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BUSINESS FINANCE

The business owner's guide to funding

The main ways UK businesses raise money, in plain English, and how to pick the one that fits your turnover and plans.

There is no single best way to fund a business. The right option depends on what you need the money for, how quickly you need it, and what you can offer a lender in return. Here are the options most UK businesses use.

Unsecured business loan

A lump sum you repay in fixed instalments, usually over one to five years, without putting up an asset. Decisions are quick and the rate reflects the lender's view of your business. Many lenders ask for a personal guarantee.

Secured business loan

Borrowed against property or business assets. Because the lender has security, you can often borrow larger sums at a lower rate over a longer term. The trade off is that the asset is at risk if you cannot repay.

Asset finance

Spreads the cost of equipment, vehicles or machinery over its working life. Hire purchase leads to ownership at the end. A lease keeps payments lower and you may hand the asset back. It keeps cash in the business rather than paying up front.

Invoice finance

Releases cash tied up in unpaid invoices. You receive a large percentage of an invoice up front and the balance, less a fee, once your customer pays. It suits businesses that invoice other businesses on long payment terms.

Revolving credit and merchant cash advance

A revolving facility is a flexible pot you dip in and out of, paying only for what you draw. A merchant cash advance is repaid as a small percentage of your daily card takings, so repayments flex with your revenue.

HOW TO CHOOSE

- [ ] Be clear on the amount and what it is for
- [ ] Decide how quickly you need the funds
- [ ] Check whether you have assets to secure
- [ ] Work out what monthly repayment is comfortable
- [ ] Compare the total cost, not just the headline rate

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