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Raising capital, scaling a business in a down market



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According to Idaho At Work, “Small businesses — those with fewer than 50 employees — make up 96.7% of all Idaho businesses, and they employ over 280,000 people, more than half of all workers in the state.” This makes the small business owner the centerpiece of the state’s economy. It is crucial for Idaho small business to thrive, no matter the current economic conundrum that the COVID-19 pandemic has placed us in.

As the need for operating capital skyrockets, lenders and investors up their criteria, and inventory doesn’t turn over as fast with less people consuming goods and services right now, hiring an investment consultant can guide small businesses in how to obtain operating capital in the form of a bank loan, a venture capital backed investment or a private equity partnership investment. Many venture capitalists and private equity investors, alike, provide consulting services to profitable small businesses looking for operating capital to stabilize and expand their businesses. Here is what you need to know.

An investment consultant will make you presentation-ready

An expert can evaluate your financial records and assess your management team, your day-to-day operations, and your overall business infrastructure. They are astute at identifying where your business is strong and where the deficiencies are that require improvement. Streamlining or expanding could be on the table. They can also help you put together a comprehensive package to present to your local bank branch, to a venture capital or private equity investment firm, or to a colleague or acquaintance looking to invest in a local business.

Demonstrate your company's worth

Traditionally speaking, you need to show a minimum of five to seven years of viability and expertise within your industry. Three solid years of historical financial statements that demonstrate an upward trend in your revenue is also an important part of this picture. Three years of historical financial records are the gold standard.

Once your financials are vetted, a potential investor will want to do a thorough audit of your business operations. Sometimes you may find that a potential merger may be on the table, whereby your company and another company would restructure to form a new legal corporate entity. The reason for this approach is to consolidate to combine strengths for future profitability. For example, if your company has an excellent customer service team but the other company has a better sales team, these two resources will be combined and streamlined for the benefit of the company's growth and success.

Take advantage of undervalued goods and services

The upside of a down or unstable market, in this case, due to COVID-19, presents an opportunity to re-think your business model, pivot towards more progressive business practices you may have been dragging your feet on, and to take advantage of certain depreciating assets in the marketplace. Some businesses have lost their value by as much as 40 or 50% during this pandemic and you can pick them up inexpensively if you are looking to expand by way of buying another business. You may have to hold on to it for a while before it springs back, but you will ultimately profit and/or benefit from its assets or management team. You can also cut much better deals with your suppliers and vendors in a down market, even if it means approaching a smaller vendor than you are accustomed to dealing with that is eager for the business because its livelihood depends on it.

To take full advantage of a downturned market in your company's pursuit of growth, onboarding an investment capital consultant will help you to package your venture and arrange the funding you need to capitalize on undervalued goods and services or an undervalued business within your industry as we go into the fourth quarter of 2020 and into the first and second quarters of 2021.

Bring in an expert to help you raise capital

A consultant has the expertise to arrange financing through banks or through a pool of investors and lenders who will either fund you or come in as a partner, sharing stake in your company. Look for a consultant who is familiar with your industry, preferably one who has previously invested in your industry and turned a significant profit for the companies they have invested in.

Small businesses are typically required to sign a personal guarantee and/or to put up collateral when securing a line of credit, a loan or an investor. Working with a consultant can help you circumvent these personal guarantees through their connections and expertise, which eases some pressure and helps to not bring the pain home.

The right and wrong way to cut costs and consolidate

During these times it is important to cut costs, strategically, but there is a right and wrong way to streamline. First, go to your various vendors and suppliers that you have a good relationship with and put things out for bid to collect two or three bids to evaluate pricing. Just keep in mind that you need to measure the best price, but you must keep in mind that their ability to deliver is paramount when making your decision. The cheapest person may have internal problems delivering because they can't afford the proper workforce.

As mentioned above, merging with another business allows you to streamline your staff and combine strengths with another business, while also getting a much-needed infusion of operating capital.

You can also take a look at delivering and/or less product, however, it is important to keep the products that sell extremely well, as you don't want to alienate your core customer base. For example, if you currently sell 1,000 skews, you can cut products that don't sell as well but cost a lot to produce and bring your products down to 700 skews. Although this sounds counterintuitive, you would then raise your price points on your remaining products to widen your profit margins. In addition, look to hold less inventory and make better use of your existing lines of credit to turn over your existing inventory at a faster and more productive pace.

Solomon RC Ali is CEO of Solomon RC Ali Corporation, helping businesses scale through access to capital, while helping companies to gain market value and grow market share. Ali and his team have arranged more than \$250 million in structured investment capital and financing for various businesses. He is host of [MBA: Minority Business Access Podcast](#).