



Business Funding Made Simple

The Ultimate Guide to Business Finance



The Ultimate Guide to Business Finance



This guide to small business finance is for anyone running a business. There are around **5.6 million small enterprises in the UK**, according to 2018 figures announced by the Federation of Small Businesses. Their importance to the economy is substantial.

To put it into perspective, **99.3% of all private sector businesses** at the start of 2018 were categorised as “small”. Also, if you combine the annual turnover of small and medium-sized businesses in the UK, it comes to an eye-watering **£2.0 trillion**, which is over half of the entire private sector’s turnover.

Clearly, stimulating and supporting ownership of small businesses is vital to the UK economy. However, funding entrepreneurial endeavours remains a complex and often stressful issue. To put it frankly, around one-third of small enterprises fail as the owner-manager runs out of money

This small business finance guide will look at the solutions, but will also highlight the continuing issues small business owners have when it comes to having sufficient cash to start and maintain their ventures.

Financial challenges for small business owners

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Firstly, let's look in more depth at some of the issues and pitfalls.

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01

Financial challenges for small business owners

Insufficient start up
or second wave
funding

FINANCIAL CHALLENGES FOR SMALL BUSINESS OWNERS

Insufficient start up or second wave funding



Many would-be entrepreneurs invest time in creating their start up business plan. This would include devising financial projections and a well-founded target amount of initial capital.

Getting professional advice and input from government-backed new business mentors can help make sure those initial sums add up.

However, the truth is that even the most well thought out business plan can't mandate for every eventuality. Stuff happens!

Part of the reason that around 30% of small business owners run out of money is that start up capital doesn't sustain them sufficiently through their first few months. It's common for new companies to quickly need a second tier of funding to keep themselves afloat. Something not all enterprise owner-managers foresee and plan for.

The reasons for second wave financing for SMEs are many, including the fact that getting

income sufficiently high in the early stages can be tricky. Especially in the face of considerable start up costs. Also, you could find that plans and products within your initial Business Plan have to be re-evaluated and altered in the face of the reality of trading. Failing to pivot away from a poorly performing product or market is another substantial cause of business failure.



30%

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It all comes down to either having enough "wiggle room" in start up funding to see you through the lean times and changes, or knowing how to access top-up support if you need it.



02

Financial challenges for small business owners

Cash flow
money management

FINANCIAL CHALLENGES FOR SMALL BUSINESS OWNERS

Cash flow/money management

No matter how strong your product or service is, and no matter how well you market it, there will be times when your income stream fades away or dries up entirely.

You could even face the situation of having full order books, or buoyant sales figures, but your cash flow is strangling your ability to trade. Almost three in every five UK small business owners report that cash flow is a big problem.¹

Unfortunately, if your customers are big companies, even this is not enough 'insurance' against slow payments and low cash levels. Cash flow problems can leave entrepreneurs in a perilous juggling position, trying to meet their outgoings and buy stock when their bank balance is creeping into the red.

Around one in every seven small business owners in the UK confess to being unable to pay their staff because of insufficient cash in the business.²

The problem of cash flow can be heightened if money management is not your strongest skill. Many owners of small businesses know their industry sector inside out and bring immense experience to their area of operation.

However, all the hats they wear can create headaches, especially when they need to become finance wizards with dwindling resources.

Around one in every seven small business owners in the UK confess to being unable to pay their staff because of insufficient cash in the business.



^{1,2} source: <http://hrnews.co.uk/almost-three-in-five-uk-small-business-owners-have-experienced-problems-with-their-cash-flow>



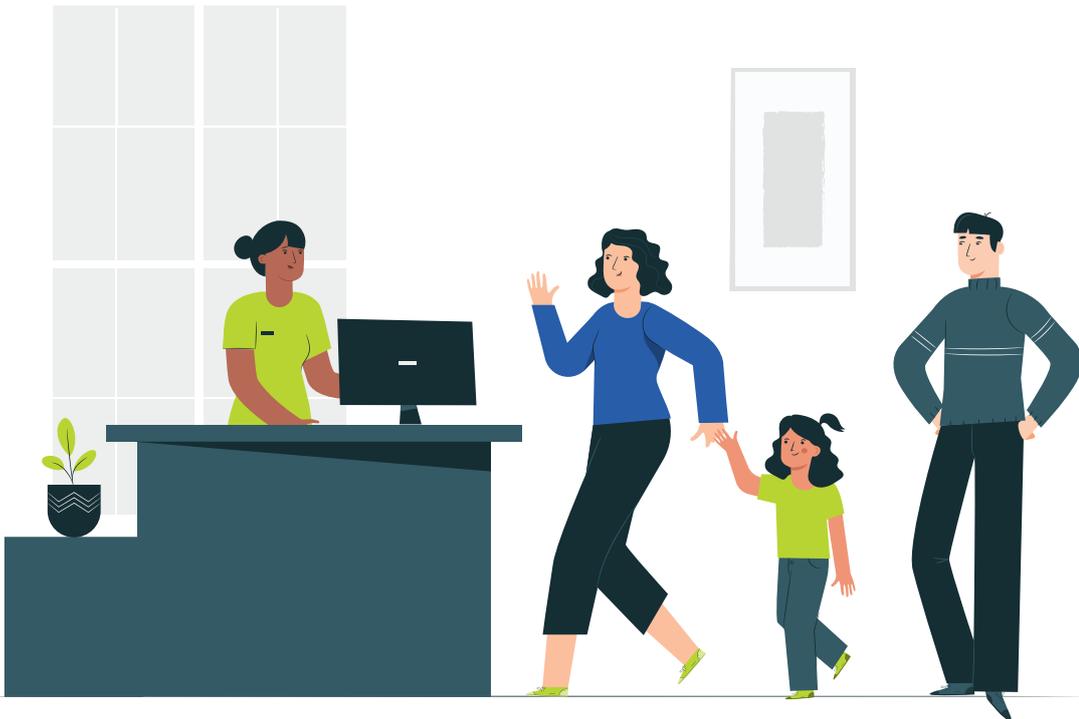
03

Financial challenges for small business owners

Dependence on small number of clients

FINANCIAL CHALLENGES FOR SMALL BUSINESS OWNERS

Dependence on small number of clients



Cash flow – and indeed the whole future of an enterprise – can be at risk in a business that puts “all its eggs in one basket”.

Having a handful of lucrative customers, or a limited range of strong products, may seem reassuring. However, change is the only constant in business!

Your customers may find a cheaper supplier, or one of your flagship products may suddenly hit a roadblock.

To keep your small business in good financial health, diversification and innovation should be twin drivers. Throw complacency out, and invest time in constantly looking for new income streams.



04

Financial challenges for small business owners

Founder dependence

FINANCIAL CHALLENGES FOR SMALL BUSINESS OWNERS

Founder dependence



As mentioned, owners of small businesses have to multi-task to the extreme and carry a heavy load.

One of the biggest financial hurdles they face is the interruption that occurs when they are absent, incapacitated or tied up on a major initiative.

This becomes another balancing act - weighing up the need to pay salaries and subcontracting fees, against freeing up your own time.

A business that's too dependent on its founder is precarious, so cherry picking support, especially with financial management, makes good commercial sense.



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Financial challenges for small business owners

Tax and the Economy

FINANCIAL CHALLENGES FOR SMALL BUSINESS OWNERS

Tax and the Economy



Owners of **small businesses** need to acquaint themselves with their tax obligations and introduce systems to automate their compliance. Ignoring this is going to leave you exposed to potentially fatal bills in the future – not just unpaid amounts but hefty fines too. Technology and good outside help can keep your business on track with tax.

At the time of creating this guide to small business finance, owners of small businesses have a huge question mark hanging over them. One that impacts on whether their revenue will be sufficient to underpin business stability and growth – Brexit. Until we come through the other side, the wisest owner-managers are simply keeping their financial status healthy enough to withstand any outcome.



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Financial challenges for small business owners

Regulation and Compliance

FINANCIAL CHALLENGES FOR SMALL BUSINESS OWNERS

Regulation and Compliance



Tax obligations are not the only compliance issues which can impact on small business owners' financial plans.

Every sector has its own set of trade regulations to follow and some bring substantial potential penalties for noncompliance.

There are also statutory burdens on the way owners manage their small businesses. This includes responsibilities over data security (under the GDPR) and the Health & Safety of both customers and staff. Tribunals, payouts and fines can bring a small business to its knees.

Speaking of staff, reference has already been made to the dilemma small business owners face when their workload exceeds their capabilities, or when additional skills are needed.

This is not simply a matter of knowing when an addition to your wage bill is justified. Recruitment can be a costly process in itself, and it's also possible to waste a great deal of time and money only to find that your talent pool is dry. For example, there is a serious shortage of recruits in technology and engineering based professions, and small businesses can find themselves losing out to bigger companies with deeper pockets.

Which means financial, business and HR planning need to fund key new appointments well in advance, so recruitment gaps don't shred holes in your ability to go forwards.



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Financial challenges for small business owners

Quality controls

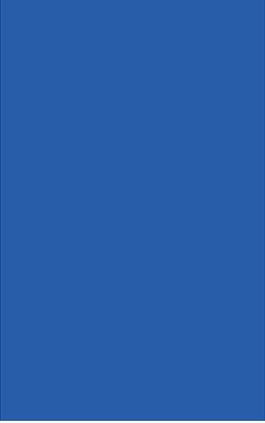
FINANCIAL CHALLENGES FOR SMALL BUSINESS OWNERS

Quality controls



As cash is such a troublesome issue for small businesses, owners need to be constantly looking for ways to do things quicker, more productively, leaner and cheaper. Waste is the enemy of enterprise, and cost-cutting is a way of life in modern business.

The trick is not to stray across the line and end up cutting corners. Any economies that devalue your product or risk losing you customers are a false economy.



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Financial challenges for small business owners

Maintaining your
reputation, lead attraction
and conversion

FINANCIAL CHALLENGES FOR SMALL BUSINESS OWNERS

Maintaining your reputation, lead attraction and conversion



This is the part of the financial equation that can vary in size enormously but is never unimportant.

In its most basic form, having superb products and services is not much use if your customers (a) don't know you exist (b) don't understand what you do or (c) ignore you anyway.

This doesn't have to mean a large sum of money for marketing and sales activities. However, every owner of a small business must commit to product promotion. This is a huge topic, involving websites that perform well, social media activity, and brand reputation.

This can be both a destructive drain on your small business cash flow or the key to a healthy income and business growth.

One nugget that's important within this vast small business finance guide – never underestimate the value of customer loyalty. The fact is, it is a great deal cheaper to get existing customers to buy more (or more often) than it is to attract new ones.



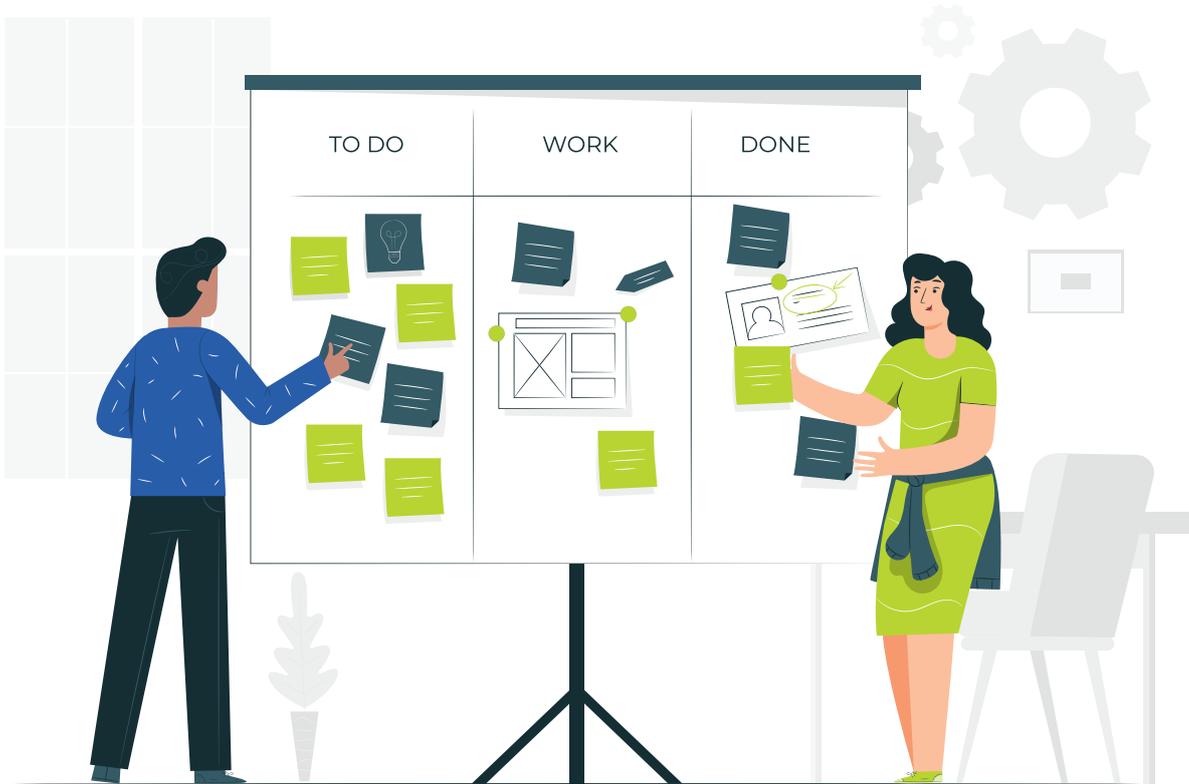
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Financial challenges for small business owners

Time and market
management

FINANCIAL CHALLENGES FOR SMALL BUSINESS OWNERS

Time and market management



This too is a complex area, but crucial to financial health and business growth. Owners of small enterprises can't afford to get too bogged down in the day to day minutia of running their business. Planning on how to use your time during the week can pay dividends, not least leaving sufficient leeway for checking in with existing clients and exploring ways to win new business.

This also involves keeping an eye on competitors and market trends. Your next big opportunity to make money could present itself, or you could get a heads up on your next big financial threat.



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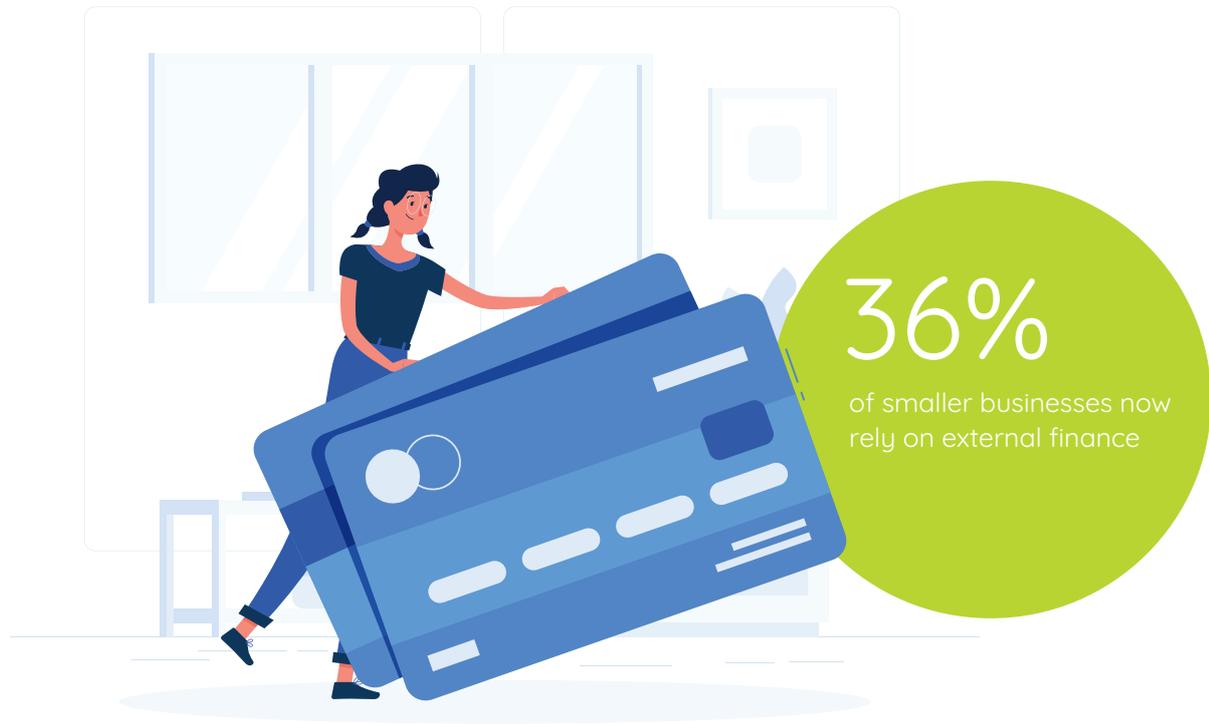
Sources of finance for small business owners

Having thoroughly explored the perils and pressures of financial management in this guide to small business finance, how can owners of small businesses fund their enterprises?

Own funds, and business or personal credit cards

SOURCES OF FINANCE FOR SMALL BUSINESS OWNERS

Own funds, and business or personal credit cards



This is an increasingly popular way to launch and support a new business. In fact, only **36% of smaller businesses now rely on external finance** (it was 44% in 2012). Around seven in ten owner-managers report that they base their business plans only on existing funds they have access to.³

What's hard to tell from this is how many are leaving themselves with serious risks. Remember, **30% of small businesses crash due to lack of funds**. Also, it's important not to rack up large credit card debts at high interest rates, or put personal assets like your home at risk.

However, if you have a redundancy payment, nest egg or inheritance to invest in a self-employed venture, with the right advice you can minimise your business lending.

³ source: <https://www.british-business-bank.co.uk/research/small-business-finance-markets-report-2019>



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Sources of finance for small business owners

Business Loans

SOURCES OF FINANCE FOR SMALL BUSINESS OWNERS

Business loans



Traditional high street lenders are more cautious about commercial loans these days, but they are still a strong option for start up capital, or second funding waves.

The key to success is taking good advice on the best way to approach business lenders, and getting your proposition and projections up to a high standard.

According to one report, larger banks approve only around 26.9% of applications for small business loans. Smaller and newer banks may have fewer hoops to jump through and approve around 50% of applications.

Business loans from institutional lenders – commercial-only banks and funding associations – approve around 64.7% of applications.⁴

Approval rate:

26.9%

Large banks

50%

Smaller and new banks

64.7%

institutional lenders – commercial-only banks and funding associations



One of the things all of these potential mainstream lenders look for in small business owners is a healthy business credit score. If you don't have a business credit score, it's hard for lenders to assess the risk factor. If you're not sure what yours is, or how it's calculated, it should be a central pillar of your lending proposition.

⁴ source: <https://fitsmallbusiness.com/small-business-finance-statistics>



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Sources of finance for small business owners

Alternative finance

SOURCES OF FINANCE FOR SMALL BUSINESS OWNERS

Alternative finance



This type of commercial funding – for start up capital and second funding waves – is increasingly diverse and growing in popularity. It covers merchant cash advances, crowdfunding, and peer to peer loans.

According to one report, awareness of peer to peer lending is now at around 52% (up from 47% last year). The number of small business owners familiar with crowdfunding platforms is at around 70% (from 60%), and around 69% know about Venture Capital (up from 62%).⁵

However, knowing these options exist is not the same as knowing how to access them successfully! Each has its own limits and control systems, that need to be fully appreciated to unlock financial support.

52%^{+5%}
awareness of peer to peer lending

70%^{+10%}
familiar with crowdfunding platforms

69%^{+7%}
know about Venture Capital

⁵ source: <https://www.british-business-bank.co.uk/research/small-business-finance-markets-report-2019>

SOURCES OF FINANCE FOR SMALL BUSINESS OWNERS

Alternative finance

Let's look at a quick summary of the main categories of alternative business funders:

Government-backed funding sources

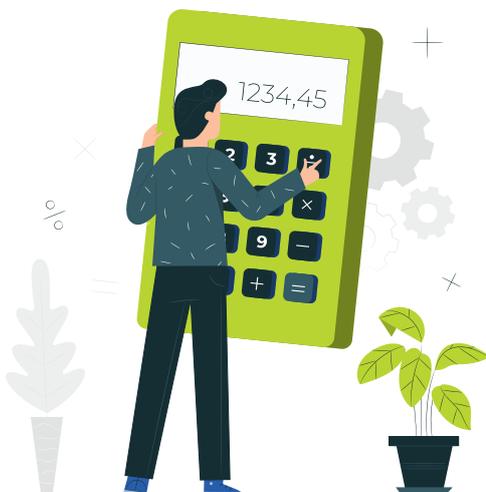
One of the first places to look for small business finance UK-wide are relevant public sector initiatives.

These range from local to national **SME funding** schemes and include the potential to apply for a Government-backed Start Up Loan. **You can borrow between £500 and £25,000 in the form of an unsecured personal loan.**

There are also outright grants available from various government departments, if you fulfil certain strict business objectives, often focused on new technologies or environmental developments.

The amount the government invests in small businesses – and how that funding is structured – changes regularly. One of the most consistent themes is that loans and grants are often attached to business to business trade, rather than business to consumer. Also, evidence that jobs are being created is usually a key factor.

At the time this small business finance guide was produced, there were 177 business support and funding schemes listed on the **government's website (www.gov.uk/business-finance-support)**. To find sector-specific public sector funding can take more digging.



Peer to peer lending, and the credit economy

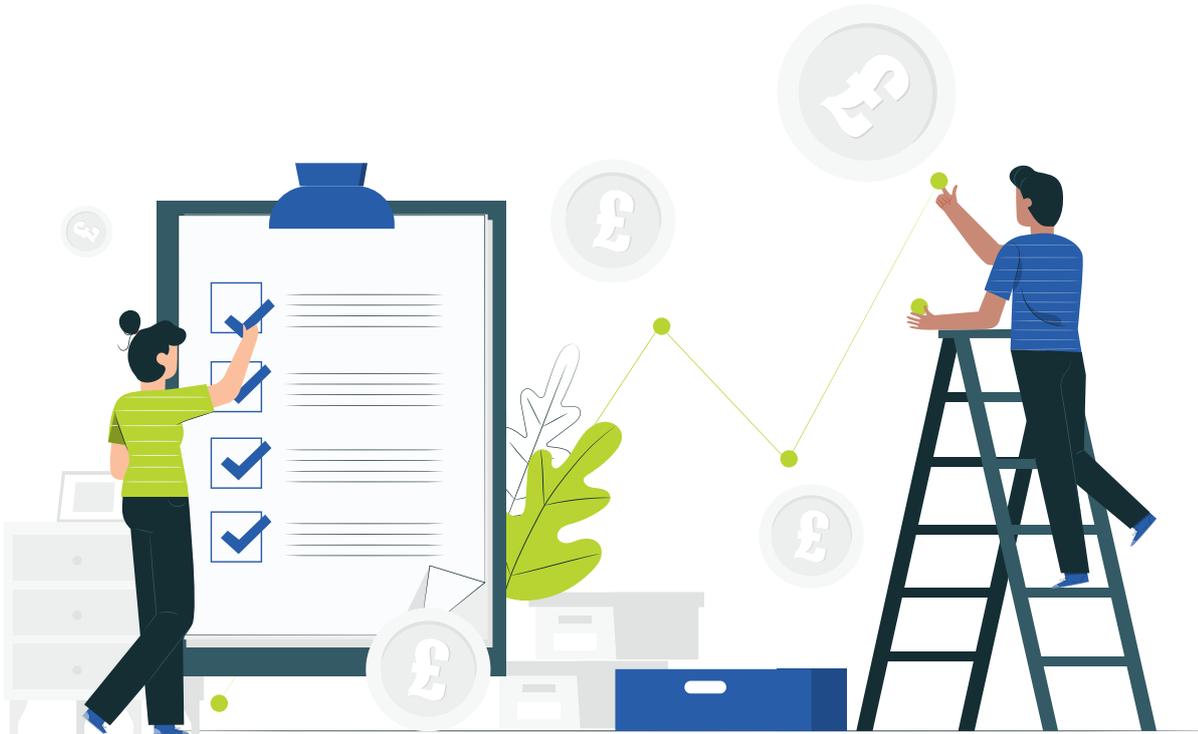
One way to manage your cash flow and fund business growth is to arrange favourable credit terms with your suppliers. It is possible to convince some of them that giving you more time to settle invoices will eventually create returns such as “golden handcuffs” or late payment fees.

Operating a business on credit clearly carries high risk though.

On a similar theme is peer to peer lending.

SOURCES OF FINANCE FOR SMALL BUSINESS OWNERS

Alternative finance



This involves been matched up with an individual from outside your supply chain, who is prepared to lend you money, in return for interest on the loan.

There are Peer to Peer websites and apps, that match people who want to invest in this way, and small business owners who want to use this form of lending. These generally do a degree of due diligence, but keep in mind that this too is a form of finance that carries substantial risk.

Business mentors and investors

These are more established individuals who are looking for small businesses to support. When presented with the right opportunity, they are willing to offer loans in return for future profits. Some are also willing to mentor small business owners, providing valuable skills, insights and sector contacts. You will sometimes see this category of funding referred to as 'Angel investors'.

SOURCES OF FINANCE FOR SMALL BUSINESS OWNERS

Alternative finance

Venture capitalists

These are larger and more structured forms of private investors, usually most appropriate when the funding required for growth is substantial.

Venture capitalists are shrewd and very focused on the level of return they will get from financing small businesses. You would need a comprehensive and compelling presentation, with airtight financial projections, to even last five minutes in a pitch. This finance route may also involve relinquishing a degree of control over how you run your business.

Crowdfunding platforms

These are largely associated with charity causes, but they also have value as a source of finance for small business owners. With the right “offering”, you can set up a crowdfunding profile and invite friends, family and members of the public to each contribute small sums. The reward for them could be product samples, discounts or a share of future profits.

Wording is key to both attracting crowdfunding contributors and not overselling any potential return.



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Improving your results as a small business owner

The above section of this guide to **small business finance** shows how crucial it is for owners of small businesses to look in three directions at once:

How is money in the business being spent?

Is there enough cash flow to cover it?

Where is the business' income coming from, and is that enough to sustain your existence and hopefully growth?

Getting advice on financial management, and sources of additional business funding, can take a lot of the pressure off. You can be ready to seize opportunities to grow profitably and weather storms, with your financial health intact.