

## **Securing Capital in a Tight Credit Market**

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When business owners need capital, they typically think of their banker first. But what do they do when credit is tight and they can't get the capital they need from their bank? Some panic and do nothing. Others get creative.

Matching the right sources and types of capital with a business depends on multiple issues. Is it a start up company, a growing company, a mature company? Does the company provide products or services? Does it use machinery or equipment-is it capital intensive? Is research and development critical?

Many start up and smaller companies rely on the savings of their owners. If savings is not enough, they often look to a bank, which may or may not be interested in loaning them money. If the bank will not provide traditional financing, small business administration or minority owned business programs may be available to entice the bank to make the loan.

Other sources of capital for start up and smaller businesses may include federal, state, or local agencies, or independent not-for-profit organizations, such as economic development agencies, neighborhood business development programs, etc., whose purpose is to promote business development and job creation by providing low interest loans and grants.

A very common source of capital used by business owners is proceeds from home equity lines of credit. Family and friends are other sources of capital for the business owner that can come in the form of equity, such as partners, or as debt, similar to a bank. Certain consultants may be able to link business owners with their network of angel investors. Angels are usually wealthy individuals who provide not only capital, but also can help the business by rendering advice, connecting them with the angel's business contacts, etc. Angel investors are generally much more sophisticated than typical family and friends, will likely demand much more accountability, and have "strings" attached to their investment.

Not all capitalization involves putting cash directly into the business. Instead of purchasing equipment or machinery, the business owner may want to lease these items, essentially renting instead of purchasing.

Sometimes managing cash flow can reduce the need for capital. Consider bartering products or services with another company. Perhaps suppliers can finance some, or all, of the inventory purchased from them. Can the company's customers pay some or all of their purchase in advance? Slow moving inventory? Trade it, or sell at a discount to free up cash.

Larger, sophisticated companies can raise debt capital by issuing their own bonds. They can raise equity capital through private equity firms, venture capitalists and even by going public.

Sometimes capital is needed to actually purchase an interest in the company itself. Consider seller financing, or proprietary succession planning products such as Equity Access, if bank financing isn't available or only provides part of the necessary capital.

There are multiple ways to capitalize a business. It is important to note however, that each arrangement will have unique legal, tax, financial, and possibly operational, characteristics that should be analyzed carefully.