TOURISM NI PRACTICAL GUIDE:
HOW TO FUND YOUR BUSINESS

Who is this for?

This is for you if you want to understand how to consider funding for your business, what the alternatives are and how to approach the funders.

Note: The information contained herein is for guidance only and may change over time. You should always seek professional advice and support to ensure that it is most appropriate for you and your own individual circumstances.

See also the other resource supports available on the Tourism NI website:
https://www.tourismni.com/business-guidance/home/

Different types of financing

There are different types of financing products that can be used by funders of business, and it is important to know the difference.

1. **Overdraft**
   An overdraft is a credit or lending limit that is approved by a bank and allocated to a current or operating bank account. For instance if a bank approves an overdraft limit of say £10,000 for a business, it means that the business account can go overdrawn up to that limit. Overdrafts are normally approved for "working capital" purposes meaning that it is seen as a form of short-term finance of current assets such as stock, debtors, wages or work in progress.

2. **Term Loan**
   As the name implies, this is a loan over a specified term of usually between 2 and 5 years. They are used very often to fund fixed assets such as cars, plant or machinery as the banks see this as providing funding to match the life cycle of the underlying asset. Term loans of longer than 5 years (commercial mortgages) can be provided to purchase fixed assets such as property or acquiring other businesses.

3. **Asset Finance**
   This is provided by specialist providers for the purchase of specific fixed assets such as vehicles, plant, machinery or equipment.

4. **Debtor Finance**
   As the name implies, this is used to finance the debtor book (unpaid customer invoices) of a business and it can release cash quite quickly into a business, where the business has a lot of unpaid invoices.

5. **Stock Finance**
   Stock finance works similar to debtor finance and specialist lenders can release cash to a business by providing funding for stock that needs to be paid. It is repaid when the stock is sold and is also a revolving facility.

6. **Merchant Cash Advance (MCA)**
   A Merchant Cash Advance(MCA) is where finance is advanced against payments received via your card terminal. It's useful for SMEs with few assets but with a significant percentage of takings received through card transactions.

TED | Tourism Enterprise Development Programme

Funding Sources

Traditionally, banks were the main or only source of loan funding for businesses, and they often held great power in their local business community. Now finance providers come in many shapes and sizes and if you are considering seeking funding, it is good to know the difference between them and what you should consider before approaching them.

1. High Street Banks

High street banks are still considered the "traditional" face of lending for many years.

Traditional banks and other lenders seek evidence of "repayment capacity" i.e. that you will be able to repay any money that you borrow. This is usually structured around:

Person – who is the borrower, what is your track record?

Purpose – what do you want the money for?

Amount – how much do you want and how much are you contributing?

Repayment/Term – how much will you need to repay and over how long?

Rate – what interest (and fees) will be payable?

Security – is there any security on offer such as a charge on property?

The most common way to show you have the capacity to repay any future borrowing is by showing historic evidence that to support that e.g.

- Your last 3 years' full trading accounts – Profit & Loss and Balance Sheet
- Up to date Management Accounts since your last full year's accounts:
- *A list of current orders or work in progress*
- *A list of stock (if appropriate)*
- *12 months' bank statements if you do not bank with them already*
- *Also at some stage, a personal credit check on the borrowers or directors*

For a new business or for one that is planning to expand their business, sometimes a business plan and/or financial forecasts are required.

How should you approach a high street (traditional) bank?

Whether or not you have a face-to-face meeting, a phone or video call meeting or you are completing an online application

The Do's

- **Be well prepared** – know your business well and be able to answer any questions that you are asked with all the relevant information to hand
- **Try to talk their language** – you don't need to be an expert but do get to know the products and services and the right questions to ask them as it is a two-way process
- **Be confident** – you need to believe in your business, or the bank won't
- **Be honest** – rather honesty up front than the bank discover something later
- **Get ready to be asked for more information** – often what you provide will itself trigger a request for another related piece of information and that may take time
- **Get external support –** your accountant may have experience of this and can support you at any meeting and it is always good to have a sounding board for your business
- **Prepare for a wait** – turnaround times vary from an instant decision to several weeks

The Don'ts

- **Don't be vague** – be clear with your responses. If you aren't sure, then say you will find out and get back to them
- **Don't be unrealistic** – banks lend money based on a risk assessment and you need to think, "would I lend this money to me if I was them?"
- **Don't try to cover up problems** – it is better to recognise the risks yourself than be in total denial that everything will work out 100%

2. Alternative Lenders

These now come in all shapes and sizes and here are the most common:

Credit Unions
These organisations have been lending money to personal customers for many years and sometimes lend personally to the owner who then invests it in the business.

Peer-to-peer Lenders
Peer-to-peer lending, or P2P lending, matches borrowers with a network of investors. Where it is different to a traditional lender, the investors you're connected with — a group of people (peers) or a company — decide whether to fund your loan.

Crowdfunding
There are several types of crowdfunding, each with their own nuances. Websites like Funding Circle (https://www.fundingcircle.com/uk/) act as a funding platform for intermediaries and can take you through a number of alternative funding sources.

Enterprise NI
Enterprise NI is the umbrella organisation for the Local Enterprise Agency network across Northern Ireland. As well as providing support for Start-ups and rental space for businesses and other organisations, Enterprise NI offers loans for businesses:

A. Start-up loans: Borrow between £500 to £25,000 per co-founder — average loan size £10,000.
B. Existing businesses: Start-up businesses trading less than two years can access up to £15,000 whereas companies trading longer than this can apply for up to £100,000.

Full details are on their website:

https://www.enterpriseni.com/business-support/business-finance

Invest NI
Aimed at ambitious SMEs whose growth is constrained by a lack of traditional finance, Invest NI provides a range of funding solutions under the banner of 'Access to Finance'.

Totalling almost £170m, there are five funds spanning a deal size range of £10k to £2m and offering support to SMEs across both debt and equity markets.

Full details are on their website:

https://www.investni.com/support-for-business/funding-through-loans-and-equity

3. Other Sources of Funding

There are many other sources of finance including:

- **Friends & family** – make sure you are clear and open about this from the start
- **Commercial brokers** – these act as intermediaries and can source lending from various loan providers, usually charging a fee or are paid a commission by the lender(sometimes both)
- **Angel Investors -** someone who invests their own money in a small business in exchange for a minority stake (usually between 10% and 25%). They tend to be entrepreneurs or people with extensive experience in the business world.
- **Venture Capital** – a form of equity financing where capital is invested in exchange for usually a minority equity stake in a company that looks poised for significant growth

You can find out more at the British Business bank website:

https://www.british-business-bank.co.uk/?gclid=CjwKCAjwi6WSBhA-EiwA6Niok9jH23O65tHqn7gqo5nY5lMAK2QLPg-qHceuhFZyfqH5fPtV1qeHsxoCoG0QAvD_BwE&gclsrc=aw.ds