

What are your funding options?

Money, money, money...it is either 'the root of all evil' or 'makes the world go round' – and it is usually at the heart of any business success or failure.

Beware of little expenses.
A small leak will sink a
great ship.

Benjamin Franklin



Not having enough cash is a clear route to disaster, but so is borrowing too much. This funding factsheet should give you a clearer idea of how to plot a route between the two and understand the different types of finance.

How much do you need to start?

A cashflow forecast is an essential tool that will help you calculate your initial financial requirement during your start up and early days of trading.

You will have to think about actual start up costs such as premises, equipment and stock. What are the bare essentials to get started?

You will also need to think about your own personal needs (what we call your 'survival budget!'). Unfortunately, personal bills don't stop, so you need to work out the absolute essentials such as living costs, food, utilities, credit cards. Do not include expensive holidays or other luxury items (well not quite yet!).

What are your ongoing costs?

Once you have started, you need to consider your ongoing costs such as staff wages, rent, buying more stock or paying for advertising.

Your cashflow forecast will give you an idea of how much income you can expect but this may not be enough to cover all outgoings in the early stages.

You need to work out the difference and build this cost into your financial plan.



*Expect the best.
Prepare for the worst.
Capitalise on what
comes.*

Working out how much you need

The total you need to raise is made up from:

Your total start up costs plus any amount you need to see you through the early stages...

...less any money that you already have (or can get from friends and family).

Need more help?

Download more free financial guides and resources from
www.syob.net

Here are some of the most popular sources of funding you can use to finance your business:

Use your personal assets

Using personal equity, such as savings or re-mortgaging your house can give you the freedom to run your business your way. However, it is important to draw up a business plan, mapping out when you expect to see a return and what you can afford to lose.

Bring in partners

If you're a sole trader you could consider taking on partners to raise finance. You'll need to negotiate what share of the profits each person will receive, agree how decisions are going to be made, and decide who is going to take on responsibility for the roles within the new business. A written partnership agreement should definitely be drawn up before you start to trade.

Persuade people to pay upfront

Larger organisations can sometimes be persuaded to pay upfront to fund a project or product you are developing if they need it for their own business. It may also be worth offering more favourable terms to customers who are prepared to pay a deposit in advance.

Friends or relatives

'Friends, Family and Fools' are a good potential source of investment because they know you and believe in your ability. However, try and keep the transaction on a business level. Explain that there are no guarantees. Friends and family must understand the high-risk nature of the venture and that there is a strong chance they might not make as much as they anticipated, or might even lose their investments completely.

Start Up Loan Fund

The Government's Start Up Loans

scheme was originally set up to help under 30's but is now open to everyone. It offers loans of up to £25,000 to pre-starts and businesses which have been operating for less than 24 months. The money has to be repaid over terms of up to five years, with interest payable. A mentor is appointed to assist every successful applicant and this could be as valuable as the loan itself.

Bank loan

Banks will lend money but will only support robust proposals which do not expose them to a lot of risk. This generally means that they will expect you to be supplying a sizeable chunk of the money required and will often ask for this to be backed up with some sort of security. Your application will have to be accompanied by a good business plan. Remember, you need to be realistic (not wildly optimistic!) in your cashflow forecast if you want to get a loan.

Bank overdraft

Interest rates will be higher than longer term bank loans but are ideal if you only have short-term need or if you only need finance occasionally.

National Enterprise Allowance Scheme

Available to applicants who are receiving benefits and meet the programme's eligibility criteria. Loan funding and business support is included.

Private investors

This will require you to sell part of your business in return for an agreed amount of money. The investor will be showing faith in your idea but will also want to see a financial return. This is one of the quickest and

easiest ways of obtaining funding if you know the right person. It can also help if the investor has relevant experience, knowledge and contacts.

Think carefully about the effect that this will have on the control of 'your' business (and the true long-term cost).

The UK Government have introduced a couple of schemes to encourage private investors by offering tax advantages - The Seed Enterprise Investment Scheme (SEIS) and the Enterprise Investment Scheme (EIS).

Competitions

Keep your eyes open for 'Dragon's Den' style competitions. Not only do they offer the chance of winning cash prizes or investment, they are a great way of letting the world know about your business.

Peer-to-peer lending

Peer-to-peer lending is where unrelated individuals (or 'peers') lend to you without going through a 'traditional' financial intermediary such as a bank. Zopa (www.zopa.com) is the UK's largest peer-to-peer lending service but there are more and more appearing every day.

Prince's Trust

If you're aged 18-30, living in the UK, and unemployed or working fewer than 16 hours a week and have a business idea or some ideas to explore, then they can help with the rest. This includes turning your idea into a business plan and supporting you with a package of training and If you're aged 18-30, living in the UK, and unemployed or working fewer than 16 hours a week and have a business idea or some ideas to explore, then they can help with the rest. This includes transforming

your idea into a watertight business plan as well as supporting you with a fantastic package of training and funding.

European funding

There are numerous European funds designed to help small business but they are very competitive, involve a lot of paperwork and are often related to either exporting, job creation or research and innovation.

Invoice factoring

This is also known as 'debt factoring' and usually involves an invoice financier managing your sales ledger and collecting money owed by your customers. This means your customers will know you're using invoice finance.

Invoice discounting

Invoice discounting is an arrangement whereby a finance company pays your invoices immediately (less an agreed percentage) on the basis that you pay them back the full value of the invoice when it is settled.

Leasing and asset finance

Leasing or renting assets (e.g. machinery, vehicles or office equipment) can save you the initial

costs of buying them outright.

Business angels

Business Angels are a particular type of investor (usually a successful entrepreneur) who is willing to invest in higher risk start ups at a very early stage (usually getting hands-on in the business).

The UK Business Angels Association is the national trade association representing angel and early stage investment in the UK.

Venture capital

A source of money for start up companies, particularly for those with high growth potential. In return for their investment, the venture capitalists generally receive significant ownership of the company and positions on the board. The BVCA is the industry body for the UK private equity and venture capital industry.

Crowdfunding

Crowdfunding is a way of raising finance by asking a large number of people for a small amount of money. You 'pitch' your business idea (usually online via a crowdfunding website) and people often invest simply because they believe in the

cause, the project or you as a person.

Research & development tax credits

HMRC to pay cash to companies that are doing innovative R&D. If you are a 'tech start-up', you may well qualify! You can get up to 25% of your R&D spend refunded each year after you file your accounts.

Government funding finder

Find government-backed support and finance for business, including grants, finance and loans, business support.

Search by location, size and activity (see links).

Better Business Finance

Better Business Finance provides impartial information and support to businesses and entrepreneurs looking to develop and grow; whether the business is seeking finance, or starting out or exporting abroad.

Grants

There are a number of local grant funds available but they are generally restricted by geography or sector and will vary from area to area. You should contact your local 'Business Growth Hub', Chamber of Commerce and Local Authority to find out what grants are available in your area.

Further Information

Visit these websites for further information and advice

Need more help?

Download more free start up guides and resources from
www.syob.net

- **Government Start Up Loans**
<http://agileadvice.co.uk/startup> (*affiliate link*)
- **Local Grants** - visit your county, district or local council business pages online
- **Funding Finder**
<https://www.gov.uk/business-finance-support-finder>
- **Banks** - visit your bank online
- **Prince's Trust**
<https://www.princes-trust.org.uk/help-for-young-people/support-starting-business>
- **Better Business Finance**
<http://www.betterbusinessfinance.co.uk>
- **Business Angels Association**
<http://www.ukbusinessangelsassociation.org.uk>
- **British Private Equity & Venture Capital Association**
<http://www.bvca.co.uk>
- **Seed & Enterprise Investment Schemes**
<https://www.gov.uk/guidance/seed-enterprise-investment-scheme-background>
<https://www.gov.uk/government/publications/the-enterprise-investment-scheme-introduction>