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My Capital or Theirs?

What you should know about growing your business

By: John Barnes, Financial Analysis Director

One of the constant questions in an entrepreneur's mind is "How will I fund the growth of my business?" "Debt or equity", are often the first answers that come to mind. Until recently, capital in many forms was available to the entrepreneur in a variety of vehicles.

We tend to think that the optimal capital structure for any business is one that helps the business to increase in value. Debt capital, while still available at attractive rates can be as detrimental to business value as maintaining too much cash. The business owner must have a way to benchmark business value over time based on metrics that look at the efficient use of capital from different sources. Simply put, these metrics will test the current capital structure to determine if it is one that allows the business to grow in value over time, or if it's one that just buys them a job. As business conditions change, capital structures can change as well.

The question of "my capital or theirs", is a common one. We hear it all the time. Successful entrepreneurs not only look for sources of funding, but they test to ensure that a funding source meets the need for capital, and that it meets the requirement of increasing their business's value.

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Industry Insight: Motor Vehicle Parts Manufacturing

By: Matt Morley, Research Analyst

Between 2002 and 2007, motor vehicle production by volume has decreased by over 14%; a negative trend which is not likely to subside in the near future. Although the fates of the "big three" motor vehicle manufacturers (GM, Ford, and Chrysler) are at the center of heated debates in Washington D.C. and on Wall Street, the question for owners and managers of small to mid-size motor vehicle parts manufacturers is; how can the suppliers of parts and components to these larger manufacturers continue competing in a globalizing market with higher-priced raw materials and decreased demand for the end product?

One of the major trends affecting smaller manufacturers has been Tier-1 manufacturers' drive to decrease the number of suppliers they deal with. To remain viable, many lower-tier companies that previously manufactured and distributed a single product line became consolidators – responsible for designing, manufacturing, and distributing several product lines. With their transformation from manufacturers to wholesale distributors, these companies began to source the manufacturing of components and parts outside the company, and in many cases overseas.

Indications from the economy and discussions with management of motor vehicle parts manufacturers in the south east suggest that the trend of sourcing manufacturing overseas may be slowing. The relatively new tier of distributors mentioned above is faced with consistently decreasing domestic demand for new vehicles, a stronger dollar and weakening foreign currencies that makes production of parts and components overseas more expensive, and wage pressure in emerging economies that decreases the desirability of sourcing parts overseas. In addition to external economic factors, these companies continue to adapt to operations that are less dependent on equipment and physical labor, and more dependent on relationships with suppliers and efficient management of working capital. All of these factors are putting pressure on them to make major changes in both operations and financial management.

Growth and profitability for large manufacturers of motor vehicles in the U.S. could be years away at best. On the other hand, for smaller companies with greater flexibility to maneuver in transforming domestic and global economies, growth opportunities may come sooner rather than later. A sobering consideration is that the industry will continue to suffer if demand for new motor vehicles decreases indefinitely. However, the next few years should prove interesting for vehicle parts manufacturers and wholesale distributors. The forces of globalization will enter a new phase in which the mass exodus of manufacturing operations from America could be prompted to return for the same reasons they were sent overseas.

Meet & Greet: Matt Morley Research Analyst

Matthew Morley is a research analyst at the firm. His primary responsibilities are investment research and business analysis. Previous to becoming a research analyst for the firm, from June of 2004 to December of 2007 Matthew held the position of Research Intern. In addition to his internship, Matthew worked as a lab assistant in the Department of Sociology at USC, studying theories of social interaction in exchange networks and group processes. Matthew received his undergraduate degree from University of South Carolina in 2007. From 1999 through 2003, Matthew lived and studied in Bonn, Germany. He has traveled western and eastern Europe extensively, as well as southeast China. Matthew currently resides in Irmo, South Carolina with his wife Rebekah and their two daughters.

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