

EARLY FINANCING OF YOUR BUSINESS - READING MATERIAL

What to learn:

- *Sources of income to start a business*
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Money is one of the biggest things entrepreneurs need to think about when starting their businesses. Here are some of the things you should keep in mind:

Step 1: Understand how much money you actually need to start

Before you even start looking for finances, you need to figure out how much money you actually need for your business to take off. This enables you to have a clear figure that you are working towards raising.

Here is where your financial planning comes in. Factor in every expense you expect (plus adding some money for unexpected costs).

Once you have developed your projections, you can tell how much money you are going to need to cover your expenses as well as how much money your business can make - most of which you are likely to re-invest into the business.

NOTE: It's very likely that the amount you actually need to start your business is much smaller than you think. Think about the bare minimum of what you need to run your business. You likely don't need fancy office space, expensive devices or many hires when you're just starting out.

For example, Shazeen, a former Jijali trainee, started her ice-cream and bakery business with only 5,000 Kenya shillings and then re-invested the profits that she made to continually finance the business. Additionally, let go of the expectation that you will instantly make profits from your business when you start. It takes time to break even (this means getting back the money you have put in and starting to make profits).

Step 2: Consider different possible sources of funding. There are plenty of ways to finance your business. Some of the most common ones include:

1. Personal finances. It's common practice for entrepreneurs to fund their businesses with their own money. This is usually referred to as bootstrapping.

Some entrepreneurs choose to work for some time while saving up money. Others use smaller side hustles to fund bigger ventures. For example, one of our previous mentors, Mildred, started a



fruit business to raise money
construction business.

for her capital-intensive

The advantage of this method is that you avoid going into debts and have complete ownership of your company.

2. Friends and family. Another common means is to borrow funds from friends and family. To convince your loved ones to fund your business, develop a good pitch for your business and include how you expect to make money and when.

Put a clear repayment plan in place and let them know when they should expect their money back.

It could also be a good idea to ask for a fixed amount, such as 2,000 shillings from each person you approach. Either way, gratefully accept what is offered to you, no matter how small.

Don't take it personally if someone declines - even if they are close to you, do not hold the expectation that someone who cares about you must invest in your business.

Finally, approach this method with caution as it's important to repay the money in good time to avoid ruining your personal relationships.

3. Loans. Loans can be a good option for you if your business is particularly capital intensive. Options here could include banking institutions, micro-lending organisations and SACCOs.

Each of these has pros and cons. For example, banks can provide a lot more capital than some SACCOs but they also have strict requirements for applicants and a rigid repayment period. On the other hand, tend to be more flexible and accessible, but may not be the best option if you need a large pool of money.

Micro-lending institutions offer small amounts of funding to businesses. Some examples include Musoni, Faulu Kenya, Juhudi Kilimo and more.

There are also mobile loan options such as Tala, Branch and M-Shwari.

Either way, you should always have a clear understanding of the terms of the loan (interest rates, repayment periods, consequences of defaulting etc).

4. Crowd-funding. Crowd-funding is a means of raising funds online. Usually, an entrepreneur will create a page on one of the crowd-funding platforms that showcase their product/service, how much money they are trying to raise, and a list of rewards that people will get for donating specific amounts of money.

There are global platforms available such as Kickstarter, GoFundMe and Fundrazr; and local ones such as M-Changa. Each platform has its own terms and usually retains a percentage of the amount raised.

Thanks to the internet age, crowd-funding is quickly becoming a popular means to fund businesses.

5. Investors. If you are looking for large amounts of funding, you could consider getting investors. Investors want assurance that they will make money through your company; which means that you need to show that your company is profitable.

It is not common for brand-new businesses to get investors - typically it takes some time to get a solid product or service that clearly shows potential for growth. This means that external investors so may not be the best option if you are just starting out.

Use the above information to guide you in the tasks.

Additional reading materials

1. How to ask for money from friends and family: <https://www.entrepreneur.com/article/246404>
2. Top unsecured business loans in Kenya:
<https://www.tuko.co.ke/280863-top-unsecured-business-loans-kenya.html#280863>
3. 10 institutions that offer business funding in Kenya:
<https://biznakenya.com/top-10-institutions-that-offer-business-funding-in-kenya/>
4. What is crowdfunding?
<https://www.fundable.com/learn/resources/guides/crowdfunding/what-is-crowdfunding>