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When capital markets tighten, be sure company is in good shape

Many privately held companies today are facing the stark reality that the capital markets are no longer financing growth at the pace or with the ease they were in the not too distant past.

BUILDING BUSINESS

BILL BOYAR

Lenders providing working capital now require significantly more collateral or personal liability on the part of borrowers, guarantors and private equity providers are more conservative in their underwriting and cautious in their decision making, and satisfying their return expectations has become more challenging.

Given the current state of the capital markets, what can growing companies do to survive and sustain growth?

REVISIT YOUR MISSION

The first step is to revisit your company's mission — your fundamental purpose as a company. Given the current circumstances, is your mission still your mission? Do you still believe in your mission and what it represents for your employees, customers and owners? If the answer is no, then the challenge is to reframe your mission. The future depends on establishing a new purpose and being able to persuade your constituents that it is meaningful and achievable.

REVISIT YOUR BUSINESS MODEL

With a clear mission, the next step is to reassess your business model for its integrity and viability.

Are there markets that demand your products and services? Are they priced appropriately? Are your costs in line? Are you managing production consistent with evolving demand? Do you have the right people, in the right numbers, in the right positions, doing the right things at the right price?

Leave no element untouched. There can be no sacred units, people or thinking. Look to eliminate unproductive people, unprofitable business unit, and non-core assets or activities. Encourage meaningful internal debate on all aspects of the business model.

REASSESS YOUR STRATEGY

Most organizations have a planning cycle, whether it's one, two or three years, for developing and executing strategic plans. The discipline of regularly creating meaningful strategic plans and then acting with accountability to execute those plans is tremendously important.

However, when radical shifts occur in the economy that directly impact the organization, it is imperative the strategy be revisited outside of the normal cycle. You simply cannot wait for the traditional planning cycle to run its course. Moreover, you cannot afford to be reactive and tactical to the exclusion of sound strategic reassessment. The risk is losing market position and opportunity for growth.

MANAGE LIQUIDITY

An important guiding principle when faced with constricting financial markets is to carefully manage liquidity. As commercial banks tighten credit and asset values decline in some industries (such as commercial real estate), having liquidity can help create or sustain a strong competitive advantage.

The ability to service debt, maintain a work force and invest in technology, marketing and training and development, can mean the difference between mere survival and actually experiencing growth in this challenging environment.

OPERATE TRANSPARENTLY

Companies faced with capital availability issues should follow another important principle — operate with transparency.

In dealing with all stakeholders, including investors, employees, customers and capital providers, transparency is critical to sustaining open communication and developing and maintaining trust.

Make accurate and complete information readily available when appropriate and with the appropriate people and institutions. Err on the side of disclosure, vs. secrecy. Trust that those having to deal with you can deal more effectively with the facts than with fiction. Your organization's interests will be much better served with this approach.

ACCESS CAPITAL CREATIVELY

Notwithstanding much that is published, the capital markets are not closed. There is an abundance of capital available to finance good companies and good projects. The challenge is to find creative avenues to identify and access through the best sources.

Rely on those who access capital for a living to provide guidance and insight — investment bankers, private equity funds, venture capital funds, and yes, even the right commercial bankers. However, with the regulatory scrutiny that commercial banks are facing and the impact of the crisis in the financial markets on the major investment banks, traditional financing on reasonable terms will be a challenge to obtain from these sources.

This leaves alternative lenders, foreign capital, mezzanine funds, private equity and venture capital as the more likely sources for financing.

In the end, well-managed companies, with real purpose, sound business models, concise strategies and understanding of the marketplace, which operate with transparency and intelligently manage their resources, are attractive to capital providers.

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