

we started adding up the costs of airfare, equipment rental, labor time, and fuel, we saw opportunities to save money," says Ward. In the past year, MRC has opened three additional locations, bringing the total to seven. MRC's trucks now make shorter trips and, whenever possible, pick up multiple vehicles on each one. Ward expects to save about \$115,000, even after taking into account the expense of leasing and operating the facilities. No surprise, then, that the company is eyeing two more locations for 2009.

### 5 Try Do-It-Yourself Marketing

**Amount saved: \$66,000**

These days, some of the best marketing is cheap or even free, so think about whether you really need to spend big bucks on marketing consultants or advertising firms. "With sales of \$6 million, we can't afford to waste a single dollar on marketing," says Scott Millwood, CEO of CustomerEffective, an IT services company in Greenville, South Carolina, that specializes in installing and maintaining customer relationship management, or CRM, software. Last year, Millwood spent about \$85,000 on a consultant who was supposed to improve CustomerEffective's website traffic and another \$16,000 buying Google ads. Yet the company landed only one deal, worth \$5,000, from leads generated online. So Millwood started looking for alternatives.

Last November, Millwood fired the consultant and quit paying for Google AdWords. Instead, he turned his tech staff into bloggers and created a bonus program. Over the past 11 months, he has paid eight of his workers a monthly bonus of up to \$2,000 to blog about CRM in their spare time. The results have been promising: His investment in bonuses has been \$35,000 so far, and the firm's search-engine rankings have improved dramatically. Qualified prospects, including one from England, have begun to fill up the firm's sales pipeline. Revenue from the new project in England alone could pay for the bonus program. "Now we can put that money we used to give to Google to better work elsewhere," Millwood says. —Darren Dahl

## HOW TO FIND FUNDS IN A CREDIT CRUNCH

### HINT: IT TAKES PERSISTENCE



**Looking for Capital?**  
Keep looking—and looking and looking and looking....

"WE HAVE ONE of those mortgages that's all over the news right now," says Dave Tiller.

That mortgage is an option adjustable rate mortgage, which allows borrowers to pay less than the interest that's accumulating on the loan—so the amount of the loan grows over time. Back in 2005, when Tiller refinanced his house, such loans were the latest thing. Tiller figured that paying \$1,100 a month on the mortgage and deferring \$1,400 a month in interest would maximize the amount of cash he had to invest in Studeo Legal, the Peoria, Arizona, legal-document management and consulting firm he was launching.

Then came the credit crunch. His five-bedroom home, appraised at \$390,000 when he refinanced, is now

worth just \$320,000—\$10,000 less than he owes. Meanwhile, his monthly payment has ballooned to \$3,000, which is \$1,000 more than it would have been if he had been paying interest all along. That means he has less to invest in his business, and, thanks to the credit crunch, virtually no other options for finding capital.

Funding has never been easy to come by for small-business owners. But the current crunch represents a rare confluence of factors that is making things especially painful. Mortgage lending has tightened, and that's been rippling through all sources of credit. Banks and even angel investors are raising lending and investment standards. According to a survey recently released by the Federal Reserve Board, about 65 percent of banks reported tightening their lending to small businesses in July—compared with 50 percent in April. A survey released in July by Deloitte Financial Services found that 76 percent of those who applied for small-business financing found it harder to land loans than a year earlier.

Funding remains available, but entrepreneurs will have to be persistent. The search for capital will probably take a lot longer than it did a few years ago, and the pot of gold at the end of the rainbow will not be quite so big. The pain is particularly acute for entrepreneurs who have a lot of personal debt. Because the credit identity of small-business owners often is the credit identity of their companies, personal financial stresses can hit their businesses hard—and vice versa. A bad personal credit score will make it harder to find a business loan, particularly in today's risk-averse environment.

Borrowers need to explore all their options with their bankers, says Will Howle, chief operating officer for Wachovia's retail and small-business



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bank. If your home is shrinking in value, don't use it as collateral. Instead, try to get a business line of credit based on the assets or profitability of your company. If you have just landed a major contract, tell your banker about it, and explain what profits you are expecting from the deal and why. And tell him or her about any other financing you have found. Even if it's just a small angel investment, that might help the bank make a decision in your favor, because it improves your debt-to-equity ratio. "Business owners should be proactive rather than reactive when it comes to the financing of their business," Howle says.

You could also look beyond your bank for funds. State and municipal economic development programs sometimes have cash for growing companies. Brady Davis, CEO of Elements Health Plans, a health care consulting firm based in Portland, Oregon, used personal funds to launch his company, and last year he went looking for outside financing for the first time. Initially, several angels showed interest—but they quickly retreated when the economy turned south. "Investors are looking at risk very differently now," Davis says.

So Davis went on the hunt. In April, he secured a \$200,000 line of credit with a bank. But that wasn't enough to pay for his plans to add staff and ramp up marketing. So he decided to pursue a \$150,000 loan offered through the Portland Development Commission, an arm of the city of Portland. The first two years of the loan are interest free, and if he meets hiring and wage goals, the rate after that will be only 1 percent. "It's free money," says Davis. Well, maybe—the deal hasn't closed yet. Meanwhile, Elements Health Plans' revenue has doubled this year, to more than \$2 million. That helped Davis finally attract an angel investor this summer who was drawn by Elements' growth prospects and reassured by the fact that it was able to snare bank financing in a rough credit climate. "He's glad he's not the only one taking a risk," Davis says.

Good companies are definitely making it through the tough times. But more

credit surprises are in store. Entrepreneurs will need to stay nimble to keep debt ratios in line with steadily tightening loan standards. The line of credit you have today may not be there tomorrow.

Michael Diglio's nearly evaporated. Diglio is president of American Facility Services, an Orlando facility maintenance firm with 50 employees. A couple of years ago, he got a line of credit through a national bank, using his house, which had been appraised at \$650,000, as collateral. He tapped the line only three times and repaid within a month each time. But that didn't stop the bank from shrinking the line in May, from \$200,000 to \$65,000, citing contracting home values in Florida. "I called my local banker, and they said they had no control over it," says Diglio. Earlier this year, a local real estate agent pegged the value of Diglio's house at about \$595,000. "I understand that

## THE MONEY HUNT //////////////

*Had trouble finding funds this year? Here are a few ideas that could help. For links to the articles mentioned below, go to [www.inc.com/keyword/oct08](http://www.inc.com/keyword/oct08).*

- 1 **Check out our angel directory.** It's organized by geographic area and includes contact information for the angel groups.
- 2 **Tap self-directed IRAs.** Individual retirement accounts can be invested in privately held companies, as long as you follow the proper regulations. A 2007 *Inc.* story explains how to do it.
- 3 **Think outside the bank.** Look into city and state economic development funds, which often have money for expanding companies. Look for local business incubators or nonprofits, such as JumpStart in Cleveland, that have funds for start-ups.
- 4 **Explain your industry.** For tips on how to educate your banker about your industry, read an *Inc.com* column by banker and small-business coach Dima Berdiev.



there's a correction in the housing market—but not enough to reduce my line of credit to \$65,000," he says.

So he fought back. Diglio appealed to the bank by sending refuting documentation, including an assessment of home values in his neighborhood from the online real estate service Zillow.com and a letter from that same bank congratulating him on his excellent personal credit score. This summer, he checked again, and his line of credit had been restored.

But other entrepreneurs, including Studeo Legal's Tiller, have not done so well. In late 2006, he signed a million-dollar contract, which allowed him to wipe out some \$50,000 in

credit card debt. But he has another \$40,000 to go. And he is still struggling with his mortgage. Local bankers recently told Tiller that his best hope for refinancing was probably a Federal Housing Administration loan, given that the agency is reaching out to homeowners affected by the subprime crisis. Tiller is keeping track of all his debt on a spreadsheet labeled "Misery," and once he's done paying it off, he plans to print the document and burn it. But even with hindsight, he thinks he made the right decisions. "In retrospect," Tiller says, "there's no other way I could have pulled this off."

—Joanne Cleaver

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