

---

Sage One  
Guide to Funding

---

Guide to  
Funding

Many people start their own business because they want independence and the chance to do something that they are passionate about. More often than not, making lots of money is not the main driver.

However, managing your finances is a crucial part of the entrepreneurial life, and money worries can go with the territory. If accounts and paperwork are not your strong point, it's important not to bury your head in the sand. Whether you're setting a budget, looking for funding or managing your day-to-day cashflow, it's important to be prepared.

---

# Contents

---

1. Doing your sums .....	05
2. Bootstrapping .....	08
3. Preparing for funding .....	10
4. Getting bank funding .....	13
5. Other sources of funding .....	15
6. Managing your finances .....	19

# About Sage One

---

Since 1981, Sage has been at the heart of the British economy and over 830,000 UK companies (6 million worldwide) now use our desktop software to run their business.

More recently we created Sage One, an easy online accounts and payroll service for start-ups, micro businesses and first time entrepreneurs.

For a low-cost monthly subscription, Sage One includes free 24 hour telephone and email support from our award-winning Customer Support Team in Newcastle, plus a wide range of tips and advice through our blogs, emails and social media.

Find out more and try it free at <http://uk.sageone.com> (UK) or [www.sageone.ie](http://www.sageone.ie) (Ireland)

# 1. Doing your sums

A budget is an essential part of any business plan. It's about looking ahead and setting realistic expectations for your income and expenditure. However, don't let it gather dust on your shelf once you've completed it. It's a good idea to revisit your budget every month so you can react to changes in income and outgoings.

---

## Setting a budget

Creating an effective budget takes time, but it's important not to get too caught up in the detail. It must be simple to update so that you actually use it. Focus on key areas of expenditure such as staff pay, stock and premises.

Don't worry if you're not 100% sure about all your numbers to begin with. Update it as you go along and your budget will become more accurate – that way it becomes a core business tool, teaching you exactly what has happened and why and allowing you to plan ahead with more confidence.

Our low-cost **Sage One Accounts** software is designed to help small and micro business owners manage their finances and plan their budget better.

---

### Nine reasons to set a budget

1. Manage cashflow better
  2. Understand how to allocate resources
  3. Create a workable marketing budget
  4. Set achievable business goals
  5. Plan future growth
  6. Establish a benchmark to measure success
  7. Compare your performance with rivals
  8. Identify costs that could be cut
  9. Approach lenders for external finance
-

# 1. Doing your sums

---

## Short-term vs long-term financing

Many businesses need to source external finance to get off the ground or to fund a growth strategy. There are many options when it comes to finance, from short-term overdrafts and invoice financing to long-term solutions such as mortgages or angel investment.

In the past few years, some entrepreneurs that have needed external funding to support viable growth plans have found it incredibly hard to get finance – especially from the high street banks.

This has given rise to alternative lenders, some of them offering quick fixes. However, while short-term lending solutions can be attractive they can also be the most costly, so it pays to consider all the options and shop around for the best deal.

The table below shows how micro business owners said they would finance their future development in our UK **Growth Survey** carried out by Enterprise Nation in 2013.

---

### How do SMEs finance their growth?

Working capital	54%
Personal savings	40%
Grant	14%
Crowdfunding	10%
Loans from friends/family	9%
External investment	7%
Bank loan	7%
Overdraft	6%

Source: Sage One 'Growth Survey 2013'

---



---

**A budget** is an essential part of any business plan. It's about looking ahead and setting realistic expectations for your income and expenditure.

---

## 2. Bootstrapping

Most small business owners fund their new or growing venture themselves. This is not just about necessity. Many want to avoid debt and they often don't want to give up any control or equity.

---

However bootstrapping is not easy – it can involve dipping into savings, borrowing off family and friends and only using money made from sales to finance your business. Like any investment strategy, it's not without risk.

However, bootstrapping will save you paying interest, and when it's your money on the line you're more likely to be cautious about spending and perhaps even more determined to succeed.

### Personal savings

The great thing about putting your own money into your business is that you don't pay any interest and you don't have creditors breathing down your neck. However, unless you have 'spare' cash, there's a good chance that you're dipping into your retirement pot or even borrowing against your own home. You'll need to be clear how you are going to pay yourself back – even if it's a little at a time.

### Loans from family and friends

Short-term loans from family and friends can be a lifeline. However, unless you repay the loan in good time, your friendly backers may start to wonder where their money has gone and even interfere in the running of your business. If you want a long-term loan from family or friends it could be worth offering them a stake in the business. Always put any agreement in writing, outline the repayment schedule and specify the responsibilities of each party.

### Using your overdraft facility or credit cards

Using credit cards can be tempting, especially if you're convinced that you only need an injection of cash for a short period. However, they carry big risks – failure to repay on time will cost you dear, it could affect your personal credit score and even tip you into bankruptcy. Bank overdrafts can also be useful – but again, it's vital that you have a clear repayment plan from the start.

### Payday loans

Want cash in ten minutes? Payday loans and other quick sources of cash from the likes of Everline (previously Wonga for Business) carry very high interest rates which can cost you dearly. However, if you're clear about the risks and confident that you can pay the loan back quickly within the agreed time period then they could be a useful way to get short term funding.

.....

Most small business owners fund their new or growing venture themselves. This is not just about necessity. Many want to avoid debt and they often don't want to give up any control or equity.

.....



# 3. Preparing for funding

Banks may be more cautious these days, but they do want to lend to the right business – and it could be yours. However, the process can take several months, so it's no good waiting until you need cash fast.

---

To maximise your chances of getting funding, you'll need to prepare well and focus on these key areas:

**Timing:** Are you ready to launch or expand?

**Experience:** Are you trustworthy? Banks will want to see a track record – not just of your business, but details of your own personal financial record, including your credit score.

**Details:** You'll need to be able to say exactly how much money you want to borrow, how you plan to spend it and how it'll benefit your business. You'll also need to provide cashflow projections to prove that you can meet the repayment schedule.

**Forward planning:** You must have a robust business plan and be able to show how well you understand your own market. Be honest about the threats as well as the opportunities. Use market research to back up your strategy.

**Assets:** The bank will want to know what assets can be secured against the loan.

## Your business plan

A business plan must include the following:

- A clear description of your business and the market you operate in – what is your USP and how do you plan to meet your objectives?
- Information about your legal structure (if you are a sole trader or a partnership, for instance) and any patents or trademarks you hold
- Details of your sales and marketing strategy (backed up by market research)
- Analysis of the market opportunities and the threats posed by competitors
- A clear picture of your customer base and the opportunities for growth
- Information about you and your team
- Management strategies such as stock and quality control
- Financial forecasts for the next few years, including profit and loss, sales projections and cashflow

Keep your business plan simple and have a clear structure. An executive summary is essential – it should encapsulate your pitch so that potential backers are encouraged to read on.

## 3. Preparing for funding

---

### Making a pitch

If you've watched Dragons' Den, you'll know how important the pitch is and how easily it can go wrong.

Firstly, you need to know your audience so some background research can go a long way, especially with angel investors who may be looking for very specific types of business to invest in.

The heart of your pitch should focus on your idea – highlight the problem that your product or services solves and use research to show how big the market is for your offering. Make it simple, interesting and present it as an exciting opportunity. Keep any PowerPoint slides to a minimum. Many investors also say they are investing in the person or team behind a business so make sure you outline the relevant experience that you and any co-founders of core team members have which make you more investable.

How you deal with any questions is critical. You need to know your numbers inside out. Don't waffle or keep repeating yourself and don't get defensive.

Above all, prepare well ahead for any meeting and practise until you are completely confident about your delivery. Don't be downhearted if you don't succeed straight away. Feedback, good or bad, will help you to do better next time.

### Understanding the terms

It's vital to understand the terms of the loan before you sign the paperwork. Ask the bank to calculate the cost of your loan including all charges so that you can use those figures to shop around for the best deal. This could even help you negotiate a better deal. Check for hidden charges – set-up costs, late payment charges and penalties for early repayment.



---

Prepare well ahead for any meeting and practise until you are completely confident about your delivery. Don't be downhearted if you don't succeed straight away. Feedback, good or bad, will help you to do better next time.

---

## 4. Getting bank funding

According to government figures, more than 80% of UK SMEs bank with the big names and that's usually the first place they go when they need a loan. However, many business owners face rejection when they go to their own bank for funding.

---

If you then try another high street bank, you may find that they say they won't lend unless you move your current account. This is called bundling, and even though it's been prohibited since 2002, it still goes on.

So it's definitely challenging. But the fact is that banks are lending. Figures from the British Bankers Association show that £7.4 billion of new SME borrowing was approved by banks in the second quarter of 2014 – 16% more than the same period in 2013.

Most of the big banks are part of the Government's **Enterprise Finance Guarantee (EFG) scheme**, designed to facilitate lending to viable businesses that have been turned down for a loan because of inadequate security or a proven track record. This scheme is now being run by the newly-formed government-sponsored **British Business Bank**. Small firms that want to take advantage of the scheme can apply through an approved partner.

### Beyond the high street

There are options beyond the main banks, including newcomer **Metro Bank** – which has 26 'stores' rather than branches and plans to expand across the UK to over 200 stores by 2020. It offers extended opening hours, online banking and free card transactions abroad as well as business overdrafts and loans.

There are also two main ethical banks in the UK – the **Co-operative Bank** and **Triodos**, aimed at organisations that “make a difference socially, culturally or environmentally”.

Other options include the so-called challenger banks – these are generally savings and loans set-ups and include **Aldermore** (launched in 2009), **Shawbrook Bank** (launched in 2011), **Cambridge & Counties Bank** (launched in 2012), **Atom Bank** (launching in 2015) and **Williams & Glyn** (due to re-launch in 2016).

Swedish bank **Handelsbanken** is also expanding in the UK and now has over 180 branches. It promises a high level of customer service and decision-making at branch level.



.....

According to government figures, more than 80% of UK SMEs bank with the big names and that's usually the first place they go when they need a loan.

.....

# 5. Other sources of funding

One third of UK SMEs say they don't understand what alternative finance is, and a further 29% are completely unaware of alternative funding options according to 2014 research by Aviva.

---

But that's about to change. **The Small Business Enterprise and Employment Bill** is due to become law in early 2015 and will require banks to help match small firms with alternative lenders if they haven't been able to give them a loan.

Small business owners can also use the **Alternative Business Funding** website to find the right provider. This website brings together market leaders in all the main forms of alternative business funding, including crowdfunding, invoice trading and peer-to-peer lending.

## Crowdfunding

If you've got an idea for a business, especially in the creative sphere, crowdfunding can be a great way to get it off the ground.

Sites like **Kickstarter** and **Indiegogo** allow you to pitch your idea to a wide audience of potential investors and you can reward them with perks such as a discount or a free gift. Not every pitch is successful – about half fail to meet their targets. Those that succeed typically pay the platform a fee of about 3-7% of the amount raised.

Other forms of crowdfunding now include equity-based models such as **Crowdcube** and **Seedrs**. Whichever platform you choose, you'll need a business plan and financial forecasts. Above all, you need to tell your story in a way that inspires others to support you (see our '**Tips for Crowdfunding**' blogs on the Sage One website).

## Peer-to-peer lending

Peer-to-peer lending offers established businesses (trading for at least two years) a way to get a cash injection by attracting a group of investors and paying them interest on the money borrowed.

With **Funding Circle**, for instance, you can apply for up to £1 million of funding. Investors include councils, the UK government and financial organisations as well as individuals. Another peer-to-peer platform is **ThinCats**, an 'online market for secured business loans' where businesses can borrow up to £3 million and investors earn 9% interest on average.

Like crowdfunding, you'll have to provide a business plan and detailed financial information. You may also have to provide an asset as security.

## 5. Other sources of funding

---

### Start Up loans

**Start Up Loans** has been set up by the UK Government to give start-ups and new businesses access to funding and advice through a network of delivery partners across the country. More than 20,000 businesses have benefited from its repayment loans as well as the mentoring and training on offer.

### Community Development Finance Institutions

Community Development Finance Institutions (CDFIs) are social enterprises that lend money to local businesses and people who struggle to get finance from high street banks. There are around 60 CDFIs across the UK and they provide support and advice as well as finance. You can locate your local CDFI on the **Finding Finance** website.

### Angel investors

An angel investor usually brings both money and experience to the table. Whether they are individuals or part of a network, angels are looking to invest in early-stage businesses and are looking for equity shares in exchange for their financial backing. The right angel can bring much-needed expertise and experience to an ambitious start-up. The **Angel Investment Network** brings together more than 400,000 entrepreneurs with over 40,000 investors.

### Grants and tax relief

There are thousands of grants available to businesses but getting access to them is not always easy. A good place to start is the '**Finance and support for your business**' tool on the GOV.UK website where you can search for grants by postcode.

In addition, several independent websites offer the chance to search for grants. The **GrantFinder** website, for instance, has details of more than 8,000 funding schemes including grants, loans and awards from local, regional and national UK government, European funding, charitable trusts and corporate sponsors. Another useful portal is **j4bGrants** which has a searchable database of grants.

Many grants are offered at a geographical level. European grants are available through European regional development funding. Within the UK, grants are available through the **Regional Growth Fund** and also via **Local Enterprise Partnerships**. Many industry bodies also offer grants, such as the **Manufacturing Advisory Service**.

There are also grants for unemployed people that want to set up their own venture. The **New Enterprise Allowance** scheme is aimed at people on benefits who have an idea for a business and need help to get started.

## 5. Other sources of funding

---

Tax relief schemes can help businesses to get funding. The **Enterprise Investment Scheme (EIS)** and the **Seed Enterprise Investment Scheme (SEIS)** are government schemes designed to help smaller higher-risk companies to raise finance by offering tax reliefs to investors.

Other government help includes **Innovation Vouchers** (offering £5,000 for SMEs to use to pay for expert advice) and **Growth Vouchers** (offering SMEs up to £2,000 to pay for strategic advice).

### Invoice financing

An invoice financier will buy your unpaid invoices for a fee, so you can improve your cashflow while you wait for payment. Invoice financing is available through financial providers including banks, and there are also online services such as **MarketInvoice**.

There are two types of invoice financing – factoring and invoice discounting. Factoring involves the invoice financier collecting money owed to you. They typically buy the debt for about 85% of its value and pay you the remainder when the customer settles their bill. You then pay any interest and an agreed fee.

With invoice discounting, the invoice financier lends you money against your unpaid invoices. You are responsible for collecting your debts and when the customer pays the money is paid to the invoice financier along with the fee.

### Asset finance

Asset finance (such as leasing and hire purchase) can help when you need to invest in new equipment. With leasing, you are paying for use of the asset but you do not own it at any point; with hire purchase, you own the item at the end of the agreement.

Asset finance offers some advantages – you may be able to afford to buy better equipment; interest rates are usually fixed and the main risk is losing the asset. However, there are downsides – in most cases, you can't claim capital allowances on a leased asset if the lease period is less than five years. And, of course, the equipment will be more expensive in the long run.

Another asset-based funding option is asset lending. Companies like **Borro**, for example, provide short-term loans secured against high net-worth assets – anything from cars to art.



---

One third of UK SMEs say they don't understand what alternative finance is, and a further 29% are completely unaware of alternative funding options according to 2014 research by Aviva.

---

# 6. Managing your finances

Getting your prices right is absolutely essential. The best price is one that maximises profit while attracting a wide customer base.

---

## Setting prices

It's always good to know what your competitors charge. However, don't simply match that price – your margins won't be the same as a rival's, and the price may not be best for your customers anyway.

Next you need to work out your own breakeven figure by adding up all your costs. Variable costs include materials, while fixed costs include rent and wages. With these figures you can work out your potential profit. There are two common approaches to this. Cost-plus pricing involves adding a mark-up to your breakeven figure. Value-based pricing is about deciding how much a customer would be willing to pay – regardless of the breakeven cost.

You might need to keep margins tight on some products to get higher margins on others. If you think your prices are too high, you can always come down, but always remember to protect your margins.

## Managing your cashflow

A healthy business must keep on top of its cashflow. Sadly, it's not uncommon for start-ups and growing businesses to fail even when the order book is full because they are waiting for payments.

In addition, overtrading can occur when a business has more orders than its working capital can actually fulfil. Often, money has to be spent on wages, supplies and overheads long before the customer pays their bill.

However, there are many things you can do to speed up payment and improve your cashflow. The first step is to make it easy for customers to pay you. By **adding Sage Pay to Sage One Accounting** you can not only sell online through your website but also get paid faster through **e-invoicing** with any money received automatically appearing in your accounts software.

Other ways to improve cashflow include:

- Setting clear payment terms
- Doing credit checks on new customers
- Invoicing promptly
- Chasing up late payers
- Asking for part-payment upfront

## 6. Managing your finances

---

### Cashflow made easy

The easiest way to keep on top of payments is to make the most of accounting software. For basic accounting, **Sage One Cashbook** allows you to manage your cashflow better, record money going in and going out, and collaborate with your accountant or bookkeeper (if you have one) online. **Sage One Accounting** has all the features of Cashbook but also enables you to create and email invoices, submit VAT returns and manage your invoices through a **free mobile app**.

### Cutting costs

There are two types of costs in business – variable and fixed. Your variable costs depend on the level of business you are bringing in – these include materials, stock, packaging, delivery costs and so on. Fixed costs, or overheads, stay about the same no matter how much business you do, and include rent, utility bills, wages and accountancy fees.

Cutting your variable costs is about shopping around, looking for discounts and renegotiating prices. Don't accept the status quo with your suppliers – there may well be deals to be done.

Fixed costs can deliver even greater savings if you put time and effort into reducing them. For example, you can make sizeable savings by renegotiating your rent, changing your business broadband contract or moving to a new energy supplier.

### Getting the most from your bank

The best way to get the most out of your bank is to forge strong relationships with key staff. Explain the nature of your business and show them your business plan and financial projections. Manage your accounts wisely, making use of interest-paying savings accounts for any spare cash you hold. Internet banking could save you time and money.

If you need to borrow money, don't keep relying on overdrafts when there may be longer-term solutions available and the chance to negotiate better terms. Above all, be upfront about your financial situation at all times – don't put your head in the sand.



---

### Time to switch?

A 2012 YouGov report found that while 15% of SMEs had tried to move banks in a two-year period, only 8% were successful. However, moving banks is now getting easier with the government-sponsored **Current Account switching service** provided by the Payments Council.

---

# Need more help?

For more free business guides, tips and advice, visit our Sage One blog at <http://uk.sageone.com/blog/> (UK) and [www.sageone.ie/blog/](http://www.sageone.ie/blog/) (Ireland)