Is There Capital Beyond The Banks? *(IW Growing Companies, December 1998 issue, page 20)*

When a small, emerging manufacturing enterprise shows signs of sustainable growth and expansion, the hunt for new capital has to begin. A new infusion of capital is necessary to make the successful transition to the next level of output, but the existing asset infrastructure and profitability may not be able to provide the level of funding necessary for the growth curve to continue upward.

At such a crucial moment in a manufacturer's evolution, questions commonly asked by the owner-entrepreneur include "Who do I talk with to find enough capital to make this forecasted growth a reality?" and "What are the different kinds of capital, so I can put together the right funding for my firm?"

The most important issue to remember is that capital will rarely, if ever, come looking for you and your company. You will need to locate it, then in turn develop the necessary relationships to secure a deal that secures your company's future.

Senior managers often are not aware of the various capital sources available in today's market, so they typically start the funding search at local commercial banks. These well-meaning inquiries generally are met with proposals for prepackaged amortized loans. But collateralized debt usually is written from a "generic" perspective that may not address the unique needs and prospects of the smaller firm. For example, principal and interest payments begin immediately after closing, creating an instant negative effect on operating income at a time when the anticipated growth in sales volume has not yet hit the top of the P&L. New loan payments impact the timing of the firm's cash flow, reduce net working capital in the near term, and might require other restrictions on your operations in order to provide the bank with a means of risk reduction.

Finding alternatives to traditional bank debt makes sense for two reasons: First, it provides different looks and other solutions to the as-set acquisition and cash-flow needs. Second, different options actually can strengthen the company's bargaining position with other parties when putting a final deal together. Bank products and services make sense for many business needs, but there are several other venues available to the owner-entrepreneur who is willing to get creative and explore nontraditional structures when assembling a growth capital deal.

Start your search for capital on five separate fronts, including:

- Distributors in your company's marketplace.
- Suppliers to your production function.
- Tangent companies.
- Formal venture capital firms.
- Informal investor groups.

Sometimes the best sources of funds are companies you do business with on a regular basis. Large, successful distributors and suppliers of your company, as well as firms in tangent industries, can be approached about putting a portion of their financial strength (equity and working capital) behind your growth effort. But it's important to remember that they are not in the business of doing financial deals — don't expect them to make an offer to you. These businesses are excellent growth capital providers, particularly if you can link a solid investment to the growth opportunities in your firm.

Venture capital companies provide funding to firms that have a solid track record of positive cash flow and low debt. Even if they do not directly provide the growth capital for your deal, VCs are well connected with a wide range of related businesses and investors, and can refer you to interested sources.

Sometimes the best referrals are to individual "angel" investors, individuals who take a particular liking to your products, business strategy, management style, or vision.

Additionally, many business communities have informal investment groups that regularly review funding proposals and provide capital to companies with strong growth prospects.

In any of the growth-capital venues, your proposal must make good financial sense to the capital provider. A true "win-win" deal allows you to expand your asset base and working capital, while providing clear investment returns and incentives to investors willing to back your company.