UKBA™ UK Business Advisors Ltd

Boost Your Business

Practical Business Advice from the Independent Experts Issue 17 December '08

Different Types of Funding

Finance for business can be obtained through a number of different sources. Let's review some of those channels to help you decide what's right for your business needs:

Grants

There are over 930 different EU and UK grants and loans available from over 100 issuing bodies. This is the cheapest form of finance and an important part of the funding package that companies and individuals need. We can help you find your way through this maze.

Grant for Research and Development (R&D) - for businesses looking to carry out research or development of a technologically innovative product or process. This is quite carefully defined so don't assume it's available regardless. Amounts available: £5,000 to £500,000 35–60% of eligible project costs available.

Grant for Business Investment (GBI) - To assist businesses to increase their productivity through investment in capital equipment and technology. For businesses looking to modernise, expand or diversify to maintain or establish sustainable growth and provide skilled jobs. Amounts available: £10,000 to £2m - in exceptional cases larger grants may be available. Up to 35% of eligible project costs dependent on area and case.

R&D tax credit - This allows a reduction in your taxable profit by 150% of the spend on R&D, or if you are making Corporation Tax losses to recover £24 in every £100 of R&D spend in cash.

Export - To start exporting or moving into new markets grants of 50% of costs up to £20,000 each.

Training and Education - Knowledge Transfer Partnerships, Achieving Best Practice in Your Business, Investors in People, Modern Apprenticeships, New Deal for various grants.

Leadership and Management grant - £500 towards leadership development.

Environment -

- **BOC Foundation for the Environment:** 25% to 50% of Project cost, typically £20,000 to £100,000
- **Clean up Fund:** Emission reducing equipment up to 75% of cost
- **Community Chest Fund:** Up to £25,000 for projects near active SITA sites
- **High Impact Fund:** £150,000+ for larger projects near SITA sites
- **Assisted Areas**
  Regional assistance grants of between 10 and 35% for capital expenditure in less favoured areas of the UK.

Loans

Loans are an excellent source of finance if you have suitable security to borrow against or a reliable earnings stream. This needs to be planned and presented well to obtain funds.

Credit cards - Provides up to 56 days free credit if you play the game!

Overdraft - Banks are surprisingly supportive when presented with a well thought through plan and competent management.

Bank Loans - Lenders tend to look for a good business plan and security. Typically the loan is approved by a centralised back office function rather than the person you meet. Terms and rates depend upon the risk. Repayments can be very flexible to meet your specific needs.

Mortgages - These can include flexible repayment terms to meet your business needs. This can even be incorporated into your overdraft finance so that you have one flexible account for both personal/ business mortgages and overdraft

Small Firms Loan Guarantee Scheme - Up to £250,000 unsecured loan - these are much misunderstood and nothing like as easy to get as the name implies.

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Equity

This is not as easy as the papers would have you know. Only 1% of business plans received by Venture Capital Funds are successful. However, a good business proposition consisting of a strong demand for the product or service, management track record and a sound financial plan will enhance the chance of success.

Business Angels - These are high net worth individuals who are successful businessmen looking for investment opportunities. They can provide both time expertise and money. Typical investment size is £25,000 to £250,000 but can go as high as £2m for the right opportunity. Exit within 3-5 years. Microfunding is a new organisation supporting new innovations and inventions from entrepreneurs: http://www.microfunding.co.uk.

Venture Capital - These are investment funds seeking high rates of return. However typically investments are over a million pounds. Some funds are targeted at lower amounts depending upon the sector and region. These funds are looking for exponential capital growth over 3-5 years.

Asset backed finance

This can cover machinery, sales invoices even sales orders. It can be a very flexible source of finance to the growing business

Leasing - This will cover your capital expenditure and spread the cost over a three to five year period. It is particularly useful if you do not have taxable profits to maximise your capital allowances. Sale and leaseback of a property you own is another good source of funds.

Factoring - Factoring offers a sales ledger administration and debt collection service. Up to 95% of an approved sales invoice is paid within 48 hours, quicker if required. Credit protection is also available to protect against a bad debt.

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The Factor will own and place a first charge over the book debts and they might also take other charges, depending upon the strength of the financial information.

Invoice discounting – is either Confidential or Disclosed; it depends upon the strength of the financial information. The service is the same as Factoring, except that the sales ledger administration and the debt collection is the responsibility of the client and not the Factor. Pre payment of the approved sales invoice is still up to 95% and the factor will still have a first charge on the book debt and therefore own the debt. This service can also have credit protection cover. All sales invoices need to be for a business to business debt, and some proof of delivery is generally required.

Trade Finance - This is funding provided against stock purchases, signed contracts and orders whereby the funder will prepay a certain percentage of the value.

Payroll Finance - it is possible to borrow up to two months worth of your payroll provided you meet certain criteria.

Pension fund - It may be possible to use your pension funds for a loan back to the business or as a way of reducing your exposure to tax.

Business Relationship Funding

This is another source of funds that can be overlooked. It may be possible to introduce potential alliances to add value to both parties. It may produce an ultimate exit route in the medium to long term.

- **Joint Ventures:** Requires a legal agreement embodying the deal and another company
- **Partnerships:** Two companies collaborate with possible funding.
- **Joint working relationships:** These are an informal partnership which may be more project specific where the parties can share resources.
- **Agencies:** These can be geographical or product specific and generally incorporates a payment for the right to the agency.
- **Distributors:** Very like an agency but may not necessarily involve up front payment.
- **Alliances:** These do not require a separate company and can be embodied by a legal agreement to work together.
- **Trade investors:** Otherwise known as Corporate Partnering. This can be a good way to involve a much larger company in the business with a view to possible trade sale further down the line.
- **Associates:** This can be a loose arrangement with no fundamental commitments either way, rather like a preferred supplier.
- **Equity Swop:** Two companies exchange shares to a similar value to develop both businesses.
- **Franchises:** This can allow the business to grow without further direct investment.
- **Licensing:** This involves licensing a product or service to enable others to sell it. This requires you to own the intellectual property.

Call now for a no obligation financial review of your business.

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Next month: Optimise Employee Training and Development, Effective Training Techniques Through Employee Involvement