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## When financing fails, business owners turn to Plan B

*Economic tumble, weak credit market mean companies have to plan for worst-case scenario*

BY MARTIN C. DAKS

WHEN A SINKING economy torpedoed a funding deal for **PendoTech**, a Princeton product-development firm, the owner had to scramble to control costs while seeking other financing sources. The weak credit market and spending slowdown have made it more important than ever for companies to develop an alternative strategy, or Plan B, according to experts.

"We were looking for \$400,000 in funding, and we lined up the first \$60,000," said **Jim Furey**, PendoTech's chief executive and founder. "But the deal dried up as the economy collapsed after we got the initial amount."

Fortunately for Furey, he had not committed the firm to any purchases. He's still on the lookout for financing, but meanwhile he's implemented his Plan B.

"Right now, we're pursuing a few alternatives, including supplier financing," Furey said. Supplier financing can offer a stable sales stream, but it also increases the risk to the supplier. Furey tries to compensate for that by offering to pay an

### Access to Capital

above-market price for the goods ordered from the supplier that provides the financing.

"We're considering mezzanine financing," a kind of layered financing that usually supplements existing loans, Furey said. "We're also looking for people who would be willing to work for an equity stake."

One custom manufacturing company had to turn to an alternative strategy after it spent \$500,000 gearing up for a partnership, only to see the transaction sink as the economy crumpled, said **Peter Levy**, a principal at the consulting arm of **Sobel & Co.**, a Livingston CPA firm.

"A New Jersey client that makes customized machines and components had an opportunity to work with a large distributor in the green, or environmental, segment," Levy said. "Among other inducements, the distributor offered to guarantee a flow of revenue and a minimum number of orders for an extended period. Our client bulked up its staff and spent about \$500,000 on manufacturing equipment to prepare for the deal."

Then the bottom fell out of the economy and soured the deal.

"That's when our client went to Plan B," Levy said. "The manufacturer decided to independently offer its [environmentally targeted] components. Although the launch is still in the early stages, initial sales are strong."

A tough internal structure can go a long way, Levy said.

"When management engages in any kind of significant planning, from concept to commercial launch, you need to build in decision points with an objective gatekeeper," he said. "The gatekeeper has to have the authority to OK the idea, modify it or even kill it in response to changes in the environment."

Many businesses are re-examining their strategies, said **Sy Bressler**, a partner at the West Orange CPA firm **Bederson & Co.**, whose focus includes manufacturing, distribution and retail industries.

"At some companies, management meets every week to review their budget and see if changes are needed," Bressler said. "Some were prompted by the economy, but others do this even in good times."

Bressler said the rising costs forced one of his clients, a New Jersey-based food industry firm, to curtail its expansion plans.

### Tips for crafting a Plan B

- Meet frequently to review your budget and identify threats and opportunities.
- Be flexible in planning and execution.
- Think twice about committing a large chunk of capital to a project that may not pan out.
- Consider alternative revenue sources.
- Develop an alternative use for company resources in case a primary plan fails.

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"The company had increased its sales, but labor, rent and other costs went up even faster," he said.

"In response, the company made significant staff and management reductions. It also reduced overhead by breaking an existing warehouse space lease and consolidated its inventory into smaller facilities."

The firm also revisited its operating plans and pulled out of some geographical markets.

"Among other initiatives, the company raised cash from new and existing investors," Bressler said. "Management also revised its advertising programs to reach a new audience. The fear of losing business is a great wake-up call." ♦

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