ACTIVE PRACTICE UPDATES

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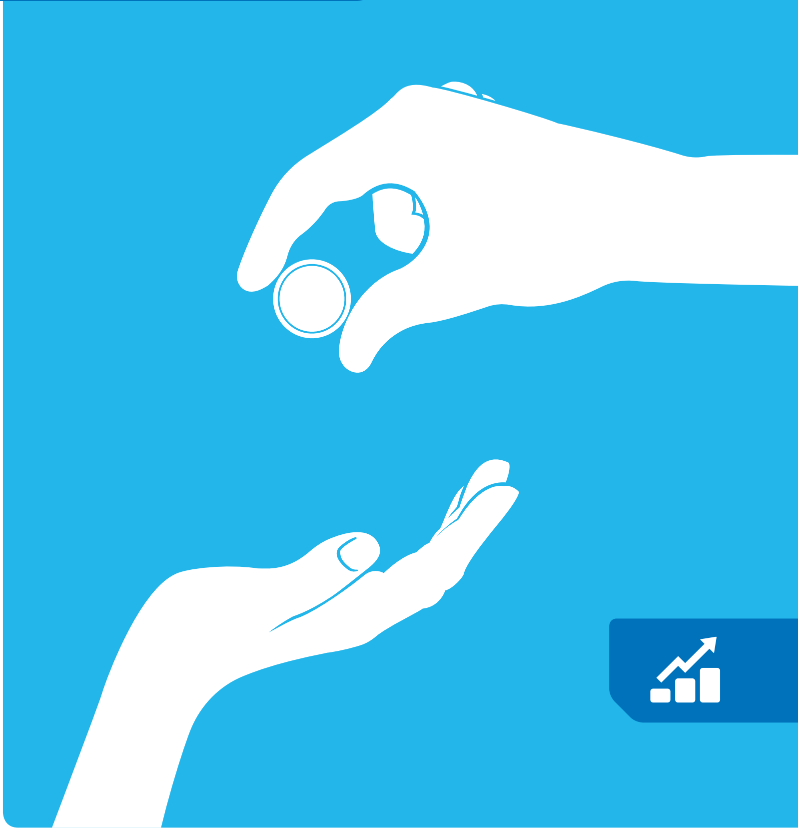

Dunkley's
Chartered Accountants
& Statutory Auditors

Business finance

Raising finance for small businesses.

Raising finance is a crucial but challenging aspect of running a successful business, whether you're launching a start-up or looking to expand your operations.

You can have the best product in the world, a solid business plan and a comprehensive marketing strategy, but if you can't access the necessary finance success will be much harder to achieve.

Familiarising yourself with the different sources of finance available is essential if you're going to get the money you require.

This guide outlines the most common sources of finance used by small businesses in the UK and provides advice for securing the capital you need.

Loans

Loans (usually provided by banks) are one of the most common ways that businesses obtain finance.

The amount of interest you'll pay will depend on:

- the value of the loan
- the length of the borrowing term
- whether the loan is secured (backed using equity owned by the business) or unsecured (not backed by any business assets)
- the current base rate set by the Bank of England.

Interest rates will either be fixed (remain the same over the whole term) or variable (will change depending on the bank's borrowing costs or the Bank of England base rate).

The government offers loans worth between £500 - £25,000 to eligible start-ups and small businesses in their first 2 years of trading. These fixed rate loans charge 6% interest per year and are available for terms of 1-5 years.

Equity finance

Attracting equity investment involves selling a stake in your business to a private investor or venture capital firm.

Investors will then be entitled to a share of your business's profits. You will have no interest or loans to pay off if you're successful in attracting private investment.

The downside to this is that you will have less control over your business and less freedom when it comes to making business decisions. The process can also be time-intensive and demands careful planning.

Remember that you must be a limited company before you can issue shares.

Contact us about attracting investors for your business.

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Business finance

Crowdfunding

Crowdfunding platforms allow businesses to raise finance from members of the public, bypassing more traditional sources of finance such as banks and professional investors. This usually involves lots of individuals investing small amounts of money towards your project.

Crowdfunding platforms enable you to promote your business plans to thousands of potential investors at once, significantly increasing your chances of accessing finance.

The 2 types of crowdfunding of interest to businesses are debt crowdfunding and equity crowdfunding.

Debt crowdfunding, also known as peer-to-peer lending, provides the investors with interest on their investments.

Using equity crowdfunding will see you sell a stake of your business in return for investment.

Overdrafts

Overdrafts allow you to cover costs in the short-term, such as an unexpected cashflow problem that leaves you unable to pay an invoice. They should only be used when you must pay out more than you have in your account and are thus not a method of long-term financing.

While using an overdraft is not negative in itself, extensive use may call into question your business's financial situation. Otherwise, overdrafts provide a fast and flexible way to access short-term finance.

Remember to agree an overdraft limit with your bank if you want to limit the charges. You will most likely pay a fee (as well as interest on the money borrowed) but this will increase if you borrow more than your current limit.

We can help you with any aspect of business finance.

Invoice financing

Invoice financers provide money based on the value of unpaid invoices you have sent to clients.

There are 2 types of invoice finance:

Factoring: providers purchase the amount owed to you by customers, making them responsible for collecting the debt, managing your sales ledger and carrying out credit checks.
They will make an initial payment to you (often around 85% of the invoice's value) before paying the rest when they have received payment from the customer. Invoice financers will charge interest and fees for using their services.

Invoice discounting: the provider will loan you a percentage of the value of your unpaid invoices but you will be responsible for collecting payment and managing your ledger. You will repay the loan as your clients pay their invoices plus the fees charged by the financer.

Talk to us about securing finance.

3 things to consider

The method of acquiring finance is one part of the equation, but equally important is the health and goals of your business. Having unrealistic goals, or inefficient and unproductive practices will quickly undo the hard work that has gone into getting the money in the first place.

You should ask yourself the following questions before committing to a strategy.

What stage is your business at?

Start-ups are generally more limited in their options than established businesses. They have no trading history, no financial records and forecasts that, although educated, aren't supported by historical data.

As an unknown entity it can be difficult to persuade professional investors to commit their money. You may also find accessing bank finance at a favourable interest rate difficult.

Before considering these options you may want to turn first to more informal sources of finance (savings, loans from family and friends), crowdfunding and start-up loans.

What do you need finance for?

The types of finance you choose will in part be determined by what you are looking to finance.

Do you need to improve cashflow? Do you want to launch a new product or service? Or are you planning to expand your operations?

Ensure that you target a source of finance appropriate for your needs.

What are the costs and benefits?

Different types of finance have different advantages and disadvantages. You should analyse the costs and benefits to each type of finance you're considering.

For example, are you prepared to sacrifice a stake in your company to an investor in return for capital? Or would you rather commit to the terms of a bank loan instead?

Presenting a business plan

Having a comprehensive business plan is essential for raising finance from banks and private investors.

Successful business plans include the following information:

- your business's objectives, and products and/or services
- your market and competitors
- your operations, management stucture and workforce
- your financial history and forecasts
- an analysis of strengths, weaknesses, opportunitie and threats (SWOT).

Successfully applying for a loan or attracting investment requires that you meet the expectations of the lender or investor. Being able to demonstrate a good track record in business, control over your finances and healthy forecasts will stand you in good stead.

Some banks and investors may make specific conditions. It is imperative that you fully understand the financial terms if you are going to access the money that you need.

We can help you target the right type of finance for your needs.