BIZCOMMUNITY

How to prepare your small business and approach funders when the repo rate changes

By Rean Bloem

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The rate increase didn't come as a surprise, but that doesn't mean that it's any easier for SMEs to navigate. This was not the first increase this year, and it won't be the last. Unlike the pandemic, which felt as though it came out of nowhere, SME owners have a little more time to make adjustments now to weather the stormy waters ahead.

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The repo rate has a knock-on effect that affects consumers and businesses alike. From property purchases and leases, to vehicles and fleets, to food on the shelves - everyone up and down the supply chain will be under pressure to either increase prices or absorb the rising costs.

Add to that warning that the fuel price will increase by a record amount at the end of June - unless government extends the fuel levy grace period it announced a few months ago - and incessant, and seemingly never-ending bouts of load shedding and unplanned outages from a utility whose tariffs keep going up. The warning signs are flashing and SMEs should take notice.

It's not the end of the world - far from it. While it will become increasingly tough, the pandemic taught us that there are a few things SMEs can do to weather the storm and possibly emerge stronger when conditions shift again.

SMEs must act now to mitigate looming price increases
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It is widely known and accepted that access to funding is crucial for SMEs to thrive and grow. The opposite is also true - a lack of access to funds is often the reason a business stagnates or even perishes. As every small or micro business owner will know, obtaining funding from traditional banks is near impossible, especially for those that don't have a particularly long track record.

The requirements put forward by banks are in many cases too much for small businesses, which is the primary reason the original Covid-19 bailout programme, which relied on banks, failed businesses under R10m. Banks aren't bad or heartless, it's just that the nature of their business and obligations mean they need certain boxes to be ticked.

And so, what do entrepreneurs do? Some remortgage their homes, others take loans from family or friends and others use their personal savings. While these are often welcome, especially when a business is in trouble or needs to scale, they're not ideal. What happens if the friend demands repayment or if your child needs to go to university?

Credit line safety net

What a business wants is a credit line that it knows is available so that when an opportunity arises or a large client doesn't pay, it can take advantage of the opportunity or stay afloat until money comes in. That safety net is worth its weight in gold - we saw it during the pandemic. Businesses that were able to pay staff had time to innovate and change their model, while others used funds to invest in setting up e-commerce stores, for example.

Perhaps the biggest misconception among small business owners is the belief that one should only look for funding when the need arises. On the contrary, it should be the other way around. Applying for SME funding when the going is still fairly good will secure better terms. If the entrepreneur waits until the business is about to fold, or if it is navigating very difficult times, the terms and repayment conditions won't be as favourable, and in most instances the amount of funding available will have decreased.

It may seem counterintuitive to proactively seek out funding lines when the repo rate increases as that makes the cost of servicing the finance more expensive. However, there are some things that a business can do to make itself more attractive to funders - and the terms it is offered - while increasing its ability to service the repayments.

Digital payment methods

The first is making use of digital payment methods. This is crucial because alternative funders have technology that can score a business based on its digital record. Beyond this, agile funders are able to provide funds for an enterprise as young as six months old - something unheard of in the traditional bank lending space.

So, making use of debit and credit card machines is crucial. Non-bank debit card machine businesses make this affordable and easy to use. The same is true for other methods such as QR payments, online credit card payments and others. Build the digital track record.

Reduce costs

The next key thing for SME owners to consider is how to reduce their costs. Can you renegotiate your lease? Are their bulk order specials available? Is it time to diversify suppliers? Look at how to reduce operational costs. At the end of the day, money in minus money out is an important metric. The more attractive that difference, the more attractive the business is to funders, but crucially, the more capable the business is of surviving tough times and making funding repayments.

No one wants to increase prices. Everyone wants to absorb input costs as they're afraid of losing customers. However, margins can only be squeezed so far. Consider testing a few price increases - perhaps on a single line of products or services - on the market. If customers react well then you have scope to improve your margins.

Offer specials and try innovative ways to increase your customers' spend. How can you entice them to add more to their basket? Can you offer a discount for a larger or bundle purchase? Challenge yourself to find new ways to increase your revenue.

Save cash

Finally, do everything in your power to start saving cash to build a cushion between your business and the hard world out there. When the going gets tough, a business that has a few months' operational capital set aside is likely to emerge intact whereas the business without this may well fold.

While many may see these as "basics", that's exactly what business owners need to get right now to open more attractive funding lines for their businesses - before they need it.

Once those funding lines are open, there are countless ways to use money to make money, such as making growth investments, like an online store or new machinery, and capitalising on bulk purchases. Alternative funders such as Retail Capital don't put limits on what the money can be used for, and so knowing there's a safety net for working capital if required, or the ability to purchase a power backup solution, can give a business owner peace of mind to confront difficult times with confidence.

ABOUT THE AUTHOR

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