

To Raise Finance and Funding for Your Business to Grow In

Karen Melonie Gould, MBA Managing Director, WorkBiz Academy Ltd
Chester,
UK

Alternative Finance comes of age and goes Digital into the Cloud

We launched a Fintech Alternative Finance Platform in the UK in May 2014. We grew this business as a Trojan to have over 25000 SME Members within 18 months. It was announced, in November 2015, that there would be new FCA regulations (which we were aware of ready for 2016). This would mean that we would be required to have a FCA licence and once we looked at the costs, time and ongoing due diligence, we knew our structure needed to change. We further considered that, there would be the four significant players in this field in the UK (an industry that grew from 3 platforms when we first started to over 125 platforms) encouraging a restructure at Gateway2Enterprise. With an industry that is becoming populated with a range of platforms, we are so glad to say we have finally managed to create a unique structure that will benefit you, our clients.

OUR LUCRATIVE NEW STRUCTURE - we are a Business Finance Solutions and Services Platform focusing on:

Preparing our clients ready for finance/funding using our new cloud base tool 'FundMyBusiness' which we acquired in a partnership with the venture host. This tool is the "all singing all dancing" tool that no matter what stage of your business you are (Micro start up, SME growing, or a larger organisation, wanting to scale up from £3m-£50m equity investment) it is a platform appropriate for you.

This is part of our Premier Membership and we support our members with this tool by our fully trained and experienced Finance Finder Team. We also have grown our Business Growth Mentors who specialise in certain fields and industries and some have language abilities to communicate across the globe.

We still have our free membership for you to shop online with us by browsing through if you are on your journey of growing your business. If you further want to upgrade to other Memberships, we have our Pro membership that really supports as a business in promoting your business to our clients and/or raising Crowd Funding Equity through our E mail marketing new tool 'Majestic'. This is another cloud base tool from South Africa and is a new partnership for us to go forward in 2016. It runs EMAIL MARKETING Campaigns and then follows up with a CRM system never seen in the UK before.

Additionally, we have extended our Events and are now running out Networking LAW FINANCE Business CLUB across the UK for 2016 based on demand.

In the UK in 2015 there were over 250,000 rejected loan applications from the main high street banks, where do you go to and what other alternatives are out there?

A. PEER TO PEER LENDING

This type of finance matches Investors or Savers through an online platform with capital or savings to borrows in the form of loans. We work with P2P Business Lending with a range of partners including the likes of Funding Circle and Money & Co.

CHECK LIST NEED FOR THIS FORM OF LENDING

- Business Plan
- Cash Flow
- Projected Sales
- Video
- Presentation

All the above is available under one roof using our investment ready tool 'FundMyBusiness' which is part of our Premier Membership.

Advantages

This form of finance is quicker and you can see results within days. You can raise money for various issues from Capital to working capital and there are no restrictions on paying back the loan early. You may be asked to take out a Personal Guarantee for loans under 100k from all Directors as security.

Disadvantages

You must be prepared for all your details will go public. You will also have to have a Credit Check and be prepared as the money could hit your Bank account within days.

B. EQUITY CROWD FUNDING

This is a platform to raise money through equity – donations or rewards base. I have seen this type of Crowd Funding become more popular since 2014 and a great fit for early stage businesses. We work with Crowd Cube as one of our Finance Providers. Investors on this platform invest in businesses that they feel passionate about in exchange for shares within your business. The strength of your Pitch here lies with your video pitch and the wealth of experience in your team. Outline clearly how much investment you require over what period of time and for how much of your shares you are willing to part with. Be realistic.

You need to set your target of finance you want to raise. If it does not meet that amount within a timescale, for most platforms, the money raised is returned to the bankers. Nonetheless, you can surpass your initial investment and even set up a secondary pitch. Targets can be set from as little as £10 to as large as £10m. If you secure your investment within the time scale and you want to engage with your Investors before the secondary pitch you are also able to do this.

Advantages

This is an option to Angel Investment if you don't want to pitch in person and want to do this online. It is a very powerful marketing tool to invite your investors to share in your success and it gives more than money, but also adds value to your business as you gain the skills and expertise of investors.

Disadvantages

It could be sensed that you don't attract the necessary skills you 'want' from Investors (as you are not in front of them as you would be with Angel Investor Forums) but most of these platforms do allow you to engage with your potential investors.

C. PENSION LED FUNDING

You are able to use a Directors' Pension to raise finance/capital for your business without having to use a Personal Guarantee, which acts as security and protection for the business assets held within the business. This is a loan made over to the business over a period of time at a fixed commercial rate.

ADVANTAGES

Very innovative and stimulates growth for the business without having to take out a Personal Guarantee. Additionally, it allows the company to retain full control and you can use this form of finance to work with other forms of lending including banks.

DISADVANTAGES

You need to have a minimum of £50k in a combined/personal pension. It takes time to arrange this type of finance. The risks to the business if payments are not made are also eminent.

D. INVOICE TRADING

This is online debt factoring. It is very fast and easy to arrange and now can be sourced and prepared within 7 hours. You raise working capital for wages or to purchase goods to sell online to a group of investors who buy the unpaid invoices. These Investors will give you upfront up to 90 - 100% of the Invoice value for a fee. It is your responsibility to repay the Investors when the invoice is paid. If the Investors do not receive their funds on the determined date then the invoice payment falls over to you.

ADVANTAGE

This is ideal for CASH FLOW and unlocks working capital that you might not be able to access for up to 120 days. We work with Market Invoice – [logo here and contact link](#).

You can make use of this service as and when you like and no Personal Guarantees or Debentures taken.

DISADVANTAGE

You can only sell Invoices from highly reputable companies. It is more risky for Investors and only a select industry will make qualify for such form of finance. If you already have an existing debt then you will need the lenders' permission.

E. BUSINESS CASH ADVANCE

This is an unsecured funding to raise finance through your debit/credit card. This is ideal for small businesses which is linked to your sales records using these cards. It is the only product in the UK linked to the income of the business and payback is linked to debit/credit card revenues. You need to have a card terminal payment in action for at least 4 months. It can be used to purchase stock or refurbishments. It is hassle free and there is no paper work. Approval rates are very high and mostly suitable for raising funds from £2k to £350k.

ADVANTAGES

It is fast and reliable. Due to the fact it is based on your revenue, it mirrors your performance as a business. It is unsecure but sometimes a Personal Guarantee can be requested. You don't have to have a perfect credit record and it is used by Sole Traders. Last but not least, you don't need two full accounts.

DISADVANTAGES

You have to have a credit/debit card terminal for accepting payments, which can be set up with your bank. It is designed for short term lending under 12 months and is normally part of a wider finance solution.

F. CDFI BUSINESS LOANS

These are local lenders that supply straightforward loans. This is a National network of lenders.

ADVANTAGES

They can take a higher risk that the Banks cannot. They can support a poor credit history or the lack of trading evidence. They mostly don't credit score and sometimes lend on the basis of the business function whilst having an Advisor on tap. They can work alongside other finance and they can lend from £250 to £150,000. They can be seen to compliment Crowd funding and Pension Lead funding.

DISADVANTAGES

Their interest rates would be 12% plus and in some areas as high as 18%. This loan takes time as they have to get to know the business for around 2 weeks. You need to have a thorough Business Plan and for this using the 'FundMyBusiness' cloud tool with us www.gateway2enterprise.co.uk will be very resourceful.

G. ANGEL INVESTMENT

Angel investing is equity finance. An Angel investor makes use of their personal disposable finance and makes their own decision about making the investment. The investor would normally take shares in your business in return for providing equity finance. In so doing, they normally seek to not only provide your business with money to grow, but also bring their experience and knowledge to help your company achieve success. Angel Investors seek to have a return on their investment over a period of 3-8 years. Angels can invest on their own or with a syndicate. Angel investors then follow their deal either actively taking a role on the board or actively supporting the business, or may act passively as part of a group with a lead angel taking this role on their behalf.

ADVANTAGE

For an early stage business it is a fast option to raise finance but be prepared to know what equity/shares are you prepared to give away. I would advise that you seek 'SMART' investment where the investor brings their skills and expertise to the business.

DISADVANTAGE

You are handing over some control of your business and sometimes what they have in mind for the future of your business might not fit with your vision.

H. INVOICE FINANCING

Invoice financing is where a third party agrees to buy your unpaid invoices for a fee. Invoice financiers can be independent, or part of a bank or financial institution.

There are 2 types of invoice financing in the UK.

A. Factoring

'Factoring' - also known as 'debt factoring' - usually involves an invoice financier managing your sales ledger and collecting money owed by your customers themselves. This means your customers will know you're using invoice finance.

When you raise an invoice, the invoice financier will buy the debt owed to you by your customer.

They make a percentage of the cost (usually around 85%) available to you upfront.

They then collect the full amount directly from your customer.

Once they've received the money from your customer, they make the remaining balance available to you.

You'll have to pay them a discount charge (interest) and fees - the amount depends on which invoice financier you use.

Example

Customer owed you £40,000. You sell the invoice to an invoice financier for £34,000 (85%). They collect £40,000 from your customer and pay you the remaining £6,000 when they receive the money. You pay them interest and any fees you owe.

B. Invoice discounting

With 'invoice discounting', the invoice financier won't manage your sales ledger or collect debts on your behalf. Instead, they lend you money against your unpaid invoices - this is usually an agreed percentage of their total value. You'll have to pay them a fee.

As your customers pay their invoices, the money goes to the invoice financier. This reduces the amount you owe, which means you can then borrow more money on invoices from new sales up to the percentage you originally agreed.

You'll still be responsible for collecting debts if you use invoice discounting, but it can be arranged confidentially so your customers won't find out.

Advantages

Both kinds of invoice financing can provide a large and quick boost to your cash flow.

Advantages of factoring include:

- the invoice financier will look after your sales ledger, freeing up your time to manage your business
- they credit check potential customers meaning you are likely to trade with customers that pay on time

- they can help you to negotiate better terms with your suppliers
- Advantages of invoice discounting include:
- it can be arranged confidentially, so your customers won't know that you're borrowing against their invoices
- it lets you maintain closer relationships with your customers, because you're still managing their accounts

Disadvantages

Some disadvantages of invoice financing are that:

- you'll lose profit from orders or services that you provide
- invoice financiers will usually only buy commercial invoices - if you sell to the public you might not be eligible
- it may affect your ability to get other funding, as you won't have 'book debts' available as security
- If you use factoring:
- your customers may prefer to deal with you directly
- it may affect what your customers think of you if the invoice financier deals with them badly

Key Stats to Consider

- In the Alternative Finance Market in 2015 42% were funded.
- 13% funded but not the terms they requested
- 45% were declined