#FinanceConfident

A series of five business guides

4. Choices

Overview of the products available for different business requirements

Newable Finance

Finding the right finance for you

Newable

Now is the time for planning to become action as we enter the next phase of the economy.

This series of five guides is aimed at helping business owners and decision-makers to be finance confident as they navigate a changing and uncertain environment. These will guide you through five important aspects of business finance:

1. Confidence to plan
Business planning and cashflow forecasting

2. Cashflow mastery
Maximising cash coming in, controlling it going out

3. Credit checklist
What to do before you approach funders

4. Choices
Overview of the products available for different business requirements

5. Conversing with funders
Speaking the language of finance

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Choices

There are many different types of finance that work in a variety of different ways and that will have different roles depending on the stage of development of your business:

Start – When you have just opened the door and are getting yourself established. Cashflow is going to be key as you move into the rhythm of your business cycle.

Stretch – Having gained a stronghold in your market you will be looking to grow as fast and as safely as possible. This can stretch cashflow and see you needing to invest in new key assets to springboard further growth.

Stabilise – As a mature business you will be looking at building a market lead. This could mean creating further scale, or it could mean developing a niche or specialism. Whatever route you take you may well be looking at specialist skills and assets that will drive your competitive advantage.

Spend – Maturity may deliver the opportunity to acquire other businesses. Whether you are looking to build market share, open up new territories or strengthen supply chains, you are probably going to need cash beyond the level that the business can deliver through trading.

Sell – Founders will at some point wish to exit the business. This can open up the opportunity for the management team or new entrants to take over the reins. Finance will be important to allow this transition to happen seamlessly.

There are no hard and fast rules as to what type of finance should be used at what stage and in fact what types of finance should be used together. It all depends on circumstances and objectives.

Therefore, it is always important to get impartial, independent, expert, advice from the team at Newable Finance.

The following is an introduction to the many types of finance available with an indication as to the stages of development where these may be applicable to help you chart your way around.

Asset Finance

Start/Stretch/Stabilise/Spend

Asset finance is used to obtain equipment or vehicles for your business, such as office equipment, plant and machinery or company cars. It can offer a flexible alternative to a loan, providing cash flow and tax benefits. The two main forms of asset finance are leasing and hire purchase. With leasing, the leasing company buys and owns the asset. The customer, or lessee, then hires the asset, paying rental over a fixed period. At the end of the contract, the customer usually has a choice of extending the lease or simply returning it. Hire Purchase is a financing solution for companies wishing to purchase business assets. On completion of the agreement, ownership of the asset transfers to the customer.

Asset Based Lending

Stabilise/Spend/Sell

Asset Based Lending is a versatile form of finance that releases the value tied up in a wide range of business assets, such as the sales ledger, plant and machinery, stock and freehold and long-leasehold property. It is frequently used by more mature businesses that are looking for a finance solution driven by strategic reasons, such as expansion plans, funding an acquisition or a management buy-out. It is a flexible form of finance as the facility can grow as the business' assets grow.

Bank Loans and Overdrafts

Start/Stretch/ Stabilise

A business loan is generally a fixed cost, fixed term loan. An overdraft is an agreed cash-borrowing limit that is arranged with your bank to provide short-term funds, but that can also be withdrawn without much notice. Although the high street bank was the first port of call for both of these, in recent years many alternative finance firms have risen in prominence. This has been spurred on by both Government and businesses wanting greater competition and choice in the market to ensure as many businesses as possible have access to finance.

Bridging Loans

Stretch/Stabilise/Spend

As you grow, so your portfolio of assets will grow. Bridging finance works as it is described and provides a finance link between important events in your business, such as bridging the gap between selling one property and securing a mortgage on another, buying a property at auction, refurbishment work on a property, or perhaps releasing funds for business purposes such as buying stock, funding new contracts, or buying IT equipment.

Business Angels

Start/Stretch

Sitting between funding from friends and family and venture capital comes a form of equity finance from business angels. This person is typically a wealthy individual who may have specialist knowledge of a certain sector or type of business. As an early-stage investor in a business they have a different tolerance for risk taking. But that willingness to take a risk comes in the form of taking shares in the business as a return. They will also wish to have a defined exit point from the business where venture capital or different forms of lending will take over.

Commercial Mortgages

Stretch/Stabilise/Spend

Just like the mortgage on your home you can obtain commercial mortgages for terms up to 20 years on a range of property types, such as retail units, garages, forecourts, offices, or industrial units. They can be capital repayment or interest only and, just like a home mortgage, will be more expensive the less money you can put down as a deposit.

Crowd Funding

Start/Stretch/Stabilise

Contrary to perception, crowd funding is not just for start up businesses. Many businesses are embracing its potential to fund expansion plans. It's a good example of how the internet is allowing everyday investors and businesses to collaborate. Its great advantage is that your business does not have to fit a template set out by a big, potentially risk averse, finance institution. If people believe in you, you can secure quite substantial funding. The big risk with it though is that you must tell a lot of people about your business ideas before you put them into practice.

Factoring and Invoice Discounting

Start/Stretch/Stabilise/Spend/Sell

Getting paid on time or late can have a huge impact on a business' fortunes. An otherwise profitable business could go under if it cannot secure payment for its goods and services at the right time. Factoring and invoice discounting are both designed to unlock the value of your debtor book, giving you the cash the business needs when it is needed.

With factoring you sell your invoices to a factoring finance company. They will pay you a percentage of the value and collect the fill amount owed from the debtor. Once the factoring company has collected the outstanding debt, the balance will be paid to you minus the amount already advanced and the charges. With invoice discounting money is advanced against your sales ledger. You pay a fee equating to a percentage of the value of your invoices. Funds are made available at an agreed percentage rate against invoices as they are issued for you to draw down as needed. Invoice discounting is typically a confidential facility, whereas factoring is disclosed.

Family and Friends

Start/Stretch

In the early stages of your business, it may be appropriate to seek start-up funding from friends and family. Like crowd funding it offers you the opportunity not to have to conform to the criteria laid down by big financial institutions. Whether you are seeking a loan, or are willing to offer equity, make sure it is done formally to prevent problems at a later stage.

Government Recovery Loan Scheme

Stabilise

There are many different UK Government backed schemes to help businesses find the right finance. You can find out more about them at www.british-business-bank.co.uk

Right now, probably the highest profile is the Recovery Loan Scheme (RLS). You can apply for RLS if Covid-19 has affected your business. You can use the finance for any legitimate business purpose – including managing cashflow, investment and growth. If your business has already borrowed from any of the other coronavirus loan schemes, such as Bounce Back Loan Scheme (BBLS), Coronavirus Business Interruption Loan Scheme (CBILS), or Coronavirus Large Business Interruption Loan Scheme (CLBILS), RLS is still open to you, although the amount you have borrowed under an existing scheme may in certain circumstances limit the amount you may borrow under RLS. RLS will run until 31 December 2021, subject to review.

Merchant Cash Advance

Start/Stretch/Stabilise/Spend

A Merchant Cash Advance, also be known as a Business Cash Advance or a PDQ loan, is a flexible business finance facility, is used by businesses that receive payments from their customers by debit or credit card. It allows the business to borrow with the funds 'secured' against future card payments. It is a useful way to assist with cashflow for businesses that enjoy a substantial number of payments via card transactions.

Venture Capital/Private Equity

Start/Stretch/Stabilise/Spend/Sell

These two terms are sometimes wrongly used interchangeably, but they are quite different forms of equity investment into businesses.

Venture Capital is where a private investor provides capital to a business in exchange for shares. Their interest lies with high growth potential early-stage companies with the aim of being able to sell their interest after a number of years.

Private Equity is where investors invest in businesses that are not publicly listed companies. Their aim is the same as venture capitalists in terms of wishing to sell their interest after a number of years, but they frequently look at obtaining a majority stake in mature companies where inefficiencies have been identified.

Speaking the language of finance

In our final article of the series, we will be looking at the terms and phrases you might hear and read when you travel along your finance journey. Just like you would have a phrase book when you go on holiday, our little guide will help you get the most from the finance process.

Newable Finance is a UK finance broker dedicated to finding the right finance solutions for SMEs and property backed businesses across the UK and in every sector.

We help businesses access the finance they need to:

Thrive Expand Grow Innovate Diversify

Being able to access the right funding when it is needed is a critical part of the growth journey of your business. Newable Finance can provide you with the independent perspective, whole of market reach and the depth of experience to secure the fast and flexible finance required to deliver your growth ambitions.

Newable Finance forms a key part of Newable, a leading UK provider of money, advice and workspace to SMEs, established in 1982. Newable Finance is an FCA authorised finance broker.

newable.co.uk/money/finance

- Asset based finance
- Asset finance
- Auction finance
- Bridging loans
- Buy to let mortgages
- Cashflow support
- Commercial mortgages
- Construction finance
- Development finance
- Invoice finance
- Merchant cash
- Recovery Loan Scheme
- Renewable energy finance
- Residential mortgages

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