

Research for Finance

We all know the effects entrepreneurs can do in the economic development of a nation. They are the backbone of employment and economic development. The innovative firms bring about the creation, growth and development of new technology. We can see what Silicon Mountain in Buea did to the economy of Buea and Cameroon as a whole.

This role of today's entrepreneurs cannot be underestimated as we all have seen how many youths are now engaging in entrepreneurial activities. In one of my classes, all those present said they would prefer to have their own businesses rather than work under somebody or in a company. However, most of them had one constraint – funding. They all said finance is their biggest hindrance in their plans for a future business of theirs.

I may differ a little in this issue of finance being a 'big' constraint. Having the funds for investment doesn't guarantee in any way the success of a business venture. What matters most is that you have to put in place the right financial strategies for the funding needs of your venture. There are many alternatives that you can use in satisfying the financial needs of your business idea. Before we get into this, let's get a glimpse of what we need before we think of funding our business.

Entrepreneur Development: Financial Plan Development

Every entrepreneur needs to develop a financial plan for his or her business idea. Financial plans help entrepreneurs to:

- Have an idea of how much they need to put into their business project
- How much money they might make
- How much they will need to produce in order to make what they have forecast

This help them to know the level of difficulty in starting a business and also to know if it makes sense going in for it.

Financial plans are just estimates that are used for forecasting a business' success or failure. Before venturing into a business idea, entrepreneurs need to have an idea of the cost of producing a unit of output or service. They need to figure out what they will be charging for the product or service that has been created.

Why Is Financial Planning Important To Entrepreneurs?

Making a financial plan is one of the last things in a business plan. A financial plan includes:

- At least a 3-5 years profit or loss statement
- A cash flow statement
- A balance sheet, that is statement of financial position which is optional

A financial plan establishes the financial goals of a business. Below are some reasons why entrepreneurs need a financial plan for their business:

It Helps to Determine the Feasibility of the Business

At the creation of a business, many have it in mind that it will be a success. After creation, many find that success doesn't come like this. It is necessary for entrepreneurs to create a business plan including a financial plan. A financial plan could be seen as a feasibility study of what it takes for the business to be successful. The financial plan will clarify many things:

- If resources are out of reach
- If the market is unstable

With a financial plan, you can know if the price you plan to charge is higher than what your competitors are charging. On the other hand, your price might be good, but the cost of production or provision of the service may be too high and difficult for you to make a profit.

Requirements for Financing Forecast

One of the main problems entrepreneurs face is getting finance. You need money when you plan to start a business. The financial plan helps the entrepreneur to know how much is needed to start and when. If your finance is limited, you could begin at a smaller scale with what you have. Having a financial plan will help you identify where you could have a shortfall. With that known, you will have to adjust the revenue and expense projections in order to avoid such shortfalls. Or, you can try other methods of getting funds such as loans or your own savings.

Apply for Funding

Entrepreneurs who request for funding from investors or lenders will need a business plan that includes a financial plan. The financial plan contains projections and assumptions behind the forecasts. If your financial plan looks unrealistic, you should not be expecting any investment or loan. This is a very common mistake entrepreneurs make – giving an unrealistic financial plan. The financial plan also helps you to identify the type of financing that would be appropriate for your business idea.

Obtaining Financing For Your Business

As earlier said, potential entrepreneurs put forward as one of their major problems access to capital to start and grow their business. With entrepreneurs being the backbone of economic development and employment in a country, it is there of great need to policy makers to try in sorting out this constraints. In Cameroon, a SME bank was created to help in funding realizable projects for small and medium sized enterprises. This initiative though was good, did not actually solve the need for funds by many entrepreneurs.

Entrepreneurs in Cameroon find it very challenging getting finance for their business idea. It is not easy to obtain a start-up fund, running cash for your business or even capital to expand your business. There are many ways entrepreneurs especially start-ups can use to find money for their business ventures.

Some Sources of Finance for Entrepreneurs

Bank Loan

Banks or credit unions are the most used methods by start-up entrepreneurs to get funding for their business in Cameroon. This method is not that easy as banks in Africa and Cameroon in particular have put in place very strict standards for loans to be issued. It is very difficult, especially for entrepreneurs that have new products to obtain loans. You need to have a very good and practical business plan in order to get finance for your business from various financial institutions.

Friends and Family

Family and friends are usually the most lenient source of finance. If an entrepreneur is lucky enough, he can get interest-free loans or loans with very small interest from family or friends. They rarely ask for collaterals or even a stake in your business.

Rotating Savings & Credit Association (ROSCA)

This Rotational Savings & Credit Association, ROSCA is an age-long system in many Francophone countries in Africa. With the lack of strong financial institutions, especially in the rural areas, groups of individuals agree to meet at a defined period in order to save and borrow amongst themselves with no interest rate involved.

The model allows for each member to contribute the same amounts in each sitting and one member takes the entire sum contributed at once. This leads to

each member being able to get access to a large sum of money within the life cycle of the ROSCA. The ROSCA takes the form of peer-to-peer banking as well as peer-to-peer lending at the same time. It is called *Natt* in Senegal, *Esusu* in Nigeria, *Njangi* in Cameroon, etc

Government or Organization Grants

Some government and organizations offer grants at little or no interest rate to start-ups that can help impact the society.

Government also give subsidies geared towards entrepreneurial development in target areas like agriculture, health care and other projects that can help in community development.

Read Also: [Israel to Support Incubators in Cameroon](#)

Customers & Vendors

Customers can give you advance payments to help you start or grow your business. Getting an advance from a customer shows the level of commitment by the customer to your product or service.

Vendors of your product can also help finance you as they are suppliers. This happens in the case where your business is at its growth stage and your product is booming in the market. The strategy allows start-ups with limited resources to grow faster without being indebted with high-interest loans.

Crowdfunding

Crowdfunding is a practice whereby entrepreneurs get funding for a project or a venture by raising money from many people who contribute a relatively small amount, usually through the Internet. An example of an online crowdfunding site is [Kickstarter](#) that funded about 1000 projects just last year. Crowdfunding is not long-term funding. It is all about giving support for single project ideas. What crowdfunders usually get back as an incentive for pledging their money to project creators is may be the product of the project itself. Example can be you pledging \$10 and you get a copy of the book or CD in the case of an author or a musician.

Angel Investors

Angel investors or business angel or seed investors are private individuals who provide business capital for start-ups. Their investment is usually in exchange for a convertible debt or ownership equity. In other words, they become shareholders in the business. Angel investors are growing as they organize themselves into small groups called Angel Groups or Angel Networks in order to share research and pool their investment capital. They also offer advice to companies that they have invested into.

Venture Capital (VC)

Just like angel investors, VC is a kind of private equity. It is a type of financing whereby firms provide funds to small, emerging or early-stage firms that are seen to have high growth potentials. High growth is seen in terms of annual revenue, number of employees or both. Venture capital firms invest in

exchange for equity (an ownership stake) in the businesses that they get involved in. They take risk in financing very risky start-ups in the hope that some of them may become successful. Most of the start-ups they fund are usually based on innovative technology and usually the high technology sector like information technology, biotechnology and social media.

5 Easy Sources of Business Funding for Entrepreneurs in Africa

Raising funds to start a business has always been one of the biggest problems faced entrepreneurs in Africa and all over the world. Almost all entrepreneurs need additional capital to grow their business. I will be sharing with you some sources of business funding for entrepreneurs in Africa. Before we delve into it, we should know that the sources of business funding for entrepreneurs in Africa can be classified into two main types of funding. This include debt funding and equity funding.

- **Debt funding:** Debt financing or funding involves the borrowing of money by the entrepreneur to be repaid in a future date with interest.
- **Equity funding:** Equity financing or funding involves the sale of a part or percentage of the business by an entrepreneur in exchange for capital.

However, it all depends on the entrepreneur to take the decision whether to get a loan or sell shares of his business to others in order to raise funds. In a previous article, [6 reasons why you need to register your business](#), I made mention of the fact that you will need an incorporated or private limited company to easily attract funding for your business.

Let's together check out these sources of business funding for entrepreneurs in Africa.

1. Personal capital

This is the most easiest and cost-effective way of raising funds for your business as an entrepreneur. Most entrepreneurs in Africa usually start their business with money that has been saved by them before going in for any external capital.

Apart from personal savings, a high percentage of African entrepreneurs will do other jobs or carry out payable services to earn extra income so as to raise funds for their main business. It is common to see them doing side jobs which have no link with their business just to raise financing for their main business.

2. Family & friends

This is one of the most common sources of business funding for entrepreneurs in Africa. Once the entrepreneurs' personal funding is inadequate, they usually turn to friends and family for funding. This type of funding falls under debt financing. It is easy raising funds from people with whom you have a close relationship with because they know that you are competent and reliable.

However, this source of funding maybe be more delicate if you are not professional enough. Don't always treat them as family or friends – treat them like you would any other professional investor. Always insist on them making a legal documentation that both of you will sign. Rather than borrow on informal basis or making the terms verbally, it will be professional enough for you to write it down as in a contract. Let your lawyer prepare an I.O.U (promissory note) for the said family member or friend in order to avoid hard feelings in the future.

3. Pre-sales funding

Also known as customer financing or funding is one of the easiest source of business funding for entrepreneurs. It is a great way to launch or grow your business especially when it's physical products. In this type of funding, customers pay upfront for the products which helps entrepreneurs to cover the cost of production, materials and others.

Even though the pre-sale model of raising funds may look too good, it comes with some risks, especially to beginners and for established firms that may want to refine their manufacturing process or products. They may make mistakes that will lead to delays in production, defects, poor quality or even

loss of inventory. Lost of inventory in particular can be disastrous for a business that is still at the beginning stage since they may not have resources to re-make the product or the money to repay the consumers.

Related Articles:

- [How to Get Free Funding For Startup: Startup Competitions For 2019](#)
- [Funding Opportunities for African Entrepreneurs](#)
- [How to Get Free Funding For Your Startup](#)
- [Raise Funds For Your Business Through Pre-sales To Customers](#)

4. Purchase order funding

Purchase order financing or PO funding is when your suppliers make available goods to your clients before an invoice is generated. This usually works with entrepreneurs that carry out import activities, distributors or resellers and those in need of capital to deliver large purchase orders.

Purchase order financing is necessary when you have single or multiple customer orders and have cash-flow issues. There are times you may not have enough cash to meet up with orders from customers. Rather than turn down the order, which may mean a loss of revenue or a rub-down of your business' reputation, entrepreneurs will prefer to get in touch with suppliers to make available the goods before an invoice is generated.

5. Supplier financing

Supplier credit financing is mostly used by manufacturing companies as well as distributors (like in purchase order financing). For manufacturing companies, supplier credit financing means the supplier supplies the entrepreneur with raw materials needed for production on credit. It helps them get the raw materials needed which they transform, sell and repay the supplier in cash.

Supplier financing plays a very important role as it improves the business' cash-flow and operations. It helps them to get raw materials of products on credit in other to build inventory or meet up with new orders.

Business Ideas:

- [Tips On How To Start A Fresh Juice Business](#)
- [How To Start A Freelance Writing Business In Cameroon](#)
- [Business Idea: Become A Freelance Writer In Cameroon](#)

Tax Related:

- [4 Tax-related Tips When Starting A Business In Cameroon](#)
- [Cameroon Tax System: What Is A Single Identification Number](#)
- [Beginners Guide to Income Tax in Cameroon](#)
- [Tips on How to Start a Business in Cameroon](#)

You Can Fund Your Business Through Pre-sales To Customers

In my last coaching session, we discussed a lot on how to raise funds for a new business. I made it known to the would-be entrepreneurs that it was possible to start a business without funds. So I asked one student if she got a business idea, because it should be made clear that for you to start a business, you need to first of all have a business idea.

I am of the school of thought that you don't actually need money to start a business, you first of all need an idea. Funds are most necessary when you want to grow a business. I know what you may be thinking now – how then do you start a business without money? What I'm trying to say here is that it's rare to find someone who will put his/her money at risk on a project that has not been tested. It's something like financing someone to go and use your money to test the risk involved in the business.

An entrepreneur looking for funds needs to show an investor that (s)he has already done something and masters the business - what it takes and most of the risks involved. When it comes to products in particular, we talk of prototypes and samples. Once an investor sees that it is perfect and good for the market, that's when they become interested and may put in their money.

Going back to what I was saying, this would-be entrepreneur said she planned to start a juice-making business and wants to begin with cucumber juice. So we had to look for a way to start her business without any funds. I thought of pre-financing from her customers (considering she had done a good market research). I told explained how she can propose to customers about her

product and ask them to pay before hand so she can supply them afterwards. This can work well if you have a good negotiating power. You can even propose to the customers that you will sell to them at a lower price than the original/market price.

However, some did not believe it was the right way to go about it. They said it wont be effective as people wont want to pay for something they don't even know if it will be good. Their points were valid though, but all that depends on the entrepreneur's convincing power when negotiating. There are many ways to do that. You can even promise to repay their money if it doesn't meet up with their expectations. However, you should be sure of yourself and master your the production of the product well. *I am presuming that the entrepreneur must have tested her product before taking it to the market.*

The case of Dell Computer Technologies

Product pre-sale is nothing new in business today. There are many big companies that started like this and there are still many doing it today. Let's take the case of Michael Dell, the founder of Dell Computers Technology which is one of the most popular PC production companies today. We all (some may not know) Dell was started by Michael Dell in his dormitory room while a student at the University of Texas at Austin in 1983, by then it was called *PC's Limited*. Most of his sales was done through pre-financing by selling made-to-order computers for small businesses.

What Michael Dell did was, he would ask his customers to pay for their computer in advance. With the customer's money in hand, he will hire his friends/schoolmates who will assemble the computer or upgrade them to meet

their customers' specifications. With this, he didn't need any funds to start his business. He got this skill from when he was selling newspaper subscriptions for *The Houston Post*.

He had to go in for extra funding only when he needed to compete with big names like IBM and Compaq. That was when he had to raise more money for research and development from his parents who loaned him \$1,000. When he received the money, he dropped out from school so that he could focus full-time on his expanding his business (this is an example of how far an entrepreneur who is passionate about his business idea can sacrifice to successfully build their business).

Samsung and Apple still practice pre-sale to raise funds

The case of Dell is an isolated case of thousands of businesses that have started this way. Even Samsung and Apple with all the money they have still do same today. When a new product is to be launched, they allow consumers to make pre-purchases before they officially launch the product. This method of raising funds is very good in the sense that it builds consumers' confidence in your product brand and allows the entrepreneur to have a glimpse of the demand for the product before they put it in the market.

So it is possible for customers to give you advance payments that will help you start or grow your business. Getting an advance from a customer shows the level of commitment by the customer to your product or service.

Don't forget vendors of your product can also help finance your business. This may happen especially in the case where your business is at its growth stage

and your product is booming in the market. The strategy allows start-ups with limited resources to grow faster without being indebted with high-interest loans.

Was this post helpful to you? If yes, share with others and don't hesitate to drop a comment or leave a question in the comment section below. Make sure you subscribe below for more updates.

Case

Tips On How To Start A Fresh Juice Business

In another post I made, [we learned how you can raise funds by asking customers to pay for the product beforehand](#). Our product was making fresh cucumber juice. To further help our entrepreneur and whoever wants to engage in a fresh juice business, I decided to offer this tips on how to start a cold pressed juice business.

A fresh juice business looks so straight forward and simple to start, easy to sell especially in a town like Douala with its heat. However, there are certain things you need to know before you launch your juice business. I have mentored met some entrepreneurs who are into juice making. Mentoring them helped to

compile a list of things that you will need to know so as to run a fresh juice business smoothly.

Know the local health laws that concerns fresh juice business

In Cameroon, those who run restaurants or sell food or any other product that is consumed fresh are supposed to provide a medical certificate issued by a physician. Since we are talking about a delivery-only fresh juice making business, that means you are selling directly to consumers. In this case, the local laws for restaurants should cover you on that. You will need to obtain a medical certificate from a registered state physician.

For you to know more about the health regulations, you will need to get in touch with the nearest local health department where you plan to locate your business.

Choose a fresh fruit juice making business model

As said above, we are working on a fruit juice delivery-only business model since it's startup capital is the lowest. Starting small doesn't matter a lot as some of the big brands we know today started really small. I can remember how Lesley Bongajum started **Bonga Juice**, [a cold-pressed juice making business](#) in Buea and today it is already a brand to reckon with in Cameroon. You can start it even in your kitchen. You can ask your customers to place their orders online so that you can deliver them the next day.

Having social media accounts will be necessary. A website will be the best thing. You can build an e-commerce website where your customers can place their orders and you may even deliver same day. I recommend you [checkout with AlliedTechie](#) if you want to have well-designed dynamic websites. They

have a discounted package for entrepreneurs-only that includes domain name, hosting and design.

You need the capital

This is where most young entrepreneurs have a problem. How to get funds to start a business. With this model, you can [use the pre-sales method to raise funds](#). If customers are placing their orders online, it means they pay before hand. Remember that we are working with the delivery-only juice making business model. On the other hand, if you have the money, you can start. I read about this [Kenyan who started his fresh juice business with Ksh4,500](#) which is approximately XAF25,000.

Juice making equipment

You can start your fresh juice business with a [cheap juicer like this simple one](#) as from XAF9,500 (price may change because it is on promo). This one will be good especially if your target market is small. However, if you can afford or need something more sophisticated, then this [Extra Powerful Kitchen Robot by Kenwood](#) can help you prepare not only fruit juices, but milkshakes and other types of cocktails. You can even use it to grind coffee beans in case you plan to expand your business in future to include other drinks.

Branding & packaging

When I talk of packaging I mean in its entirety. That is, bottles (glass or plastic), packaging, branding and so on. If you have a place already, you will need disposable cups, glass, lids, serviettes and straws. In the case where your client places a big order, you can ask them to bring their own container.

Branding is very necessary when you are running your own business. Your brand differentiates you from other fresh juice business brands. In a previous post, I shared with you the [differences between a brand and a product](#). This could help you understand why it will be good for you to brand your fresh juice business.

Manage your costs well

You may think since the ingredients you need to make your fresh juice are common to get, there is no need actually getting the cost in detail. When it comes to fresh juice business, you need to make sure your business is sustainable. You should have it in mind that the cost of ingredients per bottle should not be more than 25% or 30% of products final selling price.

Diversify your business

If you already have a space where you sell your juice, maybe a bar, you can add value by running other businesses. I talked above about getting a sophisticated [Extra Powerful Kitchen Robot by Kenwood](#) that can help you prepare not only fruit juices, but milkshakes and other types of cocktails. It should be noted that you can also use the same machine to grind roast coffee. You can get roast coffee beans at a cheaper price compared to already ground beans. For instance [Coffee Guru](#) offers organic roast coffee bean or ground bean planted under kola-nut trees in Kumbo, North West Region of Cameroon.

Register your business

You should not forget about registering your business with the authorities. Many may want to go underground, but I won't advise you to take that road. You will miss out the big buyers in particular like companies if you don't have a

registered business. You need to choose whether to become an incorporated company or you want be a sole-proprietor. Check this previous post on how to create a [sole-proprietor business](#) and an [incorporated company](#) in Cameroon. You can also start small by registering it as a [sole-proprietor business that pays only the discharge tax](#).

Was this helpful? If yes, share it with others and if you have any problem or need help, [don't hesitate to get in touch with us](#). You can also leave your comments below and subscribe for updates.