8 ways to grow your business without a bank loan

How to fund business growth

Equity Finance

Businesses can gain investment for growth from venture capitalists in return for a share of the company.

Pros

- Private equity companies earn dividend payments, ensuring their commitment and dedication to your company's success
- As well as funds, investors provide expert advice and support

Cons

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

Asset Finance

As a business grows, additional plant, machinery and equipment may be needed in order to sufficiently meet increased demand. Asset finance allows businesses to purchase these purchases without damaging cash flow.

Pros

- Purchase new plant, equipment and machinery without tying up working capital
- Or release cash against existing assets through asset refinance
- 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

Cons

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

Government initiatives

The government offers a whole range of initiatives and schemes to help businesses grow.

Pros

- Many schemes also include mentoring
- 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 available
- Eligibility criteria may mean your business does not qualify for all initiatives

Overdrafts

Overdrafts allow you to pay for something when you would otherwise have no money in your bank account.

Pros

- You only borrow what you need at the time which can be cheaper than a loan
- It's usually quick to arrange
- Banks don't normally charge you for paying off the overdraft early

Cons

- Only a short-term solution as overdrafts aren't particularly flexible
- The bank has the right to reduce your limit or ask for repayment at short notice
- The interest rate applied is nearly always variable, making it difficult to accurately calculate your borrowing costs

Friends and Family

If they're in a position to help, your friends and family may be willing to lend you the money to grow your business.

Pros

- Often more flexible than other lenders
- Likely to be cheaper than other funding as interest is often lower
- Less stressful to pitch to friends than a bank manager or investor

Cons

- Unlikley to provide a constant source of funding in the long-term
- Losing the money of someone close to you can damage relationships
- The person funding your growth may need the money back unexpectedly
- The lender may also want to get involved and try to oversee aspects of the business

Invoice Finance

Invoice finance allows you to access the cash tied up in your sales ledger within 24 hours of issuing invoices.

Pros

- Bridges the cash flow gap between paying suppliers and receiving payment from your customers
- Cannot be recalled on demand
- More flexible than other forms of finance as the amount you can access grows in line with your sales ledger
- Can include additional services such as dedicated sales ledger management service or bad debt protection

Cons

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

Peer-to-peer lending

P2P lending is a way for SMEs to borrow money to grow their business without the bank acting as a middle man. Instead investors lend directly to the businesses.

Pros

- As the bank is cut out of the process, borrowers often get slightly lower rates
- Interest rates are normally fixed so you don't have to worry about rates rises

Cons

- Less onerous security requirements could mean businesses borrow more than they can afford
- Repayment periods are often quite short so monthly repayments may be high

Crowdfunding

Crowdfunding is a good option for early stage businesses looking to grow quickly. You 'pitch' your business to potential investors and, if interested, they will contribute.

Pros

- Often avoids the need to give away equity or intellectual property rights
- Backers can often help spread the word about your business
- Feedback on your business is often provided so you can make improvements

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 a viable long-term solution

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For more information about any of these products contact Hilton-Baird Financial Solutions on 0800 9774833.