PINNACLE
Business Finance

finance business plan

#findingtherightfinanceforyou

2022

A series of five business plans

About us

Pinnacle Business Finance offers a full compliment of financial services, with a personal feel and national coverage.

We are an ambitious team with a wealth business funding experience.

Now is the time for planning to become prepared as we enter the next phase of the economy.

This series of five guides are aimed at helping business owners and decision-makers to become finance confident as they navigate a changing and uncertain envinronment.

These will guide you through the five important aspects of business finance:

01

CONFIDENCE TO PLAN

back to index

The business world that is emerging

We are now entering the recovery phase. Many businesses have taken advantage of the recovery loan scheme. No matter what sector of the UK economy you operate in, you would have felt the effects of the pandemic. This may naturally make you have felt uncertain about what happens next.

In a series of 5 guides, we will be offering some help and guidance in how best to approach business planning, managing your finances and securing the right finance for your business. Above all, the single most important aim of these guides is to help you feel confident, that you can make your business plans a reality.

That doesn't mean taking an unnecessary risk. Confidence comes from having the facts and making informed business decisions. With that as our foundation, we as business owners can do what we do best, be entrepreneurial.

Keeping your finger on the pulse

Carefully chart the time it will take for sales to build.

Once you have your expenses mapped out and your sales forecast, you can build a cash flow forecast, so you know what is coming in and what is going out over time.

This is your starting point. It means running some scenarios and asking some key questions. For example:

"What will my working capital requirement look like if the business is to grow by 5%, 10%, 25%, 50%, 100%?"

"What will my working capital requirement look like if the business is reduced?"

"What further working capital will I need in order to meet the objectives in my business plan?"

"How can I accelerate obtaining money from my customers to boost my cash requirements?"

"What are our options in funding any shortfalls?"

Your cash flow forecast is probably the most important report you will have at your disposal. Keep feeding it with real data and keep asking the "what if" questions to see how it will change.

Being finance confident will keep you business confident

In our next article, we will be looking at cash flow mastery - maximising the cash coming in and controlling it going out.

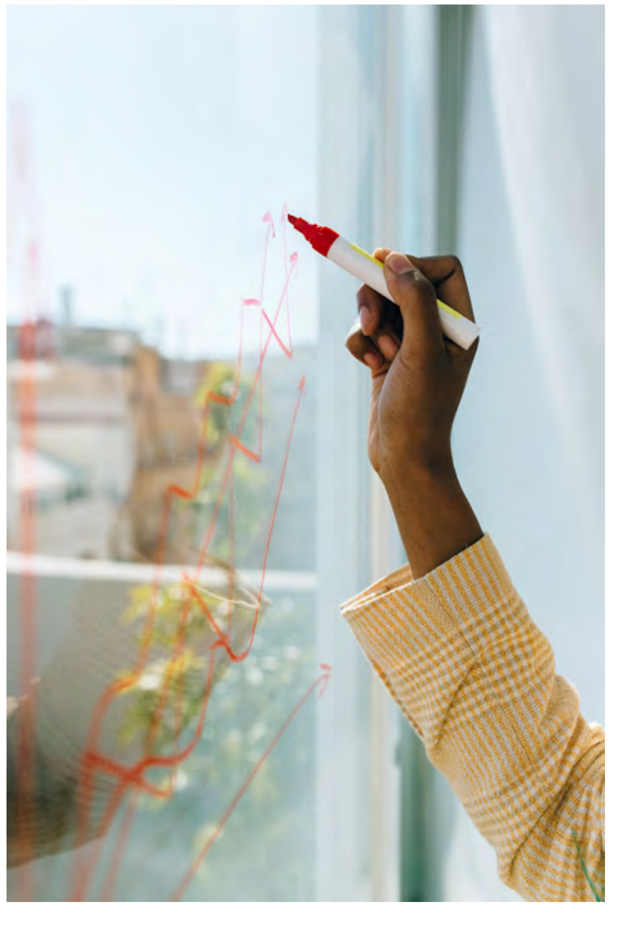
Manny business owners think they are at the mercy of their customers' payment habits when it comes to managing cash. But there is a lot that can be done to prevent this by staying on top of your cash flow - the springboard to enable your business to thrive.

Business planning and cashflow forecasting

Being finance confident starts with knowing you have the cash you need to move forward confidently. But how do you start?

The best way to start is to create a list of everything you will need to spend money on and to chart when you will need to pay for it.

Next, you need to work on the other side of the cash equation, the sales forecast, to marry what's going out with what's coming in. The bywords for all of us here are to be both confident and pragmatic.



Now is the time for planning to become prepared as we enter the next phase of the economy.

This series of five guides are aimed at helping business owners and decision-makers to become finance confident as they navigate a changing and uncertain environment.

These will guide you through the five important aspects of business finance:

back to index

02

CONTROL CASHFLOW

There is an old maxim that cash is king. Much of our confidence to plan and lead our businesses forward comes from knowing that cash is going to be there when required.

Late payments are never going to go away regardless of any prompt payment initiatives or legislation. If a customer does not pay you on time, they are in effect using your business as a source of business lending without your permission.

Making sure your cash stays with you

Minimising late payment starts with having the systems and processes that will get the money to you as soon as possible. Those processes start way before the point of collection. In fact, it starts with research, processes and contracts that can make a huge difference.

So, let's look at some of the practical steps you can take today to power up your cash flow.

Find the 20%

20% of customers buy 80% of sales as a general rule. So, identifying that 20% put the most money into your bank account is important. If they pay on time, then we are getting control straight away.

Spend time with these customers and get to know them well. Obtain good credit agency reports to indicate the right level of trade credit. Get to know customer's payments staff and cultivate a good relationship to ensure you get priority treatment.

For the 80%

To make sure you have all the contact details of everyone involved in paying your invoices. In addition make sure you have good systems in place to keep your account management cost-efficient and effective.

Have your terms and conditions front and centre

Remember that a sale is not a sale until it is paid for. Therefore, whatever credit terms you grant is part of that sale negotiation. it is your gift to give.

Put your terms on order acknowledgements because this will ensure that your terms prevail. Send it to a named person and send it promptly. Also, put your terms on account applications and on invoices and statements. It's professional and ensures you are doing business.

Be thorough in opening new customer accounts.

Rushing to get a sale without the proper checks could cause problems down the line. Any customer should expect credit to be granted on application and to also have credit checks undertaken. It's professional and simply good business practice.

Be quick with invoices

Get your invoices out of the door and into the hands of your customer's accounts teams as quickly as possible. That way it enters the payment process promptly. Send it to named people. Make sure it has arrived, make it clear, accurate and explanatory. Include your payment terms, due date, delivery date and method, description, price and total payable and the order number.

If you are issuing invoices electronically (and most of us do now), make sure customers know this is how they will arrive and to whom they will be sent. It is important to protect the authenticity and integrity of the invoice when sending it electronically. So, send it as a PDF attachment and/or write it into the email itself.

Don't let debts get old

Make sure you keep a list of your debts. This is called an Aged Debt Analysis and is an essential rolling document to tell you what is happening with your cash. List the debts in order of time outstanding and refresh them regularly to use it to plan your collections tactics for each debt.

Be a confident cash collector

The reality is that a customer either has the mindset to pay on time or they don't. if they don't, they will need to be chased, reminded, or in some cases threatened with action.

Endlessly emailing will not work as it can be avoided. Use the telephone to your advantage or make personal visits (tricky at the moment in some cases but worth bearing in mind).

Remember you can put someone on a Stop List and frequently this can act as a jolt especially if your goods and services are critical.

Make sure your sales and accounts teams work together to negotiate and work the customer relationship. be polite but firm and professional.

Have an escalation process if the customer does not respond. This will vary for different businesses. But the most important aspect of the process is that you are never bluff. carry it out with professionalism and conviction. Always have in the back of your head that you are being used as an unofficial banker - it clears the mind!

And finally, don't forget to pay on time yourself

Late payment is like a line of dominoes toppling over. We can all help break this chain by having a prompt payment policy. Especially now when supply chains are stretched, a reputation as a good payer can make all the difference to your competitors. Your professionalism will be repaid by suppliers pulling out all the stops when you need them to. Also, when your cash flow is stretched they may be able to extend your credit terms because they know you will pay them on time.

Be prepared to be finance confident

In our next article, we will be looking at what you can do to prepare before you approach funders. Getting the right funding outcome will be helped enormously with a little bit of preparation.

Now is the time for planning to become prepared as we enter the next phase of the economy.

This series of five guides are aimed at helping business owners and decision-makers to become finance confident as they navigate a changing and uncertain enviroment.

These will guide you through the five important aspects of business finance:

03

CREDIT CHECKLIST

back to index

What to do before you contact Pinnacle

When starting your funding journey and you are thinking of the funding options available, it's important to be prepared. We understand that it can feel daunting not knowing what the best finance option is. You could be wanting to support cash flow because of business growth or finance for a commercial property. Having basic information to hand such as business bank statements or annual accounts is a great place to start. This is because it allows the broker at Pinnacle to make an initial assessment of where you are on the funding journey.

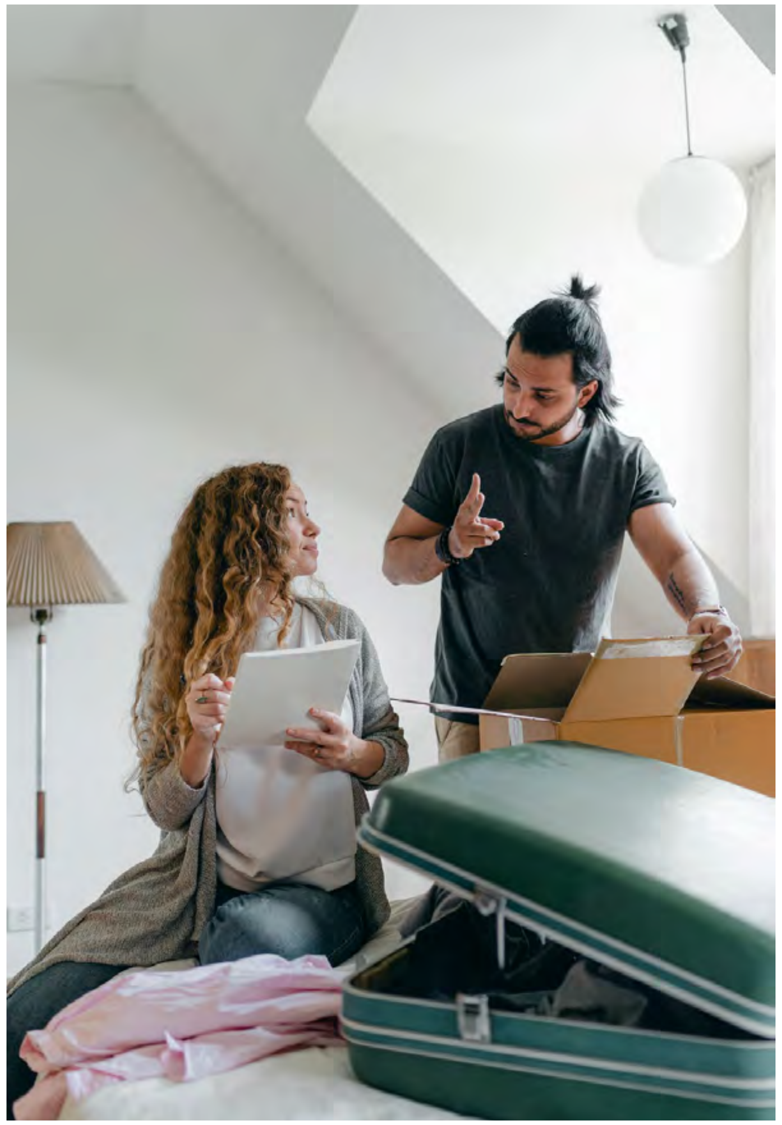
A great place to start is how we will assess the business by going through the 5 C's.

Character, Capacity, Capital Collateral and Conditions.

Preparing the financial information

We will work with you to collate and present the information in the best possible format when applying for finance. This will allow the lender to make a quick assessment of how they can support themselves financially. Having an accountancy package such as Xero or Sage is an asset. It allows you the business owner to download reports to give the most up to date financial position. If we can look back over historic business performance, we will be able to make a judgement of the funding amount available.

Having business bank statements, annual accounts and or management information such as profit & loss and balance sheet information is a great start. Depending on the finance product you need, will alter the information required. Of course, we will work with you to collate the information at the start of the application to make the process as seamless as possible.



Business funding options

In the next article, we will be looking at a sample of the funding options available to UK businesses.

There is a wealth of finance options available. It's more important than ever to find out where you are on the funding journey.

Now is the time for planning to become prepared as we enter the next phase of the economy.

This series of five guides are aimed at helping business owners and decision-makers to become finance confident as they navigate a changing and uncertain environment.

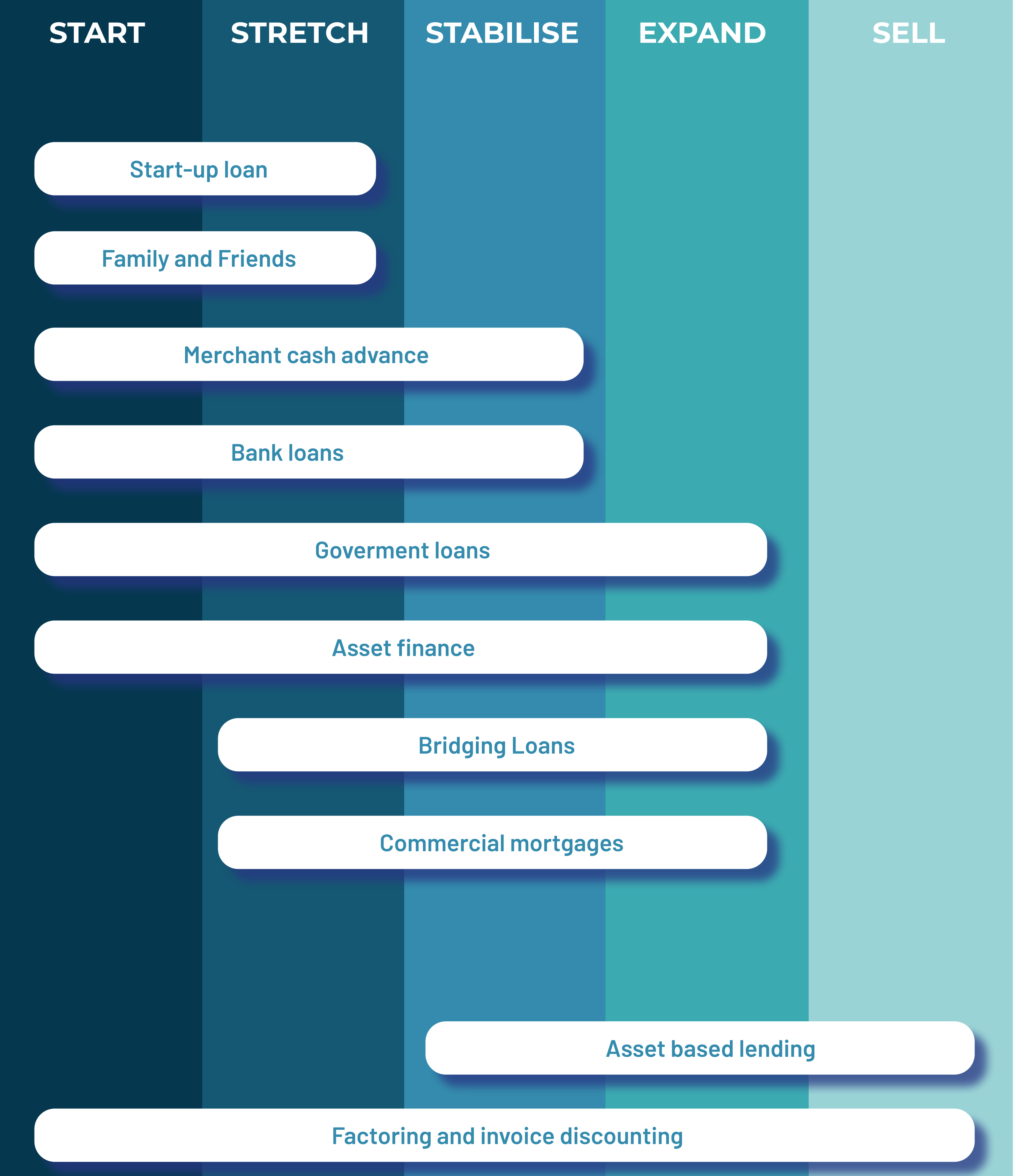
These will guide you through the five important aspects of business finance:

04

CHOICES

back to index

FInance options suitable for each stage of development



There are many different types of finance that work in a variety of different ways and that will have different roles depending on the stage of development of your business:

Start - When you have just opened the door and are getting yourself established. Cash flow is going to be key as you move into the rhythm of your business cycle.

Stretch - Having gained a stronghold in your market you will be looking to grow as fast and as safely as possible. This can stretch cash flow and see you need to invest in new key assets to springboard further growth.

Stabilise - As a mature business you will be looking at building a market leader. This could mean creating further scale, or it could mean developing niche or specialism. Whatever route you take you may well be looking at specialist skills and assets that will drive your competitive advantage.

Expand - Maturity may deliver the opportunity to acquire other businesses. Whether you are looking to build market share, open up new territories or strengthen supply chains, you are probably going to need cash beyond the level that the business can deliver through trading.

Sell - Founders will at some point wish to exit the business. this can open up the opportunity for the management team or new entrants to take over the reins. Finance will be important to allow this transition to happen seamlessly.

There are no hard and fast rules as to what type of finance should be used at what stage. In fact, what types of finance should be used together? It all depends on circumstances and objectives.

Therefore, it is always important to get impartial, independent, expert, advice from the team at Pinnacle Business Finance.

The following is an introduction to the many types of finance available. With an indication of the stages of development where these may be applicable to help you chart your way around.

Asset finance

Start/Stretch/Stabilise/Spend

Asset finance is used to obtain equipment or vehicles for your business, such as office equipment, plant and machinery or company cars. It can offer a flexible alternative to a loan, providing cash flow and tax benefits. The two main forms of asset finance are leasing and hire purchase. With leasing, the leasing company buys and owns the asset. The customer usually has a choice of extending the lease or simply returning it. Hire Purchase is a financing solution for companies wishing to purchase business assets. On completion of the agreement, ownership of the asset transfers to the customer.

Asset based lending

Stabilise/Spend/Sell

Asset Based Lending is a versatile form of finance that releases the value tied up in a wide range of business assets, such as the sale ledger, plant and machinery, stock and freehold and long leasehold property. It is frequently used by more mature businesses that are looking for a finance solution driven by strategic reasons, such as expansion plans, funding acquisition or a management buy-out. It is a flexible form of finance as the facility can grow as the business' assets grow.

Bank loans and overdrafts

Start/Stretch/Stabilise

A business loan is generally a fixed cost, fixed-term loan. An overdraft is an agreed cash-borrowing limit that is arranged with your bank to provide short-term funds, but that can also be withdrawn without much notice. Although the high street bank was the first port of call for both of these, in recent years many alternative finance firms have risen in prominence. This has been spurred on by both Government and businesses wanting greater competition and choice in the market to ensure as many businesses as possible have access to finance.

Bridging loans

Stretch/Stabilise/Spend

As you grow, your portfolio of assets will grow. Bridging finance works as it is described and provides a finance link between important events in your business, such as bridging the gap between selling one property and securing a mortgage on another, buying a property at auction, refurbishment work on a property, or perhaps releasing funds for business purposes such as buying stock, funding new contracts, or buying IT equipment.

Commercial mortgages

Stretch/Stabilise/Spend

Just like the mortgage on your home you can obtain commercial mortgages of terms up to 20 years on a range of property types, such as retail units, garages, forecourts, offices, or industrial units. They can be capital repayment or interest only and, just like a home mortgage, will be more expensive the less money you can put down as a deposit.

Factoring and invoice discounting

Start/Stretch/Stabilise/Spend/Sell

Getting paid on time or late can have a huge impact on a business' fortunes. An otherwise profitable business's could go under if it cannot secure payment for its goods and services at the right time. Factoring and invoice discounting are both designed to unlock the value of your debtor book, giving you the cash the business needs when is needed.

With factoring, you sell your invoices to a factoring finance company. They will pay you a percentage of the value and collect the full amount owed from the debtor. Once the factoring company has collected the outstanding debt, the balance will be paid to you minus the amount already advanced and the charges. With invoice discounting, money is advanced against your sales ledger. You pay a fee equating to a percentage of the value of your invoices. Funds are made available at an agreed percentage rate against invoices as they are issued for you to draw down as needed. Invoice discounting is typically a confidential facility, whereas factoring is disclosed.

Family and friends

Start/Stretch

In the early stages of your business, it may be appropriate to seek start-up funding from friends and family. Like crowd funding, it offers you the opportunity not to have to conform to the criteria laid down by big financial institutions. Whether you are seeking a loan, or are willing to offer equity, make sure it is done formally to prevent problems at a later stage.

Goverment recovery loan scheme

Stabilise

There are many different UK Government backed schemes to help businesses find the right finance. You can find out more about them at: www.british-business-bank.co.uk

Right now, probably the highest-profile is the Recovery Loan Scheme (RLS). You can apply for RLS if Covid-19 has affected your business. You can use finance for any legitimate business purpose - including managing cash flow, investment and growth. If your business has already borrowed from any of the other coronavirus loan schemes, such as Bounce Back Loan Scheme (BBLS), coronavirus Business Interruption Loan Scheme (CBILS), or Coronavirus Large Business Interruption Loan Scheme (CLBILS), RLS is still open to you, although the amount you have borrowed under an existing scheme may in certain circumstances limit the amount you may borrow under RLS, RLS will run until 31 December 2021, subject to review.

Speaking the language of finance

In our final article of the series, we will be looking at the terms and phrases you might hear and read when you travel along your finance journey. Just like you would have a phrasebook when you go on holiday, our little guide will help you get the most from the finance process.

Merchant cash advance

Start/Stretch/Stabilise/Spend

A Merchant Cash Advance, also be known as a Business Cash Advance or a PDQ loan, is a flexible business finance facility, that is used by businesses that receive payments from their customers by debit or credit card. It allows the business to borrow with the funds 'secured' against future card payments. it is a useful way to assist with cash flow for businesses that enjoy a substantial number of payments via card transactions.

Now is the time for planning to become prepared as we enter the next phase of the economy.

This series of five guides are aimed at helping business owners and decision-makers to become finance confident as they navigate a changing and uncertain environment.

These will guide you through the five important aspects of business finance:

05

CONVERSING WITH PINNACLE

back to index

Every business sector has its own jargon and shorthand, finance is no different in that respect.

What makes finance slightly different is that it has a language crammed with maths, accounting and economic terminology. So, there's quite a lot to navigate when you are going through the application process.

At Pinnacle Business Finance, we take the time to make sure our customers are comfortable and in control when it comes to understanding their finance facilities.

To help you on your way, the following is an introduction to some of the terms and phrases most frequently used in business lending.

A dictionary of business lending

back to index

Advance rate

This relates to the percentage of the collateral being loaned against that the lender is willing to extend as a loan. So, if you were taking out an invoice finance facility it would be the agreed percentage of eligible debts available to you.

Approved debt

This links to the above and is the debt an invoice finance company has accepted as being eligible for prepayment.

Amortisation profile

Amortisation refers to the process of paying off a debt with regular payments over time. The amortisation profile is the loan term to which the payment schedule is set.

Assignment

If you are using invoice finance it is the finance provider's legal right to collect monies from your debtors instead of you being able to do it.

Availability

The money you can draw from your facility during a defined time period.

Company guarantee

This is an agreement between a company, a lender and a guarantor. The guarantor could be another company, LLP or other lenders who agree to become responsible for handling the debt payments should the company not be able to.

Contra-trading

With invoice finance, you may have to take into account a trading relationship that involves buying and selling to and from the same customer. This will need to be offset when examining eligible invoices.

Covenants

These are conditions that the borrower agrees to which restricts them from doing specified actions.

Current assets

These are assets that you could convert into cash within a year, such as debtors and stock.

Debenture

A loan agreement is used between a lender and a company. It is registered at Companies House to take security over the company's assets in relation to the loan.

Debtor concentration

The share of your total debtor book is taken up by each debtor. So, if you have one large customer and most of your invoices go to them you would have a high debtor concentration.

Debt Service Cover Ratio (DSCR)

This is a ratio of operating income that is available to service the company's debts and therefore a measurement of a company's ability to cover the payments. The higher the ratio, the easier it could be to obtain a loan.

Dilution

These are factors that can reduce the value of the invoices needing paying. The best example of this is a credit note.

Disapprovals

These are invoices that cannot be funded due to any number of reasons. This could be because they are very old or perhaps relate to factors concerning financial status.

Service fee

This is the charge made by the lender for providing your facility.

Discount charge

In invoice finance terms, this is the cost of the money that you draw down.

EBITDA

This is an accounting term that is shorthand for Earnings Before Interest, Tax Depreciation and Amortisation. It is a measure of the operating profitability of a company.

Fixed assets

These are your assets held for business use rather than assets that are to be converted into cash over some time (see current assets). Examples of these are plant & machinery and real estate.

Facility limit

If you have a lending facility this is the maximum amount you can draw upon at any one time.

Ineligibles

These are business assets that a lender will not lend against as collateral.

Loan contractual term

The length of time that a borrower and lender are bound by the borrowing contract.

Personal guarantee

An agreement entered into by individuals to repay a loan to a company if the company defaults.

Reassignment

See Assignment. This is a debt previously assigned to an invoice finance company that is assigned back to you for some reason.

Reconciliation

This is a month end process where your sales ledger is ,matched to the balance recorded by your invoice finance provider.

Refactoring fee

If an invoice gets over a certain age this is an additional charge to cover the suspected increased cost of collecting the debt.

Take-on debts

These are the invoices and invoice finance provider will 'take on' when you start your facility. The total value of these invoices is used to calculate the funds you will have available at the start of the facility to draw upon.

A dictionary of mortgages

back to index

1st Charge mortgage

This is the principal mortgage taken out by the borrower to purchase a property.

2nd Charge mortgage

A 2nd charge mortgage works in the same way as a 1st charge mortgage but is an additional mortgage which uses the positive equity in a property as security.

Annual Percentage Rate of Charge (APRC)

A 2nd charge mortgage works in the same way as a 1st charge mortgage but is an additional mortgage which uses the positive equity in a property as security.

Automated Valuation Model (AVM)

Where the value of a property is established using recent local sales and trends in values.

Bank of England base rate

The interest rate set by the Bank of England upon which mortgage providers set thir own, always higher, rates.

Base rate

As opposed to the above, Base Rate is a term used by mortgage lenders to refer to their internal reference rate.

Capital and interest

This is the industry term for a repayment mortgage where you pay off both interest and capital each month.

Capped rate

A celling where your interest rate over an agreed-period time cannot go above.

Compulsories

An industry term for compulsory insurances.

Discounted rate

Where an interest rate offered to you has a rate that is discounted below an industry rate such as the 'Base Rate' (see above).

Distance contract

Where a mortgage has not been undertaken face to face.

Early Repayment Charges (ERC's)

A charge applied if you pay off your mortgage earlier than the agreed payment schedule.

Execution-only/Non-advice

A financial service provided based purely on what you ask for. A decision that is not based on any form of advice from the provider.

Gross Development Value (GDV)

This refers to the revenue anticipated from of a completed property development. It provides a measurement of the capital and rental value of their property or development project once works are completed.

Higher lending charge

If you only put in a little money yourself to the purchase then this may attract a levy in the form of an enhanced interest rate to cover the increased risk to the lender.

Illustration

An estimate of the monthly payments you would have to make given at the outset to see if you wish to go into more detail and have an offer confirmed to you.

Interest only

A mortgage where you only pay the interest and do not pay off the capital.

Loan to value

The amount to be borrowed divided by the purchase price.

Loan to gross Development Value (LtGDB)

See GDV. This is the ratio of the proposed amount of money to be lent against the predicted Gross Development Value.

London Interbank Offered Rate (LIBOR)

This is the interest rate that banks use to lend to each other.

Non status loan

This is where a lender has not taken your income into account in providing the loan.

Overpayment

Where you pay off more than the payment schedule requires you to. Usually, you can overpay by a certain amount without attracting a levy.

Payment holiday

Where you are allowed by contract to take a short break from your payment schedule.

Personal guarantee

Agreement entered into by individuals to repay a mortgage if the mortgage defaults. It can be found within certain types of mortgage contracts such as Guarantor Mortgages.

Procurement fee

Where the mortgage provider pays a fee for introducing a customer.

Secured

If you default, the mortgage provider can, by contract, repossess your property to recover their money.

Status

A term used to describe your credit record.

Standard variable rate (SVR)

This is the mortgage provider's core rate which is set according to the prevailing Base Rate (see above).

Tracker

This is where your interest rate 'tracks' the Base Rate (see above). It can move up and down as the Base Rate moves.

Term

The period time of your mortgage.

Terms

These are the conditions under which a mortgage is offered.

Underpayment

Where you pay less than agreed in your payment schedule, agreed under your contract with the mortgage provider.

Unsecured

A mortgage that does not require any collateral and is not secured against the property.

check our website

www.pinnaclebusinessfinance.co.uk

Every time we welcome a new client, something great happens in the world

B1G1 BUSINESS FOR GOOD

NACFB
HELPING FUND UK BUSINESS

PINNACLE
Business Finance