Capital crunch: How to find financing

It's not impossible to raise capital for your operations, but it sure isn't easy. Find out how these experts view the process.

By GEORGE WITTERSCHEIN

Besides being an end, money is also a means to growth and success. Yet for many in the green industry, financing is a hassle. It needn't be. Knowing what our experts know can seriously reduce the pain of financing your business.

Get innovative

In Bellevue, WA, Rod Bailey and his partner Tom Graham have owned Evergreen Services Corporation since 1971. "We financed our original acquisition of the business in an innovative fashion," Bailey says.

"When the original owner decided to sell, we were consultants to the company, and we wanted to buy it. We didn't have any money of our own. So we borrowed some of the money from family and the rest of it from a bank," he explains. "The bank insisted we get a guarantor for the loan, so we went to another company and made them a deal: act as our guarantor and we'll give you free consulting services for three years. It worked!"

Their initial expenses were quickly followed by new financing needs. "Over the years, we've probably grown faster than our profitability would support, so we've relied heavily on banking relationships," Bailey says.

Those relationships can be hard to maintain as banks merge and people move on. But Bailey found that the effort of constantly making and remaking friends with a banker is worth it. "We've always believed banking is a partnership relationship and that your banker is one of your key advisors," he suggests. "Tom and I, both being MBAs, have had a good grasp of financial and business techniques. But most people in or industry can't say that. I'd recommend you form an alliance with three people: an accountant, a banker and a financial consultant."

Know your stuff

Another advantage of their MBA degrees was confidence in dealing with banks. "It's never bothered us to go into a bank and ask to borrow money...as long as we knew we could handle it. But there was one critical point in our development where we found it very helpful to get a federal Small Business Administration loan guarantee, and I would recommend people consider that as an avenue, too."

What advice would Bailey give his colleagues in the industry?

"First, I run into a lot of people in the industry who aren't comfortable with borrowing, because they lack the financial management knowledge they need to handle it. I advise them not to go into debt, unless they are willing to gain that knowledge. If you're not familiar with financial management, projections, long range plans and pro formas, you should work with somebody who does."

Second, he believes in having a plan: "A well laid-out plan for how you're doing the financing and how you plan to pay that back over the years."

Third, the financing plan should be part of an overall long-range business plan, so you can put any financing decision in a strategic context. "If you set objectives for your business, they may imply you will need to borrow money. You can get a head start instead of waiting until you need to buy equipment yesterday."

In its own long-range planning, Evergreen tried to reduce leverage and achieve debt-free operation. They've gotten close several times, he says, "But whenever we bring our debt ratios down to the point where we can see paying off our debt, we get gutsy and start to grow again. You've got to be confident in what you're doing — if you're not, don't borrow money to do it!"

Use insider expertise

Joe Williams owns and operates Lawn Master Inc. Pensacola, FL. His wife, Elaine, and sons Scott and Jeff work with him, and Scott provides valuable accounting expertise in-house. "It's a lot better having him in-house because he keeps track of things," Williams reports. "Even though we retain an outside firm that does a lot of our accounting work for us, Scott can translate what they're doing — and that lets us focus more on lawn care."

Scott's accounting knowledge has also helped Lawn Master obtaining financing. "We've been able to go with some shorter terms for buying vehicles, and in fact, now we're leasing some vehicles to see if that may help us in the long run," he explains.

Joe Williams

They've also built up a good working relationship with the bank. "We've stayed with the same one for almost 20 years now. The bank has been bought a couple of times, but we've been very fortunate in they've kept the local people we've been dealing with."

He too is a big believer in having advisers. "Get a good banker, a good attorney and a good CPA before you even think about buying equipment or hiring personnel." And before you start borrowing, make sure you can maintain a good cash flow.

"I can't overemphasize it. I don't care what kind of dollars you're making; if the cash flow doesn't go through, it can catch you in a bind real quick," he says.

Avoid these mistakes

Cash flow is not your only potential trouble spot — consultant Ed Wandtke of Wandtke & Associates in Lewis Center, OH, has his own list of them. Based on his experience in the green industry, he warns about the following:

1. Using personal credit cards. "Not only is this expensive, but it buries the debt where you can't see it," he says. "You're better off knowing what your debt is and where you stand with paying it off." And, when you can't get bank financing, there may very well be no need to resort to your credit card. "Right now, equipment vendors are far more willing to do financing than ever before. I bet that 90% of the time, you could open up a business in our industry with almost no line of credit, using vendor leasing financing for the equipment."

2. Overbuying equipment. "A common problem we have is that there's far too much used equipment sitting in the back facility spaces of most of the owners in the industry," Wandtke notes. "And if you're getting into the business, start small. Don't believe you've got to have everything on Day 1, because in fact, you don't."

3. Owning vs. leasing. "The technology of equipment is advancing so rapidly that you may not want to own it — as is the case with computers. Today, vendors may give you a two-year lease. All you'll have done is pay the rental premium. It costs you, but it may be a lot cheaper than owning something outright that you want to replace with advanced technology."

Find lenders who understand

As vice president of Sheffield Financial Corp. in Clemmons, NC, Brian Burley is an expert on finding financing. His firm writes loans — $150 million worth each year — for the green industry. (Sheffield is one of the several major players — such as Transamerica, Nations Credit and, for its own equipment, John Deere Credit.) Not only does Sheffield write that $150 million, but it also has an astonishingly low delinquency and write-off rate of less than 1%.

Ed Wandtke

Burley attributes that rate to knowing the industry. Sheffield offers loans directly to landscape contractors, or indirectly through dealers, so they see both sides of the equipment transaction. And they understand what he calls the industry's "unique cash flow problems."

"This is a seasonal industry," he says. "We know we have to show flexibility. A landscape contractor's ability to pay back a loan can dry up in the winter, especially if it's mild and they don't have any snow to push. A bank may not understand that. The 12 months of the year all look the same to them."

Burley's advice is to find the right creditor — and then work with that creditor. "A lot of people start out in business and in two or three years, they're growing phenomenally. But they don't have the history that a bank wants. That's where companies like ours fit in. We know the difference a $10,000 riding mower can make to someone who doesn't have a deep credit history but who is otherwise stable and a good risk.

"If a contractor is delinquent with a bank, it may not be as willing to work with him on making his payments as we are. Often, a customer who has paid well with us for a year and a half will call and say, 'I've just lost some accounts. I'm going to be short for the next two months. Can you work with me until spring?' We're going to be a little more understanding."

3 steps to financing

How would we sum up our experts' advice?

1. Gain financial know-how — or get access to someone who has it.

2. Use good judgment — buy only what you need. Also, consider leasing instead of owning.

3. Build and maintain the relationships. The creditor — someone who understands your industry and your company — is worth the effort it takes to build a friendship. Should that person move on, as so often happens in today's marketplace, dig in and make the effort all over again! **LM**

--The author, a freelance writer based in Mendham, NJ, is a new contributor to Landscape Management magazine.