SOURCES OF CAPITAL

Over-extended in your loans from conventional sources of capital? You may want to try secondary sources—but not without first understanding the criteria for borrowing.

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MANAGEMENT IN BUSINESS

In this era of ever-changing opportunities, it is essential for growing companies in the green industry to know where to secure capital and what it will cost.

Sources of capital willing to invest in service companies in general—and in the green industries in particular—are evident by the large number of acquisitions taking place in lawn care today. This is but an example of the belief by other companies not currently in the industry that a significant return on their investment is available by operating a successful lawn care company.

If you haven't been developing a capital source for your firm, where can you turn?

Conventional source

Conventional financing sources of capital are: your banker, a secured loan from the state in which you operate your company, or one of the various federal financing sources available in your community. In many cases, conventional financing is not available to companies already over-extended in these sources. An alternative is to turn to another group of financing sources.

Secondary sources

Literally hundreds of secondary sources of capital are located all around the country. Some of them limit their investments to specific industries. Some differentiate their investment criteria by some specific business interest in which they have some expertise.

These sources of capital are known as "venture capital companies" or as "small business investment companies" (SBICs). These companies often cover many business areas and their financing ranges from $100,000 to over $1,800,000.

Many of these firms lend and invest in secondary mortgages or subordinated debt, with a warrant to purchase shares of a company at a certain price at a future fixed date. If your business is already highly leveraged (high debt-to-equity ratio), and you can't borrow conventionally, you may wish to contact one of the firms who operate in your market area.

You should know of two operating issues when you deal with these capital sources.

1. When they invest in a company they oversee their investment by becoming a member of the board of directors with the authority of a majority owner of the company.

2. They will require regular management reports, monthly financial statements, and access to all operating results of the company as the reports are generated. They may even require the owner to send a narrative with the reports to help them interpret and understand what the reports are telling the company's management.

The need to secure funds from these secondary sources of capital may be a sudden opportunity, or the occurence of an unforeseen circumstance. Whatever the reason, the following is a list of ideas that will help you to raise the capital.

- Determine the amount of funds you will need. Then add 25 to 30 percent as a cushion.
- Document your capital requirements by preparing a monthly cash flow projection for the first year's use of the funds. Then prepare a monthly projection for the next year or two to demonstrate the probable repayment plan.
- Prepare monthly profit-and-loss statements and balance sheets for the same period for which the cash flow is prepared.
- Develop a one-page summary of your business detailing its history and concept.
- Provide additional information such as: past three years' financials, a brief profile of the management, and advertising brochures that you are using.
- Plan on sending your proposal to between four and 10 firms which lend funds in your market.
- Check with your accountant and lawyer before you send out any information on the company. You must be certain you have represented the company fairly and are not in violation of any federal or state security laws.
- One week after sending the package out to prospective investors, call to confirm that the material was received and is in the hands of the appropriate individual in the firms.
- Follow up in another one to two weeks for any preliminary interest or additional action.

Summary

It is important to identify the need for capital and then to quickly identify those investors who would be interested in your opportunity. Within 30 days after contacting the capital markets you should have enough feedback as to whether there is any interest in your proposal. Make sure your proposal to potential investors is succinct and framed in such a manner that the investor can make a decision—either yes or no.

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