

Finance for Small and Medium Size Enterprises

Introduction

Most owner-managed businesses in the UK tend to make use of overdraft facilities as their primary source of finance. While the overdraft is a useful form of finance for temporary fluctuations in working capital requirements it is not always an appropriate means of finance for longer term needs.

The first matter to be established therefore is what sort of finance is required. Is it long term or short term, and in what form should it be? Merely attempting to increase the overdraft can often exacerbate the position, when in reality a term loan or even an increase in capital is required.

The Business Plan

It is essential for the company to have a business plan, or if this is out of date, to review the position and up-date it. Only then can one approach potential lenders and investors for the extra that is required. It is important to assess how permanent the finance has to be, and when it has to be paid. For instance, many companies are moving to or relying more heavily on factoring and invoice discounting because they find that this financing moves with the level of debtors, and offers much more flexibility than the rigid level of the overdraft. Banks are encouraging loans to businesses for a fixed period to give certainty, but they are not equity-finance providers and do not presume to accept the business risk. An exception to this is the newly introduced Business Growth Fund. It is a bank sponsored investment scheme for companies with turnover between £10m and £100m, where the bank will make a share investment of between £2m and £10m over five to seven years in return for an equity stake of between 10% to 50%.

The Overall Approach

Firstly it is important therefore to take a good, hard, honest look at your business and assess the financing needs. Look at all the options, and talk to us, your bank manager and other business associates about the implications of the alternatives. If you feel more capital is required the options range from putting in the money yourself, bringing in partners or merging with competitors through to attracting business angels for venture capital, with all the various advantages and pitfalls.

Capital Raising Considerations

The Enterprise Investment Scheme does a considerable amount to encourage private investors to invest in smaller companies. In particular the investor is encouraged to participate in the management of the company, mainly part-time, bringing in valuable expertise and being remunerated for it, as well as getting tax relief at 20% on his investment.

However it is still extremely difficult even with these incentives to bring investors and entrepreneur companies together for investments below £250,000. Various initiatives have taken place, and below are listed some of the organisations that can be approached by entrepreneurs when seeking investors for investments from £50,000 to £200,000.

Needless to say the requirement for information about the business - prospects, management, markets and financial analysis - is universal and unless prepared to a high standard can delay investment or even put off potential investors. Additionally even with a well-prepared business plan one should allow at least 3 months from finding an investor to securing the investment.

Broadly speaking, investment can be sought from a professional venture capital fund, or from a private individual, often called a "business angel". There are a number of organisations, networks, and services which can be approached in a search for finance.

British Venture Capital Association

Essex House
12-13 Essex Street
London WC2R 3AA
Tel: 020 7240 3846, Fax: 020 7240 3849
Web: www.bvca.co.uk

The BVCA has approximately 200 member firms running (or advising) venture capital funds. They are generally interested in investments of £150,00 upwards. It publishes two directories: one of venture capital providers (for £150,000 upwards) and the other of "Business Angels" (who provide smaller sums of equity/loan capital).

Venture Capital Report

V C R Ltd
1st Floor, Foxglove House
166 Piccadilly
London W1V 9DE
Tel: 020 7907 2900, Fax: 020 7907 2930
Web: www.vcr1978.com

Venture Capital Report is published monthly. Approximately 10 investment opportunities are featured in each issue. The journal aims to bring together entrepreneurs who are seeking risk capital, and "business angels" or private companies looking for investment opportunities.

Private Equity Funding Association (PEFA)

Gurney's Oak
Fownhope
Herefordshire HR1 4PU
Tel: 01989 740377

PEFA is an association for professionals engaged in the field of private equity funding - accountants, solicitors, management consultants etc. It runs workshops and an arbitration service, and publishes a monthly information bulletin.

National Business Angels Network

3rd Floor, 40-42 Cannon Street
London EC4N 6JJ
Tel: 020 7329 2929, Fax: 020 7329 2626
Email: info@bestmatch.co.uk
Web: www.nationalbusangels.co.uk

National Business Angels Network is a non profit-making organisation, funded by corporate sponsorship, and run via a number of Business Links, local TEC's and Enterprise Agencies. It will try to match private investors with businesses seeking £10,000 to £250,000. Businesses seeking funds are assisted in preparing a short form business plan for circulation to business angels. They also have an opportunity of making live presentations to private investors.

FURTHER INFORMATION

Business Moneyfacts. This is a monthly publication containing lists of venture capital providers, sources of business angel capital, leasing companies etc. Members who are interested in raising finance may find it worthwhile to buy the current issue direct from the publisher. (£7.85. Moneyfacts Publications. 01603 476476.)

The Venture Capital Report Guide to Venture Capital in the UK & Europe. This is a large directory, published every two years. It provides profiles of venture capital providers giving details of their investment criteria and a selection of their recent investments.

Finance without Debt: a Guide to Sources of Venture Capital under £250,000. This is a free DTI pamphlet which describes different methods of raising finance. It is available from DTI Small Firms Publications on 020 7510 0169.

Useful Web pages include:

Capital Exchange on www.capitalexchange.co.uk assisting on investment requirements between £25,000 to £1,250,000.

Department of Trade & Industry on www.dti.gov.uk