



# OUT ON YOUR OWN Unlocking the money to succeed

Despite the banks' reluctance to lend, there are still alternative sources of financing out there for start-ups



Elaine  
O'Regan

**T**he lack of available finance may be an oft-repeated complaint among Irish start-ups, but serial entrepreneur and self-styled business angel John Roe is having none of it.

As the founder and chairman of insurance group Friends First, Roe has helped "dozens and dozens" of new businesses over the years through a combination of financial and mentoring support. As he sees it, new companies would do well to look outside the banking realm and, instead, consider their own network of contacts as a means to source valuable private investment.

"Difficulty getting bank finance is nothing new for start-ups. The old cliché has always held true – that is, you need to show the bank that you don't need the money before they will lend it to you," said Roe.

"I would say to people that they should try to find a business angel. Look for someone that has a bit of expertise in your area; who can provide you with mentoring and finance."

Business angels like Roe are private investors who invest capital in start-ups. In return, they typically take an equity stake in the business and an active role in the management of the company itself.

Roe established his first business in the late 1980s, having left a successful career in the civil service. Since then, he has set up numerous ventures in areas as diverse as auctioneering and building management control systems. His latest venture, KMAX, imports security equipment from Britain and the US into China.

At the same time, he continues to seek out new ventures, and relishes the process of helping fledgling companies to realise their commercial potential.

"My investments have always been people-driven. I have to rate the people involved, because, if the person lacks certain qualities, then even if they have a good idea it won't come to fruition," he said.

## Business Angel Partnership

As well as their own contacts, start-ups keen to find a suitable angel investor should check out the Business Angel Partnership.

The organisation facilitates meetings between investors and companies and has a list of active angels on its website, [www.businessangels.ie](http://www.businessangels.ie).

Before you start to look, however, be aware that the process of raising private finance can be a time-intensive process – one that requires a lot of preliminary discussion and negotiation.

"Initially, the company submits its business plan (see panel), providing details of the investment opportunity," said Andrew Bourg, senior manager in the corporate investment and business advisory division of BDO.

"Companies know that details of their particular investment opportunity will be seen by investors, who are actively looking to invest in private companies. These investors bring business experience in addition to the financial resources that they may invest."

## Business Expansion Scheme

Other private equity options include tax-driven initiatives like the Business Expansion Scheme (BES).

This allows individual investors to provide funding to companies of up to €150,000 in any one year, for which they then get tax relief.

They are required to invest in companies by way of new ordinary shares, which cannot carry any preferential rights.

Shares must be held – and certain conditions satisfied in relation to the investment – for a period of five years, but tax relief can be claimed once the start-up has been trading for just four months.

The start-ups that are eligible to receive funding under the scheme are restricted to certain qualifying trades. These include manufacturing,

internationally traded services, tourism, plant cultivation and some music recording activities.

The Finance Act 2011 proposes a number of amendments to the Business Expansion Scheme. Subject to approval from the European Union, these changes will restructure the existing scheme under the re-named Employment and Investment Incentive Scheme.

The proposed changes will not restrict the availability of funding to qualifying trades (subject to certain exceptions), making it available to a wider

range of companies.

"Shares will only have to be held for three years, instead of five, and the rate of relief will be changed to make it available on a phased basis. An initial relief of 30 per cent will apply, with a further 11 per cent available if certain employment or research and development targets are met," said Bourg.

## Seed Capital Scheme

The Seed Capital Scheme is part of the Business Expansion Scheme. It provides for income tax relief on investments made by certain individuals in new companies that are involved in BES-qualifying activities or certain forms of research and development.

They can claim the refund for any, or all, of the six years prior to the year in which the investment is made. The amount refunded depends on the amount invested in the business.

## Venture seed capital

There are several venture seed capital funds, which are aimed at start-ups and early-stage ventures.

These include the AIB Seed Capital Fund and the Bank of Ireland Seed and Early Capital Fund. Both offer new companies medium to long-term finance in exchange for an

equity stake in the business.

For start-ups, Bourg warned that the process of applying for, and securing, venture capital could eat into time that would be better spent getting the new business on its feet commercially.

"The investment process – from reviewing the business



Andrew Bourg

plan, completing due diligence and executing legal documentation – can take between three and six months and it is therefore important that this does not distract the promoters from the critical start-up phase," he said.

## Enterprise boards

The county and city enterprise boards were established in Ireland in 1993 to provide local support to small businesses – that is, micro-enterprises employing no more than ten people.

There are 35 enterprise boards around the country, providing financial assistance to new and established companies in the SME sector.

To be eligible for this funding, start-ups must be able to prove that they:

- are commercially viable,
- have a ready market for their product or service,
- employ fewer than ten people at the time of applying for the funding, and
- have the capacity to create jobs in the future.

"We can provide funding amounts of up to €150,000 to individual companies, but our typically funding amounts are

in the range of €20,000 and €40,000 and the investment is provisional on the creation of jobs," said Michael P Kelly, chief executive, Carlow County Enterprise Board.

Among the start-up supports offered by the enterprise boards, are feasibility or innovation grants, which are available up to a maximum amount of €20,000 and can be used to research potential demand for products or services by, for example, hiring in consultants or paying for design and patenting services.

The enterprise boards also offer priming grants to start-ups that have been trading for less than 18 months. The maximum grant here cannot exceed 50 per cent of the total investment or €150,000, whichever is the lesser amount.

The enterprise boards offer additional services, including training and mentoring. "These supports are the strongest arm of the enterprise board," said Kelly.

"When you come to us, you do your Start Your Own Business course, you attend a seminar on selling online, you do a management development course and you join our owner-manager network. When you do all that, you are ready for the market."

## First-Step

For those start-ups that were unable to secure bank finance, Bourg pointed to First-Step, an enterprise support agency that lends to new companies.

"It provides loans to people who have a desire to create their own enterprise and who cannot access funding – or sufficient funding – for their own business. Loans for amounts up to €25,000 are interest-bearing and are repayable over three years," he said.





**John Roe, business angel and chairman of insurance broker First Ireland: 'My investments have always been people-driven'** SUSAN JEFFERIES

## The business plan

Whether you succeed or fail, the process of looking for external funding can, in itself, prove a valuable learning experience for all new entrepreneurs.

It forces you to think about key business issues, such as market demand for your product, how you will sell it and how you would like your business to look five years down the line.

A crucial part of this process is the written business plan. Your plan should be good enough to give you the courage you need to approach investors with a winning proposal. It should instill

confidence in what you are selling and convince them that your business can deliver a return on their investment.

"The research into finding the gap in the market or, more importantly, the market in the gap, is vital, and what I look forward to with open arms is the new, innovative business idea," said Michael P Kelly, chief executive, Carlow County Enterprise Board.

"We find, however, that sometimes people's enthusiasm can exceed the commercial viability of their idea. In other



**Andy Quinn**

words, they are convinced it is going to work, but it has not been challenged or tested."

In addition to market research, investors tend to favour business plans that are supported by financial projections

running to between three and five years.

"The financial projections should be realistic and take cognisance of the fact that, in the current market, everything has slowed down," said Andrew Bourg, senior manager in the corporate investment and business advisory division of BDO.

"For established businesses, turnover has fallen, debtors are paying less frequently, profits are down and banks are lending less.

"It follows, therefore, that cash management for a start-up is of critical importance. In most cases, start-ups don't fail because they are not profitable, it

is because they have run out of cash."

Andy Quinn, a partner in Moore Stephens Nathans, said that it was vital for the business plan to highlight the new company's "unique selling point".

"This need not be earth-shattering, once it allows people to remember or identify your product or service offering," he said. Quinn also advised companies to show that there was

potential to internationalise their business idea, wherever possible.

"The typical mistakes we see in business plans include a lack of clear and detailed research into the target market," he said.

"Avoid bland statements like 'We are trying to capture 2 per cent of the market share'. You need to have more detailed analysis of the marketplace."

Where entrepreneurs do succeed in securing funding from a private investor, there is a price to pay – one they must be prepared for, Quinn warned.

"They must have a willingness to part with equity in order to build the enterprise," he said.

"Owners tend to want to retain control, instead of realising that a percentage of a big cake is clearly more valuable than 100 per cent of nothing – or something very small. They must also be willing to take on the expertise of others and to identify their own weaknesses."