Basel II for SMEs

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SME TOOLKIT

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Aim of Toolkit

To provide a general framework and guidelines which will help Small and Medium Enterprises ('SMEs') to analyse and assess their preparedness for raising finance from banks following the introduction of Basel II Capital Accord and the European Union's proposed Capital Requirement Directive (Basel II / CRD) .

Objectives of Toolkit

- To detail the main business and risk management practices that banks generally look for when assessing and rating SMEs
- To provide SMEs with awareness of what is regarded by banks as good corporate governance in SMEs
- To assist SMEs with preparing to meet the likely business information requirements of banks

Overlying Assumptions

a) Basel II / CRD should be considered not as a compliance or regulatory imposition but as a catalyst for improving and embedding good risk management practices and business governance in banks

b) As financial intermediaries and suppliers of funding, banks can in turn support and advise their SME customers on applying similar governance and risk management principles / practices

c) Application of good business and risk management practices assists banks and SMEs to enhance their sustainability, performance and shareholder value.

Constraints

a) Banks do not disclose their internal assessment and rating methods of SMEs; credit worthiness and assessment criteria may vary between banks

b) There are no universally agreed and applied standards or similar benchmarks for SME risk management

c) This toolkit can only provide a generic framework as it is based primarily on materials obtained as a result of a general survey or provided on a confidential and non-attributable basis by specific banks, consultants and SME representative organizations

d) This toolkit has purposely been designed to be general in terms of financial accounting-based information requirements of banks and SMEs due to the variances in financial management and accounting practices of SMEs in different EU countries

Design and Contents of Toolkit

The toolkit has been designed as a self-reference guide.

The toolkit has been compiled around the typical information that you use or may need to manage your SME business effectively. In turn, it should assist you to capture more easily the required information about the rationale, capability, prospects and risks of your business, and to communicate this to banks and other providers of finance. This information should help them to understand, assess and risk-rate your business for credit purposes in line with their own internal guidelines (including those emanating from the Basel II requirements for banks).

The toolkit is divided into five main sections:

1. Business Strategy & Targets
2. Business Market & Competition
3. Business Capability
4. Business & Financial Planning
5. Business Risk Management

Parts of the toolkit contain descriptions of self-assessment techniques using the Template tables in Appendix A. If followed, these should also provide you with easy and consistent reference data for completing or updating your own Business & Risk Management Plans. You could also use this information in your future communications with your banks and other funding providers.

1) Business Strategy & Targets

Before any assessment can be made of an SME or its marketplace (environment), information needs to be provided about your Business Strategy that should summarise your Business Vision, Aims and Objectives. Your Business Strategy should also contain Targets that allow you (and your funding providers) to measure your success in achieving your objectives. Therefore, these Targets will provide a consistent reference point for future measuring and reporting of your business progress.

Clearly stated business objectives should allow an SME to regularly self-assess the critical success factors and risks in achieving future success, namely by:

- Determining if there is consensus or potential conflict among the management team on the business objectives, such as direction of future business initiatives or key priorities for action
- Checking that business objectives are Specific, Measurable, Achievable, Realistic and Timed (in English referred to as ‘the ‘SMART’ test), relate to the current business environment and reflect lessons learnt from previous business experience.
- Analysing and aligning business and personal objectives of key people in the business
- Ensuring that non-management shareholder interests and objectives are understood and adequately addressed in business and financial plans

Step 1: Objectives Setting and Monitoring

The following is a **simple guideline** for monitoring and reporting achievement against objectives:

Shareholder objectives should be understood and provide an explanation of:

- the reasons why shareholders invested in the business;
- their return expectations (dividend income and potential capital gain);
- the scope and limitations of financial or other support they could or will provide to the business;
- their exit plan and requirements (timeframe, expected purchasers of their shareholding, preferred terms for sale (e.g. cash, share swap) , etc.)

Management objectives should explain;

- Personal motivation of key managers
- Committed time span of managers for development of business
- Contract terms and personal income requirements and expectations

Business objectives should explain;

- What size and type of business should be developed over a stated period
- What business activities are to be expanded, reduced, entered into or discontinued
- What are the key performance indicators (financial and non-financial) for achieving the business objectives and the key risk indicators aligned to these
- What are the critical changes that must be made to achieve the business objectives

Step 2: Checking and Updating Objectives

It is important to regularly test and re-set objectives not only in the light of changing market environment and performance but also following changes in key managers or shareholders. A simple tool for this is an analysis of Strengths, Weaknesses, Opportunities and Threats (in English referred to as a "SWOT analysis") that requires you to regularly update your assessment of the main to achieving your objectives.

Step 3: Measurement and Control Methods

It is also important to be able to assess and explain what measurement and risk controls have been established to ensure future performance meets all objectives. For example, measurable objectives might cover:

- Product quality (e.g. number of warranty claims or returned items)
- Service quality (e.g. number of breakdowns or disruptions to service provided)
- Process efficiency (e.g. volumes in a stated period versus cost of processing)

- Customer satisfaction (e.g. number of complaints or repeat orders)
- Staff satisfaction (e.g. staff turnover, training provided)
- Financial performance (e.g. sales targets; profit margins; return on capital; cash flow management; credit control)

2) Business Market & Competition

2.1) Current Position Assessment: "Initial Assessment"

The starting point should be an initial self-test of your perceptions of where your business stands in the business environment.

It is suggested that you create a listing and ranking of the main products or services of your business. (Refer to Template 1 in Appendix A). Your Products and / or Services should be put into core types or groupings where there are similar but not identical characteristics. For most SMEs, these products or services will probably fall into no more than 4-6 categories or product / service families.

Of these categories, you should determine which ones when taken together, make the major contribution to your business (e.g. make up 80 – 90% of Sales / Turnover Contribution or Profit Contribution). Once you have determined these groupings, you should then assess your perception for each one in terms of its market attractiveness based on your general views on the present competitive environment that your business faces. This can be completed by using a simple scoring methodology, say from 1 (low) to 6 (high), and you should score market attractiveness under the headings of:

i) Customer Attractiveness (e.g. low might indicate a limited customer loyalty to your product);

ii) Supplier Attractiveness (e.g. high might indicate that suppliers only provide your business with raw material or components for that product / service);

iii) Competition Attractiveness (e.g. low might indicate that you have a lot of close competitors or that there are limited differentiating factors for why customers choose your product / service versus your competitors);

iv) Market Dynamics Attractiveness (e.g. high might indicate that the market is growing rapidly);

v) Product / Service Ranking. Finally by looking across the different columns, you should be able to rank the potential value or importance of each product / service group (High, Medium or Low). It may be useful to note your key reasons or assumptions for scores, so these can be revisited and checked during the later parts of the self-assessment process contained in this Toolkit.

2.2) Market & Competition Assessment

The more detailed testing that follows, can be used to refine or test your initial perceptions from section 2.1 above and help you plan your business activities as well as assess the risks in meeting your business objectives.

For the each of the product / service groupings which you have identified in Template 1, assess the following questions (or include additional ones related to the more unique features of your own industry / sector) and apply a similar scoring methodology of 1 (low) to 6 (high). (Refer Template 2 in Appendix A):

Customers

- Number and / or business size and / or geographic spread of key customers? (You may prefer to score each of these three separately)
- Difficulty for your customers to obtain similar products / services from other sources?
- Significant cost advantage to your customers of your products / services versus competitors?
- Quality or other value added benefits to your customer of your products / services versus competitors?
- Loyalty of your customers for your products / services?

Suppliers

- Number and spread of your key suppliers?
- Ease of obtaining key supplies / raw materials from other reliable suppliers?
- Availability of suppliers with viable substitute materials?
- Importance of your materials orders to the business activity of your key suppliers?
- Ease of switching suppliers (e.g. cost, inconvenience)?

Competitor & Substitution Threats

- How difficult is it for a new competitor to enter your market at similar or lower costs to your business?
- Difficulties for existing or new competitors to attack your market because of scarcity of skilled people and loyalty of your key staff?
- Barriers to an existing or new competitor accessing your or similar distribution channels?
- Difficulties to enter your market due to regulatory and / or licence constraints?
- Constraints on substitution products / services entering your market?

Market Dynamics

- How diverse is your market in terms of products / brands, limited comparable competitors and range of customers? (You may prefer to score each of these three separately)
- What percentage of competitors in your industry have high fixed costs and limited excess capacity?
- What is the frequency of price changes (including sales / marketing promotions / discount offerings) in your market that give you pricing flexibility?

- What is the frequency of changes in the competitors in your industry?
- At what rate is your market growing?

For each question, you should highlight any issues that this raises and actions that you might take to improve your market situation.

Once you have scored each question, you can then calculate Average Scores which can be compared with your Initial Perception scores from Template 1.

On the final row, you can calculate any variance. If the scoring variance / difference is minimal (say, these vary by 0 to 1 marks, positive or negative) these may be considered as areas where key perceptions and more detailed analysis reasonably coincide. Where there is some greater scoring difference (say, 2 marks, positive or negative), these may be considered areas where some reasons for the variance should be provided. Any scoring variance of 3 or greater suggests areas that require urgent explanation, management's re-consideration or attention.

2.3) Broader Environment Assessment

Not only should you link your Market and Competitive assessment back to your **Business Strategy and Targets** but you need to demonstrate that you have considered the possible impact of broader factors on your industry and your business.

Generally, this can be done by describing potential major issues and their possible impact and likelihood using in English what is referred to as a STEEPLE analysis. STEEPLE analysis requires you to consider the following broader external factors that could influence your business prospects and the nature of your activities:

> **S = S**ocial (e.g. changes in social behaviour that might impact product / service selection);
>
> **T = T**echnological (e.g. rapid development in cheaper components that will affect product prices or performance);
>
> **E = E**conomic (e.g. non-Euro exchange rates affecting key imported supplies);
>
> **E = E**nvironmental (e.g. waste re-cycling legislation and penalties on producers);
>
> **P = P**olitical (e.g. government directives on certification or subcontracting);
>
> **L = L**egal (e.g. changes in employment laws)
>
> **E = E**uropean (or **I**nternational) (e.g. World Trade Organisation agreements affecting market dynamics and competitors)

A summary of the STEEPLE Analysis can be used to check the reasonableness and validity of your overriding Business Strategy and Targets. Any resultant issues should then be turned into an action plan that will describe how and when you are going to resolve such matters or mitigate the anticipated risks. For example, this might provide the rationale for why and on what basis you need additional credit from your funding providers. This analysis of the external environment, should be considered and applied when compiling, monitoring and reporting your Business & Financial Plan.

3) Business Capability

Just as Section 2 concentrated on the External Environment, this section considers primarily the Internal Business Environment.

This Business Capability assessment has been compiled around what are usually the most important elements of SME business management. It is based on the assumption that just as all elements of business contain risk, so all elements of business management must demonstrate health and balance for business success to be achieved.

The Business Capability assessment has been devised by creating seven different Management sections.

1) General Management
2) Sales & Marketing Management
3) Operational / Production Management
4) Facilities Management
5) Financial Management
6) Planning & Information Management
7) People Management

3.1) General Management consists of:

- Determining and achieving Business Strategy & Targets
- Coordinating, balancing and managing Resources (financial, physical, people, systems and intellectual property)
- Developing People (capability, competency & culture)
- Maintaining good Stakeholder Relations and Communications (with key customers, suppliers, shareholders and funding providers)
- Embedding Risk Management practices and ensuring Regulatory Compliance

3.2) Sales & Marketing Management consists of:

- Customer Relationship Management
- Product / Service Development (design, detailing and delivery)
- Market Research
- Business Development activities
- Promotional activities
- Sales planning & achievement

3.3) Operational Management consists of:

- Production Processes
- Customer Order / Account Management
- Stock Control

- Procurement
- Supplier Management
- Quality Management
- Business Administration

3.4) Facilities Management consists of:

- Premises
- Plant & Equipment
- Transport
- Computer and Communication Systems
- Health, Safety & Security

3.5) Financial Management consists of:

- Cash Flow & Liquidity Management
- Credit Quality Control
- Bookkeeping / Accounting
- Cost & Contract Controls
- Financial Analysis (e.g. Profitability, ratios)
- Tax planning & debt / capital management
- Exchange and interest risk control

3.6) Planning & Information Management consists of:

- Defining and measuring Objectives and Targets
- Business Projections based on understanding / applying business assumptions
- Conducting Feasibility Studies
- Creating & communicating Action Plans
- Management Information & Reporting
- Business Continuity Management

3.7) People Management consists of:

- Defining Jobs and Competencies for jobs
- Selecting & Recruiting right people for right jobs
- Training & Developing staff
- Setting Conduct and Performance requirements / targets
- Appraising and Rewarding / motivating people based on performance / contribution

Reference is made to Template 3 in Appendix A, which contains an internal review guideline / checklist. It is understood that not all the guideline will apply to every company. Therefore, you should be able to insert or delete rows as best fits your business and its activities, However, generally speaking, providers of finance will tend to ask questions around many of the checklist subjects contained in the template.

Once again, it is suggested that you use a similar scoring methodology to that previously applied to your external environment assessment when completing this assessment table i.e.1 (low) to 6 (high).

For each of the questions, you should score your Current Capability and where you think you should Target to be to achieve your Business Strategy or Plan. Compiling and completing the rest of this table should enable you to identify important information that you need to:

- Assess your Business Capabilities
- Determine Business Capability gaps and identify and prioritise corrective actions
- Provide further input and analysis for your Business & Financial Plan

When reviewing your Business Capability, you must remember that one of the key general management skills and risks is how well you balance and integrate these separate management sections into a unified and cohesive business.

4) Business & Financial Planning

The type and detail of Business & Financial Plans ('BFP') varies considerably dependent on the purpose, users and audience of these Plans. However, they form one of the most common and practical business management tools for communication about the business and its financial performance, whether internally (to the Board, managers or staff) or externally (to shareholders, banks, key business or trade collaborators etc). Accordingly, by following a generic or common structure, the BFP not only helps logical thinking and communication but also allows links to more detailed information and analysis that any particular recipient might wish to have.

As a minimum, the BFP should clearly show:

- Business Objectives
- Main Action Steps for achieving these Objectives within a stated Time Plan
- Key Performance Indicators (Measurement of Financial and non-Financial achievements)
- Critical Success and Risk Factors
- Assumptions that link Business and Financial Outcomes
- Financial Projections (including Balance Sheet, Profit & Loss Statement & Cash Flows)

As most SMEs are very familiar with BFP, we provide an outline below for general reference purposes only.

Business & Financial Plan Contents Headings:

Executive Summary

This should contain:

- Purpose of Plan
- Summary description of the business and any of its unique selling propositions (USP)
- Overview of key aspects of the marketplace
- Summary of SWOT (and STEEPLE) analysis (highlighting your business attributes and key people)
- Key Business Objectives and Targets
- Critical Success and Risk Factors (key issues and actions)
- Financial Analysis & Outcomes of Plan (Key financial results, ratios, sensitivity tests (such as looking at impact of variances in key business assumptions like sales, profit margins, trade terms) etc)

Background / Business History

This should contain:

- Origins of business
- Key development events and achievements
- Legal status and shareholder structure
- Management structure / profile

Business Objectives

This should contain:

- Strategy for the Business (short & medium term Business Objectives)
- Explanation and fit with Shareholder Objectives
- Explanation and fit with Management (personal) Objectives
- Key Targets
- Key Action Plans (particularly describing rationale & requirements for increased borrowing)

Products / Services

This should contain:

- Current activities and their contribution to sales and net revenue targets
- Any significant new or improved Products / Services and rationale for this
- Competitor analysis of products / services
- Unique selling propositions (USP) (e.g. being unique features that attract customers to your products / services versus competitors) for your main Products / Services

Marketplace

This should contain highlights from Section 2 (Business Market & Competition) above, namely:

- Relevant Market Dynamics & market share
- Industry or Sector trends
- Customer characteristics and relationship analysis
- Key Supplier profiles and relationship analysis
- Competitor Analysis
- Comparative data (if available) on business / financial ratios of competitors versus your business (e.g. days creditors; days payable; days stock; staff / turnover; profit margins etc.)

Business Capability

This should contain highlights from Section 3 (Business Capability) above, namely:

- General Management
- Sales & Marketing Management
- Operations Management
- Facilities Management
- Financial Management
- Planning & Information Management
- People Management

Financial Analysis

This should contain:

- Summary of key aspects from historic audited accounts (last 3 years)
- Explanation of any unusual items, accounting treatments, contingent liabilities (etc.)
- Projected Balance Sheet and Profit & Loss Statement with business assumptions
- Projected Cash Flow with business assumptions
- Breakeven & Sensitivity Analysis (breakeven sales; scenarios for variances in targeted sales, costs, margins, changes in terms of trade)
- Key Financial Ratio Analysis (see below and Template 4)
- Explanation of Financial requirements and available collateral (and how debts can be serviced). This should highlight the economic benefits of the financing for the business and any historic debt servicing track record (including successful repayment of any temporary / excess overdrafts).
- Current & projected tax status (noting any pending adjudications, claims or material changes in tax treatment)

The financial information section is very important as it provides input to one of the main tools used by banks to assess the financial health of an SME's business. It also enables the bank to test the validity of the assumptions of an SME's financial projections contained in its Business & Financial Plan. To be most effective, at least three previous years' data should be assessed. However, financial data alone may be of limited value to a Bank, as they are aware of the tax or other purposes for which such accounts are formulated (even where they are accessible). Nevertheless, some changes and trends can be ascertained from such a financial data assessment or applied to determine the correct basis for checking SME's near-term financial projections.

Financial statement analysis can be conducted at four main levels;

a) Change / percentage contribution / trend analysis
b) Index analysis
c) Financial ratio analysis
d) Growth analysis

a) Change, percentage contribution or trend analysis is often referred to as 'vertical' analysis and basically expresses each item of the balance sheet as a percentage of total assets and each component of the profit & loss statement as a percentage of sales. It is used to compare trends and changes in the mix or contribution of each item or component over time. Significant changes require closer examination / explanation. These percentages and trends are most useful when they can be compared with those of other companies in the same or similar industries / business sector activities.

b) Index or 'horizontal' analysis expresses each component of the balance sheet and profit and loss statement of the base year as 100% and subsequent yearly balances as a percentage of the base year. This again can be used to more easily identify growth or decline rates that are greater than the norm. Again industry / business sector comparisons can be useful, although it is essential that like be compared with like, for example;

* is 'net profit' before or after taxes?
* is 'gross profit' prepared from the same types of expenses?
* is the inventory turnover calculated by using cost of goods sold or sales?

c) Financial ratio analysis; By comparing ratios within the same set of financial statements, the SME manager or Bank analyst can identify possible strengths or weaknesses in the financial structure of the business. By reviewing trends, the SME manager or Bank analyst can determine patterns in the Liquidity, Efficiency of Activity, Financial Capacity and Operational / Profitability of the business. Reference is made to Template 4 in Appendix A which provides examples of typical financial ratios.

d) Growth analysis; By applying change, index and financial ratio analysis to financial projections of an SME, banks can try to objectively assess the sustainability and validity of business growth and future financial assumptions. This enables a comparative test to be made as to whether the SME's expectations fit its historic performance and future business environment prospects. In addition, if future growth assumptions are unrealistically based, a simple sensitivity or variance test can be carried out to assess the potential benefits or strain to SME cash flow and loan repayment capability. This enables the bank to predict or re-forecast the SME's most likely projected situation and in turn assess the tolerances that the SME can absorb before it may not be in a position to generate cash flow adequate to service loan obligations to the bank.

Finally, once you have written the BFP, you might wish to use the checklist (see Template 5 in Appendix A) to ensure that your Plan answers typical BFP assessment questions.

5) Business Risk Management

As risks are inherent, and arise in all aspects of managing a business, SMEs need to conduct a regular and ongoing review of Business Risk Management. This review can be built around Critical Success Factors (CSF) and then expanded to include the risks attaching to those CSFs.

CSFs normally contain the key internal and external issues or activities that impact business performance and they should be a mixture of those common to all the businesses in your industry or service sector and those specifically associated with your SME business.

Examples of Critical Success Factors (CSF) might be:

1) Keeping a minimum percentage of market share / growth with the best clients
2) Ability to hold inventory for 'just in time' delivery
3) Products meeting international quality standards
4) Flexibility of production process for tailoring products to customer special orders
5) New product development & introduction timetable
6) Generation of cash flow from the asset conversion cycle
7) Extending Suppliers terms of trade
8) Providing credit terms to customers
9) Brand positioning of products
10) Maintaining price competitiveness
11) Technical advice offered to customers
12) Skilled and motivated workforce

By using CSF analysis, it is easier to focus on what you need to fulfil in terms of your business capability requirements and relate this to your marketplace and competitors' activities. The CSF based approach can also show you where you need to focus your main management time and effort as well as the resources of the business. In particular, it should help you avoid taking business decisions that are reliant only on financial or general market comparison data, as CSF analysis should reflect your own knowledge and experience of how businesses in your industry / sector really work.

You should list / describe the main (say, up to ten) CSFs and score your view of their comparative importance to achieving your business objectives by using the same scoring methodology as described in earlier sections (1=low, 6=high). (Refer Template 6 in Appendix A).

The next step is to score how you think your own business performs against these CSFs. Finally, you should assess how you think your main competitors (by name) perform against each CSF. Although this may be subjective, it should consider as much objective data as you may have gathered from operating in the market environment (e.g. comparing competitor offerings to your own, trade show and customer feedback etc.). Significant variances between the different scores should be used to detail management actions.

You now need to be able to show that you have a clear understanding of the Significant Risks associated with your CSFs. These Critical Success and Risk Factors (CSRF) will be crucial to your successful management of the future business of your SME. The first step is to list your CSFs (from Template 6 in Appendix A) by their importance (Refer Template 7, Appendix A). Against each CSF, you should describe the Significant Risks that could arise and that would impact their achievement. Also, for each of the risks listed you should consider the potential Contributing Factors and Mitigating Actions you could take or Controls that could be put in place.

Finally, to complete the CSRF, you need to calculate the Probability of the Risk occurring and its Potential Impact after your mitigation action. For Probability of Risk Occurrence, it is suggested to use the following scores:

Very unlikely (score 1)

Some possibility but still unlikely (score 2)

Possible but difficult to predict (when or how) (score 3)

Some higher probability it will occur (score 4)

Most likely to occur (score 5)

For Impact Value, it is suggested to apply the following scoring:

Negligible impact on business and financial situation (score 1)

Limited damage to business / financial situation (score 2)

Some short term deterioration in business and financial situation (score 3)

More serious and lasting deterioration in business and financial situation (score 4)

Very damaging (might threaten viability of business or available financial support) (score 5)

Based on the Probability and Impact Value scores multiplied together, you should be able to assess (high, medium or low) the effect of the risk on your business. (High risk would be a multiplied score of greater than 12; Medium risk would be a score of 5 – 11; Low Risk would be 4 or less)

In your BFP or any other future planning or reporting you should review your CSRF and explain how you will manage the risks and handle their potential financial impact, given the resources available to you.

Conclusion

This Toolkit should act purely as a guide for your business management and corporate governance. It should not be seen or used as a proven panacea of solutions, or to replace your required application of business knowledge, experience and capability towards the particular nature and activities of your business. It is designed to enable you to formulate and communicate ideas and facts about your business to key stakeholders including providers of finance and meet the broader disclosure requirements likely to result from Basel II / CRD or similar regulatory changes.

ANNEXES:

Template 1

Product/Service Group	Sales Contribution (percentage)	Profit Contribution (percentage)	Customer Attractiveness (score1-6)	Supplier Attractiveness (score 1-6)	Competition Attractiveness (score 1-6)	Market Dynamics Attractiveness (score 1-6)	Product/Service ranking (high /medium/low)
A)							
B)							
C)							
D)							
E)							
F)							

Key Reasons or Assumptions for scores:

Template 2

Product/Service Grouping	**Score**	**Issues**	**Actions**
CUSTOMERS			
Q 1 Spread (split into three parts)			
Q 2 Alternative suppliers			
Q3 Cost advantages			
Q4 Quality			
Q5 Loyalty			
Average Score			
Template 1 Score			
Variance			

Reasons for Variance:	

Template 2 (cont.)

Product/Service Grouping	**Score**	**Issues**	**Actions**
SUPPLIERS			
Q 1 Spread (split into 3 parts)			
Q 2 Alternative suppliers			
Q3 Your substitution options			
Q4 Their reliance on your business			
Q5 Your ease of switching			
Average Score			
Template 1 Score			
Variance			

Reasons for Variance:	

Template 2 (cont.)

Product/Service Grouping	Score	Issues	Actions
COMPETITION			
Q 1 Entry restrictions			
Q 2 Skill requirements to compete			
Q3 Distribution barriers			
Q4 License requirements			
Q5 Substitution constraints			
Average Score			
Template 1 Score			
Variance			

Reasons for Variance:	

Template 2 (cont.)

Product/Service Grouping	Score	Issues	Actions
MARKET DYNAMICS			
Q 1 Market diversity			
Q 2 Restrictive costs and capacity			
Q3 Price volatility			
Q4 Competitor changes			
Q5 Rate of growth			
Average Score			
Template 1 Score			
Variance			

Reasons for Variance:	

Template 3: General Management

Guidelines	Current Capability Score	Target Score	Variance	Priority	Actions
Regular preparation and use range of management tools such as Business Strategy, Plans & Targets					
Regular benchmarking against competitors					
Detailed action plans created for developing and selling all products/services					
Management experienced and good market reputation					
Management team have complementary skills and share responsibilities and decision making functions					
Optimal allocation of Resources to achieve Business Plan					
Good workforce relations – no strikes or disputes					
Feasibility studies used to assess new projects or market developments					
Workforce skills and costs compare favourably with competition					
Good knowledge of finance and structure/progress of business which is regularly communicated to lenders					
Good relations & communications with stakeholders					
Good risk awareness and practices in business and no compliance problems					

Template 3: Sales & Marketing Management

Guidelines	Current Capability Score	Target Score	Variance	Priority	Actions
Sales campaigns based on regular contact with and analysis of customer needs					
Product innovation and quality recognised by industry and customers					
Limited product/service obsolescence due to fashion or technology changes					
Regular customer and sector feedback confirms good demand for existing products/services versus competitors					
Detailed marketing plan prepared and updated regularly					
Sales force motivated and incentivised					
Sales conversion ratios and order book exceeds competition					
Regular promotional activities yield good new customers and sales					
Customer loyalty better than competitors					
Service standards above sector norms					
Spread of sales avoids reliance on key buyers or specific products					
Distribution network compares favourably with competition					

Template 3: Operational & Production Management

Guidelines	**Current Capability Score**	**Target Score**	**Variance**	**Priority**	**Actions**
Production facilities and methods comparable to stronger competitors					
Effective cost control across all internal processes					
Product/service delivery time and quality comparable to competitors					
No significant order processing delays					
Adequacy of storage facilities for raw materials & finished goods					
Limited amount of ageing or delinquent stock/inventory					
Minimal reliance for procurement on intermediaries					
Raw materials not subject to ‘fashion risk’					
Reliability and optimal purchase arrangements with suppliers					
Quality standards certified and analysed regularly					
Good business administration record					

Template 3: Facilities Management

Guidelines	Current Capability Score	Target Score	Variance	Priority	Actions
Premises convenient to suppliers and buyers					
Premises and equipment relatively new and well maintained					
Plant operates efficiently and meets capacity requirements					
No significant equipment ageing, production capacity or plant technology problems					
Transport efficiently and competitively organised and well maintained					
Limited interruptions in computer & communication systems					
Good health, safety and security record – no pollution, environmental or regulatory claims or penalties					

Template 3: Financial Management

Guidelines	Current Capability Score	Target Score	Variance	Priority	Actions
Cash Flow predictable and allows accurate liquidity management					
Good track record of meeting payments when due and without overdraft excesses					
Flexibility in supplier terms					
Reasonable overdue debtors and bad debt experience					
Satisfactory payment record of customers					
No significant foreign exchange risks on sales or purchases					
Limited extended credit required to support sales					
Comparable to competition for investment into fixed assets and technology					
Good bookkeeping and accounting system					
No qualifications or adverse audit comments on accounts					
Sales per customer and ageing of receivables in line with sector					
No over reliance on exports					
Supply prices fixed (not vulnerable to sudden market changes)					
Financial performance and ratios matches competitors					
Contingent liabilities including pension fund obligations within financial resources					

Template 3: Planning & Information Management

Guidelines	**Current Capability Score**	**Target Score**	**Variance**	**Priority**	**Actions**
Regularly measured performance against Business Objectives, Plans & Targets/Budgets					
Frequent testing and resetting of business assumptions					
Company organised in optimal way to achieve stated objectives					
Regular discussion of performance among managers					
New ideas for improvement openly discussed and feasibility objectively analysed					
Action Plans prepared and used for communicating management requirements					
Market share, client & product/service profitability information regularly produced and analysed					
Regular assessments made of marketplace including independent studies					
Reliable data produced for reporting & decision making					
Business Continuity Plan exists and regularly tested					

Template 3: People Management

Guidelines	**Current Capability Score**	**Target Score**	**Variance**	**Priority**	**Actions**
Clear job and competency descriptions for each staff position					
Adequate and flexible workforce skills available					
Able to attract & retain high quality staff					
Staff remuneration comparable to competitors					
Staff training (technical and general skills) planned and conducted					
Key person insurance cover held					
Staff performance and remuneration linked to achievement of Business Plan and objectives					
Good people development principles or standards that are externally recognised					
Adequately funded Pension plans and staff insurances					

Template 4: Examples of Financial Ratios

Liquidity ratios, indicating a company's ability to meet short term financial obligations. Those ratios most typically used are:

Current ratio	current assets divided by current liabilities
Quick ratio (quickly realisable assets, excluding stock)	cash + trade receivables divided by current liabilities
Working capital	trade receivables + inventory less trade and other production payables

Efficiency or activity ratios, indicating how well a company is using its assets to generate sales. Those ratios most typically used are:

Days receivable	[net receivables (after deduction of provisions and net of VAT) x 365] divided by net sales i.e. on average, how fast (many days) does the company collect in money from its sales?
Days inventory	[net inventory (after deduction of provisions and net of VAT) x 365] divided by net cost of goods sold i.e. on average, how fast (many days) does the company turn over its stocks?
Inventory turnover (number of times)	cost of goods sold divided by average inventory
Fixed asset turnover (number of times)	sales divided by net fixed assets
Total asset turnover (number of times)	net sales divided by total assets

Financial capacity ratios, indicating a company's capacity to borrow and repay short or medium term funds. Typical ratios used are:

Days payable	[trade and production related payables x365] divided by cost of goods sold
Leverage	total liabilities / total assets minus total liabilities (which represents Tangible Net Worth)
Gearing	total debt divided by equity (capital + retained earnings less intangible assets)
Debt interest coverage (number of times)	Net profit before interest and taxes divided by interest
Debt repayment cycle (number of years to repay all debt)	long plus short term debt divided by operating cash flow (profit before interest, tax and depreciation)

Operational and profitability ratios, measuring how effectively a company generates sales and profits from the investment made in capital and assets. The most generally applied ratios are:

Sales growth (as %)	net sales this year less net sales in previous year divided by net sales in previous year
Asset growth (as %)	total assets this year less total assets in previous year divided by total assets in previous year
Profit growth (as %)	net profit after tax this year less net profit after tax in previous year divided by net profit after tax in previous year
Gross margin (as %)	net sales less cost of goods sold divided by net sales
Operating margin (as %)	profit before interest and tax divided by net sales
Net margin (as %)	net profit after tax divided by net sales
Cost conversion ratio (as %)	operational costs excluding cost of goods sold divided by net sales
Sales conversion ratio (number of times)	net sales divided by working capital (receivables plus inventory less payables)
Return on assets (as %)	net profits after tax divided by total assets
Return on equity (as %)	net profit after tax divided by total equity (capital plus retained earnings)

Template 5: Business & Financial Plan Assessment Form

1. Have all sections of the BFP been completed adequately?

2. Have you assessed and communicated the relevant experience of the management team including commercial and entrepreneurial flair?

3. Does it appear that the business owners are proposing to risk an adequate amount of their own funds or assets/collateral in the business versus borrowings and reliance on other trade credit?

4. Are the product/service mix and contribution targets realistic?

5. Have the market and business capability assumptions been adequately tested?

6. Has sufficient information been provided to communicate the management's financial and technical business acumen?

7. Has the type and frequency of business and financial information that could be provided, been highlighted?

8. Can the market and competitor comparisons be independently validated?

9. Have all contingency items and risks been addressed?

10. Do the business cash flow and business driver assumptions provide adequate cushion for future variances?

Template 6

Critical Success Factor	**Importance (low – high)**	**Own Performance rating versus CSF**	**Competitor Performance rating versus CSF**	**Key Actions**

Template 7

Critical Success Factors	Significant Risks	Potential Contributing Factors	Mitigating Actions/ Controls	Probability of risk occurrence	Impact Value from risk occurring	Business/Financial Effect (High, Medium or Low)	Action Plan
1. Market share /growth with best clients 2. Inventory for 'just in time' delivery 3. Products meeting international quality standards 4. Flexibility of production process 5. New product development 6. Generation of regular cash flow 7. Extending Suppliers terms of trade 8. Providing credit terms to customers 9. Brand positioning of products 10. Maintaining price competitiveness 11. Technical advice offered to customers 12. Skilled & motivated 13. Workforce							