

Alternative Funding Options for Businesses

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1. The Current Problems for Businesses

There is a current lack of funding for businesses in the market. Bank finance has all but dried up creating a problem for any business that has cash flow difficulties or is wishing to expand.

According to the Bank of England: -

- Net monthly flows of lending has continued to be negative or close to negative since the turn of the year.
- Lending to UK businesses has been consistently poor since January 2009 with April showing a *negative* lending figure of £6billion, the poorest figure since the start of the calendar year. May continued to show this trend with a figure of -£3.4 billion. 2009's average monthly net flow of lending to UK businesses is dramatically below the averages we have seen over the past few years.
- Fees and spreads on bank loans have increased, deterring businesses from applying for funds. The rises in spreads and fees have been put down to higher long term funding costs and credit risk for banks.
- Net funds raised by UK businesses show a reduction in bank loans with a preference for equity and bonds.



Information Source: www.bankofengland.co.uk – other publications – monetary policy – doc: 'trends in lending – July 2009'.

Traditionally banks have supplied the finance for Businesses which has been so important for the well being of the UK economy.

Without finance many businesses cannot properly operate or expand, stifling the entrepreneurial position of the business market as a whole.

Although the government has announced certain support packages there is significant anecdotal evidence that this is not feeding into the real economy. Banks continue to focus on mending their broken balance sheets which means that they are looking to recapitalise their positions which does not include making much in the way of new funding available to business people.

“Without finance many businesses cannot properly operate or expand, stifling the entrepreneurial position”

The government support schemes are generally limited to guaranteeing loans but despite the theoretical attraction of such arrangements there is no incentive for Banks to co-operate whilst they have substantial cash injections (also from the government) and their emphasis is on recapitalisation.

Furthermore the government schemes emphasise the fact that any lending under such support packages must be made on a “commercial” basis, which seems very odd to us. Firstly, why would Banks lend on any other basis? Surely any lending in the commercial sector should always be on this basis?

Secondly and more importantly are the banks really qualified to determine what constitutes a commercial basis: are employees of Banks (normally centralised lending departments) in any position to judge what is and isn't a good commercial risk? Recent history suggests that the Banks have no more idea of a good scheme or arrangement than anyone else. Furthermore, the Banks' judgement on this matter (based on recent historical evidence) suggests that their lending pre-credit crunch was virtually all about security. If security was offered, lending took place. If it wasn't, it didn't. Up until 2007 the most prevalent question your Bank would have asked you if you wanted finance was "what security can you offer?" rather than "is this a good bet?"

We believe that Bank finance has all but dried up for the majority of businesses and that there is no short or even medium term prospect that this will change. Businesses which require funding/finance will have to look elsewhere.

2. The alternatives for Businesses

2.1 Grants

The prospect of a grant is very appealing; for the simple reason that it often involves little in the way of risk. If a grant can be obtained this is real money into the Business with no repayment (most of the time, but not always) and minimal personal risk for business owners. There is no doubt that if grants can be obtained they can offer businesses a very real boost.

The problem is that because of the nature of a grant it can be very difficult to get the money. This isn't always because of the qualifying criteria. Many businesses may qualify for all types of grants of varying sizes. But these can be difficult to source and equally difficult (if not more so) to apply for. Also, many grants are only available through organisations that are thinly manned and the difficulty in getting to speak with the relevant people can be an inhibiting factor.

“Many businesses may qualify for all types of grants of varying sizes”

We believe that the range of grants on offer is generally greater than many business people realise. There are “DIY” methods of researching grants through certain web sites and government agencies (for example Business Link), but we believe that the best and only truly effective way of getting to the bottom of this is for Businesses to use a professional adviser (see section three below: getting help and advice). Many of the more substantial grants require the Business to match the funding on offer. In other words, the grant will produce £50,000 if you put up £50,000, and this may require the help of the professional adviser to create a funding “package” whereby the £100,000 is obtained partly through grants and partly through other means.

“We believe that the range of grants on offer is generally greater than many business people realise”

The process for taking this further is:

1. Get a list of all available grants.
2. See which ones you may qualify for.
3. Work out if you can make an application.
4. Make an application.

Our advisers can help you with this from the very start of the process right through to the end. The great thing about applying for a grant is you really have nothing to lose if you don't get a positive outcome, whereas you may have a lot to gain if you are successful.

2.2. Pensions

In our guide [“How to use your Pension to help your Business”](#) we describe the fantastic range of options available to any business person who has a personal pension or a company pension, which includes assisting with their own business requirements.

There are many ways that this can be done. Immediately, it should be stressed that there is no DIY element to this and for all sorts of reasons this possibility should only be examined with help from the most specialist adviser.

The following is by no means an exhaustive list, but here is a selection of ways that a pension can be used to assist a business:

- As “security” for loans.
- To purchase unlisted shares including possibly in your own Business.
- To purchase commercial property.
- Release cash to fund business ventures.
- To arrange a loan back from the pension.

This is a highly specialised field. We must stress that specialist help must be sought. All of our advisers are on hand to provide such assistance.

2.3 Venture Capital

As with bank financing, it does appear that the venture capital market has dried up to a considerable extent. Recent figures support this:

According to Deloitte: -

- Anticipated levels of investment in a number of sectors, including telecommunications, biopharmaceuticals, media/social networking and consumer business are all set for a significant decrease in investment over the next 3 years.
- In general, venture capitalists are decreasing their overall investing, focusing on their best companies and increasing their allocation to later-stage developments. This causes a huge barrier to entry for young and start-up firms looking to secure funding for growth. Venture capital is available to risk free or low risk ventures which means potentially lucrative but risky ventures do not receive the funding they require.

Information source: www.deloitte.com – press releases – doc: ‘Global trends in venture capital 2009 global report’.

In some respects this is the same problem as the bank problem. Venture capitalists require funds to invest and these often come from Banks. Likewise these companies are carrying a lot of bad debt and bad investments and have to focus upon their own positions and rebuilding their balance sheets.

Finally most venture capital is not available for more simple requirements or lower levels of funding. However if Venture Capital is an alternative for you we can help and there is still money being invested at some levels.

2.4 Lending from non bank sources

If banks aren't lending, is anyone? At an official level, "no", there doesn't seem to be any major lending source. Private loans *are* becoming more popular and there are many web sites which put lenders and borrowers together. However a number of key web sites of this sort (the typical "angel" investor site) are reporting lower activity, which suggests that private investors who may be interested in investing into a small business or loaning money are facing similar dilemmas to the banks and venture capital companies.

The alternative - and this *is* a DIY possibility - is for businesses to arrange for their own borrowing from a friend or relative. This may be an area which grows over the coming months as both sides of the market place can gain good value.

Private investors and savers are seeing their savings being decimated by record low interest rates and investment returns have been horrific from the main markets for some years now. Private investors may see an opportunity in the personal market. Naturally this will gravitate to families and friends, who will look to help their relatives and those with whom they already have some form of relationship.

“Private investors may see an opportunity in the personal market”

2.5 Banks and other sources

Although we started (and have written) this guide because banks have pretty much frozen new lending, there is some lending going on. It may be that the specialist advisers will have access to some bank deals that may be with a bank different to the one you currently bank with. Alternatively they may be able to help you with some of the government schemes and how you can apply for these.

Another possibility is re-mortgaging an existing loan or refinancing an existing facility. Once again this is a market where possibilities have become very restricted but our affiliate advisers have some of the best deals around.

Other possibilities include invoice discounting and factoring where they may be some help available.

3. Getting Help and Advice

What do you do if you want to raise money? Try and sort it yourself or look for someone to do it for you? Given the historic ease with which bank funding has been obtainable most businesses really could sort it out for themselves, sometimes with the help of an accountant who could prepare a business plan. But it seems the market has changed and if businesses are going to find ways of obtaining alternative sources of finance they will need to look for new sources of help.

“Critically they will be regulated and independent advisers which mean they will not be restricted by any limitations and/or regulatory straight jackets”

We have specialist financial advisers who will be able to help you with the various different options, who will be able to help prepare a list of the options and will be able to discuss with you how each of them works.

Critically, the advisers will be regulated and independent advisers which mean they will not be restricted by any limitations and/or regulatory straight jackets. No other individual (insurance salesman, banker or most accountants) will have the scope or the regulatory authority to advise in all of these areas. Also

they will have no tie to any particular route or solution: if you go to a “grant adviser” for example you will be speaking to someone who only has one solution to offer: a grant, even if this may not work for you.

So what will this cost?

Firstly, nothing to get an initial appraisal.

Thereafter it really is a classic case of how long is a piece of string. Advisers may charge in a number of different ways, based on their time or their success or on a flat fee. They may even be able to help with matters where they can work on a commission basis.

However it is very important to stress:

- i) They will give you their initial appraisal and thoughts for free and without any obligation

AND

- ii) Any work which involves a charge or fee will be quantified and agreed in advance. So everything will be very clear and you will not be charged for anything without fully understanding what is going to happen and agreeing this in advance.

All the specialist advisers with whom we have dealings are highly experienced and highly qualified.

From your perspective, they are also local, which means they are within easy reach should you wish to arrange to meet with each other.

4. What to do next

The starting point for all of this is for you to complete the initial reply form below:

This will give us an idea of your requirement and we will then get you in touch with an adviser who is local to you.

Name* : -

Name of Business* : -

Address* : -

Post Code* : -

Is this your home or business address? : -

Daytime Tel* : -

Email* : -

Type of Business : -

Size of Business : -

Your Comments : -

**Denotes that this is a required field.*

To submit your information, please fill in the form above and click the “Submit Form” button located at the top right section of the page.

Please note that your information is important to us, with this in mind; we will not pass on any of your details to any third party organisations and will conform to the Data Protection Act of 1998. All information that is sent to us is done so in a safe and secure manner. The information is stored on UK based servers utilising modern SSL encryption methods.

5. About DMP

DMP runs a series of web sites aimed at helping people understand more about a range of financial matters including investments, pensions, business funding, personal financial planning and retirement planning.

The company is run by some of the leading financial commentators in the UK.

6. Regulatory Statement

This guide is for information purposes only, nothing in the guide should be construed as advice. If you require specific help or advice this should be sought from a regulated source.

We can help you by referring you to a regulated adviser who will be able to advise you. Indeed this is part of the service offered across our web sites.