The guide to finding business finance

Newable

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Introduction

Securing the right finance to start or grow a business is no easy task. A simple online search will produce a bewildering range of financial products, services and instruments. Finding the best value for money, understanding what the funder is looking for and getting your business finance ready can prove challenging.

In order to select the right financial product and support, businesses need to be very clear about their short, mid and long term objectives. Entrepreneurs also need to be realistic about what they are hoping to achieve, how the funding will help as well as being honest about any gaps in skills and resources they might have. Willingness to research and identify where, when and how to access any additional support will also stand you in good stead.

At Newable, we pride ourselves on being part of the Responsible Finance movement. This means that we do not just offer various types of funding, we also provide tailored, ongoing business support. This might take the form of mentoring, advice, access to grant funding opportunities, grant writing and other services aimed at businesses looking to either start, develop, or grow. Many of our services are fully funded which means they are free to the business.

This booklet is designed to provide an overview of different types of finance available for businesses at different stages of their evolution. Our goal is to help business owners make an informed decision about the type of finance that may be best suited to their needs, and identify a tailored support package to assist in taking their business to the next level.

Planning to get funding

There is an old adage that remains true today. If you fail to plan, then you are planning to fail.

Even the greatest business ideas ever conceived, require planning and contingency planning, in order to get off the ground and become sustainable.

Before taking the plunge and starting a business, or seeking finance to grow a business, would-be and existing business owners need to think carefully and be realistic about the implications of making the big step.

Not everyone has the skill, determination or tenacity to be their own boss, run and manage a business throughout the good times and bad.

Equally, existing businesses also need to think about planning for development, and their future growth. A great business idea for today, might not look so smart in a couple of years time.

Here are some things you should consider.

- The nature of the business / idea.
- The current market conditions.
- Whether sufficient demand within the market place exists.
- If planning to introduce a new product, the distinguishing, unique or disruptive aspects of it.
- Current and emerging routes to market entry.
- The experience you or your chosen team has in the industry.
- Whether additional expertise or staffing is required.
- The logistics involved in getting off the ground.
- The legal implications.
- The amount of finance required.
- Where any finance required will come from.
- If loan finance is required, how the business will repay the debt.

In essence, a business or business idea can only be viable if, in the worst case scenario, it still has the capability to generate sufficient income to meet overhead costs and liabilities.

Whether a business has previous trading history or is at pre–start stage, the only tried and tested means of understanding whether the business proposition is viable is to write a business plan.

It is potentially a good sign that there is already an existing market for your product, or if other businesses are seemingly enjoying success with comparable propositions. However, it is important to avoid the temptation to think that this will guarantee your success.

The real issue is understanding how and why you are bringing something cheaper and or better to the market.

Often there are a unique set of circumstances that make up the DNA of a business model. Ranging from the owners own expertise, experience and financial background, to the geographic location, local demographics, timing of the business venture, or plans for growth.

Careful planning helps to identify the risks involved in starting or growing a business. This enables potential and existing business owners to assess if their idea or plans for growth are viable. It also helps to map both essential and non essential steps that need to, or can be taken, in order to get things underway.

Writing a business plan can seem daunting to some people. However, it doesn't have to be. In fact it is an opportunity for you to think about and order your thoughts about your business.

Here's a few tips about writing a business plan.

The plan should start with an Executive Summary. The aim of an Executive Summary is to give the reader the key aspects of the business idea, creating a feel for what is to come. Whilst it is the first section of a business plan that is read, it is actually the one the author should consider completing last.

The essence of the Executive Summary is three things. Why your company exists. What your company does. How it makes money.

It is then a good idea to include the following:

- Name of the Borrower and any Partners or other owners and their share.
- Business Structure (Limited Company, Sole Trader or Partnership etc).
- A summary of any previous trading history and current performance.
- The start up / growth costs and / or the amount (if any) already invested.
- The amount to be borrowed, if loan finance is being sought.
- The purpose of the loan finance i.e. how the money will be spent.
- A brief summary of the product or service, the sector and the target market.
- Bullet points explaining key data such as:
    - Expected turnover in the first year
    - When the business is expected to be in profit.
    - How much the owner expects the business will earn them per month or per year.

Company Purpose

Start by explaining why your company exists, the burning passion that drives your business. Communicate the vision of the company.

Product / Service description

As the title suggests, the products and services section of a business plan describes the nature of the product or service offering. Typical questions usually answered in this section are:

- A description of what the business does.
- The number and different types of product or service it offers or plans to offer.
- The customer need that the product or service is satisfying, or the problem it is solving.
- The product or service features and benefits that distinguish it from competitors in terms of price, performance or quality?
- Three reasons why the product or service will be successful in the market place?

Market research

Market research is considered one of the most important parts of a business plan. It is used to demonstrate the size of the market, level of demand, key trends and seasonal factors that will affect the business.

This aspect of business planning should ideally be completed in two phases known as Primary and Secondary Market research.

Secondary Market Research provides a broad overview of the sector, market place and key demographics that reflect the customer base and locality. The reason it is called Secondary Market Research, is due to the fact that the information it contains is usually derived from published sources of information, such as industry reports or National Statistics for example. Secondary Market Research comprises the opening paragraphs of the market research section of a business plan.

Primary Market Research, is information that is researched and collated by the business plan author. It can include the key findings of a market research survey, focus group and / or previous trading experience. Primary market research can also involve test trading. This is where the business owner tests viability by offering the product or service to customers for a limited amount of time in order to gain insight regarding their views.

Remember, some businesses attract different types of customers and in such instances these need to be analysed and categorised into segments. Once market segmentation is complete, it is then possible to plan marketing activities that will appeal to different types of customer.

Whilst market research is used to measure the level of demand there is for a product or service, it can also produce negative results, indicating the idea or plans for growth are not viable.

Be honest about the result of any research that is carried out, creating a business plan that does not address the positive and negative elements of the market place will do little to impress funders or investors, who are likely to have some prior knowledge of the market.

The marketing plan

The marketing plan describes the nature and frequency of marketing activities to promote the product or service being proposed. Key questions usually answered in this section of a business plan are as follows:

- The sales and marketing activity being planned. For example, leaflets, local newspapers, digital media, word of mouth, relying on footfall etc.
- How much of it, how often and which customers is it reaching.
- How the marketing budget compares to the overall sales it is trying to bring in.
- The extent to which the website is supporting the business, i.e. is it an information site or more interactive with payment options?
- The Unique Selling Point (USP) of the business.

Competitor analysis

Its fair to say that no business is without competition. Even if the idea involves a new type of product or service, it is important to recognise that the same or similar products can and do exist within the market place. This is known as direct and indirect competition.

Failure to acknowledge competition can lead to investors or other financiers taking a dim view of the business plan, as to think there is absolutely no competition would be unrealistic.

Carry out both on and offline research to identify both direct and indirect competition. You need to take into account your competitor's overall product / service

offering, the key strengths and weakness, customer feedback, pricing structure, resources, staffing and experience. This will help to validate how the new product or service will gain a competitive advantage and disrupt the existing market place.

Operations

The Operations plan deals with the key operational aspects of the business, the systems and processes that are in place, the suitability of premises etc. It usually states:

- Where business is or will be located.
- Whether the premises and location are suitable.
- What equipment is required.
- What security is required.
- How many days credit are, or will be, given to the business by suppliers.
- If the business does, or will, request cash on demand.
- How many days credit the business does, or will, give to those who owe it money?
- How much stock is or will be held before it is sold in total value at any point in time? The less the more efficient the business, but for many a minimum is needed in order to meet variable customer demand – you cannot sell it if you don't have it in stock.
- Insurance of various elements of the business such as stock, public liability, Health & Safety etc…
- Other legal requirements.

Costs & Pricing

The costs and pricing section of a business plan is closely linked to the cash flow forecast and financial assumptions. Demonstrating the start up costs or amount that will be invested in the business, the monthly running costs and pricing, which in turn, reflects the income and expenditure a business will incur on a month by month basis.

The methodology for pricing a product or service will vary depending on its nature, the cost of sales and target audience. With this in mind, it is a good idea to seek professional guidance in understanding the best method to use when setting prices.

Cash flow forecast

A cash flow forecast can involve a three to five year projection of the business start up or growth costs, and income and expenditure on a monthly basis.

Ideally a cash flow forecast should be written conservatively. It needs to include and take into account any seasonal factors that may impact the business / industry.

For example, spring and summer are peak times of the year for businesses operating in the weddings and restaurants industries. You are likely to enjoy less revenue over the winter, but you will still require cash to meet your overheads.

It is important to remember that during the initial stages of starting a business especially where premises are concerned, very little income will be generated whilst renovations are taking place, or during the initial marketing process. With this in mind, early stage income projections are likely to be lower in value, than once

Getting funding ready

Your business plan will help you come to a conclusion about whether, when or how much funding your company will require.

You will also probably be a long way down the road to understanding the most likely and suitable source of funding – grants, equity or debt. Perhaps the answer is a combination of all three.

Assessing the current status of your business, and identifying the key priorities in the short, mid and longer term will give you confidence and clarity to get your business funding ready.

It is important to ensure that the business is in the best possible health, before pursing start - up or growth finance.

If a business is already trading, all financial records need to be kept up to date. If a business has not yet started to trade, a business plan and cash flow projections will be required to demonstrate how the business is likely to perform over the first three years of trading at least.

Funders / investors will want to know that the business is sustainable, can afford any repayments, and produce a return on their investment in the future.

Remember, whilst acquiring a loan or investment finance may seem like a good idea in the short term, any money that is borrowed will have to be repaid. Business owners need to be certain that the business will be able to afford and meet its financial obligations. If a business is not performing well, additional finance is not always the answer. It may be more practical to examine the reasons for poor performance, endeavouring to rectify these, rather then increasing liabilities that could end up making the business more vulnerable.

Seek professional advice on how to overcome any challenges or barriers to growth the business may be experiencing, and establish what the best financial options available may be.

The next section introduces the various types of grant, debt and equity funding that are on the market.

Funding for start-ups and early stage businesses

Director's Loan

Using any savings or money set aside to start a business can be the ideal financial solution for covering start up costs.

If the business is, or will be, operated as a Limited Company, the owner of the business can lend the business the start up capital required over a fixed period of time. This is known as a Director's Loan. A Director's Loan can be repaid in instalments, in full after a set amount of time, or via dividends taken from the business periodically.

When using savings to get started in business, entrepreneurs need to have carried out sufficient research regarding the amount of finance that will be required, the level of demand and expected return on investment.

The business owner will also need to be certain that in lending the start up capital required, it will not have a detrimental effect on their personal financial well being.

There is also the need to ensure that if the loan amount is insufficient to cover all start up expenditure, what if any additional finance is required, and where any additional funds can be raised.

Borrowing from friends or family

For many entrepreneurs, borrowing from family and friends is often one of the best solutions when seeking finance to get off the ground.

A loan from a family member or close friend can often be repaid over a longer period of time and with little or no interest attached.

Even if borrowing, from a family member or close friend, it is important to ensure that a written loan agreement is in place. This should clearly state the amount borrowed, the repayment period, rate of instalments and what, if any, interest will be applied.

It is advisable to obtain professional business and legal advice when creating a loan agreement.

Start-up grants

Whilst few and far between, some early stage or start up businesses may be able to apply for grant funding to assist with the costs of getting off the ground.

Start up grants are usually a non repayable sum of money awarded to businesses that show future potential.

Businesses must have a viable business plan and meet all eligibility criteria for funding.

Bank loan

If there is not sufficient personal finance in place derived from savings and or other personal assets, a short term bank loan could be an alternative solution to raising the finance required to get started.

There are numerous banks offering start up and other types of finance for business. Before making an application it is important to check which bank is offering the most desirable terms and conditions, interest rates and other facilities to accommodate business requirements.

If applying for a business bank loan, it is important that a plan is in place. This needs to demonstrate the viability of the business venture, and that the amount borrowed can be repaid in full, including any interest, at a rate the business can afford.

It can be harder to obtain a business loan from a bank when there is little or no previous trading history. Borrowers also need to have a satisfactory, preferably good credit history.

Banks also tend to take a long time before making an investment decision. This can be frustrating when you will be very keen to get going.

Start-up loans

Start-up loans are designed to provide small businesses with the finance they require to get started. If turned down by the bank, there are a number of Responsible Finance providers that offer lending solutions for businesses.

In general, start-up loans come in the form of a loan to the business, or as a personal loan to the business owner/s.

To obtain a start-up loan, potential business founders must have a viable business idea and business plan in place.

Some start-up loan providers offer advice, mentoring and support for people with little or no experience in writing a business plan. Applicants for start-up loans will also be subject to credit checks which can affect their ability to raise finance.

Peer-to-peer lending

Peer-to-peer lending enables potential or early stage businesses to raise capital from individuals or 'peers' without the need to involve banks or other traditional lending institutions.

Lending takes place via online platforms that enable individuals to be matched in accordance with the nature of the business and amount required.

Borrowers looking to raise funds via a peer-to-peer platform, must pass various checks and meet with the eligibility criteria before registration. In some instances there may be a fee to join.

Equally, investors are also vetted for suitability.

As with banks and start-up loans, the applicants' credit history is taken into account. This can affect the level of interest applied to the loan. Borrowers also need to ensure that a viable business plan is in place and that the idea is well presented online, in order to generate interest.

Crowdfunding

Similar to peer-to-peer lending, **Crowdfunding allows borrowers to raise finance for their business online via platforms, without the involvement of banks and other traditional lending institutions.**

Usually there are a larger number of lenders per application, who contribute smaller sums, in return for an incentive

that can in some cases be in the form of a gift or other reward.

There are three main types of crowd funding:

- Donation
- Debt
- Equity

Donation
Pretty much as the name suggests, this type of crowdfunding involves pitching the business idea in return for a non – repayable donation. Investors receive a gift or other reward in return for their donation and the satisfaction of knowing they have contributed to a good cause.

Debt
Debt crowdfunding also known as peer-to-peer lending, is where investors are usually compensated for their investment via interest. For disadvantaged communities in underdeveloped locations, there may be no interest attached due to exceptional circumstances, where the lender is repaid the principal loan amount, with the satisfaction of knowing they have contributed to a good cause.

Equity
This type of crowdfunding is where the borrower has the opportunity to raise finance through the sale of shares. A business must be registered as a Limited Company in order to do so. Investors gain a return on their investment once the business is successful, and the value of the shares increase. Borrowers must undertake appropriate credit checks and meet other eligibility criteria. There should also be a viable business plan in place, and the pitch or idea needs to be well presented in order to attract interest from investors.

Angel investment

Angel funding refers to investments made by private individuals of high net worth, who invest in up and coming companies demonstrating high growth potential in their early stages, in return for equity.

Angel investors typically invest between £10,000 to £250,000 in any one business. You may also find that the Angel Investor, or group of investors will be willing to provide follow on investment.

One of the advantages of business Angel funding, is that businesses can also benefit from valuable expertise, support and contacts to assist in growing their business.

Businesses seeking Angel funding need to have a viable business proposition, and will also need to apply to an Angel Network of their choice in order to pitch to investors, this may at times involve paying a fee depending on the Angel Network chosen.

Funding for growth and scale-up businesses

Business growth grants

More often that not, business growth grants are offered by Local Authorities and Regional Growth Initiatives to assist local businesses. The aim is to achieve growth and develop, and improve local economies. In particular generating new employment opportunities.

Each grant comes with specific eligibility criteria that businesses will be required to meet, in order to access funds. These can include:

- The legal structure of the business.
- Geographic location.
- Previous trading history.
- The purpose for which funds will be used.
- The reason for expansion / growth.
- Job creation.
- Match funding (many funds will only offer a percentage of growth costs, and businesses must be able to demonstrate sufficient match finance is in place to cover remaining costs).

The amount of funding available and application process will vary in accordance with each funders' requirements and processes. **Businesses looking for information about business growth grants can contact their Local Authority or local Enterprise Agency for further advice.**

Energy efficiency grants

In line with government targets to reduce carbon emissions by 2050, businesses looking to become greener and reduce their carbon footprint, can obtain grant support to enable them to purchase energy saving equipment for the business.

For further information or to check eligibility visit: **www.carbontrust.com**

Business growth loans

Business growth loans frequently involve borrowing larger sums of money to help with the costs of growing or developing a business.

Larger business loans are usually repaid over a longer period of time and can either be secured on the assets a business owns at their current market value (secured loans), or unsecured, in which case the amount available to borrow, or line of credit is likely to be less.

The rate of interest payable is determined by current market rates and the business' creditworthiness. Where the lender perceives a higher risk of default, it is likely that the interest rate will also be high to reflect this.

Banks, Local Authorities, Regional Investment Initiatives, Venture Capital and Fintech Companies are all sources of growth finance for business. When considering growth finance, businesses must take into account how affordable it will be for the business to meet loan repayments. Borrowers must also be certain the loan amount will be sufficient to fully cover the cost of growth plans.

Where there is limited trading history or insufficient tangible assets owned by a business, it may qualify for The Enterprise Finance Guarantee Scheme.

The Enterprise Finance Guarantee scheme is a government initiative that provides some protection for lenders,

by guaranteeing 75% of the amount borrowed, in the event that a business defaults on loan repayments. It is not designed to act as an insurance policy for borrowers, and borrowers must ensure they meet 100% of loan repayments.

Each individual lender decides whether to lend to the borrower or not, using their own lending criteria. Should a lender decide not to issue loan finance, the borrower will not be eligible for the Enterprise Finance Loan Guarantee. Lenders can also ask borrowers for a personal guarantee.

Businesses that do not qualify for the Enterprise Finance Guarantee Scheme may be eligible for support via Regional Growth Funds.

Regional Growth Funds consist of a range of grant and loan finance managed by different local organisations and finance institutions across the UK. For further information about Regional Growth Funds visit: **www.gov.uk/guidance/understanding-the-regional-growth-fund**

It is important to undertake a business 'health check' to avoid taking out a loan that the business cannot afford. This will also enable business owners to calculate a more realistic account of the amount required to fulfil plans for growth. Borrowing too little or to much, are both key reasons for business instability and / or failure.

By seeking professional advice from an accountant or business adviser, businesses will be able to benefit from valuable insight into the longer term implications of borrowing larger sums. In some instances they can provide information as to the most suitable sources of funding available.

Venture capital

Venture Capital is a form of Private Equity Finance where companies that have raised funds (typically via institutions, pension funds, corporates, high net worth individuals and family offices) invest in high potential growth opportunities.

In return for funding, businesses sell shares wherein the Venture Capitalist becomes a part owner of the business.

Venture Capital Funds are often invested in high risk technology / software businesses for example. And whilst there may be substantial risk to the investor, the business itself should be able to demonstrate the potential of significant returns on investment to make the deal worthwhile.

One of the key benefits of Venture Capital Funding is that much like Business Angel Finance, businesses can also benefit from valuable expertise, contacts and resources to assist with their growth.

The decision to pursue venture capital should not be taken lightly, as ultimately selling a stake in the business means relinquishing an element of its control, and profits will be disbursed in accordance with ownership. There are numerous venture capital funds available in the UK, for further information visit: **www.bvca.co.uk**

Asset finance

Asset Finance comes in the form of leasing and hire purchase. Businesses looking to acquire new assets (e.g. equipment, vehicles) but lacking the financial resources to purchase equipment

outright, may be able to benefit from Leasing or Hire Purchase Agreements.

Leasing

A Leasing Agreement is where the leasing company purchases equipment which is then leased (rented) to a business for a fixed amount over a fixed period of time. There is typically a fixed interest rate attached.

One of the key benefits of Leasing Agreements, is that they enable businesses to acquire vital equipment which they may otherwise be unable to afford. Businesses can upgrade or replace equipment once the leasing period has expired. There is also reduced risk to the lessee, in that Leasing Agreements are not secured against other assets the business owns, or any personal assets belonging to its owner/s.

One of the drawbacks of Leasing Agreements is that early termination can at times lead to costly termination fees for the lessee. Leasing Agreements can also mean that the business pays a higher amount for the equipment leased over the leasing period, than if they were to purchase the equipment outright.

As with most types of debt finance, businesses must be sure that monthly leasing fees will be met. Should payments not be kept up to date, the lessor has the right to recall the debt outstanding up to the end of the agreed lifespan of the original leasing agreement, including interest.

Hire Purchase

For businesses looking to purchase and own equipment outright, but lack the funds to do so upfront, a Hire Purchase Agreement is another option.

Hire Purchase Agreements mean that businesses can buy equipment and pay for it over a fixed period of time for a fixed amount. There is also a fixed interest rate attached which is typically set in accordance to the value of the item being purchased, the duration of the Hire Purchase Agreement and the amount of the initial deposit paid.

If a larger deposit is paid at the start of the agreement, the monthly repayments may be reduced and the subsequent interest rate would be lower than in the case of smaller deposits. Hire Purchase Agreements are also secured against the asset being purchased, and in the case of default the asset is recalled along with any sums outstanding in accordance with the terms and conditions of the original agreement.

At the end of the agreement there may be a nominal fee payable in order to transfer ownership.

The benefits of hire purchase include tax benefits and the ability to spread the cost of payments over a longer period of time. One of the drawbacks of Hire Purchase Agreements is that whilst upfront costs may be reduced, businesses ultimately pay a higher price for the equipment purchased as a result of the interest fees attached.

Before entering Hire Purchase or Leasing Agreements, businesses need to have evaluated all of the financing options available to them and make the following considerations:

- What are the reasons for purchasing new equipment, is now the right time for making new purchases?
- Can equipment be purchased second hand?
- Is it more feasible to lease, rather than own?
- What are the long - term benefits for increasing assets the business owns?
- What impact will leasing or hire purchase have on immediate and long - term finances?

- What are the business' other current and long - term liabilities?
- What is the current credit rating of the business.
- What research has been undertaken to identify the most suitable suppliers?
- Has any professional advice or guidance been sought?

Invoice factoring

Another option for businesses looking to raise working capital is invoice factoring. **Invoice factoring is where businesses sell trade receivables (outstanding invoices payable) to the value of the amount they would like to borrow at a discount, to a Factor (financier).** The Factor then works on behalf of the business to manage the sales ledger, recovering funds that were advanced, when invoices are settled.

There are two main types of factoring Recourse and Non Recourse Factoring.

Recourse Factoring

Recourse factoring is where a company sells trade receivables with an agreement that any unpaid invoices will be bought back. In this case, the Factor does not take on the risk of unpaid invoices. This benefits the lender in that they are able to pursue the borrower should an invoice not be paid. This type of factoring can also prove to be more cost effective for the borrower.

Non Recourse Factoring

With non recourse factoring, funds are advanced in the same manner as recourse factoring however, as the name suggests, the Factor (lender) does not have the right to pursue the borrower, should any invoices be unmet. As non recourse factoring presents a higher risk to lenders, transaction fees can be higher.

With both types of factoring, checks are made regarding the credit worthiness of a business and its customers, before taking on the risk. These checks will usually include: Know Your Customer, Anti Money Laundering, directors' search, business assessment, an analysis of the business accounts and debtor book, wherein the amount lent is usually based on the value of the trade debtor book.

Should a business have a poor credit history or where there is a history of late or non payment from customers, it is unlikely that a Factor will consider lending.

One of the benefits of factoring is that it can enable businesses to raise working capital faster than other types of lending. Through the service element of factoring, in that Factors take on the responsibility of recovering trade receivables, time and capacity can also be better utilised by the borrower.

Invoice discounting

Invoice Discounting (sometimes known as confidential invoice discounting) acts in a similar way to Invoice Factoring.

Lenders advance cash sums to businesses based on a percentage of its trade receivables, the cash advance is then repaid when trade receivables have been recovered.

Lenders will usually take some security for the amount a business is looking to borrow in the form of an all asset debenture.

The main difference between invoice discounting and factoring, is that unlike factoring, lenders do not take on the responsibility of recovering trade receivables on behalf of borrowers.

Whilst the borrower is able to benefit from the fact that the invoice discounting facility is confidential, they still have the task of recovering trade receivables from their customer base. When a customer settles an invoice, the money is paid into a confidential trust account that appears as though the customer is paying the supplier directly.

One of the benefits of invoice discounting is that unlike bank overdrafts or loans, which are set at fixed amounts, the level of funding that can be borrowed grows with the business.

As with Invoice factoring, there are two types of Invoice discounting, Recourse and Non Recourse Invoice Discounting. Non Recourse Invoice Discounting can offer added protection against bad debt, however may prove to be more expensive than Recourse Invoice Discounting.

In order to attract Invoice Discounting, lenders must be assured of the credit worthiness of the business and its portfolio of clients. Unlike Invoice Factoring, invoice discounting can be offered for individual invoices rather than the entire sales ledger of the business.

Supply chain finance

Supply Chain Finance (reverse factoring) works in a similar way to Invoice Factoring. However, this process can be instigated by buyers relating to trade payables, which is where the term "reverse factoring" is derived.

Supply Chain Finance involves three main parties, the lender, supplier and buyer. The lender enables suppliers to submit invoices to a lending platform, wherein the buyer agrees to pay the amount outstanding on a fixed date, some time in the future.

Once the buyer approves the invoices submitted by its supplier, the supplier is paid for their goods / services.

When the agreement reaches maturity, the buyer settles the amount outstanding to the lender, wherein the lender will deduct a fee.

One of the benefits of Supply Chain Finance is that it allows suppliers to receive prompt payment for goods and services. Buyers also have the benefit of being able to meet demand, improve liquidity and alleviate some of the cash flow issues that can be experienced in the supply of goods and services.

Whilst reverse factoring is typically beneficial to larger more established businesses with a proven track record, there are an increasing range of products accessible to medium sized and smaller businesses.

As with any type of borrowing, businesses need to demonstrate the capacity to generate sufficient income to meet repayments and a strong customer base. Credit and previous trading history will be taken into account.

Bonds and mini bonds

Typically bonds (retail or corporate bonds) are used by developed, more established businesses, corporations and banks, to raise larger amounts of finance.

Similar to an IOU, borrowers are lent a sum of money over a fixed period, on the agreement that it will be repaid on a fixed date in the future.

As the lender needs to be compensated for the use of their funds, in addition to repaying the face value or principal loan amount when

the bond reaches maturity, the borrower also pays interest at regular intervals.

Interest rates can be either fixed or variable and are paid to the lender once or twice a year depending on the nature of the agreement.

Export finance

Export Finance is concerned with providing financial solutions for businesses that trade internationally.

Getting paid on time can be difficult in the best of circumstances. When trading with other businesses based overseas, getting paid can be even more difficult, at times taking much longer for payments to be received in full.

Export finance helps to alleviate this and free up working capital. There are several types of export finance to assist businesses to trade internationally.

Working Capital Financing (for International Trade). Some banks and other financial institutions offer Working Capital Financing solutions for businesses looking to trade internationally. This is where a business receives a short term loan to assist with working capital, and pay for goods from overseas until the inventory purchased is converted to cash.

To obtain working capital finance it goes without saying that the financial performance of the business and creditworthiness are taken into account. Borrowers also need to demonstrate the integrity of trade receivables and ability to meet repayments and any interest rates attached.

Bankers Acceptance A Bankers' Acceptance or BA is similar to a promissory note, wherein a future payment is guaranteed by the bank, specifying the date, amount and person to which the payment should be made.

Letters of Credit / Documentary Credits. Governed by The Uniform Customs and Practice (UCP600), introduced by the International Chamber of Commerce 1933, Letters of credit some times referred to as documentary credits, are versatile financial instruments utilised for trade financing by banks and other financial organisations in 175 countries.

Letters of credit act as a kind of IOU, wherein a buyer obtains a document (letter) guaranteeing payment from the issuing bank, that is then sent to an advising bank representing the supplier or exporter in question.

Revocable / Irrevocable A revocable Letter of Credit is a letter of credit that can be cancelled at any time by the buyer or issuing bank. It is important to note that UCP600 no longer recognises this type of Letter of Credit in any of the countries under its jurisdiction.

As the name suggests a irrevocable letter of credit cannot be cancelled unless all parties concerned have provided their consent.

Restricted / Unrestricted. Restricted letters of credit are restricted to one specifically nominated bank of the supplier. With unrestricted letters of credit, a specific advising bank is not sited and in such can be negotiated through any bank of the beneficiaries choice.

Transferable / Non transferrable
In the case of a transferable letter of credit, if the beneficiary is acting on behalf of the actual supplier, upon receipt, payments are

subsequently transferred to the supplier in question. Non-transferable Letters of Credit cannot be paid to a third party.

Term (Usance) / Sight
In this instance payments can be deferred, allowing time for the buyer to inspect or in some instances sell goods received. Sight letters of credit instruct payment as soon as goods are verified and presented.

Buyer credits

Buyer credits are short term credit arrangements that are sometimes offered by overseas banks for businesses looking to import goods or services.

This is where overseas banks offer short term credit finance to foreign importers based on their track record, creditworthiness and a letter of comfort (a letter issued by the importers bank, guaranteeing payment based on the performance of a business, in relation to its financial obligations).

In many instances these arrangements are made between the importers and exporters banks, wherein the importers bank may require an additional guarantee from an expert credit agency.

The main benefits of using a buyers credit, is that businesses can access much needed goods and services without having to incur upfront costs. Buyers are able to buy goods with local currency, thus alleviating losses that can be incurred as a result of fluctuating exchange rates. Suppliers can also benefit from this type of financing in that they are paid on time thus alleviating issues with cash flow. Disbursements are paid directly to suppliers and can be in the form of a qualifying certificate or documentary credit. Once suppliers have been paid for their goods / services, the buyer then repays the issuing bank with the principal amount borrowed plus interest which can be at either fixed or variable rates.

Buyer credits usually involve larger sums of money and given the size of the transaction, some external legal assistance may be required, the cost for which would be paid by the borrower including any set up fees that may be applicable.

Commercialising innovation

Businesses, entrepreneurs or inventors that have an idea for a product or prototype, may be able to access grant funding and/ or investment finance, to assist with the costs of research, development and eventual commercialisation.

Before attempting to raise grant finance to commercialise a new invention or to develop a prototype, you will need to have completed a number of steps.

Defining the idea

Innovations need a clear definition in order for people to understand what market or social problems are being solved. Create a clear description of the proposed invention, breaking down specific / technical elements of the design and / or function. Ensure this is understandable to both technical, and non technical professionals.

An early and longer term business model, the legal framework for the business, and any past experience should also be outlined.

Protecting the idea

Protecting a new idea or intellectual property takes place in two phases. The first needs to be in place prior to seeking external advice or expertise.

In almost all cases where an inventor / business has designed or created something new, there is a need to obtain specialist advice to validate and protect the invention, secure funding, and eventually enter the market place. There are numerous organisations that provide specialist support to commercialise a new product or invention. However, before approaching an external organisation, **it is important to ensure that a Non - Disclosure Agreement is drafted** and signed by both parties, prior to any consultation that takes place.

Non - Disclosure Agreements are used to protect sensitive information about the idea or invention. By signing the Non Disclosure the external consultant or organisation is agreeing not to disclose information about the invention or idea to any third party, without prior consent.

Examples of different types of Non – Disclosure Agreements can be obtained by visiting: **www.gov.uk/government/publications/non-disclosure-agreements.**

Proof of concept

Each year thousands of people come up with ideas they believe to be new. However, in order to demonstrate if an idea is truly novel, new or unique to the market, research needs to be undertaken to establish what, if any, intellectual property there is.

In some cases, validating the innovation or uniqueness of an idea / invention can take several years. It will certainly require professional and legal expertise to substantiate such claims.

Proof of concept is concerned with demonstrating that the new idea / product actually works.

In order to do so, the inventor may need to develop a working prototype that can be tested both internally and externally.

Some professional expertise will be required to verify that certain concepts and / or theories can be applied in the real world.

If a clear definition of the idea has been created, the next step would be to ensure that the technical specifications and supporting documentation are also in place. These should explain the components and / or design elements of the new invention, and its unique features and benefits.

This helps to demonstrate how the new product or service will disrupt the market and gain competitive advantage. It also helps to convince potential funders or investors the idea has some financial viability.

If the idea has not quite reached the prototype stage, there may be sources of grant funding available to cover these costs.

When seeking funding / finance to establish proof of concept, a breakdown of the amount of finance needed and what it will used for is required.

Intellectual property

If you are seeking funding / finance to commercialise a new product or invention, funders and / or investors will want to see that the idea is sustainable and cannot be easily copied or exploited.

In addition to ensuring that a Non Disclosure Agreement is in place, **establishing a longer term intellectual property protection plan is an important part of the process.**

The type of IP protection that will be required, is dependent on the nature of the idea. For example, if the new product is more concerned with the aesthetic look and feel of an existing or similar product, there may be the need to apply for Registered Design Rights and if desired a Registered Trade Mark.

If the idea is concerned with adapting or modifying the functionality of an existing product, or if the idea is a completely new invention, there is the need to apply for a Patent.

If the new product / service will be sold internationally, there will be the need to seek professional advice about how to protect IP in other territories, UK law in this area is not always applicable or enforceable in other parts of the world.

The Office for Intellectual Property provides guidance on how to protect intellectual property both in the UK and internationally, for further information on protecting IP visit: **www.gov.uk/government/organisations/intellectual-property-office**

Market research & validation

If you are attempting to acquire funding and / or finance for a new product or invention, there is also the need to demonstrate that sufficient market research has taken place, and that there is clear evidence to support demand.

It is important to establish what if any IP exists. However, market research also encompasses a range of other factors that help to determine the viability of an idea, for example:

- The size of the marketplace, whether national or international.
- The target audience (whether b2b or b2c) and key characteristics in terms of demographics, geographic location, customer preferences, feedback or comments relating to any provisional testing that may have already taken place.
- Who the competitive set will be, and how the new product or service will gain a competitive advantage.
- Clear evidence of demand

Whilst market research demonstrates what / if any demand exists for the new product or service, simply knowing there is an existing market or some initial demand is not enough to fully validate the idea.

Additional factors to take into account include:

- Market entry – how the new product or service will enter the market and what mechanisms will be used to reach potential customers?
- If any market influencers exist and how they may be able to assist with market entry?
- What distribution channels will be used?
- The pricing strategy taking into account production, marketing and distribution costs.

In this way the inventor / business owner can assess the costs and logistics involved, and whether the idea is a financially viable one.

Commercialisation

If from the research undertaken, it seems likely that the idea is viable, the inventor / owner will need to create a commercialisation plan that includes:

- The amount of funding / finance required.
- The chosen business structure.
- If the product / service is ready to enter the market.
- The staff, management and resources required.
- The financial reporting systems that will be in place
- A three to five year cash flow projection.

This will further assist in demonstrating to potential funders / investors how funds will be spent, how the new product / service will enter the market and the expected return on investment. More often than not, this will be accompanied by a full three to five year business plan.

Funding innovation

There are several sources of commercial and non commercial support, to commercialise a new invention, the table below provides a few examples:

The Digital Catapult Digital innovation. www.digital.catapult.org.uk
The Future Cities Catapult Smart technology within the built environment. www.futurecities.catapult.org.uk
The High Value Manufacturing Catapult Advanced manufacturing. www.hvm.catapult.org.uk
The Energy Systems Catapult Sustainable energy solutions. www.es.catapult.org.uk
The Offshore Renewable Energy Catapult Offshore renewable energy solutions. www.ore.catapult.org.uk
The Medicines Discovery Catapult Medical research and innovation. www.md.catapult.org.uk
The Satellite Applications Catapult Downstream technology and satellite applications. www.sa.catapult.org.uk
The Transport Systems Catapult Intelligent mobility. www.ts.catapult.org.uk
The Compound Semiconductor Applications Catapult Semiconductor technologies. www.csa.catapult.org.uk
Innovate UK Science and technology support for growth business www.gov.uk/government/organisations/innovate-uk
Immerse UK Immersive technology www.immerseuk.org

Grant, debt and equity funding are the three main categories of finance that businesses can acquire to start, develop and grow.

Within each category there are a number of financial products to choose from, depending on the size and nature of a business, the current and / projected financial performance and the purpose for which funds are being sought.

Grant funding

Grant funding is usually a non-repayable sum of money awarded to businesses that are looking to develop or grow. There are also some instances where grants funds are combined with investment finance.

Perhaps one of the most favourable types of finance for businesses at all stages, grant funding can give a much needed cash injection to assist with the costs of starting or growing a business.

Many business grant funds are offered and disbursed on a regional basis, although there are occasionally national sources of grant finance that become available. Equally, grants may be offered to a specific category of innovation such as AI or Med Tech.

Each grant fund will usually come with a set criteria of eligibility for applicants and are usually available for a set period of time.

There are range of different sources of grant funding available for a variety of different business purposes.

These include:

- Refurbishing premises.
- Relocating to new premises.
- Shop front improvements.
- Purchasing new equipment.
- Expanding the workforce.
- Energy efficiency.
- Introducing new products and services.
- Research and development.
- Proof of concept.
- Commercialising a new invention.
- Marketing.
- Start up expenses.
- Employing staff.

Before deciding to apply for a business grant, a clear business or project plan should be in place, demonstrating how funding will be used.

The eligibility criteria should be checked to ensure the project in mind is suitable for grant support. If there is little or no experience of writing grant applications within the business, seek professional advice on how to go about it. There are also commercial grant writing services available that may be able to provide assistance for a fee.

Most grant providers will publish a set of guidelines that provide information about how to complete an application and apply for funding.

For information about regional sources of grant funding see: **www.gov.uk/business-finance-support**

For information about energy efficiency grants see: **www.carbontrust.com.**

For information about grants for research and development, proof of concept or commercialising a new product / invention, see: **www.gov.uk/government/organisations/innovate-uk.**

Debt Finance

Debt financing refers to the borrowing of capital in the form of a loan, which has to be repaid at a specified date in time, or at specified intervals.

Lenders always looks for regular and secure revenue flows that produce sufficient cash to meet their interest obligations. Lenders often require security. This might be a fixed charge over assets of the business or a personal guarantee from a director.

The majority of innovation led businesses, especially in the early stage will have few revenue streams and are unlikely to have reached profitability. Few will have many fixed assets and only a small proportion will be comfortable offering a personal guarantee.

Consequently, debt finance is often not an option for early stage, innovation led businesses. As a result, many investors rely on funding their business through their own resources, or soft loans from friends and family. This approach is known as 'bootstrapping'.

Equity Funding

Equity finance involves raising capital as a result of selling shares in a company. **There are various sources of equity finance including Angel investment, crowdfunding and, potentially, Venture Capital.**

Unlike debt finance, one of the benefits of equity finance is that whilst businesses may have to relinquish a share in order to obtain finance for growth, quite often angel investors and venture capitalists, adopt a more hands on approach in supporting ventures they invest in. This can offer the business valuable expertise, advice and contacts to contribute to the success of the venture.

It is important to assess and have a clear understanding of the implications of raising debt or equity finance.

It is always advisable to seek professional advice.

Funding summary

Pre-Start	Early Stage	Growth
Business Start Up Grant	Business Growth Grant	Business Growth Grant
Bank Loan / Overdraft	Bank Loan / Overdraft	Bank Loan / Overdraft
Start Up Loan	Start up Loan	Crowd Funding
Crowd funding	Crowd Funding	Peer to Peer Lending
	Peer to Peer Lending	Angel Finance
	Angel Finance	Venture Capital
	Venture Capital	Asset Finance
		Asset Lending

For many start up and early stage businesses Debt Finance may be the single most viable option available in order to raise vital cash, but this also comes with a risk.

When considering Debt Finance, it is important to establish if the business is able to comfortably meet both capital and interest payments. Borrowers must also determine if the cost of capital i.e. the interest payable is a more favourable option than equity finance.

Debt Finance can be difficult to raise for some businesses, however, the benefits of debt finance include: funding at lower rates than equity finance, the interest on the debt is also tax deductible.

For some early stage businesses that have enjoyed initial success, showing significant potential for growth, Equity Finance may be the most desirable option. As not only will the business receive the cash required to facilitate growth, but quite often business owners can benefit from the expertise, contacts and overall input from investors.

When considering Equity Finance, business owners must be certain of the current value of the business and the share they are willing to sacrifice in order to obtain money to grow.

Offering too much equity can mean giving up control of the business, or losing the right to make major decisions. Offering too little, can deter potential investors who see very little reward or return for their investment.

More resources

The need for expert advice, guidance and / or support can arise at various stages in the life span of a business. Knowing where to go in order to access vital expertise is not always common place. The following table provides a list of some sources of free and fee based support for business.

National Enterprise Network

Access to sources of Start – Up and Growth Advice, covering: East of England, London, North West England, South West England, Yorkshire and Humber, East Midlands, North East England, South East England, West Midlands.

www.nationalenterprisenetwork.org

The Federation of Small Business

Advocacy, mentoring and advice for small businesses across the UK.

www.fsb.org.uk

New Entrepreneurs Foundation

Mentoring training Networking, work experience and advice for pre start and early stage businesses across the UK.

www.nationalenterprisenetwork.org

The British Chambers of Commerce

Advocacy, advice, training, and networking for businesses of all sizes across the UK.

www.britishchambers.org.uk

Forum of Private Business

Information, support, advice and resources for small businesses in the UK.

www.fpb.org

The New Enterprise Allowance

Mentoring support, guidance and access to finance for unemployed people looking to become self employed.

www.gov.uk/government/collections/new-enterprise-allowance-campaign

School for Start Ups

Training education and support for pre start and early stage businesses.

www.schoolforstartups.co.uk

The British Business Library Intellectual Property Centre

Information, advice and resources for start up businesses.

www.bl.uk/business-and-ip-centre/national-network

The Institute of Directors

Advocacy, advice, training and support for company directors based in the UK.

www.iod.com

The Department for International Trade

Import and Export support for businesses.

www.gov.uk/government/organisations/department-for-international-trade

Her Majesty's Revenue and Customs

Information, guidance and resources relating to Self Assessment, Income tax, Corporation Tax, Value Added Tax and National Insurance.

www.gov.uk/government/organisations/hm-revenue-customs

The Intellectual Property Office

Information, support, advice, guidance, resources on Patents, Designs Right and registration, Copyright, and Trademarks.

www.gov.uk/government/organisations/intellectual-property-office

The Chartered Trading Standards Institute

Information advice and guidance regarding UK trading standards legislation and practice

www.tradingstandards.uk/consumers/support-advice

The Chartered Institute of Marketing

Training and guidance on marketing for business.

www.cim.co.uk/training

Enterprise Europe Network

Training, advice, guidance, mentoring and support for early stage business looking for innovation and / or export support.

www.enterprise-europe.co.uk

How Newable can help

Newable offers businesses a comprehensive range of financial and advisory services, designed to help and assist companies start, scale and internationalise.

Newable Commercial Finance. We work with over 40 lenders to help businesses secure the finance they need to grow and thrive.
www.newablecommercialfinance.co.uk

Newable Lending. Newable Business Finance loans from £26,000 - £150,000.
Contact: lending@newable.co.uk

Newable Private Investing. Early stage investment for emerging business from £100,000 – £1,000,000.
Contact: privateinvesting@newable.co.uk

Grant Writing Service. Technical and specialist support to help you deliver winning grant applications.
Contact: grantservices@newable.co.uk

International Trade Advice. Guidance and advisory services for new and experienced exporters.
Contact: exporting@newable.co.uk

Mentoring. As a leading provider of responsible finance Newable has a track record of business mentoring. Delivering tailored support to enable businesses to reach their full potential.
Contact: mentoring@newable.co.uk

Accountancy. We can help you access a range of accountancy services includes support to complete annual tax forms, basic self assessment tax returns, annual accounts, payroll, VAT returns and general book keeping services.
Contact: accountancy@newable.co.uk

Tax Credits. We offer bespoke support to assist business that qualify to obtain tax credits.
Contact: taxcredits@newable.co.uk

For information about or full range of service please visit: www.newable.co.uk

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