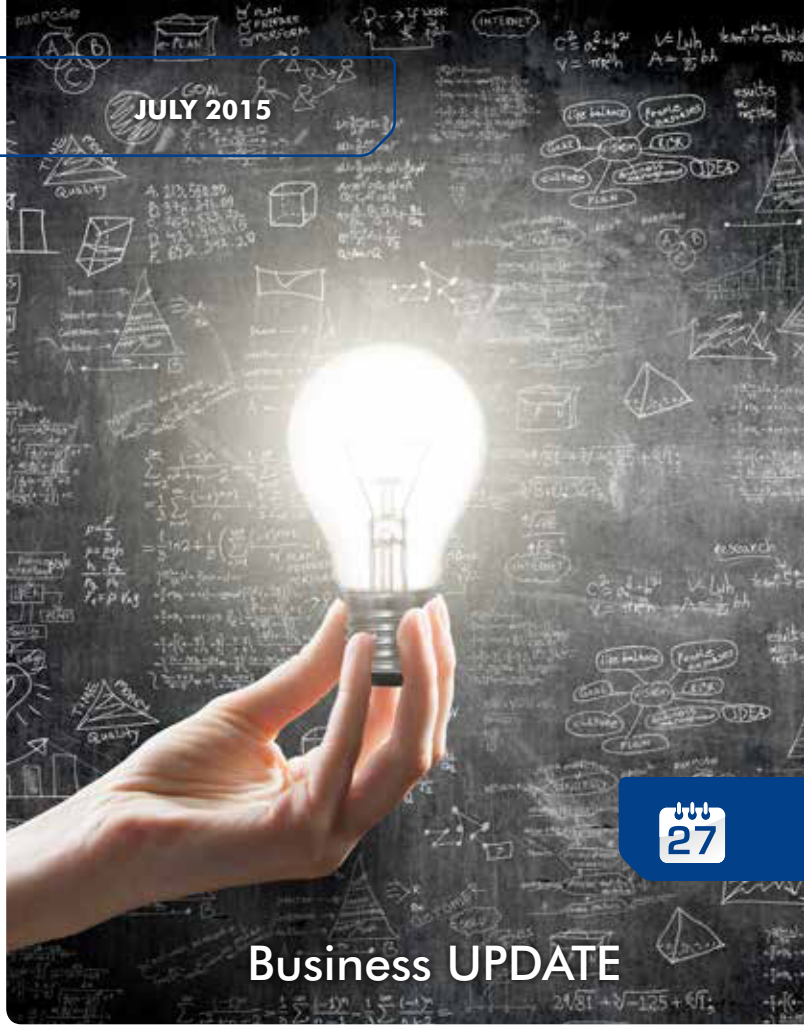

Chandlers CA

Financing your business: What are the alternatives?

A guide to alternative business finance

Setting up a business and funding it while it takes its first, unsteady steps in the world can be an expensive proposition. As it grows and becomes more resilient, a successful company will begin to be able to stand tall on its own 2 feet, but the initial infancy can be resource intensive.

Traditionally, a business in need of finance walked into a bank and asked for it. Today, some would rather avoid this option or find it difficult to find success along this path. Luckily, there are now a whole range of ways for a budding enterprise to secure the funds it needs to grow.

These new possibilities come with their own potential benefits and risks attached, so how can a business to tell which option is right for them?

The 3 Fs

It's often said that there are 3 types of people you should talk to when first pitching an idea. These are known in the trade as the 3 Fs: friends, family and fools.

The majority of start-ups are often unable to raise any venture capital, so tapping up friends and family is a great, and necessary, way to get started. This suggests budding entrepreneurs should spend a lot of time cultivating their social networks as this could lead you to meet a funder in the future.

If your friends are starting to avoid you and your family no longer invites you to social events, maybe the 'fools' category could be worth looking into to raise much needed finance. But, as it seems rather uncharitable to describe everyone who isn't friends or family as a fool, it would be better to change the final F into AFs: alternative funders.

AFs are relatively new, but they have quickly become an attractive proposition to those businesses struggling to find finance through the traditional channels.

Contact us today to talk about raising capital.

Crowdfunders

The internet has proved a powerful tool for businesses to appeal to investors they may not have normally have come into contact with. Crowdfunding begins with you posting your pitch, explaining how much you need, what you are offering in return, and people make a contribution. Some businesses offer equity – a share in the business, whilst others offer less tangible rewards such as the glow of knowing that you've helped to make an event happen, or a film to be made.

This can be incredibly successful if your idea catches the imagination of the public. And if it doesn't, then you've been able to test the market for very little outlay.

Social Entrepreneurs

If your idea has any element of social responsibility or community engagement, then there are a wide range of sources of funding available to you. Many such as Power to Change and UnLtd derive their funds from the Lottery, and they have a large pool of resources to send your way in terms of knowledge, spreading awareness and attracting customers.

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Government schemes

Currently, the government's website lists 597 schemes currently available to help fund or support businesses in the UK.

Of course not all of these will be open to everyone as some depend on location and other criteria, but the wide variety of schemes means that any assistance you do find should be tailored to fit your needs in a much more focused way then other forms of lending.

Venture capitalists and angels

Venture capitalists and angels operate in the same ball park, although they differ in fundamental ways. A venture capitalist is a business or individual who provides capital to small businesses or start-ups to help them expand in return for high rates of return. Angel investing, on the other hand, is when a person's disposable finance is put into a company, normally in return for shares.

Peer-to-peer

As the rise of companies such as Funding Circle, a government backed scheme shows, peer-to-peer (or peer-to-business) lending is a true growth industry. This form of lending is designed to be a win-win situation that provides lenders and investors with attractive rates of return while also ensuring that credit worthy borrowers get access to finance that is competitive.

Your bank

While the amount of bank lending to small businesses took a sharp knock in the years after 2008, the landscape has been steadily improving in recent times. Banks have extended an extra £600 million of credit to small businesses in the first quarter of 2015, and many are using the Bank of England's Funding for Lending Scheme to increase that number further.

According to Better Business Finance, which was set up in 2011 and is managed by the British Bankers Association, you also have the right of appeal if you've been turned down for a loan with selected banks. You need to do so within 30 days of your original application, and you will need to meet certain eligibility conditions.

Attracting the right kind of finance

All potential funders, whether they are banks, organisations, government bodies and even friends and family will want some reassurance that they are not throwing money away if they decide to lend, or even better, give you money.

Whatever type of funding you have set your sights on, here are 5 tips on how to improve your chances of success.

1. Write a strong business plan. This should include an overview of the businesses aims, objectives, structure, legal status, operations, target markets, USPs and financial requirements.
2. Get to grips with the financials. How do you expect to inspire confidence in potential funders if you can't read and interpret a balance sheet and talk with confidence about the state of your business?
3. Check your track record and credit score. Banks in particular will want to see how you handled money in the past, so will go over bank statements with a fine-tooth comb. Be prepared to explain any anomalies and try to clean up your credit rating at the agencies your bank uses.
4. Be honest and realistic about how much you need from the outset. It's far harder to go back for more once funding has been agreed.
5. Stay in touch and communicate regularly. Nothing is more worrying that silence, so respond to emails, phone calls and letters as soon as you can. Even better, be proactive.

We can help you get attract the right kind of finance. Contact us today.

The best option for your business

It could be that you don't actually need to go elsewhere for funding at all. In some cases we have helped clients to release the money they need through the use of leasing, factoring and asset finance.

Every choice about how you are going to finance your business will bring its own pros and cons, results, ramifications and obligations, so take your time, talk to one of our experts and see which direction is most suited to you.