

Good moves for hard times

How to gain market share in today's lending environment **Interviewed by Kristen Hampshire**

Lately, headlines don't paint a pretty picture of the banking industry. Financial institutions are attempting to shy away from funding previously announced transactions and taking significant write-downs on balance sheets to reflect diminished values of loan portfolios, and — in many cases — there's less lending capacity for loans, as banks are attempting to build up reserves.

Still, strong companies in a position to grow can set themselves up for continued success by assessing strategic and financial options.

"In times like this, the strong get stronger," says Steven S. Goykhberg, MBA, CBA, associate director, corporate finance for SS&G Financial Services, Inc. "The best-prepared business owners are knowledgeable; they know what is going on in their marketplaces, and as opportunities to gain market share or to grow through acquisitions present themselves, they take advantage."

Smart Business spoke with Goykhberg about today's lending environment and what you can do to stay ahead of the game.

How is commercial banking responding to financial stresses caused by consumer subprime lending and an uncertain economy?

In the last six months, the news has been populated with stories about significant deals collapsing because of problems obtaining financing. There have been situations where consortiums of banks, committing to finance a large transaction, have backed down, citing changes in economic conditions as the cause. They are not readily lending money to private equity firms that power many of these major transactions. In the past, depending on collateral, we saw senior lenders extending credit up to four times adjusted EBITDA (earnings before interest, taxes, depreciation and amortization).

Today, lenders generally are not considering the notion of air ball (debt without sufficient collateral), and borrowers are forced to bring more equity to the table. This is part of the trickle-down effect from securitization, which is the process of packaging cash-flow-producing assets into securities, commonly called asset-backed securities (ABS), and selling them to investors. The vast majority of the recent credit crunch was caused by ABS backed by alt-A loans, loans made to



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subprime mortgage borrowers. Now, financial institutions are taking write-downs on their balance sheets to reflect the diminished value of such securities.

All this considered, banks are more cautious in their lending practices. We are starting to see a significant slowdown in higher-dollar transactions — \$100 million-plus enterprise value deals, representing the market value of all security holders, debt holders, preferred shareholders and common equity holders — which in turn is affecting \$5 million to \$100 million enterprise value deals.

Will current market conditions prohibit access to capital?

If you are a solid company with a proven business model and a track record of financial performance, you will have opportunities to access capital from banks to continue to grow your business. During tough economic times, stay with the bank with which you have built a long-term relationship. Even if the financial institution next door offers you a lower rate, the last thing you should do is jump ship. Your long-term banker, who has seen your business through ups and downs, is more likely to extend your credit. In fact, if

your business is strong, now is the time to gain market share or consider acquisitions that will put you in an even better competitive position once the economy upturns.

What strategies will help successful companies take advantage of today's marketplace?

In times like this, you should consider ways to grow market share. First, you can acquire a competitor or a company with services and/or products that complement your own. This can be a company located either in your immediate area or in an area where you want to extend your reach. If a competitor who has a great portfolio of products or services is struggling, now is the time to discuss a potential acquisition with your financial adviser.

On the other hand, if you have no interest in acquiring a competitor but still want to increase market share, you need to strategize ways to encourage consumers to buy your product rather than the competition's. The most obvious way to do this is to slightly lower your price but, generally speaking, this will only work if you sell a commodity product.

These are two basic strategic ways of building muscle during times when the weak get weaker. The point is to always be thinking ahead. What can you do to grow even if the rest of the market is at a standstill? How will you use this time to push ahead?

How can you balance being aggressive in tough times and just getting the job done?

The natural tendency for businesses during tough economic times is to maintain the status quo. Keep your nose to the grindstone, concentrate on your core competencies and keep quality high so that you maintain longtime customers and preserve the integrity of your brand. However, while 'playing defense,' you must also take an offensive position and always be thinking, 'what's next?' Your trusted advisers will help direct you, and you should rely on your CPA, attorney and banker to provide third-party insight into what moves will make your business even stronger, no matter what the headlines say. <<

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