

STARTING UP

Funding a Start-Up: Savings, Loans, Grants and Investors

The main ways to fund a new business, what each costs you in money, control and risk, and how to choose.

FOR: START-UPS AND EARLY-STAGE FOUNDERS • NEW TO RAISING MONEY

Start with how much you need

Before looking for money, work out how much you need and what it is for. Split it into three: the money to start (equipment, stock, deposits, set-up costs), the money to keep going until the business covers its own costs, and a cushion for the unexpected. A cash forecast makes the number real. Our guide on budgets and forecasts shows how to build one. Asking for a precise figure with a clear purpose is far more convincing to a lender or investor than asking for "about £50,000".

Your own money

Most start-ups begin with savings. It is the cheapest source and keeps full control, but it is also the most personal, so be clear about how much you can afford to lose. If you have a company, you can put money in as a loan to the company or as shares, and the difference matters for how you get it back and how it is taxed. Keep a written record.

Family and friends

Money from people close to you is common and can be generous, but it is also the funding most likely to cause problems when plans change. Treat it like any other: agree in writing whether it is a loan or shares, what interest is paid, when it is repaid, and what happens if the business struggles.

Borrowing

- **Bank loans and overdrafts.** Banks lend against a business plan, forecasts and often security or a personal guarantee. A personal guarantee puts your own assets at risk.
- **Asset finance and leasing.** Spreads the cost of equipment or vehicles over time, with the item as security.
- **Government-backed loan schemes.** Various schemes have supported new businesses at different times. Their terms change, so check what is available now.
- **Credit cards.** Easy but expensive. Use for short-term cash flow, not as a main source.

Who this is for

- Founders with an idea and no funding yet
- Owners wondering whether to borrow or give away shares
- Anyone being offered money by family or friends

Key points

- Know the number and the purpose before you ask.
- Debt keeps control but must be repaid. Equity shares risk but not control.
- Put every arrangement in writing, family included.
- Beware personal guarantees.
- Funding follows a plan. Lenders fund evidence.

Grants

Grants do not have to be repaid, but they are usually narrow: for a particular sector, region, activity or kind of cost. They can take time to apply for and may be paid after you have spent the money. Check local authority and regional business support, innovation bodies and trade associations. Take care with claims made by firms that charge a fee to find grants. Check what is real before paying anything.

Investors

Investors give money in return for shares, and expect the business to grow in value so they can sell their holding later. Angels invest personally; venture capital firms invest funds. Some tax reliefs encourage individuals to invest in qualifying young companies, and your accountant can tell you whether yours might qualify. Giving away shares means giving away some control and some of the future value, so choose investors as carefully as they choose you. Our guide on raising finance covers the steps in more detail.

Crowdfunding

Rewards-based crowdfunding presells a product to supporters. Equity crowdfunding sells shares to many small investors through a regulated platform. Both can build an audience, but both take effort and bring public scrutiny.

Comparing the options

SOURCE	KEEPS CONTROL	MUST REPAY	TYPICAL RISK
Savings	Yes	No	Your own money
Family and friends	Yes	Usually	Relationships
Bank loan	Yes	Yes	Guarantees, security
Grants	Yes	No	Time, conditions
Investors	Shared	No	Loss of control, dilution

Choosing

Match the money to the need: borrow for assets that earn their keep, use equity for risk and growth, and use savings and grants where you can. Ask your accountant to test the repayments against your forecast, so you are borrowing what the business can carry.

Related guides

If this is useful, you may also want:

- Budgets and cash forecasts
- Business plans
- Raising finance

Before you ask for money

- Do I know the number and the purpose?
- Have I built a cash forecast?
- Would a loan hurt me personally?
- Do I need to give up control?
- Is it all in writing?
- Have I taken advice?

How King Street can help

0161 835 2080

client@mtmlp.co.uk

We prepare the cash forecasts and business plans that lenders and investors ask for, test what a loan or an investment would do to your business, and help you approach the right sources. We also advise on how to structure family funding and tax reliefs for investors, with the legal documents drafted by the right adviser.

Manchester: 3rd Floor, 82 King Street, M2 4WQ · Wilmslow: Cresta House, 42 Water Lane, SK9 5AL