Funding for growth

How you fund your growth is one of the key decisions you will make, whether you are a start up or an early stage business. Although certain businesses may immediately generate sufficient cash flow, typically external finance will be required.

The sources of finance available to businesses can be broadly split between equity and debt funding. The availability and appropriateness of either route depends on a number of factors, particularly the appetite for giving away an equity stake and the ability of the business, and potentially the owners personally, to secure and service any debt. The choice between equity and debt will be informed, amongst other things, by how established your business is, whether it is generating revenue and profits and anticipated future trading.

There are a wide variety of sources of equity and debt finance, the most common of which are listed below.

Sources of Equity “growth” funding

Friends and family
Selling a stake in your business to supportive family and friends, who believe in your vision, is often the cheapest and sometimes the only source of funding, particularly when starting up.

Angel investors
Angel investors are wealthy individuals who invest their personal capital in early stage businesses. Securing funding from an angel can either be direct with an individual, via an angel network or through a syndicate platform (where less sophisticated investors follow an angel into an investment).

Crowdfunding
Crowdfunding sites pool together money from individuals wishing to support an early stage business in return for equity. Typically, crowdfunding means a large number of people provide relatively small amounts of money.

Venture capital

Venture capital firms generally invest their funds in early stage businesses - but normally at a later stage than the initial seed funding provided from the sources above.

Sources of Debt "growth" funding

As a start up or early stage business often, loans or other debt options cannot be secured, or if they can, they tend to be expensive and require significant personal guarantees. However, once the business can support debt, the following core options are available.

Friends and Family

As above, borrowing money from supportive friends and family is often the cheapest and only source of debt available to an early stage business.

Bank overdraft or loan

A bank overdraft or loan is usually available once a business has started trading and both provide a simple way of coping with cash flow pinch points. However, you will need to demonstrate the ability to repay the debt.

Peer to peer loans

Certain platforms such as Funding Circle connect businesses with private lenders willing to provide debt funding.

Asset based lending

Funding is raised against a business asset - for example against stock, the sales ledger or premises. As with a home mortgage, if the debt cannot be serviced, the asset is repossessed.

Factoring

Factoring enables a business to release money from the sales ledger as soon as the invoice has been issued and approved by the factoring company.

In addition to the above there are various government grants, schemes and initiatives that aim to provide funding to businesses. This funding can be geographically specific and come with certain conditions such as job creation.

There are also certain tax initiatives such as SEIS and EIS that aim to encourage investment into start up and early stage businesses. The key facts of these schemes are covered in our SEIS and EIS Fact Sheets.

At DRG Chartered Accountants, we have significant experience in helping clients raise funding and have numerous relationships with debt and equity providers. We would be keen to discuss your businesses funding needs, to talk through the advantages of debt versus equity in the context of your business and to assist in the raising of funding, if required.