

Small Businesses Turn to Commercial Finance Brokers

Loan brokers are a substantial part of the residential mortgage market accounting for approximately 45% of all new residential mortgages. However for business owners, consulting a commercial finance broker has until recently been foreign ground; but time constraints and increasing pressures to cut business costs has seen a demand increase for their services.

At the 2004 census 35 percent of the 1.1 million full time small business owners worked more than 50 hours a week on average, whilst 65% worked between 35 and 50 hours a week.

Mr Robert Stevens, Director of Allied Capital, says "Enquiry levels have increased significantly over the past few months, and we expect it only to build from here. The emerging demand has driven us to expand our product range and we now provide commercial financial solutions for equipment finance, business and franchise finance and commercial property finance".

In a survey conducted by Fujitsu Consulting and JP Morgan 41% of respondents said they would prefer to go to a broker, up 6.5% on the previous year.

Mr Roland Palazzolo Owner/ Operator of ASAP Press in Sydney works 70 hours a week, on average, employing 17 staff.

"I've been using a broker for a few years now and I'll never go back to a bank. The level of service that a broker provides is far superior. Every time I've given them a quote they've come back with a better rate and better terms than the banks. In one instance, when purchasing a commercial property, the bank only offered a standard 10 year commercial term. My broker found a solution where I could use the equity from a private property to offset the commercial loan. It wasn't until I went back to the bank and told them about my deal that they were prepared to match it.



Banks these days expect you to do the work for them in finding the best deal and I don't have time for that".

"My broker takes the time to come and see me and understand my business. I know it's old fashioned but there is a level of service that is missing from the banks. These days your account manager at the bank changes within 12 months. They get promoted or they move on; and it takes time to build up a business relationship".

"brokers have come in at a better price than the banks"

"In the early days using a broker was frowned upon; but over the last 10 years brokers have come in at a better price than the banks.

Banks are harder to negotiate with. You feel like you're constantly hitting a brick wall, and I talk to other business owners and you get a feel for what's reasonable".

"I'm going to look at refinancing next year and I'll take it to my broker".

The Fujitsu Consulting and JP Morgan survey showed 68% respondents, up from 47% the previous year, said they would consider refinancing to save money.

Mr Stevens says, "Unlike the residential mortgage market, commercial borrowers often don't re-assess their commercial loans. It may be possible to refinance their business loans at lower interest rates, remove residential security from business loans or improve their cash flow."

Mr Neil Wallis Owner/Operator of Rentquip Mittagong uses Allied Capital for his equipment hire and has improved his cash flow.

"Using a broker is hassle free. Once a line of credit has been established for our hire purchase the paper work goes straight to the broker and they can provide 2, 3 or 4 year term options. We find this option tax and cash flow effective, which is especially important in a capital intensive business".

"I have a good level of service from my broker," says Mr Wallis who has been with Allied Capital for almost two years. "Whenever possible I like to stay with my service providers. My last broker opened his own bank and his service level dropped so I switched to Allied Capital. My account manager understands the equipment hire industry, he has time to assist me and this saves me a lot of time".



Residential and commercial loan brokers operate differently. Most residential loans will fit a pre-existing mould, whereas each commercial loan is unique and requires individual solutions and structuring.

"Most of my new client's are unaware of how much money they can save or how restructuring a loan can facilitate business growth, and it usually costs them

nothing to use a broker as the majority are paid by the lending institution," says Mr Stevens.

"I recently had a client who was undertaking the construction of a large industrial building. A finance

facility, split into a mortgage component and lease for the fit-out, was arranged. We negotiated a lower interest rate; and the funding arrangement provided tax advantages for the client."

"I think more business owners will use commercial finance brokers in the future because of our flexibility and services we are able to provide," says Mr Stevens.

Finding the best fit – How to plan for succession

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Succession planning is a lot more than the latest HR buzz phrase – it is increasingly business critical. So why doesn't it get the attention it deserves?

Goodbye to Telecom's Theresa, and hello to – whom? By now we may know, but Telecom isn't expecting to make the announcement until late June. Nor was it clear who would succeed as leader of another publicly listed company after the resignation of its CEO and the appointment of a reluctant interim CEO who admitted he "didn't want the job".

In part, this is because many organisations don't understand what succession planning is – and there are reasons for that.

How the term 'succession planning' relates to an organisation depends on its size, what its owners or shareholders are trying to achieve, and whether the organisation is in the public or private sector.

In smaller organisations, it generally refers to the development of a financial and people management strategy that will allow the owners to exit, handing over the business to either external investors or to leaders within the business who have managed to accomplish a management buy-in.

Either way succession planning means identifying the talent and abilities of individuals within a business and



figuring out who has the potential, and inclination to succeed current leaders, or keep a business running smoothly for a new owner. And that requires the commitment of the entire management team along with external consultants and advisors. It is not a job for HR alone, nor is it easily accomplished by small business owners who want to exit in a hurry.

Joan Mather, organisational development consultant for Sheffield, says mapping a capable candidate to a specific future job is a narrow focus that will not enable an organisation to close the gap between the current talent it has and the talent it needs. She says the leadership talent challenge is best addressed through implementing a structured talent management system, driven by the CEO and facilitated by HR specialists.

“This can be defined as the selection, development, promotion, and retention of people; planned and executed in line with an organisation’s current and future business goals,” says Mather.

She says potential talent management traps include holding HR (rather than operational leaders supported by HR) solely accountable for developing talent, and senior executives that only pay lip service to the need for talent management. Again, Mather says CEO support is the key – when organisations develop leadership success profiles they need to ensure the leadership attributes they have outlined meet business strategy. Building a pipeline or pool of ready leaders is more successful than matching and preparing individuals with specific future roles, says Mather.

“It can be a mistake to rely on subjective data when making decisions about people and to not take into account potential personality ‘derailers’ when making placement and promotion decisions. Development programmes that are one dimensional will not necessarily tell senior managers enough about individual potential – a mix of development options including classroom, targeted projects, new challenges, coaching, and ongoing research is a better approach,” she says.

Succession planning well understood or executed in the small and medium business sector, says David Irving, chairman for small business incubator organisation The Icehouse. Irving says the biggest obstacle to small business succession planning tends to be an owner manager who knows everything about

the business and is having trouble with the idea of letting go and handing the business over to internal or external investors.

Small businesses need to develop more strategic behaviour and different leadership skills, and the business owner may not be the person most suited to do it.

“When you are on the inside, [small business] succession planning looks terribly difficult, but from the outside it’s not that difficult at all. The first thing I would do is get a small business advisor able to look for the people who have the capability to take the business on. Sometimes those people exist within the business and haven’t been grown properly; sometimes they may need to be bought from the outside. The next thing is how the business owner is going to get his money out and what he wants to do with his life going forward,” says Irving.

Martin Brennan, area manager for Westpac Business Banking, says many small business owners have a relaxing Christmas then turn up to work in the New Year and say they want to get out as soon as possible. He says that’s a pity, because successful succession planning tends to start with the question ‘where does the business want to be in three to five years, and what does the owner want from it’, and go from there.



“Where a business owner wants to be in three to five years clearly has an impact on how a bank will structure the finances of the business, and how it will help the business to meet its succession planning goals. Everyone should be planning for an exit even if they not planning to go; it’s simply about putting the infrastructure in place,” says Brennan.

10 Steps To Succession Planning

- 1 Clearly identify business goals and strategies for the future – this helps to determine quality and quantity of talent needed.
- 2 Build “success profiles” for key roles and levels and check capability in relation to current and future business goals.
- 3 Determine the talent gaps – what and where? Once you know the kind of leadership talent (“success profile”), you need at various target levels, eg, strategic, determine how much talent you need at this level.
- 4 Identify your “high potentials”. Consider current performance – high performance in current roles is a prerequisite. Then determine which individuals have “potential” – those with most promise who will take best advantage of the development investment. Create a “talent” or “acceleration” pool, made up of the people who meet criteria at various levels within the organisation. Communicate the criteria for staying in the “pool” eg, ongoing performance, living the values of the organisation.
- 5 Assess readiness for leadership transitions. On an individual level, ensure a number of assessment options are available eg, “a day-in-the-life” behavioural assessment. At the organisational level, a “talent audit” will assess groups and indicate capability to execute the desired strategy.



- 6 Accelerate development by giving individuals feedback following assessments, agreeing clear development goals and providing the right amount of support and coaching.
- 7 Drive accountability for talent management through your performance management system. Think about linking achievement of talent development goals with variable pay incentives.
- 8 Sustain a high-retention environment to reduce the risk of losing great talent locally or globally.
- 9 Keep it ongoing! Talent management is not an event. It's a process that must continually deliver the (sometimes changing) mix of skills and capabilities that will help the organisation achieve its goals.
- 10 Communicate your talent management successes.