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# LOCKFinance



Word From The CEO, Simon Thompson

## Stop Borrowing Against the Family Home

**As every SME (small to medium-size enterprise) owner in New Zealand knows, obtaining finance is never easy. Our banks have a love affair with mortgages and the reality is that 90% of SME bank finance is backed in some way by property, ie the family home in most cases.**

There are pros and cons to this. On the positive side at least some finance is available and the rates are low, but conversely it limits the growth to the level of equity in the property and it certainly adds to the family stress!

**So, are there ways to stop or at least reduce business borrowing against the family home? The short answer is yes, but in New Zealand we are not very good at it.**

Ironically New Zealand leads the way in this area and the World Bank sees us as a 'best practice' country. We have a very good legal framework (based on our Personal Property Securities Act), a well-used online security registry system and active market lenders such as Lock Finance and others, who do not need property security when lending to the SME sector. However most New Zealand banks are simply not willing to use it and many SMEs are not aware of the alternatives.

In Australia, the United Kingdom and other developed markets they have very active asset-based lending markets, securing business loans against these "movable assets" ie inventory and accounts receivable. In the UK one in four businesses has asset finance and in Australia their activity is 50 times higher than us, so we really do lag behind badly.

So far in New Zealand the big banks are slow to provide these products and give SMEs more choice, but is there demand from SMEs?



Most SME businesses have a lot of money tied up in their inventory and accounts receivable but still seem to have a fixation with financing their businesses by borrowing against the family home. Furthermore many SMEs are stricken with inertia. There is that old "Boat-Bach-Beemer" attitude that once you have achieved a certain level of success there is no need to push further. If SMEs work their business that bit harder by using the assets to finance growth they can start to release the pressure on the home and get additional growth.

**There are other benefits of switching away from mortgage based facilities to asset-based arrangements:**

- the facilities fluctuate with activity, as the accounts receivable and inventory grows, so does availability
- keeping the business separate from personal assets makes it easier to sell the business as it is self-financing

- if the family home has to be sold for external personal reasons the business can continue without any disruption
- accounts receivable financiers often provide professional debt management and collection services alongside the finance facility so the business operates more efficiently

**In summary Kiwi SME owners need to take a leaf from overseas trends and move towards getting their business debt independent from their family home. This will not be an overnight process and may take 2 years, 5 years or longer, but it is a worthwhile goal to aim for that will give greater flexibility. There are alternative ways to finance cash flow using the assets within the business and we lead the market in this area.**

**Simon Thompson**

## Latest

# Lock Finance backs Business Mentors New Zealand

**Lock Finance has just signed on as a National Patron of Business Mentors. This is an important way for us to help SMEs get more from their businesses and our support for mentoring as an integral part of Lock Finance's vision for the economic development of New Zealand.**

The country's common future after this recession lies with nurturing our small and medium business sector. It's never been more important to provide small and medium enterprises (SMEs) with support so that they can weather this period of uncertainty and be fit to take advantage of the upturn. It's a great fit with Business Mentors New Zealand and at

Lock Finance we do believe that by supporting the principles of business mentoring, we are investing in our own business opportunities as well as being good corporate citizens. After all, healthy businesses generate business.

For more information on mentoring see [www.businessmentors.org.nz](http://www.businessmentors.org.nz)



## Case Study

# GS Pacific - bringing spice to your life

**GS stands for Global Solutions and it imports and distributes Indian food products. It is the second business I've been able to develop with support from Lock Finance (the other being [www.Smartpayroll.co.nz](http://www.Smartpayroll.co.nz) – NZ's #1 Cloud Payroll Company).**

I bought GS Pacific at the end of 2008 just before the global financial crisis kicked in and life got pretty tough. Because we were buying goods in advance in India and we had to pay for them before shipping, we had a very bad cash flow cycle. It could take up to six months before we were paid and I needed the cash back so that we could reinvest in more stock if we were to grow the business.

By selling the debtors to Lock Finance through their factoring service I was able to get the cash back quickly. The cost of the service was negligible compared to the money I could make by reinvesting in the business. I was able to get a whole bunch of products into the New Zealand supermarket chains and over the space of three years we tripled the turnover from \$1 million to \$3 million and drove the profit from \$150,000 a year to more than \$750,000.

At the end of the day we were only successful in the business because of the assistance we got from Lock Finance in factoring our debtors.

GS Pacific is currently associated with India, China, Hong Kong, Malaysia, Dubai, USA, UK, Germany, and Australia. It was set up to bring authentic Indian Food made in India onto the dining tables of every Aussie and Kiwi down under that was healthier too than the takeaway versions.

GS Pacific was successfully sold in November 2011 for a very healthy profit and my latest project is building a chain of accounting practices specifically for business owners who want to grow their businesses. [www.smartbusinesscentre.co.nz](http://www.smartbusinesscentre.co.nz)

**Phil Richards**



# Canterbury economic growth is on track

Fuelled mainly by the rebuilding in Canterbury economic growth is on track to accelerate to around 3% by early next year. Small and medium-size enterprises (SMEs) are central to longer-term growth prospects and on that front some work is needed.

Business and consumer confidence surveys have improved moderately in the last couple of months. This suggests that economic growth is in the process of improving from the modest 1.4% recorded in 2011.

Provided the international financial crisis muddles through and there are no more major quakes rebuilding in Canterbury will underwrite an improvement in economic growth to around 3%. In 2012 this will be supported by a national upturn in residential building driven by the moderate fall in mortgage interest rates since July 2011.

Things are just starting to pick up on the rebuilding front with Statistics New Zealand reporting 185 quake-related building consents in March. Many firms around the country will supply goods and services to the rebuilding which will filter the stimulus to other parts of the country.

Near-term economic growth prospects are improving, but looking further ahead what happens in the SME space is critical to economic growth prospects.

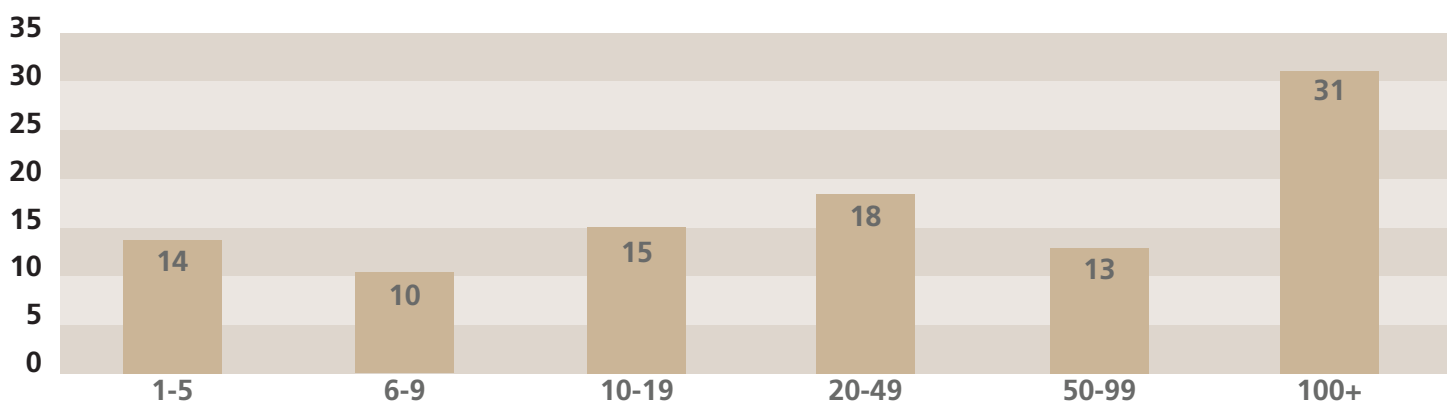
SMEs make up a major share of employment. Stats NZ's 2011 business survey revealed that 47% of employees were employed in firms with less than 50 staff. Of even more relevance to economic growth prospects, based on US studies SMEs are responsible for the vast majority of new job creation.

Most new firms start small. And of concern, annual births of new firms have slowed from 63,122 in the 2007 survey to 42,370 in the 2011 survey. Stronger economic growth and hopefully improved access to finance will underwrite some recovery in the birth rate of new firms. But this is an area that gets too little press.

Fostering SMEs rather than strangling them in red tape should be one of the highest priorities of the government. In this context I would like to congratulate Lock Finance for signing up as a National Patron of Business Mentors.

**Rodney Dickens**

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The chart shows the % of national employment by firm sizes, with firm sizes based on the number of employees. Source: Statistics New Zealand

## Appointments

# New to the business



**Sean Hilton**

I am fortunate to have been able to accumulate a variety of experience in the finance industry. My past roles have included relationship management positions in business banking, and specialist positions in franchising and asset finance. I especially enjoy learning all about my clients' businesses, and then using that understanding of their business model in order to help them achieve their financial goals. I am especially pleased to be working with Lock Finance, who adopt a flexible approach and do more than pay lip service to assisting businesses to grow.

**Outside of work my time is taken up raising two children, enjoying the beaches in summer, and the occasional game of tennis or golf.**



**Carol Baatjes**

I have been in the finance / banking industry for the last 16 years. I was raised in South Africa where I excelled in assisting corporate customers with their funding requirements. Since immigrating to New Zealand in 2003, I was privileged to have been employed by one of the most reputable banks in New Zealand. This role enhanced my professional skills and gave me the ability to better understand New Zealanders and its business culture. I take extreme pride in understanding my client's requirements and needs, in order to assist them to grow their business for their full potential. As a new employee of Lock Finance, I have gained a greater insight into the differences between Banks and the benefits that Lock Finance have to offer to their clients. I firmly believe that Lock Finance has the correct approach of keeping business borrowing separate from personal assets.

**As much as I thrive on hard work, I am also a firm believer in leisure time. I enjoy spending quality time with my two boys and cooking and baking is our time to regroup as a family.**

S.H. Lock (NZ) Limited  
Level 14, Tower Centre  
45 Queen Street, Auckland 1010  
PO Box 106 054  
Auckland 1143  
Phone: 09 375 8500  
Fax: 09 375 8529

**0800 ASK LOCK**