

No use crying over spilt milk – we must look to the future

It's one anniversary no one will be celebrating, but a year on from the birth of the credit crunch **Sue Summers** says the West Midlands can and should be optimistic about the future.

Exactly 12 months ago today, the worst fears that had until then been kept behind closed doors at the world's top banks came true and the credit crunch was born.

On that day, the European Central Bank alerted the world to the credit crisis with its first injection of €71 billion into money markets after BNP Paribas froze withdrawals on funds hit by the US sub-prime market crisis.

The credit crunch and the general slowdown in the world economy have become the number one topic of conversation from bus queues to the coffee houses around Colmore Row.

It would be fair to say that while everybody is talking about it, the most significant impact of the credit crunch has been on those directly involved in the world of finance.

Here at Investbx, we have been well placed to see just how the changes in the economic climate have impacted on investments.

Investbx is a pioneering vehicle for West Midlands-based SMEs to raise transitional finance, acting as a catalyst to bring companies and investors together.

From the outset, the primary aim of Investbx was to dismantle the financing barriers that have been stopping businesses from developing and growing in the £500,000 to £2 million range, a well acknowledged gap in the equity market.

It has proven that high quality emerging businesses – of which the West Midlands has many – have traditionally been frustrated by difficulties as they seek to move beyond initial rounds of equity finance and bank funding.

Investbx is unique in the UK and one of only a handful of such vehicles in the world.

So, it has made things even more challenging to face up to being a new player in the regional investment market just as that market has started to seriously doubt itself for the first time in years.

We have been able to see clearer than most just how the investors with cash at their disposal have reacted to the credit crunch and general slowing down of the economy.

Certainly, investors have become far more cautious about where they are going to put their money.

They have become far more rigorous in their due diligence, going over every aspect of proposals and figures in even more detail than normal.

Such caution is to be expected but caution should not be mistaken for panic.

There are great companies and great investment opportunities out there and while there are great companies, there will be investors looking for value for their money and an opportunity to make good returns on their investment.

Of course, what is causing the greatest problem is the confusion.

If you ask 10 people's views on the economy, you'll get 10 different answers, influenced inevitably to a greater or lesser degree by the sceptics.

Just the other day, whilst in the company of a number of key investors and high-profile advisers in the Birmingham and wider West Midlands financial community, I was taken aback by the diversity of views.

For every pessimistic view, there were others who saw the slow-down as an opportunity.

Sadly, it is fairly obvious that the voices that are heard the loudest are those with a negative tone.

Now is the time for the positive voices –



Man facing up to the credit crunch nightmare: Chancellor Alistair Darling

those belonging to the investors and companies that will ultimately come through these challenging times stronger than ever – to be heard.

I think what is absolutely vital is that SMEs need to stick to their business plans and not be put off by the doom-mongers.

The West Midlands' band of successful small and medium sized enterprises need to remain completely focused on their strategy and continue to seek additional finance to help them grow.

While it is true to say that fluctuating or falling share prices and threats of rising interest rates do not help, successful SMEs should not put on hold their expansion plans.

Companies such as the ones we are in discussions with to join Investbx are geared up to grow over a period, so they should not be deflated too much by short term concerns.

A perfect example of the success of West Midlands Plc in these times is the first company to float on Investbx – Teamworks Karting.

Just this week, the Birmingham-based company opened its second track in Reading, utilising some of the £500,000 of equity that was raised through the flotation on Investbx to open a facility that will be a major draw in the leisure and corporate hospitality market.

Here is a shining example of a successful and growing great company, built on a great idea, driven by great principles and led by (local) great people, that is expanding from its West Midlands base to grow from an SME

into a potential major player in an expanding market.

In many ways, the example of Teamworks is one that should be held up more so now than at any other time.

Undeterred by short term uncertainty, the Teamworks board has instead looked to the medium and long term and I am confident that when the economy stabilises, they will be in a strong position to continue their national expansion and lead the way in their field.

The same principle is one that is set to be shared by more forward thinking companies involved with Investbx in the months to come.

One specific factor that will enable the West Midlands economy to overcome these challenging times is that businesses must have a platform of sufficient equity capital to support long-term investment and additional loan finance.

This is where the Investbx concept really comes into its own. By encouraging liquidity, we hope to make it easier for businesses to raise the right level of equity to achieve medium-term goals, even at a time when the short-term set backs are hitting the global markets.

Of course, even this approach needs caution. The balance of financing needs to be absolutely right.

In many cases, this will involve an appropriate level of equity and bank finance, with asset finance integrated in order to give flexibility and other cash requirements as the business

expands. But the advice and guidance to ensure this happens is there for companies to tap into.

Whilst Investbx is aimed in particular at companies of a certain size, there are funds available to businesses of every size and type.

At a time when banks are less inclined to invest in the growth of businesses, for reasons way beyond the control of any entrepreneur or businessperson in the West Midlands, these sources of finance should be increasingly attractive and I would urge businesses that are prepared to pursue their expansion plans to consider them.

The barriers to raising finance have traditionally been problematic for West Midlands' SMEs and current conditions make these barriers even more prominent.

There is a commonly quoted saying that 'doing nothing is not an option' and for our region's businesses, destined to succeed with the right backing, this is undoubtedly the case.

It is up to everybody involved in driving the growth of SMEs – including facilities like Investbx – to do everything within their power to overcome these barriers.

Ultimately, if, as a region, we can come through these tough times with a combination of the appropriate support, the right attitude and robust planning, there is not much our economy here in the West Midlands cannot withstand.

■ Sue Summers is chief executive of Investbx