

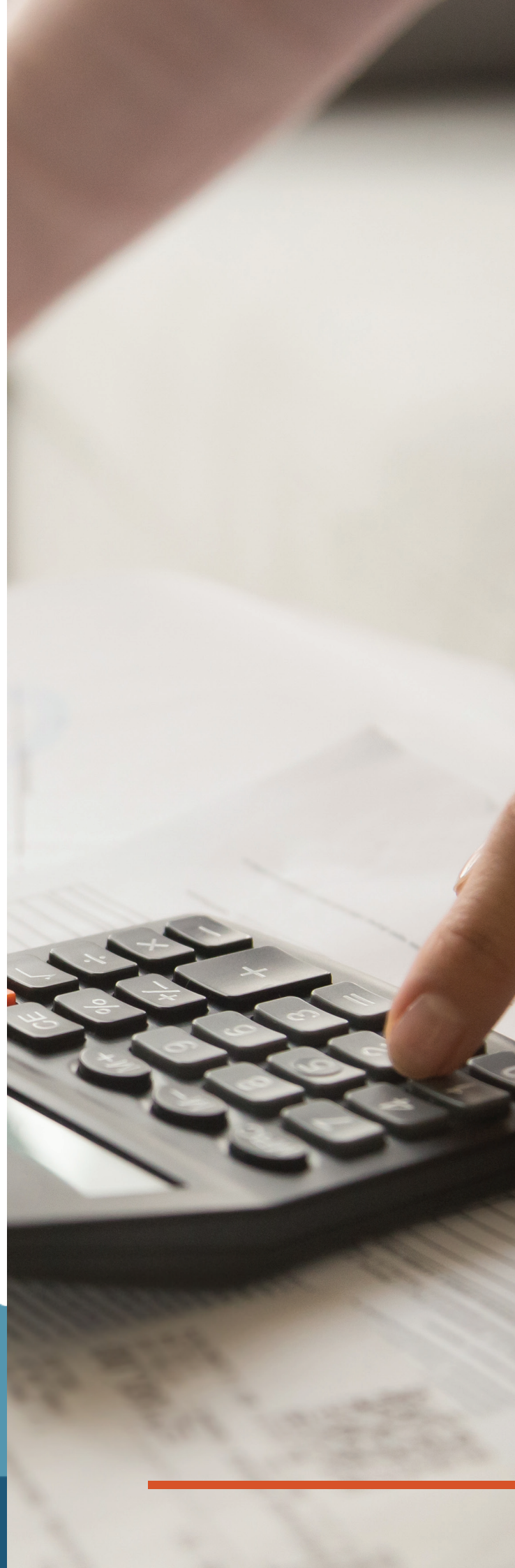
The SME Guide to Business Funding

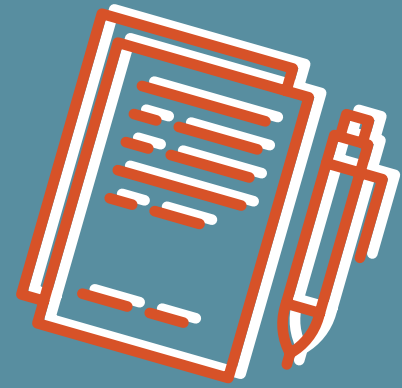
An in-depth look at how accessing business funding can be beneficial for your small to medium business.



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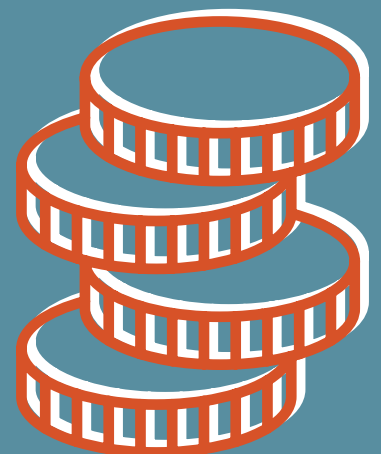




What is the Business High Five?

Running your own business can be one of the most challenging and rewarding things you ever do. As big supporters of SMEs, we're working with a few of our friends in the business to share some valuable insights every business owner should know – about accounting, customer relations, marketing, legal, HR, tech, and more.

It's not formal advice, just some practical pointers on running a healthy business. Always make sure you get the right advice for your situation. That said, whether you operate a courier service or sell cupcakes, we hope the Lulalend Business High Five helps keep your business on the move and making some ka-ching!



How can **business funding** help SMEs

Many business owners believe the most crucial factor in success is sales. While it is obviously true that without sufficient sales a business will fail, maintaining liquidity, or having access to sufficient cash is equally important. Even the most successful businesses experience fluctuations in revenue, causing disruption to cash flow. Having fast and easy access to working capital

in these instances is crucial. Without it, not only will daily operations be impacted but the business will be unable to take advantage of new opportunities.

Half of all SMEs recently surveyed by the credit bureau, TransUnion, stated that "access to funding" is their major barrier to growth.

Lulalend **Benefits**



Apply in minutes



Transparent, flexible terms



Customer centric service



Access to finance in 24-hours



Unsecured financing



Trusted by local SME's



No long queues or extensive paperwork



We say yes more often

Here are some of the most common reasons businesses need access to additional working capital:

Everyday operating expenses

While sales revenue may fluctuate, the daily operational cost of a business stays the same. Expenses such as lease and rental costs, utilities, taxes, payroll, and other operational costs will still need to be paid until sales revenue increases.

Having access to additional capital when sales revenue takes the occasional downturn will keep daily operations running smoothly and prevent the loss of valuable employees.

Equipment upgrades

Technological advances happen rapidly, meaning most business equipment will become obsolete. The upfront cost of new equipment can take a big bite out of working capital, which can leave a business vulnerable. However, delaying equipment

upgrades can create a decrease in production and the ability to meet customer demand. If you can't provide your customers with the products or services they need, when they need them, they will end up going to a competitor who can.

Business growth

The ultimate goal of a business is to grow. This means expansion – either a new location, additional inventory, or new products or services. Much like new equipment, expansion can involve large upfront costs that can seriously

deplete working capital. Having access to additional capital can provide the funds to keep daily operations on track until the expansion begins to show a return on investment.

Unexpected expenses

Even the most prepared business owners can find themselves up against unexpected expenses. Equipment breakdowns and property repairs are some of the most common.

Having sufficient capital to hand will allow a business owner to meet these expenses promptly and keep disruption to a minimum.

A healthy cash flow enables businesses to:

Ingredients for growth



Make up front investments in inventory, materials and money



Spend on marketing



Bring on new staff (potentially at short notice)



Invest in Digital and e-commerce



Contingency plans to minimize possible trading interruptions (eg Load shedding)



Cover expenses for businesses that close over holiday periods

 **Lulalend** Your Friends In Funding

When you are looking for a funding provider, it's best to apply for funding and establish a relationship with a funding provider before it becomes absolutely necessary. This will make it easier to access business capital when it's necessary.



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Where can SMEs access business funding?

If you search for a “business loan” online, you’ll be confronted by a staggering number of results: 1.5 billion, to be exact. And though banks still dominate as finance sources for SMEs, the

International Finance Corporation (IFC) finds other business loan providers have started to appeal to business owners who are searching for fast, easy ways to access finance.

Traditional Banks

Local banks such as ABSA, First National Bank, Standard Bank, Nedbank, and Capitec all offer different business loan types. However, there are stringent criteria that each of these banks has laid down which any prospective borrower must meet. Banks give out loans at a specified interest rate which must be

paid back according to the agreed rate. Depending on whether you have a business or personal account with the bank, different application processes apply, which may include submission of bank statements, business registration certificates, notices of incorporation, cash flow statements, pro forma invoices, and more.

Break down of documents required for a business loan by each loan provider



- > One-year transactional history
- > Pro forma invoice demonstrating intended use of funds, up to 70% of the advance value



- > South African ID
- > Three-months salary slips (only SMEs who get a salary from their business are eligible)
- > Three-months bank statements



- > Six-months bank statements
- > Annual financial statements
- > Cash flow statements
- > Business plan
- > Year-to-date management accounts
- > Income statements
- > Balance sheets



- > South African ID
- > Notice of incorporation
- > Registration certificate
- > Shareholder certificate
- > Six-months bank statement (if you're not an ABSA client)
- > All directors to be present to sign the application

Government Funding

Government funding for SMEs is provided through grants and financing by development finance institutions (DFIs). Some of these DFIs include the Industrial Development Corporation (IDC), the Small Enterprise Development Agency (SEDA), the Small Enterprise Finance Agency (SEFA), and the National Urban Reconstruction and Housing Agency (NURCHA). Some take the form of loans or grants, while others are in the form of cost-sharing incentives.

FinTech Lenders

A new generation of lenders, using a technology-led approach to speed up and make the process of securing business funding more convenient, is growing quickly. These lenders offer; Online application processes that take only minutes, instant decisions, and more flexible repayment terms than traditional lenders. Because their technology is tailored specifically to assess SMEs, they often have higher approval rates and don't require collateral.

Here's when alternative fintech funders may be a feasible solution to your funding needs:

- 1. You need a quick turnaround time:** Business opportunities arise and you need to act quickly. This does not allow for the long lead times of traditional lenders. You can access capital from some fintech lenders within 24 hours.
- 2. You are not being approved by banks:** Banks use traditional, one-size-fits-all, credit models which do not suit all businesses. As well as often requiring high levels of collateral. Fintech lenders use AI-driven technology and alternative sources of data to more accurately assess a SMEs business health.
- 3. The costs are not clear:** Loan initiation fees, early settlement penalties, and ongoing account costs are often "hidden" costs that can make traditional lending sources not as cost-effective as they appear. Most fintech lenders avoid hidden costs and have clear, transparent repayment terms

Choosing a Responsible Business Funding Partner



Ultimately, responsible lending means putting the customer first. Businesses turn to a variety of sources for funding. The problem is there are some lenders out there that don't act in the customer's best interests. It is important to select a funder who believes in responsible lending. This means ensuring affordability,

transparency of terms and conditions, and supporting the customer when needed. Funders have the responsibility to make sure customers are clear on the details of the loan and that the business can afford any funding offered to them.

Technology assists with confident decision making

The best way to provide responsible lending is by understanding a business's creditworthiness and affordability. Choosing a funder that uses technology and data to make

accurate decisions is valuable. This is where fintech companies, with their extensive range of data sources and real-time decision-making capability, have an advantage.

Avoid lenders that follow bad practices such as 'stacking'

When comparing your funding options, look for lenders who take this a step further by avoiding what is known as 'stacking'. Many lenders will provide funding even when a business has more than one short-term lender already funding their business. Having

several loans open with a number of lenders can cause a business's demise instead of their prosperity. This is because their indebtedness is overextended and it becomes difficult for them to manage and maintain all their debt.

Get funding from lenders that want to partner with you

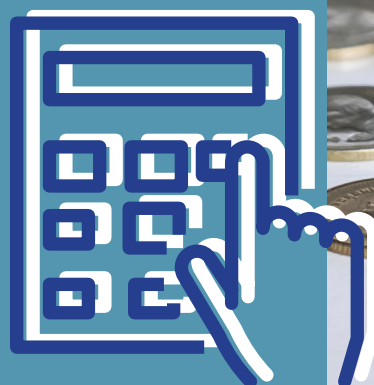
Seek funding from lenders who aim to develop long-lasting relationships with clients who show good payment behaviour. A positive track record helps build trust and should allow, over time, a reduction in the cost of funding. This results in the lender continuing to assist the business as opposed to being a one-stop-shop.

You need to be responsible too

Before entering into a relationship with any lender, it's important to be honest with yourself about the financial state of your business and ensure that you are making a wise decision. It can be helpful to ask yourself the following questions as you consider business funding:

- Can I afford the repayments?
- What happens if circumstances change and I find my business bringing in less income and having more costs?
- Are the interest rates fixed and if not, what happens if they increase over time?

At the end of the day, always look for funders who genuinely believe in the long-term prosperity of their customers and not just their own short-term profits.



Qualifying for a **Business Loan**

Credit score

Do you know what your credit score is? Understanding your own and your business's creditworthiness is a great practice in general. But it's especially important if you're planning to take out a business loan. Lenders will base their decisions, in part, on your credit rating.

Once you submit your business loan application, lenders will access data about your credit history from the credit bureaus. There are indicators that influence your credit rating, and these include:

- Your current levels of debt
- Your payment history

Garth Rossiter, Chief Risk Officer at Lulalend, explained how a positive payment history can influence your credit rating. "It's important to maintain a good repayment history on long-standing accounts. But, not all debt is good for your credit rating. High-risk personal funding negatively impacts your credit rating."

In short: credit scores matter, but they're not the only indicators lenders use to assess risk.

'Because they use advanced scoring technology, alternative fintech lenders are able to quickly assess multiple data sources to make a more accurate credit judgment.' said Rossiter.



What's a good credit score to get a business loan?

There's a lot of focus on personal credit scores when it comes to business loans.

While the truth is personal credit scores are usually only one of several factors considered when lenders

determine your business's credit score, a poor personal credit score will work against you.

Typically, between 640 to 700 is a good personal credit score. And higher scores mean lower risk.



Whats a good credit score?

Typically between **640 to 700** is considered a good credit score. A higher score means a lower risk

- 700+: Is the best rating you can achieve
- 660+: a good credit rating
- 620 to 659: you might struggle to get a business loan
- Below 620: most lenders will see this kind of score as high-risk

Here's the caveat: your personal credit score and your business credit score are not one and the same.

If you're applying for a business loan, your personal credit score may be considered along with several other

assessment criteria. Lenders are rating your business. And your personal score is just a single data point they might take into account when they model your risk.

Time of operating

Nearly every type of business loan provider cites time in business as a critical requirement.

Traditional lenders often exclude

businesses that have only been operating for a few years. Fintech providers usually have less stringent requirements. If you have a trading history of one year, you'll often meet their minimum requirements.

Annual revenue

Most business loan providers will have set minimum revenue requirements. This differs from lender to lender, with fintech lenders generally having lower requirements.

Collateral

Has your business loan been rejected because of a lack of physical collateral?

A lack of collateral is among the most common problems facing SMEs on the hunt for a business loan, writes Marek Dubovec and Louise Gullifer in **Secured Transactions Law Reform in Africa**.

Collateral is required by many lenders to guarantee they will recover their money if you can't pay back a loan. Once you put up an asset as collateral, you're giving the lender permission to claim that asset via the courts.

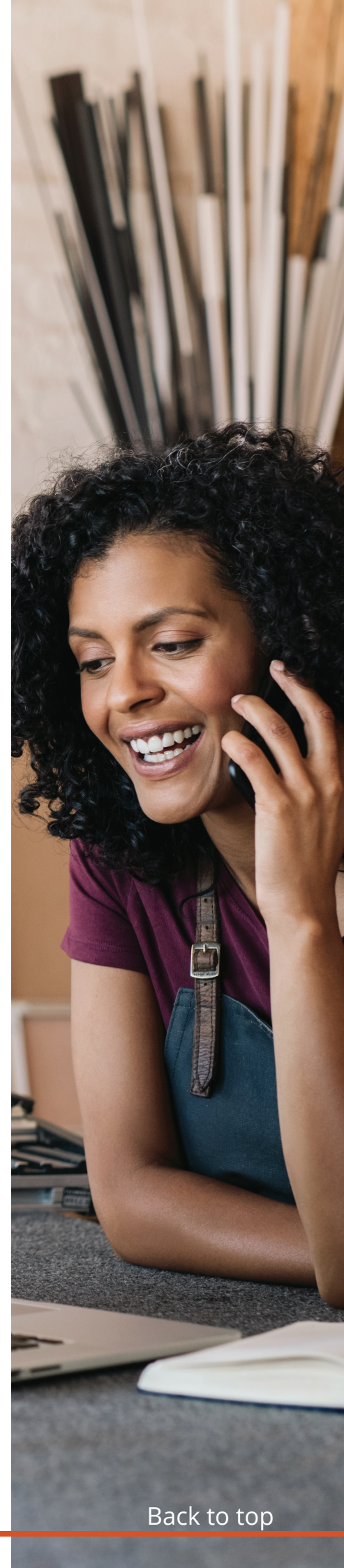
Examples of physical collateral include:

- Equipment
- Real estate
- Vehicles
- Stock

Because SMEs are perceived as higher credit risk, banks typically demand valuable assets as collateral.

The problem with this approach is obvious, explains Rossiter: "Many SMEs don't have access to physical collateral. But they have good cash flow."

No collateral? You still have options. More and more funders are offering unsecured business loans. Some banks will waive the need for collateral if you have a purchase order. And most fintech lenders don't require collateral because they are able to more accurately assess SME business health using their advanced scoring technology



Fixed Term Loans and Credit Facilities

When considering business funding, it's important to consider the way in which you want to access capital, as well as the repayment terms.

Fixed-Term loans

The most common type of business funding, a fixed-term loan is a lump sum amount that is repaid over a fixed period of time, typically up to 10 years (depending on the size), and at an agreed interest rate. If additional funding is required, the business is required to go through an additional

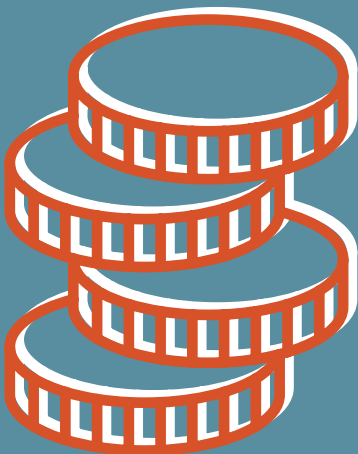
There are two broad business funding options available to SMEs.

application and vetting process. Settling fixed-term loans early with most traditional lenders incurs penalty fees. Because the amount and repayment period for this type of loan does not change, it can make it easier for businesses to financially plan ahead.

A Credit Facility

A fast-growing alternative to fixed-term loans is a credit facility. Simply put, a credit facility offers instant access to a line of credit. A business can withdraw up to a pre-approved amount without needing to reapply. Once repayments are made, the capital

amount becomes available again. The repayment terms for the facility are agreed upon before it is activated. Credit facilities offer greater flexibility and peace of mind to business owners who need fast or frequent access to working capital.



Here's a comparison between fixed-term loans and credit facilities

Fixed term loan	Credit facility
Definition: A lump sum of money that is repaid over a fixed term	Definition: A revolving account that lets borrowers draw, repay and redraw
Loan term: 1-10 years	Loan term: Open ended
Interest rate: Fixed or Variable	Interest rate: Fixed or Variable
Repayment: Fixed frequency, typically monthly or fortnightly	Repayment: Fixed frequency, typically monthly or fortnightly
When to apply: -You know how much you need to borrow - You want a predictable repayment schedule	When to apply: -You need ongoing access to cash -You need speed of access
Benefits: <ul style="list-style-type: none">- Provides cash injection to facilitate growth or cover short term gaps.- Can make financial planning easier	Benefits: <ul style="list-style-type: none">- Provides cash injection to facilitate growth or cover short term gaps.- Instant access to funding when needed without having to reapply.- Following repayments, capital amount is available for withdrawal again- Peace of mind knowing the amount of funds available

Whichever option you choose, having fast and easy access to funding is an essential part of both survival and growth for any business, large or small.

If you would like to learn more about Lulalend's business funding for SMEs visit www.lulalend.co.za, or contact us on **087 943 2381**, and one of our funding specialists will be happy to answer your questions.



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More about Lulalend

Lulalend is a new-generation lender that provides funding for small to medium-sized businesses. Applying for finance from Lulalend takes place completely online. Our scoring technology evaluates the real-time performance of your business so that you get the best possible funding.

You get a decision in minutes and our costs are transparent and easy to understand. In most cases we will have the **funds in your bank account within 24 hours.**



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