

Set out your goals

A strong business proposal is essential for securing financial support.

Karen Faux asks some lenders for their advice on what to include

Confidence is starting to return, say the big banks. In 2013, the UK economy grew at the fastest annual rate of growth since 2007. There is still some way to go, but positive news stories have continued into 2014, with unemployment falling and another stronger year of economic growth forecast.

On the back of this increased optimism, many nursery operators are starting to look more closely at their own prospects for growth, and are considering obtaining additional finance to support their plans.

Here, we have asked three of the UK's major lenders to outline what they are looking for in a business proposal and provide insights into what will ensure success.



IAN MURCHIE
Relationship
director,
Barclays
Healthcare
Corporate
Banking
Origination

'What's your experience and track record?'

'A solid business plan not only maximises your chances of successfully obtaining additional funding, but also helps you set out clear goals and how to best achieve them.

'As a starting point, you will need to set out some background to your business and how it has evolved over time. While strong financial performance is important, most lenders are looking to support operators who

put great childcare before profits. Your business plan therefore provides you with the ideal opportunity to underline and highlight the key elements of your business that allow you to deliver high-quality childcare, as well as what makes parents choose you over your competitors.

'In our experience, good management is also vital. A poor nursery can be run by good management, but it won't stay poor for long. However, poor management can't run a good business for very long before it runs into problems. With this in mind, your bank will want to find out more about your experience and track record in the sector, as well as the blend of skills that each member of the management team brings to the table.



'When discussing your financial performance and projections with your lender, try to set out the key assumptions that underpin your figures, as well as your thoughts on the key risks and opportunities for your business going forward.

'This also allows you to demonstrate that your business has strong management information systems in place, as without this it is difficult for either you or your lender to fully understand how you are performing and what the future direction of your business will be.

'Operators who are looking to expand quickly should also make sure that they keep a watchful eye on their cash position, because businesses can quickly get into difficulty if cash gets stretched. The bigger your cash buffer, the higher your chances of getting a favourable response from your bank. Typically, lenders will be looking at your ability to finance the repayments and interest on the funding being requested, through the cash being generated by your operations.

'Applying sensitivities to your forecasts allows your lender to assess the margin of safety within your business, should there be a period of turbulent trading in the future.

'Being committed to this sector, Barclays has a desire to support the aspirations of those operators who deliver great childcare, and we look to develop a strong understanding of the challenges and opportunities facing the sector.

This enables us to provide much needed support and deliver banking products and services designed to help operators grow. When childcare is delivered well, nurseries can be inspirational places and it's these operators that we look to support.'
www.barclayscorporate.com/sector-expertise/healthcare.html



NEIL GARTON
Head of
healthcare,
NatWest
and RBS
Business and
Commercial
Banking

'Invite your bank manager to the business premises'

'Starting and running a nursery can be a time-consuming and costly business. Whether you are starting >

a new venture or looking to expand your current offering, you will need to work out the costs involved and draw up a comprehensive business plan to support your goals.

‘Business plans are crucial when seeking external investors. However, they should still be carried out even when external investment is not required.

‘A business plan will enable you to spot any potential pitfalls before they happen and allow you to plan how to overcome them, plus enable you to track the performance of the business.

‘Working with people with knowledge of the sector, from your advisors to expert bodies, is invaluable. They know the sector inside and out and will be able to offer you specialist insight.

‘We are keen to support small and medium-sized businesses via our Chartered Banker accredited specialist healthcare managers and there are a number of financial schemes to support you.

‘Funders like operators with experience in the sector who know their service offering and what works best in their territory. They will know where to locate their setting in order to tap into the available demand.

‘These operators will be able to draw together forecasts based on known occupancy levels, fee rates and staff costs, all to a good level of accuracy. But best of all they provide safe, compliant, learning environments.

In assessing a request for funding, we will start with the experience of the management team, the locations of the nurseries, occupancy levels, Ofsted inspections, structure and strategic direction of the business, then finally the financial metrics to see whether the business can comfortably repay the proposed finance.

‘The bank will typically expect an operator to provide management information incorporating a profit and loss and balance sheet as well as

reporting key performance measures such as occupancy levels and staff costs.

Your priorities should be to:

- choose a bank/funder that understands your sector. It will be easier to obtain support as it will have a balanced, informed view of how nurseries work and any relevant issues
- ensure that your request for support recognises both the challenges and opportunities that are available in the sector and how you would manage them
- invite your bank manager to the business premises. It’s amazing how this enables both parties to gain a better understanding of each others’ objectives.

www.business.natwest.com



MIKE ROSE
Regional director for the North West region, Santander Corporate and Commercial

‘Management teams must sell themselves’

‘Nurseries are a key component of the UK economy, providing a vital service to local people. They are successful businesses, run by those who have a genuine interest in providing quality childcare and education to young children. However, as with any business, there are key considerations that an operator needs to think through before setting up a nursery.

‘To begin with, business owners should research the bank finance market and all available options thoroughly, and make sure they are speaking with sector specialist bankers.

‘Business owners should then prepare a thorough business plan, which incorporates key performance indicators, profit and loss, balance sheet and cash flow projections for a minimum of three years.

‘A business plan will enable you to spot any potential pitfalls before they happen’

‘They should ensure that they are able to reference how their nursery will fare against the local competition and potential new operators within the surrounding area. It is vital to know the local demand generators for a business and any proposed local development that would impact these.

‘Once the business owner has decided on a financial partner – who would ideally be a specialist in this sector – they should begin to build a relationship with them. This is a mutually beneficial relationship so the business owner should feel able to ask questions and discuss their options before deciding on a suitable financial strategy.

‘At Santander, we take the time to get to know each business properly so we can understand their individual needs and how we can best support these.

‘There are two key components that will support a bank’s decision to lend to a business: the business plan and the management team. The business plan is a vital piece of any application for finance because it provides a platform for the business owners to set out their vision.

‘It cannot be emphasised enough how important it is to get the business plan right. Research and realism are the key words here, and nursery owners need to be as thorough in their research as they possibly can, setting out realistic targets and cash flow projections.

‘Those in the management team are the face of the business, so it is essential for them to successfully sell themselves. They need to be professional and confident, articulate their plans coherently and be knowledgeable and enthusiastic about opening a nursery.

‘There are risks involved in any new business start-up and it’s important to mitigate these as much as possible. However, there remains strong demand for quality childcare in the UK and well-run nurseries will typically provide a good investment return within three to five years on average.

‘Santander Corporate and Commercial is committed to supporting businesses already operating in, and wishing to start up, in this market, because we believe it to be an important sector that has a valuable role to play within the UK.

<http://businessinsight.santander.co.uk> ■

MARKET PREDICTIONS FOR 2014

- Sales of regional groups are likely to expand
 - Increased demand from buyers will be driven by improving confidence among banks and investors
 - Ahead of the 2015 election, some parties’ proposals to increase free entitlement will be subject to much debate among providers, particularly in respect of
 - funding and deliverability
 - Demand will remain for businesses providing care and education for children with complex needs
- www.christie.com