

# Facing up to the funding challenge

By Mike Brown, head of corporate finance, Anderson Anderson & Brown LLP, Chartered Accountants

In the current economic climate businesses are facing up to a landscape in which debt and equity finance is difficult to obtain. Bank funding remains uncertain whilst other funding providers continue to re-evaluate their investment options. Access to capital has become a major issue for many businesses from those looking to finance the next phase of growth to those seeking to maintain adequate funding levels that will see them through the current downturn.

In this environment a robust capital base is vital to support your business and ensure that it can continue to operate at optimum performance levels and be ready for the opportunities that will be presented by an upturn in the market. There are many factors that can increase the funding requirements of your business in the current climate, be it a temporary fall in sales, pressures from suppliers and customers on your normal working capital cycle or a squeeze on resources from funding growth opportunities. However, when looking to raise funding and improve the capital base a significant number of businesses struggle when in many cases the underlying business fundamentals are strong.

Management teams need to undertake a rigorous and honest appraisal of the risks facing the business and ensure that the strategic and tactical plans are robust and more importantly executed. This is critical to maintain the confidence of key stakeholders whether they are shareholders, banks, customers or suppliers. Key stakeholders will want management to have a cohesive strategy and realistic financial projections with plans in place to respond and adapt to unexpected changes in the market.

The ongoing management of cash flow is critical and is it important to continually update your



Mike Brown

cash flow forecasts and be proactive about managing your working capital. This is done through monitoring your debtor receipt and creditor payment cycles, stock and WIP levels, and timing of taxation payments. Particular attention should also be paid to the structure and cost base of the business to establish if any efficiencies can be

made. Any changes in circumstances should be communicated with financiers quickly – it is important to maintain their confidence in management's ability to tackle key issues such as a decline in sales or profitability.

The funding that is available to businesses now comes with increased costs and is generally secured on more stringent terms. The banks will continue to be a port of call when raising finance and despite their current difficulties they will still consider attractive investment proposals from companies which tick all the right boxes. However, a key shift in 2009 has been the type of lending the banks are willing to provide, with cash flow lending significantly reduced in favour of less speculative asset backed lending.

Private equity, venture capitalists and private investors all offer an alternative form of investment which can offer businesses access to capital. However, these investors will require strong returns for their investments and the shareholders of a business need to weigh up the costs and benefits of perhaps relinquishing a stake in their business to fund its future growth.

The companies which are successful in facing up to the funding challenge, and carefully plan and manage their financial resources in the current climate in order to ensure that they have an adequate capital base, successful working capital practices and if appropriate are in a position to fund growth, will achieve optimum performance, both in terms of navigating the current downturn and positioning the business for long-term success. ■

Mike Brown is head of the corporate finance division of Anderson Anderson and Brown LLP, Chartered Accountants  
mike.brown@aab.co.uk  
www.aab.co.uk

<sup>2</sup>  
A+B<sup>®</sup>

C

CORPORATE  
FINANCE  
DIVISION

## Is financing your business a challenge in the current climate?

- Is your capital base adequate for your business needs?
- Looking at ways to address cash flow difficulties?
- Concerned about how to fund your company's growth?

**OUR CORPORATE FINANCE TEAM HAVE THE ENERGY AND EXPERIENCE TO SOLVE THE PROBLEM!**

Contact Mike Brown or Douglas Martin on 01224 625111

ANDERSON ANDERSON & BROWN LLP, 9 QUEENS ROAD, ABERDEEN AB15 4YL  
corp.fin@aab.co.uk • www.aab.co.uk