Business

6 business leaders reveal how companies can grow with – or without – outside funds

- Start-ups can get credit more easily if staff have accurate understanding of fundraising and keep good financial records
- Cloud technology can help SMEs as they expand if they face difficulties raising funds

In partnership with: **XERO**

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While start-ups often face difficulties raising capital when expanding their businesses, the use of cloud technology can help them to improve efficiency. Photo: Shutterstock

When Chilean Arturo Sims moved to Hong Kong, he set a five-year goal to start his own hospitality business that drew on his international experience as a chef in Michelin-starred restaurants.

He is now managing director of Vantage Hospitality Consultants, which provides training, operations and guest experience services to hotels and fine dining restaurants.

> **At the beginning, I said 'I need to run my business in a way that doesn't have any overhead expenses because I can't pay salaries right now'. The revenue stream needed to be very stretched. So I'd only hire people I used to work with before in specific projects**
>
> Arturo Sims, managing director, Vantage Hospitality Consultants

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It’s a business he has built carefully through word-of-mouth recommendations and collaborations with his existing network. For him, it has been a journey that depended on self-funding.

“At the beginning, I said ‘I need to be able to handle my business and run my business in a way that doesn’t have any overhead expenses because I can't pay salaries right now’,” says Sims, whose clients include the Marriott Hotel Group.

“The revenue stream needed to be very stretched. So in the beginning, I didn’t want to bear that risk or that stress. I’d only hire people that I used to work with before, that could help in specific projects.”

> **Since the global financial crisis in 2008 fewer SMEs have relied on bank loans for their investment needs and cash flow. Instead, they increasingly turn to alternative sources of finance such as leasing, factoring and equity crowdfunding**
>
> **Financing SMEs and Entrepreneurs 2019 report, OECD**

How finance is secured

According to the Organisation for Economic Co-operation and Development’s *Financing SMEs and Entrepreneurs 2019* report, since the global financial crisis in 2008 fewer small and medium-sized enterprises (SMEs) have relied on bank loans for their investment needs and cash flow. Instead, they increasingly turn to alternative sources of finance such as leasing, factoring and equity crowdfunding.

This also means business owners with a track record in entrepreneurship, such as Danny Yeung, will have an edge over others as they begin the journey.

Yeung founded Hong Kong-based biotechnology start-up Prenetics in 2014. He has years of experience founding and developing other companies, such as e-commerce website UBuyiBuy.com – which was subsequently acquired by Groupon – and furniture solutions business Gotop Global. This makes him a trusted entrepreneur in the eyes of external investors.

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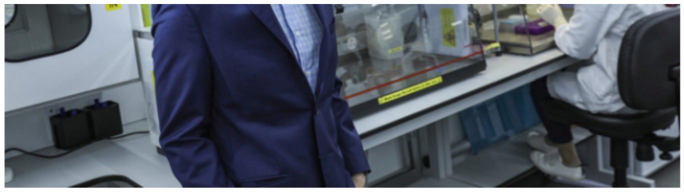

Entrepreneur Danny Yeung heads the Hong Kong biotechnology start-up Prenetics, which is developing a genetic testing kit for consumers.

"We were lucky because a lot of investors showed interest in our company, which was due to my previous experience in managing other companies," he says.

Yeung says Prenetics has so far raised US$60 million in strategic funding, which has allowed him to invest in medical research as the company develops a genetic testing kit for consumers.

For others, such as Sheila Partrat, getting funding has been the decisive moment that allowed their companies to sustain themselves and expand the businesses.

> **At the early stage, you have to be very hands-on about financing. You will not be able to hire an accountant on day one, so you need to look at your spending diligently. You will always have to do everything yourself**
> **Danny Yeung, founder, Prenetics**

Partrat is the co-founder and managing director of Protelicious, a Hong Kong-based company that sells gourmet whey powder protein products to consumers online and produces white-labelled versions for hotels, spas and wellness centres.

"We wouldn't be here on the verge of scaling internationally if it wasn't for a silent investor, a friend, who jumped in on faith and financed the whey," she says.

"The funding that we had really helped us acquire the whey when it became extortionate in price. With that, we were able to become self-sufficient."

Invest in the cloud

The main reason many SMEs face difficulties obtaining funds from banks is because they are usually unable to show significant assets when they seek loans.

Alex So, group managing partner of Hong Kong accountancy and advisory firm FastLane Group, says the lending process in banks is collateral-based and requires backing by hard assets.

"Most banks that lend money to an individual or business really look at the collateral," he says. "If you're not able to pay, they can take your property, your assets, equipment and things like that."

> **Cloud-based accounting resources have certainly made the process**

easier for us operationally. We have been using them to integrate with our accounting team so it cuts down the communication while enhancing efficiency and visibility

Sheila Partrat, co-founder and managing director, Protelicious

While start-ups with smaller capital investments may be disadvantaged without loans from banks, cloud-based accounting tools have given them an opportunity to compete on a level playing field.

"Cloud resources have certainly made the process easier for us operationally," Partrat says. "We have been using them to integrate with our accounting team so it cuts down the communication while enhancing efficiency and visibility."

"It could be a significant reference for our future investor because we can show a really well-organised flow of information."

Sheila Partrat, co-founder of Protelicious, which produces gourmet whey powder protein products for hotels, spas and wellness centres.

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So, who manages a firm that provides professional services to SMEs and start-ups, also believes that cloud technology has allowed small business owners to showcase updated financial reports for banks.

"It's a lot easier now than in the old days when the bank would ask you for financial reports and 95 per cent of them would be outdated," he says.

If you have a tool that has up-to-date information it's a demonstration of how well you manage your finances. That really impresses the bank, you know, which wants to look into your cash flow and numbers

Alex So, group managing partner, FastLane Group

"Now, if you have a tool that has up-to-date information it's a demonstration of how well you manage your finances. That really impresses the bank, you know, which wants to look into your cash flow impresses the bank, you know, which wants to look into your cash flow and numbers."

Get the right funding

To overcome the challenges for SMEs to obtain funding from banks, the government has created several SME funding schemes, ranging from guaranteeing loans from some lenders to branding and operational upgrades.

Partrat says that with limited manpower, start-ups often face difficulties keeping track of different funding schemes that are available to them. "It takes a lot of human resources to be able to identify the sources of possible funding," she says.

Cloud technology will enable companies to cut down on costs while keeping track of potential funding schemes, which can provide an opportunity for start-ups to expand their businesses.

The use of cloud technology allows companies to keep track of their finances in real-time, thereby enhancing efficiency. Photo: Shutterstock

Yeung advises that aspiring entrepreneurs should make an effort to learn about fundraising and managing cash flow as they start their businesses.

"At the early stage, you have to be very hands-on about financing," he says. "You will not be able to hire an accountant on day one, so you need to look at your spending diligently. You will always have to do everything yourself."

Put money back into firms

Laurent Timmermans, managing director of Athenasia Consulting, based in Hong Kong, says that entrepreneurs who succeed are those who constantly generate much of their own revenue to reinvest in the business.

> **We often see that the companies that really perform in the long run are the ones that came up with a good solution to a problem, and were able to have good operation and cash flow, to reinvest money and be disciplined**
> Laurent Timmermans, managing director, Athenasia Consulting

"We often see that the companies that really perform in the long run

are the ones that came up with a good solution to a problem, and they were able to have good operation and cash flow, to reinvest money and be disciplined," says Timmermans, whose consultancy assists companies such as Protelicious with business plans, accounting and fundraising.

He says that start-up owners should conduct a thorough marketing study and look to alternative funding models, such as crowdfunding, to support their ambitions. Well-thought-out plans often help entrepreneurs with few assets to gain the trust of potential investors.

"You can see whether people are actually interested or not in the things you want to sell them," he says. "For new products, it's a bit of proof of concept and also you retain full ownership of your company – so that's great," he says.

Start-up entrepreneurs should carry out marketing studies to ensure that their business plans are thought-out well. Photo: Shutterstock

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Financial balancing act

Whatever the funding source, Professor Vidhan K Goyal, of the Hong Kong University of Science and Technology Business School, says SMEs need to approach financing with a pure understanding of their own business situation.

"It is important for SMEs to raise financing when it is plentiful and build a buffer to continue to make investments and avoid stress during periods when external financing is difficult," Goyal says. "They should consider long-term financing and on terms that do not constrain the flexibility of SMEs to take advantage of growth opportunities."

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> **Professor Vidhan K Goyal, Hong Kong University of Science and Technology Business School**

Broader influences, such as interest rates, market status, and seasonal trends cannot be ignored either, Goyal says.

"Obviously, SMEs should avoid seeking finance when finance is costly or the terms at which financing could be raised are onerous.

"It is important that they are raising financing when liquidity is plentiful and avoiding financing when liquidity dries up. In addition, debt finance should be avoided when SMEs are in cyclical industries and when the businesses are sensitive to macroeconomic factors."

On a cloud: Grow your business