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Funds still flow for

As the 2008 Sunday Times Bank of Scotland Corporate £35m Entrepreneur Challenge gets under way we take a look at the key challenges facing entrepreneurs today. In the first of four special features, **Andrew Stone** looks at how to secure finance

Taking a flexible approach: Lee Wade, managing director of the network equipment supplier Expone

THE turmoil in global credit markets has raised the bar for ambitious entrepreneurs seeking funding to expand their business, as lenders become more cautious about signing on the dotted line. The good news is that the money is still out there provided you are realistic about what you ask for and think hard about your proposition. Banks and venture capitalists still have the cash for those with the determination to secure it.

Doug Richard, chairman of Library House, which researches high-growth private firms, and himself an active entrepreneur, said that in this more cautious climate it was vital for businesses seeking to fund growth to adapt their plans and improve their proposition. Also, equity deals take longer to complete, said Richard, a former judge on the Dragons' Den television show, who sits on both sides of the funding fence, raising money for his own start-ups as well as backing other businesses.

"I'm telling people to give themselves six to 12 months to do a deal now. I think it's also important to plan for deals to cost you more than you had originally planned. Unfortunately, that does affect how you do a deal if you have to be putting it together early. It's frustrating knowing you will be able to put a much better case for it in six months but that's where we are right now."

David Giampaolo, chief executive of Pi Capital, a private-equity club, said venture capitalists still had an appetite to do deals but impressing them was harder. "People will be scrutinising business plans much more closely and looking harder at the assumptions of growth they contain, so make them as convincing as you can."

He said venture capitalists were now very aware that time was on their side. "Although we are looking at deals, we are in no rush. The fact is that a lot of businesses will be cheaper in six months. The good news is that there's still a lot of equity capital around."

Venture-capital deals are also thinner on the ground. Figures from Library House show the number of equity deals completed in the UK fell in the fourth quarter of 2007 to 98 from 139 in the previous quarter and 131 in the fourth quarter of 2006.

Some businesses have successfully adapted their plans to prevent their growth being stunted. Aware of a more cautious lending climate, Lee Wade, managing director of the network equipment supplier Exponential-e, successfully secured £5m in January to fund his company's rapid growth in two stages instead of one.

Splitting a planned expansion of the business into two parts was the best way to maintain growth, said Wade. "From October onwards last year we realised that we were heading for the credit crunch and we decided that £5m of funding straightaway was just not going to happen," he said.

"It's slightly frustrating to have to slow down our roll-out because of the opportunities we see out there, but we thought it was the best way to maintain our growth levels of 50% a year since we launched in 2002."

Whether you are seeking bank funding or venture-capital backing, the quality of your proposition and the way you present it is more important than ever — so revisit it, advised Andy Collins, senior consultant at Results International Group. "The quality of the management team is still the most important thing to demonstrate along with the strength of the business proposition. Clearly outlining your growth strategy is also crucial.

"Prepare your case in advance. Have meetings with prospective investors early. Leave it too late and you will be under huge pressure. You will also be less appealing to private-equity backers in particular."

Richard McNeilly, head of business development at the Dains chartered accountancy group, certainly found it harder than he thought to secure finance needed at the end of 2007 to turn the group into a limited liability partnership and build a £3.5m war chest.

It was unnerving, said McNeilly. "The funding was there from everyone, but the conditions varied enormously and most of the banks wanted the directors to retain a high level of liability.

"With eight years of profitable trading and a strong capital base, we were quite surprised. Some banks were not prepared to take us on our merits and seemed more bothered about the sector we were from."

After talking to several banks, Dains secured the funding it needed on the terms it

TOP TIPS FOR SECURING F

- Revisit your business plan. Is it robust enough?
- Prepare your funding case well in advance
- Start talking to your bank and your advisers early if you think you will need more funding in the future
- Expect equity-based funding deals to take longer
- Make sure y are well founde
- Be flexible a adapt your gro
- Explore alte that could mak capital

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required through Bank of Scotland Corporate. But the caution he experienced from banks in general was not unique, according to Collins at Results International. "We are hearing from our clients that it is much tougher to secure funding and I think there is a strong possibility the market is going to get tougher as the year goes on."

But although anecdotal evidence suggests some banks have become more cautious, ample funding is still available for the right businesses, according to Tommy Young, head of commercial banking for England and Wales at Bank of Scotland Corporate.

"There has been a lot of noise around the credit crunch but we are very much open for business," he said. "We are out there in the regions and we are doing deals every day of the week. We don't look at the financial environment when we do deals, we look at each one case by case and we look at the individuals in charge. The businesses we are talking to are doing well, they have good trading histories and good order books. We want to grow our market share and we want to invest in people, not sectors."

Credit crunch or not, businesses are also getting increasingly sophisticated in their attitude to raising finance and becoming more and more aware of the different funding options that are available to them, said Young.

"Customers are hungry for new solutions and new partnerships and far more willing to have conversations about the different ways to fund their plans.

"There's a much bigger tool box open to them now than just a traditional overdraft. Instead of, say, a term loan of £1m over 20 years they might consider other options, including asset finance or products like cash-flow financing, that enable them to use their working capital more efficiently.

"I think that customers are also becoming more discriminating. Increasingly they are looking beyond simply the cheapest headline offer and looking instead for a partner that can support them beyond one stage of their growth, a partner that can help them through the business cycle and plan for the next 10 years if need be, through the difficult times as well as the growth times."