FINANCIAL TIMES MAY 31/JUNE 1 2008

Lenders pass on the pain of credit costs to firms

BUSINESS PROFILE

Entrepreneurs are using different tactics to acquire funding as lenders withdraw overdraft facilities, writes **Jonathan Moules**

Jim Bell has an entrepreneur's enthusiasm for finding opportunities in troubled times.

Foundocean, Bell's business, which specialises in underwater engineering for oil and gas platforms, could have been sunk when its bank announced that it was withdrawing a crucial £115,000 overdraft facility at the end of last year. The money was needed to see the business through its busy spring period, when cashflow swings from a five-figure debit to a £600,000 profit in one month.

Bell describes his bank's actions as "rather extreme". However, instead of arguing with his account manager, Bell found another bank that would agree to provide the funds.

The combined effects of the credit squeeze and economic downturn has made this one of the toughest environments in recent years for smaller businesses to raise funds. But companies like Foundocean are trying to turn a bad situation into something good.

Rising fuel prices are a problem for many companies, but not Foundocean, which benefits from the resulting boom in oil and gas exploration, Bell notes.

This year he expects the company's turnover to rise from £2.5m to £3.5m.

Bell still does not know exactly why his company was not allowed to continue the overdraft at his old bank, but is convinced that the credit squeeze was to blame.

He seems almost thankful for the excuse to switch, however, claiming that moving banks has many benefits for smaller businesses. "When you are new to a bank, you go through this honeymoon period where they cannot do enough for you, then they become a bit complacent," he says. "It is almost worth re-banking every four to five years just because, otherwise, you drop off their radar."

Pizza on Friday: Colin Smith, chief of BIW Technology, has made cost savings in the business, without cutting employees' perks Bruno Vincent

Mike Richards, who set up specialist headhunter MR Recruitment six years ago, has far less need of credit facilities than a manufacturer like Foundocean. But he still extols the benefits of switching banks.

Richards had set up a business account with Lloyds TSB because it was where he had his personal account.

Having switched to RBS on the advice of an accountant who acts as his part-time finance director, he has increased his corporate overdraft facility from £16,000 to £60,000. But he claims the biggest benefit is the attention his new banker pays him and his company.

"They have taken a totally different proactive view of our business," Richards says, noting that Lloyds only seems to call him to "flog more products".

The 39-year-old, whose company is expanding into Asia and will this year turn over £1m, says the experience has made him more aware of the cost of banking and that he now intends to renegotiate his credit facilities regularly.

Foundocean's Bell also has advice for those seeking asset finance, having raised £500,000 for capital equipment production this year. His team originally spoke to several asset finance groups to no avail.

"Asset finance companies love to lend money to things that are screwed to the factory floor, whereas we build things and they immediately go off to the far-flung corners of the world," Bell says.

They then sought the services of a broker, which managed to find them a deal with one of the companies that had previously turned them down.

The real value of the broker was their personal contact with the lender, Bell explains.

"A lot of it was that the lender was brought in to see us rather than communicating through an exchange of e-mails."

Bell, a graduate of Cranfield University's business growth and development programme, had recently compiled a five-year business plan and a one-year cashflow forecast on the advice of his tutors.

He believes that this paperwork also greatly helped his case in getting the additional finance.

Local IT graduates demanded less money than those in southern England

For Colin Smith, who founded his web software company BIW Technologies just as the dotcom bubble burst, the current credit squeeze has an air of *déjà vu* about it.

His company, which specialises in systems for the construction sector, found itself with about 30 competitors when it started trading in March 2000. Almost all these rivals had raised large sums of financing of up to £100m, but were left crippled with the financing costs when the market turned and all but a few have now disappeared.

BIW raised a more modest £3m in seven funding rounds, and cut its operating costs when times got tough, moves that Smith now claims were key to its survival.

Efficiency savings included moving the headquarters from central London to Woking and setting up a development base in Nottingham because local IT graduates demanded less money than programmers in southern England.

"It was all about giving us the space to grow our business but without the cost," Smith says.

Some of the savings might seem extreme. For instance, BIW set up an offshore development base in Gujarat because it was an even less expensive location than other Indian states.

However, Smith maintains that it is better to save money in that way than cut down on popular little perks. "We still provide people with free, decent coffee because I think those are the things that employees value," he says. "And we still buy everyone pizza on Friday."