

This is a longer version of an article I prepared for the Dunbartonshire Chamber of Commerce magazine "In Commerce". I am the Company Secretary of the Chamber. The published version of the article can be found here:

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"Show me the money"

Is perhaps the second most famous line from the Tom Cruise film, "Jerry McGuire". Renee Zelwegger's "You had me at hello" may be better known but you rarely get to say it to an investment banker. Indeed you rarely get to say anything to an investment banker these days as in these austere times they have become thin on the ground. Companies however still need finance and the purpose of this article is to look at alternative sources of finance that may be available to businesses in the Dunbartonshire area whether they are start ups, established businesses or firms looking for high growth - high return.

Many people resolve to start a business in the new year and my advice is that they should always contact their local Business Gateway advisor who can provide them with sound advice and access to grants. Both West and East Dunbartonshire Councils provide start up grants of £500 and West Dunbartonshire will also provide a separate grant to allow you to draw up a business plan. When we started Rennie McInnes LLP 3 years ago we benefitted from such a grant and although not a great deal of money, simply going through the application process was useful as it sharpened up our planning.

Through either Council a business can also access loans from the West of Scotland Loan Fund, an £18M fund managed by some 12 local authorities. The WSLF will normally match funds put in from other sources, which used to be bank funding but nowadays can be from 3<sup>rd</sup> sector providers such as DSL Business Finance. Founded in 1993 as Developing Strathclyde this not for profit organisation specialises in providing finance for start up and small companies, including those where the proprietor is currently unemployed. As Sandra Mclean, Fund Manager, says "we look at businesses that are viable but not currently bankable". DSL normally offer loans of between £5-£50,000 but will look at loans of £3000. One of the key aspects Sandra feels differentiates DSL is the level of support they offer to customers. "All our clients have to appear before our lending panel to give a 'Dragons Den' style presentation and as a result we get to know their businesses better. We also see ourselves as offering hands on support and the average client can expect to be contacted by us 4-6 times during the period of the loan". DSL also manage a micro credit fund for Scottish Enterprise and a loan/grants package on behalf of the Royal British Legion. This can be particularly useful if you are a forces veteran as it can provide funding of up to £7500 in the first year (25% of which is a grant) and up to £30,000 in the second year.

Once established, every business has a requirement for working capital. Previously this was funded through a bank overdraft. These are becoming increasingly hard to find and instead many firms are turning to invoice finance as a way to fund the day to day running of the business. Invoice finance, (or debt factoring as it was previously known) is the process whereby a company sends its invoice to the finance company

at the same time as it send it to the customer. The finance company will immediately pay an agreed percentage of the debt ( usually up to 80%). The invoice is then paid by the customer into an account controlled by the finance company who will remit the balance, minus their agreed fee, to the company. The main benefit of this is it allows a business to convert its invoices into cash almost immediately without having to wait for the normal 4-6 weeks of the credit cycle before being paid. Maurice Craft the Managing Director of Regency Factors plc is a past Chairman of ABFA ( the Asset Based Finance Association), which represents almost 95% of the lenders in this competitive market. He says

*“The main banks do indeed provide both Invoice Finance and full service factoring, but we find many SME businesses need the more "hands on approach" and flexibility that only an Independent invoice finance company such as Regency Factors can provide. Our dedicated staff will take on the professional running of our clients' sales ledger operations whilst providing the client with a cash injection to assist with the growth of their business. We believe that in the marketplace there is room for both the Bank owned financiers and the independents, each having their particular niche. It is true to say that the recovery in the UK economy will be led by SME business and the members of the invoice finance community will provide the cash needed by these companies to enable the recovery.”*

Finally for businesses that are growing quickly, particularly in export markets, the Scottish Government established the Scottish Loan Fund (SLF) in March 2011. The £55M of public money has been added to by private partners giving a total Fund size of around £113M. The Fund is managed by Maven Capital Partners, a private equity firm headquartered in Glasgow that invests in SMEs across the UK. SLF was set up to help businesses deliver their business plans by addressing any funding gaps created by the lack of available finance in the current market. It provides loans to eligible companies from £250,000 to £5M, which can be repaid over a flexible term of 3 to 7 years\*. Andy Craig, SLF Fund Manager at Maven says:

*“Access to finance remains one of the key challenges for Scottish companies and the SLF is there to help entrepreneurial businesses with growth potential.*

*The steps involved in applying for a SLF loan are straightforward and not dissimilar to what companies will be used to in making approaches for bank funding. We always aim to ensure our dialogue with management is effective and consistent, and that a company's experience in dealing with us is as uncomplicated as possible. We place a great deal of importance on the strength of the management team, as ultimately we believe it is people that drive success within a business. We therefore aim to meet management as early as possible so we can start to build an understanding of the business, its key drivers, and the market in which the business operates”.*

In conclusion although funding conditions are undoubtedly tougher, there are alternatives out there to the high street banks. They remain keen to lend to businesses with a solid business plan and a management team that believes it can succeed. Your professional advisors should be able to help you get in touch with similar alternative funders. You may have to knock on a few more doors but as I always say to clients “if you don't ask, you don't get”.

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