

Who needs finance?

Every business from its commencement and through its development and growth will require some form of finance.

But what type of finance is best suited to the development of your business, and who should you approach for funding?

abacus can help you prepare your business plan and then use the plan to help you decide which type of finance is most appropriate for you and your business.

Planning for growth

Is finance required?

The most important issue in regards to obtaining additional finance for the business is to ensure you will generate sufficient funds in the future to meet both capital and interest payments. Again the business plan will be an invaluable tool that will demonstrate the ability of the business to meet these commitments (see factsheet on the business plan).

Dependent upon the levels of finance required the lender may request some form of security this will often be in the form of a charge over business assets or assets of the owners/directors (this will almost certainly be a charge on your home). It is therefore important that you have undertaken a thorough review of your business and are confident the financing will help generate the additional levels of revenue to enable you to repay the loan.

Reviewing existing resources

Before seeking outside finance, a business must consider whether it could improve its working capital from within.

Particular attention should be given to stock and debtors to ensure that both are kept to a minimum. Consider how long it takes to bill customers and collect debts and look at ways to reduce this time.

If there are periods of time when surpluses of cash arise, review your affairs to try and ensure these are being used to generate income by investing on temporary short term deposit.

abacus can advise you on all these matters.

Business plan

Assuming external funding is necessary, planning is essential in achieving success. A well drawn-up business plan not only crystallises in your own mind the nature of the project and the timing of any required funding, but is vital to any lending institution. Lenders are unlikely to provide any assistance without a properly drawn- up business plan.

The plan will include details of:

- the objectives and aims of the business
- the purpose of the required funding
- the business ownership and history
- management and responsibilities
- products and market share
- sales plan and strategy
- the financial position of the business with detailed cash flow forecasts and past accounts.

See our factsheet on business plans for more details on how we can help prepare your business plan with you.

Types of finance

General

Finance is available in many forms, but it is important to make sure that it is right for your business. Onerous terms and inflexibility can often hinder a growing business.

The more obvious sources of finance include bank overdrafts and medium to long term loans and mortgages, but rates of interest can vary considerably. Therefore we advise you to consult with **abacus** before making your final decision.

Specific

Specific methods of finance are available for acquiring assets or releasing cash from debtors.

Carefully consider the options available which include:

- leasing assets
- hire purchase
- debt factoring
- invoice discounting.

Each method of funding has advantages and disadvantages including implications for tax purposes.

Other

Other means of finance may be available for your business from government sources in the form of a grant. There are numerous types of grants and **abacus** can help you review them to see if you or your organisation meets the criteria that qualifies you for the grant. Grants come in two forms national and regional and we will help you find the most appropriate for your business.

For limited companies, finance could be raised through the issue of additional share capital.

Another possibility could be the use of a small percentage of your pension fund. A formal loan from the pension fund could be used in the business, but as with all loans, it must be repaid.

Security

Whatever form of finance is offered, the lender will always require some form of security. However the level of security sought may vary beware the lender asking for unreasonable guarantees.

Fixed and floating charges

Most bank loans and overdrafts are secured by way of a fixed charge over land and buildings with floating charges over other assets of the company such as stock and debtors.

Personal guarantees

For some businesses little security may be available because of insufficient assets. Consequently the security will be given in the form of personal guarantees.

Take extreme care before signing these guarantees as they can be difficult to amend at a later stage and many have suffered as a consequence.

In particular, personal guarantees are best if they are limited by time or amount. Unlimited guarantees are the most dangerous.

General

It may be possible to use other assets as collateral such as life insurance policies or by taking a second mortgage over your home.

Whatever the means of security pledged, it should be carefully considered and advice sought.

How abacus can help

The means by which finance is obtained will vary enormously according to:

- the amounts required
- the nature of the business
- the risk exposure to the lender
- the period for which finance is required.

Accordingly, whilst some generalisations apply, individual circumstances require specific consideration. Time invested in formulating a funding strategy, whilst not guaranteeing success, will provide a structure to guide the growing business.

Our experience and contacts can enable you to achieve the means to help your business grow.

abacus would welcome the opportunity to assist you in formulating a business plan and obtaining any necessary finance.

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