

A man with short grey hair and a beard, wearing a blue t-shirt, is focused on adjusting a bicycle handlebar. He is in a workshop setting, with various tools like wrenches and a blue hanger visible on the wall behind him. The 'sage' logo is in the top left corner.

sage

The essential guide  
to alternative funding  
for startups and  
small businesses

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# Introduction

Running a small or growing business is exciting.

You get to decide who to work with and what to sell, and you get to do it all, knowing that you're growing a business you feel passionate about.

The only problem is the reality of funding your business often complicates things. You need funds to purchase goods, get the equipment your company needs and to hire employees or contractors. Even if you've got your business up and running, your cashflow can often be consumed by day-to-day overheads, monthly expenses, employee wages and the costs of your range of goods and services.

What's more, with payment terms typically falling between 30 and 120 days, many UK businesses don't have access to critical funds when they want to expand.

In this guide, we'll explore the extent of those struggles so you can see why you're not alone. Then, we'll reveal where you can find alternative sources funding beyond your bank and how to get ready for an application.

# The funding struggles of UK businesses

For our **2017 Payments Landscape Report**, we surveyed 1,000 consumers and 1,000 business people. We found one in three UK businesses are owed more than £30,000 in outstanding invoices, while one in five spends more than four hours a week trying to get paid.

Considering the impact of late payments and the costs of running a business, it's no wonder many UK businesses rely on external funding to stay on top of their cash flow.

It's a big issue, with 24% of small businesses saying access to working capital and funding growth is their biggest business challenge.

Prayank Agarwal, Management Accountant at ROL Construction explains: "External funding is really important – we rely on our bank for overdrafts and loans, and regularly discuss our business with them."

While most businesses still use bank finance, around a third (33%) say banks don't do enough to make capital available while more (41%) want the government to put more pressure on banks to lend. Agarwal says, "It would be great if all banks showed a willingness to support their local businesses in a thriving economy".

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# Sourcing alternative funding for your growing business

Nearly two-thirds (58%) of those we surveyed cited their bank as a source of finance over the last year. In the past, many businesses turned to bank loans to fund their growth. While there's nothing wrong with a traditional business loan, alternative funding can be cheaper and more straightforward than conventional funding.

The most popular types of alternative finance include crowdfunding and peer-to-peer lending, with 12% and 11% of businesses respectively having used these methods in the last 12 months.

"Peer-to-peer funding is useful because you can make your supplier your strategic partner and then discuss your business together," adds Agarwal at ROL Construction.

We also found that fifty-nine percent of UK businesses cite crowdfunding as an easier way to access funding than a traditional bank, while 62% say they would use it again.

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# Ten sources of alternative funding

There are many alternative funding options available, ranging from crowdfunding to government-backed loans. Whether you're just starting up or looking to grow your business, here are your primary options for alternative funding:

## 1. Angel investors

Are you wondering where to find one? Well, **Startups** provides a comprehensive directory of investors that you can reach out to for business finance, based on various criteria. You can filter these by category and fund size.

Angel investors are appropriate for owners of established businesses who can offer equity and demonstrate a good rate of growth. It can take twelve weeks or longer to access funds and there's typically a minimum limit of £100,000.

## 2. Crowdfunding

Many digital entrepreneurs rely on crowdfunding sites where they can pitch their ideas to a wider audience. Examples include **Seedrs** and **Thin Cats**.

Crowdfunding is suitable for businesses who offer rewards to their funders, sociable businesses and those who can pitch their idea in an appealing manner. Individual investments can start from as little as £10, but some businesses have attracted huge backing through crowdfunding. For example, BrewDog raised some £4.25 million through offering shares to "fanvestors" in return for lifetime discounts at their bars and online shop.

However, it can take up to 60 days to receive funds, and if you don't reach your target, you may not get anything.

## 3. Peer-to-peer lending

If you'd prefer to avoid a bank and you're not ready for an angel investor, you can apply for micro and small business loans through companies like **Funding Circle**. Its website connects businesses in need of finance with over 54,000 people and organisations lending around the UK.

It's useful for business managers looking to invest in specific parts of their business, for example buying a piece of equipment. Funding Circle helps businesses access growth capital of between £5,000 and £1 million. Its online marketplace has provided loans of more than £1.6 billion to 20,000 small businesses in the UK and abroad, funded by thousands of people and organisations including local councils.

## 4. Invoice trading

Businesses can access funds quickly by borrowing against the value of outstanding invoices through a company like **MarketInvoice**. This allows them to get cash more quickly than waiting for usual payment terms.

Because the money is loaned, the business remains responsible for collecting payments and pays the invoice discounting company a small fee.

## 5. Regional finance and support schemes

The government provides a list of **finance and support schemes** for various regions in the United Kingdom. You can filter through these schemes by the number of employees in your business, what your company does and what stage you are at.

Just one example is the **Northern Powerhouse Investment fund**.

## 6. Seed Enterprise Investment Scheme (SEIS)

**SEIS** provides UK startups and business entrepreneurs a way to source early-stage funding. Rather than peer-to-peer lending or debt finance, you can list your company on the site and offer equity for capital funding.

There's a guide to this scheme on the **SEIS website** that you can download for a small fee.

## 7. Start Up Loans

The government's **Start Up Loans** scheme was originally aimed at young entrepreneurs, and it enables you to apply for loans up to £25,000. You repay this money over five years, with interest payable at 6% a year. The scheme has supported over 40,000 business ideas with over £250 million of loans to date.

## 8. The Prince's Trust

**The Prince's Trust** works with 18 to 30-year-olds who are having trouble finding funding for their business ideas. You can apply if you're 18 to 30, living in the UK and unemployed, or working fewer than 16 hours a week.

If you've yet to start your business, the Prince's Trust offers a free four-day workshop as part of their Enterprise programme, during which you can get advice from other experts about your idea and business plan

## 9. Enterprise Allowance scheme

**This scheme** is for those receiving Jobseekers' Allowance, lone parents or income support. Includes business mentoring. Eligible applicants are assessed by a specialist adviser. You may qualify for an allowance payable over 26 weeks worth up to £1,274.

## 10. Enterprise Investment Scheme

**The Enterprise Investment Scheme** (EIS) helps smaller higher-risk trading companies to raise finance by offering tax reliefs to investors who purchase new shares in these companies.

# Getting ready to apply for alternative funding

Before you apply for alternative funding, it's best to ask and answer these questions with the rest of your team.

## How viable is your business idea and plan?

Investors and loan providers will often assess your business idea and plans on the likelihood of profitability. For this reason, prepare a business plan including forecasts for sales and expenditure. It should show conservative estimations of your monthly cash position. Your accountant (or accounting software) can help with this.

## Are you applying for funding that matches your profile and the requirements of your business?

Always consider what financial option best matches the needs of the business. Some funding organisations and investors favour specific business models, so do your research to see if a funder has a history of investing in people like you or your industry.

For example, micro-loans are typically more appropriate for established businesses who want to buy equipment or make a specific investment, while the Enterprise Allowance Scheme is suitable for job seekers with an idea. Similarly, some of the other options, like the Prince's Trust, are aimed at younger entrepreneurs who may not have gotten their business off the ground... yet.

## Are you ready to pitch your idea?

In the case of alternative funding, investors will sometimes decide on the readiness of the entrepreneur first and then the idea. That means you must be ready to talk about your idea in a way that appeals to an outside audience. Much like successful contestants on Dragons' Den, it pays to practice your elevator pitch with colleagues, a business mentor or advisor. You could even record yourself pitching an idea using your smartphone before you meet with someone reviewing your application.

## Are you clear on the repayment terms and length?

Before you accept funding, carefully review the terms and conditions. Some of the above alternative funding options require you to offer equity in your business, while others are more akin to a loan in that you pay a set amount with interest over a pre-determined period.

## Do you know what assets you have and the credit rating for your business?

Again, your accountant, financial advisor (or even your accounting software) should be able to present you with a balance sheet of fixed and current assets that you can use to support any alternative funding application.

## Have you worked out how much you need to borrow and how quickly you need the funding?

If you know exactly how much you need and you can demonstrate your ability to repay this funding over a period of time, your application will be viewed more favourably.

# The future is bright

Now that you know where to look, sourcing alternative funding doesn't have to be a challenge. All you have to do is determine how much you need, find a source that works with businesses like yours and then prepare a case that communicates why you're eligible.

And the best part? If you use alternative funding appropriately, you should be able to increase profits over time and ultimately unlock even more funds for growing your business.

# Looking for more?

You can find more useful help and advice on starting  
and growing your business on the Sage website.

[Find out more](#)

