

January 2012

Staying Connected

For the Alumni of the ECCB
Savings and Investments Course

YOUR FINANCESYOUR FUTURE

YOUR FINANCIAL NEWS

pay off my
high-interest
debt

choose to
succeed

take a class to
learn a new
skill

write that novel
that I have been
walking around
in my head for
years

**This Year
I Will**

invest wisely;
considering my
goals, risk
tolerance and time
horizon

Set
SMART
goals for
my future

move from
business idea to
business owner

live within
my means



“We’ve been broken down to the lowest turn

Bein’ on the bottom line, sure ain’t no fun...

The only way is up, yeah, for me and you now

The only way is up, baby, for me and you now...

Life makes you raw but we can take it, ah...

I truly know we’re gonna make it.

“**The only way is up**” (excerpt)
by **Otis Clay**

You may have hit bottom in 2011 - lost your job; depleted your savings; lost your self confidence and feel a little beaten down.

Just consider that when you are at the bottom, the only way to go, is Up. This should put a positive spin on your situation. The

question therefore is – Remember, when you hit What are you doing to the bottom, the only way is push yourself Up in 2012?. Up.

I am a believer in the African proverb **“If you don’t know where you are going, any road will take you there.”** Hence, going Up in 2012 is not about mindless starts and stops. It is about focused planning and action to achieve your goals. **That’s how you get Up; that’s how you go Up; and that’s how you stay Up!**

So what is your plan for your life in 2012? It might sound cliché, but this saying is so true; “If you fail to plan, you plan to fail.”

Believing in your self and seeing the bottom (ground zero) as a vantage point to chart a new direction with a clearer sense of focus and purpose is the first step to turning your fortunes around in 2012.

So if you lost your job and have become despondent from the many rejected responses to your job search, why not reflect on the skill gaps you have and then attend a class or workshop that will enhance your current skill sets. In so doing you will become more marketable in this tight job market?

If your business fails, see this as an opportunity to learn from your mistakes and move forward. In the words of Henry Ford, **“Failure is the opportunity to begin again more intelligently.”**

Sometimes holding on to an unsuccessful business or career is the obstacle to starting a new business or career that has a greater potential to succeed. [SLW](#)

On Your Mark, Get Set—GO...AL?

My Needs, My Life



In 2012 I want to
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To achieve this I have to
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My Needs, My Life



In five years I want to
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To achieve this I have to
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My Needs, My Life



In ten years I want to
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To achieve this I have to
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My Needs, My Life



In twenty-five years I want to
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To achieve this I have to
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TIP: Your one year goal (s) should be linked to your five year goals. In turn, your five year goals should be linked to your ten year goals and your ten year goals to your twenty-five year goals. For example, if one of your twenty-five year goals is to reach retirement age without long-term debts, then make sure that your goal to own your own house in five years do not have you contracting a long-term debt e.g. a mortgage, that extends into retirement.

Answers From Your Banker to Your Business Questions

Interview with Deverson Warner, Account Executive, RBTT, ST. Kitts

How does the information required for a commercial loan differ from that required for a personal loan?

Well I can tell you that the assessment is different and this determines what is required. On the personal side, normal lending guidelines will require two pieces of identification, a job letter and salary slip. This is basically to validate employment status, length of employment and remuneration. We will also require evidence as to the use of funds. On the commercial side, a bank needs to ascertain that the business is licensed and registered.

In St. Kitts and Nevis, we have a lot of businesses, especially on the small business end, that operate for years and are not licensed. From a banking perspective, we cannot lend to businesses that are not licensed.

If it is a company seeking financing, it needs to ensure that it is licensed and registered in St. Kitts and Nevis, because that brings into bear the question of off-shore accounts. We also need to know who are the principals of the company and this is to satisfy anti-money laundering legislation– “Know Your Customer”.

We also need to know what industry the business is in. This is key, because different industries have different risk ratings. And the level of risk is one factor that helps to determine the applicable interest rate.

Of course we are going to need financial statements - profit and loss (*aka income statement*), balance sheet and cash flow statement. A business plan would usually support this request and details the purpose for which the loaned funds would be used.

What information is key in preparing a business plan?

First and foremost, the applicant must do his research on the industry and markets that he is in or plans to enter. He must identify who is his target market; who is his competition; why would a consumer be more attracted to his product or service than to that of an existing business and what is different about his business.

If a client approached a bank for a \$20,000 loan to be used in his small business (e.g. a restaurant) and he does not have financial statements, would he still be able to get the loan?

The absence of financial statements does not mean that the bank will not lend. What it means is that the approach in assessing the application will be different. The bank will assess, at the very least, his bank statement. The bank needs to look at the client's historical banking information. So for example, if we use January 2012 as the application date, the bank will need banking information for 2009, 2010 and 2011. The bank will use this information along with information gleaned during consultations with the client to ascertain the level of deposit activity and gain a better idea of the client's income and expenditure.

It is through these consultations that we would say to the client, for example, *‘We realize you usually deposit \$500 a week, which equates to \$2000 per month, so what do you spend that 2000 on?’* The client may be paying rent. When we sit with the client and itemise income and expenses, we would be able to assess whether the client is making money or is making a loss.

In the case of a start-up business that has no historic information, how would the bank assess the application?

This goes back to what I have been saying earlier about the importance of having a business plan. The bank needs this to make an assessment. In addition to the financial statements, the business plan must also identify the risks associated with the new business and industry and the plans that would be put in place to mitigate and/or cover the risks. It must be able to identify the competition, the products the business would offer and how the entrepreneur's products or services would be different from the competition. As a banker, one of the questions I would ask the client is, *'Why should I come to your business rather than go to an existing business that has been operating for ten or fifteen years?'* The client should be able to answer convincingly - *'My product is slightly different because of this. People will come to me because of that.'*

The advice I always give to clients is that when they are preparing a business plan, they must ensure that for everything they write in the plan, they ask themselves, why and how. This is key, because that is what, from a banking

perspective, we are going to ask. If a client tells me his business is going to be No.1, I will ask, *'How?'* If a client talks about quality customer care, I will ask, *'How?'* *'Why would this start-up business be at the forefront as opposed to an established business in operation for five or ten years?'* What I have found is that many clients cannot answer the *'How'* and *'Why'*. We know that one can go on line and download a business plan - It is a cut and paste. However, that is not adequate. A business plan must clearly articulate the business owner's strategy and vision within the context of the operating market and conditions.

You mentioned the restaurant business as an example. The risk for this sector is extremely high. Most entrepreneurs who start a restaurant fail, so, if a client is going into the restaurant business, he has to demonstrate that he has done adequate research and that he understands the business challenges. He must know specifically who he is targeting. He can't simply plan to open his doors and wait to see who is going to patronise his restaurant. He must know his product mix and who he is going after - It must be that *he is going after this sector because his*

products and services are aligned to this sector. Then he has to tell us how he is going to get those persons who he is targeting to patronise his restaurant. What is he offering? How is his quality of service going to be different from that of competitors? What level of sales is he projecting and are these projections substantiated?

One key thing I don't see, especially among small businesses, is a willingness to align themselves with other small businesses. They seem to view all other businesses as competition. However, businesses that don't sell identical products can and should piggy-back off each other. That is something that can do well for small businesses, especially in a small economy like ours.

For example, if a small business has a supermarket downstairs and space upstairs for leasing, that business owner can consider leasing his upstairs to someone who is looking for restaurant space. They both will benefit from each other's customers. The supermarket can also serve as supplier for the restaurant. Small businesses need to work together as opposed to working against each other.

What should a business owner do if he finds himself in a cash flow crunch and is temporarily unable to repay a loan?

He should pick up the phone and call his banker. As simple as that seems, most clients do not do this. I think we have a culture where if something is wrong, we tend to hide or cover it up. Let me make it clear that business owners should be on top of the financial aspects of their business, so, it should not be that they find out when it is too late that their sales have deteriorated. I must also note here that a business owner should be having regular dialogue with his banker. However, from the first time sales are not where they are suppose to be or the business is spending more than it is taking in, the banker should be contacted.

Let's say for example that a business owner switches the nature of his business three times in the past six years — from a restaurant to a clothing retail store to a small grocery outlet. Would a bank look unfavorably at this person as a client.

Not necessarily. This may indicate that the client is proactive. Dialogue between the banker and the client is important in formulating a perspective of the client's prospects. The discussion with the client would include such questions as *'Why did you*

switch business operations after only two years in the restaurant business? Did you explore these options?' If the client explored these options and saw that the market was declining, then that is the sign of a proactive client. The follow up question would be *"Are your skill sets aligned with this new business venture."*

Not willing to give up can be a good quality in a client. We do have clients who have had a temporary set back and just throw their hands up in the air. The relationship between a bank and its clients is a partnership; the bank does not want the client to fail and the client should not want to fail. So a client that is willing to switch business interest to a more potentially successful business is a proactive business owner.

What factors would make a small business owner able to secure the best interest rate on his loan?

A rate takes several factors into consideration including the risk of the transaction, the market vulnerabilities in which the business operates, the experience of the client, the nature of the client's business, how long the business has been in operation and the success of the business. For example, you would have given the example

of the client being in the market with three different businesses over the space of six years. Now, while this may show that the client is proactive, his loan application may attract a higher rate because his business history indicates that the success factor is short-lived.

What advice would give to prospective entrepreneurs, particularly in this challenging economic climate?

Do your research. One must not get caught up with the word research and think that it must entail a complex feasibility study and a lengthy research document. Research can be simple as assessing the level of foot traffic in the area being contemplated as the location for a new business. If an individual wants to open a business on a particular street, he should go to that area months in advance and observe the number of persons who pass by. This will give him a more informed view as to whether this is the best location for his business. He should also ask persons who are in similar businesses and persons who have failed in that business. In this way, the prospective business owner would be able to ascertain the success factors as well as the pitfalls and how he can put things in place to avoid the pitfalls and capitalise on the successes. ●