

Are You Experienced?

*If you can just get your mind together
Then come on across to me
We'll hold hands an' then we'll watch the sun rise from
the bottom of the sea
But first* 

*Are you experienced?
Have you ever been experienced?
Well, I have*

Jimi Hendrix May 1967 

I've had this great old Jimi Hendrix song tumbling around in my head this week. A great riff and a great song from one of the legends but that's not why it's stuck on high rotation in my already overstressed mind.

Here's the thing. Not so long ago new entrants to the management rights, caravan park and motel industry could raise finance provided they demonstrated a reasonable asset position, some common sense and a few life skills. It has to be said that some of those purchasers were not exactly overqualified but finance got approved and very few failed to make a go of it. In fact, in over 8 years of broking we have seen a close to nil failure rate.

So, for reasons that have little to do with historical trends and lots to do with fear of regulators the banks have decided that experience is a really critical issue. In fact, some lenders will not lend to first timers at all while others restrict lending or insist on amortising debt from day one. My view is that this policy setting will not change any time soon and in fact is more likely to be strongly enforced into the foreseeable future. Obviously starving any industry of access to debt for new entrants is not a healthy trend. I think it's important that we all think about how best to support the intending new buyer and to work as a support team to ensure a successful outcome and a continuing introduction of new blood to the accommodation sector.

Obviously the first and most crucial step is to ensure that new entrants engage industry experts in sales, law, accounting and finance. We are making a point of outlining the expertise of the key advisors when we approach banks on behalf of new entrants. Some advisors have documented their post settlement services and support processes and we provide this to the lender. I would encourage all industry professionals to develop such a document and have it readily available. We strongly encourage new entrants to develop a detailed resume highlighting any qualifications, employment or business history and life experience which reflect transferable skills. A business plan is almost mandatory these days and we always provide our new applicants with our guidance document in relation to the preparation of a plan. The plan should dovetail into a 12-month cash flow projection which we encourage all new applicants to either prepare themselves or instruct their accountant to undertake. While on the subject of CVs I am surprised that more is not made of the experience of key staff who may be staying on when a business sells. I know this can be a delicate point but if the business has a gun receptionist who's been there forever and is loved by guests and owners alike I'd be tempted to include this detail when selling the property. It would sure help us when we are negotiating with the banks.

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fresh ideas...



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New entrants should be encouraged to join an industry association such as ARAMA or the HMAA and to undertake any training that is on offer. Banks understand that organizations such as ARAMA not only provide initial training but also ongoing support and guidance for first timers. I don't think we make a strong enough point of just how important this is to lenders. Complimenting industry association memberships is a new strategy we are developing for new entrants. We know that operators are usually very supportive of each other so we are seeking out experienced owners to volunteer as mentors for new entrants. In a recent case an experienced motelier was generous enough to write a confirmation that they would provide guidance for a new motel operator in a country town. We also asked the vendor to amend the contract to confirm availability to provide advice and guidance for 6 months post settlement. The transaction went from declined to approved.

I think having vendors agree to at least be contactable post settlement should the need arise is a strategy which resonates with lenders. Some vendors will not be interested having booked the holiday and started the car but I suspect just as many will be prepared to play the game in order to get the sale through. I am not suggesting anything onerous here, just a safety net in terms of guidance from the ex-business owner. Vendors who are confident in their business will step up I suspect while those who are less confident may not. Time will tell.

The accommodation sector is fortunate to have the services of a number of very experienced consultants who can assist with reviews of operations, marketing plans, assignment presentations and the like. For larger businesses being purchased by first timers we encourage our clients to engage such a consultancy for both pre-settlement planning and ongoing review and support.

In summary, for new entrants here's the essential checklist:

- ✓ Surround yourself with recognised industry experts who will be there post settlement
- ✓ Join an industry organisation and do all the courses available for new entrants
- ✓ Have a compelling CV and business plan / cash flow forecast
- ✓ Find an operator nearby who will agree to be a mentor
- ✓ Convince the vendor to be a casual advisor post settlement
- ✓ Engage a specialist consultant to provide supporting management and review services

Support from the banks is not out of the question if you ignore these tips but it is sure going to be a whole harder with a lot less options.

I started with Jimi so let's finish with Bob.....

*Come gather 'round people
Wherever you roam
And admit that the waters
Around you have grown
And accept it that soon
You'll be drenched to the bone.
If your time to you
Is worth savin'
Then you better start swimmin'
Or you'll sink like a stone
For the times they are a-changin! 🎵*

Bob Dylan October 1963

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