

The problem of money

IT'S STRIKING that in many interviews with successful entrepreneurs you hear at some stage or another how they struggled to obtain the necessary money to get their business going. Sceptical financiers have always been a problem and since the world-wide credit crisis last year that's become even more so.

During a presentation at the Leader's Angle of the University of Stellenbosch Business School (USB) last month, Argon Asset Management CEO Mothobi Seseli named that as one of the major problems for beginners. His own business was an excellent example. "Everyone – people and banks – said: 'What? Why should I give you money?' And that's why you have to work very hard at doing the right things to gain their confidence."

Seseli overcame his initial problem with

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labour and persevered, and now, after four years, stands at the head of a company that manages assets of more than R6bn.

The fact is that virtually all businesses need capital to get under way. Seda emphasises that on its website (www.seda.org.za) and says money is the pivot that everything revolves on: equipment, materials and stock have to be bought, salaries, rent and phone bills have to be paid.

Seda's advice is simply that before the different ways of obtaining finance are looked at you must first think deeply and comprehensively about what your business is going to do, how you'll do it, what it will cost and how much money you'll make in the end. That information must then be converted into a business plan as thoroughly as possible – under a separate heading, where your financial plan is set out.

Mike Hindle, of Aldes Business Brokers, says in an article on www.bizland.co.za it definitely looks as if banks aren't keen to advance money for a new business. He calls that one of the most frustrating aspects involved in the buying and selling of a business. Serious buyers repeatedly approach their bank managers hoping to obtain financing on the basis of their own assets and those of the business they plan to buy, just to hear their application has been turned down.

Hindle says in general banks aren't geared to buy a business. And those that say they are have these strict criteria:

- A sound business plan.
- The necessary skills to make a success of the business.
- You have to have 20% to 30% of the buying price in cash.
- Surety for the loan sum (rand for rand), preferably as property, is important.
- The profit potential of the business must be proved.



Mthobi Seseli

Money is the pivot it all revolves around.

PLACES TO APPROACH

SEDA PROVIDES VARIOUS possibilities where you can get financial assistance, not including commercial banks and other specific financing institutions, including:

- Business Partners (loan sums from R150 000 to R15m).
- The Innovation Fund.
- Sizanani Advisory Services (R100 000 and more).
- Zimele (share financing up to R1,5m).

For example, Hindle says if the loan you need is R120 000 you have a reasonable chance if you have R30 000 in cash and a mortgage can be obtained for the rest. But without that your application won't work.

He says the problem, according to a business manager at a large bank, is that many bank managers don't have the business skills to introduce creative financing. But there are bank managers who can help you make your dream a reality and they're the ones you must find.

If you don't have success with a bank, there are other avenues (see box). One is Khula Enterprise Finance, an agency of the Department of Trade & Industry formed 13 years ago to facilitate access to financing for SMMEs by different mechanisms. Those include commercial banks and retail intermediaries and what it amounts to is that Government will guarantee 80% of what the bank is prepared to lend, under certain conditions. But loans are limited to R600 000 and therefore unsuitable for a big business.

SA's Industrial Development Corporation (IDC) is also prepared to become involved in deserving cases and in its 2008 financial year it approved around R1bn in financial aid to about 190 deserving SMMEs alone. Its annual report shows the cumulative value of its financial aid is already more than R25bn. Loan sums of R200 000 to R15m are granted.

Mike Herrington, of the University of Cape Town's Centre for Entrepreneurship and Innovation, says there's hope for financing – provided entrepreneurs know where to look and how to apply. The Umsobomvu Youth Fund, IDC and even organisations such as Mark Shuttleworth's Here be Dragons and VenFin's division for venture capital are possibilities.

With a convincing business plan, there's hope. ■

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