

SOLUTIONS FOR GROWING COMPANIES HANDBOOK

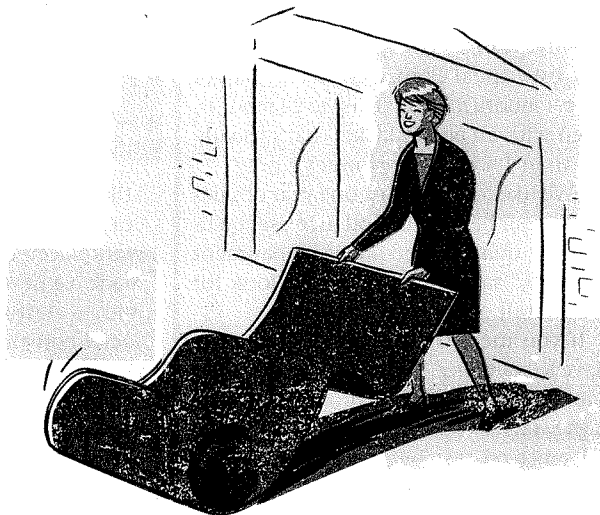
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FINANCE

Brother, we can spare a dime

NOT EVERY TYPE OF DEBT FINANCIER IS RELUCTANT TO GIVE MONEY TO ENTREPRENEURS THESE DAYS. HERE ARE THREE THAT ARE EVEN STEPPING UP THEIR LENDING

BY JIM McELGUNN



The credit crunch grinds on. One sign of its persistence: Canadian banks' total outstanding business loans fell by 7.1% in the six months ended June 30, 2009.

Yet, three sorts of financiers are more interested than ever in doing business. Could one be right for you?

THE BDC: The Business Development Bank of Canada has moved vigorously to fill gaps opened by the partial retreat of the private sector. It did more than \$1 billion in new financings from April to June, a year-over-year jump of 37%. And it has maintained a torrid growth rate since then.

One new BDC program that should interest entrepreneurs is the Operating Line of Credit (OLOC) guarantee launched in

June. The program is limited to commercially viable firms that have been in business for at least two years and have an existing OLOC with their bank of \$400,000 to \$40 million.

Edmée Métivier, the BDC's executive vice-president of finance and consulting, outlines two scenarios for which the new program is designed. The BDC will guarantee a high-growth company that needs more money 25% to 80% of any increase in its OLOC that its bank approves. And for a sound business that's in temporary difficulty, the BDC will help maintain its existing bank-provided OLOC by guaranteeing 25% to 40% of the total.

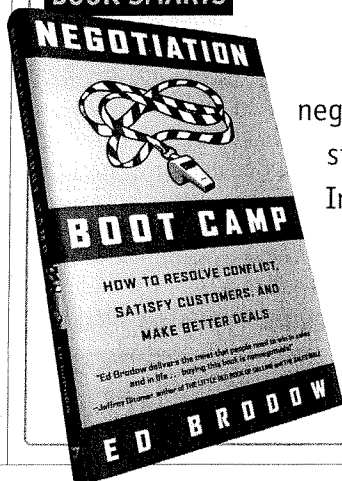
Métivier stresses that the BDC is partnering with the banks, not trying to supplant

them. The Crown corporation is especially keen on companies that plan to fund expansion, staff training or entry into new markets. And because firms apply through their bank, says Métivier, "We're relying to some degree on the banks' due diligence, which means that once we receive the application from the bank it moves pretty quickly—within a couple of days."

BRIDGE LENDERS: Most bridge-loan providers have been prudent in their lending, so they weren't forced to pull back while cleaning up deals gone sour. That's good news for firms needing short-term cash to, say, finance receivables, make an acquisition or buy equipment or inventory.

"Overall, there's more bridge financing

BOOK SMARTS



It's easy to come to an impasse when you're negotiating, even when both sides want to make a deal.

In *Negotiation Boot Camp*, deal-making specialist

Ed Brodow offers the following advice for breaking deadlocks:

Change your negotiator: You won't reach a deal if the negotiators can't get along. If emotions are running high, have someone else step in who doesn't have a negative history or personality conflict with people on the other side.

Offer alternatives: Negotiators often have tunnel vision. Asking "What if we did it this way?" might open the rival negotiator's mind to possibilities that he or she hadn't considered.

Make minor concessions: Many deadlocks are broken if someone gives a bit of ground, especially if you're dealing with a tough guy who has decided not to make a deal unless he wins a concession from you. —*Daniel Fish*

available in Canada than a year ago," says Jason Ewart, CEO of GC-Global Capital Corp., a bridge-financing specialist. "And our firm has more deal flow than ever."

Ewart's Toronto-based company—which is on track to grow its assets from \$20 million in March 2009 to \$50 million by 2011—focuses on loans of \$300,000 to \$3 million. That leaves larger deals to players such as the BDC, Envoy Capital Corp. and Renvest Capital Corp. GC-Global charges 1% per month for loans of up to 24 months, often with an equity kicker that's usually less than 1% of the borrower's equity.


"We like to see at least one year of sales under your belt, with good increases quarter over quarter, and a clear repayment strategy," says Ewart. "And we look for [collateral] of at least two to one."

If you meet these criteria, you won't have to wait long. "We can provide a loan a lot faster than anyone provides equity," says Ewart. "Those guys have a long due-diligence process, but we can close in five to 10 business days."

VENTURE-DEBT PROVIDERS: This is another sector in which Canadian financiers avoided most of the high-risk lending that led to grief stateside. As a result, Roynat Capital, MMV Financial and other such providers of loans to high-growth companies that don't qualify for bank financing remain at least as welcoming of new deals as a year ago. And some, such as Toronto-based Wellington Financial, have boosted their capital available for lending and are beating the bushes hard for new deals.

Wellington raised \$24 million in fresh capital in January, for a total of \$150 million. Mark McQueen, the firm's president and CEO, says it has made 700 cold calls since March that have yielded many new clients. The financing isn't cheap—a term loan will run you about 12%—but you'll give up less than 1% of your equity, versus perhaps 25% with a venture capitalist.

Wellington typically lends \$2 million to \$10 million for two to three years, most often for R&D or sales and marketing. "We work with businesses that are up and running and have at least \$5 million in sales," says McQueen, "not startups that merely have great ideas." He says a key question Wellington asks when assessing prospective borrowers is whether what they do is truly important to their customers.

Even in the current market, says McQueen, plenty of firms meet these criteria: "There'll always be—in good times or bad—good companies to support." 



Kelly the Intern

PROFIT'S CRACK RESEARCHER REVEALS WHETHER YOU SHOULD BAN FACEBOOK AT WORK AND WHY PRICES ALWAYS SEEM TO END IN 99

Q Should I block my employees from accessing Facebook? I see them using it, and it kills me that they're wasting time all day. —Mike D., Oakville, Ont.

Mike, you certainly wouldn't be the first employer to ban Facebook from the workplace. The Ontario government made big news in 2007, when it prohibited its staff from using the addictive social-networking site at work, arguing that it simply isn't necessary for most public servants to do their job. A study released in August by ScanSafe, a Web security firm, revealed that 76% of its customers are blocking social-media sites—a 20% increase from six months prior. Last year, one of my friends actually got demoted and eventually let go from her job at a pharmaceutical company for using Facebook against company orders. I can definitely imagine how irritating it must be, as a business owner, to pay your employees to post holiday pictures and "poke" their friends all day.


That said, the idea that Facebook usage is hurting productivity at your company, while logical, isn't necessarily true. A study by U.K.-based consultancy MindLab International last year found that taking short breaks to goof around on the Internet reduces stress and actually increases productivity. And then there's research that came out of the University of Western Ontario's Richard Ivey School of Business this summer, that concluded that online activities such as Facebooking result in "virtual competence," which is increasingly valuable in the workplace. Among other things, it helps with knowledge-sharing, can predict success in e-learning courses and even has a positive correlation with job satisfaction and job performance.

Of course, it's all about moderation. According to Toronto-based employ-

ment lawyer Daniel Lublin, employees spending an inordinate amount of time on Facebook while at work is tantamount to theft of your time, which can be cause for dismissal—as my friend found out the hard way.

Q Why do so many product prices end in 99? Is there actual research that proves that I'll sell more if I price my product at \$129.99 instead of \$130? —Jill S., Victoria

Interesting question, Jill! The answer is yes, the practice does, indeed, sell more—it has been proven over and over by academics around the world. Robert Schindler, a professor of marketing at Rutgers Business School in New Jersey, has published 14 studies about the "99 effect" (also referred to as "the 9 fixation") over the past 25 years. One of his studies involved testing sales response to different versions of a direct-mail catalogue for women's clothing, identical except for the price endings (e.g., \$29.99 versus \$30.00). The result: the 99-ending version produced 8% more sales volume than the 00-ending catalogue. And just this past year, French researchers discovered that lowering the price of a slice of pizza from 8.00 euros to 7.99 euros increased sales by 15%.

Academics argue over exactly why this works. Some say it's because we tend to focus on the big denomination instead of the smaller one; others say that the difference is perceived to be bigger than it really is, like when a 39-year-old turns 40. (It's still just one year older, yet somehow feels like a big deal.) But I think you'll agree that, all these years since the practice was invented, it's pretty shocking that it still works on us. Are we consumers so stupid to believe that \$7.99 is a bargain when \$8 is not? Apparently, yes. 

GET ANSWERS TO YOUR BUSINESS QUESTIONS

Kelly is smart, resourceful and eager to tackle your research assignment. Send your questions to kelly@PROFIT.rogers.com.