How to fund a growing business

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BUSINESS SOLUTIONS WORLDWIDE

How to fund a growing business

Without the required funding your growth journey isn't going to take flight.

No matter how great your product or service is, if you don't have the required funding you won't get far.

Richard Branson once famously said 'there almost wasn't a virgin airline' when shortly after Virgin Airlines launched their bank threatened to close them down if they didn't repay their loan within 2 days.

Branson's lesson from the experience is not to think of yourself as beholden to your bank. I would encourage all businesses to think more broadly on the options available to them to fund their growth.

Here is an overview of the different options available for funding and the pros and cons for each.

Personal loan

This is where many micro businesses start. Why? It's easy to obtain and, provided the required loan is small, it can often be a great way to fund initial projects such as product development, launching a website and marketing.

If you believe in your vision it also makes sense that you are willing to put some of your own money on the table.

However this approach comes with personal risk as it's often attained by borrowing against equity in a house, seeking a bank loan or credit-card line of credit.

Friends and Family

Friends and family are also a popular way to round up initial capital. However, just like when you fund the costs yourself, this approach risks personal relationships should your venture fail.

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Government grants

If you are eligible, government grants can be a great way to generate cash for your business with minimal risk. However, typically the application can be lengthy and complicated.

If you are interested in pursuing government grants, websites such as Australiangovernmentgrants.org and startupqld.org can help make it easier. MGI can also help you to assess your eligibility for various grants and tax offsets.

Government funded innovation centres that you should also look into include ilab, QUT Creative Enterprise Australia, and Innovation Centre, Sunshine Coast. The City of Gold Coast also provides support to start-ups and growing businesses.

2

Small business loan

There is a common perception that securing a small business loan can be difficult. To be fair this is often true, particularly in your early days or if you don’t have a line of credit. However there are ways to increase your appeal to the banks. Most importantly you need a solid business plan, profitability projections and some of your own money on the table.

Using your accountant to approach the bank can be beneficial. If you can convince the bank that (together with your accountant) you have your finger on the pulse of your business then you’re a long way there.

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Negotiating an advance from a strategic partner or customer

If you can find a major customer, or a complimentary business, who sees immense value in your idea you may be able to negotiate for them to give you an advance to complete your development.

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4 Debtor funding or financing

Traditionally thought of as a lender of last resort, debtor finance companies should not be overlooked as a source of funding for growing businesses.

Provided the business is profitable, debtor finance allows you to borrow against the debtor book.

There are a few drawbacks associated with using debtor funding, however when managed correctly these can be overcome and I have certainly seen debtor funding used to beneficial effect by business owners who had little or no ‘bricks and mortar’ security.

Some debtor funding companies will require the arrangement to be disclosed to the customer and outstanding debts are handled by the debtor finance company.

This needs to be handled with care and communicated as a good news story (i.e. ‘the business is growing and needs cash to fund that growth’ and ‘the business has outsourced its debtor management function thereby enabling the owner to focus on business growth’).

Debtor finance is also generally more expensive because of the inherent risk but if it’s your only source of funding and if you’re making a return on capital from your business which is greater than the cost of the debtor finance, who cares.

Using your debtor book to fund your growth makes sense. As your business grows, you can borrow more to fund that growth. However, this form of funding is not perfect, so speak to your accountant or business adviser before heading down this path.

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Angel investors

Angel investors offer another opportunity to fund your business. There are a number of angel investor groups in most cities and a number of angel investors who operate outside of a business angel network. Typically, angel investors are looking to invest $500,000 or less and they do not require collateral such as personal assets. They also often bring specialist skills, sector knowledge and contacts. However when you engage an angel investor you are giving up a share of your business and often investors will want a small amount of control so you need to choose your investor partnerships carefully.

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Venture capital

If you are a well-established company looking to raise a serious amount of capital, venture capital firms may be an appealing option. Because of the size of funding provided by venture capital firms, and the high-risk nature of the loan, venture capital funding comes with a number of cons. Generally VC partners will want to be involved at the board level. Sometimes they may also require more than a 50% stake in your company, which means you could lose management control. Ultimately the decision to pursue venture capital should depend on whether it will open up much greater opportunities. In other words, are you better off with 50% of something or 100% of nothing?

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Out of the box ideas
Sometimes it pays to think outside the box. Airbnb's founders got some early funding by selling Obama O's and Captain McCain cereal during the McCain-Obama election campaign. It's not orthodox but it did get them a foot in the door.

Often funding a growing business can involve using a combination of the above strategies.

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Tips for securing funding

1. Make sure you have a good product and a good model.

2. Ensure you have a solid business plan that gives the bank/potential investors a clear idea of what to expect in terms of money, competition and what you intend to do with their capital

3. Find an investor you connect with and who has goals that align with where you want to take your company

4. Investors will have been pitched to by hundreds of entrepreneurs. Understand your investors' motivations and criteria and find a way to excite them.

5. Be prepared. Have answers for any questions. Show you have done your due diligence by having a solution to any problem that could occur.

6. Make sure you have every aspect of your company analysed and committed to memory. Know your working capital burn rate, free cash flow and return on capital employed (ROCE).

7. Showcase your passion, charisma and brutal determination. Remember, your funder is backing you just as much as your business model so you need to show your personal qualities.

8. Be persistent and show progression. Finding an investor is a competitive gig. Pitch where you can, network with investors and make sure when you are pitching to someone you have spoken to before that you show progression with what you have done since you last saw them.

Securing funding for your business can be a daunting challenge. But it's a reality you will have to face at some point on your growth journey. If there is one takeaway it should be that when it comes to seeking finance for your business you need to understand what you are and are not willing to accept, be prepared, be persistent and think creatively.

Need funding?

MGI can help you to determine your future capital needs and the most appropriate avenue to source that funding.