



# THE 18 DIFFERENT SOURCES OF SME FUNDING

- 1. The 3Fs: Friends, Family and Fools:** This type of funding is normally how an entrepreneur gets started. Other funding providers always look for 'pain' money that will keep the team focused so it is expected that the management team will have invested as much as it can in the company. Funders will also wonder why they should risk their money if the management team is not prepared to risk theirs.
- 2. Personal mortgages:** If the entrepreneur has free equity available in their home, and is prepared to risk it, then this is the simplest and often the fastest way to raise funds.
- 3. Commercial mortgages:** Once a company is established commercial mortgages may be available for expansion. 'Loan to value' ratios in today's market place seldom exceed 70%-75% so a reasonable deposit will need to be available. Affordability will also be an important criterion.
- 4. Credit cards:** Using personal credit cards is not a recommended method of raising capital, because it is one of the most expensive financing methods. Unfortunately many people have resorted to raising funds in this way unaware of the fees and payment terms that are applicable.  
There are, however, a number of companies that will buy your credit card receipts from you in advance, if you have been established for a while and have a trading history. This is not a cheap method of easing cash flow problems but it can help out if you have short term problems.
- 5. Grants:** These vary in amounts and are dependent on the part of the country in which you live. They are becoming much harder to find and secure. It is always a good idea to talk to a specialist who will know what is available locally.
- 6. Recruitment:** Recruiting a non-executive chairman with capital to invest is often a neglected source of funding. If the right chairman is recruited he or she may also bring much needed market experience as well as a valuable contact list. This sort of recruitment is often undertaken on a success fee only basis; so no fees may be payable until the right candidate has been found and the capital injected.
- 7. Enterprise Finance Guarantee Scheme (EFGS) Loans:** These loans are available from many sources, not only the high street banks. They are much more difficult to obtain than the scheme they replaced. The government gives the lender a 75% guarantee against default for which the borrower has to pay a 2% per annum additional fee for. Even with this guarantee most banks still ask for 100% guarantees from the borrower. As these loans are a last resort, this seems to disqualify the very people that they are meant to help. A good funding expert will know which banks are lending at the moment and what will be required to make a successful application.
- 8. Invoice discounting and factoring (ID&F):** Invoice discounting and factoring comes in many forms. It is a valuable source of funding if you have a growing debtor ledger. An ID & F provider will buy your debtors from you, thereby freeing the capital tied up in those invoices. The average ID & F provider will advance 75% of the value of the invoices. Once your clients pay the invoice then the remainder, less charges, is paid to you.  
  
Most companies in this marketplace will require you to undertake at least a one-year contract with a three-month cancellation clause - unless you put in place a selective agreement. They will also require you to put all invoices through their system, even from customers that pay you quickly.  
  
There are, however, a number of companies that now offer single invoice discounting which does not tie you to a contract and lets you discount or factor just one or two invoices at a time. You might need it when the VAT is due, or to buy stock required to fulfil that large order that has come in unexpectedly. There is now also one company that lets you auction individual invoices to the highest bidder.
- 9. Trade finance:** If you have a confirmed order from a credit worthy client for a product that is made abroad where the manufacturer wants payment in advance but your client wants/expects at least 30 days credit, then trade finance may be the answer. Trade funders may purchase the goods on your behalf. Following delivery to the client they collect what they are owed by using invoice discounting or factoring to get their money back.
- 10. Stock funding:** Stock is one of the hardest areas to fund. Stock funding is traditionally only available to those companies that have built up a good track record with a funder. There are some new stock funders emerging who will buy stock for an organisation and hold the products in their own warehouses until you need to take delivery and have paid for the goods.
- 11. Angels:** Angels are investors who are prepared to invest in start-up or growth companies for an equity stake in the company. They are prepared to take the risk of investing as long as they can see from the business plan that the management has got the required experience; that there is a sound and detailed sales and marketing plan, backed by a full explanation of all assumptions made; and that all operational details have been thought through. They will require a high return on their investment and a clear exit strategy within a three to five year period. Make certain that you have registered for an Enterprise Investment Scheme (EIS) as this makes investing in your company even more interesting for an angel thanks to the tax concessions that they will receive.



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- 1. Crowdfunding:** This comes in two forms; equity crowdfunding and loan/debt crowdfunding. The principle is the same in both situations. Multiple small investors come together to invest or lend money to a company. The amounts invested can be quite small, often as little as a few hundred pounds from each investor, so the risks to a single individual are limited. This is an interesting way for start-up companies to get their first start in life. It should be noted, however, that there are issues concerning the EIS scheme with this type of funding. It is also important not to overlook advantages of traditional business angel investors, such as the experience and contacts that they often bring with their investment.
- 2. Turnaround/recovery angels:** These angels are willing to take much larger levels of risk and specialise in turnaround or recovery situations. The types of companies that they are willing to consider are those that have fallen on hard times but which in the past were successful enterprises. In other words, good companies that have gone bad for an identifiable reason. These angels can act fast and will often talk to your creditors to secure some much needed time for additional funds to be injected.
- 3. Bank overdrafts:** These do have their uses, if you can get one but they should come with a health and wealth warning. Bank overdrafts can be taken away overnight so should be used with caution. In today's marketplace most of the high street banks are also looking for 100% personal guarantees which often have to be supported by property. Overdrafts are almost impossible to obtain if you are a start-up as many banks will no longer lend solely on forecasts.
- 4. Commercial loans:** Rather than an overdraft, try to get your bank to give you a commercial loan. This will also need to be supported by personal guarantees but will be for a fixed period of time and, unless you default it cannot be taken away overnight.
- 5. Leasing and hire purchase (HP):** Why use your valuable cash flow to buy assets for the company when you can lease them over a set period of time and keep your available capital for running and growing the business? Sale and leaseback is also a useful way of raising additional capital on assets that you already own outright. You can sell them to a leasing company which will give you a lump sum and then you can lease the assets back from them.
- 6. Regional venture trusts:** These are very useful for start-ups and growth companies as they will invest in interesting propositions with high growth potential. Normally they will invest more than angels but less than venture capitalists.
- 7. Venture capitalists (VC) and venture capital trusts (VCT):** VCs are normally looking for larger opportunities than the average SME can offer. A few, however, are beginning to look at sub £1 million investments. They are therefore worth keeping in mind. Be prepared for some harsh negotiating and for some stringent reporting requirements. VCTs, on the other hand, are looking for smaller opportunities to invest in and are a useful source of funding.

To illustrate all that has been said in this white paper we have put together a few tables:

**Table 1: Funding available from high street banks. (Blue Section)**

Finance	Concept	Start-Up	Growth	Consolidation	Acquisitions	Decline	Failure/Phoenix
FFF	•	•					
Personal mortgages	•	•					
Grants	•	•					
Regional loans		•					
Commercial mortgages			•	•			
Bank EFGS loans			•	•			
Bank overdraft			•	•			
Bank commercial loan			•	•	•		
Leasing/HP		•	•	•	•	•	
Factoring		•	•	•	•	•	•
Confidential invoice discounting			•	•	•	•	•
Single invoice discounting		•	•	•			
Trade finance			•	•			
Money with management		•	•	•			
Re-financing of assets				•	•	•	
Angels	•	•	•	•	•		
VCs			•	•	•		
Recovery angels						•	•



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Table 2: Funding available from alternative sources (Mauve Section)

Finance	Concept	Start-Up	Growth	Consolidation	Acquisitions	Decline	Failure/Phoenix
FFF	•	•					
Personal mortgages	•	•					
Grants	•	•					
Regional loans		•					
Commercial mortgages			•	•			
Bank EFGS loans			•	•			
Bank overdraft			•	•			
Bank commercial loan		•	•	•	•	•	•
Leasing/HP		•	•	•	•	•	•
Factoring		•	•	•	•	•	•
Confidential invoice discounting		•	•	•	•	•	•
Single invoice discounting		•	•	•			
Trade finance			•	•			
Money with management		•	•	•			
Re-financing of assets				•	•	•	
Angels	•	•	•	•	•		
VCs			•	•	•		
Recovery angels						•	•

Table 3: Funding available from alternative sources (Red Sections)

Finance	Concept	Start-Up	Growth	Consolidation	Acquisitions	Decline	Failure/Phoenix
FFF	•	•					
Personal mortgages	•	•					
Grants	•	•					
Regional loans		•					
Commercial mortgages			•	•			
Bank EFG			•	•			
Bank overdraft			•	•			
Bank commercial loan		•	•	•	•	•	•
Leasing/HP		•	•	•	•	•	•
Factoring		•	•	•	•	•	•
Confidential invoice discounting		•	•	•	•	•	•
Single invoice discounting		•	•	•			
Trade finance			•	•			
Money with management		•	•	•			
Re-financing of assets				•	•	•	
Angels	•	•	•	•	•		
VCs			•	•	•		
Recovery angels						•	•

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### Table 4: Pains and solutions

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