www.mcboffin.com
McBoffin & Company Ltd

FUNDING GUIDE FOR FIRST-TIME ENTREPRENEURS

(overview of the funding options)

CONTENTS

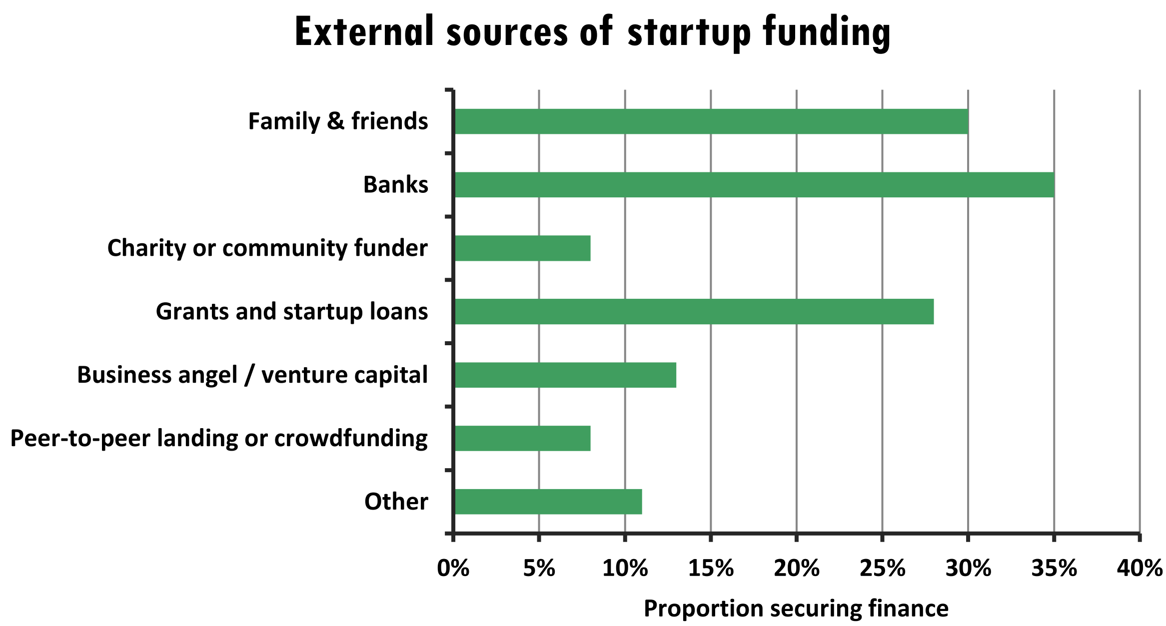
INTRODUCTION

Building a successful business requires a lot of patience, hard work and perseverance, especially during the first few years. It also requires careful financial planning. After you´ve calculate the startup costs for your business, you'll have to decide how to fund it.

In this guide we provide an overview of the main funding options available to first-time and experienced entrepreneurs.

Don't expect anyone to get excited about your new venture until you have some traction to show (customer orders, subscribers, prototype). Even then, many people will doubt your ability to develop a profitable business, especially if you haven´t done it before. That´s why most entrepreneurs rely on self-funding during the initial stages of their company´s development and gain access to other forms of funding only when their business starts to grow.

As part of the evaluation of Start Up Loans programme, introduced in 2012, British Business Bank published research reports in 2016 and 2017, which showed that about 80% of UK startups were self-funded. The remaining 20% relied on external sources of finance, as shown in the graph below.



Source: 2016 and 2017 research reports by British Business Bank. Graph by McBoffin & Company.

On the following pages, we briefly discuss the main internal and external funding options available to startups and small businesses for starting or growing their business.

1. SELF-FUNDING (BOOTSTRAPPING)

About 80% of UK startups are self-funded and this is the option everyone should consider first. There are many advantages of self-funding such as keeping the full control over your business, keeping all future profits, if you decide to quit or freeze the business you won't find yourself in debt, etc. Apart from government grants there´s no free money and the longer you can manage without external funding, the better for your business. Investing your own money also shows your commitment to the business, and can help you attract an investor or secure a loan in the future. But, to make it work, you have to be creative and good at managing money.

Start while still working full time

This is the best time to start. You can focus on developing your business without feeling under pressure to start making money immediately. It's rarely possible anyway, because you first need to do a lot of research, define your products and services, perfect your business model, develop a marketing strategy, prepare promotional materials, build a website, acquire first customers, etc. Ideally, all this should be done before you quit your job.

Depending on your commitments and the skill set, you can either do everything by yourself or hire someone to help you. It won´t be easy because you'll have to work in your free time and possibly cut on your monthly expenses.

Many entrepreneurs also save some money to cover for potential income shortages during the first few months of business. That way they can pay their bills without relying on credit cards, which often come with high interest rates.

Start part-time

Regardless of whether you are employed or unemployed, there are many businesses that can be started part time from home, with less than £500 or no money at all. For example, you can start a fashion brand by selling your designs on print-on-demand platforms or offer to the local shop owners to sell your products for commission. Many service businesses (web development, IT consulting, etc.) can be started on freelance platforms, or if you want to stay in the same industry, you can try to sign up the current employer as your first client. Many local businesses, such as catering or event planning can be started by delivering leaflets or advertising at your local community centre.

The biggest advantage of this approach is that you get a chance to test the waters and get to know your customers before making a larger investment. That experience will help you create better products, improve your client acquisition skills and learn the basics of running a business.

Personal savings or sale of assets

Not all businesses can be started part time with low investment. Sometimes, you have to save for a few years before you can start your dream business. For example, to open a restaurant or café, or to buy a good franchise it`s necessary to invest a significant amount of money.

However, if you don't have a well-paid job or any assets to sell, this strategy will not work for you. In that case, you would be better off starting part time in your chosen industry.

Create an immediate revenue stream

Sometimes it's possible to generate sales from your target market through a different product or service. For example, if you are an accountant who wants to build an accounting software, you could offer online tutorials to secure capital for product development. Ideally, it should be some kind of passive income that would leave you with enough time to work on the main product. Apart from the financial benefits, the real advantage of this approach is that it allows you to build a customer base before the product launch.

2. GRANTS

There are hundreds of grants available to starters in business all over the UK. The main purpose of the grants is to generate jobs and stimulate the economy. However, you do have to meet very strict criteria and the application processes can be lengthy. Despite that, it's worth checking if you're eligible for a grant, for grants are free money, which you don't have to repay. They are often available to unemployed or people living in certain regions, farmers, young adults, women, ethnic minorities, etc. There are many grants specifically designed for innovative businesses in the fields of energy, medicine, food production, etc.

A few links to get you started:

Finance and support for your business - GOV.UK

Innovate UK - GOV.UK

Welsh Government grants guidance | GOV.WALES

Business funding and advice - MYGOV.SCOT

Business support - Northern Ireland

Support for starting a business | The Prince's Trust

Horizon Europe | European Commission (europa.eu)

3. CROWDFUNDING

Crowdfunding platforms allow companies and individuals to create profiles for their projects and invite others to invest. Anyone can be an investor and the investments usually range between £10 and £500. Crowdfunding works particularly well for **product development** funding and charity organisations. However, most platforms host thousands of projects and to get any attention there, you need a well-planned crowdfunding campaign.

There are four types of crowdfunding:

EQUITY CROWDFUNDING - an alternative to angel and venture capital.

PEER-TO-PEER LENDING - an alternative to bank loans.

CHARITY CROWDFUNDING - for non-profit organisation.

REWARDS CROWDFUNDING - offering a reward in exchange for a small investment

Rewards crowdfunding is often the preferred option because it allows the founders to keep 100% ownership of their company and doesn't involve paying interest. With this type of crowdfunding, the investors are given a reward, rather than equity. The reward could be anything as long as it relates back to the business, but usually it's a right to buy the end product at a discounted price in the future.

Crowdfunding is also a great way to raise brand awareness and attract angel and venture capital. There are many crowdfunding platforms such as Kickstarter, Indiegogo, Crowdfunder UK or Crowdcube, but to create a successful campaign is not easy. If you have a ready-made audience, for example, a large social media following or existing customer base, you are more likely to succeed.

4. LOANS

Starting a business with a loan is generally a very bad idea, especially if you have no previous business experience or have to offer your house as collateral. There are too many things that could go wrong or take longer than expected. Loans could be a good option for established businesses that need capital to meet the increasing customer demand or if your plan is to buy a franchise. The franchise businesses are less risky because they come with a tested business model and an established brand, and most franchisors offer to refund the upfront fee within the first 6-12 months, in case you fail.

There are different types of loans:

BANK LOANS are normally given against an asset.

GOVERNMENT BACKED LOANS are mostly unsecured and much lower in value.

PRIVATE LOANS given by wealthy individuals for funding property development projects.

PEER-TO-PEER LOANS are available on crowdfunding platforms.

If you have a business that's been trading for less than 2 years, you can apply for a Government backed loan which comes with up to 12 months of free mentoring. Many business owners take advantage of this scheme to purchase an asset or scale up their business.

The key consideration is how you will repay the loan if the business takes longer or fails to generate the expected revenue. You should have a backup plan before you commit to a loan.

5. ANGEL INVESTORS

Angel investors are wealthy individuals who invest in early-stage startups in exchange for equity (usually 10-30%) or convertible debt. Their investments usually range from £10,000 to £1,000,000 and they typically look for a return of 10x their investment. Angel investors are often organised in networks but you can also find them on LinkedIn or through your personal and professional connections. They usually prefer to invest in their country of residence.

A few links to get you started:

The UK Angel Investment Network
UK Business Angels Association (UKBAA)
EquityNet – Crowdfunding Platform for Angel Investors and VCs

Many angel investors are experienced business people who invest only in specific industries and provide mentoring and advice alongside capital. They often invest in unproven but promising companies that are easy to scale and have potential to become global. Angel investors are primarily interested in inspirational and committed people who are able to execute their business plan and deliver a good return on investment.

If you think that you may need an angel investment in the future, you should focus on building a great team and start networking now. You can go to startup meetups, attend technology conferences, enter competitions, apply to incubators, etc.

Some startup founders exchange "sweat equity" for help with building a platform, marketing or legal advice, but that´s not recommended. In case those advisors prove to be incompetent or unable to help your business, you'll have to hire another person to do the work but won't be able to get the equity back.

6. VENTURE CAPITAL

Venture capital firms are professionally managed funds, backed by individual or institutional investors. These funds can carry up to £500 million in disposable investment money and are only interested in highly scalable, global businesses with a strong team and good traction. They typically invest in fast-growing companies with a low starting valuation, hoping to later sell them at a significant profit.

VC investments usually range from £1 million - £100 million and they offer expertise and mentoring alongside capital. However, if you're not willing to compromise and give them full control over your business, this may not be your best option.

7. INITIAL COIN OFFERING (ICO)

ICO is a type of crowdfunding that is used by blockchain and crypto companies. To raise capital, they launch a new cryptocurrency, which they offer in exchange for an established one, such as Bitcoin or Ethereum, or for cash. The investors buy the new cryptocurrency hoping that its value will increase in the future, if the company becomes successful. The most popular ICO platform is Ethereum.

Compared to IPOs (initial public offerings), ICOs are decentralised and less bureaucratic, but they also carry more risk for the investors due to lack of regulations and direct link between the company`s success and the token value. The investors receive tokens instead of equity and their post ICO value depends on how well the new cryptocurrency is integrated into the company's system. If there's no real integration and the tokens were issued only to raise capital, they are often worth nothing after the ICO. There have been a number of fraudulent cases and many investors still avoid ICOs, causing many ICO campaigns to fail.

8. OTHER FUNDING OPTIONS

Incubators and accelerators

Incubators and accelerators can be found in almost every major city in the UK. These programmes assist thousands of startup businesses every year and often receive funding from the local governments. The programmes typically run for 3-12 months and the accepted startups are usually provided with work space, equipment, education, mentorship, seed investment, financial and legal advice, networking opportunities, etc. Many incubators and accelerators specialise in helping digital technology startups but some are open to all types of businesses. Most of them are free.

UK Directory of business incubators and accelerators provides information about the available programmes, including their contact details and fees.

Startup Competitions

There are many national and international competitions for early-stage startups you can participate in. The top prize is usually a seed investment but they offer other benefits such as valuable feedback, partnership opportunities, media exposure, networking opportunities, exposure to key industry investors, etc. Big startup events are good for networking and learning about new technologies but it´s often the niche events that provide more value to startup founders.

A few links to get you started:

Apply to Contests - F6S
Competitions for Startup Funding - University College London (UCL)

Corporate startup programmes

Global corporations are increasingly relying on startups for innovation**.** Many of them run incubators, accelerators and platform-based startup programmes, and offer venture capital. Those collaboration opportunities are worth exploring, especially if you're an innovative technology startup, hoping to be acquired by one of the tech giants.

A few links to get you started:

Startup with IBM
Google for Startups
Microsoft for Startups
Facebook Startup Programmes
Cisco Startup Programmes
Fuji Startup Ventures

CONCLUSION

This list is not exhaustive and only includes the most commonly used startup funding strategies. The successful business owners usually combine a few sources of funding and plan at least a year in advance. Businesses hardly ever fail due to lack of funding opportunities. It's usually the poor financial planning that gets them into trouble. When raising funds for your business, always start by asking yourself how much money you really need and remember that funding is not an alternative to hard work. Even if you are able to raise a significant capital and employ people to work for you, you'll still have to lead the way and closely monitor every step of your company's development in order to make it a success.

Raising capital from investors is not a sign of success and you should avoid it if you can. You definitely don't need it to start a business.

International House, 24 Holborn Viaduct, London, EC1A 2BN
www.mcboffin.com, funding@mcboffin.com, +44 (0) 20 7060 5549
F: @McboffinCompany, T: @McboffinCompany, L: mcboffincompany