No-Nonsense Guide
to Small Business Funding

Where to find expert advice • Getting the right finance

Business planning • Keep the cash flowing in

Expanding your business • Choosing a loan

Are you eligible for a grant? • Buying, leasing and hiring

Business Link

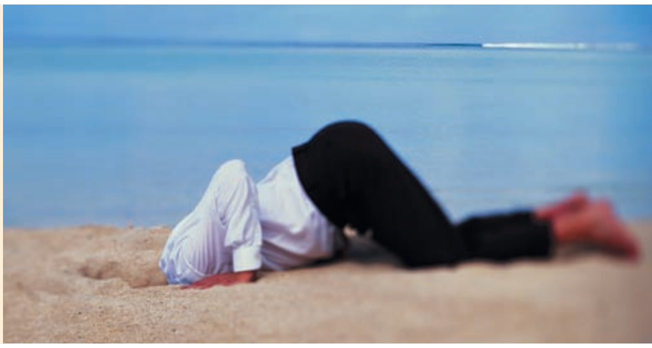
How to use this guide

The No-Nonsense Guide to Small Business Funding divides into four sections reflecting the different stages of securing finance for your company, from laying the groundwork with a good business plan and considering the options available, to managing cashflow and moving forward

1. PREPARATION
Use this section to work out what you have to do before you approach anyone for funding. It gives advice on deciding how much money you need and for how long, choosing an expert adviser and developing a business plan.

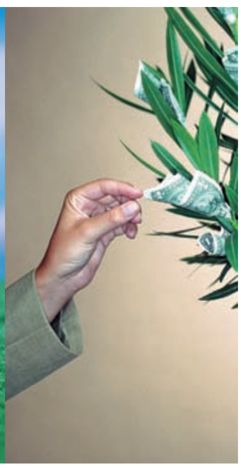
2. FUNDING OPTIONS
There are a number of financial choices available and this section helps you pick the right one for your business. It answers questions on loans and overdrafts, buying or leasing equipment and grant eligibility.

3. MAXIMISING BUSINESS FINANCE
Once you've got the right finance in place, you need to keep your business running smoothly. Topics in this section include effective credit control, tackling late payers and invoice financing.



4. TAKING THE NEXT STEP
This section offers a brief guide to growing your business further, once you've successfully navigated the early stages. We also tell you about Business Link, how it can help you further and how you can get in contact.

Contents



3 MAXIMISING BUSINESS FINANCE

4 TAKING THE NEXT STEP

FIND THE RIGHT SECTION

"I want to grow my business, but I don't know whether to borrow, seek investment, or use my own money. What should I consider? "

The right finance for you

Before thinking about the different forms of finance, you should ask if external funding is really the right path for your organisation

In this guide we'll direct you to the sources of finance most likely to help you fund your business – this includes social enterprises. But before you approach an investor it's important to establish why you need the money, how much you will need and for how long. Use the Business Link Start-up Organiser to help you work out your priorities at www.businesslink.gov.uk/startuporganiser

If you're already running a business, you should also investigate opportunities to tap into resources that already exist within your company before you look for external finance. See the Hidden Funds box, below, for details.

What do you need the cash for?

Starting up a new business: Have you researched your new venture thoroughly? Any lender will want to be sure there's a need for your product or service. For a guide on how to carry out this market and customer research visit www.businesslink.gov.uk/marketresearch Instead of going to a lender for finance, can you start building your business on a smaller scale, funding it yourself in the early stages? Think about freelancing or continuing with a part-time job while the business gets off the ground.

Buying equipment: Taking finance will add commitments and overheads to your company, so remember to consider all your options. Can you lease the equipment instead, or simply hire it as needed? What's the most tax efficient option for you and your business?

Buying premises: Could the money you spend on property be better put towards running and growing your business? Would your business be better off in rented premises?

Seeing the business through a lean period: Before you get a loan or overdraft, consider all the other options available to you. Could you reduce stock levels, or find new ways to tackle late-paying customers, or perhaps you could negotiate better deals with your suppliers (see Hidden Funds box)?

Expanding the business: Is your business ready for expansion? Do you have the resources in place to handle the growth? Read our guide at www.businesslink.gov.uk/businessgrowth to help determine if your business is ready to grow.

Rapid growth: If your organisation is growing quickly and you need to look at the

HIDDEN FUNDS

Before you get yourself into debt with the bank, check the finance you need isn't already within your business. Many companies look to finance to solve problems that could be better solved by restructuring the way they work.

If you're hoping to fix a cashflow problem, you may be better off looking at how you deal with the cash within your business before trying to raise extra finance.

Are you tying up too much cash in stock? Could you improve your credit control procedures and get money in from customers more quickly? Perhaps factoring or invoice discounting could help, by advancing you money on your invoices (for details, go to pages 34-37). What about moving parts of your business out to third parties (outsourcing)? You'll find out more at www.businesslink.gov.uk/outsourcing

Further advice
For tips on drawing up a business plan pages 12-13

options for raising large sums of money, other finance methods may be more suitable. For more on attracting outside investors to your business (such as business angels and venture capitalists) read the No-Nonsense Guide to Finance for High Growth Companies.

How much do you need and when?

Borrow too much and you could end up paying interest on money you're not using – too little and you could end up relying on an expensive overdraft facility to top up your funding, or even having to shelve the project mid-way through.

It's vital to accurately predict how much money you're going to need – and for that you need a business plan. Prepare a cashflow forecast for the first year. This will estimate how much cash should flow in and out of your business each week and month. Assume a worst-case scenario – costs are usually higher and sales lower than you think.

Do you need short or long-term funding?

Short-term funds, such as an overdraft, are suitable for day-to-day needs (working capital). For example, an overdraft could see you through the first few months of business, while you wait for money to come in from customers.

For longer-term projects, such as buying property or machinery that will be vital to your business, long-term funding, such as a loan, will be a more cost-effective solution.

Preparing to get the money

Whoever you approach for funding, you have to be prepared to answer the following questions:

- Why do you want the money?
- What will you use the money for?
- How much are you personally putting into the business?
- How much do you need to borrow?
- How and when do you plan to repay it?
- Do you have any security?
- Have you considered other options and why do you think this one is the best way forward?

ASSESSING YOUR OWN ATTITUDES TOWARDS RISK

Starting your own business inevitably involves an element of risk, and increasing your debt through loans and overdrafts all adds to that. To get the right funding for your business you need to think about your attitude to those risks.

For example, are you willing to stake your home on your business by remortgaging your house to raise funds? Or do you want to limit liability by choosing a safer but higher cost option, or even starting smaller and choosing to grow gradually?

Harry Cragoe, founder of PJ Smoothies, found that he needed to sell up everything to give him the incentive to move his business forward, while EasyJet founder Stelios Haji-Ioannou recommends you only put in what you can afford to lose. What about friends and family? Would you feel uncomfortable taking money from them and perhaps putting them at financial risk? Would you rather borrow from a bank or get a cash injection from an investor in return for a share in your business?

"I need funding to get my business started. What choices are there, and how can I find the most appropriate one for me?"

FUNDING A NEW BUSINESS

Banks are still one of the most common sources of funding for new enterprises in the UK, but there are other options and many entrepreneurs choose a combination of finance types

Self-funding Most small businesses start on a modest scale; owners use their savings, investments and assets to help raise funding.

Pros

- You get all the profits and retain control
- You don't have any interest repayments or loan charges (unless remortgaging your home)
- It demonstrates your commitment, which can influence financiers at a later date

Cons

- You're using up cash reserves that could be useful if your business hits a rough patch
- Assets used to raise money, like your home, are at risk if you don't keep up repayments

For more on **self-funding**, go to **pages 16-18**.

Friends, family and the community This is a cost-effective way to get finance. To fund a short-term cashflow problem, consider a loan. For a longer-term solution, consider giving them a share in your business in return for investment. You need to be honest with investors about the risks, and should draw up a formal agreement.

Pros

- Family, friends and community members are more likely to be supportive of your idea
- The terms and conditions are usually more generous than those of a bank

Cons

- It can sometimes test relationships

For more on accepting funding from **family, friends or the community**, go to **pages 24-26**.

Government support Your bank may ask for security against a loan, such as your house. If you can't provide this, you may be eligible for the Small Firms Loan Guarantee (SFLG).

For more on **SFLG eligibility**, go to **page 20**.

Grants Discretionary grants are available for some organisations, usually in specific industry sectors or geographical areas.

Pros

- The money does not have to be paid back
- You don't give up a share of your business

Cons

- The application process can be long
- A grant typically only covers between 15-50 per cent of your costs

For more on how to **apply for grants**, go to **pages 30-31**.

Bank loan You pay back a certain amount each month, plus interest, for a set period.

Pros

- A clear repayment schedule means you can forward-plan your cashflow
- You don't give up control of your business

Cons

- You may need a business track record
- Your bank will probably ask you to come up with a share of the capital

For more on **bank loans** go to **pages 19-23**.

Investments If you're prepared to give up a share of your business, consider investment from business angels. Social enterprises should also investigate patient capital funds.

Pros

- You don't have to make loan repayments
- You gain the contacts and skills of the investor

Cons

- You will have to relinquish some control over your company (and profits)
- They may look for a management track record, so might not be suitable for new businesses

For more on **attracting investment**, go to **pages 32-33**.

ACQUIRING ASSETS

At some point your business will need assets – machinery, computers, even premises. Is it best to buy outright or should you lease, hire or rent?

Loan If you want to own the item there are several options, including taking out a loan from a finance provider or friends and family.

Pros

- Buying the item outright could be cheaper
- The item can be classed as a business asset, so could be used as security for the loan
- You may be able to claim tax relief on interest and capital allowances on the asset purchased

Cons

- You need to compare the cost of borrowing (including interest repayments and fees) against the cost of alternatives to make sure you get the best possible deal
- If you don't keep up with your loan repayments your goods could be repossessed

For more on **bank loans**, go to **pages 19-23**.

Hire purchase (HP) HP allows you to buy goods on credit and you pay off the cost over a defined period. Although legal title passes to you at the end of the term, for tax purposes you're classed as the owner from the outset.

Pros

- You can choose fixed repayment, so costs will not rise with interest rates
- You may be eligible for capital allowances, which allow you to offset the costs of some assets against the profits of your business
- You can claim the VAT back on payments

Cons

- You may have to pay a deposit upfront
- HP is not suited to items where maintenance costs are high, or that go out of date quickly

Leasing Unlike hire purchase, with leasing you never actually own the item. Instead, you pay a finance company for the use of it, in regular installments over a fixed period.

Pros

- As the repayments are scheduled, you can match them to your company's cashflow
- As part of the deal, the leasing company may include maintenance and insurance costs
- You can claim back VAT and deduct lease costs from taxable income

Cons

- Items can't be classed as a business asset if you need to arrange further borrowing
- You may end up paying more in the long term

For more on **leasing options**, go to **page 28**.

Hire If your business needs equipment, office furniture, vehicles, manufacturing machinery and so on, first ask yourself how frequently you need to use them. If you only need the equipment occasionally, investigate hiring them in on a daily, weekly or monthly rental basis.

Pros

- You don't have to pay for maintenance or insurance
- Payments are tax deductible
- You only pay for the equipment when you need it

Cons

- The goods cannot be classed as an asset of your business
- If you hire the item regularly it could be more expensive than buying it

For more **advantages of hire** go to **pages 28-29**.

"My business needs some extra money to cover day-to-day costs. Are there any ways to raise this without using external finance?"

TACKLING CASHFLOW PROBLEMS

Releasing funds that already exist in your organisation is a far more cost-effective way of tackling cashflow problems than seeking a loan. You may also be able to make your existing income go further to cover those regular expenses, such as salaries and bills

Getting money rolling in promptly is vital for any enterprise; it can make all the difference between a company that just gets by, and one that thrives. If you're having problems getting paid by your customers on time, find that you're constantly overdrawn or perhaps are just going through a period of irregular cashflow, for example a seasonal lean period, there are a number of techniques you can use to help resolve these issues. Here are some possible strategies to help your business:

Get paid on time Send your invoices out promptly, ideally at the point of delivery, and don't be afraid to chase debts as soon as they're due. You can also encourage your customers to pay you promptly by offering them a **discount incentive**. For more details see **page 36**.

Order less stock more often If you're holding too much stock, you could be tying up cash that would be better used to cover day-to-day expenses. Look at ordering tactically. This could mean ordering items in smaller amounts but more often, which could encourage a steadier flow of cash through your business.

For details on **efficient stock control** visit **www.businesslink.gov.uk/stock**

Advancing money against your invoices
You could look at raising finance against the security of the money owed to you by your customers. Invoice finance is like borrowing and involves a factoring business or invoice discounting company advancing you money against your invoices as soon as you issue them.

Pros
- A factor may advance you more money than you would typically be able to get from a bank
- It speeds up cashflow by removing the time-lag between when you issue an invoice to a customer and when you get paid for it
- Factoring can be an effective way of outsourcing your sales ledger activity

Cons
- It doesn't work for all businesses – you really need to sell goods or services to other businesses on credit
- There may be more cost-effective methods of financing (see opposite)

For more on **cashflow problems**, go to **pages 34-37**.

YOUR BUSINESS – THE NEXT STAGE

Taking your organisation on to the next stage, moving to bigger premises, buying a competitor or investing in new machinery to handle bigger orders, often involves a further round of funding

Bank loan This can be a cost-effective option.

Pros

- If you have been trading for a few years, the bank may be more willing to give you a loan
- You have a clear repayment schedule, so you can forward-plan your cashflow

Cons

- You may be asked for some kind of security – particularly if the loan is over £25,000
- Your loan could be secured against business assets – if you fail to meet payments the lender can close your business down
- The bank may ask you to come up with a share of the capital to fund the growth
- The bank may require you to have a fall-back option, such as some kind of insurance

For more on **negotiating the best deal** with your bank manager go to **pages 19-23**.

Friends, family or community loan
A cost-effective route to finance may be to ask friends and family, or community members for a loan or to invest in your business.

Pros

- Repayments should be flexible and are often cheaper than those of a bank

Cons

- They may expect some kind of involvement, or share in the business, in return for funding
- There is a possible danger of family conflict if the loan details are not clearly understood

For more on **negotiating terms with friends and family** and on **community investment** go to **pages 24-26**.

Grants You could be eligible for a grant to help develop new products or enter new markets.

Pros

- There are grants for specific projects – such as developing in a specific region of the UK
- The money does not have to be paid back

Cons

- The application process can be demanding and distract you from running the business
- A grant is unlikely to cover all your costs – typically you get 15-50 per cent of the total

For more on **grant eligibility**, go to **page 30**.

Investment options External investment from a business angel (an entrepreneur who typically invests between £10,000 and £750,000 in small businesses) can be a reliable source of funding.

Pros

- You don't have to make loan repayments
- As well as funds, business angels offer skills, contacts and experience

Cons

- Not all businesses are attractive to investors – angels look for a good management track record and strong growth potential

For more information on **attracting investors**, go to **page 32**.

Joint ventures Pooling the resources and expertise of two or more businesses can be a cost-effective way to grow both companies.

Pros

- Working with another company could help your business develop new products, increase your capacity and move into new markets

Cons

- You may have to relinquish some control over the management of the business
- You need to ensure you aren't adding extra costs to your business or losing market share

For more on getting the best from **joint ventures and partnerships** visit **www.businesslink.gov.uk/partnerships**

Getting the right financial advice

Small businesses may be reluctant to spend money on expert advisers, but they can be a wise investment, providing essential financial support

IN A NUTSHELL

- Budget for expert advice and view it as an investment rather than a cost
- Approach Business Link for advice on raising finance and specialist advisers
- Develop your own bookkeeping skills
- Shop around – meet and interview any potential adviser in person
- Get everything (including fees) in writing

The right adviser can be vital to the success of a business – whether you're raising funds to get a new venture off the ground or you're growing an existing business.

The first port of call should be Business Link, where a local adviser can help you get an objective assessment of your business needs and how to prepare a suitable business plan. They can also help you find specialists who can advise you on the types of finance to consider.

It's also worth approaching your bank; most have specialist teams to look after small businesses. They can recommend external advisers, as well as giving you financial advice.

Getting advice from an accountant

You may decide to do some of the bookkeeping yourself, but remember, using an accountant could help you save money. They will ensure that you claim for all your legitimate expenses and the tax allowances you are entitled to, which will probably save you money when your tax bill is being calculated.

On a broader level, an accountant should be able to advise on raising finance, managing growth, budgeting and cashflow issues. They may be able to help you with your business plan and suggest tax-efficient ways of seeking backing or investment. Read our guide to choosing an accountant for your business at www.businesslink.gov.uk/accountants

Choosing the right adviser for your business

- Talk to those whose opinions you trust. Speak to local businesses and find out where they go
- Set a budget and shop around for the best deal
- Understand the charging terms – find out if they charge by the hour, or whether they'll agree to an all-in annual fee. Ask them for an estimate of their costs
- Get everything agreed in writing
- Interview any potential adviser, make it clear what you expect from them, and find out if they have experience in your market or industry and how they can help you develop your business
- Get client references in writing, or find out names of people you can speak to

Jenny Fiztpatrick owns The Fine Food Store in Stamford, Lincolnshire, and saw the benefit of using a local adviser. "I chose a reputable firm used to dealing with small companies that knew the local market," she says.

Further advice
To find if your business may be eligible for a grant pages 30-31

CASE STUDY Going down the DIY route

Michelle De Bruyne used an accountant to set up her company, AmHealthy, which offers ShapeUp and Health programmes. However, she decided to save money on subsequent fees by doing her own bookkeeping.

Michelle is very organised. "As receipts come in I put them into labelled folders," she explains. "If something is paid for by cash, the receipt goes into the cash sleeve, if by bank account into the bank account sleeve, etc. All the paperwork is kept in an ordered filing system."

When it comes to inputting the figures, Michelle uses the accounting package provided by her bank when she opened a business account. "It allows for categories such as marketing, administration, telecoms and stationery," she says, "so I can enter the relevant figures from the filed receipts."

Michelle uses bank statements as a prompt to enter data onto the accounting system and to reconcile things.

Good organisation has been the key to the success of Michelle's DIY system. "Track everything, even small amounts of spending," she advises. "Develop a system you can work with and keep a routine for doing your records – and don't let it slip."

Learning the skills yourself

Before employing an accountant, look into how much of the work you can do yourself. This can be cost-effective, but will take you away from other areas of your business. You may be able to manage your accounts without a bookkeeper, or save on accountant's fees by giving them more detailed information.

For James Marsh, founder of Rookbeare Farm, an ice cream manufacturer in Devon, the key is organisation. "We do our own payroll using the tax and National Insurance information from HM Revenue & Customs," he says. "The tables are straightforward – it's just a question of being organised."

It's important to know what money is coming in and going out of your business, so monitor expenses and profits. This will ensure there are no nasty surprises at the end of the year when you get your tax bill. Read our advice on setting up your own record keeping system at www.businesslink.gov.uk/recordkeeping

Having a basic knowledge of accounting will also help when preparing a business plan and presenting it to potential investors. They will want to see evidence that you have a sound grasp of your business's financial situation. ■

WHERE TO GO NEXT

- For details of local training courses on financial management:
  Business Link
  www.businesslink.gov.uk/training
- For a directory of accountants:
  The Institute of Chartered Accountants
  www.icaewfirms.co.uk
- For advice on social enterprise visit:
  Social Enterprise Coalition
  www.socialenterprise.org.uk

"I know I need a business plan but I don't know where to start. What should it include and who can help me put it together?"

Planning for your business

Regardless of whether you're raising finance from a bank, friends, family or even investing your own money, you'll need a sound business plan

IN A NUTSHELL

- A business plan should address points including: Why does your organisation exist? Where do you want it to go? How do you plan to get there? How much will it cost?
- Investigate the legal structure of your organisation to understand what impact that will have on your plan
- Get help from your local Business Link adviser, bank manager and accountant

Every business should have a realistic business plan – whether you're starting up and looking for funding or if you've been up and running for years.

A good plan can have many benefits. It will give your business a sense of direction, telling you where you're going and how you're going to get there. It's also vital when you're looking for funding – without one you can't convince a potential lender that your business proposal is achievable. And it gives you something to measure your progress against, keeping your company on track.

Recent research also reveals that having a business plan can help increase your profits. Companies that undertake regular business planning have an average profit margin of 54 per cent, while those that don't average 35 per cent (source: Lloyds TSB).

What should your plan include?

A business plan doesn't have to cover every single aspect of your business, but it does have to answer the following questions:

- What are the objectives for my business?
- How will I achieve these objectives?
- What are the risks involved?
- What is the timescale?
- How much will it cost?

Social enterprises also have to ensure their business plan clearly shows how their social mission is embedded into their structure, governance and how they use their profits. One phrase you may hear, particularly in relation to social enterprises, is the 'double' or 'triple' bottom line. This describes a business's ambition to meet financial, social and environmental goals.

A lender will expect to see information on:

- Management: The key people, their experience and knowledge of the industry
- Product or service: Details of the product or service you're going to offer
- Markets: A description of the market size, customers, competitors and sales estimates

The legal status of your business will also affect your business plan (see the table on pages 14-15 for details).

Further advice
For tips on choosing an expert adviser pages 10-11

CASE STUDY Discovering the real value of business planning

Darren Jones, founder of the care business AKC Home Support Services, admits writing the business plan was initially a bit of a chore, but he now sees it as core to his business:

"We set out the financial and strategic goals we wanted to achieve in the short and long term. We review the plan annually now, unless there's a significant shift in our market and then we immediately re-evaluate our goals."

The plan also helped the company avoid expanding too quickly, as Darren explains: "Early on we were offered work in another county. This seemed great but when we looked at our business plan – and particularly our cashflow forecasts – we realised it was more important to establish a firm base in one county before taking on work in another one."

Forecasting your financial needs

Financial forecasting can be tricky. You need to forecast at least one year ahead and include any supporting assumptions and evidence (order books, sales enquiries, etc). Projections should include a monthly profit and loss account, monthly cashflow projections, balance sheets and a capital expenditure budget.

Once you've worked out your projections you'll know the total funding needed. You then need to explain how you plan to use those funds and how you're going to repay them.

For more details about working out a **cashflow forecast**, read our comprehensive guide at **www.businesslink.gov.uk/cashflow** and try our sample cashflow projection.

Potential pitfalls

Stephen Pegge, chairman of the small firms' panel for the British Bankers' Association, says there are some common pitfalls to avoid when producing a business plan. "Over-optimism is the biggest problem," he explains. "This can stem from not firmly basing plans on research evidence. Underestimating costs, especially with regard to buildings and refurbishments, is also common. You need to factor in the inevitable delays and the costs of over-running."

Getting the business plan right was vital for sporting trip organisers Tours4. "We needed a thorough plan to show tour operator insurance companies and banks that our idea would work," says founder Daniel Smith. "We thought realistically about every business scenario we would encounter, and as a result there haven't been any nasty surprises. We have stuck to it so far, but a good business plan should be able to adapt to every new situation."

For social enterprises, the biggest problem is balancing commercial success with community aims. As Jonathan Bland, chief executive of the Social Enterprise Coalition, explains: "Social enterprises operate in a challenging environment. They are delivering products and services in a competitive marketplace and need to excel in budgeting, business management and innovation. At the same time, they also have to deliver on their social purpose."

Who can help?

The first port of call for many businesses is their accountant – many accountants offer general business advice, as well as help with the financial side of your enterprise.

For assistance with the details and information on appropriate training courses, a good place to try is your local Business Link adviser.

Your business account bank manager or your regional development agency may also be worth approaching for advice.

If you're a social enterprise looking for specialist information on social enterprise business planning, visit the Social Enterprise Coalition website (www.socialenterprise.org.uk), and see the RBS and Forth Sector guide at: www.forthsector.org.uk/docs/New_BusPlanGuide.pdf

Legal structures and business plans

To put your business on a proper footing with HM Revenue & Customs and other authorities, you need to make sure that it has the right legal structure.

It's worth thinking carefully about which structure best suits the way you do business, as this will affect:

- The tax and National Insurance you pay

Legal structure	Description	Records and accounts	Legal liability
Sole trader	Business run by an individual registered as self-employed with HMRC	Annual self-assessment tax return	Personally liable for any business debts
Partnership	Two or more people share the risks, costs and responsibilities. Each partner is self-employed	Partnership and each partner make self-assessment returns. Records need to show business income and expenses	Partners jointly liable for debts owed by partnership
Limited Liability Partnership (LLP)	Number of individuals or limited companies come together	Must register at Companies House. LLP and each individual member must make self-assessment tax returns. Must file accounts with Companies House	Liability is limited to the amount of money invested in the business and to any personal guarantees given
Limited Liability Company (LLC)	LLCs exist in their own right. Company finances distinct from personal finances of owner. Shareholders can be individuals or companies	Must register at Companies House. Accounts audited annually. Must file accounts with Companies House	Shareholders not responsible for company's debts, unless they've given guarantees
Franchises	Franchisee buys a licence to use the name, products and services of the franchiser	Dependent on the business structure franchisee selects. Franchisers may expect detailed financial records	Dependent on the business structure franchisee selects. Most are sole traders, partnerships or LLCs
Community Interest Company (CIC)	Limited companies with additional features to ensure community benefit	Must register at Companies House. Must file annual accounts, annual CIC Report and annual return	If limited by shares, liability is limited to value of shareholder's investment. Otherwise limited to the nominal sum the member has agreed

Further advice
Find out whether you should buy or lease premises pages 28-29

- The records and accounts you have to keep
- Your financial liability
- The ways your business can raise money
- The way management decisions are made

There are additional considerations for social enterprises, which will need to choose the legal form that best protects their core social purpose and values.

For more information on **legal forms for social enterprise** visit the Social Enterprise Coalition's website at **www.socialenterprise.org.uk/legal**

WHERE TO GO NEXT

- Use our Business start-up organiser: **www.businesslink.gov.uk/startingup**
- For more on preparing business plans: **www.businesslink.gov.uk/businessplan**
- Read our guide to legal structures at: **www.businesslink.gov.uk/legalstructure**

Profits	Funding options	Pros	Cons
Sole trader keeps all profits	Money raised from own assets and/or loans from banks or other lenders	Straightforward record keeping. No registration fees. You keep all profits	Risky for businesses that need a lot of investment
Each partner takes an equal share, unless agreed otherwise	Money raised from own assets and/or loans from banks or other lenders	Share responsibilities and risks. Easy to set up	Could be problems between partners. Unlimited liability
Each partner takes an equal share, unless agreed otherwise	Money raised from own assets and/or with loans from banks or other lenders	Members have some protection if business is in trouble. Shared risk, costs and responsibilities	Have to share the profits. More complex to form than partnership
Usually distributed to shareholders in the form of dividends. Some profit retained as working capital	Finance comes from shareholders, borrowing and retained profits	Reduced personal liability	Investors may lose money if company fails. Additional legal duties
Franchisees may pay a percentage of turnover to franchiser	Usually franchisee must find their own funding, but franchisers may sometimes offer a loan	Reduced risk. Piggy-back on an established business	Freedom to manage the business limited by terms of franchise agreement
Profits are principally retained within the CIC or applied for community benefit. Asset lock restricts transfer of assets. Distribution of profits to shareholders is subject to a dividend cap	Money raised from own assets, option of issuing shares, applying for bank loans or loans from other sources and grants	Familiarity and flexibility of company form. Helps identify company as a social enterprise	Not suitable for companies looking to principally distribute their profits

"I am thinking of using my personal savings and assets to fund my business – what are the pros and cons of this form of finance?"

Self-financing your business

Using your own funds – be it your savings, redundancy money or cashing in personal assets – can be a cost-effective way to raise finance

IN A NUTSHELL

- Personal funds include savings, shares and assets such as your house or car
- Can be used at any development stage
- Before you commit the money, make sure this is the best use of your cash
- Talk to an accountant about tax breaks

Two out of three small businesses in the UK were started with their founders' own money (source: www.thisismoney.co.uk). But personal cash injections could come in useful to fund growth at any stage of a business's development.

If you're starting a new business, it's likely that you'll have to put up some of the money yourself. In fact, it's usually difficult to borrow from a bank or attract other investors unless you've invested some of your own cash. If you're not prepared to invest in yourself, then why should anyone else?

If you've got the savings or personal assets, self-funding seems like a cost-effective and logical way forward. But before investing your life savings or remortgaging your home, make sure this really is the best way of financing your business by drawing up a **business plan** (for more details, go to **pages 12-15**), calculating a realistic rate of return and deciding objectively if it's the most sensible use of your money.

But remember, if you don't believe your business idea is sound enough to put your own money into, banks and other external investors are unlikely to fund the venture.

If you're having doubts, revisit your business plan, and if you need an impartial viewpoint, get a friend or adviser to go through it with you. For tips on **choosing an expert adviser**, go to **pages 10-11**.

Even if you put your own money into the business, you may still have to borrow from the bank or look for investment from family and friends, in which case you would need to include the interest charged and other fees in your business plan. For more on **getting the best deal on a loan**, go to **pages 19-23**.

Sources of personal funding

The money you need for your business can come from a variety of sources:

- **Personal savings:** Make sure you factor loss of interest on your savings into your business plan. Experts also advise you to keep an emergency rainy-day fund, this should add up to three months' spending
- **Releasing equity from an existing asset:** For example, could you change your car for a cheaper model?
- **Windfalls:** Do you have a maturing ISA that could release some cash, or perhaps an inheritance or redundancy payment?

Further advice
For tips on getting funding from community, friends and family pages 24-26

CASE STUDY Using savings to start up

Paul Kruzycki carried out 18 months of meticulous research to find out that his new real-ale mail-order company, Ales by Mail, couldn't pay him a salary at first. He worked out he needed to save at least six months' living expenses before taking the plunge. "I knew I needed to cover my portion of the household expenses," says Paul, "and some luxuries had to be put on hold, such as holidays."

Redundancy money from his job as a building surveyor helped. Paul split the money, putting half into an emergency fund and setting aside the rest to pay the family's expenses while the business got off the ground.

A lucky opportunity also came up allowing him to work as a property consultant part time. "I now do that two days a week and spend the rest of the time on Ales by Mail," explains Paul.

This approach continues to work well.

- **Credit and charge cards:** Fierce competition in the credit card market means there are currently a number of companies offering 0 per cent interest on balance transfers. Many small businesses are taking advantage of this by continually transferring their balances from one card to another, effectively borrowing for nothing. This can be a flexible and convenient short-term way of borrowing cash, paying bills and making purchases. However, remember there may be a fixed annual charge and, if you don't clear your monthly balance within the specified time, you will run up hefty penalties.

The most important task here is to match your funds against your short and long-term financing needs. For example, spending on personal credit cards should only be done to finance short-term expenses, or if you can take advantage of any introductory interest-free finance deals.

Avoid using credit cards to make long-term purchases – interest rates are high and if you don't make the repayments you will be personally liable.

For long-term finance (to cover start-up costs or to help finance the purchase of new premises, for example), you could look at releasing some of your personal assets.

Remortgaging your home

For many people, the value of their home is substantially greater than the outstanding mortgage. As a result, remortgaging has become a popular and relatively cheap way to raise long-term business finance.

It's worth talking to your mortgage provider if you're thinking about remortgaging. You may find they're willing to negotiate on interest rates, rather than risk losing your business.

If you do have to move your mortgage, there could be penalty costs involved. You may also have to cover valuation, legal and arrangement fees. It's definitely worth shopping around – there are fee-free

"What will I gain from using my own money or assets to finance the launch of my new business over borrowing from a bank?"

SELF-FUNDING SOCIAL ENTERPRISES

Social enterprises can be self-funded, but it is not always a suitable option. As they are set up for the benefit of society and communities, it is not always appropriate for an individual to risk their own money.

The legal structure of the company may limit the level of return the individual can receive for their 'investment' in getting any self funding back. Community Interest Companies (CICs) can be self-funded provided you comply with the CIC regulations (**www.cicregulator.gov.uk**).

Social Enterprises can look at **community funding options**, where an organisation sets up a co-operative owned and controlled by its members. Go to **pages 25-26** for more details

remortgage options on the market. There are also many commercial organisations that offer guidance on mortgage rates, or you can contact the **Financial Services Authority** for independent advice – see **Where To Go Next** below.

Remortgaging is not a decision to be taken lightly as you're putting your home at risk. You should only consider securing a loan against personal assets, such as your home, if you want to make a long-term investment in your business. You can then factor the repayment costs into your business plan.

Experts also advise against using up all the available equity in the family home. Instead, consider a partial remortgage. Releasing just part of the equity in your house could make an important contribution to your business.

Self-financing

Pros

- You don't have to convince others to invest
- No waiting around for the money and virtually no red tape
- If you're using existing funds, you're not tied in to loan repayments or interest charges, and can spend the money how you want, without having to justify decisions to external investors
- It will stand you in good stead with financiers later if you need further investment

Cons

- If you use up all your savings you may have no emergency cash fund left to fall back on – experts advise keeping a reserve to cover at least three months' worth of expenditure
- If your business does not perform as expected, your personal assets may be at risk – if you remortgage your home and can't make the repayments, it could be repossessed
- Be wary of over extending yourself – if you borrow too much, you many not have enough money left to cover your living costs while the business gets up and running. ■

WHERE TO GO NEXT

- For more on raising funds while your business gets started:
  Business Link
  www.businesslink.gov.uk/startupfinance
- For independent advice on mortgages:
  Financial Services Authority
  www.moneymadeclear.fsa.gov.uk/mortgages
- To compare the latest bank rates:
  British Bankers' Association
  www.bba.org.uk

"I don't wish to give up any control of my company, but don't mind taking on debt. What should I consider when approaching the bank?"

Getting finance from the bank

Before you approach your bank for a loan or overdraft, prepare your case. We show you what to look out for and how to keep the costs down

Seventy per cent of small businesses, including social enterprises, call on their bank to borrow money. Banks offer long-term finance in the form of loans and mortgages, and short-term finance through authorised overdrafts. But before you approach your bank, you should first work out why you need the money and for how long.

For long-term purchases – new machinery or premises, for example – a loan or commercial mortgage may be best. Leasing or hire is another option if it's equipment you need – for more details go to pages 28-29.

Day-to-day running costs (such as buying stock) are often best met by authorised overdrafts or short-term loans.

When looking at these options, get written quotations for each, so you can accurately compare total costs, including bank charges.

Loans

If you need the money for more than a year, for a specific purchase or planned expenditure, a loan is a good solution. You agree to pay back a set amount each month over a specified period. For long-term borrowing, loans can work out cheaper than overdrafts. The interest rate will vary depending on your business, size of loan, security available and other factors, but may be on average around 2-3 per cent above the base rate. As repayments are scheduled, a loan lets you plan your budget.

IN A NUTSHELL

- First work out what the money is for and how long you'll need it
- Make your case to the bank with your business plan, putting your own money into the project and by providing security
- Short-term costs are usually best met with an overdraft, long-term with a loan
- Shop around and negotiate to get the best deal; get everything in writing
- Study the small print

Pros

- Repayments are straightforward and so can be planned and budgeted for in your forecast
- You don't have to relinquish any control over the business
- A loan can cost you less in interest payments than an overdraft over the same term
- You may get tax relief on interest repayments

"If I decide to go for bank finance, how much will it cost me and will I need to provide some form of security?"

Cons

- Being locked in a rigid repayment schedule can be a problem if your cashflow is erratic
- You may need to put up security against the loan – see the **Security – Will I Need It?** box for details
- Banks can be reluctant to lend money to new business owners with no track record
- You may be penalised for settling a loan early

Overdrafts

For a short-term lack of cash, overdrafts are a popular solution for many businesses.

Pros

- Flexible – you only pay interest on the amount of money you use
- It may be quicker to arrange than a loan

Cons

- The bank can call in an overdraft at any time
- You may still have to provide security
- If you're borrowing to fund a long-term purchase, an overdraft will probably cost more than a loan
- If you exceed your overdraft limit, you could pay high interest rates and penalty charges, and your cheques could be bounced
- Overdrafts have to be reviewed regularly.

For more on **loans and overdrafts**, visit **www.businesslink.gov.uk/bankdebt**

Costs involved

Whether you choose a loan or an overdraft, the

SECURITY – WILL I NEED IT?

The bank's overriding concern is that it gets its money back, and that's why it might insist that a loan or overdraft is secured.

Stephen Pegge, chairman of the Business Bankers' Association small firms panel, says security is not necessarily needed for smaller loans, but is for larger amounts.

If your business is a new company, banks will usually need personal guarantees from the backers of your business, such as directors and other shareholders. Existing businesses often use assets as security; this can be equipment or premises. If the business closes or you sell the asset, the bank has first call on the proceeds. If you are a new company, you may have to rely on personal assets, such as property, to support your guarantee. Of course, this means that if the business goes under you could be forced to sell your home.

Another option is to get a third party to guarantee your loan. If you have no security, you can look into a **Small Firms Loan Guarantee** (SFLG). The Government guarantees 75 per cent of the loan in return for an annual premium of 2 per cent. UK businesses that have annual turnovers under £5.6m and are less than five years old are eligible. For more details, visit **www.businesslink.gov.uk/sflg**

More security reduces the lender's risk and you may get a better interest rate. So try to negotiate based on your available security.

Social enterprises may have little physical security, which can be a problem. However, social banks, like Triodos Bank, may be more flexible in the security they accept. Some have come up with alternative forms, such as tapping community members for personal guarantees or using the SFLG scheme.

CASE STUDY Successful banking relationships

Helen Colley spent five years growing the premium dessert business, Farmhouse Fare Ltd, which was recently acquired by Daniel's Chilled Foods. Initially the business was funded by the sale of her existing catering firm, a grant from the Rural Enterprise Agency and a bank loan.

"I went to the bank with an excellent business plan, developed with the help of my local Business Link, and convinced them to provide initial funding," she says.

Helen describes her working relationship with her bank as "superb." "The key was providing regular financial information. It also helped that we always managed to exceed budgets, too," she says.

amount you pay back depends on the interest rate charged, the amount you have borrowed, plus any fees or repayments. The interest rate will be fixed or variable. With a fixed rate, the interest remains constant throughout your repayment period. With a variable rate, the interest fluctuates with changes to the Bank of England base rate.

Repayment schedules can run from one to 15 years; the longer the payback period, the more interest you'll pay (but the monthly repayments will be lower). However, specialist lenders may be more flexible on repayment terms. When comparing different loans and overdrafts, look at the **Annual Percentage Rate** (APR). This is the rate you'll be charged annually once all charges are accounted for.

Check the small print for hidden costs. For example, if you want to pay the loan off early, are there penalty charges? Do you need payment protection insurance?

What the bank looks for

Stephen Pegge, chairman of the small firms panel for the British Bankers' Association, says banks look at three key areas when deciding to say "yes" or "no" to a loan or overdraft request.

"The key factor is the person asking for finance, the impression they make and their record as a business or personal customer," he explains. "We then look at the business and the business plan, then the proposition: will the investment generate sufficient cashflow to repay? This becomes more crucial the bigger the deal is in relation to the size of business and the experience the prospective borrower has."

For social enterprises, the situation can be more complex as they may have little security while founders rarely have a personal financial stake in the business. To help gain funding, Andrew Robinson, who chaired the government's working group on Social Enterprise, Funding and Finance, advises involving the bank or CDFI in the early stages of planning. "That way the planning process can accommodate what the bank will need to make the project fundable," he says.

Other factors banks look at include:

- **Your business plan:** This should include details of how you plan to repay the debt. As Stephen Pegge explains, the level of detail depends on your circumstances. "If there's a secondary income, such as wages from a spouse, or the risk is relatively low, we wouldn't expect a great deal of detail," he says. "But if it's for a large sum or we're dealing with someone new to the bank, we often want more information."
- **Security:** You may be asked for some kind of security, particularly if the loan is over

£25,000 or if you're a new business. See the box on page 20

- **Money from you:** You can demonstrate your commitment by investing your own money
- **Your track record:** If you already have an account with the bank (either business or personal), have you borrowed and repaid earlier loans or overdrafts?
- **Performance and trading history:** Existing businesses may have to show the last three years' accounts
- **Credit rating:** To see the information that credit reference agencies hold about you, contact Experian at www.uk.experian.com

Getting the best deal

New business owners often go to their personal bank for funding, but you should compare charges from at least four banks (for example, how much it costs for cheques, deposits, standing orders and overdraft facilities).

If you're already trading, changing banks is now much easier than it used to be and it could save you money. For more advice, read our guide to **transferring your business account** at **www.businesslink.gov.uk/switchbanks**

Find out about the banks offering business banking accounts, the services offered and the charges using the **British Bankers' Association** business account finder at **www.bba.org.uk**

Many banks offer free business banking for a set period, but find out what charges apply beyond this. Also find out what 'free banking' means – it may be free only if you're in credit or your turnover is under a certain amount.

When choosing a bank, ask these questions:

- **What support is offered?** Do they have a dedicated small business team, will you be allocated a specific adviser and is there support material, such as free websites and guides?

CASE STUDY Taking an innovative approach to security

Rural regeneration organisation Ruralnetuk approached a clutch of social banks when it became independent of the Royal Agricultural Society. The organisation needed a £25,000 loan for working capital to cover the switchover period.

Ruralnetuk approached its current account bank, Triodos Bank, as well as Co-op Bank and Charity Bank. Only Charity Bank would consider lending on the basis of its business plan and past performance, with the others requiring more traditional forms of security.

Even without security, Charity Bank was willing to discuss a working capital loan based on past performance and projections, seeking alternative forms of risk mitigation, such as a guarantee from the trading arm of the business, confirmation of grants and contracts and restricted other borrowings.

For chief executive Simon Berry, the loan application process was valuable. "We had several visits from Charity Bank assessors and they went through the business plan in detail and helped us look at the business in different ways," he says. "They encouraged us to present information differently, to split down the figures between the two companies – the charity and the trading arm – more explicitly. If there were any serious flaws in our plan, they would have been uncovered."

CLAIM TAX RELIEF ON LOANS AND OVERDRAFTS

You can get tax relief on overdrafts and loans. If you're a sole trader or partner, any interest you pay on a loan for business purposes is deductible against your taxable profits. If you take on a loan to invest in your business, you get tax relief at your highest rate of tax on the interest you pay. For more details, visit **www.businesslink.gov.uk/taxdeductions**

- **What services do they offer?** For example, do they have an internet or telephone banking service? If so, do they charge for this?
- **How are charges levied?** Is there a fee per transaction or a one-off charge?
- **How close is it to your premises?** If you are likely to have a lot of transactions requiring you to visit the bank, then proximity is a key issue

How to keep banking costs down

- **Negotiate with your bank manager:** Everything is negotiable, from overdraft interest rates and charges to loan repayment schedules. Make sure that you get any special terms in writing
- **Reduce transactions:** Try to avoid cash and cheques. Automation – such as direct debits, standing orders and internet banking – tends to be cheaper
- **Review charges regularly:** Ask your bank manager to suggest how to reduce charges
- **Earn interest:** If you have extra funds, put them in a high-interest deposit account.

For tips on **negotiating with banks** visit **www.businesslink.gov.uk/banknegotiations**

- **Make sure the charges are correct:** Check any discrepancies between statements
- **Avoid unauthorised overdrafts:** Monitor your account using telephone and internet banking

What to do if the bank says "no"

One in 10 business loan applications are rejected. If this happens, find out why, so you can then revise your plan and try again.

Non-bank capital is also available. The Community Development Finance Association (CDFA) has a list of possible sources, with funding usually dependent on the owners being from certain communities, as well as taking into account their age and location.

Community Development Finance Institutions provide capital to allow individuals or organisations to develop and create wealth in disadvantaged communities or under-served markets.

Some high-street banks will also work with specialist lenders on a package of funding for social enterprises.

WHERE TO GO NEXT

- Loans at preferential rates to young entrepreneurs (18-30 years old):
  Prince's Trust
  www.princes-trust.org.uk
- Find out about your credit history:
  Equifax
  www.equifax.co.uk
  CallCredit
  www.callcredit.co.uk
- For further information on community development finance:
  Community Development Finance Association
  www.cdfa.org.uk

"My family are supportive of my business idea and would consider making an investment. How can I best ensure this runs smoothly?"

Investment from friends and family

Business owners often benefit from funding from friends, relatives and community members. This can work well, but there are potential pitfalls

IN A NUTSHELL

- Decide what the money is for
- Be honest with potential investors
- Put the agreement in writing
- Get professional advice

Family and friends are a cost-effective, popular and flexible source of both short and long-term finance. According to the Family Business Network, up to 75 per cent of UK businesses are funded in this way.

While family members tend to be more flexible on interest rates and security than the banks, they shouldn't be seen as a 'last resort' funding choice. If the bank won't put money into your idea, are you really prepared to let your family invest? Be honest with them about the potential risks involved – if your business fails, your family may lose their money.

What do you need the money for?

Before you approach your family, you should be clear about what you want the finance for. If it's for short-term use – to keep your new business afloat until your customers start paying your bills, for example – the best option is probably a loan. You then need to decide what interest you're going to pay on it and work out a fixed repayment period. Family and friends may be flexible here. They could allow you to pay by installments or at the end of a fixed period. They might even accept 'repayment in kind'. For example, if you're running a shop, perhaps they could receive goods from the store.

If you need the money to carry out long-term plans, such as buying equipment, think about selling a share of your business in return for funding, or you could take the co-operative route (see pages 25-26 for details). You then need to discuss how much control over your company you're willing to give your friends, family or co-operative members.

For more guidance visit www.businesslink.gov.uk/familybusiness

Friends and family finance

Pros

- They know you as a person, and may devote more time to understanding your business plan

INTEREST-BEARING AND INTEREST-FREE LOANS

There are two types of loans.

- An interest-free loan is less likely to have tax implications for either you or the lender
- Interest-bearing loans usually have tax implications for both parties. You can deduct loan-interest for business purposes when calculating profit. Lenders must declare interest received as taxable income

For more advice, contact your local tax office by visiting **www.hmrc.gov.uk/local**

Further advice
For tips on drawing up a business plan **pages 12-15**

Case study Turning family into shareholders

Tom Allason and Jay Bregman needed £500,000 to develop vital technology to get eCourier, an online courier business, off the ground. "But as we had no track record," recalls Tom, "the banks weren't going to lend us money."

Getting the first £100,000 to finance initial development was key, and this eventually came from Tom's stepfather. "He agreed to invest £100,000 on the basis that we raise another £400,000," explains Tom.

But Tom's stepfather was no pushover. He wanted a full business plan with detailed financial forecasts. His investment was crucial and helped Tom and Jay secure a further £200,000 from friends.

In return for the money, they've had to give up 49 per cent of their business in shares, but Tom says: "We had to get used to the idea that it was much better to have a small slice of something big than a big slice of something small."

- They may want less security, and be prepared to offer a lower interest rate and more flexible repayments than a bank
- You keep the profits within your family

Cons

- There is a possible danger of family conflict if the loan details are not clearly understood
- If the venture fails, investors may lose money
- Family members may want involvement with the day-to-day running of the business
- They may need to request access to their money sooner than you had both planned

Avoiding the pitfalls

Be honest with friends and family. If the bank turned you down for a loan, you will need to pass on the reasons why they rejected your application, and you should both study the business plan objectively.

Don't persuade them to lend or invest more than they can afford to lose. Both you and they should get professional advice before you do the deal. For more about **advisers**, go to **pages 10-11**. Put any agreement in writing and don't rely purely on trust and verbal assurances. The agreement should spell out:

- The nature and timing of return on the investment, and the repayment schedule – including dates, amounts and interest
- Respective responsibilities, such as whether the investor will have a role in the business
- What happens if your company goes under
- What happens if you fail to keep up with the repayment schedule

Think about the deal from the investor's point of view and work out the benefits for them. For example, can you pay them a better rate of interest than they are currently getting from a bank savings account? If they invest in the business, when can they expect to receive a share of the profits, and how much is that share likely to amount to?

For more advice on preparing business **loan agreements**, go to **www.businesslink.gov.uk/loanagreements**

Funding from like-minded people

Another funding option is to set up a co-operative and get finance from a group of like-minded people. A co-operative is an organisation that's owned and democratically controlled by its members and is usually

"I'm looking into setting up a workers' co-operative. Are there any rules or principles that govern how it should be run?"

Case study How locals saved a brewery

When the landlords of the Old Crown in Hesket Newmarket in Cumbria, retired from the pub and its small brewery, a group of locals formed a 'brewery co-operative' to save the business.

The co-operative was set up in 1999 with each of the 58 members contributing £1,500. There are now 90 members with the extra investment raised going towards tripling the brewery's capacity.

Profits from the co-operative (£20,000 in 2006) are split three ways – a donation to charity, reinvestment and member share dividends, which last year was two firkins of beer or £100. "It's a deal that appeals to investors," says the brewery's chairman Julian Davey.

The business is run by a management committee of seven shareholders who are unpaid. Julian says his members are happy when they're well informed, involved in the business and supplied with good beer.

formed by groups with shared goals or particular ethical reasons for setting up business together.

There are several types of co-operative:

- Workers' co-operative – owned and controlled by its employees
- Consumer co-operative – owned and controlled by its customers
- Community co-operative – owned and controlled by members of a local community

You must have at least two people to form a co-operative, but there's no upper limit, and any type of business from any sector can be registered as one. However, a co-operative should follow a set of principles. For example, the organisation should have a voluntary and open membership with democratic member control. Co-operatives should also show a concern for the community and strong links with other co-operatives.

Pros and cons of co-operatives

Pros

- There can be less personal liability – for example, if you register as a limited company, you could opt to be limited by guarantee, where all members guarantee a nominal sum (say £1 towards the company's debts) and this is the extent of their personal liability
- You're contributing to the community

Cons

- You will be giving up a considerable amount of control over the business
- It can be more challenging than running an ordinary business, due to the ethical aspects
- There could be conflicts between the aims of the co-operative, the needs of the business and the personal objectives of individual members.

WHERE TO GO NEXT

- For further advice on family businesses and the issues they can face:
Institute for Family Business
www.ifb.org.uk

- For details on setting up a co-operative:
Co-operatives UK
www.cooperatives-uk.coop

"I would like to own my own business premises, rather than pay rent – what is available, and how can I find the best deal for my business?"

Premises – buy or rent?

Business owners often choose to rent property, but buying may make more financial sense

IN A NUTSHELL

- Shop around for the best deal
- Fixed rates are good for budgeting
- Seek expert advice

Before deciding whether to rent or buy your premises, assess the costs of each option and get expert advice. New businesses should ask their local council about incubator hubs, which offer premises at preferential rents and provide business support. This can be particularly helpful for social enterprises.

Should you buy your own premises?

Pros

- The property could provide income if you sub-let part of it or let all of it in the future
- Mortgage repayments are often less than rental payments on the same property
- You're not exposed to hefty rent increases
- Interest payments are tax deductible
- Greater flexibility over building management

Cons

- You'll need a considerable deposit
- You have to shoulder the burden of additional responsibilities, such as maintenance costs

Getting a commercial mortgage

If you decide to buy, the most popular financing choice is a commercial mortgage – a loan for a property used for business. You could use a mortgage broker to help you get the best deal, who will negotiate with lenders on your behalf.

Commercial mortgages are flexible and affordable, but have their downsides. For example, the lender has a legal claim over the property until the loan is repaid and, in the event of non-payment, it can be repossessed. Lenders will look at the operating and credit history of your business to work out how much money to lend. They'll want to see the past three years' accounts and may ask for a business plan and personal status references.

Typically, lenders offer a minimum of £25,000 for up to 30 years, funding a maximum of 85 per cent of the purchase price. However, specialist lenders may be more flexible on repayment terms, especially for social enterprises. The interest rate you're offered will be based on your business plan, historic business performance, your deposit and security.

MORTGAGES: WHAT TO LOOK FOR

- Interest-only periods to help cashflow
- Upfront lender and broker fees
- Penalties for early repayment
- Closing costs that you might run up before the ownership of the property passes over to you
- Compare the Annual Percentage Rate (APR) with that of other lenders

WHERE TO GO NEXT

- For advice on commercial mortgages: **www.businesslink.gov.uk/mortgages**
- Contact your council to find out about local incubator hubs

"I need expensive equipment to produce my product, but I don't want to use up all of my capital buying it. What are my options?"

To buy, lease or hire equipment

Buying may not be the best use of your cash, especially as leasing or hiring can help free more working capital for your business

IN A NUTSHELL

- **Think about lease or hire if the item has high maintenance costs or quickly becomes outdated**
- **If you expect the item to appreciate in value, work out if it's better to own it outright rather than hiring or leasing**
- **Consider hiring items that are only needed occasionally**

At some point, usually at the opening stages, you'll need equipment or other assets to help run your business – but should you buy, lease or hire them?

Buying items outright sounds the simplest option; cash purchases often work out cheaper in the long run and the goods are classed as business assets, so can be used as security. But be sure this is the best use of your working capital and won't cause cashflow problems.

If you haven't got the cash available upfront but you still want to own the item, you may decide to take out a bank loan or overdraft to cover the cost of your purchase. Include the interest repayments in your calculations and compare the result against hire or leasing costs before making your decision.

If you don't need to own the item, consider leasing or hire. Monthly costs are fixed, so you get greater control over your budget and it's a sensible choice if the asset is likely to need replacing quickly to keep up with your market (for example, specialised technology).

WHAT'S BEST FOR YOUR BUSINESS?

Option	Good choice if:
Buying outright	• You need to own the item • You have the funds in place for purchase
Leasing	• You don't need to own the item • There are costly maintenance or insurance costs that are covered by the leasing contract • You don't have the necessary funds in place to buy the item outright • The asset has high maintenance costs or becomes out of date over time
Hire purchase (HP)	• You want to own the item eventually • The HP interest rate is cheaper than the interest on a loan or overdraft you would need to take out to buy the item outright
Hire	• You only need to use the goods occasionally

How leasing works

Leasing details vary from company to company but generally they fit into two categories. One of the most popular methods is direct leasing. With this, you decide what asset you need and arrange for a leasing company to buy it for you on your behalf and then rent it out to you.

The second option is purchase leaseback, where you sell an asset you already own (a vehicle, for example) for a fair market value to a leasing company and it then leases it back to you.

Further advice
For tips about improving your business's cashflow pages 34-37

CASE STUDY Mixing buying and hiring

Alexandra Tool Hire Ltd provides hire tools and equipment. They need a wide range of equipment to hire out to customers – an expensive upfront cost. When they originally started, this was financed through a conventional business loan from the bank. However, when they needed two trucks, they decided to use hire purchase (HP). Managing director Bob Rist explains: "We got the trucks on HP as it made financial sense to us. The agreement runs for three years, after which we own them. We claim the payments as a business expense and can recover the VAT on them."

In both of these cases you pay for the asset in regular installments over a fixed period, typically one to five years. You will either have to return it to the leasing company at the end of the lease period (but can request that your business has exclusive use of the asset), or can arrange ownership for a nominal amount.

If you don't want the complications of maintenance and insurance costs, investigate contract hire. This is often used with vehicles, including extra services, such as maintenance, insurance and repairs, in the monthly costs.

If you want to own the goods, but can't bear the full cost upfront, consider hire purchase (HP) – a way of buying goods on credit. You're charged interest for the period of the agreement and are usually responsible for the asset's maintenance. However, before you go for HP, compare the costs of getting a bank loan or overdraft to buy the asset outright with the total cost of paying for the goods on HP.

Finally, if you will need certain equipment for your business but will only need to use it occasionally, hiring the asset out on an as-needed basis could prove to be the most cost-effective choice for you.

Tax and VAT implications

If you buy items – either outright or by HP – you may be eligible for capital allowances, which let you offset the cost of some of your assets against taxable profits. With HP, the capital allowances are calculated in the same way as if the asset was bought outright, using the base cost of the asset, excluding the HP interest element; relief for HP interest paid on business assets is allowable in the profit and loss account. For more on **capital allowances**, visit **www.businesslink.gov.uk/capitalallowances**

Although you can't usually claim capital allowances with leasing or hiring, businesses can deduct the full cost of the lease/hire fees paid from the taxable income as a trading expense. The position changed in 2006 for some leases over five years, so take professional advice if you're considering financing in excess of five years.

If your company is VAT registered, you can claim back VAT on the payments for HP, hire and leasing. For more on tax and hiring/leasing visit **www.businesslink.gov.uk/taxdeductions**

WHERE TO GO NEXT

- For further details about leasing options from various companies: **Finance & Leasing Association www.fla.org.uk**

"I have heard about financial assistance available for new businesses. What might mine be entitled to?"

Is my business eligible for a grant?

There may be government cash to help you – if you know where to look

IN A NUTSHELL

- Your local Business Link office can advise you on grant eligibility and allowances
- You will probably have to part-fund the project yourself
- Grants tend to be for new projects
- You also need costings and project information before you apply
- The grant application process may distract you from running your business

A grant is money given to new or existing businesses for a specific project or purpose. For example, The Prince's Trust (visit www.princes-trust.org.uk) awards money to young entrepreneurs aged 18-30 to help start new ventures, while other agencies fund new projects, such as moving into export, for existing businesses. Across the various schemes in the UK, there's £5bn worth of development capital available annually.

Grants give a cash influx you don't have to repay, and you don't have to give up a share of your business. But finding schemes is tricky, the application process can be slow and competitive, and the criteria can be stringent. Don't get too wrapped up in chasing grant funding as it can mean you're not focusing on running your business. You should also look at grants as only part of the funding solution. It's important to maintain a balanced range of income streams and to have a plan for what happens when grant funding stops.

Who hands out the money?

There are more than 2,000 UK business grant schemes. To find out what grants are available in your area visit the Business Link grants database at www.businesslink.gov.uk/support and the Government Funding site at www.governmentfunding.org.uk. There are also thousands of grants specifically for social enterprises. Your local council or Regional Development Agency (RDA) should help you track down grants in your area.

Grant eligibility

Grants are almost always for proposed projects, not ones underway. Specified purposes include starting up a new business or opening a branch in an area that needs economic regeneration. There are strict terms and conditions applied to grants; if they're not followed, you may have to pay back the money.

You might, for example get between 15-50 per cent of the costs of the project funded by a grant. This may increase for social enterprises. What's more, social enterprises may find they have continued access to grants because of the additional social outcomes they can generate.

Applying for grants

Your local Business Link office will help identify relevant

CASE STUDY Getting a website grant

Daniel Smith set up Tours4, a company organising sporting trips across Europe, in 2005 with his business partner Sam Jennings. Both were straight out of university, so they looked for advice from every source they could find, including the The Prince's Trust, local councils and Business Link, which suggested they apply for a web development grant.

"We were given a list of six Business Link authorised web designers to work with," explains Daniel. "I went to see each of them and got quotes. We chose a company that took us through every step of the process."

Business Link was happy with the quote and offered to contribute £1,600 towards the costs.

"If you don't ask, you don't get," says Daniel. "We've asked for discounts, free advice and grants. As a result, we've saved a lot of money."

European, national and local grant schemes, and will contact them to check your eligibility. Before you apply, you'll need to provide:

- The project's details and its potential benefits
- A comprehensive work-plan with full costings
- Details of your relevant experience and that of your key managers

For more detail on **grant applications**, visit **www.businesslink.gov.uk/grants**

Your proposal will be assessed on its relevance to the grant's aims, your approach and your expertise. Applications usually fail if the business plan is unrealistic, if there are no matched funds from the applicant, or if it's unclear how important the funds are to the project's success. Andrew Diggle, a director of a grant search company, advises businesses to show restraint even if they do get a grant: "The money will take from several weeks to a year to come through and you won't be reimbursed for payments you make beforehand."

Other government allowances

Your business could also be eligible for other government schemes. For example, there's a range of **tax allowances** for new businesses, including capital allowances for investment in equipment and premises (so you can deduct a proportion of these costs from your taxable profits over several years) and stamp duty relief in disadvantaged areas. Visit **www.businesslink.gov.uk/taxbreak** to see a list of the tax advantages available.

Tax credits and tax allowances may also be available for businesses to research and develop new products, processes or services. Visit **www.inlandrevenue.gov.uk/randd**

You could also be eligible for **non-financial support**, such as free business planning courses, networking events and bookkeeping training. Visit **www.businesslink.gov.uk** for more details of these services. ■

WHERE TO GO NEXT

- For more details on grants visit: **Grants and Support Directory**: www.businesslink.gov.uk/support
- For details of government funding visit www.governmentfunding.org.uk

Attracting investors

Swapping a stake in your organisation for investment can help it grow

IN A NUTSHELL

Equity funding could be for you if:
- **You're prepared to give up a share of your business and its profits**
- **Your business can support a significant high growth rate**
- **You're looking for expert advice as well as a cash injection**

Equity investors put up money in return for a share in a business. This means you don't need security and may not have to repay the cash. Investors hope to get their money back, including profits, either by selling shares or through dividends.

However, you will have to relinquish some control over your company (for example, investors may want a seat on the board) and give up a share of your profits.

Potential investors will want details of possible exit routes, so they can see how they will be able to release their investment, plus profits.

Where and when to get equity finance

Many small businesses launch with funding from friends and family (for more, go to pages 24-26). This may be an equity arrangement, where they take a stake in your business. Alternatively, you could approach investors such as business angels – wealthy individuals who typically invest between £10,000 and £750,000 either alone or as part of a syndicate.

Equity funding is suited to all stages of development. Business angels typically provide cash in the early stages, but can also help, for instance, if an existing business needs further funding to develop a new product.

What type of businesses get funding

High growth is often the key. If your business can't support significant high growth rates, you may not be able to attract equity funding. Business angels are also looking for products with a competitive edge, companies with an effective management team, an exit route with a strong return on their investment and for businesses matching their sector preferences.

What else angels offer – and how to find one

Business angels can do more than just provide money. They're often experienced entrepreneurs who can help you plan or run your business. They may have valuable business contacts, or they could help you develop your own management skills. The British Business Angels Association

CASE STUDY Business angels

Specialist technology company d3o Lab developed a new shock-absorption material that they wanted to produce and sell. Founder Richard Palmer needed funds to exploit the opportunity: "We needed a substantial investment without ceding too much day-to-day control, so angel funding was ideal."

Further advice
For tips on improving cashflow pages 34-37

CASE STUDY Where there's muck, there's brass

Fairfields Materials Management is Manchester's first commercial compost producer. The business takes waste deliveries and turns them into compost.

Traditional grant funding was not sufficient to start up the project, so the organisation approached the Adventure Capital Fund (ACF), which specialises in funding social enterprises. Fairfields received money from the ACF in three stages.

"The money was used for setting up and then funding more composting units," says Emma Smith, project development manager at Fairfields.

"Later on, we expanded and needed some money to keep us going. The ACF's funding was a massive help, because the different stages helped us start off, expand and keep going when things got difficult."

Representatives from ACF also visited Emma on site and provided her with valuable support.

"They helped me to identify areas where I needed to grow," she explains.

"For example, at the outset the fund identified that I needed to improve my financial management and they gave me the support to help me do this."

(www.bbaa.org.uk) can help you find a suitable investor. For more on equity finance, visit www.businesslink.gov.uk/equity

If you require a larger investment, or want more information on angels, see the No-Nonsense Guide to Finance for High Growth Companies.

Social enterprises and investment

Social enterprises shouldn't automatically dismiss the equity route. Community Interest Companies (CICs) are able to set themselves up as organisations limited by shares (for more on the structure of CICs, see page 14), which means that they are able to sell shares to people wishing to invest in the company.

However, conventional venture capitalists (VCs) won't be able to help some organisations, due to the need to provide investors with a substantial financial return and an exit route. As a result, there's a demand for some form of 'patient' finance, where investors are willing to accept lower financial returns in exchange for the social benefits that are generated by the enterprise's activities.

Patient capital is available through a number of charitable trusts, government-funded pilots and socially motivated individuals (for further information see Where to go Next).

WHERE TO GO NEXT

- For more information about equity finance visit:
  Business Link
  www.businesslink.gov.uk/equity
- For information about patient funding options, visit:
  Business Link
  www.businesslink.gov.uk/financeyoursocialenterprise

Improving the flow of money

Getting the money rolling in promptly is vital. It can make all the difference between a business that just gets by and one that thrives

IN A NUTSHELL

- Get your invoices out straight away
- Agree credit terms with your suppliers
- Implement just-in-time stock control
- Reduce overheads by leasing equipment
- You may be able to get a third party to advance money against your debts
- Don't rely on grants to keep cash flowing, develop alternative income sources

Cashflow management – the flow of money into and out of your business – is a key priority for any small business. The Federation of Small Businesses estimates a quarter of all business failures are the result of interruptions to cashflow.

You might have plenty of orders coming in, but if you're regularly short of cash to cover monthly necessities, such as staff wages, you have got a cashflow problem. Maybe you are late getting your invoices out, or customers pay late, or you have too much money tied up in slow-moving stock. Whatever the reason, it needs to be identified and addressed.

Get the money rolling in quicker

Late payment is a big concern for small businesses. It's estimated that small and medium-sized companies are owed £17bn from debtors at any one time, and approximately 10,000 UK businesses fail each year due to late payment.

The key to getting money in promptly is to send your invoices out as soon as possible and set up an effective credit control policy.

Do your homework on new customers: Before even the first sale, take the initiative and ask your new customers to complete a credit application form. The information you

CASE STUDY Growing the business through factoring

Haulage firm CJ Express has been using factoring services since 1997 and operations director Cath Cooper has found it a very cost-effective way to grow.

"Nine years ago factoring was fairly new and it was frowned upon by many people," she says, "but we were a small business and we needed to grow. As a haulage firm, our costs were due within 14 days (mainly wages and fuel), but our customers were paying within 30 days at the earliest. The money just wasn't in the system to finance growth."

The company decided factoring was the way to go. Not only did the service allow the business to grow rapidly, it meant the factors chased up bad debts. "That's one less person we need to employ in-house," says Cath.

The relationship has worked well for CJ Express. The company now has a turnover over £1.7m and has moved to new premises.

collect should include full name and trading address, invoice address, name and address of two trade references, company registration number, the names of the directors of the business and the length of time the business has traded.

- **Set a credit limit for each customer:** Try putting a cap on the amount of money they are allowed to owe you.
- **Draw up clear payment terms and conditions (T&Cs):** Put your T&Cs in writing and draw your customer's attention to them before the sale. Make it clear you expect payment within 30 days.
- **Use the Late Payment Law to your advantage:** You could incorporate the Late Payment Law into your T&Cs. Under this legislation you can charge interest on late payments owed to you. You might feel that this would make you unpopular with your customers, but the legislation can be used as an effective deterrent by incorporating it into your T&Cs, so customers understand upfront that they can't pay bills late without invoking some kind of penalty. For more on how to calculate interest on late payments, visit **www.payontime.co.uk**

Cath lauds factoring as a more cost-effective way to finance business growth than overdrafts. "The key is to do your research and make sure you forge a good relationship with the factoring house."

- **Get the order in writing:** When a sale is made, ask for an official purchase order (PO). It can speed up the payment process and some companies won't pay unless you've got a PO number. If they don't do POs, issue an order confirmation and get the customer to sign and date the document.
- **Get your invoices out quickly:** Send your invoice with the goods. Don't wait until the end of the month, as you could find yourself falling into your customer's next cheque run.
- **Chase debts promptly and firmly:** Once an unpaid invoice is overdue – a week is usual – you need to put some kind of debt recovery process into action. Try the three-stage approach. First, make a polite phone call asking when you can expect to get the overdue payment. Second, send a warning by letter saying that if payment is not received within a week you'll be forced to place it in the hands of a solicitor. Finally, tell the customer you've put the matter in the hands of a solicitor. Log every effort you make to chase payment. You should also stop supplying goods or services to the customer if they haven't paid by a set time after the due date specified on your invoice.
- **Raise prices for those customers that habitually pay late:** One in four UK businesses have done this, according to research from the Better Payment Practice Group (BPPG). Professor Robin Jarvis of the BPPG says: "Suppliers shouldn't be afraid to use sanctions such as higher prices (where commercially viable) or statutory interest, to enable them to protect their own balance sheet."

Other techniques to get earlier payments

You can persuade customers to pay invoices quickly by offering discounts for early payment, or encourage staged payments if you're

MONTHLY FACTORING COSTS (based on £300,000 turnover)	
Monthly invoices to client	£25,000
Factor advances 85 per cent of invoice value	£21,250
Reserve held by factor for security	£3,750 (A)
Clients pay invoices in full	£25,000
Factor service fee at 1 per cent	£250 (B)
Monthly interest on advance at 6 per cent	£106.25 (C)
Amount already advanced	£21,250
Additional amount paid to you	£3,393.75 (A–(B+C))

Leasing rather than buying equipment
Consider leasing fixed assets (equipment) or buying them on hire purchase. Buying outright can result in a huge drain on cash, particularly in the first year of business, and leasing makes it easier to update equipment.

For more on the pros and cons of leasing, go to pages 28-29.

working on a large order. And if you're dealing with staged payments, you could also set up a direct debit or, if you're in the service industry, try negotiating a retainer.

Managing your relationship with suppliers
Ask suppliers for discounts for paying invoices early, or agree staged payments to smooth out your monthly cashflow. For more on managing supplier relationships, go to www.businesslink.gov.uk/suppliers

Order less stock more often
Holding too much stock can tie up cash that may be better used on other expenses. In addition, extra stock can be expensive to store.

Order more strategically, such as in smaller amounts, but more often. This is an efficient and flexible option as you only have what you need when you need it.It also means you're free to update and change products quickly without wasting existing stock.

For more details on efficient stock control, visit www.businesslink.gov.uk/stock

Raising money against your invoices
One way of ensuring you have a consistent cashflow is to outsource the process of invoicing altogether. Outstanding invoices are seen as business assets and you can release the cash immediately, without having to wait for your customers to pay you, by using businesses that specialise in advancing money against your invoices – factoring and invoice discounting companies.

How factoring works
Essentially a factor gives you a flexible form of loan; they advance money to you as you issue new invoices. A factor will collect the invoice payments on your behalf, paying 80-90 per cent of the invoice amount when it's issued and the remainder when the customer pays them.

Factoring is becoming increasingly popular. The Factors and Discounters Association reveal that £117bn of invoices were assigned to factors in 2002, and that figure is going up every year.

The big benefit is the amount of money that is advanced grows as your

Further advice
For information on how to grow your business page 40

business grows. It also speeds up your cashflow by removing the time lag between issuing an invoice and getting paid.

Factoring doesn't work for all businesses though. It's particularly suited to sole traders, partnerships and limited companies selling goods or services on credit to other businesses and those with a spread of customers.

Many temping agencies use the services of a factor to smooth out cashflow problems. Temps have to be paid weekly, but it invariably takes much longer than that for the businesses using the temps to pay the agency. Factoring allows the agency to pay the salaries, while the factor chases the debts from clients.

Factors charge two basic fees: a service fee and interest on the amount advanced. The service fee covers chasing the payment of invoices. It is usually charged as a percentage of your turnover – this is generally between 0.5-3.5 per cent. Most businesses would expect to find themselves falling within the 1.25-2.5 per cent bracket.

The factor also charges interest on the amount of your invoices they advance, typically at interest rates 2-4 per cent over base rate. This compares favourably with the cost of an overdraft; see the Monthly Factoring Costs box on page 36.

Many businesses find factoring to be a cost-effective means of evening out cashflow. The factor is running the credit control system on their behalf, so they don't have to run their own credit control department. But make sure you inspect the small print before you sign up: find out how long you're tied into a contract (usually between between six and 12 months) and find out whether there are any penalties for getting out of the contract early.

How invoice discounting works

Invoice discounting gives you the cashflow benefits of factoring, but you raise and chase invoices in the usual way. You send out invoices as normal and send a list of them to the discounter. The discounter then pays you up to 85 per cent of the invoice value. You collect the payment and put the money into a trust bank account. The discounter then takes the cash from the account and releases the 15 per cent balance, minus their charges.

The charges will vary, but typically they would include a service fee, calculated as a percentage of your turnover (usually somewhere between 0.1-1 per cent). In addition to this they will levy an interest charge on the advanced funds – this is usually 1-2.5 per cent over the base rate.

Invoice discounting is generally cheaper than factoring and you stay in control of the invoicing procedure. However, you will need recent accurate accounts and be able to prove you can successfully run your own sales ledger.

Finding a factor or invoice discounting service

Most banks have factoring arms or should be able to recommend a reputable company. You can also try the Asset Based Finance Association website (www.abfa.org.uk). Be warned, companies differ in how they calculate interest payments. Some calculate daily, others monthly. This will affect your charges. Read our guide on how to choose a factor at www.businesslink.gov.uk/choosingafactor

WHERE TO GO NEXT

- To compare costs from a selection of factoring companies, use Decision Finance's comparative quote facility: **www.decision-finance.co.uk/factoring.html**
- For credit management advice and free guides to getting paid on time: **Better Payment Practice Campaign** **www.payontime.co.uk**

"How can I identify potential financial problems in by business, and are there ways I can deal with them before it's too late?"

Solving funding problems

Address your money concerns when they arise

The problem	Possible solutions	Where to go next
I'm always overdrawn	If you suffer from late-paying customers, try borrowing by using a factoring or invoice discounting service	Read up on how factoring and invoice discounting works on p34-37 and at www.businesslink.gov.uk/factoring
	Look at replacing the overdraft with a loan – it can be a less expensive solution	The benefits of loans as compared to overdrafts can be seen on p19-22 and at www.businesslink.gov.uk/bankdebt
	If you're overdrawn because you're buying new equipment you could look at leasing or hire to ease cashflow	For advice on deciding whether to lease or buy go to p28-29 and visit www.businesslink.gov.uk/lease
I'm spending all the money the business makes on overheads	Reduce expensive equipment overheads by leasing or hiring assets	For more on the pros and cons of leasing and hiring go to p28-29 and visit www.businesslink.gov.uk/lease
	Consider hiring the services of an accountant who can help assess your business spending	For more on choosing an expert adviser go to p10-11 and visit www.businesslink.gov.uk/advisers for tips on finding a good accountant
	Maybe you are underpricing your products or services. Check your prices and margins against your competitors	Read our guide to How to Build a Pricing Strategy at www.businesslink.gov.uk/pricing
All my money is tied up in stock	Negotiate with suppliers to get them to buy back stock at cost price to cut down on stock levels	Read our guide to How to Manage Suppliers at www.businesslink.gov.uk/suppliers
	Move to Just-In-Time ordering, so you only get stock in just before you need it	Read our guide to Stock Control Levels at www.businesslink.gov.uk/stockcontrol
Late payers are causing cashflow problems	Try to negotiate staged or upfront payments; issue your invoices promptly and chase debts efficiently	For more on dealing with late payers go to p34-37 and for advice on getting paid on time visit www.businesslink.gov.uk/gettingpaid
	Investigate borrowing against your invoices by using a factoring or invoice discounting service	For more on factoring see p34-37 or visit www.businesslink.gov.uk/factoring
My money runs out before clients pay up	Set up a clear and prompt invoicing system	For more on ensuring customers pay early, visit www.businesslink.gov.uk/invoicing
	Request payment for materials in advance, or negotiate staged payments	Read our guide to How to Deal With Slow Payment From Customers at www.businesslink.gov.uk/gettingpaid
	Renegotiate terms with your suppliers	Read our guide to Negotiating The Right Deal With Suppliers at www.businesslink.gov.uk/dealwithsuppliers

Further advice
For guidance on finding a financial adviser **pages 10-11**

The problem	Possible solutions	Where to go next
My accountant costs too much	Consider developing bookkeeping skills so you can take on some of the tasks your accountant does	To get a place on a Bookkeeping workshop, visit www.businesslink.gov.uk/training
	Use accounting software to do the donkey-work for you	Read our guide to Accounting Software at www.businesslink.gov.uk/accountingsoftware
The interest rate on my bank loan is crippling the business	Shop around and find out if you can get a better deal from another bank	Compare rates at www.moneyfacts.co.uk or read our guide to Transferring Business Accounts at www.businesslink.gov.uk/switchbanks
	Talk to your bank manager and try to negotiate a better deal – a longer repayment period, for example	Read our guide to negotiating improved terms with your existing bank at www.businesslink.gov.uk/banknegotiations
I've been refused a bank loan. What do I do now?	Find out why so that you can revisit and improve your business plan	For more on what banks look for in a small business go to p23
	For a lack of security investigate the Small Firms Loan Guarantee (SFLG). Businesses in certain areas and social enterprises may be eligible for additional support	For more details on how the SFLG works see p21 and visit www.businesslink.gov.uk/sflg. The Community Development Finance Association has a directory of specialist lenders who may be able to offer finance at www.cdfa.org.uk
I've got plenty of orders but I'm finding it difficult to balance the books every month	You could be suffering from overtrading – when a business accepts orders over and above its capability of fulfilment	Read our guide to how to avoid the problems of overtrading at www.businesslink.gov.uk/overtrading
	Try borrowing money against your invoices by using a factoring or invoice discounting service	Read up on how factoring and invoice discounting works on p34-37 and at www.businesslink.gov.uk/factoring
My father will part fund my venture, but how do I ensure the deal is sound?	Get everything agreed in writing – including the repayment schedule and how problems will be resolved	See more on family funding on p24-26. Also, read our guide to Family Loans at www.businesslink.gov.uk/familybusiness
	Be clear that if the venture fails he may lose money. Outline the possible returns	Read more on the pitfalls of family funding at www.businesslink.gov.uk/familybusiness
Where do I find out about grants, and how can I maximise my chances of getting one?	Find out what's available in your local area or industry sector	Search the grants and government allowances at www.businesslink.gov.uk/support. For details on grants for the voluntary and community sector visit www.governmentfunding.org.uk
	You'll need to create a full project plan that includes costings and details of the experience of all personnel involved	For more on grants go to p30-31 and read our guide on Finding a Grant Suitable For Your Business at www.businesslink.gov.uk/grants
How do I know if my business is eligible for a community loan or grant?	Generally, those organisations eligible are social enterprises which have primarily social objectives	For more on social enterprises, visit the Social Enterprise Coalition website at www.socialenterprise.org.uk
	Also their surpluses will be principally reinvested for social purposes	Plus you can read the Business Link guide at www.businesslink.gov.uk/socialenterprise

"My business is operating successfully, and I would like to now take it to the next stage. What different ways are there to do this?"

The next step

When all is running smoothly with your business, you should take stock and plan your next move

IN A NUTSHELL

- A regular review of your business well help you sharpen your focus and aid future planning
- Look at options for growth such as new markets, diversification and joint ventures
- Choose the best way forward and plan how you'll fund this growth

You've put a lot of hard work, time and money into getting your business to where it is today, so it might seem like a good time to let things run as they are for a while. Actually, this is a great time to review your progress and identify how you can get the most out of the market position you've already established. This can help you to identify what the next step for your business ought to be.

Reviewing your progress should be done regularly as it will be particularly useful for:

- **Proof of progress:** Regular reviews enable you to prove how well your business is performing, to show to yourself and others (like potential investors) that you are getting the most out of your business, and that you are taking advantage of any market opportunities
- **Planning:** Reviewing your progress will help you keep your business plan up to date – this is especially important if it's not been touched since you started the company. Again this is important if seeking finance, but is also useful as it shows how your business has changed from how it was initially envisioned and highlights where policy changes could be made to suit your actual situation
- **Focus:** Reviews help ensure the business is moving in the direction you want it to

Useful questions to ask

- What's my business's direction? Where do I want to go over the next three to five years, and how do I get there?
- What are my markets, both now and in the future? How can I increase my market share? Which markets should I compete in and what do I need to do to compete there?
- How do I gain a market advantage? How can the business outperform the competition?
- What resources do I need to succeed? What skills, assets, finance, relationships, technical competence and facilities do I need to compete?
- Are there any external factors that might affect my business's ability to compete?
- How am I measuring success?

Read our guide Review Your Business Processes for tips on answering these questions at www.businesslink.gov.uk/reviewperformance

This is also a good time to revisit your business plan with your new strategy in mind, and make sure you introduce the developments you've identified. If you've pinpointed new market areas or directions you'd like to move your business into, read the Strategy for Growth guide at www.businesslink.gov.uk/growth. For further advice on how to raise funding read the No-Nonsense Guide to Finance for High Growth Companies.

"Who produces this guide? Can they offer any more information to help my business, and how can I contact them for further advice?"

Making the most of Business Link

If you have found this guide useful, you may like to learn more about Business Link and how we can provide further support and guidance

Business Link, is a service, managed by the Department of Business, Enterprise and Regulatory Reform, providing easy access to support, advice and information for businesses. We're dedicated to helping new and existing organisations innovate, improve, grow and become more competitive by providing quick and easy links to a range of private, public and voluntary business support services. This guide is one example of how we provide information to businesses like yours.

We're a national network with a local presence, managed by business people for business people. All of which means we're well placed to understand the diverse needs of businesses and to offer access to relevant and affordable advice. In fact, each year, we help in excess of 500,000 businesses, including both existing ones and start-ups.

Useful questions to ask

Start with the Business Link website at www.businesslink.gov.uk. It brings together the government information and guidance that affects businesses into one accessible place. If you would like to speak to a Business Link adviser face to face, you can visit your local Business Link. Find your nearest one by visiting www.businesslink.gov.uk/directory

Other publications

In addition to this guide to raising finance, we produce a rango of booklets and guides on other businesse-related topics. If starting-up, for example, the No-Nonsense Guide to Rules and Regulations can provide advice on tax, VAT, employmeny laws and other relevant areas that may affect your company.

As your business grows, you may also wish to consult our No-Nonsense Guide to Finance for High Growth Companies, which looks at funding options for established businesses that are looking to grow to the next stage.

Find the right publication for your needs at www.businesslink.gov.uk/publications and then you can also use the Business Link website to order a printed copy.

FURTHER GUIDES

- No-Nonsense Guide to Finance for High Growth Companies
- The No-Nonsense Guide to Government Rules and Regulations for Setting Up Your Business
- Employing Staff: A No-Nonsense Summary of Government Rules and Regulations
- Health and Safety: A No-Nonsense Summary of Government Regulations

Welcome

If you're starting your own business, it's inevitable that you'll need some financial assistance at one time or another.

Perhaps you need a loan to get your venture going, or an overdraft to see you through the first few months of trading. You may need help buying equipment or credit to buy materials before you get paid. Raising money may seem difficult, but it needn't be that arduous as long as you ensure the fundamentals are in place.

This guide incorporates the experiences of businesses just like yours, along with advice from industry experts, so you get an inside practical view of how to be successful. It has also been expanded and updated for 2008 and now contains additional information on financing social enterprises. And as it's from Business Link, the Government-backed business support service, there is no product sell or bias, just objective guidance on what is available within the marketplace.

Clearly this guide can only ever be a starting point. We hope that as a result of using it you feel better positioned to access the support you need.

For more details on any of the subjects covered, visit the Business Link website at www.businesslink.gov.uk, for a comprehensive range of advice. There are also a number of useful links highlighted at relevant points throughout this guide.

Should you need to talk to someone, then our Business Link advisers will be only too pleased to help. To find your local Business Link office, phone 0845 600 9006 or visit www.businesslink.gov.uk

More established businesses that are looking for larger sums to finance their next stage of growth may be interested in our No-Nonsense Guide to Finance For High Growth Companies.

This guide can be ordered by either by phone by calling 0845 600 9006 or online by visiting www.businesslink.gov.uk

Want help to run your new business, but unsure where to find finance?

If you need finance for a new business, the **No-Nonsense Guide to Small Business Funding** can point you in the right direction. It offers advice on calculating what you need, what the potential finance sources are, and how best to approach them:

- The value of a strong business plan
- Self-funding your business
- Obtaining loans and overdrafts from the bank
- Accepting finance from family and friends
- Government grants and who may be eligible
- When and how to seek equity investment
- Dealing with cashflow issues

Business Link
This guide is brought to you by **Business Link** on behalf of the Department for Business, Enterprise and Regulatory Reform. Contact **Business Link** for a wealth of information and support services to suit your individual needs:
Tel: **0845 600 9006**
www.businesslink.gov.uk

This publication is available in alternative formats

Other No-Nonsense Guides available from Business Link include:
Employment Staff: A No-Nonsense Summary of Government Rules and Regulations
Health and Safety: A No-Nonsense Summary of Government Regulations
The No-Nonsense Guide to Finance for High Growth Companies
The No-Nonsense Guide to Government Rules and Regulations for Setting Up Your Business

For business support and advice:
- In Lowland Scotland contact **Business Gateway** (Scotland) **0845 609 6611 www.bgateway.com**
- In Scottish Highlands & Islands contact **Highlands and Islands Enterprise 01463 234171 www.hie.co.uk**
- In Wales contact **Business Eye 08457 96 97 98 www.businesseye.org.uk**
- In Northern Ireland contact **Invest Northern Ireland 028 9023 9090 www.investni.com**

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