Financing your business

Every retailer needs some form of financing at some point in the lifetime of his business.

Start-up financing is probably the most critical funding your business might need, but issues such as general expansion, improvement of infrastructure or capital investment needed for new management systems – all necessary for continued operations – are likely to need external funding.

It is always the hardest to fund operating capital, as the business quite possibly won't have the assets to secure such a loan. For that the business owner would have to supply additional, often personal, surety.

For asset financing, surety is easier because the assets being financed provide most of the surety required by a lender, although a substantial cash deposit might also be required.

An outright purchase via asset-based finance is the traditional model, but there are also rental models available – particularly in the technology sphere – that might be a little more expensive, but allows the business to replace or upgrade the equipment even before its technology becomes obsolete.

These financiers can be accessed through the technology providers, as they often work hand-in-hand to bring business owners more innovative financing and purchasing options.

When you want to buy a franchise, the franchisor often already has in-principle approval from a bank or financing house. That means that you don't have to convince the financier that the concept is a good one, you just need to make a case to show that you would be a good operator of such a franchise. Another benefit is that the franchisor would in all likelihood already have approved of the location where you want to establish the business – and the bank will see that as another positive point.

Financing stock purchases are generally the hardest because you cannot use the stock as surety, as it is generally sold quickly. The financing for stock purchases would always be a short-term agreement, for this very reason.

As you might need this form of financing again, it would be best to try and establish a long-term relationship with specialist providers of business financing. By servicing the financing well, you will build a good record and relationship and the next time you need a loan, it will be easier as the financier already knows you and your credit conduct.

Such a financier would most probably suggest a revolving-credit programme. An amount would be approved and you will service that credit with monthly instalments and, as the debt is reduced, you would again have access to the line of credit.

A start-up business would need a larger amount of financing and banks and traditional lenders might not be too keen to get involved in that. For such cases, you could consider an angel investor or venture capitalists. And angel investor often is a wealthy individual or group of investors who provide start-up financing to business. An angel investor would most likely take a shareholding in the business, with an option to be bought out at some stage while sharing in the profits in the meantime.

A venture capitalist will get involved if he or she can see the potential for the business and an attractive return on the investment. A venture capitalist would want to get involved in the running business to some extent and look at being bought out after a period of around five years – with a healthy return on the initial investment, of course.

Since the changes to the National Credit Act, obtaining financing has generally gotten more difficult. This has seen a growth in smaller specialised financing companies. Instead of offering the whole bouquet of credit products like banks do, they focus on fewer, but more focused financing products.

One such niche product is invoice factoring. This is where a financier advances money to a business against an invoice that the business has issued. The financier might advance as much as 80% of the invoice value the moment the invoice is issued. This assists businesses that don't have the cash-flow resources to wait for payments for 90 days or more. The financier will collect the invoice amount from the business's customer and take a fee for the service and pay the remainder over to the business.

Another product is where a financier advances a line of credit to a business, calculated and secured by the business's turnover in debit- and credit-card collections. One such financier, Retail Capital, says the loans can be used for anything and repayments are calculated based on the turnover of the client's store.

Clients pay back a fixed percentage of their credit or debit card turnover, which means that in busy months the repayment is more and in quiet months they pay less.

Retail Capital does not charge interest. A fixed service fee is agreed upon at the beginning of the agreement and it remains the same, not matter how long it takes the retailer to pay back the loan.

Typical use of this financing includes refurbishments to stores demanded by franchisors. This can be a headache and difficult to finance through traditional financing products offered by banks.

Karl Westvig, chief executive of Retail Capital, says a loan approval takes only three days – for loan amounts of between R50 000 and R5-million – and clients do not have to supply any additional surety.