

Access of Small Business to Finance

Senate Committee Inquiry Submission

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Background

- I regard myself as an authority on access of SMBs to finance.
- I have helped install financial systems into over 50,000 SMBs.
- Co-authored several publications on SMB improvement strategies.
- Over the past 2 years I have been in discussions with banks, non bank lenders, accountants, SMBs and others on this subject.
- Attaché has developed a free business review process and new financial software to help address the issue.

Who is Attaché?

- An Australian owned financial software provider, typically to SMBs with annual sales of between \$1 million and \$10 million – the major contributors to future growth.

Recent Attaché survey on access to bank finance

- Only 24% say it's now easier to access bank finance (March 2010).

Our view:

We can talk about access of small business to finance and how lending rates have risen, but we also need to address these three fundamental issues:

1. Inadequate financial statements to support finance applications

Every banker and other lender I speak to say most loan applications have totally inadequate financial statements to support their request.

This results in most not getting past 'first base' or at best, a game of 'pass the parcel' over the coming weeks or months between the bank relationship manager, bank credit risk department, the SMB and their external accountant.

An inefficient process which doesn't help anyone.

2. Need to monitor the business once finance is provided

If a loan application is successful, regular assessment of the borrower is also inadequate i.e. usually the annual accounts six to nine months after year end.

The chasing by the lender to get this can see threats that unless they back off, their accountant might recommend other lenders to their clients in future.

At best a wasted effort to get accounts of little value to anyone. At worst, the business goes into the 'credit hospital' and expensive forensic accountants are called in when closer monitoring could have avoided this.

3. How much finance does the business really need?

Will the funding grow the business or is it supporting inefficient management? Business improvement strategies should be investigated first.

For example, better debtors, stock, expense and sales management might reduce the funding required, plus improve the ease of getting it because of a better credit risk profile, improved liquidity etc.

Funding of inefficient businesses does not help anyone.

Our submission:

Businesses should review the adequacy of their financial systems and look at business improvement strategies, before they seek improved access to extra funding. Accurate, timely and reliable financial software for both:

A. Running their business

Ideally with real time dashboards that provide management with a clear view of what is happening in the business on a day by day basis i.e. not reliant on printed reports, spreadsheets etc.

B. Supporting finance applications and subsequent monitoring

Ideally with the ability at any time to electronically export summarised financial data into credit risk software and business benchmarking tools.

Ideally with features to also assist non mortgage lending with security over debtors, stock, assets so SMBs have finance that grows with their business.

If businesses and lenders adopted such financial software, it would result in:

- Better run businesses
- More efficient loan application and monitoring processes
- Lower credit risk for lenders
- Lower interest rate for businesses

Attaché's experience:

Attaché's knowledge gained from thousands of SMB's, has lead us to develop an approach that assists SMBs in accessing finance.

We believe most SMB's have inadequate financial systems - usually an entry level accounting package, a number of spreadsheets and other separate systems.

These businesses are unable to produce accurate, timely and reliable financial reports for themselves let alone provide them to a lender.

We also believe most business owners lack confidence in financial systems, so they abdicate responsibility, remaining ignorant of the benefits, when research shows IT savvy businesses are typically 20% more profitable.*

** IT Savvy published by Harvard Business Press / research of 1,800 firms in 60 countries.*

Our new educational process:

In April we will launch an education campaign that includes:

- New financial software (Attache Accounts All-In-One) that has all the systems a typical SMB needs such as financial accounting, payroll, business intelligence dashboards, customer relationship management.
- A potential savings calculator at www.attachesoftware.com where business owners can enter their own figures.
- A free review on the benefits intelligent business systems could bring to their business.
- Pay-as-you-use pricing, with a money back guarantee, so businesses don't have to make an expensive decision.

We believe it will help their access to finance by:

1. Reducing the amount they need

Savings of 10% of annual sales may be achievable. That's \$400,000 for a \$4 million business.

2. Improving their credit risk profile

Results in improved liquidity and other financial score cards.

We are happy to discuss this further at a Senate inquiry and work with any interested parties.

Mike Rich