

How SMEs should pitch for funding

The current economic state definitely plays a major role in the challenges that SMEs experience in securing funding when they need it. South Africa's low economic growth over recent years has negatively impacted the future forecasts of most companies, and SMEs especially, find it more difficult to show proof that they can remain solvent for the foreseeable future. This is of course one of the qualifying criteria set forth by funding institutions.



Anton Roelofse, regional manager, Business Partners Limited

Applying for business funding involves a number of steps including due diligence, and for certain types of businesses, it may even require trade licenses. "All these steps are necessary for the financiers to make an informed decision. Due to the time that businesses may need to spend on the required paperwork and the substantial amount of information required, some businesses may drop out in the initial application stages. It is therefore imperative for SMEs to invest time to prepare for a business loan application in order to attract the required finance," says Anton Roelofse, regional general manager at Business Partners Limited.

Meticulous about cash flow

There are a number of crucial ways in which SME owners can give their businesses the best possible chance of securing funding at any stage in their life cycle. "The most important thing that the business owner needs to do, is to be meticulous about every aspect of cash flow. Draft a business plan, keep a record of when there are deviations in the budget, and put plans down on paper to detail how the business is going to get back to its original budget.

"Try to keep all financial records up to date and correctly filed, because having to put this information together when the business applies for additional funding will likely be a time-consuming exercise," he says.

Along with this, the business owner also needs to keep detailed projections for the business at hand. “Most funders require 12-month projections, but business owners can again improve their position by compiling up to 24-month projections. Funders also need to get a clear understanding of how further expenditure will produce a better income for the business, which is why it is vital to detail how the business loan will be spent and how this will influence the projection.”

Roelofse points out that the overall impression that the business owner creates also has an influence on whether a funding application succeeds. “Never forget that funders invest in the owner as much as they do in the business. When meeting with the representatives of the funding institution, exude enthusiasm for the business. Be ready with a summary pitch detailing the company’s competitive advantages and make sure that you are able to answer any questions.”

Informed

SME owners need to ensure that they are informed about the type of funding available. “New institutions and types of funding are introduced each year. There is also a host of financing products available, ranging from cost-sharing loans, enterprise development funding, and equity investments, to conventional business loans, revolving loans and guarantee funds. Each option has different advantages which could be beneficial for businesses at various stages.”

Lastly, Roelofse says that funding institutions and the rest of the private sector can also do their part to improve the state of SME funding in the country. “To start, financiers should continue to look for ways to improve the process of applying for finance. This should include deploying technology in order to attract more SMEs to their offering.”

To this he adds that large corporate businesses should help SMEs to better maintain consistent cash flow. “The majority of the challenges that SMEs face, both before and after securing funding, come down to cash flow. Large companies who subcontract work to SMEs can help to keep the cash flow in these businesses up by dividing contracts into smaller portions. A R10 million contract, for instance, can be broken down into ten R1 million invoices that can be paid throughout the duration of the contract. This way the SME can show continued cash flow during their application.

“SMEs are widely regarded as a crucial component of South Africa’s economy, and improving access to small business funding is becoming increasingly important to the country’s growth prospects. The good news is that the funding opportunities for small businesses are growing exponentially. Now it is a matter of making it easier for the right businesses to connect to the right financiers,” Roelofse concludes.

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