

The key to
becoming
**Lender
Ready**

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gateway**
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your gateway to business expertise

Business is good, but it could be great...

You've reached a point where you're ready to take your business to the next level. A cash injection could make all the difference. So it's absolutely vital you get this right and avoid being rejected by potential funders because you haven't done your homework.

What's next?

Questions, and lots of them. How do I convince a lender that I'm a safe bet? What 'numbers' will they ask to see? Are banks even lending these days? And if they are, will I need to provide any kind of security and how much interest will they charge? What about equity finance? I'm used to dealing with banks and building societies, but do I really want to venture into unfamiliar territory? What are the pros and cons of business angels, crowdfunding and the other types of equity finance and which would be best for my particular circumstances? If I do get in front of potential investors, how should I pitch my business idea? And will it be as nerve-racking as it looks on Dragons' Den? Last but not least, how long will it all take?

You'll discover the answers to all these and other questions as you follow our **six golden steps to becoming lender ready** – the result of years of experience in helping literally thousands of growing businesses to realise their potential:

- 1 All-important questions
- 2 Up-to-date business plan
- 3 Current finances in order
- 4 Right choice of investment
- 5 Sound management team
- 6 Killer pitch



Very few business owners can afford to go it alone. Business Gateway's expert advisers can help you to become investor ready, dramatically improving your chances of securing the funding that's vital to your business's continued growth and success.



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1. All-important questions

You're looking for money to grow your business. That much we do know. But you'll need to firm up the answers to these other questions yourself before you can progress any further.

- What do you need the funding for?
- Is there any way you could raise the money yourself by making your existing finances work harder or better?
- How much do you actually need, and for how long? Is funding the solution?
- If you're considering taking out a loan, can you afford to repay it (taking into account the cost of interest, fees and any other charges)?
- If you do decide to borrow money, can you provide security in the form of business or personal assets?
- Would you be prepared to give up a share of your business to an outside investor, in which case equity finance might be an option?

Expert Tip

Generating additional funds from within your business avoids debt while retaining ownership. Try to negotiate extended credit terms with suppliers or stage payments and/or early settlement with customers. Can you postpone major purchases or look at leasing rather than buying?

2. Up-to-date business plan

Potential funders or investors first need to get a good understanding of your business, which is where your business plan comes in. If you haven't revisited this since first starting up, you'll need to dust it off and update it to include:

- A clear vision/mission statement
- Detailed strategies and appraisal of your market, including size, demographics etc
- SWOT analysis identifying your firm's Strengths, Weaknesses, Opportunities and Threats
- What makes your business a good investment, highlighting your competitive advantages
- Growth potential – a minimum of three years profit and loss, cash flow and balance sheet forecasts
- How the money will be used, what it will achieve, how it will benefit the business and, in the case of equity finance, the investor too.

Expert Tip

Business Gateway's expert advisers can help you develop and appraise your business plan, forecast your costs, sales and profit, and explore the funding options with you completely free of charge.

For potential investors, you should also include a valuation of the business (both now and in the future), the equity available to the investor and an exit strategy showing how they'll recover their investment and make a profit.

3. Current finances in order

Along with the financial projections in your business plan, potential funders and investors will want to know that you have efficient internal accounting and financial systems in place.

You will need to provide:

- Evidence of current performance – management accounts for the year to date
- Audited accounts for previous years
- Business bank statements for the last six months

4. Right choice of investment


If you're already making the most of your finances and it's still not enough, there are plenty of other, outside funding options to choose from.

Debt finance


Debt finance includes bank or commercial loans. Provided you have the necessary security and can afford the repayments, debt finance may be a good short-term funding option that allows you to retain total ownership and control of your business.

If you follow our advice and you're still turned down by the bank, it may be because you're operating in the 'wrong' sector. Some banks have a policy of not lending to certain sectors. The good news is that not all banks are the same, so others may have more of an appetite for businesses in your sector.

Getting a loan from family or friends might be another option.

Expert Tip 

You'll need to be able to demonstrate that you can meet a bank's repayment schedule. It's good to present three sets of forecasts: best, worst and intermediate cases.

Expert Tip 

Never accept the bank's terms immediately. Always consider the terms of the agreement and what would happen in the worst case scenario.

Equity finance

Equity finance involves giving up a share of your business in exchange for outside investment and includes options such as business angels, venture capital, crowdfunding and the Scottish Investment Bank. Along with the funding, investors may bring business experience, specialist skills and useful contacts.

Business angels

Business angels are private investors who typically invest between £10,000 and £750,000 in start-ups or young businesses. Although it can take a while to find a business angel with the right industry interests and skills, they may take an active and productive role in your business.

Expert Tip



You might want to safeguard your business idea with a trade mark, design registration, patent or other form of intellectual property protection before speaking to potential investors. You could also ask them to sign a non-disclosure agreement or letter of confidentiality. Your local Business Gateway adviser can help you decide which.

Venture capital

Venture capital (or private equity finance) is suitable for larger investments of typically £2 million or more. Investors are looking for start-ups or new businesses with high growth potential and a high return on their investment within a set period. Venture capital organisations may be able to offer more structured support than an individual business angel.

Crowdfunding

An alternative option for businesses that find it difficult to secure conventional funding, crowdfunding enables lots of investors to commit smaller sums, which are then pooled to help a business reach its funding target. Businesses looking for crowdfunding often offer investors an incentive, such as a discount on their products or services.

The Scottish Investment Bank

The Scottish Investment Bank (SIB) supports SMEs with growth and export potential to access growth funding. SIB operates three equity funds (Scottish Seed Fund, Scottish Co-investment Fund and Scottish Venture Fund), which offer funding ranging from £20,000 up to £2 million.

Other forms of business funding include spot factoring where you sell selected invoices to raise immediate cash, and pension-led funding where your pension fund can become a source of finance for your business.

5. Sound management team

Setting up and growing a business can be challenging, not to mention an emotional roller coaster for all concerned. Potential investors will want to be confident that your management team has the necessary skills to succeed, is fully on-board and committed long term.

Include profiles of each partner or director in the business, showcasing their relevant industry experience and personal strengths.

6. Killer pitch

You'll usually be presenting your investment proposal in person and you may only get one chance, so make it count. Here are our top tips for a successful pitch.

- Be prepared – a well-rehearsed presentation is just the start. You also need to be prepared for and able to answer difficult questions.
- Have an exit strategy in mind – investors will want to know where they'll make their money, whether it's through the company being acquired, going public or in some other way.

- Share the big picture, but have the facts to back it up – win potential investors over with your vision and save the fine detail for if they ask.
- Don't waste your time trying to convince investors who say 'no'. Find others who will say 'yes'.
- Know and stick to your strengths – if several partners directors are at the pitch, defer to those with the greatest expertise when talking about or answering on specialist areas.
- Don't just read through your presentation line by line – keep an eye out for what sparks a potential investor's interest and elaborate accordingly.

That's it. You're ready to approach potential funders and investors. Good luck!

Note: Most of the above applies to equity finance, although some of it is relevant to debt finance too.

Exactly the help you want, when and where you want it

You're driven, committed, know exactly where you want to get to, but don't always have the time to spend on fact finding. You're exactly the kind of business leader Business Gateway was designed for.

Our nation-wide team of business advisers can give you the lowdown on everything from locally available loans and grants and becoming lender ready to writing a marketing plan and generating

ideas that will boost your business performance as well as introducing you to their own business networks.

Need a hand with market intelligence, lists of competitors or potential new customers, or company and credit reports? We've a dedicated team of researchers just waiting to help, with access to a wealth of research and information sourced from both commercial providers and authoritative online resources.

All available free of charge.

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Next step...

For expert one-to-one advice on becoming lender ready and a host of other business services, contact your local Business Gateway team.

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