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trekking

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the trouble with banks

Last week at the Association for Corporate Growth Outlook Conference in Boston, a senior lender from Citizens Bank described the current frenzy among lenders to do large deals. He said in his group, they closed six large deals in the last couple of months, sent out 42 term sheets and had 38 expressions of interest from other banks.

What does this mean? Banks are back in business for larger deals. It's easier for a bank to make one \$10 million loan than ten \$1 million loans. You do one risk analysis, not ten. The pricing is probably at a healthy spread (the federal government subsidy provided to banks of allowing it to invest its \$5 billion in cash for a good spread in Treasuries will not always be there for Citizens.)

But it's still tough to get a loan if you are in a SME (small or mid-size enterprise). A recent [Wall Street Journal article](#) notes a very small increase in credit approval for small business in 2010. This is off seriously-reduced levels from 2009. Some of this reflects lesser demand from businesses that laid off workers and cut way back on discretionary expenses. It also reflects a drying up of M&A activity in the SME space. Even in distressed situations, many owners just turned off the lights and closed up rather than trying to sell which might have required financing.

In 2011, the game is still the same. Banks make a spread of 5 or 6% over the cost of funds when they make a loan. This is a small return for a loan that could carry considerable risk. And because banks got hammered by lots of dicey real estate exposure and had a severe liquidity crisis leading many to take TARP money, bankers have been reluctant to lend into the SME in the past two or three years.

So if you are an SME looking for financing in 2011, it will be challenging. But speaking as a 17-year veteran of

commercial lending, I will tell you that there are a lot of things that you can do to increase your chances of getting what you want.

a different approach

So what's the answer for SME businesses? Up your game.

1. Open conversations with many lenders. If you need a different bank, they will have the notes to say that you have been talking and didn't just rush through the door in desperation.
2. Take a look at your capital structure. How much senior debt will a bank lend you? How will you make up the difference? Mezzanine debt, a subordinated loan or more equity? It's going to cost you more, but if you need financing, then you have to find it.
3. Get your financial statements in good condition. A tax return is inadequate. Your CPA should probably prepare at least a compilation. A review or full audit is better.
4. Make your credit request stronger. Provide everything a bank wants at the same time - company history, your own analysis of recent financial statements, competition, the future (your exit strategy)? The easier you make the request on the bank officer, the more favorably you and your request will be viewed. A solid request will also be a good drill for your own strategy.
5. Be ready to answer the basic questions every lender is trained to ask on for a commercial loan request from a corporate borrower:
 - a. What will you use the money for (Use of proceeds).
 - b. How will you repay it? - (Source of repayment)
 - c. How will repay it if that doesn't work? (Fallback)
6. Tell your intangible story better. Most businesses these days do not have lots of tangible assets to secure loans. And the lender, no matter what the interest rate, wants to know your business will be around to repay the loan (the answer to question #2 above). Your story will likely be around your intangibles: relationship capital, structural capital, human capital and strategic capital. It should also include fallback (answer to question #3).

We are finding good reception with bankers for specific, data-driven descriptions of intangibles. 80% of the value of the average company today is intangible. Most bankers and

businesspeople understand this intuitively but they often don't have the information to tie value and intangibles together.

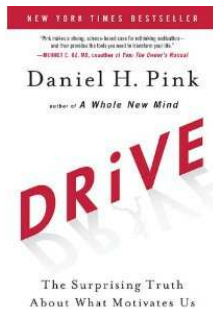
reading list

[Drive: The Surprising Truth About What Motivates Us](#)

by Daniel Pink

Pink has authored other thought-provoking books in recent years: [Free Agent Nation: the Future of Working for Yourself](#) and [A Whole New Mind: Why Right Brainers will Rule the Future](#) so I looked forward to diving into this one.

Pink analyzes motivation over the course of history, calling what inspired cave men Motivation 1.0, where the focus was on survival, so decision-making had this as a priority, living



and eating first. For Motivation 2.0, the pursuit of materials goods and fear of punishment led to a carrot-and-stick structure in motivating employees. However, Pink makes the case that in modern America, personal fulfillment -- Motivation 3.0 -- can be a stronger motivation than material reward.

This explains why financial rewards for behavior may backfire (extrinsic motivation). The opportunity for freedom/autonomy (Google's corporate policy of allowing 20% of employee time to work on whatever they want), greater mastery of the skills required for the job and purpose, and gaining a real understanding of why we're doing what we're doing may provide real motivation, what Pink calls intrinsic motivation. Lots to think about here for businesses and non-profits.

announcements

Wednesday, February 16 at Babson College in Wellesley, MA, What Every Business Owner should know about Private Equity

Babson College. Mark Jroff is the Managing Partner of Heritage Partners, a Boston-based



private equity firm that has a different approach to investing in family-owned businesses than most equity groups. Heritage provides capital for companies to

diversify shareholder net worth, cash out partners, open up ownership to management, or to grow using outside capital. Heritage uniquely allows original ownership to retain control. At this [breakfast meeting](#), Mark will speak about the process of preparing a company for ownership transfer, when a business owner should consider private equity

options, and key attributes that private equity firms look for in an investment.

Monday, February 28 in San Francisco - Mary Adams -



will be speaking at [The Future of Money and Technology](#) conference about

monetizing intangible capital.

Thursday, March 3 on the Stamford, Connecticut UConn campus - Exit Environment for Closely Held Businesses

XPX CT will hold a [panel discussion](#) of what 2011 holds in store for closely-held business owners evaluating exit opportunities. As the new year dawns, a



tentative economic recovery seems to be taking hold, and advisors to business owners can find reason

for optimism in recent M&A trends and compromises on tax policy. But the picture is not entirely clear . . .

Tuesday, March 8 in Philadelphia - "Preparing your Company for Sale and Maximum Value"

Susan Pravda, a Boston-based attorney with Foley & Lardner, will speak at [this breakfast meeting](#) and cover many of the ways to



prepare your company and yourself for ownership transition. Susan

has spoken at XPX-Boston in the past and makes a terrific presentation on the topic, from both legal and business approaches.

Tuesday, March 15 at Babson College in Wellesley, MA - XPX 2011 Summit This year's theme is: ***Assess, Adapt and Arrive: Navigating through challenging terrain.***



Topics within this theme include:

- Dealing with difficult landscape facing business owners
- How advisors can help guide owners through the rough

terrain

- Getting owners and advisors to try new things
- Making a bigger impact - getting your advice heeded
- How social media can grow the advisor's business
- Leveraging your professional networks to build your business
- Best practices for the exiting business owner.

Hope you'll join us for this year's Summit. [Early bird](#)

[registration](#) through February 16.



Trek Consulting is proud to announce that our Trekking newsletter was named a 2009 Constant Contact All Star!

about trek consulting

Trek works with owner-managed businesses to develop and execute action plans for growth frequently by identifying, assessing and improving the intangible capital in a firm. Trek also works with the owners to prepare for their successful exit by coordinating the resources necessary to increase and preserve the firm's value, creating the succession plan and assembling the right transaction team, financing and post-transaction plan. Trek Consulting is one of the founding partners of the Exit Planning Exchange (XPX). Trek's principals co-authored [Intangible Capital: Putting Knowledge to Work for the 21st Century Organization](#).

Our clients report improved market focus, greater revenues, better margins and increased profits. To learn more about Trek Consulting and how we can help you improve your company's results, visit us on the web at www.trekconsulting.com or call us at 781.729.1008.



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