Unsplash © Angelina Litvin

How can I get my business ready for funding?

Funding is a crucial topic for many startups and can sometimes be the difference between success and failure. As a founder it will be an incredibly time consuming task - especially when you're trying to juggle everything else that comes along with being a founder.

Richard Allan, Cofounder of *Capital Bean* talks us through how to get your business ready for funding or to raise another funding round.

Getting your funding right can provide the energy you need to take your business to the next level – you can hire the right people and invest in the right marketing to make you succeed. You might need funding to get you through a cash flow crunch, to *fund expansion or to build an MVP* of your product or app.

Often there is not enough time or energy spent on preparing a business for funding and it can damage your chances of success in the long run. When you first set out you should have a good idea of how much money you want to borrow and exactly what you want to use the money for. If you don't know these key items then it will be a big flag to any potential investors. If you provide a range of figures e.g. £600,000 – £750,000 it can indicate that you don't know exactly what you need and for what. You should be able to explain every last penny of expenditure before going out to investors.

Lack of clarity and lack of specificity are two of the main reasons cited for turning down an application for funding. Detail is another one – how detailed can you be about where the money will be put towards and what are the expected returns from this investment.

Creating a detailed financial model is important to show this detail. You should list out key operating expenses including salaries, rent and technology and then what you expect the variable costs including marketing and PR. There are many templates and spreadsheets available online that can help get you started down this path.

After you have *created your financial model* you will want to create a pitch deck that brings your story to life. You will be able to use the financial model to back up some of the assumptions and predictions in your pitch deck, but it should not be too data heavy. Use visuals and text light slides to bring your story, your founder's story and the product market fit to life.

At a minimum it should include the problem, the opportunity, the solution, the market size, your success so far, your milestone and what you want to do in the future. Your future plans are called a roadmap and will include information around marketing, sales, hiring and product improvements.

No matter how much you prepare, funding is challenging to get right and can be difficult for the ego. You will hear no a lot but you'll be learning constantly about what works and what could work better. Learn from every rejection and tweak your deck based on what you hear from the rejections. Ask for feedback from each pitch to see what is missing. It might be that they don't invest in the type of company you're running or it could be the wrong market fit. Finding out what the reason is is very important. Also – never burn a bridge because you never know when you'll need to raise money again when your market fit has changed or someone you meet might move to a new investment firm. Always be nice.

What type of funding is best for me?

There are many different options for funding and some will work better than others for your specific circumstances. You might even use a combination of funding options.

Crowdfunding: Crowdfunding is when you raise money from a number of individuals – and typically each investment is for a small amount. You are leveraging your story and promise of future access to a product or service to get people excited and to get them to invest in you. Depending on what crowdfunding website or app you use the minimum investment could be as low as £100. There are usually no upper limits on investments but if you were to spend £10,000 that would be a huge amount for *crowdfunding*.

Each individual investor will receive a small part of the business or could be rewarded with early versions of products. Crowdfunding typically needs lots of visibility because you are relying on people wanting to give you money. Using PR and social media is important before and during a crowdfunding campaign to generate interest and excitement and to raise the most amount of money.

Angel Investing: An angel investor is a high net worth individual who will typically invest larger amounts at once. They would typically invest around £25,000 and it is not uncommon for angel investors to invest £1M plus. The difference between an angel and a crowdfunding round is that the angel can also invest time and knowledge into a startup to help it succeed. Because an angel has invested more money in something they have more vested interest in seeing it succeed. They will give advice, guidance and even make introductions to people in their network who can help. This is sometimes called smart money because you get much more than the money in the bank.

Venture Capital: Venture capital is when you get money from professional investors who have a fund that is set up specifically to invest in companies. VCs invest at all stages of a company's growth but typically want high returns in exchange for their investment. They invest at the beginning of a company (pre-seed) to late stage fast growing businesses (like Airbnb pre-IPO). If you find the right VC they can fund your whole round. They want big returns and will be incredibly demanding about what you do with your business to make sure they get their money, and more back. They typically want to aim for a 10x return from all investments.

Debt Financing: This is when you take an existing asset you own (like a house) and use it to act as collateral against a loan. The amount you can borrow will depend on how much of the specific asset you own, and how high the value is. Lenders will typically allow you to borrow up to 80% of the equity within your house. This is risky because if your company goes insolvent or you cannot repay the loan then they can seize the asset, in this case the house, to repay their loan.

Tap into your recurring revenue: A new funding model is to leverage your recurring revenue to raise money. If you can prove that you have reliable recurring money coming in you can borrow against the future value of that money. The benefit to this is that your ownership in the company is not diluted. The drawback is that this is only available for established businesses with predictable revenue. This excludes many startups.

Richard Allan is cofounder of *Capital Bean.*

Article by RICHARD ALLAN