How to find START-UP FUNDING that fits

The Ultimate Guide To
Business Finance For Start-Ups

Hilton-Baird
Financial Solutions

Contents

Your essential guide to start-up funding

Hilton-Baird Financial Solutions has created this eBook to help more companies to access the funding that is vital to their growth and success.

We hope that you find it useful. Please feel free to share this with your colleagues and peers.

Introduction

A wealth of opportunity

In the aftermath of the recent economic downturn, the number of start-ups rose dramatically as entrepreneurs sought to exploit gaps in the market.

And this entrepreneurial spirit has continued as more and more people consider the advantages of setting up on their own.

As many people will tell you, the key to a successful start-up is good money management. Even with a great turnover many new businesses will need to operate at a loss for a while, which often means their borrowing requirements will be higher. Similarly, turnover doesn't necessarily equal a healthy cash flow, and often this is what leads many start-ups to fail.

This means that finding the best funding solution is vital. Although raising enough money to support your start-up can be challenging, it's by no means impossible.

For businesses starting out, a lack of trading history can mean that more traditional funding is harder to secure. Added to the common belief that funding isn't as easily available as it used to be, it can seem like there are few options for fledgling businesses.

But this isn't the case. The funding market is constantly changing and, as a result, new businesses have a wealth of finance options to choose from. So, if you're thinking about starting a business, you needn't let a lack of funding hold you back.

This guide explores some of the finance options available to new businesses and their benefits to help your business maintain a healthy cash flow in the early stages and set your company up for a bright future.

4 Common Start-Up Mistakes (And How To Avoid Them)

Common Mistakes To Avoid

Whilst running a business can be extremely rewarding, it can also be risky and success is not always guaranteed. But don't let this put you off. With hard work and preparation your new business can be a great success.

Here are 4 common mistakes new businesses make and how you can avoid them to improve your chances of succeeding.

1. Launching the wrong product

Your core product or service is the heart of your business and ultimately what your success relies on. So make sure this is right from the start. Market research should underpin all of your business decisions because if there isn't an appetite for your product or service, you do not have a viable business.

Thoroughly look into your target audience, the size of the market, potential longevity and both direct and indirect competitors. Does your product or service fill a gap? Or is it an improvement on an already demanded offering? Make the most of all resources available to you to gather feedback and improve on your initial idea for the best results.

2. Spending too much

Sometimes, amid all the excitement of starting a company, business owners will buy things they do not need and could potentially be risking their success. Spending too much will place greater pressure on you to generate more money quicker. So, before making any purchases, remember to ask yourself whether it is critical to your business's success. If you don't need it, don't buy it!

Likewise it is also good to shop around and make sure you are getting the best deal for your money. But remember that the cheapest option isn't always the best option. It is important to weigh up the cost versus the level of service. After all, sometimes it is not the cost of a service but its value that is more important.

3. Trying to do it alone

Especially in the early stages of business, it is natural to want to be involved in all aspects of the company to make sure things are being done as you want them to be. But trying to do too much too soon could be doing more harm than good.

Successful business owners know that it is impossible to do everything and always ask for help when it is needed. There are so many companies and agencies which exist to make the life of a business owner easier. By utilising these experts you can call upon their experience and knowledge to help with day-to-day tasks whilst you focus your efforts on the more important activities.

4. Failing to prepare

There is so much truth in the saying 'by failing to prepare, you are preparing to fail', especially where running a business is concerned. Unfortunately, sometimes matters beyond your control can cause what was a good business idea to fall on its head. But in these situations your best weapons for success are hard work and preparation.

Always plan for worst-case scenarios, considering how they will affect you, your business and your team. Then put structures in place which show how to mitigate them.

Planning for failure doesn't mean you think you're going to fail. It is a practical way to soften the blow if you do.

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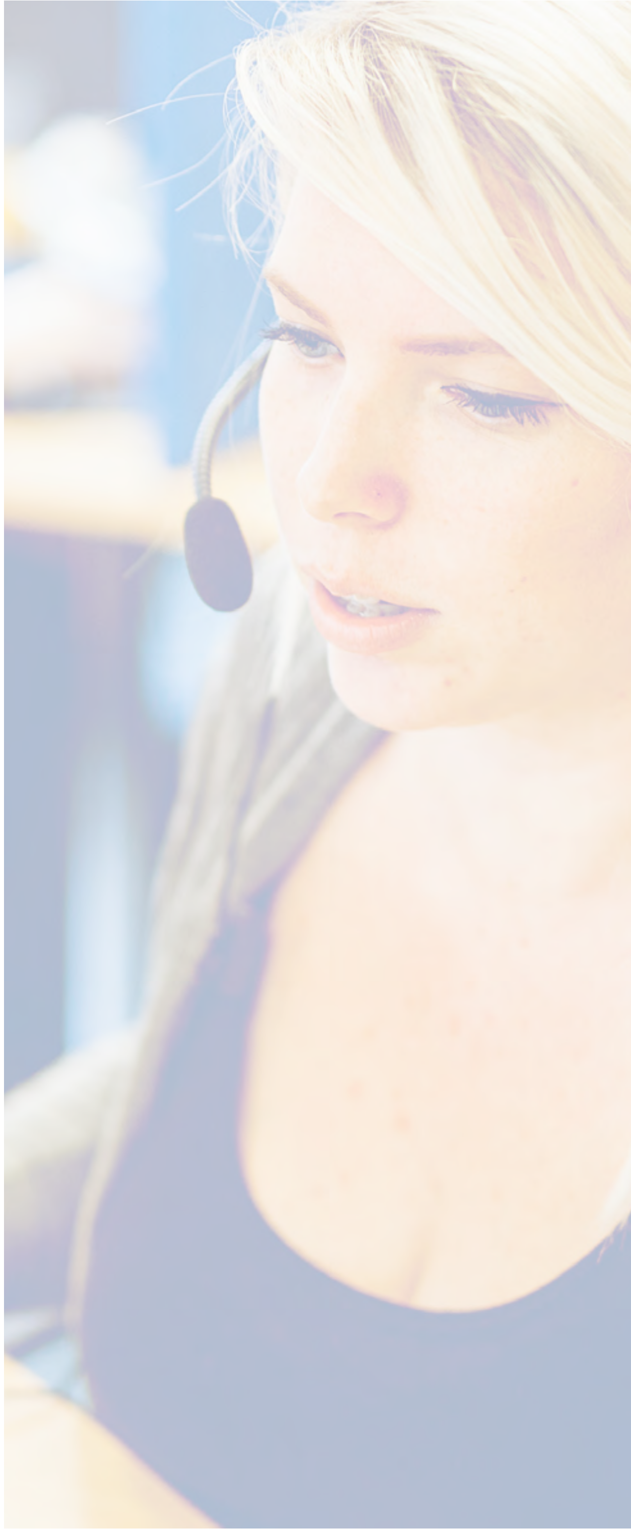
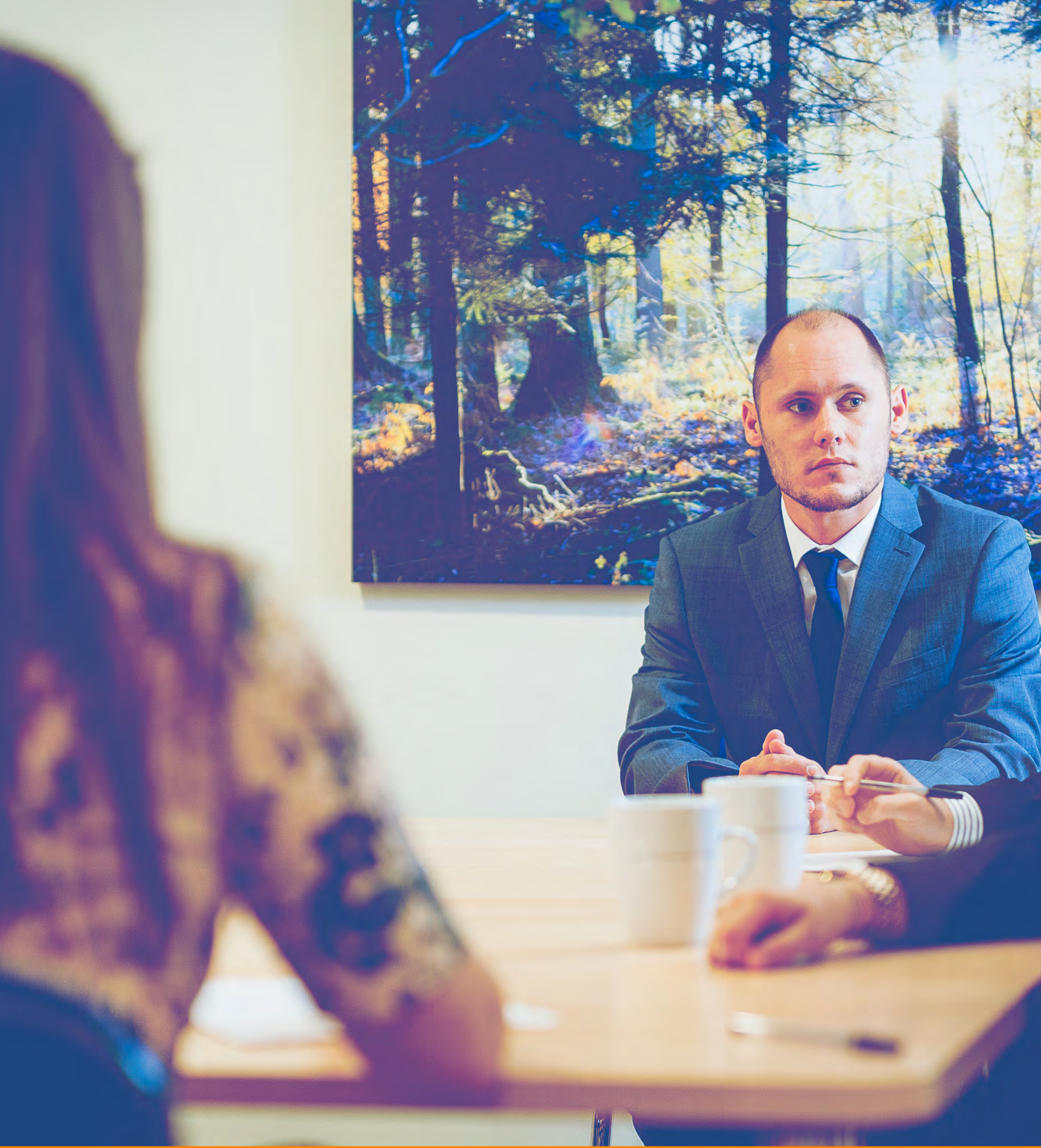




5 Tips For Successfully Managing Your Cash Flow

Cash Is King

With the success of any new business reliant on a healthy cash flow, making sure you have enough money to meet your needs is crucial. This is particularly true in the start-up stages, when fast access to working capital could be the difference between success and failure.

As many failed business owners know - running out of money is essentially game over. So here are 5 tips to help keep on top of your cash flow.

1. Remember turnover is vanity, profit is sanity, but cash is reality

Businesses fail because they lack cash - not because they lack profitability. Having money allows a business to operate and, without it, wages don't get paid, supplies can't be bought and meeting your day-to-day requirements will be difficult. So be sure to remember this adage at all times.

2. Always know your current cash situation

It's critical to manage your cash resources effectively and to make sure you always have enough to meet your financial needs. Establish some good habits early on by making sure that the business accurately records details of every trading transaction.

You should always know how much cash the business has to draw upon and what the position will be over the next three months, so regularly review and update your cash flow forecasts for the best results. By being aware of any impending shortfalls you can take action early to mitigate and overcome the problems this might cause.

3. Protect against late payment

Even one late customer payment can be enough to put huge pressure on your cash flow, so taking the appropriate steps to protect your business from these risks is essential.

There are many ways to reduce the impact of late payment, but one of the most effective tactics is having a good solid credit control procedure in place to make sure you are getting paid when you should be. If you do not have the time or expertise to dedicate to credit control and would rather focus your time and effort on growth, you could consider outsourcing your credit management to the experts.

4. Choose your funding carefully

Getting tied into a financial agreement that doesn't cater for your business's long-term needs could have a negative impact on your cash flow.

Although loans, overdrafts and credit cards can provide the initial cash flow boost you need to get off the ground, they could hinder your long-term prospects. Will you be able to meet interest repayments? Or will you be forced to borrow more to keep your start-up running?

Alternatively, flexible funding solutions are available which grow in line with your turnover. Talking to an independent commercial finance broker could help you to find the best solution for your requirements.

5. Be wary of growing too quickly

With excitement and passion key drivers in the early stages of business it can be tempting to try and grow the business before it is ready. Always carefully consider the impact extra workload or investment may have. Are you equipped to handle rapid growth? Do you have enough money to fulfil orders without creating a cash flow shortage? These are all questions you should be asking, otherwise your step forward could turn into a massive step in the wrong direction.

"Establish good habits early on by making sure that the business accurately records details of all trading transactions."

Which Funding Option Is Best For My New Business?

Discover the pros and cons of 9 different funding products for new businesses...

Deciding how to fund your start-up is arguably the biggest decision you'll make in the early stages. Unless you're in the minority and can count on thousands of pounds of savings, the odds are you'll need some sort of financial support behind you to provide that safety net or enhance your growth potential.

Even if you feel you can go without, it is often worth exploring the different options as many facilities will deliver much more than a simple cash injection.

As the commercial finance market evolves, there has become a great deal of choice for start-ups, and the right facility for your business will depend on a number of factors. Here we cut through the jargon and explain the features, pros and cons of some of the most commonly used facilities in the market today.

Factoring

Trading on credit terms can be a significant hindrance to businesses, particularly those in the early stages of development. Invoice factoring is therefore a great way for start-ups to improve their company's cash flow by bridging the gap between providing a service or supplying a product and being paid.

With factoring, you can access up to 90% of your invoice's value within 24 hours of its issue, before the balance is paid to you once your customer payment is received, minus fees.

This is a popular choice of finance among new businesses because funding is secured against your debtors and the quality of the outstanding invoices rather than trading history, which many new businesses will not have. Another key selling point is that factoring also provides a sales ledger management service to supply additional expertise and reduce the resource burden on new and growing businesses.

Similarly, spot factoring allows you to release cash from individual invoices. This is particularly good for high value invoices or those with long payment terms that you would not necessarily have the ability to fulfil without instant access to the cash. And you have the added benefit of not being tied in to a long-term funding facility.

Pros

- By boosting your cash flow in just 24 hours, factoring allows you to bridge the cash flow gap between paying suppliers and receiving payment from your customers
- More flexible than other forms of finance as the cash you can access grows in line with your sales ledger
- The facility is secured on your debtors and the quality of the outstanding invoices, rather than your trading history, making it perfect for businesses just starting out
- Unlike a bank overdraft, factoring solutions cannot be recalled on demand
- It incorporates a dedicated sales ledger management service, leaving you time to focus your attention on growing your business
- Confidential facilities available
- Bad debt protection can be included

Cons

- Better suited to certain industry sectors
- Only for B2B and those trading on credit terms

Overdrafts

Overdrafts give businesses a simple way to manage short-term borrowing. Available in two forms - planned and unplanned - overdrafts allow you to pay for something when you would otherwise have no money in your bank account, or just give you that little bit of security in the event your cash flow hits an unexpected bump along the road.

A word of caution, though. Overdrafts are subject to application and approval and are repayable on demand, making them an unsuitable - and sometimes risky - funding option for many new businesses.

Pros

- You only borrow what you need at the time, which may make it cheaper than a loan
- Often quick to arrange
- Banks don't normally charge you for paying off the overdraft earlier than expected

Cons

- Not particularly flexible and, if you have to extend your overdraft, you usually have to pay an arrangement fee
- You could be charged if you exceed your limit without authorisation
- The bank has the right to ask for repayment of your overdraft amount at any time
- You can only get an overdraft from the bank where you maintain your current account
- The interest rate applied is nearly always variable, making it difficult to accurately calculate your borrowing costs
- If unused it may be reduced at short notice

Crowdfunding

Crowdfunding is a much newer option for start-ups and early stage businesses. Typically provided through an online platform, you pitch your idea or business to potential investors and, if they're interested, they will contribute a sum to the proposed venture, leaving you to decide how you want to reward those who helped you make it happen.

Pros

- Avoids the need to give away equity or intellectual property rights
- Backers can often help spread the word about your business, which can result in new custom
- Feedback on your business is often provided so you can develop and improve your idea
- Pledges can act as validation of your target market, which is useful information you can take to angel investors or venture capitalists for future funding

Cons

- Creating an attractive campaign can be time-consuming and costly
- Tax must be paid on any pledges that are not donations or used to reward backers
- Not necessarily a long-term funding solution as most of the money you make will be used to fulfil the rewards you promised backers
- Your business idea could be copied, especially if the product is easily replicable
- It will be public knowledge if you fail

Bank Loans

Despite reports in the media that banks aren't lending as much as they used to, bank loans are still available. In fact, many high-street lenders are keen to work with start-ups and could offer you a good deal on a loan to get your business off the ground. Some banks also offer a range of benefits including free business banking or personalised advice to entice new business owners.

Pros

- The loan is not repayable on demand unless you breach the loan conditions
- You may be able to negotiate a repayment holiday, meaning that you only pay interest for a certain amount of time while repayments on the capital are frozen
- You do not have to give away a percentage of your profits or a share in your company
- Interest rates may be fixed for the term, so you will know the level of repayments throughout the life of the loan

Cons

- Can be a lengthy application process
- Some start-ups will experience difficulties in meeting all the criteria
- May not give you access to the full amount your start-up needs
- Larger loans will have certain terms and conditions that you must adhere to, such as giving the bank quarterly management information
- Lack flexibility, so you could be paying interest on funds you're not using
- Cash flow problems such as late payment could mean you have trouble making monthly repayments
- In some cases, loans are secured against the assets of the business or your personal possessions, so your assets or home could be at risk if you cannot make the repayments
- There may be a charge if you want to repay the loan before the end of the loan term, particularly if the interest rate on the loan is fixed

Start-Up Loans

The government's Start Up Loans scheme gives entrepreneurs with a good business idea the chance to apply for loans of up to £25,000 to get their business started. The loan is a personal loan given for business purposes and it has to be repaid over terms of up to five years, with interest. The amount you can access is considered according to the needs of your business. Successful applicants also receive free business advice, which can be just as valuable as the money.

Pros

- The Start Up Loans Company lends on the basis of need up to a maximum of £25,000
- Access ongoing business support as well as useful products and services
- No need for a business bank account

Cons

- A business plan will be needed as the application is considered based on your needs
- Needs to be repaid within 1-5 years
- As it is a personal loan, if your business ceases trading you will still remain liable for all required loan repayments
- Lack of flexibility

Friends and Family

If you have friends or family members who are willing to lend you money to get your business started it could be beneficial. This is particularly advantageous for start-ups who have a limited credit history and may find it difficult to secure other forms of finance.

With an existing relationship between you, your friends and family are more likely to take a chance on you when a traditional lender will not. So this could be a good fall back option if you struggle to secure other finance.

Pros

- Likely to be more flexible than other lenders
- Someone you have a personal relationship with is less likely to charge extortionate amounts of interest making this a cheaper method of funding
- Likely to offer you more time and a less stressful environment to present your business plan – if a plan is needed at all

Cons

- Losing the money of someone close to you can create a lot of tension and could ultimately damage your relationship
- Circumstances change and the person who loaned you the money may find themselves in a situation where they need the money back unexpectedly
- Your family and friends may lack the experience, contacts and nous that a professional investor could bring to your business
- Family members and friends may also want to get more involved and try to oversee aspects of the business or push you to make changes. They may even expect to be on your management team
- Not suitable in the long term as it is unlikely to provide a constant source of funding going forward

Asset Finance

When starting your new business you may need to purchase plant, machinery and equipment in order to launch your product or service. Buying this equipment can take a large sum of funds away from your business before you've even started. Asset finance solutions provide the opportunity to purchase assets whilst protecting your cash flow.

Hire purchase, for instance, allows your business to hire an asset from a leasing company in return for regular payments. The hire purchase company purchases it on your behalf and, once the repayment period of the hire contract is over, your company will have full ownership of the asset.

Finance leases and operating leases, meanwhile, allow businesses to use an asset for a fixed period in return for regular payments.

Pros

- Allows businesses to purchase new plant, machinery and equipment whilst protecting their cash flow
- Equipment can be leased for a short period if only required for a limited time
- Finance leases and operating leases avoid the issues relating to asset depreciation
- Equipment can be purchased domestically or overseas through asset finance
- Avoids the need to sell at a second-hand price when upgrading the asset

Cons

- Only suitable for businesses that use plant, machinery and equipment

Equity Finance

Equity finance sees businesses gain investment from business angels and venture capitalists in return for a share of the company. In addition to the funding that's provided, a major advantage is the input and expertise offered by the investor, who will help kick-start the business and drive it forward.

Pros

- Unlike a business loan, which is repaid on a monthly basis, private equity companies earn dividend payments, ensuring their commitment and dedication to boosting your company's success
- Private equity investors provide expert advice and business support to help run the business, in addition to releasing seed capital
- How much control the business angels or venture capital companies have depends on the terms of the contract agreed in advance. As a rule of thumb, the more they invest the higher the share an investor will expect

Cons

- You hand over a stake in your business in return for the equity

Government Grants

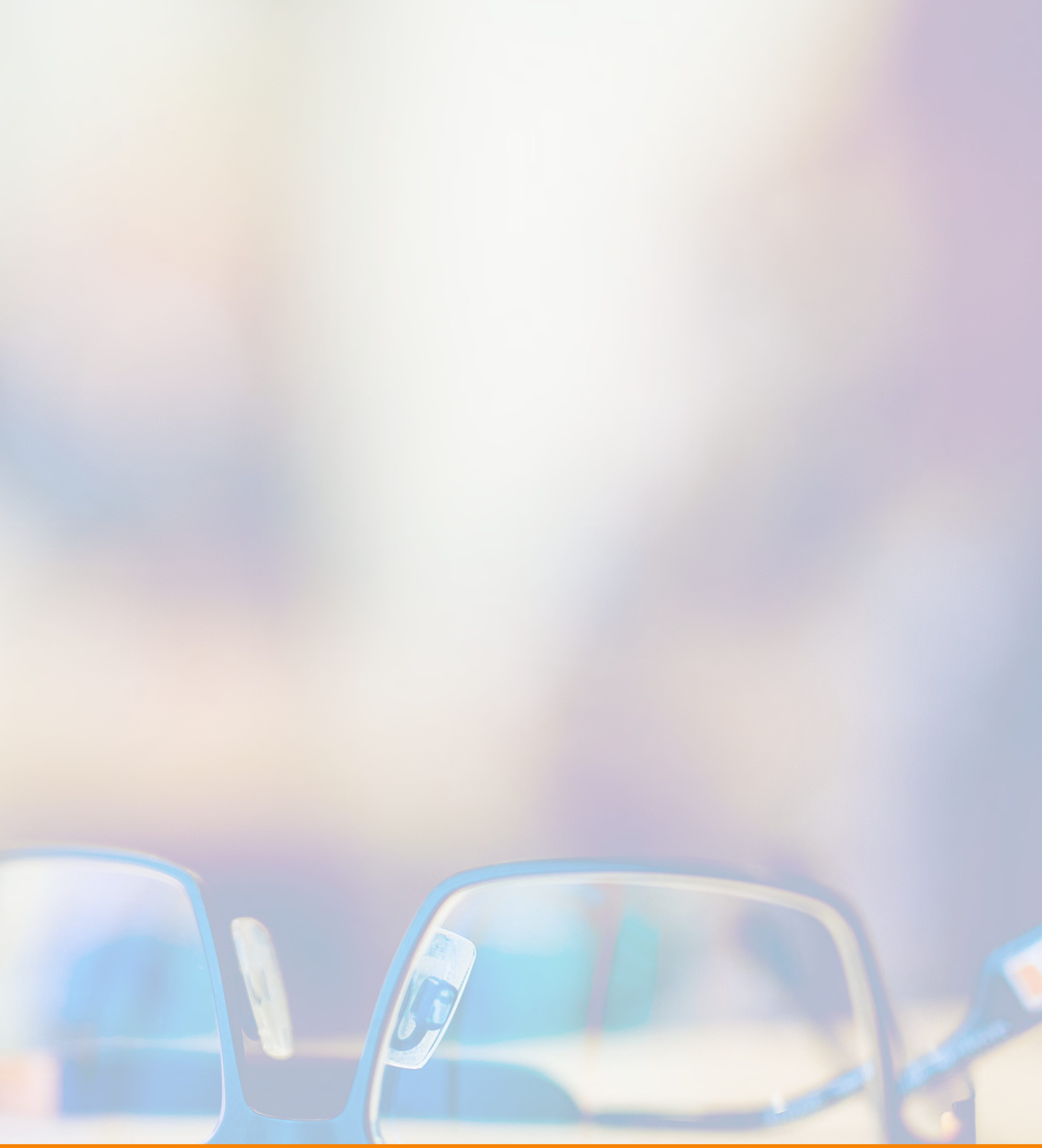
To help those who are starting a business, the government offers various other funding programmes to help in the early stages. From the Enterprise Allowance scheme, which provides a guaranteed income to unemployed people who set up their own business, to the Seed Enterprise Investment Scheme (SEIS), there is a whole range of initiatives and schemes available, so it's always worth talking to a specialist to discover what you could be eligible for.

Pros

- Access to funding to help in the early stages of business
- Many grants include mentoring, which can be just as valuable as money as you find your feet
- Can make you more attractive to investors
- If repayments are required it's normally at a much better rate than a loan

Cons

- Can be difficult to locate a suitable funding programme that is currently available
- Eligibility criteria may mean your business does not qualify



5 Reasons You Could Benefit From Using A Broker

A Helping Hand

Every business is different, which is why it is important that you take the time to find a facility that meets your cash flow needs.

With so many options available, finding the funding that fits can be time-consuming, confusing and potentially overwhelming. And, as a result, many new business could be getting tied into financial facilities that do not necessarily meet all of their requirements.

Tapping into specialist commercial finance expertise can help businesses to pin down a robust funding strategy that will work for them over the long term. Here are 5 reasons your business could benefit from calling on the expertise of a broker.

1. Efficiency
With so many products and providers to consider, the search for funding can take time and resource away from your core business. A broker can help save you time by doing all of the hard work for you, ultimately finding your business the solution that fits and giving you the chance to concentrate on getting your business to where you want it to be.

2. Independence
Speaking directly with a lender will only provide you with information on what they can offer you. Whereas an independent broker will objectively assess the whole market to help source the most suitable deal for you and your requirements. This is essential to securing a facility that ticks all the right boxes.

3. Expertise
The funding market is constantly changing and, as a result, it can be hard for business owners to keep up, especially when they're just starting out. A broker works within the market every day and will have expert knowledge that will lead to the most suitable funding facility being identified.

Also, with access to decision makers within the lenders, the process can be quicker and the likelihood of an application being successful will be improved.

4. Choice
With lenders using potentially confusing terminology and variations on how facilities are structured, trying to compare providers can be frustrating, inefficient and extremely time-consuming. A broker can talk you through the different product offerings to discuss the benefits of each one.

Likewise, it may be that your business would benefit from more than one type of funding and a broker can identify complementary solutions and help you to secure them.

5. Personal attention
Your business is unique and deserves more than a one-size-fits-all funding solution. This is why a broker will take the time to get to know your business, its objectives and its funding needs in order to identify the right facility.

A good broker won't just be concerned about your short-term needs, it will also take your long-term needs into account and, as such, they will keep in touch to ensure everything is running smoothly and that the funding continues to work for your business as it evolves.

"Your business is unique and deserves more than a one-size fits all funding solution."

How We Can Help

Finding the right funding for your business from the start can put you on the right path to success.

We hope that the information in this guide will help you find the right solution for your new business. But, if you're still finding that the search for funding is consuming valuable time and resource, or you just don't know what to do, we can help.

At Hilton-Baird Financial Solutions we will work with you closely to fully understand your business's funding needs and challenges in order to identify the right facility.

With a wealth of options available, our expert knowledge of the market and choice of contacts will lead to the most suitable funding facility for your business.

To find out more about our services as an independent commercial finance broker, please get in touch today. Call us on 0800 9774833 or email info@hiltonbaird.co.uk to speak to our team of funding consultants.

"Their understanding of the commercial finance market is extensive"
Nick Wintle, IGS UK

"Hilton-Baird listened to my needs, understood my challenges and delivered what I wanted"
Greg Oakes, Finley George Recruitment

Read more success stories here

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