FUNDING IN RETAIL SECTOR

– By **Nikhil Agarwal**

Idea.. Startup.. Investors.. Funding and Company valuated at a few hundred crores. These are the super successful 0.1 percent retail companies whom we hear about. The eternal question is, what happens to the rest 99.9 percent companies? Funding in the Indian Retail Sector is undoubtedly in the dawn stage, considering the rise in the per capita income in India, considering more than 60% of our population is between the age group of 25-40 years and considering the spending power of the youth.

For funding in retail sector, entrepreneurs must create a sustainable and realistic business model. Business model must be in line with the market scenario in terms of sales, Y-O-Y growth and operating costs.

Business model must be developed after thorough market research by getting your hands dirty, doing the entire ground work. Most retail business model project relatively higher sales and lower operating cost with the idea to make it lucrative. Idea will remain only as an idea, in most cases, as the acumen of investors is much higher than assumed by the investees.

Equity Investment:

Equity in simplest form is, where you give away a part percentage of your company against the investment that the investor puts in. Equity investor can be operational or non-operational. These investors can be institutional or individuals.

One of the types of individual equity investors can be those known people around you, your friends, family or all those people who have immense belief in your idea. In the investor world, they are known as "Angel Investors". As these investors are the ones who trust us more than anyone, retail entrepreneurs must be extremely fair with their dealings with them. Investees must be transparent with the business model and it's SWOT.

Equity is an excellent option where your idea is scalable, and your product is for masses.

An equity institutional / organised investor would prefer to invest in a company with strong processes and procedures i.e. SOP (Standard Operating Procedures), where the company is not founder-centric.

Equity when chosen as an option, the entrepreneur must be ready to give valid reasons for every decision taken in an organization. The entrepreneur must be ready to ask / inform before taking any decisions in the company.

The biggest mistake made by investees here is asking for a huge chunk of investment and giving away a huge chunk of the company, in the first round of investment itself. Since the idea is scalable, investors will come in stages, everytime growing the company's valuation.

Debt:

Debt, as a form of investment is borrowed by the bank as working capital/ business loan or project loan. Indian banks are becoming more and more stringent on SOPs and giving away handsome loans if u abide by it. Debt as a form of investment works excellent for retail companies having good land bank / physical asset thereby attracting huge amounts. Bigger bank loans with lower rate of interest, come in only through collaterals. There is an option of availing loans without collaterals but the interest

rates there are impossible to service for a budding retail organisation. The most sensitive point to be observed while considering Debt by any retail organisation is the rate of interest. As these rates are compounding in nature, we eventually end up paying much higher than the simple type.

Retail companies having assets must structure the business model in a way in which the companies can avail the benefit of the funds required for growth, in effect paying reasonable interest rates.

Crowd Funding:

This is the newest form of raising funds where investors broadcast their ideas, their

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business model, their USPs, their operating systems and the fund required, to the world, through all forms of media (majorly digital). When this idea appeals to the masses, they start contributing in their capacity towards the special cause. These masses invest into the idea with the thoughtful approach of making it successful. In this case, since the funds come to the investor through public, it's the cheapest form of fund raising. Though this form is prevalent in the western countries, it is gaining it's popularity in India with time.

With all the funding pulled in by the retail companies, they must balance the entire retail finance chain which includes the vendor payments, the sales, the operating cost, the stock cost, the debt ratio and the liquidity ratios. In totality, the complete cash flow management, which sounds simple yet extremely difficult to comply with.

Funding in retail sector is becoming available with passing days but putting it in use with the right management practices, accurate projections and the correct intention only, will make it sustainable. IR

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