FINANCES & FUNDING
THE COMPLETE GUIDE

The ultimate guide to securing small business funding

WHAT'S INSIDE?

INTRODUCTION

Applying for funding is an exciting - and daunting - landmark on the journey to entrepreneurial success. Whether it's government grant schemes or business loans, knowing how (and when) to access cashflow is key for your business.

The last year has seen an increase in funding options for small businesses. Government schemes such as SEISS and bounce-back loans, as well as multiple other options have widened the playing field. While this fresh focus on support for SMEs is encouraging (and long overdue), understanding which option works best for you is crucial.

Matching your business needs to the right scheme enables you to pinpoint which goals the funds are driving - as well as how to maximise the cashflow boost.

WHAT IS BUSINESS FUNDING?

Whether it's in the form of a grant, bursary or loan, funding offers resources (usually financial) to support a project or program.

Business funding can take many different forms, including:

- Business loans
- Asset finance
- Working Capital
- Business Cards
- Commercial mortgages
- Government schemes and grants
- Bursaries

Most funding options are tailored to meet a specific need. For example, a credit card is an excellent way to manage regular spending. However, you wouldn’t use this to buy a house. In that case, a mortgage offers much better rates and advantages.

The same can be said for business funding. In order to understand which option works best for you, you also need to understand exactly what the funding will be used for.

HOW TO FIND THE RIGHT FUNDING

There are many reasons that small businesses decide to take out funding. Interestingly enough, a cash flow crisis isn't the most common denominator. In fact, when it comes to applying for additional funds, growth - not survival - is often the main driver. Here are some of the most common motivators for SMEs to apply for funding:

1 To stay ahead of the crowd

This is less 'keeping up with the Jones' and more 'edging out the competition'. Thanks to modern tech, it's never been easier or more affordable to start a business. For many SMEs, funding is about staying one step ahead.

2 To remain relevant

What makes you want to start an eCommerce business? Is it the sheer novelty, the idea it might be easy, because your entrepreneur friends are doing it? It's a full-time commitment, so will you do it even when it gets a little boring or the boat begins to rock a little bit? If you're lacking long-term commitment deep down, this may not be for you.

3 To seize an opportunity

This can mean supplier discounts, profitable partnerships or investment options. Having the capital on hand to seize the moment means reaping the benefits. Often, these kinds of ventures end up paying for themselves - and more.

4 To keep things moving

Another reason many businesses take out funding is to keep the workflow strong. For example, you may have several invoices pending, but need cash in the interim to purchase stock or cover overheads till the client pays out. The ability to move forward, without being stuck in financial limbo, helps drive business growth.

HOW TO FIND THE RIGHT FUNDING

Of course, there are other reasons business owners apply for funding. They may have genuine cash flow issues, or a project that's eligible for a specific kind of grant. Some even take out small loans to improve their business credit rating, meaning they can access bigger funding later on.

For simplicity's sake, let's break these funding options down into three categories:

- Business Loans
- Government Loan Schemes
- Bridging Loans

Once you've determined which funding method works best for your business, you'll want to assess (and boost) your eligibility. As with any loan, these all come with requirements that need meeting if you want to cash in.

WHAT ARE THE KEY REQUIREMENTS?

Many first-time buyers consult a broker a good few months before applying for a mortgage. The broker not only shops for the best deals - they'll also advise on how to manage your cash flow and plan strategically for a green light from the bank.

Whichever funding plan you choose, working with an accountant will guarantee you're in ship-shape for acceptance. At Addition, our support is a two-step process:

1. Profit History Check

Responsible lenders want to know that you can afford to repay a loan. One of the ways they'll do this is by checking your company's financial health. Addition CEO and founder Graham Davies says that two years of profit history is ideal. "We look at your numbers to answer the fundamental questions: do you make money? Is your business profitable - and is it profitable enough to support this loan application?"

Obviously, if your business hasn't been around for two or more years, there are still ways to determine profitability. However, being able to show two years of good, consistent profits is a green tick on your loan eligibility.

WHAT ARE THE
KEY REQUIREMENTS?

2. Net Asset Test

A strong profit margin is one thing. But are your profits proportional to the amount you want to borrow? Whether it's a mortgage or a credit card limit, banks base how much they'll lend you on your income.

The same principle applies to business loans.
“The second thing we do is check your balance sheet and positive net assets.” Says Graham “Can your business afford to pay back the loan? You wouldn’t want a loan amount that’s more than 25% of your profits. If repayments are £50k a year, but you only make £30k a year, you can’t afford it. Also, if you already have other loans, or owe money to suppliers, the lenders may decide not to grant the loan.”

Simply put: if your business can show two years of consistent profits, and those profits are sufficient to run the company plus meet repayment obligations - you’ve got a very decent chance.

“Even if the timing isn’t right for you just yet," Graham explains, "we’d be able to give informed advice, so that in a year's time, you can get that loan.”

Addition also has a list of preferred lenders. These are trusted companies who may be willing to loan you money even if you are high risk. We can support you with the application and do everything we can to get you approved!

FUNDING: HOW MUCH DO YOU NEED?

The various reasons SMEs take out business funding have already been touched on in this guide. The right loan at the right time can help power a growth spurt or even bridge a gap.

In order to make the most of a loan, you need to know which one works best for you.
For example, if your customers are allowed to pay within 90 days of receipt, but your suppliers want upfront money, a working capital loan is your best bet.

Your first step should be pinpointing exactly what you intend to DO with the funding.

For instance, you might have a strong business model with excellent revenue, and decide that next year you want to expand. “Let’s say you’ve got two restaurant sites performing very well,” Graham says, “and you want to open a third one. Although you know that this third site will be a success (based on location, target clients etc), you haven’t got enough cash to go ahead with it.”

“You’ll want to create a cash flow forecast to determine how much you need.” Explains Graham, “The first forecast should look at how much money it will take to open the new site. Then a second one should examine how much it will cost you to maintain the other two in the meantime. Lastly, you need to think about how much the new site will cost you before it starts generating profits.”

Planning and ensuring you know how much cash the project will require is essential. For this reason, a cash flow report is one of the most important things you can do to get new ventures off the ground.

HOW TO MAKE THE SMALL THINGS WORK FOR YOU

You've heard the age-old saying, "The devil is in the details." This doesn't have to be morbid - in fact, attention to the little things is often easier than tackling bigger challenges. And the good news is: it's ultimately more effective.

Of course, it pays to think big. But, to quote another cliche, "Every journey begins with a single step." Small, consistent moves in the right direction will get your business where it needs to be.

Injecting cash into your business with funding is useful and necessary for growth. However, there are other ways to boost cash flow with your own revenue. And don't worry - we're talking about cutting costs, not corners.

Time is money. The less of it you spend on admin-heavy tasks, the more of it you free up to inject into your business. Here are some actionable tips:

TIP 1

Bring out the business cards

Giving your decision-making teammates their own company cards is an excellent way to reduce admin. If your budget is tight, ensure your team understands what expenditure requires approval, and what is already green-lit.

TIP 2

Check out credit control

Whatever your product or service, you work hard to deliver results for your clients. Unpaid invoices - and the time spent chasing them - can put a major dent in your cash flow. Outsourcing this is a simple solution. With our CORE opt-in for Credit Control, you only pay according to how many customers you need covered.

TIP 3

Assign your accounts payable

While unpaid client invoices can damage your cash flow, unmet or missed supplier payments come with unpleasant consequences. Hiring someone to manage your Accounts Payable really is a no-brainer. Addition offer this service as an add-on to our £99 a month CORE plan. Check it out here.

TIP 4

Pawn off your payroll

Handling employee payments in-house comes with a string of data security risks - including identity theft and embezzlement. There's also pensions, NI contributions and insurance to think about. If you have staff to pay, consider protecting their interests (and your own) by outsourcing Payroll.

Getting your finances under control and up to date is guaranteed to make you more appealing to lenders. Line up those ducks by ensuring you have a strong profit history, good net assets, and a clear understanding of how much money you need to borrow, and for what. Addition can help you through this process at every step of the way - just hop on a free call with us.
No strings, just support!

Once you're ready, it's time for the next step: applying for business funding!

NEED SOME HELP WITH THAT?

If you want to secure funding, your business books need to be up to scratch. Our CORE plan takes care of reporting, bookkeeping and tax - so you can get the financing you need.

Why not hop on a call with one of our team? Together, we can get your books in order, and get you that funding!

HOW TO APPLY FOR FINANCE WITH FUNDING OPTIONS

Funding is the fuel companies need to grow, adapt and survive. But all too often, businesses can find it hard to secure the finance they need. There are too many confusing products, complex application forms and long waits.

Funding Options connects business owners to the right funding, at speed.

The Funding Options platform is designed for founders moving their business to the next level, entrepreneurs negotiating a tough market and leaders looking to adapt their strategy. We help business owners get the right finance in place, so they can trade, plan and grow with confidence. When we started Funding Options in 2011, we wanted to transform the business finance market. We set out to make sure every business owner could make an informed choice, and have access to instant funding decisions.

Since then we've helped more than 10,000 businesses get the finance they need, quickly and easily. That adds up to over £0.5B in funding for businesses in the UK and the Netherlands.

HOW TO APPLY FOR FINANCE WITH FUNDING OPTIONS

Hopefully, by now you'll have a good idea about the type of business loan you want, and which products you're potentially eligible for. When you apply on our website, our technology, Funding Cloud, accurately validates your business profile, matching you to the industry's largest lender network.

Funding results are uniquely tailored to each and every business. If you're still looking for advice on which funding options are best for your business, we can help you narrow it down, and the initial consultation only takes a few minutes.

Here's how it works.

STEP 1
INITIAL APPLICATION

When you apply for business finance using Funding Options, you'll be asked how much you want to borrow, what you're going to use it for and how long you need it for.
Next, we'll ask you some standard questions.

These questions will be based on:

- Turnover and profit
- Trading history
- Payment history (i.e. late payments, CCJs)
- Your sector
- Loan purpose

This part of the conversation will determine which products you're eligible for, and whether your loan request is likely to be accepted. The sector-specific questions often highlight products that make sense for your business type and needs, such as invoice finance for firms that trade on credit, or asset finance if you want to purchase plant and machinery.

One big advantage of using a service like Funding Options is that if your proposition isn't viable, you'll know within minutes — there's no need to wait weeks for an application to 'process'.

Our fastest time from application to credit approval is 21 seconds!

STEP 2
APPROACHING THE LENDER

If step 1 determines your plans are viable, you'll have a shortlist of products to explore. Your Business Finance Specialist will ask for copies of some standard documents like bank statements and filed accounts. They may also need details of your current debtors for invoice finance, or details of the plant and machinery for asset finance.

Your Business Finance Specialist will then assess the financial documents, your business needs and purpose of funds against initial eligibility criteria. If you're happy to proceed with the options discussed, they will approach the lenders that suit your needs.

Approvals are free to obtain and you're under no obligation to take out the loan at this stage if you change your mind.

STEP 3
"IN UNDERWRITING"

This is when the lender performs due diligence checks, looking into your credit history, bank statements, and other details to assure your application is viable in practice as well as ‘in principle’.

This can take anywhere between a few hours and a few days, depending on the lender involved and the complexity of your application. For most situations, 48 hours is a good rule of thumb.

STEP 4
OFFER & ACCEPTANCE

You’ve passed step 3 — congratulations!
It’s time to look over the options and terms of the offers you’ve received and check you’re happy with everything. Then it’s time to decide which offer you’d like to proceed with.

At this step, as well as steps 2 and 3, you’re under no obligation to take out finance if you change your mind.

STEP 5
RELEASE OF FUNDS

Once you've accepted the offer, that's it — you'll have the money in your account within a day or two. We call this 'drawdown', which means you've drawn cash from the lender to your bank account.

Congratulations — you've got the right funding for your business!

[APPLY FOR FINANCE TODAY]

LET'S RECAP

We've already covered a lot of ground in this guide. Let's recap the important points so you know exactly what to expect when considering a business loan. The following is a checklist of things to remember and consider:

- Bank statements
- Filed accounts
- Personal guarantee
- Understanding your business credit score and the directors' personal credit score
- Available security
- Type of finance e.g. short term or longer term finance/ unsecured or secured
- Trading history of the business
- Financial forecasts
- Amount, term and flexibility

Bank statements and filed accounts

Almost every lender will want to see these simple documents, so having them prepared in advance will make the process as quick as possible.

Personal guarantee

Have a think about whether or not you're prepared to offer one – because they can make a big difference to the overall picture of your application.

Credit score

When you apply for business finance, the lender will review your company's financial history. In order to access the information they need, they'll request your credit report – this is formulated by credit reference agencies. The personal credit scores of the company's directors can also have an impact on eligibility. Be sure to check your personal and business reports and look out for anything unusual. Your personal debt history matters to lots of lenders, so if you've missed a mortgage payment or declared bankruptcy, be prepared to discuss it up front, right away. Even if it leads to a 'no', it's better to know sooner rather than later.

LET'S RECAP

Security

If you have assets that could be used as security, they'll dictate the maximum amount you can borrow. If you don't have security, you'll need a stronger business that's showing good profits. Whether you have security or not, you usually can't borrow more than 10-40% of your annual turnover.

Type of finance

If you want a loan for a specific purpose or your business operates in a sector that lenders design products for, factor this into your thinking. For example, if you issue invoices, then invoice finance might be a better way to unlock the funding; or you could get a loan based on your card terminals if your business is in retail or hospitality.

Trading history

Even the strongest businesses will struggle to get a loan if they haven't been trading for at least two years. If this applies to your business, make it one of the first discussion points when you apply, in case it leads to an automatic 'no'. The Business Finance Specialist might be able to navigate around this depending on financial performance.

Financial forecasts and business plan

Most lenders will want to see that you've got a clear plan for how to use the loan, including best and worst-case scenario projections of what could happen.

Amount, term, flexibility

As well as having financial forecasts and a business plan, you should know how much you want to borrow, how long you need it for, and whether you want a fixed agreement or something more flexible. All of these factors affect risk and cost, so having an idea about what you want ahead of time will help you find the right product fast.

FUNDING TYPES FOR BUSINESS GROWTH

The days of a “one-size-fits-all” approach to lending are gone; today, you’ll find flexible products to suit different business growth purposes. Here are some of the most common business finance types.

Unsecured Term Loan

What is it?

An unsecured term loan doesn’t require you to offer property, machinery or other valuable items as collateral. So, if you don’t own many assets, don’t want to offer security or need funding quickly, an unsecured term loan could be worth considering. You’ll usually be expected to pay the loan back in monthly or quarterly instalments over a set period of time.

What's its purpose?

You could use an unsecured term loan to invest in your website and marketing campaigns, hire new staff, refinance higher interest debt or use it for any other legitimate business purpose.

Unsecured Revolving Facility

What is it?
A revolving credit facility allows you to borrow money, spend it on your business, repay it when you can and then withdraw it again at a later date when you need it. Your credit limit is likely to be the equivalent of one month's turnover for your business and you can dip in and out of it as much as you like.

What's its purpose?
An unsecured revolving credit facility could be a suitable finance solution if you need to fund the purchase of new stock, but it works just as well as a cash flow buffer.

Asset Finance

What is it?
Asset finance lets you access assets such as equipment, machinery and vehicles, without having to buy them upfront. Hire purchase is a common type of asset finance - you pay for the asset in instalments over time and own it once all the instalments have been paid'

What's its purpose?
An unsecured revolving credit facility could be a suitable finance solution if you need to fund the purchase of new stock, but it works just as well as a cash flow buffer.

Invoice Finance

What is it?
Instead of having to wait weeks or even months for customers to pay you, an invoice finance provider can advance you most of the funds immediately (usually up to 90%). Once the customer pays the lender forwards you the rest, minus their fees and charges.

What's its purpose?
Invoice finance improves cash flow by accelerating payments for outstanding invoices.

Commercial Property Finance

What is it?
If you're looking for short-term finance to renovate your premises or a longer-term finance solution to fund a brand new premises, there are a range of commercial property finance options out there today. These include commercial mortgages, property development finance and bridging loans.

What's its purpose?
You can use commercial property finance to reduce your business' outgoings and improve your Balance Sheet by purchasing a trading premises.

NEW, INNOVATIVE & FLEXIBLE FINANCE TYPES

Let’s take a look at some of the newer business finance options on the market today: revolving credit facilities, merchant cash advances, and e-commerce finance.

Revolving credit facilities and merchant cash advances are designed with flexibility in mind, while e-commerce finance provides online traders with superfast access to a line of credit.

Revolving Credit Facilities

There's a lot of variation in this area of the market, but the key idea is that you have an agreed credit limit prepared in advance, so you can dip into the funds as and when you need them.

Credit facilities work in a similar way to bank overdrafts — so you only pay for what you use. Some also allow you to extend your credit limit once you have a track record with the lender.

Revolving credit facilities are flexible in the sense that you don't have to use the maximum amount available and you'll only pay interest on what you use.

Some businesses utilise their revolving credit facility to make a large "one-off purchase", whereas others dip into it whenever they need to supplement their everyday cash flow.

Example

You decide to take out a revolving credit facility with a £5,000 limit.

Your business withdraws £2,000 to buy some additional stock ahead of an expected peak in trade. After buying the stock, you plan to repay £2,000 plus interest over two months. Once you've paid it off, you're able to access the full £5,000 again.

Merchant cash advances

Merchant cash advances are a type of short-term funding designed with businesses that take online or in-store customer card payments in mind.

To work out how much you're eligible for, some lenders will gain access to your card terminal's recent transactions through your payment processing company. Others require around 6-12 months of your payment processor statements. The standard maximum is 120% of one month's turnover, which may be averaged out over the last six to 12 months.

Here's where it gets really clever. Repayments are taken at source as a percentage of your future revenue. So for every transaction that's processed through the card terminal, a small percentage goes directly towards repaying your cash advance.

Business owners often say that the best thing about merchant cash advances is this method of repayment, which feels relatively painless because the repayment is taken at the source.

Example

You run a restaurant. Unfortunately, your fridge breaks down in the middle of a busy season — you need to buy a new one as soon as possible.

You set up a merchant cash advance based on your previous months' sales, and the funds, which are advanced immediately, cover the cost of the new fridge. Repayments are made through a percentage of your revenue over the rest of the busy period.

eCommerce Finance

Today, e-commerce accounts for more than one-quarter of all retail sales in the UK. Analysts predict that this figure will increase to one-third of all retail sales by 2024.

Many e-commerce businesses are experiencing growth at the moment due to the impact of the coronavirus pandemic and an ever-increasing appetite for convenience. The challenge comes when businesses simply don't have the capital available to fund growth.

Fortunately, fast business loans can be obtained from lenders with experience in the e-commerce market. You don’t need to provide security either. Lenders will look at your credit score and trading history to make a decision, and can often provide you with funds on the same day as your application.

Whether you trade on eBay, Magento, Amazon or an equivalent service, lenders’ systems can integrate to analyse your online accounts (such as PayPal or cloud accounting software) and determine trends and your affordability immediately.

Example

Your e-commerce website is experiencing a sudden uptick in demand. To facilitate this, you need to purchase new stock - and fast. The problem is you don’t have enough ready capital to be able to buy as much as you require.

So, you apply for e-commerce finance and get approved the same day, enabling you to purchase the stock you need to fulfil your orders. You also allocate some of the funds to ongoing cash flow obligations such as wages and tax.

APPLYING FOR FINANCES WITH FUNDING CLOUD

Funding Cloud is a platform by Funding Options that enables businesses like yours to thrive by facilitating quick and tailored access to funding. We do this through precise lender matching and real-time funding decisions that help you set your growth plans into action.

We break down funding barriers with a simple application process that empowers you and provides you with the clarity you need to take your next steps forward with confidence.

When you use Funding Cloud to find finance, you benefit from:

- A simple, fast application process
- Uniquely tailored results from across the lender market
- Instant, pre-approved offers. Our fastest time from application to credit approved is 21 seconds
- Free expert guidance and support

Through Funding Cloud, we offer both businesses and lenders a better way to connect and take control of their future. Start your simple, fast business finance application process now.

EXPLORE YOUR FUNDING OPTIONS

WHAT TO DO ONCE YOU HAVE FUNDING

Congratulations - you've secured your business funding!

So, what's next?

If the funding was specific to a particular project (for example, a research grant or to fund a scheme), this is less of an issue. In cases like these, you'll have a clear picture of what needs allocating where. If you can, separate the funds from your regular business assets. Opening a sub-account via your business account is an easy way to do this. This not only keeps the money safe - it also ensures it isn't accidentally eaten into by other, unrelated outgoings.

However, it may be the case that the funding you've received is more general. It might be a regular business loan, or one of the government's various Covid-related loans. A lot of funding is given with a broad parameter of use, and while a cashflow boost is like lifeblood to a business, using it effectively means having a strategy.

Here are some key pointers for success when planning how to use your business loan:

WHAT TO DO ONCE YOU HAVE FUNDING

1 Invest in innovation

If you’ve successfully applied for funding, your financials are likely in pretty decent shape. While its great your current service offer works, staying relevant is all about innovation. Beat your competitors to the punch - or at least match their stride - by creating a new product or service. Just make sure it's one with quality ROI (remember, you have to pay that loan back eventually).

2 Double-down on debt

You might wonder why you would take out a loan just to pay off other loans. One factor to consider is that interest rates for business loans are often much more affordable than the average credit card, for instance. Also, when keeping track of multiple repayments on different loans, all it takes is one missed payment (even accidental) to put a blight on your credit score. If your business is carrying significant debts, using a business loan to pay them off is always an option to consider.

3 Boost your brand

There’s always room for improvement when it comes to business. However, some wheels tend to squeak louder than others. For example, your equipment might be in need of repair or upgrades. It could be time to purchase new software or subscriptions to improve your processes. Alternatively, maybe your website needs some love - or your social media channels? There are lots of ways that just a little bit of investment in marketing can boost your business cred.

4 Create a cashflow cushion

Saving for a rainy day is boring - until it rains, of course. Many small business owners (and most accountants) recommend having a minimum of three months cash in the reserves. Having this buffer to fall back isn’t only crucial for emergencies. It also means you can plan confidently for the future, knowing that you’ve got all your bases covered should the need arise.

PAYING BACK YOUR LOAN

However you decide to use your funding, make sure you factor a loan repayment plan into your budget. You'll likely have agreed on fixed instalments with the lender. Whether you're committed to monthly or quarterly payments, you need a clear strategy to ensure these are met.

Map out how much you need to set aside, how often and for how long. If you can, set the payments to leave from an account with high cashflow (such as your safety buffer sub-account). You can easily transfer the money back in, but doing this ensures you're never caught out in a cashflow hold-up.

Taking out business funding is a big decision. Having the extra cash can be a game-changer for your business, provided that you:

- Use it where it has the biggest impact, and
- Pay it off efficiently

HOW WE CAN HELP

You may be undecided and seeking reassurance about the benefits of business funding. Or maybe you're committed to taking the plunge, but need some support getting things rolling? Whatever you need, we're here to help. Book a free call or drop us a line on our Contact page.

addi+ion

ABOUT ADDITION

Over his 14 years working in upper-tier finance roles, Graham Davies noticed a trend in consulting. It seemed small businesses were continually given the raw end of the deal. DIY bookkeeping, overpriced fees, lack of financial insights – the consistent lack of quality service for SMEs was disappointing. Determined to change this, he started Addition.

Instead of foisting rigid, one-size plans on small businesses with ever-changing circumstances, our plans are tailored individually – according to your budget, needs and dreams.

Today we're proud to support over 150 small businesses with quality financial services – and we're only getting started!

GET IN TOUCH

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ABOUT FUNDING OPTIONS

You know your business - we know business finance. We help business owners get the right finance in place, so they can trade, plan and grow with confidence.
Funding is the fuel companies need to grow, adapt and survive. But all too often, businesses can find it hard to secure the finance they need. There are too many confusing products, complex application forms and long waits.

When we started Funding Options in 2011, we wanted to transform the business finance market. We set out to make sure every business owner could make an informed choice, and have access to instant funding decisions. With a panel of 120+ lender partners, we've helped more than 10,000 businesses get the finance they need, quickly and easily. That adds up to over £0.5B in funding for businesses in the UK and the Netherlands.

Funding Options is one of the winners in Nesta's Open Up Challenge for Open Banking, and has been designated by HM Treasury for the bank referral scheme, to help UK SMEs find alternative finance when they're unsuccessful with the major banks.

GET IT TOUCH

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