support for your business.

Make practical use of the resources available to you:

- **Use your Business Manager** – to ensure they understand your business and provide help and guidance during this economic downturn. Consider funding through the Enterprise Finance Guarantee Scheme (EFGS).
- **Team up your Business Manager with your accountant** – for consistent financial forecasts and cash flow management.
- **Network with your Business Manager** – let your Business Manager introduce other customers to you and vice-versa.
- **Work with your Business Manager and your solicitor** – to ensure your business operates within the law and has sufficient resources and support to trade professionally.
- **Seek assistance from other organisations** – Business Link (Business Gateway in Scotland), Chambers of Commerce, Federation of Small Businesses.
- **Use the Bank's services** – making best use of your time and resource through Business Lifeline, Online banking and Mentor (Health & Safety, Employment law, Tax and Environmental support).

Free business planning software

Our easy to use business planning software provides a comprehensive guide to all matters concerning running a small business, covering:

- **Checklists and guides** – a series to help you think about all matters related to starting-up.
- **12 months free use** – of the award winning MyBusiness Essentials software.
- **Support** – a range of business support through the online NatWest Business Guides.

Help Directory

www.britishchambers.org.uk

The British Chambers of Commerce (BCC) is the national body for the network of Accredited Chambers of Commerce across the UK. Every Chamber sits at the very heart of its local business community providing representation, services, information and guidance to its members.

www.businesslink.gov.uk / www.bgateway.com

Whether you are starting up, already running a business or looking to grow and develop, Business Link /Business Gateway has been developed in partnership with government experts and business support organisations to help with regulations and improve performance.

www.companieshouse.gov.uk

Hosting company information and accounts, the Companies House website provides access to a wide range of company information plus supplementary advice and guidance for businesses.

www.nfea.com

The National Federation of Enterprise Agencies (NFEA) is the membership body for Local Enterprise Agencies, and other like-minded organisations, in England. It forms a network of independent, not-for-profit local agencies committed to responding to the needs of small and growing businesses by providing a comprehensive range of quality services.

www.cbi.org.uk

The Confederation of British Industry (CBI) helps create and sustain the conditions in which businesses in the United Kingdom can compete and prosper for the benefit of all working with the UK government, international legislators and policymakers to help UK businesses compete effectively.

www.fsb.org.uk

The Federation of Small Businesses (FSB) is the UK's largest group promoting and protecting the interests of the self-employed and owners of small firms. Formed in 1974, it now has 215,000 members across 33 regions and 230 branches. In addition, it is committed to delivering a wide range of high quality, good value business services to members of the FSB.

www.fpb.org.uk

The Forum of Private Business (FPB) was established in 1977 and represents 25,000 UK-based private businesses, which in turn employ more than 600,000 people. Funded by its members, the FPB offers a range of products and services aimed at saving money for members and providing practical help with all aspects of running a smaller business.

www.bdl.org.uk

Business Debtline provides practical advice to callers, backed up by a free self-help pack – designed to help you manage your way through financial difficulties, with advisors providing telephone support along the way.

Additional help and advice can also be found at:

www.natwest.com/moneysense

To find out more click on MoneySense Business Guide

MoneySense for Business provides free impartial money guidance to businesses helping make a real difference to their understanding of money and how to manage it.

www.equifax.co.uk/exclusive-natwest

Allows you to download credit reports on your potential customers, existing customers, suppliers and your own business.

Business Lifeline

Free advice from a team of experienced bankers who will discuss the issues you are facing. They work alongside your Business Manager ensuring you receive a complete service.

Call 0800 158 5977, 8am-8pm Monday to Friday (calls may be recorded).

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Appendix 1

Cash Flow Forecast

Month	January		February		March		April		May		June		July		August		September		October		November		December		Total	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual
	Receipts																									
1	Sales (inc VAT) – cash																									
2	Sales (inc VAT) – debtors																									
3	Other Trading Income																									
4	Loans Received																									
A	Total Receipts																									
	Payments																									
8	Cash Purchases																									
9	Payments to Creditors																									
10	Principals Remuneration																									
11	Wages/Salaries (net)																									
12	PAYE/NI																									
13	Capital Items																									
15	Rent/Rates																									
17	Loan Repayments																									
19	Interest																									
20	Bank/Finance Charges																									
22	Other																									
23																										
24																										
25																										
26	VAT																									
27	Corporation Tax etc																									
28	Dividends																									
B	Total Payments																									
28	Opening Bank Balance																									
C	Total																									
D	Closing Bank Balance (A-C=D)																									

Appendix 2

Aged Debt/Creditors Lists

Date:	January	February	March	April	May	June	July	August	September	October	November	December	Total
Debtors Outstanding													
Up to 2 months													
Up to 3 months													
Beyond 3 months													
Total Debtors													
Creditors Outstanding													
Up to 2 months													
Up to 3 months													
Beyond 3 months													
Total Creditors													
Normal Terms of Trade													
Debtors	45 days												
Creditors	55 days												
Stock													
Ledger Control Record													
Specific Count													
Estimate													
Fixed Assets													
Acquisitions	January	February	March	April	May	June	July	August	September	October	November	December	Total
Deposits													

Appendix 3

Profit & Loss Account

PROFIT & LOSS ACCOUNT

	£		£
Turnover			
Cost of sales			
Opening stock			
Wages and salaries			
Purchases			
Depreciation			
Other costs *			
less Closing stock			
Gross profit			
Selling and distribution costs			
Wages and salaries			
Delivery costs			
Advertising and marketing			
Depreciation			
Other costs*			
Administrative expenses			
Wages and salaries			
Professional fees			
Bank charges			
Depreciation			
Other costs*			
Operating profit			
Other income			
Interest payable			
Profit before tax			
Tax			
Retained profit			

* Other costs include an allocation of expenses such as rent, rates, gas, electric, telephone and sundry expenses.

Appendix 4

Balance Sheet

BALANCE SHEET

	£		£
Fixed assets			
Land and buildings			
Equipment			
Motor vehicles			
Current assets			
Stock			
Debtors and prepayments			
Cash at bank and in hand			
Creditors: Amounts due within one year			
Bank overdraft			
Loans			
Trade creditors			
Accruals			
Corporation tax			
Other creditors			
Net current assets			
Creditors: Amounts due after one year			
Loans			
Provisions for liabilities and charges			
Net assets			
Represented by:			
Share capital			
Share premium			
Profit and loss account			
Revaluation reserve			
Shareholders' funds			

