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FAMILY BUSINESS FORUM

Banker as Best Friend

By Donald Levitt

The Issue

A best friend stands by you when the going gets tough. A best friend tells you the truth – even when you don't want to hear it – and then helps you deal with it.

Is your banker a best friend – or a fair-weather friend?

The Expert

Paul Johnson is Vice President and Team Leader in Business Banking for Huntington Bank in Northwest Ohio. He and his staff pride themselves in working with their clients through difficult times.

“It starts with understanding your client's business – their cash flow, the business drivers, and any seasonality of the business,” says Johnson. “Then, if the business starts to experience losses, you can better determine if this is just an isolated event – like the loss of a major contract – or if it is an on-going problem. You can also understand if the plan to return to profitability makes sense.”

“Inexperienced loan officers, or those who don't take the time to learn about their client's business and industry, can get nervous and overreact. They might cut back on your credit line prematurely, or refuse to provide financing for new equipment. If you can't get new equipment, it becomes more difficult to get new contracts. An experienced banker, who has been through a number of business cycles with you, can hang in there with you. Bankers who don't understand what's driving the business down are reluctant to extend any more financing – and if the bank pulls your loan, it can be difficult to find other financing.”

One of the most difficult decisions a business can face is determining when it is time to sell or close-up shop. “You have to determine the risks of staying in business – will losses increase or decrease? Is your borrowing just funding losses? We're not in the business of liquidating businesses, but sometimes it's better to liquidate earlier rather than later – while you can still break even – or to sell while the business is still saleable,” notes Johnson. “Entrepreneurs can have a tendency to be overly optimistic and not see the whole or true picture of the state of their business. During the last recession we saw a

number of business owners in their 60's who waited too long and ended up with no personal net worth. The bank should monitor the situation closely so that it doesn't come to this."

Johnson knows this situation from first-hand experience. "My father built office buildings his whole life. I worked in the family business for a while. When mortgage rates went sky-high, and buildings and homes weren't selling, he closed his business down – rather than trying to keep it alive just so his children had a place to work."

The Family Business Challenge

Making a decision to sell or close a business can be particularly difficult for a family business owner – who has put their heart and soul into the business; photos of their parents and grandparents on the wall; and their name on the door. Tim Coleman, Vice President and Commercial Team Leader for Huntington Bank in Northwest Ohio, has worked with many family businesses facing this challenge.

"Family businesses have additional pressures when facing possible liquidation. They have their family pride – and often they employ a number of family members who could be left without jobs," says Coleman. "Sometimes the patriarch or matriarch is still around. Their presence can be helpful, or it can lead to delays and further complications."

The Tip

In difficult times, an experienced banker can understand your challenges and bring some additional discipline to your business and finances. Low loan rates and fees are important in selecting a bank, but the wise counsel and "tough love" you would expect from a best friend may be even more important.

Donald Levitt, president of Levitt Consulting, helps family businesses to succeed as both a business and a family. More information about this month's topic, and other family business issues, can be found at LevittConsulting.com.