Money …
A Key Ingredient !

Financing for Healthy Product Development & Innovation

Interreg Atlantic Area
European Regional Development Fund
EUROPEAN UNION
AHFES

Note on the Scope of this Training

Business finance is a complex and wide ranging topic, with numerous specialisms in which professional, qualified practitioners undertake many years of training.

Given this diversity and complexity, in this short training session we can only provide a broad introduction to some of the concepts and terminology that surround finance within your healthy food and drink business.

This module is not intended to be a comprehensive source of financial reference.

We strongly advise you to consult an appropriately qualified and accredited finance professional when making financial decisions, as the choices you make will have a profound impact on your business.

We do hope however, that this training will serve to raise your awareness of how finance can be used within your business and prompt you to investigate financial considerations in more depth with support from professional financial advisors.

Module Content

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Business Financing
Types of Debt Finance
Short Term Debt and Cashflow
The Cashflow Cycle
Finance for Medium Term Debt
Finance for Long Term Debt

2

Typical Security for Debt Finance
Types of Finance Available for Businesses
Valley of Death
Business Finance Options
Types of Business Finance
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Crowd Funding
Types of Crowd Funding
Preparing for Crowd Funding

Module Content

4

- How to Appeal to Lenders
- Preparing for Requesting Funding
- Building a Business Plan

5

- Justifying Finance for Product Development
- Some Commercial Incentives for Product Development
- Typical Costs of Borrowing
- Practical Examples of Borrowing Costs
- Finding the Right Finance for You

“Money makes the world go round”

To quote the old song … and it is no different when it comes to your business.

Money is a critical element of your business and it’s the oil that lubricates the different parts.

Money should be treated like any other resource such as ingredients, electricity, gas, stock, etc.

But it is also important to be careful how you use it, because it does come at a cost.

BUSINESS FINANCING

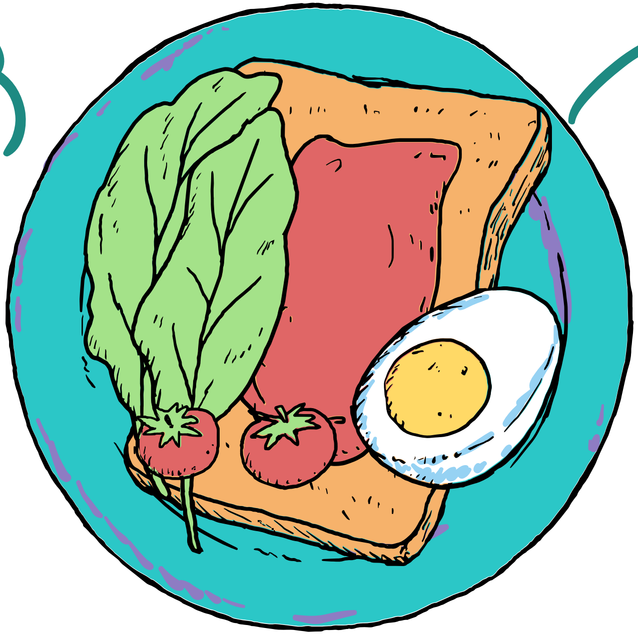
Business finance falls into two broad categories and we are focusing on borrowing

Debt & Borrowing

Funds can be brought into a business by applying for a loan.

A loan is one entity granting funds to another entity for temporary use.

Loans are repaid at an agreed frequency and rate of interest.



Investment

Financial inputs which are made with the aspiration that their eventual maturation will increase the company's overall wealth and value.

TYPES OF DEBT FINANCE

SHORT TERM
Under 12 months

Includes
Overdrafts, Invoice Finance, Credit from suppliers, Export loans & Business credit cards.

They are used to help fund the cash flow cycle and are generally known as working capital purposes.

MEDIUM TERM
1 to 5 years

Includes
Hire Purchase (Asset Finance) & Medium term loans.

They are usually for tools and equipment, for example a delivery van, fork lift truck or commercial fridge.

LONG TERM
Up to 30 years

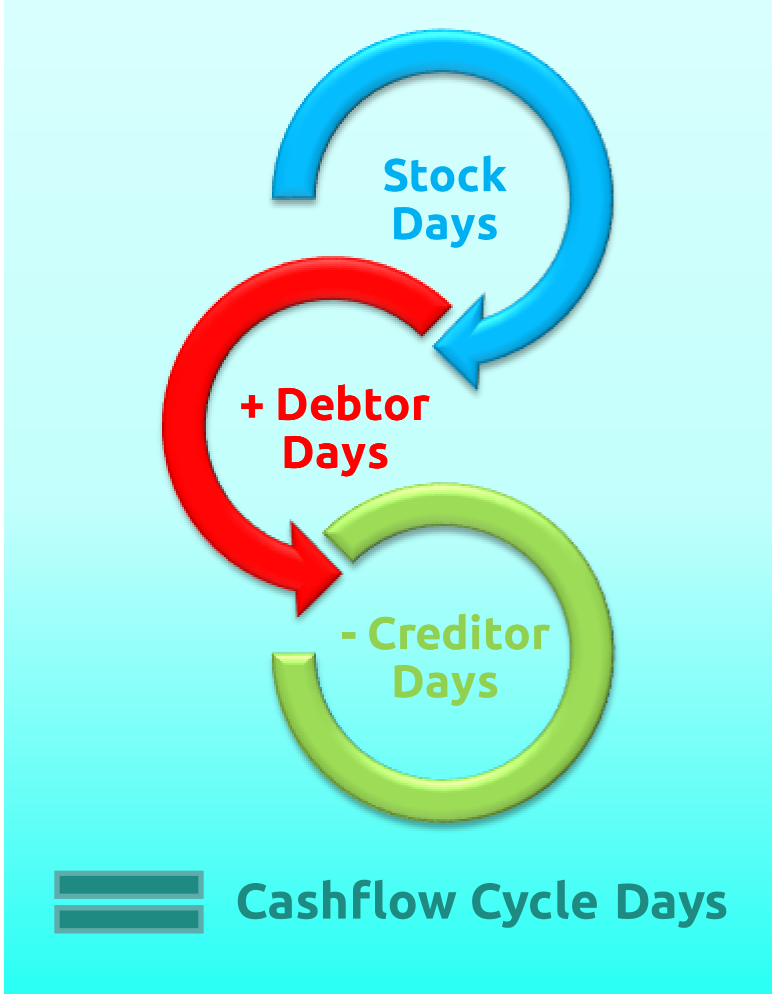
Includes
Commercial Mortgages, Long term loans & Directors Loans.

They tend to be used for funding for long term assets for example buying business premises or other major assets which will last many years.

SHORT TERM DEBT & CASH FLOW

- Effective management of your full cash flow cycle can reassure loan providers that you are a viable, safe, responsible and attractive business to whom they can lend finance with confidence.

- One way of demonstrating this is by paying close attention to your “cash flow cycle days” and having stocks, debtors & creditors under control.



THE CASH FLOW CYCLE

Creditors

Thoroughly check any credit terms offered
Build strong collaborative relationships with suppliers
Prioritise paying your more important & best suppliers.

Stock

Minimise stock holding
Prioritise your most profitable stock
Prioritise fast moving stock
Prioritise stock for your best customers

Debtors

Know your best customers
Ensure your credit periods are not too long
Get customers to pay on time without offering a discount
Chase your debts vigorously to ensure payment & safeguard your cashflow

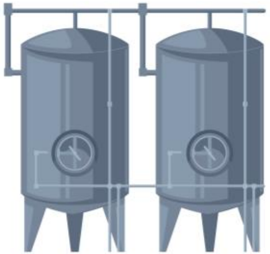
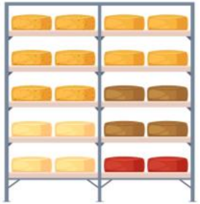
Cash

Cash liquidity is essential for a business to operate.
Time and focus is required to ensure cashflow is well managed

STOCK DAYS + DEBTOR DAYS – CREDITOR DAYS = CASH FLOW CYCLE DAYS

THE FEWER THE DAYS IN YOUR CASH FLOW CYCLE, THE MORE CASH YOU HAVE TO RUN YOUR BUSINESS

FINANCE FOR MEDIUM TERM DEBT

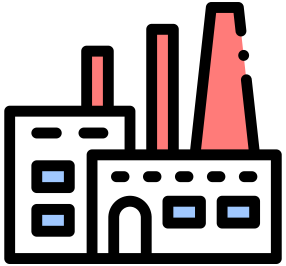




- Medium term debt can be useful when you wish to acquire assets which will last for a number of years and which will generate improved profitability and cash flow.

- By using a finance arrangement, such as a Hire Purchase agreement, you can spread the cost of items which will last for a reasonable length of time, such as manufacturing equipment and delivery vehicles.

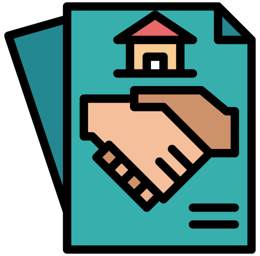
- You will be required to meet regular interest and capital repayments as they fall due, so being confident in your ability to do this is a critical factor in deciding if such medium term debt arrangements are right for your business.

FINANCE FOR LONG TERM DEBT



- Long term debt financing is often used to fund the purchase or acquisition of major long term business assets

- Or could provide the funds to buy another business through a merger or acquisition



- As a borrower you will repay interest and capital over the long term meaning that your costs will much higher over this long term period but, because these payments are spread out over an extended time, they are more affordable month to month.

- Finance providers will usually require that their loans are secured over an asset or assets

- Due to the long terms involved, setting up the finance arrangements will probably take more time to put into place. This is because the lender will initiate due diligence checks to ensure your business is a safe concern to whom they can lend money.

- You may also encounter more up front fees for security, legal work and valuations to be undertaken.

- It is important that you take time to investigate and select a finance provider with whom you are confident that you can have a positive relationship in the long term, as it can prove expensive to change providers mid-term if you are not seeing eye to eye.

TYPICAL SECURITY REQUIRED FOR DEBT FINANCING

Lenders will often request security for debt if they are not totally comfortable with the risk. This is especially applicable for medium- & long-term debt.

01 Guarantees

02 Debentures

03 Stocks & Shares

04 Savings Accounts

05 Freehold Property

06 Fixed Assets such as Machinery

07 Vehicles

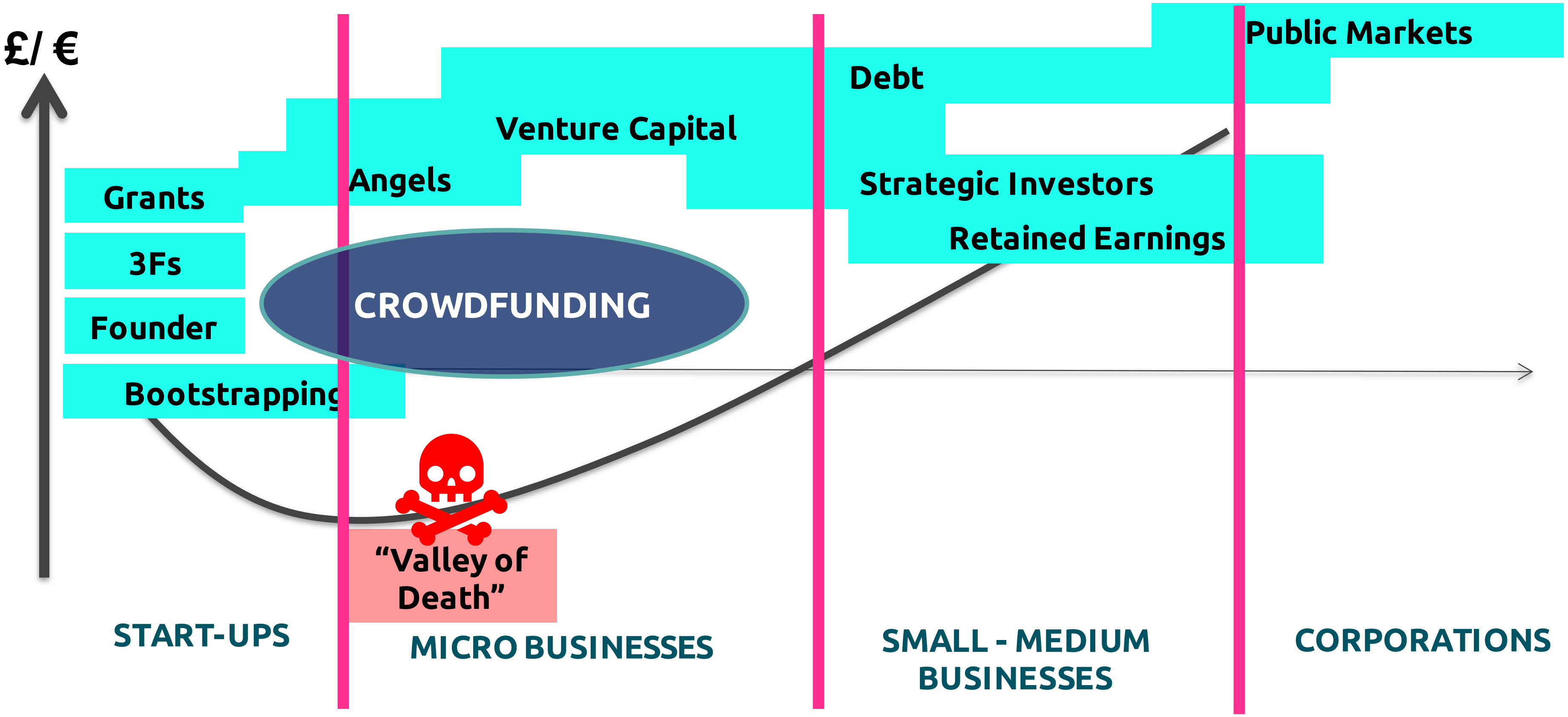
08 Fine Art or other high value possessions

Securities provide lenders with an alternative source of recouping their loan should the business fail to make repayments.

You are advised to seek independent legal advice from a qualified advisor before committing securities for finance arrangements.

Lenders want securities offered to be 'tangible' and able to be sold for cash relatively easily

TYPES OF FINANCE AVAILABLE FOR BUSINESSES



OTHER SOURCES: ACCELERATOR PROGRAMS / START-UP LOANS

Valley of Death

The phrase “Valley of Death” has been coined to describe a major dilemma that many start-up businesses encounter.

Cash flow becomes a critical issue as a start-up business incurs increasing costs setting up the business and commencing operations, but have zero or very low sales which are bringing in any revenue.

As the new business rapidly depletes their initially invested funds without replenishing these, they become unable to spend the money they need to bring their products or services to market.

Business analysts estimate that over 80% of start-ups go out of business in this “Valley of Death” period before they can even get properly established in their market place.

Surviving the “Valley” is a major milestone for start-ups and securing funding to help them bridge this cashflow gap can help them reach the other side safely and become self-sustainable.

NUMEROUS FINANCE OPTIONS

We will take a brief look at some of the finance options available

- Crowd Funding
- Family
- 'High Street' Banks
- Government linked banks
- Suppliers
- Shareholders
- Specialist banks e.g. Sharia Banks
- Directors
- Friends
- Finance Houses
- Agricultural Mortgage Providers

With so many sources of finance to decide between using a reputable Finance Broker can be helpful to find the right type of funding to suit your circumstances

TYPES OF BUSINESS FINANCE

1

Boot Strapping

Building a company from the ground up with nothing but personal savings, and with luck, the cash coming in from the first sales.

2

Founder Funding

Financed by the original founder(s) of the business, who may not always be the current Managing Director or company leader.

3

3Fs

Friends, family and fools! Often informal arrangements at high risk for them with no clear agreement of a repayment plan, so are often for only relatively small amounts.

4

Start Up Loans

From commercial banks or national/region development banks. Usually relatively smaller amounts e.g. £25k.

5

Grants

National and regional government, local authorities or public bodies focused on Innovation or other special interest may offer non- repayable funds to qualifying companies .

6

Business Angels

Private investors with an interest in your business sector, often with 1st hand experience of growing a business.

SOURCES OF BUSINESS FINANCE

1

Venture Capital

Funding from investors looking for a 3 – 5 year return and get out plan may fund very high growth businesses

2

Debt & Loans

Provided via short, medium & long term finance products from commercial or government backed banks, finance houses, asset finance companies &, Invoice Finance companies.

3

Strategic Investors

Major corporate businesses in the same sector may be looking to invest in innovative new businesses e.g. Coca Cola, Nestle, Unilever, Microsoft, SAP.

4

Retained Profits

Your business ploughs profits you have made back into the company to fund growth projects

5

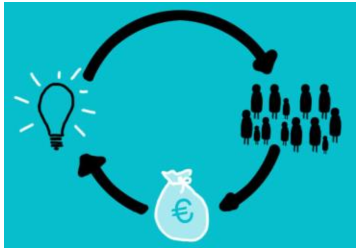
Public Markets

Large business can raise finance by floatation on a stock market or from institutions with signification funds to invest such as Pension schemes

6

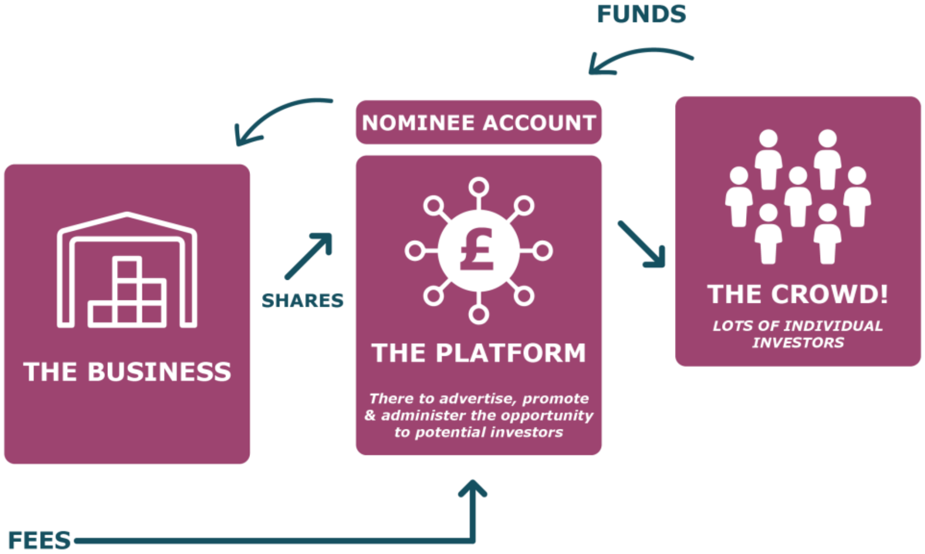
Crowdfunding

Let's look in more detail at this relatively new way to raise finance



CROWDFUNDING

Crowdfunding is the practice of funding a project or venture, by raising small amounts of money from a large number of people, typically via the Internet. Connecting your business to a crowd of willing to provide funds is organised through "platforms" which tend to specialise in a specific type of crowdfunding.



Debt/ Peer to Peer crowdfunding platforms include LendingCrowd and FundingCircle

Equity crowdfunding platform, such as Seedrs and CrowdCube

Donation based crowdfunding platforms include GoFundMe and Crowdfunder

Rewards based platforms, such as Indigogo and Kickstarter

TYPES OF CROWDFUNDING

DEBT / LENDING

Ultimately repayable & interest is charged as well as fees

EQUITY / SHARES

Investors each obtain a share in your business in the expectation of receiving dividends/growth in future

DONATIONS

Generally, for charitable causes or ethical purposes

Not for profits

REWARD

Where the 'investors' are promised to receive goods/services at a future date/time, but the business needs the funds to produce the goods

Options 2 & 4 tend to suit SMEs

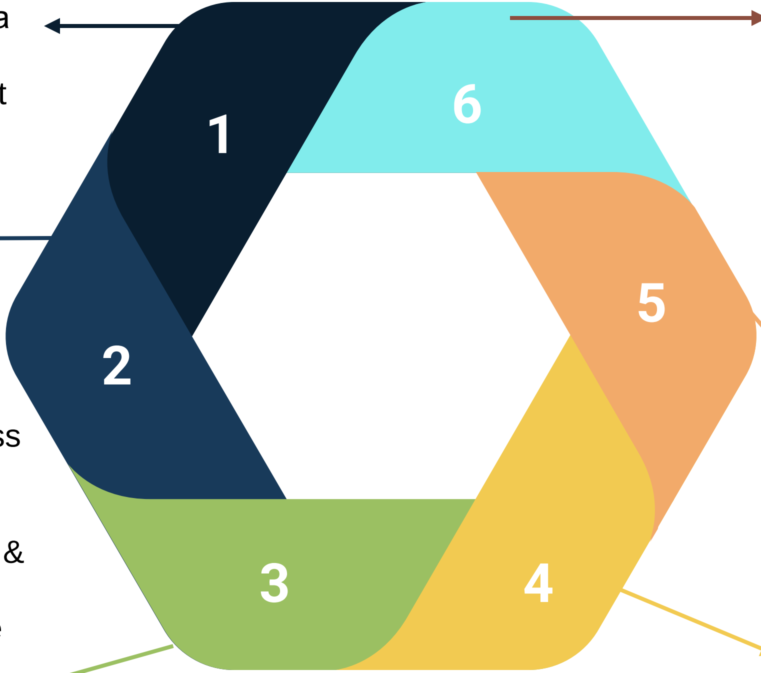
Debt or Peer-to-peer Crowdfunding occurs where crowdfunding platforms pool investments and lend money to businesses.
The expectation is that any start-up funded will be successful and the crowdfunded investment will be paid back along with interest.
It's a similar approach to getting an unsecured loan from a bank but can be an expensive way to raise funds.

Equity Crowdfunding involves a business launching a fundraising campaign. They outline the level of equity available, and how much money they are trying to raise, thereby valuing the business. Investors then buy a portion of the available equity, so this is a long term commitment for your business.

Donations can be made by individuals with a philanthropic interest in a business. This can be an excellent way to raise finance through the sums raised are usually small. Investors simply donate to your business with no strings attached and whilst you will need to update investors on progress, any donations received are yours to keep.

Rewards-based Crowdfunding platforms allow businesses to reward investors in ways other than simple equity or interest and are popular for businesses with a specific targeted "crowd".
Rewards can be the chance to test prototypes, lunch with the founders or getting one of the first models off the production line.
Rewards are usually tiered, so the more money someone invests, the greater the reward.

PREPARING FOR CROWDFUNDING



1. Prepare Your Business Case

You'll need a compelling business case, a detailed business plan, sound financials and robust market insights which highlight your USP's and consumer demand.

2. Choose the Platform

Investigate different crowdfunding platforms & decide if you're offering equity, interest or rewards to investors.
Review which platforms are preferred by similar business pitches to yours & assess what funds they raise & how many backers they attracted.
Read the terms & conditions, check fees & the legal commitments you're making.
Take independent financial advice before you launch a campaign.

3. The Pitch Matters !

So be engaging & foster a human connection to capture the investor's imagination, as well as demonstrating strong commercial potential & buoyant consumer demand.
Remember, people invest with both their head and heart.

4. Set Rewards & Goals

Define what investors will get – from equity to access to initial products – and what funding targets need to be met to trigger investments.

5. Engage the Community

Crowdfunding is about community. Be active on forums, talk to potential investors, post updates & use social media to tell people about your campaign to drum up support.

6. Get Seed Money

Investors like backing a winner.
So, by asking friends & family to make a few 'investments' in your business on the platform, it creates a good impression.
Initial money in the campaign fund can spark further interest.

HOW TO APPEAL TO LENDERS

TRACK RECORD	PURPOSE	ABILITY TO REPAY	SECURITY	RISKS
How long have you had a financial relationship with them? For banks, has your account been conducted well? Often, lending decisions are made purely on your **credit score** these days.	Can you provide evidence of how funds will drive future success. Is the purpose ethical ? Is your business plan coherent, realistic and compelling ?	Can you demonstrate robust but realistic levels future cashflow and profits that will allow you to meet your repayment obligations reliably?	Can you provides an alternative repayment source e.g. tangible assets such as property, equipment, savings accounts, stock, bonds, stocks & shares or in the case of Invoice Finance, debtors.	Have you acknowledged possible risks to you and the lender even if these are outside your control? Industry sector risks, economic risks, political risks, environmental risks etc.

PREPARATION FOR REQUESTING FUNDING

- Before any lender or grant body will consider providing funding for your business they will need to be convinced that **your products concepts are researched and well thought out**, that you, and any team members, are **credible and have the ability to run a business**, and that the company has a **bright, profitable future ahead**.

- So you will need to prepare a **coherent business plan** which you should then **customise and adapt** to appeal to the individual funding provider that you are approaching, in the same way that you would tailor a CV and job application to a potential employer.

- It is advisable to approach at least 2 funding providers in order to obtain comparable quotes. Letting them know that you are shopping around can give you negotiating leverage.

- Any funding provider will expect you to be able to discuss **every aspect of your plan**, personally and show a full understanding of all its facets including your Financial Forecasts which will usually need to include forecasts of Cash Flow for at least 12-months and 2 years Profit and Loss.

BUILDING A BUSINESS PLAN

- One of the many positive benefits that comes from studying the AHFES training modules is that, if you have completed the training and any exercises that have been suggested, you will now have a wide range of resources to include in your business plan !

- Your business plan needs to convey WHAT is the essence of the business and HOW you will achieve successful outcomes like business growth and profitability.

- So now you can incorporate the insight and evidence you have built up from many of the training modules you have studied into your business plan including :-

- Using your **Consumer Research** to prove you will have **willing customers**
- Cite your **Market Analysis** to prove the **potential growth and scale**
- Demonstrate your **Unique Selling Points** from your **Benchmarking**
- Show how your **Brand Values** will **engage and attract customers**
- Prove you are **Tailoring Products to Specific Markets** requirements
- Show that your **Product Strategy** will **drive sales**
- Demonstrate that your **proactive Product Lifecycle Management** will provide **long-term stability and a secure future** for the business

Justifying Funding for Product Development

Product development costs can be high and success is not guaranteed but the commercial benefits of bringing new products to market can be a critical component of your business success.

On the following slide we can see some commercial benefits that you could expand upon in the context of your business.

By highlighting these benefits to a funding organisation,
you could demonstrate positive reasons for them to provide funding for your business growth.

Some Commercial Incentives for Product Development

Improving Your Product Offer

Offering consumers improvements that they will value

1

Improving Sales Prices

Free products trapped in “Known Value Item” status by reinventing them to increase profit

2

Staying Ahead of the Competition

Secure listings by offering innovative new sales opportunities

3

Responding to Market Shifts

Stay relevant and enticing by meeting consumers evolving needs

4

Avoiding Commoditisation

Differentiate your products to avoid a race to the bottom on price

5

Achieving Efficiency & Sustainability Goals

From production speed increases to recyclable packaging and more

6

TYPICAL COSTS OF BORROWING

Below are some of the common costs you can expect to be associated with your business borrowing. Many are negotiable - so don't just take the first offer you receive.

TYPE OF COSTS	DETAIL	CONSIDERATIONS/TIPS
INTEREST*	Flat? Linked to base rate? Linked to LIBOR?	Fixed or Variable? Negotiate
ARRANGEMENT FEES & RENEWAL FEES (Overdrafts)	1 to 2%	Negotiate
SECURITY FEES	Depending on the perceived risk to the lender	Negotiate
LEGAL FEES	For Your business and the lender	Obtain 2 or 3 quotes
VALUATION FEE	If major assets are involved as security	Obtain 2 or 3 quotes
EARLY PREPAYMENT FEE	Always read the small print!	Negotiate
SERVICE FEES	Typically apply on invoice finance	Negotiate

*Not applicable to Sharia Banks

PRACTICAL EXAMPLES OF BORROWING COSTS

EXAMPLE 1 : Hire Purchase Agreement

INTEREST RATE	Typical APR assumed at 7.9%	€20,541
ARRANGEMENT FEE	Usually a % of the debt say 1.5%	€1,500
RIGHT TO BUY FEE	Nominal	say €1
TOTAL COSTS		**€22,041**

- Cost of borrowing €100,000 over 5 years on a Hire Purchase Agreement with a Finance House, or Asset Finance provider, where the lender is secured by a legal lien over the asset:
- Possible security fees for Chattels Mortgage over the asset – but often included in the Arrangement fee.
- Many manufacturers offer their 'own' finance schemes which are subsidised to offer much cheaper and even 0% deals.

EXAMPLE 2 : Borrowing From A High Street Bank

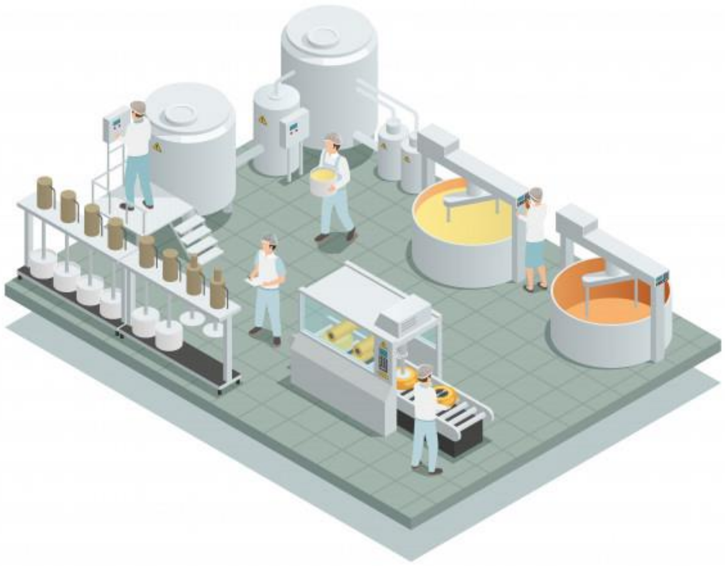
INTEREST	5% over base rate (5.1)	£13,185
ARRANGEMENT FEE	1.5%	£1,500
SECURITY FEE	Preparation of Debenture and guarantee	£500
LEGAL FEES	For explaining & witnessing the guarantee	£75
TOTAL COSTS		**£15,260**

- Costs of borrowing £100,000 from a High Street Bank, over 5 years, secured by Debenture over the business and a Directors personal guarantee.

PRACTICAL EXAMPLES OF BORROWING COSTS

EXAMPLE 3 : Commercial Mortgage

INTEREST	**2.5% over base rate (2.6%)**	**€27,991**
ARRANGEMENT FEE	1.5%	€1,500
SECURITY FEES	Preparation of legal charge forms , searches etc	€750
LEGAL FEES	Solicitors acting for you and the bank	€750
VALUATION FEE	€1,500	€1,500
TOTAL COSTS		€32,491



- £100,000 Commercial Mortgage to assist with purchase of business premises over 20 years. Secured by the title to the premises.

FINDING THE RIGHT FINANCE FOR YOU

- There is usually a source of finance out there for every business, but it's important to take the right one for you and not just the first one that seems available

- There are a multitude of financial organisations out there with a plethora of products, which come at wide ranging prices

- If you require funding, firstly look to the most obvious sources which are inevitably cheapest such as supplier credit, your family or the directors for example.

- If you do need to approach a financial institution, prepare well because a robust BUSINESS PLAN and realistic FORECASTING are two keys to opening the door to securing funding successfully.

We hope that you have found this training module a useful and helpful support to your healthy food and drink innovation.

This training module is one of a number of training opportunities, organised into themed training programmes to support SME's (small & medium sized enterprises) in the participating regions of Wales, Northern Ireland, Ireland, Spain, Portugal and France to successfully bring new and reformulated healthy food and drink products to market.

The training was created by the partners within the AHFES project which is a quadruple helix Atlantic area healthy food eco-system for the growth of SME's funded by the European Union under the Interreg Atlantic Area Funding Programme.

This programme promotes transnational cooperation among 36 Atlantic regions of 5 European countries and co-finances cooperation projects in the fields of Innovation & Competitiveness, Resource Efficiency, Territorial Risks Management, Biodiversity and Natural & Cultural Assets.

For more information about other training available please click here.

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