

How can entrepreneurs financially emerge from Covid-19?

Traditional models of business funding need a re-think if South Africa's small businesses and entrepreneurs are to emerge from the financially crippling "winter of coronavirus" into a spring of growth and rejuvenation.



Daniel Strauss, lecturer at University of Stellenbosch Business School (USB)

Accepting that downturns, recessions and economic crises are inevitable, one needs to shift the focus into building “Zebra” companies – sustainable businesses with steady growth, strong balance sheets and cash flows, and able to withstand downturns – rather than “Unicorns that will die without the next round of funding”, says Daniel Strauss, lecturer at the University of Stellenbosch Business School (USB).

“In the past we had a mindset of ‘or’ – we either had a traditional SMME that was funded through debt or we had a start-up that was funded through equity. Each of these types of funding proved to be effective where applicable and we know how they work, but the time has come to consider an ‘and’ mindset.

“We will be forced to combine the profitability and cashflow of traditional businesses with the growth strategies of start-ups. This will change the way in which entrepreneurs think, operate and grow forever,” he said.

The future of business finance

Strauss proposes a future of business finance that is a peer-to-peer network of like-minded entrepreneurs who invest and

support one another within the same frame of reference.

He said groups of entrepreneurs who had been buying equity in each other's businesses for years were the ones to emerge stronger from every financial crisis, able to pick up additional revenue from weaker competitors once the storm has passed."

"Entrepreneurs think and operate differently. If they invest in your business you will benefit not only from funding but from a mindset that no banker can offer you. Entrepreneurs see opportunities and threats in a different light and once they have invested, they will become your partner to ensure that growth is a given, not a pipe dream."

"If we are willing to change our mindsets around SME funding, we have a chance to withstand future downturns like the man who built his house upon the rock. There's nothing wrong with South Africa that cannot be cured by what is right with South Africa," he said.



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Mwabi Motaung 12 May 2020



He said most SMMEs will emerge from the Covid-19 crisis with severely weakened balance sheets, and "relief" funding in the form of bank loans might ease cashflow in the short-term but, until it is repaid, they will be more fragile than before.

"Entrepreneurs just don't seem to catch a break. The dot-com bubble of the early 2000s, the global financial crisis of 2008, and the Covid-19 crisis of 2020 preceded by two technical recessions in as many years in South Africa."

"It is time to realise and concede that macro-economic turmoil is and will be a part of our lives going forward. We can expect a recession or economic crisis roughly once a decade and it is time to adapt or die," he said.

Entrepreneurs' ability to approach a local bank manager for a business loan changed significantly after the 2008 financial crisis, he said, when regulations on capital requirements "rendered banks virtually handcuffed and incapable to provide the capital necessary to grow your SMME".

While small businesses became too risky for bankers' mandates, on the other side of the spectrum, venture capital firms could provide equity funding to entrepreneurs with high-growth ambitions for their businesses.

"But what about the SMME owner who wants to build a sustainable business with a steady growth trajectory but has reached the limit of the amount of surety and security that they can provide to the bank for further funding?"

"It has become too risky to start a company with a bank loan and bootstrapping in the hope of building a foundation fast

and strong enough to withstand the next downturn. Recessions are going to occur, there is no denying this, and the more debt you have, the less likely you are to recover before the next wave hits. It's nearly impossible to grow whilst drowning in debt," Strauss said.

Coming out of the winter of the Covid-19 pandemic, SMMEs can experience the "growth, rebirth and rejuvenation of spring" if they are willing to change their thinking on funding, he said.

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