



Bwyd a Diod Cymru
Food & Drink Wales

How can food and
drink businesses
access short-term
borrowing for
working capital



The Covid-19 crisis is straining working capital requirements for food and drink businesses: perhaps through loss of revenue whilst outgoings still need to be covered; or, more positively, through an upturn in trade, with increased production and outgoings ahead of anticipated increased receipts.

What both scenarios have in common is that potential lenders will still expect food and drink businesses to present a viable business case for borrowing, whatever the reason for applying for a loan may be.

Assuming your food or drink business passes the basic "eligibility" tests, what should you be doing to increase your chances of success in securing short-term funding to help you with your working capital needs?



How do you convince a lender that you are a good risk?

Lenders want to be reasonably comfortable that they will get their money back with interest.

In order to give them that degree of comfort, they generally have a list of things they like to see in a proposal and, whilst it differs from lender to lender, these requirements are likely to include the following:

What is the business and what market does it serve?

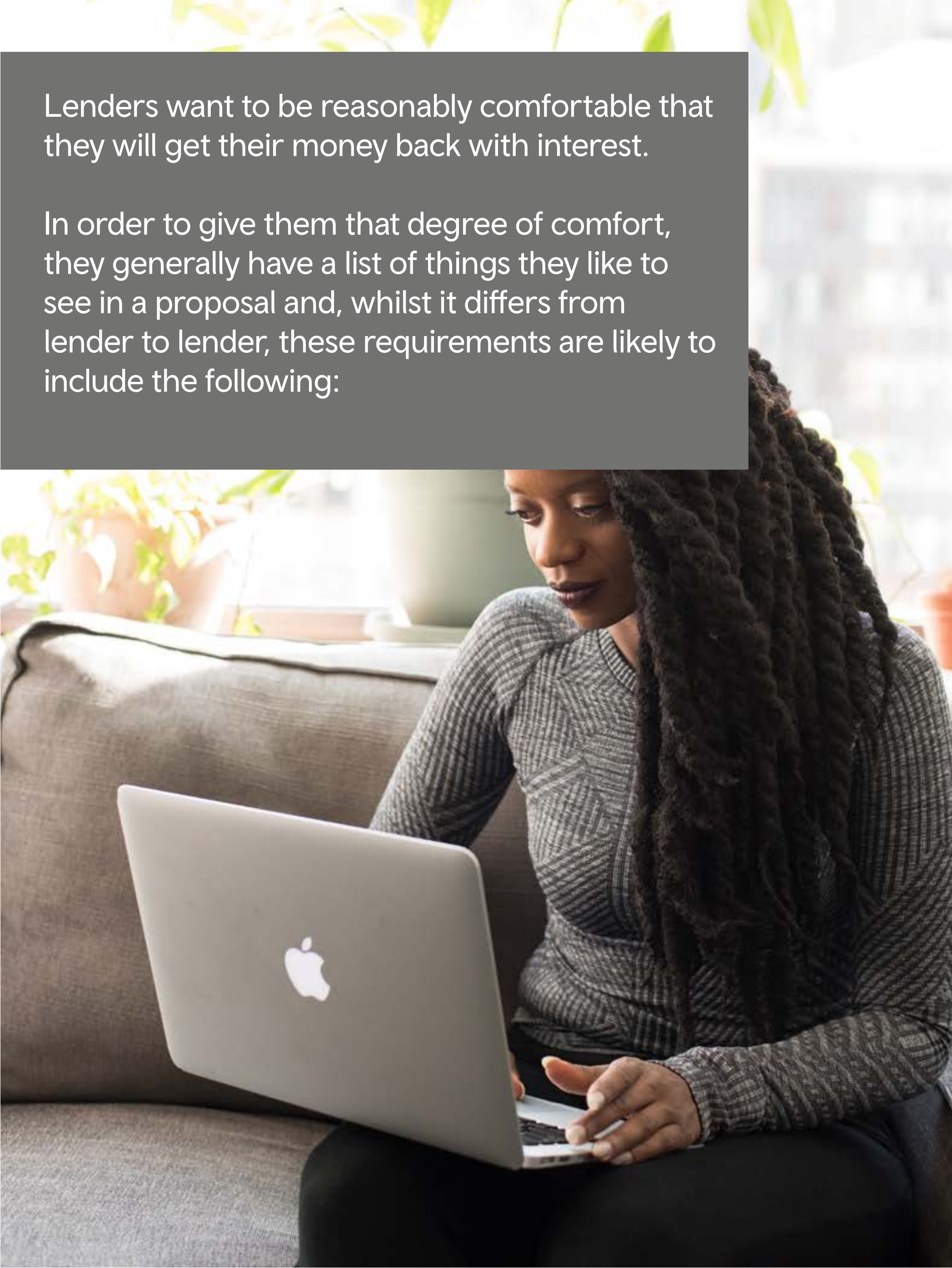
Using a PESTEL analysis helps to show that you understand the factors and risks that impact your business. PESTEL covers Political, Economic, Social, Technological, Environmental and Legal.

The inclusion of this type of analysis will give the potential lender confidence that you are considering how wider factors might impact your business. These factors and their potential impacts need to be explained in the context of your food or drink business.

Your products and markets

What are the products you offer? Who are your customer groups? Who are your consumers?

Customers (the people/organisations who buy from you) might be the same as your consumers (the people who, literally, consume your products) or they might be different. Fine food wholesalers in London might be your customers, and your consumers are people who buy from independent delis/food halls. Can you evidence how your products appeal to both groups?



How do you communicate with your customer and consumer groups?


How do you get your products to your customers and how do you communicate the brand attributes and benefits of your products to customers and consumers?

Do you have a point of difference and can you articulate what it is?

About you and your team

Remember that by lending to your business, the lender is, in fact, relying on you and your (or your team's) ability to repay the loan plus interest.

Think about how you can demonstrate the credentials of you and your team so that your lender has confidence in your business skills and that the loan will be a good risk.



These factors will help you start to put some shape on a business plan and prepare your presentation deck, but we haven't yet talked about product pricing and financials.

What are lenders looking for in terms of financials?

This is where your accounts package, cost codes and cash management are particularly important.

The lender will ask for:



The forecast
profit
and loss



The forecast
balance
sheet



Projected
cashflow

These should be done for the duration of the requested loan – typically 2 to 5 years, on a monthly basis.

Whilst the bank will want to see an annual summary, you should have prepared the monthly detailed figures in case the bank requests the further details.

To prepare for these forecasts,
you will need to show:

Sales

By month over the loan period, broken down by product or channel. This could be:

- Farmers' markets
- Online sales
- Sales to wholesalers, retailers, etc.

Being able to show this level of detail shows you know where your sales are coming from. If you sell through multiple channels, this demonstrates that you are not reliant on one particular channel or outlet. You should be able to evidence how you think you will achieve these sales through order quantities and the selling price of your products.

Cost of sales (variable costs)

Again, by month over the loan period. Costs to be included here are:

- Ingredients
- Packaging (primary and secondary)
- Consumables required for making your products such as PPE
- Distribution costs of getting your products to market – this might include transport/ logistics, cost of pallets
- Direct labour – those labour costs which are directly attributable to making your products

Fixed costs

By month, over the loan period.

Fixed costs include:

- Rent/rates
- Salary costs of staff not directly attributable to production of your products
- Taxes and national insurance
- Any other central costs such as office equipment, accreditations, IT systems, telephones, etc.



Will, or can, the lender ask for security?

The government backed loans have given banks 80% guarantee for the Coronavirus Business Interruption Loan, with the recently launched small business “bounce back” loan offering lenders 100% government backing. However, if you are borrowing more than is guaranteed by the government, it is natural that a lender might seek security over that additional amount.

One view that is worth considering is that you should never offer anything as security unless you are willing to risk losing it. This applies in particular if the lender is seeking personal guarantees as opposed to security over assets within the confines of a limited liability company.



What next?

Business Wales has published some very useful guides to different forms of finance which can help you decide which type of finance you need for your business:

<https://businesswales.gov.wales/businessfinance/>

To keep up to date on financial support such as loans and grants provided by government to businesses affected by Covid-19, visit:

<https://businesswales.gov.wales/coronavirus-advice/support/financial-support-and-grants>

For a confidential conversation about how to prepare a loan or grant application and financial forecasts for your food or drink business, please email:

bwyd-food@bic-innovation.com