



Lessons Learned from My Workout Banker

By Jim Gilbride | FocusCFO

Our business had been flying high, until our largest supplier decided to self-distribute their products and took 85% of our business with them. I advised my banker and we worked quickly to reduce and renew our line of credit. Shortly after that, my banker was excused, resigned, or fired from the bank. Upon introduction to our new banker, we outlined our situation and plans for rebuilding, at that time we also advised the bank, we would need their help as we foresaw a cash shortfall until we could regain our volume and profitability. Our new banker advised, they would discuss with their boss and respond quickly. It was at this point I became a “special asset” ...it is always nice to be thought of as special!!!

Turns out my definition of special and the banks did not align. Bottom line they wanted us to exit the bank promptly. Our workout banker, Mr. H, turned out to be a stronger ally than we expected. We presented our plan to Mr. H. and proceeded to get to the work of regrowing our businesses. The first year went pretty well, we doubled our volume, and lost less money than expected, but we were burning cash and couldn't tell if the light at the end of the tunnel was daylight or a freight train.

Year two of the rebuild saw growth slowing and cash continuing to run out. We reduced expenses, consolidated certain products into fewer warehouses, and increased prices to maintain some sense of equilibrium and reduce our cash burn. Results of year 2 showed a 30% grow rate, but still short of the

finish line, and cash was nearly gone. We took our weekly cash flow forecast down to a daily exercise and set out for year three.

Year three started with slower growth than expected and continued tightening of cash. We had been talking with another similar distributor about combining efforts in one market and finally had what we thought was a workable plan, except we were short \$600k in forecasted cash to see us through to profitability. We approach MR. H, at the bank and made our case to him requesting an increase of our line of credit from \$3M to 3.75 to cover the needed working capital. To our surprise we received the increased requested to proceed with our plan. We refinanced all of our debt 12 months later and left Mr. H and his bank.

18 months later I had the pleasure of sharing coffee with Mr. H to reconnect and learned he had left his bank. In our discussion he mentioned to me “you don’t know how rare it was to get the bank to loan you more money”. Being the curious type, I asked him why he/they did in fact loan us the extra funds. Here comes the lesson.... he said, “Jim, first off, the bank doesn’t want your business, they want you to pay them back as originally planned. Secondly, you and your team were the most knowledgeable about your business and likely the best people to turn things around. You had a plan, you knew your numbers, communicated regularly, and most importantly never surprised me. You didn’t always hit your numbers, but you had good sound understanding of why and how to fix it.”

From that moment forward, I have a new respect and understanding of how to build a strong relationship with a banker. Bank funding is the least expensive form of commercial funding available. Your banker is your mouth piece and advocate at the bank. Bring them into your business, show them the plan, demonstrate to them you know your numbers, communicate regularly and most importantly, do not ever surprise them.

Fast forward to today, I have the great honor of working with many business owners, providing them with fractional CFO services to help them build their business. We emphasize the need to know your numbers, and communicate them regularly with your banker. Both of those activities will provide a foundation for greater success.

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Founded in 2001, FocusCFO is the leading onsite fractional CFO services provider in the Midwest and Southeast, with more than 100 CFOs and Area Presidents throughout Ohio, Michigan, Kentucky, Indiana, Pennsylvania, Tennessee, and North Carolina. FocusCFO works closely with small to medium sized businesses helping business owners gain control over three key financial and operational areas: increasing cash flow, reducing business risk, and creating a platform for scalable growth. This allows business owners to then realize full financial control and increased value in their businesses.

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