

How to find business funding

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What do jockeys and entrepreneurs have in common? Not much at the face of it, but there are clear parallels between piloting a horse and getting a business to fly. Right out of the starting gate, entrepreneurs are in a race to win business funding in a way that jockeys steer their charges through a competitive field to reach the winning post. Business owners can learn from the way successful jockeys are in tune with their horse and know the ins and outs of the racetrack.



The GIBS Entrepreneurship Development Academy recently hosted a free online Facilitating Funding panel event during Global Entrepreneurship Week. By following some of the simple tips below on when, where, and how to position yourself in the funding race, you may find it easier to secure the finance you need to take your business to the next level.

Know yourself

Financiers often bet on the jockey before the horse, so start with some introspection. “We want people who are self-aware, know their limitations and are open to advice,” says Malik Fal, trustee and CEO of ESquared, an impact investment fund.

“We look for individuals who know a lot about what they are doing,” he says and explains that to receive funding, you also need to have a clear idea of your budget, know your product or service, who you are serving and what problem you are addressing - in short: know exactly what you want. “Typically, successful businesses are not scaled by one individual alone, so it’s important for the founder to know what additional skills are needed to move the business forward. We identify that quickly and try to complement the missing skills.”

Be “all in”

And when betting on the jockey, some funders are looking beyond the technical skills. “We like to get a sense of who we are dealing with,” says David Morobe, executive GM for Impact Investing at Business Partners. The long-standing SME risk

finance firm not only assesses its applicants' track record, experience, technical skills, business acumen and credit worthiness, but also their personal integrity, lifestyle and financial commitments.

"Disclosure is important," says Morobe. "The worst thing is discovering during our own credit checks that you're blacklisted and didn't reveal it." In addition to showing integrity, he also suggests that entrepreneurs invest their own money, because those that have 'skin in the game' will spend sleepless nights to make their business succeed.

Check your expectations

Most small business owners want "cheap money, quickly, without paperwork or having to provide collateral," according to Morobe. But is that realistic? He outlines the frustrations of financiers, which include incomplete business plans and financial projections; lack of entrepreneurial experience; lack of financial track record regarding business profitability and gearing; and business owners expecting the financier to take big risks. So if you want funding, you'd better adjust your expectations.

Why do you want finance?

"Be specific," says John Sharpe, chief commercial executive of FinFind, a fintech firm that matches small business owners with funders. The top reasons why SMEs seek finance are cash flow assistance and working capital; followed by buying equipment; and to buy stock, according to FinFind. "Entrepreneurs ask us for three times the amount they actually require; the logic being that their request will be reduced anyway," says Sharpe. However, this messes up the algorithm and could match you with a funder that is wrong for your business.

You also have to be clear regarding the stage of your business and whether you require equity, debt or overdraft funding. "It's very important to look at your numbers and ensure your operations are efficient before seeking funding," says Vuyiswa Nzimande, Investment Principal at EdgeGrowth, which specialises in SME growth support and integration into corporate procurement processes. "Remember that funding is not going to fix internal problems in your operating model."

What is your time horizon?

How much money do you need and how long can you wait for disbursement? Start by assessing your working capital cycle and margins. Short-term funding is much quicker and requires fewer securities than long-term funding, but is more expensive. So if you urgently need cash, you may have to forego the cheaper but long-winded government processes in favour of commercial funders.

"Our process is easy: you apply for funding online, and for new clients, we usually pay out within 7 days, for existing clients with new deals it's only 24 to 48 hours," says Andrew Maren, CEO of ProfitShare Partners, a fintech business that helps businesses grow as much as 1000% in 12 months without the need for financials, security or track record.

You do, however, require a contract or purchase order from a large corporate or government department to qualify for funding and have to share your profits. "We don't have instalments, we get paid when you get paid," says Maren. "We build up our clients to lose them," he adds, because once clients have established a good track record, they can access finance from other sources, such as traditional banks.

Many SMEs worry about the high cost of short-term funding. Yet Sharpe gives the example of an entrepreneur who recently qualified for a R200,000 loan to buy time-sensitive stock, for which he'd have to pay back R250,000 over six months. Selling the stock would generate R300,000 within two months - a gross margin of 33%. So if he rolled this loan multiple times, he could pay it back and still make a decent profit.

Who to approach for funding?

Check which credit providers are suitable for your requirements, then get all your documents ready and tailor your

application to the specific funder. Which organisation you approach depends on your business and industry, time horizon and needs (for instance, do you want only finance, or also mentorship, support and assistance with networking and market access?)

Try to find your niche. If your business is at least 30% women-owned, it could be a fit with Africa Trust Group, which aims to close the gender gap by funding highly scalable, female-led businesses, providing finance at seed and pre-seed stages. One of its three funds focuses on women in agriculture while another one disburses innovative finance for women in climate, energy, agriculture, finance and EdTech.

If you need support in your growth phase, you might fit into the specific mandates of EdgeGrowth, which manage funds for SMEs operating in the financial services supply chain, or the green economy, amongst others. Ultimately there is plenty of entrepreneurial funding available in South Africa, and once you have secured one that is right for your business, keep in mind that most funders have a vested interest in you safely steering your horse towards the finishing post. After all, they have a stake in the winner's prize.

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