CFAMN7
Get finance for your business

Overview

The business may need to raise money to start up, change direction or to get through a difficult time. Being able to get finance at the right terms when it is needed is important for the long term goals and survival of the business. It is important that you approach this is in the right way whether you are borrowing money from family, friends or more formal sources.

You might do this if you are:

1. starting a business or a social enterprise
2. investing in a business or social enterprise to develop and/or produce new products or services
3. planning to employ more staff
4. experiencing a temporary shortfall in cash that may stop you from trading

Getting finance involves:

1. reviewing different types of finance
2. deciding where and on what terms and conditions the finance will be obtained
3. monitoring the effects on the business of getting and servicing finance

Performance criteria

You must be able to:

P1 decide how much extra money the business needs to meet its plans and when it needs it
P2 identify the different types of finance and the costs and benefits of each
P3 assess any developments in the financial market that may influence your decision
P4 decide the targets and limits of financial borrowing that you can accept
P5 identify the organisations or individuals that may provide finance and present the financial needs of the business to them in terms they can understand
P6 assess the costs, benefits and risks of getting and servicing finance on the business and yourself
P7 select the type of finance and lender that best meets the financial needs of the business
P8 make sure you agree timescales that meet the needs of the business
P9 confirm the terms and conditions of the finance, making sure that you fully understand what they are
P10 seek legal or financial advice when you need it

Knowledge and understanding

You need to know and understand:

Borrowing money

K1 how to identify what the business needs from finance (for example to set up a business, to keep trading (liquidity), profitability, receiving the most interest, keeping interest costs and borrowing charges down, making investments, paying for insurance, making sure you have enough assets to meet the terms of finance)

K2 why it is important to seek finance in advance of when you actually need it

K3 the different types of finance available and where to find information about them (for example, secured loans, overdrafts, sale or lease back of assets, employee share ownership plans, insurance policies, use of pension funds, loan guarantee schemes, external funding for equity capital or debt financing and venture capital from business 'angels', grants, loans from friends or family)

K4 the benefits and drawbacks of borrowing from family or friends and ways to maintain relationships. This includes:

K4.1 the benefits (for example business input, moral and emotional support)

K4.2 the drawbacks (for example influence over the business, pressure on relationships, loss of control, dependence, pressure to employ family or friends);

K4.3 ways to maintain relationships (for example being clear of terms, having an independent person to act as arbiter, structuring the business to dictate when and how the lender can be involved)

K5 how to work out:

K5.1 the costs of different kinds of finance (for example, interest charges, administration charges, fees, commission, equity and capital gain, insurance, penalties for early termination, penalties for failure to meet interest and principal repayments, security requirements and risk, stake in the business)

K5.2 the benefits of different kinds of finance (for example, availability of funds, cash flow, investment, the effect on business).

K6 why it is important to take account of tax and capital allowances when assessing the risks of getting finance for the business

K7 the likely risks to a business or owner manager of borrowing money and how to assess them (for example the business cannot repay the loan and other debts, possible loss of control or ownership of the business, not borrowing enough money to start with, breakdown in relationships if money is borrowed from family or friends)

K8 ways to assess the financial state of the business (for example in terms of profit, cash flow, current assets and liabilities)

K9 what the main indicators of the financial market are (for example movement in interest rates, inflation figures, a move to medium-term or long-term loans)

Information and advice

K10 what sources of free and paid for information are available (for example tax authorities, trade and professional journals, customers, suppliers, your own staff, other business people and competitors)

K11 who can provide financial advice (for example accountants, lawyers, advice centres, banks and other potential lenders)

K12 when you might need legal or financial advice (for example to verify the small print of formal or informal agreements, before signing contracts)

Finance providers

K13 how to identify different lenders or funders (for example directories, business advice services, websites, trade journals, trade associations, venture capital associations, press, brokers, banks and accountants and your own personal networks)

K14 how to work out whether your profits will cover any loan repayments and how costs may vary with changes in interest rates

K15 what potential lenders want from the business and how best to present your financial needs to them

K16 techniques that might persuade lenders to lend to you (for example promoting yourself and your ideas in a positive way, showing you have really thought through exactly how much you need to borrow at one time rather than a bit at a time, putting together a proposal, showing you can match the money you are applying for with lending from elsewhere, showing you have a business track record).

K17 the targets and limits for agreeing terms with lenders and how flexible these should be (for example the amount of finance, schedule of capital and interest repayments, discounts available, additional benefits, interest rates, keeping security to a minimum, interest rate capping, facility fees and charges)

K18 what security you might need to provide, the differences between secured and unsecured loans and the drawbacks of making a personal guarantee

K19 the benefits of recording financial agreements even when you are borrowing money from family or friends

K20 how you should record your financial agreements

Additional Information

Links to other NOS

1. MN1 Decide on your financial needs.
2. MN2 Set and monitor financial targets.
3. MN3 Keep financial records.
4. MN4 Manage cash flow.
5. MN5 Get customers to pay on time.
6. MN6 Invest capital.
7. MN8 Monitor borrowing from formal or informal sources.
8. MN9 Carry out the banking.
9. MN10 Prepare wages
10. MN11 VAT registration and returns.

Links to other standards
If your business grows and develops a management team it may be appropriate to consider the following units from the Management and Leadership Standards.

11. E3 Obtain additional finance for the organisation

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Developed by	CFA Business Skills @ Work
Version number	1
Date approved	May 2008
Indicative review date	May 2010
Validity	Current
Status	Original
Originating organisation	Sfedi
Original URN	MN7
Relevant occupations	Business, Administration and Law; Managers and Senior Officials
Suite	Business Enterprise
Key words	success, business, idea, social, enterprise, customers, products, service, support, creative, idea, skills, needs, suppliers, cash, flow, legislation, marketing, market, trends, competitors, health and safety, VAT, equipment, costs, profit, staff, product