Different sources of funding

Friends & Family

One of the common forms of early stage funding comes from friends and family. Your relatives or friends know you and trust you and they believe in your idea and might want to support you financially as you get your business off the ground.

Start-up loans

The government operates a start-up loan scheme. this scheme provides small amounts of up to £25,000 pounds. It is a soft loan which comes at a low interest rate, repayment holidays and is often provided alongside free mentoring support. Although it's a government backed scheme it's delivered by a number of partners across the UK and is a relatively straight forward source of early stage funds, in fact over £500 million has been lent out to early stage businesses since its inception.

Find out more and apply for this money

Equity Crowdfunding Platforms

There are a growing number of online investment platforms that allow businesses to raise awareness of an investment round in a digital marketplace. These marketplaces attract a wide variety of investors and have historically been associated with attracting what is called crowdfunding.

Crowd funders are acting a bit like business angels mentioned below but are investing very small amounts of money and typically do not provide any meaningful business advice or guidance. These platforms are often good places to manage and build a funding round from friends and family. There are a growing number of serious high net worth and sophisticated investors using these platforms so an online platform can be an appropriate source of early stage equity.

Find online investment platforms in our member directory.

Business Angels

An angel investor is a high net worth individual who makes use of their personal disposable finance and makes their own decision about making the investment.

The investor would normally take shares (an equity stake) in your business in return for providing equity finance (funds). They normally seek to not only provide your business with money to grow, but also bring their experience and knowledge to help your company achieve success. Some angels have made their money through starting, growing and selling their business and so they can bring invaluable expertise and advice to early stage founders.

They can invest alone, or as part of a syndicate (a group of angels). Every angel investor has a different appetite for investment, and usually invests between £10,000 – £500,000. Deals of up to £2m are becoming more common, due to syndication.

Angel investors seek to have a return on their investment over a period of 7-10 years. They therefore look to see if your business can fulfil certain criteria from the outset.

Find both regional and national Angel groups in our member directory.

Investment Funds (VCs)

Venture capitalists put money into early-stage businesses to help them grow. As well as money, businesses can expect strategic advice from an experienced new board member.

VC funds often invest in cycles of between five and seven years. They expect businesses to grow significantly during this time – and make a return for the fund. Sometimes, funds will hold on to an investment to help the business grow even further.

Businesses can often expect further investment rounds. Seed round investment is typically offered for proof of concept and can be several hundred thousand pounds. Series A investment onwards can be many millions.

Typical VC firms tend to invest at a later stage in a business's life cycle, normally when that business is achieving meaningful revenues and starting to grow at a significant rate. but there are a growing number of what is known as seed VCs, VC firms that invest at a really early stage often alongside other investors like angels and angel groups.

Find both later stage and seed stage VC investment funds in our member directory.

Grants

Grants are an excellent source of funding for early stage businesses. they do not take equity in a business and they do not require repayment. they are however only given in certain circumstances.

Grants can come from a variety of local, national and international sources, it's important to check your business' eligibility before making an application. Most grants tend to be geared towards research and development, employment and training, as well as schemes with an environmental slant.

One of the main sources of grants in the UK is Innovate UK. Find out about the grants they have available.

Applying for grants can be a complicated and time-consuming process. if you need advice and guidance you can speak to a grant funding specialist, several which can be found in our member directory.

Loan Finance

For most entrepreneurs at the seed and start-up phase, seeking to grow their business, bank finance in the form of loans is not suitable until they are able to generate regular revenues to service the debt.

Nevertheless, as the business grows and becomes profitable, you may wish to explore accessing bank finance through such schemes as the Enterprise Finance Guarantee Scheme. Many banks will be interested in dealing with businesses that have received angel investment having been supported with equity and sound business advice.

Asset Finance

Asset financing is a useful way of spreading cost against the lifespan of a car or other piece of expensive machinery necessary for the running of your business. Effectively, you are renting the vehicle from the lender until the loan has been paid in full. You also need to show that you can afford the asset, as well as demonstrate how the loan will benefit business and promote growth.

Invoice Discounting and Factoring

Invoice discounting is a form of short-term borrowing often used to improve a company's working capital and cash flow position.

Invoice discounting allows a business to draw money against its sales invoices before the customer has actually paid. To do this, the business borrows a percentage of the value of its sales ledger from a finance company or online platform, effectively using the unpaid sales invoices as collateral for the borrowing.

Peer-to-peer Lending

Peer-to-peer lending (P2P) is an online process that matches investors with savings or capital directly with borrowers looking for a loan. There are two types of P2P platforms - P2P consumer lending through companies like Zopa or P2P business lending through companies like Funding Circle.

Pension-led Funding

Pension-led funding uses directors' personal, existing pensions to raise capital for their business. It provides funding without having to give a personal guarantee to a lender and can provide protection for business assets held within the pension scheme. Funds come from existing pensions and are repaid to the scheme with interest at a commercial rate.

If you are not quite sure what type of funding is best for you, we recommend taking a look at the British Business Bank's Finance Hub. The hub allows you to input details about your business and your funding need and in just 6 steps receive some recommendation and guidance on the funding source that is best suited to your needs.

Visit the Finance Hub