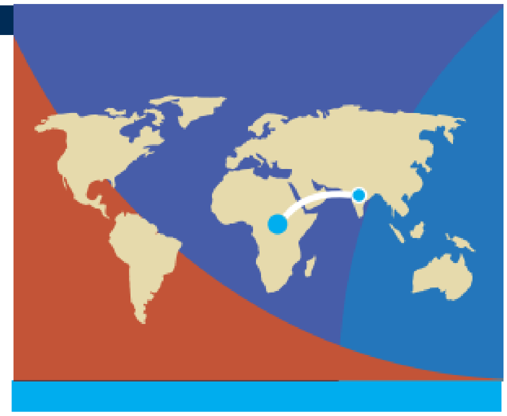
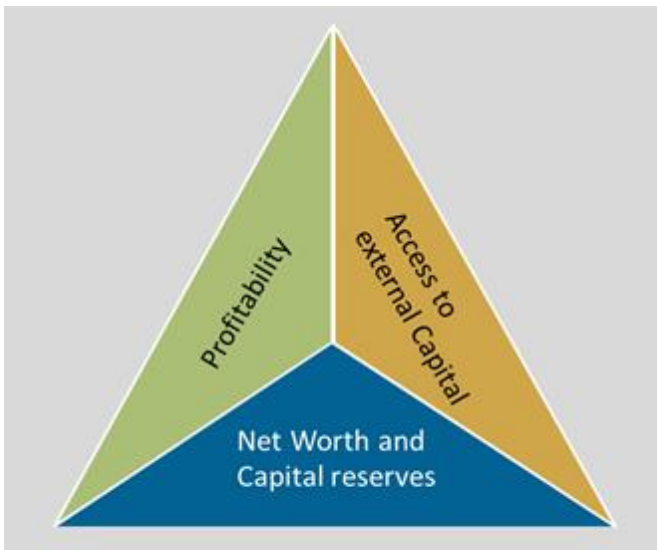
Checklist: Building Financial Readiness Ahead of Expansion



Financial-readiness to expand your inclusive business from India to Africa is a function of 3 key factors:



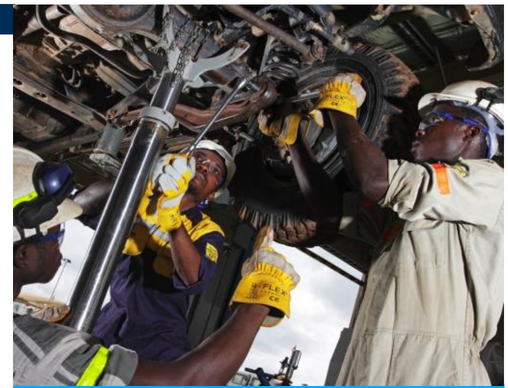
If any of these 3 factors are an area of weakness for your firm, it is likely that you will face significant hurdles while expanding to Africa and also increase risk in both regions. Therefore, paying attention to these areas and building readiness early on is crucial. The following checklist includes a list of approaches you can follow to improve business strengths in each area.

FORMULATE STRATEGIES TO INCREASE PROFITABILITY, REVENUE PREDICTABILITY AND CASH FLOWS:

Small and medium sized enterprises have to maintain a regular sales cycle, take up constant cost reduction exercise, attract and target repeat customers to ensure revenue predictability and cash flow. Moreover profitability ensures building up of capital reserves which can be further used for funding expansion. To ensure this, try the following approaches –

FOR INCREASING SALES REVENUE:

- *Start looking for new customers and new markets – Discovery of new customer segment and new markets shoots up product and service demand. This ensures sales volume and subsequently profit margin per unit produced is realized*
- *Try to improve the capacity utilization of the installed capacity. Better capacity utilization helps recover fixed cost quickly. Moreover it improves productivity and brings in internal efficiency*
- *If your strategy is to chase volume, check to what degree the product is standardized. Largely standardized products ensure that volume chase is achieved. It eases out the supply chain complexities and hence brings in related efficiencies*



FOR COST REDUCTION:

- *Try looking for overheads, direct cost, indirect cost, inventory cost. These costs could be silently burning hole in the company balance sheet. Identifying the costs and finding ways to minimize costs helps a lot to build strong capital reserves*
- *Look for cutting down advertisement cost through networking and leveraging on existing relationship. Many times, SME end up paying huge amount to meet advertisement cost. These costs can be easily reduced if proper networks are chosen. Sometimes smart use of technology, use of social media etc. can be used to meeting marketing needs*
- *For providing facilitative environment for SME growth, various government agencies and corporates like Google and Amazon host free services (both technology oriented and business oriented)*

Digital Green - Relying on Low Cost Technology and Free Services to Minimize Operational Cost

Digital Green's videos are stored in the cloud computing database maintained by Amazon and Google Services to help local mediators and extension agents access these videos. DG also has a technology service named COCO (Connect Online, Connect Offline), a reporting system that helps to share, monitor and track information collected. COCO's unique proposition is its ability to take the application offline in low and limited bandwidth locations, with uninterrupted usage in the browser. The system is designed in an open-source, customizable framework that can be deployed without the need of IT/engineering staff. This approach lowers the cost of operation and helps them remain sustainable on a donor-funded model.

FORMULATE STRATEGIES TO INCREASE NET WORTH AND CAPITAL RESERVES:

- *Identify productive assets which have less depreciating; this strategy helps to build capital reserves*
- *Try to reduce or eliminate or control debt / liabilities - This ensures that the net-worth remains positive*

FORMULATE STRATEGIES TO ACCESS EXTERNAL CAPITAL:

The wide variety of different types of finance available reflects the diversity of SME characteristics and their specific finance needs. For instance, a new business start-up with high growth potential may use grant funding to develop a product before moving onto funding from business angels, venture capitalists or banks once the product is developed. The business may then subsequently move onto private sector venture capital. However, a funding escalator may be too simplistic, as businesses do not necessarily go through each and every stage in turn. So try out these options which suits best to your need -

- *Debt finance is the most widely used form of finance as it is generally one of the least expensive ways to raise finance. It is most suitable for established lower risk businesses, with a stable cash flow in which to repay debt. Loans and overdrafts are the most common forms of debt finance. Commercial providers of funds such as banks generally provide credit that is legally secured by collateral.*
- *Equity finance (especially venture capital) is for higher risk businesses, a number of which have the greatest potential for growth. Venture capital investors take an equity stake in the business, with the objective of selling the stake in the future at a profit, once the business has expanded. These businesses may be at an early stage and lack cash flow and security in order to obtain debt finance. As equity sits behind debt in the event of a default, it is riskier for the investor.*
- *Although not a form of external finance, the time period between business receiving goods and services from their suppliers and paying for these, is an important mechanism for businesses to manage their cash flow.*
- *Non-commercial providers (governments, donors etc.) provide grants/credit on generous terms below market rates of interest.*