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Description automatically generated**What should be included in a Business Plan – Check List**

At some stage in their maturity nearly every business will benefit from additional funding. Whether that’s to help the business get off the ground, survive in challenging times, stay fresh and with the times, diversify or grow.

It pays to get your ducks in a row before even hitting the internet search engines or phones, so that you ensure you choose the right funding for you and maximise your opportunities for being successful.

We’ve created some tips below to help you plan ahead for the time when raising funds may be a priority for you.

1. **Know your numbers**

It's tempting, when we either see that money is available through grants or low interest loans just to dive in, apply for the maximum and make the rest fit. Or if we are looking to raise funds to help us out of trouble or to help our business move to the next stage, we  look at the scale of the problem or challenge ahead and add on a percentage ‘just in case’ and then dive into the application form.

To make sure you are applying for the right product and that the funding is a good investment rather than a short term fix you will need to: -

* Create an itemised budget that details exactly what you will need, down to the last tack, bag of cement, hour of labour.
  + This means getting quotes for work and materials and yes potentially including a contingency – but this should be a contingency recommended by the experts.

Or perhaps you are looking for a loan to tide you through some cash flow issues in your business

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  Description automatically generatedIn which case you will need to create a forward cash flow spreadsheet that itemises the payments in and out of your business, right through until the situation stabilises.

Or if you are looking for investment for a research and development project then you will need to evaluate the processes, time and cost for the research and then create projections to demonstrate when you might start to receive a return on the investment.

* You will need to itemise the areas that the budget will be spent on, monetising and time estimations to ensure you have captured the full picture.
* Once you have worked out the above, you will be able to work out how long you will need the loan in place for?
* Will it take you 12 months to stabilise your cash flow?
* Will it take you 2 years to be able to capitalise on your new product or investment?
* Will it take you 5 years to achieve return on investment on your research and development project?
* What can you afford in repayments?

If you have a cash flow problem this means you factoring in additional payments out each month which may alter the length of time you will need to pay the loan back

Your interest payments will also need to be factored in to any returns you calculate on your new investment or research and development project

* What do you need to prepare for potential funders to give them the confidence in you and your business?
  + Up to date, filed accounts or tax return for the past 3 years
  + A minimum 3 year forecast (5 if your break even point extends this far) that includes: -
    - Profit and Loss (itemised per month)
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      Description automatically generatedYour balance sheet (statement of assets, liabilities and capital within the business)
    - Your cash flow forecast (when you anticipate receiving monies and having to settle debts)
    - Management accounts (your filed accounts are focussed on financials and what has happened in the past; management accounts look forward and focus on strategy and predicting the future of the business based on statistical research)

Although forecasting is a speculative process, financers are more likely to accept forecasts if they are made based on a proper analysis of data. Research is therefore important and if you’d like to understand what and how to achieve this then check out our Business Planning and Marketing sections which will guide you through this process.

1. **Assess the type of funding that is right for you**

Once you know your numbers, the next stage is to assess which is the most appropriate form of funding for your business – lending or equity.

* Lending is essentially debt financing. You borrow a sum of money and must pay it back within an agreed timeframe, with interest.

The most traditional sources for debt financing are loan companies, banks or even family and friends.

The lender is likely to want to see the business track record and to be assured that there is sufficient revenue moving forward to repay the loan along with all other business costs.

Depending on the size and purpose of the loan, guarantees or security may be required by the lender.

The benefit for the business is: -

* retaining complete control of the business
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  Description automatically generatedhaving a fixed sum to pay back each month with a clear end date
* the process is relatively quick
* With equity funding, you agree to sell shares (percentage ownership) in your business in return for an agreed sum.

The most traditional sources of equity funding are individuals (whether purchasing shares as a result of the company entering the stock market or through high-net-worth angel investments) and other businesses.

In this case the lender takes all the risk. Where the lender is another business or ‘angel investor’ the risk is taken based on the lender’s assessment that their shares will increase in value as the business grows and increases in value. There is a strong likelihood that the investor will expect to be able to input into the running of the business so that they can protect the value of their shares.

There are positives and negatives of this route for a business: -

* An investor can bring a wealth of relevant experience with them and their support in guiding the direction of the business could be beneficial
* Where an investor expects a quick return on their investment, they may be more interested in your business focussing on short term profits rather than long term growth
* The process can be quite drawn out as this option requires deeper analysis than just the numbers. With equity funding, relationships need to be built, trust developed, and personalised contracts raised

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   Description automatically generated**Research sources**

There are numerous sources of funding available. Here we’ve simplified the options and included some pointers to help you when you’re looking for an injection of cash.

**Start Up Loans**

There are various private organisations that offer start up loans, however you should check the terms carefully as interest rates can be high (new businesses are inherently risky) and penalties steep if your business were to fail.

The UK government has set up a scheme to encourage entrepreneurs and which is not only government backed (meaning the interest rate is lower than usual) but also entrepreneurs are able to benefit from 12 months free mentoring, which is invaluable for anyone starting a business – even if you’re a seasoned professional! Amounts up to £25,000 at a fixed rate of 6% per annum interest payable over 1-5 years are available and can be applied for [here](https://www.startuploans.co.uk/?_gl=1%2Aaojwp3%2A_ga%2AMzAxMDE2MjU3LjE2MjgxNTk1NDI.%2A_ga_N0V23L0VEC%2AMTYyODE1OTU0Mi4xLjEuMTYyODE2MDgyOS4w).

**Personal Savings / Funds**

For some, being able to put personal savings into a business is the preferred route. It means not being beholden to anyone else; not having to pay back interest charges and not having to divulge financial information about the business to any third parties.

Depending on the level and source of savings invested, this can indeed be a sensible solution, but there are also considerations.

1. Ensure that you have a separate business bank account so that you can record your payment either as equity

(i.e. it’s an investment and the business doesn’t owe you repayment of the money) or as a loan, in which case the business needs to repay you once it is in profit.

1. Think carefully about where the funds are coming from
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      Description automatically generatedIf it is from personal savings; do you have a sufficient balance of savings that you can draw on for any unexpected personal expenses or if your business does not generate sufficient income for you to take a salary or drawings at any stage
   2. If it is from a credit card, this should be a card that is only used in relation to the business so that you are able to clearly define the interest payments payable by the business
   3. Home equity loans are a great option, but remember that your home then becomes at risk if you are unable to pay back the loan and so even if you have set up a limited company to reduce any business liabilities, your home loan agreement sits outside of this
   4. Loans from friends and family can seem like a good idea – but we will keep repeating the old adage of not mixing business with pleasure. Relationships can be affected if people’s circumstances change and monies need repaying sooner than expected or if a business fails. If you do opt for this route it is recommended that you draw up an agreement with the repayment terms.

**Crowd Funding**

Crowd funding can be a great way to seek investment for a business – especially where you have a strong brand (people believe you are and will be successful) and/or where they believe in the product or service you provide and/or where they will benefit from the outcome.

Crowd funding works by setting a target and asking lots of people to donate small amounts of money. And because the risks are relatively small, and it enables people to ‘dip their toes’ into the world of investing relatively safely it is quite a popular investment option.

There are different types of crowd funding and the type you choose will depend on your product or service.

* Donation Crowd Funding is where people believe in a cause and are in effect donating money without any expectation of a return.
  + Sites like Just Giving; Go Fund Me; Angel.co are well known sites for donation crowd funding
  + You will still need to work at attracting the funding through: -
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    - Marketing the idea effectively
    - Being transparent about the use and benefits of the funds
    - Update everyone on the progress and the results
* Debt Crowd Funding is where people expect to receive their money back over time with interest paid. It is most suited to established businesses with a track record. If you are interested in pursuing this route you will need to
  + Outline in a proposal – the amount sought; the business objectives; the purpose of the loan and include this, along with your financial statements, onto a peer to peer (P2P) lending platform.
  + It is best to research the best P2P platform for your project. What type of businesses and projects have they raised funds for previously along with their terms?
  + The platform itself will define the terms of the loan (lowest investment; interest rates; repayment terms; type of investor best suited).
  + The platform is likely to request some form of personal guarantee or security from your business.
  + Once this has been agreed the platform will publicise the opportunity to potential investors and will hold the funds raised until the total sum is received.
* Equity Crowd Funding will require you to issue shares in your company and therefore requires much more careful consideration on your part. It is also riskier for investors as they generally are not offered any form of security or guarantee. This form of crowd funding is most often used by start-ups and early-stage businesses.
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    Description automatically generatedAgain, specialist on-line platforms such as StartEngine or Wefunder will ensure that your business is showcased to a wide range of investors and the process is similar to that with Debt Crowd Funding, except you do not have to raise security.

**Angel Investors**

Angel investors are typically high net worth individuals, looking to invest their own personal funds and make a strong return on their investment. Generally speaking, Angel Investors get involved with new businesses. Businesses that are far along enough that they have a proven concept but not so large that the business has lots of backers. Angel Investors are typically given a stake in the company and as such they often maintain and advisory role to ensure their investment is protected.  Unlike venture capital firms, Angel Investors understand that growing a profitable business can take some time and few expect immediate returns.

* Similar to crowd funding, you will need to pitch your business/project/idea to the investors but instead of having an intermediary prepare terms, you will connect directly with the investor.
* Because of the nature of angel investment you will be more successful if you are able to research potential investors before reaching out to them. This will increase your chances of obtaining the funding you need. Some of the top angel investor websites are:-
  + <https://www.angelsden.com/>
  + <http://gobignetwork.corporatedataengine.com/>
  + <https://www.angelnews.co.uk/>
  + <https://www.angelinvestmentnetwork.co.uk/>

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**Grants**

The government set aside money from taxation each year towards supporting new and existing businesses. The money is distributed through national and local organisations including councils, universities, charities and social and historical interest organisations. The government has a central database of grants that can be found [here](https://www.gov.uk/business-finance-support). However, it is also recommended that you sign up with your local district council newsletter and Business Lincolnshire for advance warning of any new grants coming up.

[Business Lincolnshire](https://www.businesslincolnshire.com/contact/) [North Kesteven](https://www.businessnk.co.uk/newsletters/#granicus-section) [South Kesteven](https://a443ed7b.sibforms.com/serve/MUIEAFii8xKcZe9S2VvotLzEsAKl7Vd6QaHQkJ--acLe3TpnqIxYbkp6qj7NcXYJK_E5xQtLrUNwKre-kXdC9emKio_DV7qRqlRI1lsSVRFfKhFJ8fXy9XYAWH_EGkzz1PlL0n8GrbFbsdN8cwAxXGvFaQBfgit1VDyCoCvp4Mm_aJoQaaSZ4PFH3cVipbXTXnMmlOsromEbCYPS) [East Lindsey](https://www.e-lindsey.gov.uk/article/5789/e-Business-Brief)

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[North East Lincs](https://www.investnel.co.uk/) [South Holland](https://www.sholland.gov.uk/register) [Rutland](https://rutland.us17.list-manage.com/subscribe?u=701a79f06a837f06b3435b688&id=fa75226981)

Grants are a great way to help you achieve your goals but should not be seen as free money and many have very small windows when they are open.

* Many grants are match funded, where you will also need to contribute to the total cost of a project.
* Most grants will require you to pay out in advance for a project and claim the money back once the project is completed.
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  Description automatically generatedEvery grant will have conditions attached and will be intended to deliver positive and tangible outcomes – for example improving sustainability, improving the offer / number of visitors to the area / increasing employment opportunities in the area / extending the seasonality of a place.

Your best chance of being able to benefit from a grant is to: -

* Have a business plan already prepared that outlines your vision and goals for the business; that includes market research and financial projections
* Sign up with your local authority and for the Business Lincolnshire newsletters
* Keep your records in good order as you will need to provide recent copies of accounts; insurances; permissions, receipts amongst other things