10-17-2008

Rochester poised to grow when credit crisis abates

Ashok Rao

Recommended Citation
Rao, Ashok, "Rochester poised to grow when credit crisis abates" (2008). *Rochester Business Journal*, vol. 24 (29),Accessed from
http://scholarworks.rit.edu/article/140

Rochester Business Journal

RBJ

VOLUME 24, NUMBER 29 WWW.RBJDAILY.COM OCTOBER 17, 2008

Rochester poised to grow when credit crisis abates

INNOVATION EDGE

Ashok Rao

You wake up one day and you have this wonderful idea. Maybe it's a new windshield wiper or a new restaurant concept or a new Web-based game. You just know there will be a market for it. A few years back, your enthusiasm and passion could have infected others who would give or loan you the money to get started. Today, things happen differently.

Beginning entrepreneurs source initial funding from the 3F's: founder, family and friends. Founder funding usually comes from savings, credit cards and often mortgages. But currently credit and mortgages are increasingly difficult to get. Credit card companies are issuing new cards only if you have a good credit score. Even then, if you get a new credit card, you have to watch out for the hidden fees such as late-payment penalties and other fees. Mortgages also have become more difficult to acquire. Banks are unsure about interest rates they may have to pay. So, even if you have good credit, a bank is more inclined to be cautious loaning money. If they do offer a mortgage it is more likely to be a variable rate mortgage, which can present problems to a fledgling business if the rates go up.

Family and friends also are cautious. Today, many are looking for a safe place for their money and a new venture tends to be speculative. If family members are inclined to help, they are likely to give you money only if they have some to spare. But with an uncertain economic future, they too would be inclined to hold on to it for a rainy day. Friends, on the other hand, are likely to look for tangible evidence of your confidence in the new venture. That is, they will look for how much skin you have in the game. If you had few assets to start with and your personal investment is low, don't count on much from this source.

Times also are tough even if you own a small business that started awhile back and has proved to be profitable. Banks will not provide you much credit in this case, either. A more promising source is customers and suppliers with whom you have developed strong relationships. Customers can pay off their accounts receivables quicker and suppliers can extend their payable deadlines, giving your finances a short-term boost. If they won't help, you can factor your accounts receivables and incur late-payment fees with some of your suppliers.

You could look for credit from local banks. The major cause of the financial crisis has been the fall in real estate values. So, on the face of it, Rochester should not suffer much. After all, the real estate values in the area were not inflated by speculators. But banks in Rochester depend on rates set by banks outside Rochester. Citizens Bank is owned by Royal Bank of Scotland Group PLC, Key Bank is part of Key Bank Corp. headquartered in Cleveland. Community banks get money to loan from other sources such as the Federal Home Loan Banks. Their interest rates are set in the context of a global financial marketplace. Times are tough and these interest rates are higher than a year ago.

But Rochester is in good shape to benefit when credit loosens up and the economy starts to turn. Funds will start to flow towards enterprises that are likely to prosper in a knowledge economy. And Rochester is ranked among the top 10 in the world on a knowledge competitiveness index compiled by Robert Huggins Associates. In part that is because of the educational institutions that have a focus on technology and health, manufacturing enterprises that have a focus on high-skill areas such as optics and information technology, and an entrepreneurial culture.

Rochester should be one of the early beneficiaries of the turnaround.

Ashok Rao is dean of Rochester Institute of Technology's E. Philip Saunders College of Business.