

Raising finance



Raising finance is often the first hurdle business owners have to jump. Certainly it is one that will face all SMEs at some stage. And as tougher lending restrictions take hold, businesses need to get smarter if they are to get their hands on any investment.

How to raise finance for your small or medium-sized business

That age old saying “money makes the world go round” certainly rings true for business owners. It’s tough starting-up, expanding, or acquiring without some cash behind you. The current financial climate has made things even harder, but that doesn’t mean that help is not available.

Phil McCabe, of the **Forum of Private Business** (FPB), says a greater number of restrictions are being put in place, making it more difficult for small business owners to raise finance. “It is becoming increasingly more expensive, particularly from traditional avenues. Add to that the over centralisation of banks and the lack of competition around, and finance is hard to come by.”

Stay smart

No one can afford to be complacent when it comes to raising finance. “Business owners need to get smarter when they’re applying for loans. They need to make sure they have business plans in place and all the paperwork that finance companies want to see” says Phil.

Huw Morgan, head of business banking for SMEs at HSBC Commercial Banking UK, agrees. He says HSBC looks at each business on a case-by-case basis when deciding whether to lend. “When making lending decisions we are looking to support firms with good cash flow management, a strong balance sheet, a sound business plan, a well-balanced management team, a good business record, and who are looking to develop and grow,” he says. “Developing a strong business plan gives a business the opportunity to demonstrate all this.”

Huw recommends small business owners wishing to raise finance begin by making their business plan short and focused. “The layout and structure of the business plan is important – it should be simple to read and easy on the eye. Write a one or two-page summary that gets the key points across and describe the market in which you will compete: identify key trends and the nature of any existing customers. Explain how you will market and sell your product,” he says.

“Ultimately, remember it’s your plan, what is right on day one, may not be right further down the track. Use your business plan to get somewhere, but be prepared to adjust it if you have to,” he says.

Know the rules

When it comes to raising finance there are a number of legal issues to consider. Joe Bedford, partner in the corporate department at Stevens & Bolton LLP, says when small business owners are raising either debt or equity finance, legal issues to look out for include the use of standard documents by debt providers, requirements for personal guarantees or other security, and the setting of achievable and clearly understood financial covenants.

“When raising equity finance - even money from friends and family, small business owners will need to comply with the Financial Services and Markets Act 2000,” Joe says. “This protects acquirers of UK equity and is often overlooked in such circumstances.” It is also important that small business owners are clear at the outset as regards any strings attached to the finance that find their way into documentation. A detailed term sheet provided early on in the process should, but won’t always, highlight any snags.

There may be grants available to assist your business too, as well as private finance. You can use the support search facility run by the Government’s BusinessLink service to find out if there is help for you.

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Sage (UK) Limited
North Park
Newcastle upon Tyne
NE13 9AA

Tel 0191 294 3000
Fax 0845 245 0297
www.sage.co.uk

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