

Funding for small businesses

You've got a fantastic idea for a business. You may have dreamed about it for years, planned it, nurtured it and are now, finally, ready to make it a reality. But then you have to get all boring and practical, and find some money to make it happen. Some of this will almost certainly come from you, and some from loving family members who believe in you. Unless your surname is Getty, this is unlikely to be enough.

Before you start:

With any external funding, you will need to convince someone that you are credible and capable. Good ideas are all very well, but the ability to execute those ideas is more important for those who would invest with you.

How much do you need?

Any potential investor will want to see a clear estimate of your start-up costs will be. That will include any premises, staff costs or equipment. It should also include business licenses, insurance policies, and start-up documents you need, right down to apparently trivial expenses such as postal or photocopying costs. There are some helpful startup cost calculators [here](#). If possible, do some research to find people who have already started businesses like yours. Ask them what their start-up costs were.



Sources of funding:

Yourself

If you happen to have some investable cash sitting in an ISA or in a biscuit tin under your bed, you immediately have a cheap source of funding. If you're over 55, since April 2015 you can access 25% or more of your pension pot, tax free, to start a business. If you plan to start a business and need to save, there are tax-efficient ways to do it. Have a look at our [Suspicious Savers](#) tribe for clear, no-bollocks info about how to make the most of your savings and how to invest for income.

The Government

The Government really, really wants you to start a small business. (Not that they are that helpful once you have but that's another topic!) Take a look at the list of funding options available [here](#). Many are regional, and many won't apply to you, but it's worth seeing if there's an option that fits. In practice [start-up loans](#) are probably going to be the most useful. The downside is that funding can take ages to secure. Well, it is the Government after all.

Economic development agencies

These are designed to help develop specific regions of the country, or to improve certain sectors. They will offer funding to businesses that further that ambition. They may also be available through [local councils](#) or through [national organisations](#).

Angel funding

“One of the decisions I’d come to was that we should delay taking on any funding from VCs for as long as possible. That’s why our first two rounds (for £150k and £1m) were both entirely Angel rounds.” - Chaz Englander, CEO, Fat Lama.

The backing of an ‘angel’ investor can be manna from heaven. Not only do you get their cash, you also get their credibility. Often, where one angel investor goes, other investors will follow and a business can see a virtuous circle. They may also be a source of good advice – most angels are seasoned entrepreneurs themselves.

Angels are active on the crowdfunding platforms, but there are also networks you can tap into. Angels even have their own Association. Probably best to avoid Dragon’s Den – we’re secretly not convinced most of them ever invest!!

Networking

Don’t neglect the power of a good network. The temptation is to focus on funding options external to your industry, when the best opportunities may come from inside it. That means joining the right LinkedIn networks, attending the right events, and letting people know what you are doing.

<https://entrepreneurs-network.co.uk/>

“One thing we learnt through this experience was that the best place to find funding was from industry experts who really understand what you are trying to achieve. If you have a robust plan and present it well to these people, you are more likely to have success. It really becomes about networking at this stage and casting your net far and wide.” - Tom Marley, managing director, The Car Buying group.

Seed funding

These are groups designed to provide early stage funding and support. They will ‘pre-seed’ or co-invest alongside others in an initial round of funding. They will often have a network of entrepreneurs, and a community of founders, which can also help unlock capital for future funding rounds.

<http://seedcamp.com/>

<http://midven.co.uk/funds/uki2s-2/>

Women’s groups

These groups provide support specifically for female entrepreneurs. They recognise that women may have different needs and a different approach.

<http://www.wenglobal.com/>

<http://www.bawe-uk.org/>

<http://bloomingfounders.com/>

Incubators

Incubators may not provide funding directly, but they will provide business mentoring and support and can help source funding. They can also help introduce entrepreneurs to a network of like-minded people, who will be going through the same problems and may already have found solutions.

<http://femalefounders.hatchenterprise.org/>

<https://www.escapethecity.org/>

<https://www.techstars.com/startup-programs/>

<https://ignite.io/>

<http://acceleratoracademy.com/>

<https://www.level39.co/>

<https://www.campus.co/london/en/about/>

The bank

Banks have backed away from lending to small businesses, but there is still help available. Business loans are more expensive than personal loans and it isn’t always easy to make comparisons because the rate depends on how risky the bank deems your business to be, but for those who can get them, they are a predictable source of funding.

The drawback of a bank is that they can be slow to give an answer and their decision-making can be opaque. It’s not always easy to see why they said no.

“Soil or seed funding requirements are often met by a group of investors called Friends, Family and Fools. The 3 Fs. These investments are high risk and often don’t pay back. As such banks are reluctant to lend. Entrepreneurs often try crowdfunding or pre sales - where the entrepreneur tries to sell their product before they’ve made it or had to buy it.” - Steven Hess, trustee and program lead of The Startup Leadership Program

Microloans

Not really any different to a proper loan, but there are groups that specialise in providing small loans to small businesses. These may be **government-backed**, or from specialists. You can find a range of options on [this aggregator site](#).

Peer to peer/Crowdfunding

Your funding options aren't limited to the high street banks. Increasingly, other groups are stepping in to fill the void that banks have left. Crowdfunding is perhaps the most high profile example of this, with groups such as Kickstarter and Crowdcube now well-established. With crowdfunding, people simply pledge a donation or may receive a stake in the business in return for their investment.

Peer to peer lending groups, such as Funding Circle, bring together lenders and borrowers. Lenders say how much they want to lend, to whom and at what rate, while borrowers say how much they want to borrow, for what and for how long. The two meet somewhere in the middle. Funding Circle claims to have lent some £1.5bn since its launch. **Seedrs** specialises in equity crowdfunding.

Peer to peer lending is not necessarily cheap (though in practice it may not vary significantly from bank lending), but it is quick. Borrowers can often get an answer in days and the funds within a week. This can make a material difference to your cash flow position. Just read the terms and conditions very carefully – it's a different game to the traditional model and there's no such thing as a free lunch.

Asset finance

Asset finance is simply a loan based on an asset. This could be a second charge on a property, premises or equipment. As with a mortgage, you risk losing the asset if you can't repay the loan set against it. Asset finance can be difficult to arrange and expensive, but may work for asset rich businesses, such as those with lots of plant and machinery. There are intermediaries who can help you, but it can be a murky area, so proceed with caution.

A final note

Finally, it's clearly very risky putting all of your eggs in one business basket. Many small businesses sadly do go under. It is worth having that conversation with your partner and your family before borrowing to fund a business. Talk through the 'worst case' scenario. Sometimes the gamble is not worth the cost. What's truly motivating you? Could you achieve a similar outcome with a less risky route? Is there a 'half-way house' which is a bit less risky? How much do you value the 'status quo' and your lifestyle today? These are really hard questions but sometimes, when we run a business, we get blinded by our determination and it's really helpful to set aside some time for a hard think about what's actually at stake.

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