Guide to funding a new business

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If you're thinking of starting a business, good news! There are lots of ways to finance a start up.

Start Up Loans, business bank loans, personal investment, peer-to-peer lending, equity investment, crowdfunding…even the Bank of Family and Friends! But how do you decide the best option for your business? This guide explains your startup business finance options and answers common business finance questions like:

What is the best way to finance a business?
Where can I get money to start a business?
Can I borrow money to start a business?
Where can I get a small business loan?



Before we get started…
Remember, if you're considering business finance, you'll need to find an option that:

you're eligible for and comfortable with
provides enough capital to suit your ambitions
has affordable repayment terms
No reputable lender will let you borrow more than you can afford...and that's a good thing!

If you're not sure how much money you'll need, check out our article on how much it costs to start a business.



What is the best way of financing a new business?

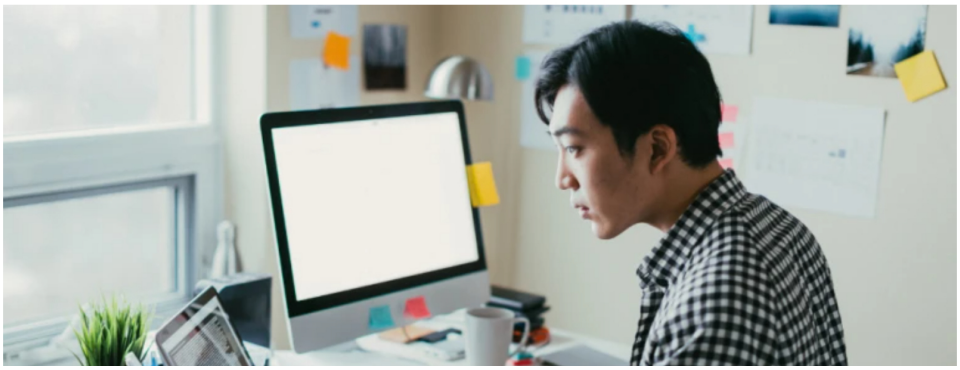
There are lots of different options to finance a new business, including:

- Personal investment
- Family and friends
- Business loans
- **Start Up Loans**
- Peer-to-peer lenders
- Business grants
- Equity investment
- Crowdfunding

There is no 'best' way of financing a start up business. You need to find the best solution for you. That might mean putting your own money into a business while you get it off the ground, borrowing money to boost your startup funds, or seeking support from outside investors.

When it comes to funding a new business, keeping a well-organized cap table is crucial. **Ledgy's cap table management software** can simplify this process, providing a clear and accurate overview of your equity structure. This transparency is valuable when approaching potential investors, as it helps build trust and confidence, making it easier to secure the necessary funding for your startup.

You can find out more about each of the financing options below.





STEP 1 : Personal investment

Should I put my own money into my business?

Investing your own money to kickstart your business can be the natural first step to financing your dream. It can be quicker and easier than applying for finance.

Also, if you're starting a new business, you need to be confident that it is going to succeed. Investing your own money is a great way to test your commitment to your concept by putting your money where your mouth is.

But is it right for you?

Pros and cons of investing your own money in your own business

Pros	Cons
Easier than applying for other forms of finance – no lengthy application process to navigate or hoops to jump through	You may have access to less money than if you applied for other forms of finance – this may reduce your potential for growth
You don't have to produce a business plan – this saves you time, admin and potential stress	You don't have to produce a business plan – business planning can help you work out the details of your business and refine them
You don't have debtors or investors to worry about	You may worry about using your rainy day funds instead
No interest to pay	Your lifestyle / budget may be impacted by funding your business

What should I think about before investing my own money in my business?

- **Keep your pots of money separate** – make sure you have a separate bank account to keep track of personal vs business funds
- **Keep things simple** – transfer a lump sum over to your business account rather than moving dribs and drabs
- **Be careful** – evaluate the risks of investing your own money before committing
- **Protect your assets** – make sure you won't lose vital assets such as your house or retirement savings if something goes wrong
- **Know your limits** - know your personal survival budget to keep your head above water as you start your business





STEP 2 : Family and friends

Should I ask friends or family to invest in my business?

If you don't have enough money to fund your business yourself, you might be thinking about asking friends or family for financial help.

With many baby boomers now mortgage-free and living on comfortable pensions, there may be relatives with available funds to help you out.

But tread carefully with this way to finance your business. There's more than money on the line here. Relationships can be affected if things go wrong.

Keep things clear

If you have family or friends who are interested in investing in you and your business, make sure you:

- **Are honest** – talk about how much you need, how long you need it for and the realistic rate at which you'll be able to pay it back
- **Are clear** – make sure you all understand whether the money is a loan, investment or gift
- **Make it formal** – put things in writing to avoid misunderstandings or disagreements in the future
- **Know the 'exit plan'** – if they want the money back, know when will that be and whether will they expect interest or some other benefit in return

Borrowing from the Bank of Mum and Dad?

Put things in writing so you all know what to expect. When you're borrowing from loved ones, there's more than just money on the line.



STEP 3 : Business loans

Can I get a business loan from a bank?

Many high street banks offer business loans to help companies invest and grow. However, banks can be risk-averse. This means they might not be as willing to back a new business as they would an established

risk-averse. This means they might not be as willing to back a new business as they would an established one. But don't worry: that's why **Start Up Loans** exist! Use our **Start Up Loan calculator** to find out how much you could borrow for your new business.

What do I need to apply for a business loan from a bank?

You'll need to be able to show any lender that your business is ready for investment and you can afford the repayments. To do this you'll need:

- A detailed business plan
- Clear sales projections
- A robust cash-flow forecast
- Accounts and tax returns (if applicable)

Not sure where to start? These might help:

- **How to Write a Business Plan**
- **How to Make Revenue Forecasts**
- **What to Expect when Applying for a Business Loan**
- **How To Start Your Own Business**

Bank loans aren't always an option

Bank loans aren't always available to new businesses. That's why the Government established the Start Up Loan scheme, to help brilliant businesses get the funding they need to succeed.

Can new businesses get a business loan from a bank?

Yes but it can be trickier. Since the financial crash in the noughties, banks can be more risk averse.

As a result, they often favour established businesses rather than new ventures, because they can look at past trading to assess future viability.

They also sometimes favour **limited companies over sole traders**. This is because limited companies are sometimes perceived as more respectable and reliable, due to being more open to public scrutiny.

The government have recognised that this can make it more difficult for startup businesses to find finance. So they started **Start Up Loans**, which are loans specifically for new businesses.



STEP 4 : Start Up Loans

What is a Start Up Loan?

Start Up Loans are a personal loan you use to finance your business. They are specifically designed for new businesses that have been trading for less than three years. They're supported by the Government as an alternative to traditional business loans from a bank.

How much can I borrow with a Start Up Loan?

You can borrow £500 - £25,000 over 1 – 5 years. See how much you could borrow with our **Start Up Loan calculator**.

Where can I get a Start Up Loan?

Start Up Loans are provided through the Start Up Loan Company and its 20+ delivery partners around the UK. **Transmit Startups** is the largest delivery partner.

Good Start Up Loan providers, like Transmit, can help you:

- **write a business plan**
- prepare **realistic financial projections**
- get your business off the ground through **mentoring** in your first year

What is a Start Up Loan?

A Start Up Loan is an affordable, Government-backed personal loan of £500 to £25,000. It is designed for people who need some money to start their own business. Read this article to find out how it works...

READ MORE

STEP 5 : Peer-to-peer lenders

What is peer-to-peer lending?

On the surface, peer-to-peer lending is just like getting a normal loan. The difference is where the money comes from.

Instead of coming from a bank or the government, P2P money comes from everyday individuals. People invest their money in a peer-to-peer lending scheme and the lender allocates it to loan recipients.

It is a way for individuals to achieve a better financial return compared to putting their savings in the bank (although it carries the same risk to them as other forms of investment).

For borrowers, there is little difference compared to a standard loan. Often, due to P2P lenders operating mostly online, they have lower overheads and can offer attractive interest rates as a result.





STEP 6 : Business grants

Can I get a grant to fund my business?

It depends on what your business is. Some non-repayable business grants do still exist, but they are rarer than they were fifteen years ago.

They are usually only available for businesses that meet certain criteria, such as:

- meeting an urgent demand
- solving a problem
- improving social mobility

Applying for grants can be highly competitive and you need to be prepared to make a strong case for your business. Remember to research eligibility criteria and provide evidence to demonstrate each one.

What businesses get grants?

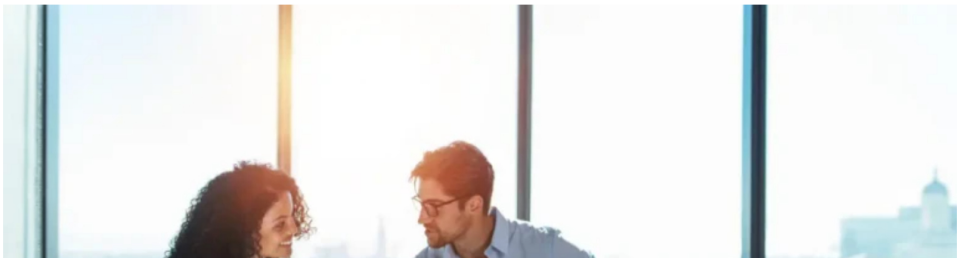
Most grants are available in one of the following sectors:

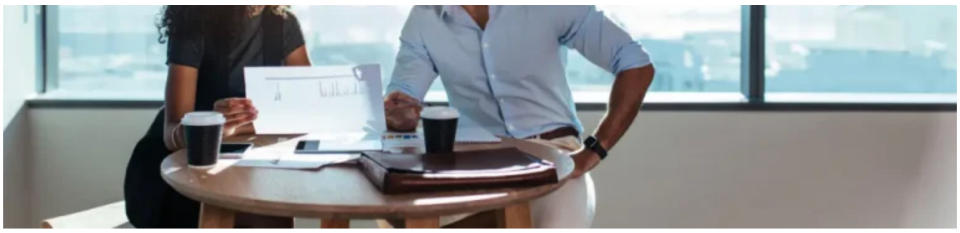
- research and development (R&D)
- employment and training
- environmental schemes
- businesses providing opportunities for young people

Where can I get a business grant?

Sources of business grants include:

- the government
- your local authority
- your local enterprise partnership and/or growth hub
- the EU





STEP 7 : Equity investment

What is equity investment?

Equity investment is when business angels or venture capitalists provide financial investment in exchange for a share of your company. Think Dragon's Den.

You'll receive a much-needed cash injection for your business, as well as benefiting from your backers' expertise and contacts. This can help you manage and grow your business.

Obviously, this sort of investment is highly sought after and can be extremely competitive.

Dreaming about Dragon's Den?

Dragon's Den isn't just something made up for TV. Investors like the dragons do exist. You just need to find them and win them over! A business plan will be essential if you want to win investment.

It's likely there will be a planned exit. This means the time when the investor will want to withdraw their investment and any profit they've made.

To attract private equity, your business should have the potential to grow over the next three to five years and deliver a good return on investment.

Be prepared for a change in dynamic once the business grows from your 'baby' into a full-grown firm. It is a very different set-up when you have a board of investors calling your decisions into account!

Who invests in businesses?

There are two major types of investor for startups: **angel investors** and venture capitalists. There are pros and cons, depending on how much investment you need and how much of your business you're willing to exchange. The differences are explained below.

What is the difference between an angel investor and a venture capitalist?

Angel investor	Venture capitalist
Invest their own money in your business	Invest money from a professionally managed fund of investors
Invest at an earlier stage of business development	Invest in more established businesses
Smaller budget than venture capitalists	Larger budget than angel investors
Take a smaller percentage of your business than venture capitalists	Take a larger percentage of your business than angel investors – usually a minimum of 20%
Take a supportive role in your business (such as mentoring)	Take a very proactive role in your business (such as board membership)

Where can I find someone to invest in my new business?

You can try finding an investor through your professional and personal networks. Additionally, online platforms like **Angels Partners** offer a streamlined way to find startup investors. This platform connects startups with a vast network of investors, making it easier to find the right match for your business needs. There are also a number of agencies who will make introductions between businesses and potential investors. Check out our article on the **five steps to finding an angel investor**.



STEP 8 : Crowdfunding

What is crowdfunding?

Crowdfunding is when people who need money post about their idea or issue online and ask investors to make a contribution towards it. This usually takes place via a specific crowdfunding platform, which helps the people build and promote their appeal, whilst taking a small cut of the money raised.

Can I crowdfund my new business?

You can. **Crowdfunding** is one of the newer ways to fund your business. It's brought real change to the world of startup finance, as well as the lives of business owners who've benefited from it.

One of the great things about crowdfunding is that it doesn't just raise money, it raises your profile too. As you circulate your appeal online, you reach people who are passionate about your product or project. They share it with their contacts and your appeal can snowball into success.

However, businesses that successfully crowdfund their startup funds are in the minority. More appeals fail than succeed. To find out more, take a look at our **guide to crowdfunding your business** and article on **writing a successful crowdfunding campaign**.

Pros and cons of crowdfunding your business

Great because...	But be aware...
Can raise a huge amount of money if you go viral	Only a minority of crowdfunding appeals are successful
You don't just raise money, you raise awareness of your business	You need to raise all of the money you've asked for or you receive none of it
You can build an audience of people eager to get their hands on what you're offering	Etiquette is to provide a thank you gift to everyone who invests – this may include your product once it is in production

Involves less formal paperwork than other forms of finance	Still takes time and engagement to make the campaign a success

So there you have it. Transmit Startups' Guide to Financing a New Business. If you're interested in a Start Up Loan, we'd love to help you out. Find out how much you could borrow – and what your repayments would be – with our easy-to-use Start Up Loan calculator.

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