

Relationships with Banks – CAMPARI

One of the old (but still valid) models used by banks to evaluate lending propositions is CAMPARI. This model looks at a range of aspects associated with lending which covers not just the finance that is being sought but the people who are seeking it.

A refinement on CAMPARI is **CAMPARI & ICE** which adds additional dimensions:

Character – Do we believe the management team to be open, honest and trustworthy?

Ability – What relevant skills, competencies and experience do key people have?

Management – How will key activities be organised and how will progress be tracked?

Purpose – Is there a clear business case for the stated use of this advance?

Amount – Is the amount being asked for reasonable and sufficient in the circumstances?

Repayment – Financial assessment of source and timing of repayment plus key risks?

Insurance – What is our security should things not proceed as the management forecasts?

Income – How profitable is the advance bearing in mind associated costs and risks?

Connection – What other sources of income might be at risk if we do not lend?

Ethics – Are there any ethical or environmental considerations that need consideration?

For banks to lend at all, risks need to be small. If a bank charged say 4% over cost of funds (Base Rate or LIBOR) and if you completely ignore the costs associated with risk assessment, monitoring and managing the relationship (which are proportionately more expensive for smaller borrowings) it is obvious that if even 1 in 25 advances is not repaid then the bank will lose money.....

CAMPARI covers a range of intangible aspects (value drivers) like:

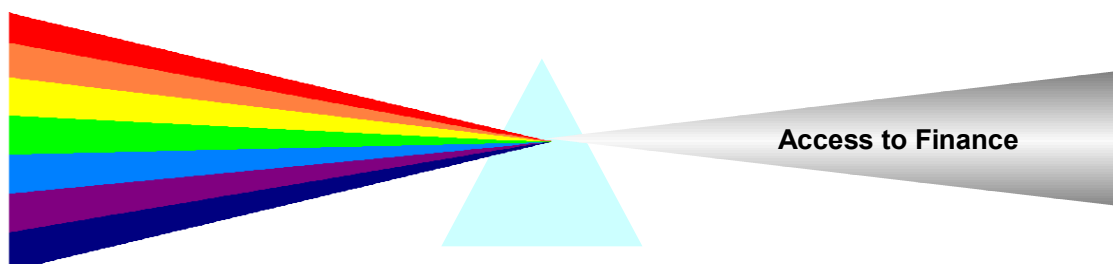
- relationships and obligations
- knowledge and experience
- leadership and communication
- reputation and trust
- culture and values
- skills and competencies
- processes and systems

It is the combination of these intangible value drivers (represented by the rainbow), brought together by the organisation (represented by the prism) which drive the credibility of business plans and financial forecasts (the story submitted to the bank for evaluation) hence “Access to Finance” or “Decline of Finance”.

Intangible Value Drivers

The Story

The Evaluation



Access to Finance – CAMPARI & ICE Evaluation

Character – Do we believe the management team to be open, honest and trustworthy?

Ability – What relevant skills, competencies and experience do key people have?

Management – How will key activities be organised and how will progress be tracked?

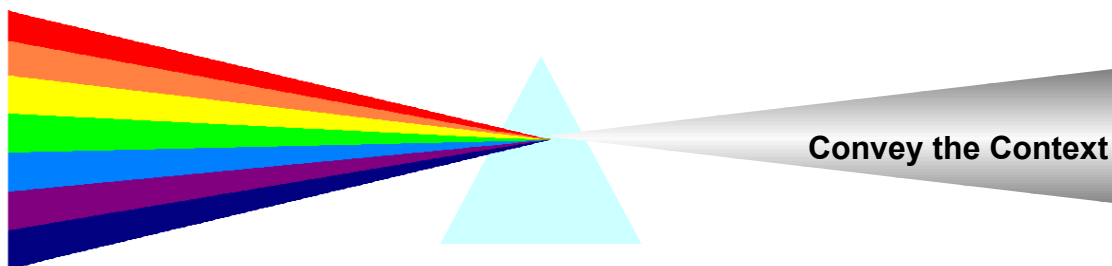
In negotiating borrowing from banks it is worth bearing in mind that the banks' primary and ongoing concern is to assess the ongoing health of the business, hence risk. Looking at the numbers represents only a small part of the process that banks need to go through, if the relationship manager does not understand the nature of the business or if they do not trust or believe the picture of the business that is painted for them then problems are likely to arise. It is also worth bearing in mind that the relationship manager acts as your route to head office credit functions within the bank, they need the right information and they have their own reputation to consider. Once confidence is lost in the ability of the business to achieve its plans and forecasts it becomes very difficult to restore.

Failure to provide your relationship manager with the right package of information to satisfy this Branch / Head Office relationship or building a history of broken promises, both damages your relationship with the relationship manager and potentially his / her credibility with Head Office in terms of the management of your account.

The Relationship Process

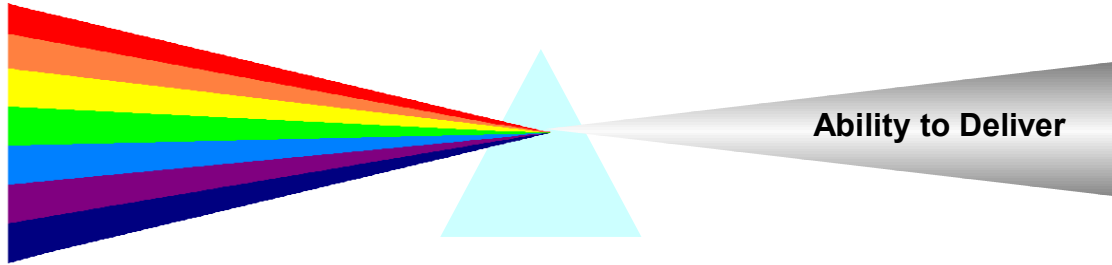
Relationships are based on knowledge and experience so understanding the management track record and the way in which the business currently operates are important reasons why a good dialogue is important. Try to ensure that the relationship manager “sees” the business, remember: “A picture is worth a thousand words” and provide a package of information that ensures that the bank has the correct picture of the business rather than relying on an incomplete and possibly inaccurate perception. Provision of the following may help the relationship:

Historic Context



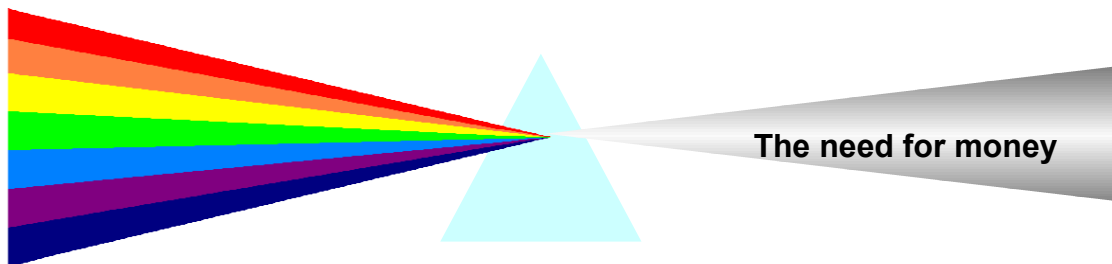
History is important, how long has the business been going, what are the key skills and competences that have been developed to sustain the business. What are the key factors which have allowed the business to get to where it is now – key personnel, suppliers, customers, resources etc. Where is the business located and why? What is the USP (unique selling point)? Which market niche is the company aiming its products at? What IP (intellectual property – patents etc.) exists? Who are the main competitors? How large or influential is this organisation compared to its main competitors? What trends are evident? What is the track record for innovation? What problems and risks remain to be solved? What contingent liabilities remain?

Management



Openness, honesty, qualifications, access to expertise, network of contacts, experience, judgement etc. are all important in considering Character, Ability and Management. Consider providing CV's for the key people, particularly those involved in delivering crucial areas of the business. Leadership is important and the top team needs to demonstrate that they share a clear view of where the business is heading. What is the Vision? What are the key objectives? What are the key problems to solve? Where are the opportunities to seize? Occasionally businesses benefit from an autocratic style but more usually there is a need for balanced judgements which take into account differing views and priorities. Businesses can be viewed as a portfolio of activities, some aimed at designing and delivering products and services, some more to do with delivery of supporting activities such as credit control, recruitment, contracting etc. You can't expect all managers to be experts in all things but you do want to know that all the important bases are covered. Who owns that business as opposed to who runs the business?

Purpose



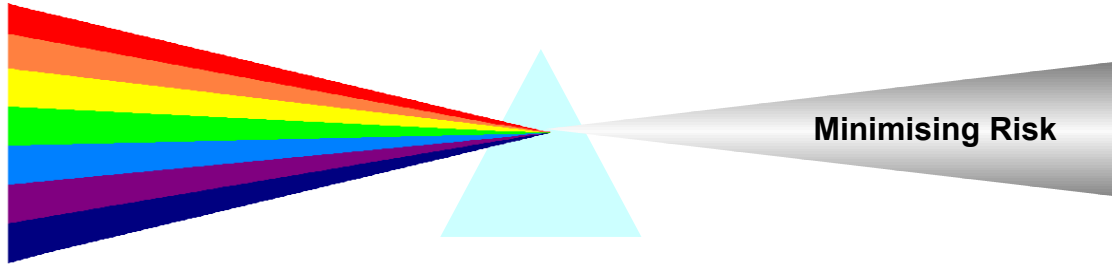
Purpose – Is there a clear business case for the stated use of this advance?

Amount – Is the amount being asked for reasonable and sufficient in the circumstances?

Repayment – Financial assessment of source and timing of repayment plus key risks?

Lots of businesses need money but unless a value proposition can be constructed which satisfies both borrower and lender the money will not be forthcoming. The search for external finance is covered by the term "hard credit rationing" and the process of assessment covers: How will the money be used? How do we know that it will be used for this purpose alone? Does the financial need appear to have been correctly calculated bearing in mind the business context and projections? What sort of management information will be available to keep us informed of progress? Do we trust the quality and timeliness on this information? Are we satisfied that this business will be able to meet its liabilities including repayment of its borrowing as they fall due? - Issues of profitability, liquidity and cash generation. None of the above should be of any surprise to management used to making internal decisions on the allocation of resources "soft credit rationing" between competing projects.

Insurance



Insurance – What is our security should things not proceed as the management forecasts?

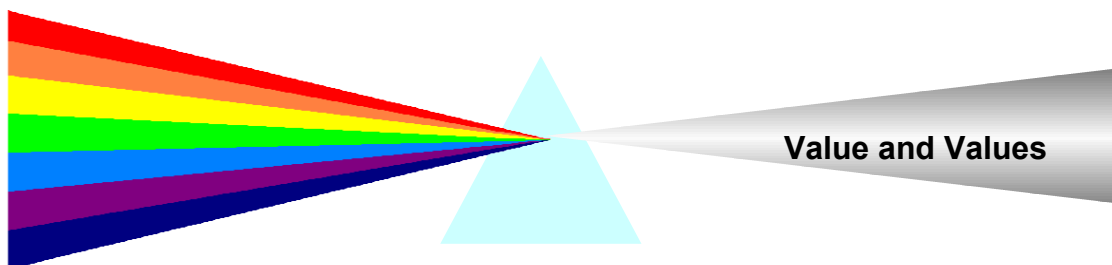
Some risks can be transferred using insurance, others can be avoided or minimised but some have to be accepted. Banks will seek to assess the key risks facing the business and check to see how these are being managed by the organisation. Are key people insured? Are insurance policies in force? Are interest rate and exchange rate risks managed?

In considering risk, the banks will want to be satisfied that the organisation is sufficiently capitalised to withstand and shocks arising from any of these areas. Gearing - the extent to which the business is financed by risk capital as opposed to borrowed money is an important consideration. Where the banks feel that there is a disproportionate reliance on debt rather than equity they will seek “quasi equity” such as directors (shareholders) guarantees. Banks will also seek to secure their lending in order to ensure repayment irrespective of the organisation meeting its cash flow projections.

Directors’ Guarantees

More usually Guarantees from Directors are in reality Guarantees from the owners (shareholders) of the business. Generally, where a business is considered to be undercapitalised, banks will seek guarantees rather than seeking additional equity. Guarantees are also considered useful in deterring management from taking undue risks as in effect they become personally liable. The best way to manage risk is to ensure that the business has the right people and resources to ensure a profitable and sustainable future.

Profitability



Income – What is the profitability of the advance taking into account associated costs?

Connection – What other sources of income might be at risk if we do not lend?

Ethics – Are there any ethical or environmental considerations that need consideration?

Some banks take particular interest in ethical and environmental considerations others less of an interest but no-one will want to become involved in any activity that is likely to be damaging to their own reputation.