

Alternatives for Cash-Starved Companies

November 2009

Small businesses and mid-sized companies are struggling to secure credit due to the lingering effects of the banking crisis and economic recession. New information suggests they should be exploring alternative methods of generating critical cash. In particular, executives at these businesses should be pressing their banks for help in freeing up internal cash by more effectively managing their working capital.

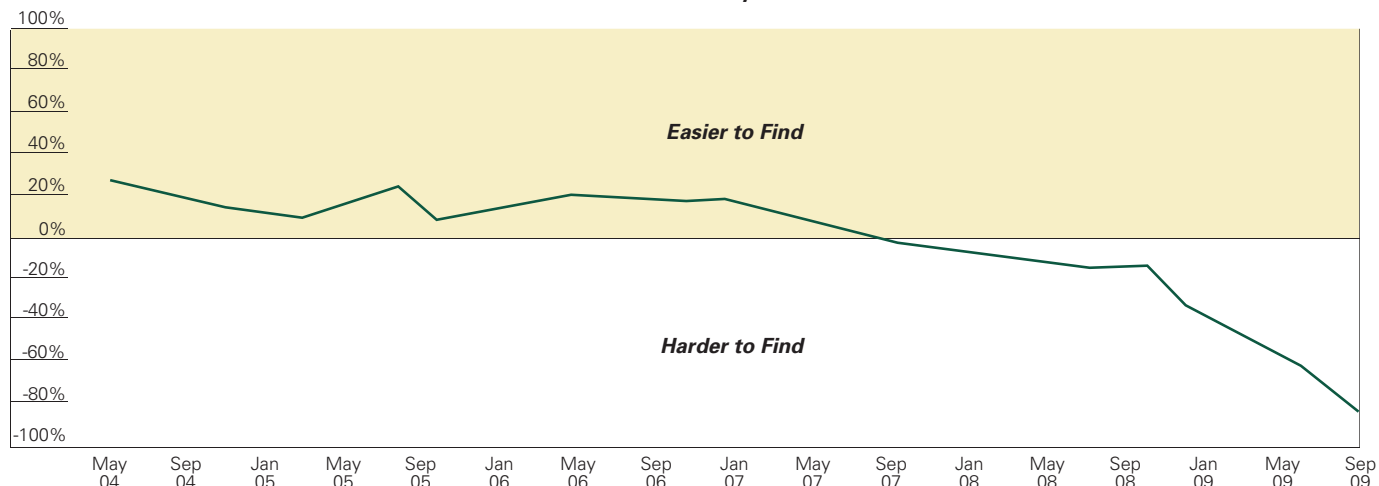
“Executives of companies that find themselves unable to obtain or renew lines of credit are not out of options,” says Greenwich Associates consultant Pete Garrison. “If working

capital is effectively managed, it can significantly reduce a company’s borrowing needs. Some banks are actively advising their clients on optimizing their cash flow. Business owners and CFOs should be asking their banks for advice and best practices on this topic.”

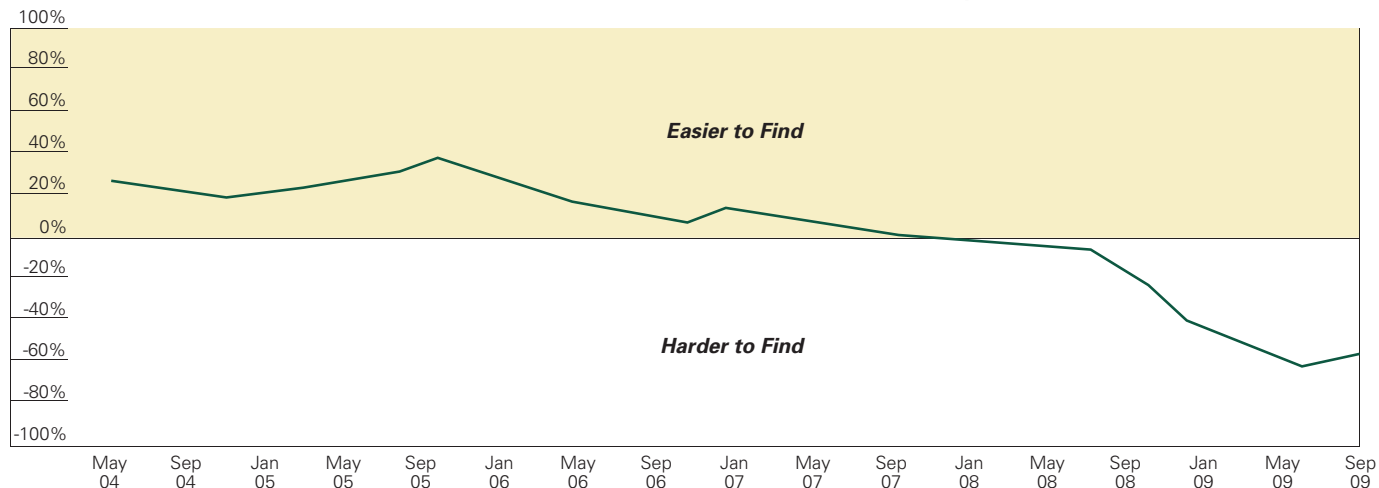
The results of the latest Greenwich Market Pulse show that, despite government efforts to stimulate lending and a run of strong equity market performance, there has been little improvement in credit conditions for small businesses and mid-sized companies over the past 12 months.

Credit access continues to be a major concern for small businesses, but mid-sized companies seem to be feeling a slight improvement

Greenwich Credit Availability Index – Small Businesses



Greenwich Credit Availability Index – Mid-Sized Companies



Source: Greenwich Market Pulse v33.

Note: The Greenwich Credit Availability Index is the net score of companies who feel that credit is easier versus harder to find.

Six times per year, Greenwich Associates surveys approximately 500–700 small and mid-sized businesses across the United States about their banking relationships. Included in those surveys is a simple question: Is it getting easier or harder for your company to get credit? Although the proportion of small businesses that report having borrowed money over the past three months increased to 46% in Q3 2009 from 37% in Q2, 86% percent of small businesses participating in the most recent Market Pulse say it's getting more difficult for them to secure credit, as do 65% of mid-sized companies.

The Greenwich Credit Availability Index is created by calculating a net score across companies reporting that credit conditions are improving or deteriorating. “The Index for small businesses has been declining all year, and it dropped off sharply from the second quarter of 2009 to the third,” says Greenwich Associates consultant David Fox. “This is an ominous sign for the pace of economic recovery.”

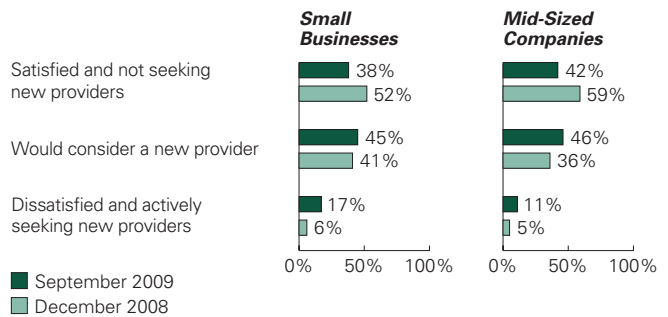
Although credit also remains scarce among mid-sized companies, a leveling off of the Greenwich Credit Availability Index suggests that credit conditions have at least stopped deteriorating in this segment. After declining from Q1 to Q2, the Index for mid-sized companies stabilized and even increased slightly during the third quarter. “Nevertheless, the Index remains deep in negative territory, indicating that a significant proportion of mid-sized companies in the United States still say that it is getting harder for them to find the credit they need to run their businesses,” says Greenwich Associates consultant Jesse Neumyer.

Alternative Sources of Cash

For companies hurting from the extended credit crunch, internal funding could be a critical — and often overlooked — source of cash.

In October, consultants from Greenwich Associates joined Carlos Evans and David Trotter of Wells Fargo in addressing participants at the American Banker Middle Market Banking Symposium on ways that Wells Fargo

Current Relationship Status with Banking Providers



Source: Greenwich Market Pulse v29 and v33.

and other banks are helping companies navigate today's difficult credit conditions. The group explained how companies can tap internal funding by more effectively managing working capital. “It is not uncommon for companies to generate savings of 10–15% simply by utilizing better treasury management services provided by banks,” says Greenwich Associates consultant Chris McDonnell. “In many cases, companies have found themselves able to generate the cash they had hoped to borrow through improvements to their working capital management.”

In addition to continuing vigorous efforts to secure credit, executives of small and mid-sized companies should be questioning their bank relationship managers about their capabilities in this area. Bank relationship managers need to provide constructive advice during these difficult times. Business owners are facing unprecedented challenges and need help thinking through often difficult options. At the same time, if companies are turning to their bank relationship managers only for credit, they might be missing out on insight and capabilities that can make a real difference in these tough markets. “There is no doubt that both sides would benefit from broader discussions between companies and their bank relationship managers,” says Greenwich Associates consultant Don Raftery. “The results of our recent research indicate that many companies are less than satisfied with the support they are receiving from their existing banks.” Between 25% and

Credit Scarcity Dampens Economic Outlook of U.S. Businesses

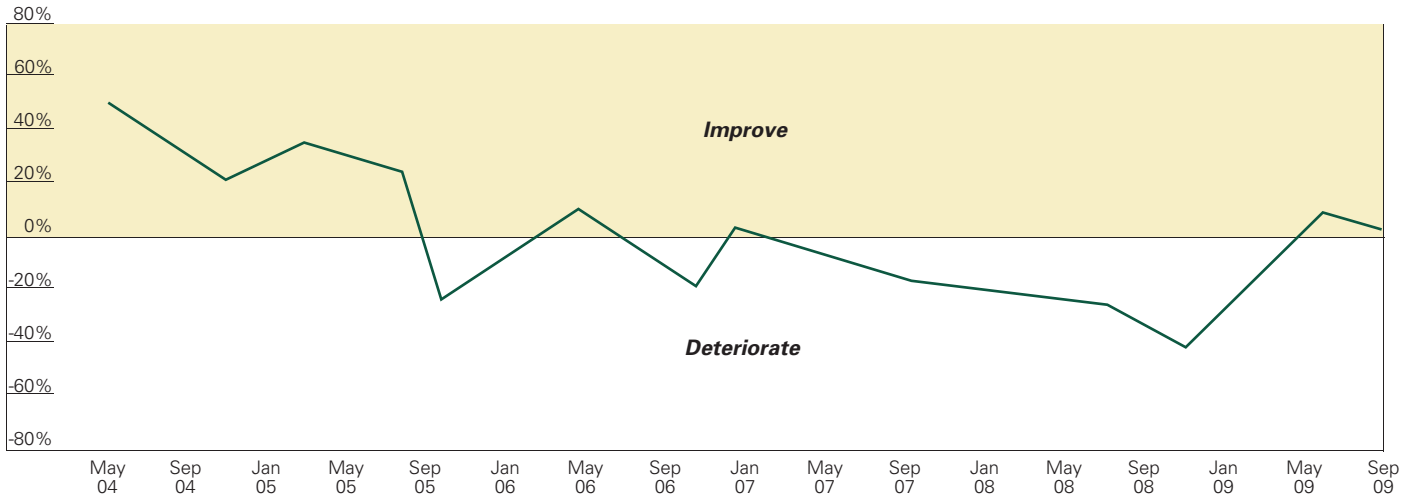
Continued difficulties in securing credit are contributing to an erosion of small and mid-sized companies' optimism about the economic recovery. Based on its quarterly survey results, Greenwich Associates calculates the Greenwich Optimism Index, a net calculation of the number of companies reporting that they expect the overall economy to improve or deteriorate over the next six months. From January to August of this year, the Index for small businesses and mid-sized companies increased steadily, indicating that a growing share of

these companies expected economic improvement. Over that period, the Index climbed from negative to positive territory.

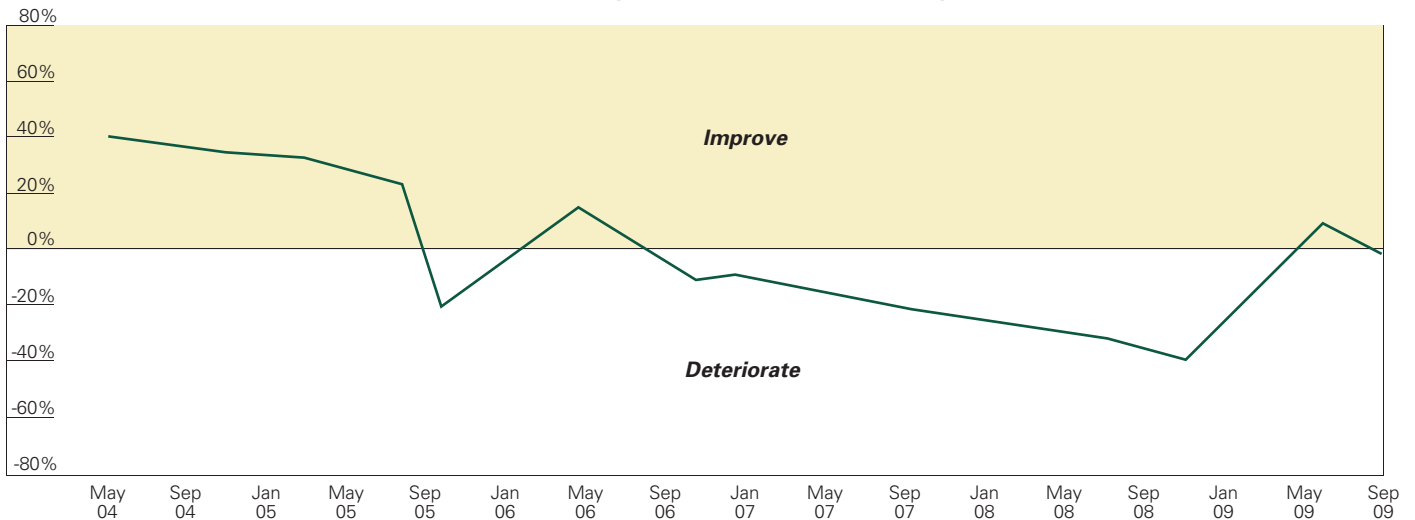
“Over the past quarter, the Index reversed course and has now settled into neutral territory, indicating that small businesses and mid-sized companies are about evenly split on whether they think the economy is improving or deteriorating,” says Greenwich Associates consultant Steve Busby.

There has been a slight decline in optimism for both small and mid-sized companies between Q2 and Q3 of 2009

Greenwich Optimism Index – Small Businesses



Greenwich Optimism Index – Mid-Sized Companies



Source: Greenwich Market Pulse v33.

Note: The Greenwich Optimism Index is the net score of companies who feel that the economy will improve versus deteriorate.

30% of small and mid-sized businesses have switched banks in the past year, and 60% of all companies are actively seeking new banks or would be open to switching banks if presented with a compelling offer. This share is up from 40% of small and mid-sized companies in the second quarter.

Pete Garrison, David Fox, Jesse Neumyer, Chris McDonnell, Don Raftery, and Steve Busby advise on banking in the United States.

Methodology

The Greenwich Market Pulse is a panel of approximately 30,000 financial decision-makers at small (\$1 million–\$10 million) and

mid-sized (\$10 million–\$50 million) companies in the United States. The current survey was conducted in September 2009. 510 companies participated, including 172 small businesses and 338 mid-sized companies.

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