

Business Finances Series


How to fund YOUR BUSINESS

TED

Tourism
Enterprise Development
Programme



TOURISM
NORTHERN
IRELAND



How to fund your business

- to help you survive and grow

Tourism NI

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Quick Polls

1. Your business structure
2. How long you have been trading

Funding your business Overview

What?

- *What* is business funding?

When?

- *When* might you need it?

Where?

- *Where* do you access it?

How?

- *How* do you secure external funding?

What is business funding?

Sources of funding

(liabilities)

Long term (> 1 yr)

- Share capital/equity/profit
 - Family loans
 - Bank loans
 - Grants

Short term (< 1 yr)

- Bank overdraft
- Trade creditors
- Other creditors e.g. taxes

Uses of funding

(assets)

Long term (> 1 yr)

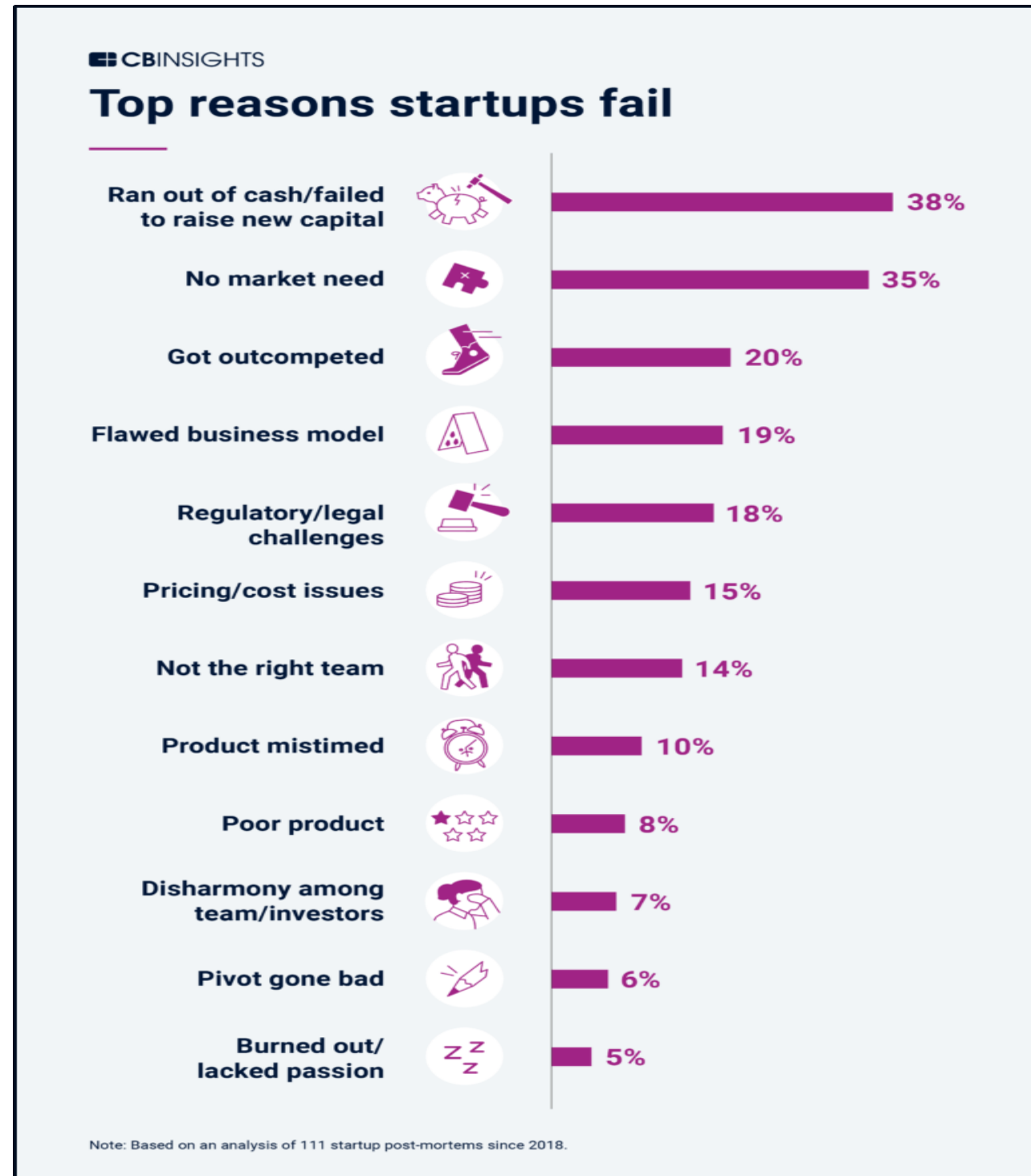
- Property
- Vehicles
- Fixtures & fittings

Short term (< 1 yr)

- Stock
- Materials
- Trade debtors
- Cash

Balance sheet

Why funding is critical



When might you need new funding?

Start-up

- Premises
- Website
- Products/stock
- Marketing
- Branding

Growth

- Bigger premises
- New products/services
- More products/stock
- New markets
- Staff
- Bigger overheads

Problems

- Losing a contract
- Drop in sales
- Seasonal troughs
- Bad debts
- Personal issues

Where do you access business funding?



Internal

1. Self-funding

External

2. Family & Friends

3. Business borrowing

4. Equity Investment

5. Grants

Quick Polls

3. Plans to seek external funding

(1) Self-funding sources

- From savings
- From other personal income
- From retained business profits
- From personal borrowing



(1) Self-funding

Advantages

- Easy to organise
- Fast to set up
- Less complex
- Maintains 100% ownership
- Maintains 100% control
- Keep 100% of the profits
- Less external pressures
- Easier to exit

Disadvantages

- It can limit growth
- It doesn't share the losses
- It doesn't spread the risks
- It may not attract wider skills
- If (external) loan, you must repay it

(2) Family & friends - sources

- Family savings
- Family borrowings
- Friends – usually savings
- “In-kind” e.g. the part-use of premises



*Normally not a formal “equity stake”
- but do treat it seriously*

(2) Family & friends

Advantages

- Easier to organise
- Fast(ish) to set up
- Less complex (possibly)
- Repayments can be flexible
- Maintains 100% ownership
- Maintains 100% control (usually)
- Easier to exit (possibly)

Disadvantages

- More external pressures
- You may need to share your profits
- It can risk relationships
- It may not attract wider skills
- If a loan, business must repay it

(3) Business borrowing

Traditional lenders

High St banks:

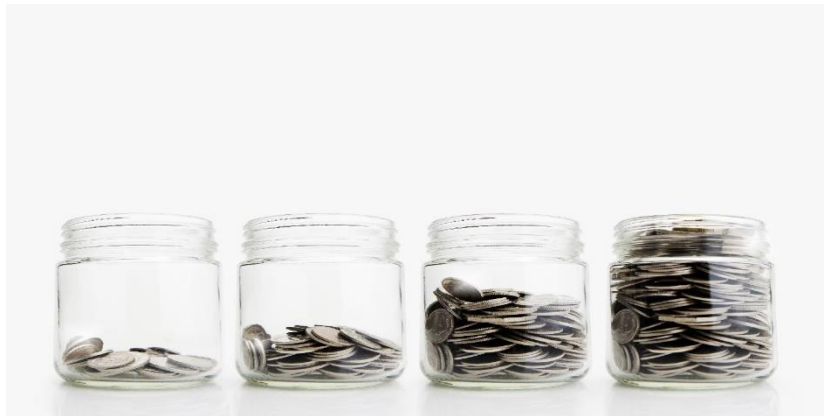
- Ulster Bank
- Danske
- AIB
- Bank of Ireland
- HSBC/Barclays/Santander
- Etc.

Alternative lenders

- Credit Unions
- Enterprise NI
- Crowdfunding & P2P lending (platforms)
- PayPal & Credit/Debit Card lenders

(3) Business borrowing- traditional products

1. **Direct** – your main business bank (traditional)
e.g.
 - Overdraft (working capital)
 - Term loan (fixed assets)
 - Stocking loan
 - Debtor finance
2. **Indirect** – through a commercial broker
 - Similar products



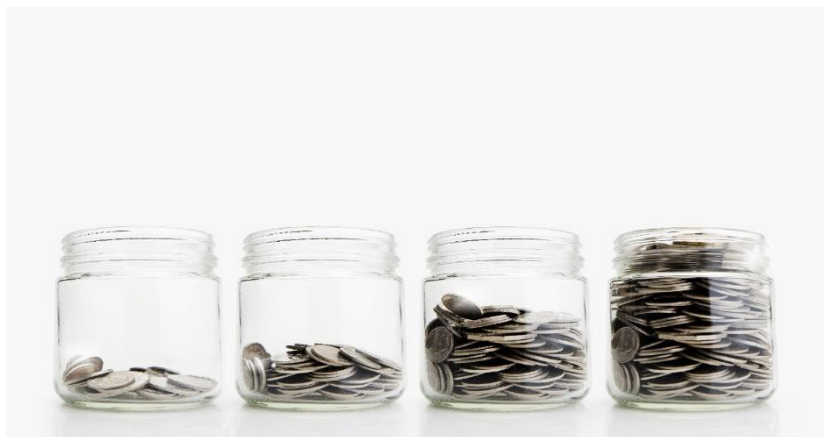
(3) Business borrowing- alternative sources

"Funding provided from outside the traditional banking sector"

1. Enterprise NI £500 – £25,000
<https://www.enterpriseni.com/pages/start-up-loans>
2. NI Small Business Loan Fund £10,000 – £100,000:
<https://nisblf.com/>
3. Peer to Peer (P2P) lending
4. PayPal & Credit/Debit Card lenders

Platforms....

1. Crowdfunding (online) e.g. Funding Circle:
<https://www.fundingcircle.com/uk/small-business-loans/>
2. British Business Bank: <https://www.british-business-bank.co.uk/finance-hub/peer-to-peer-lending/>



(3) Business borrowing

Advantages

- Maintains 100% ownership
- (Almost) 100% control
- Can support growth
- Flexible alternatives

Disadvantages

- More difficult to organise
- More external pressures
- Business must repay it on fixed terms
- May not reflect business seasonality
- It will not attract wider skills
- More difficult to exit

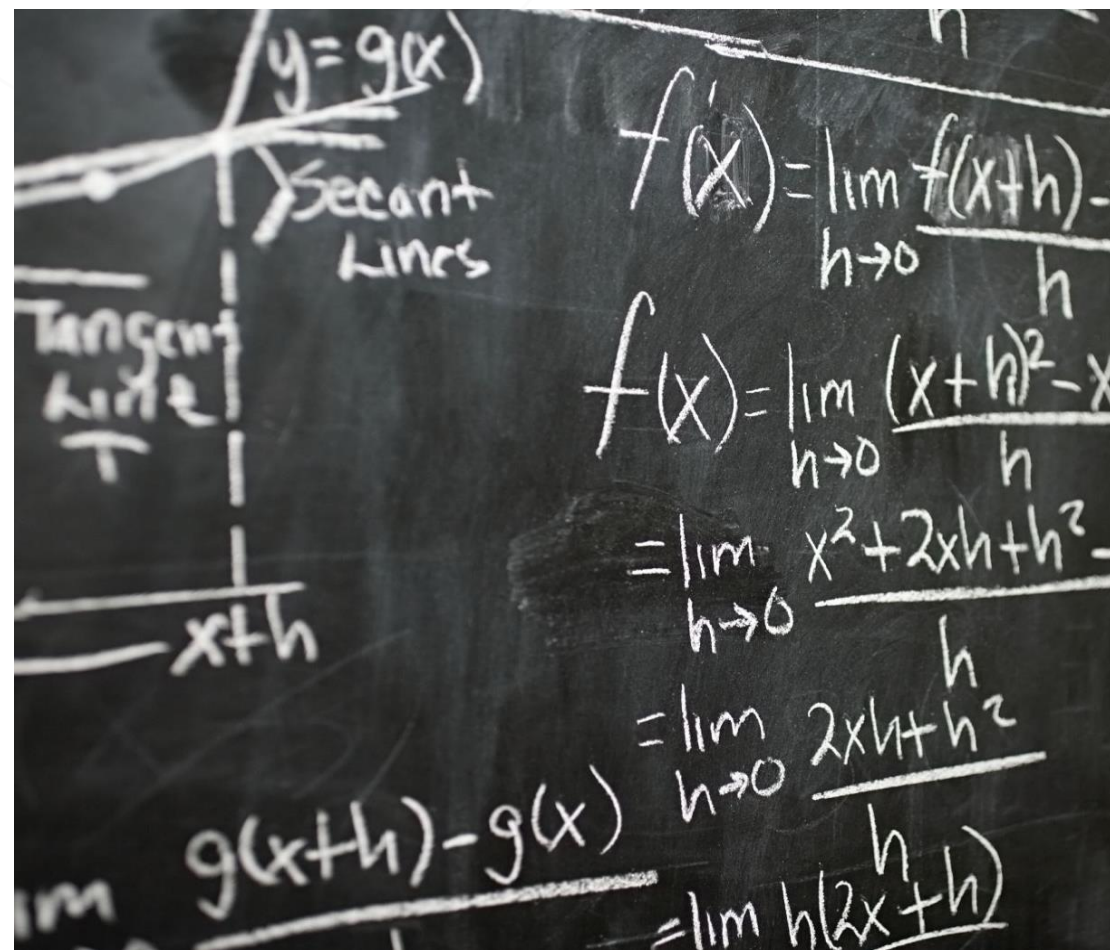
(3) How to prepare for borrowing

Application form?
Business plan?
Cash flow forecasts?

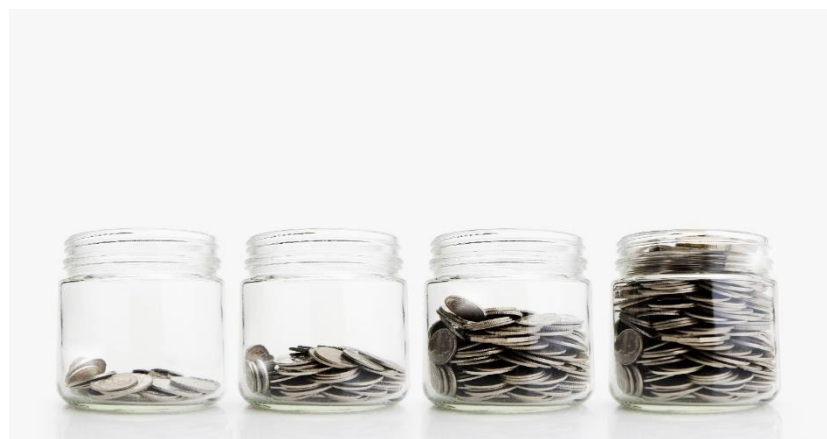
Check with the lender!

Tip:

They are all looking for “repayment capacity”



(3) Business borrowing- a lender's view



Imagine..... a distant family member asks you for a loan of £20,000 for their business and will fully repay you in 12 months.



Questions.....

- What is the business?
- What are you selling?
- Where are you located?
- Have you any trading history?
- Do you have any experience in this area?
- Do you have any other debt?
- How much have you invested in the business?
- Who owns the business?
- Who are the competitors?

(3) Business borrowing - a lender's view

Banks will ask you the same (mostly obvious) question.....

“Repayment capacity” focused on your ability to pay any debt, and the risks
i.e. the ability of your business to service its debt

Banks use debt capacity calculations often based on:

Net profit – either historic (last 3 years) or forecast

- Sufficient to cover the loan repayments between 1.5x and 2x (debt service cover ratio “DSCR”)

WORKED EXAMPLE

- Loan requested £50,000 over 5 years @ 8%
- Repayments = £1,000 pm or £12,000 pa
- Net profit £24,000 average over the last 3 years
- $DSCR = £24,000 / £12,000 = 2X$



Positive Credit Appetite – TNI Sector

(4) Equity Investment - sources

- Angel Investors (high net worth individuals)
- Venture Capital Funds (high growth & start-up)
- Crowdfunding – equity
- Enterprise Investment Schemes (EIS)
-and Family & Friends



<https://www.nibusinessinfo.co.uk/content/six-sources-equity-finance>

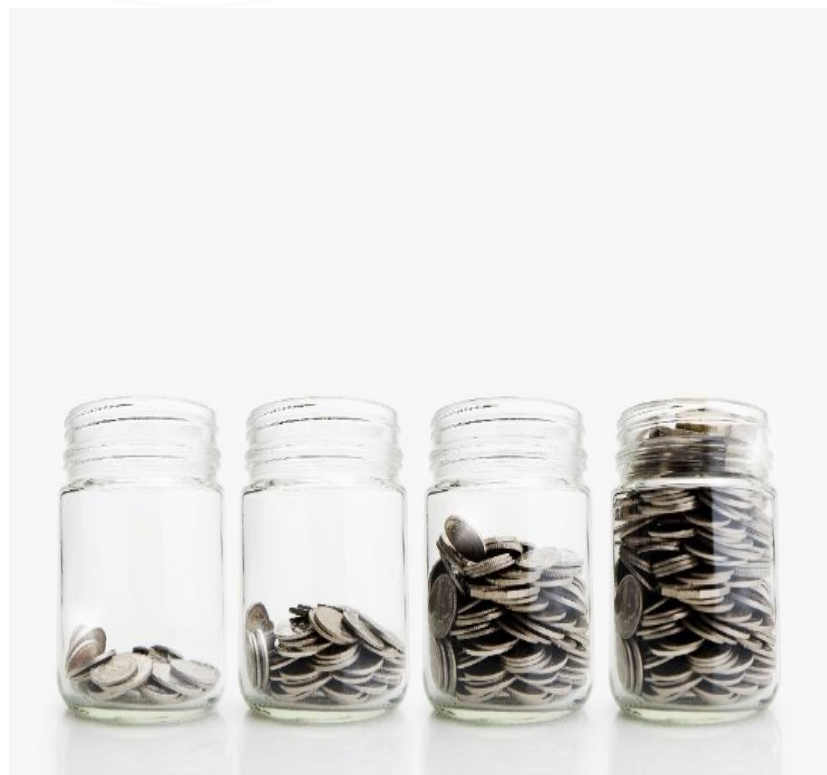
(4) Alternative funding sources



Crowdfunding (Equity)

- investing by a “crowd”

<https://www.crowdfunder.co.uk/>



(4) Equity investment

Advantages

- It can support growth
- It may attract wider skills (mentoring)
- No fixed repayments
- A longer-term investment
- No interest to pay

Disadvantages

- Lose 100% ownership
- Lose 100% control
- More difficult to organise
- More external pressures
- Business must share profits (dividends)
- More difficult to exit

(5) Grant funding



Advantages


- (Usually) non-repayable (check conditions)

Disadvantages

- Often for a specific purpose
- Require you to spend your money first
- Can require receipts and outcomes
- Usually taxable

Sources of funding – Portal

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Business need

- Employment
- Exporting
- Growing your business
- Product development, R&D
- Reducing costs
- Sales and marketing
- Starting a business
- Training and skills

Business sector

- Any -

Business size

- Any -

Business stage

- Any -

Business support finder

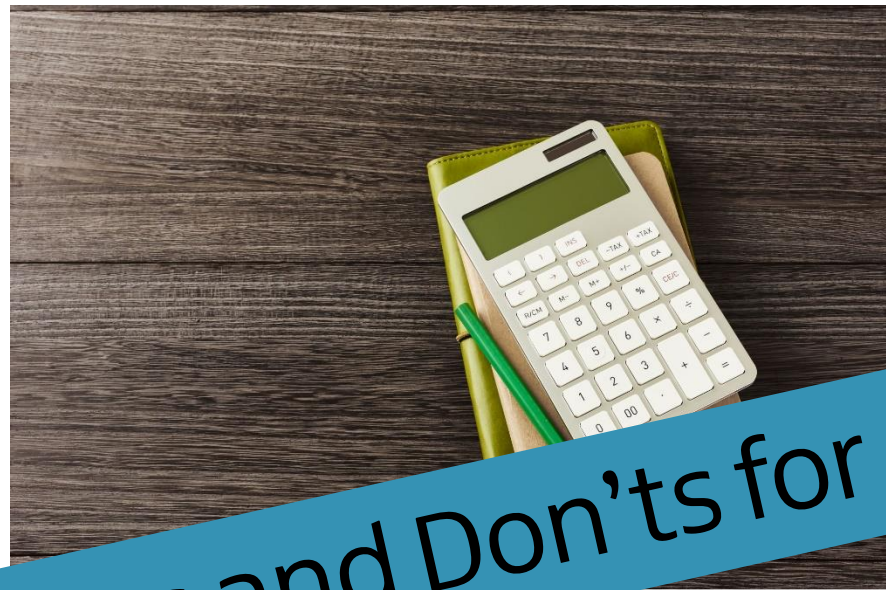
Business schemes available - **156**

Support Scheme	Support organisation
Renewable Energy Fund The Renewable Energy Fund will support sports clubs with infrastructure upgrades such as solar energy systems, air and ground source heating systems, sustainable water recycling solutions, and floodlight upgrades.	Sport Northern Ireland
Fit for Future Scheme Grant scheme designed to help bring vacant properties back into use and support revitalisation across the Armagh City, Banbridge and Craigavon Borough Council area.	Armagh City, Banbridge & Craigavon Borough Council
Northern Ireland Explore Enterprise Support Service This is a free service that provides an insight into starting a business or allows you to take the first steps to gaining employment.	Enterprise Northern Ireland, Prince's Trust

How to fund your business – your next steps....

1. Review your current funding structure (balance sheet) – right and appropriate?
2. Consider if you need extra or alternative funding – say next 3+ months?
3. Identify the quantity and timing of funds needed
4. If you can't self-fund it (internal), then look external – traditional and/or alternative
5. Check out the “Funds / **Support** Finder” on NI Business Info website
6. Check out eligibility, application process and t & cs before applying
7. If debt, ensure you can repay it and if equity, be prepared to give up some control
8. Maintain regular oversight over repayments of external funding
9. Check out the other TNI resources

TNI existing support.....



Handout – includes Dos and Don'ts for approaching lenders

www.tourismni.com/business-guidance/business-support/financial-support/

Q & A

Thanks!

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