The Company Warehouse®

BOOTSTRAP FIRST : Funding Usage Among Newly Registered Uk Businesses

2016 Startup Funding Report

2016

About The Company Warehouse

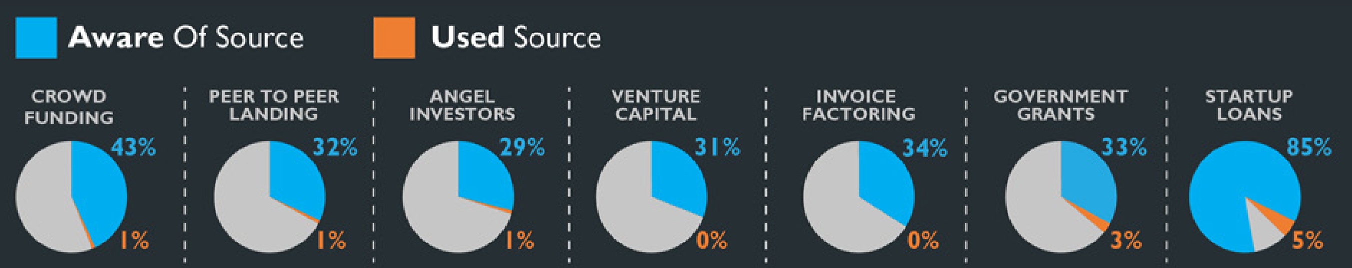
Founded in 2003 *The Company Warehouse* were one of the UK's first online company formation agents. The Company Warehouse deal with thousands of new businesses each year. They provide services from company formation and business registration through to accountancy, web design and digital marketing.

The Company Warehouse provide free business consultancy to all new startups we deal with. Some of the issues that startups are often concerned about are access to funding, budgeting and cashflow. Although not a provider of financial support for startups *The Company Warehouse* have partnered with major high street banks, and with business finance organisations to help signpost new startups to appropriate sources of funding and financial support.

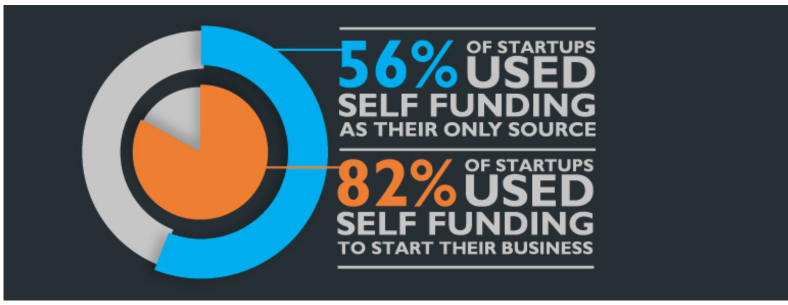
Executive Summary

Obtaining adequate funding has always been a challenge for new startups and small businesses. A recent survey by the Institute of Directors found that 39% of young entrepreneurs saw lack of access to funding as a major barrier to growth with the majority having to rely on their family for startup funding[1]. Obtaining bank funding in particular has become extremely difficult in the years since the 2008 financial crisis. To overcome the lack of bank funding available to small businesses and startups a number of alternative finance options including crowdfunding and peer to peer lending have sprung up.

Much has been made in the media in the last couple of years of the range of funding options now available to startup businesses but little research exists on what funding startups actually use. The small number of studies which have looked at the funding situation for startups in the UK have either tended to focus on the use of bank funding, or have ignored the newer alternative finance options such as crowdfunding.



This study looks at what sources of funding new startup businesses are aware of, what their budgets are and what sources of funding they use. The businesses surveyed were all UK based and had registered their business or formed their limited company within the last 18 months.
One of the main findings in our research was the massive disparity between what funding sources startups were aware of and the funding sources that they actually used. Many of the most high profile funding sources had high recognition but little or no usage. Our research shows that although the startups surveyed were aware of different funding sources the majority self-funded their business and bootstrapped to grow. While some of the startups had clearly struggled to obtain alternative sources of funding, for the vast majority self funding was a choice. It was also the method of funding that most of the startups recommended to other new businesses.



Perhaps the most interesting findings related to the government's Startup Loans scheme. This has been a very high profile scheme with a great deal of TV, internet and print advertising associated with it as well as much positive press. The businesses we surveyed were all brand new startups and so were the exact target market to receive funding from the scheme. Our research found that while 85% of the startups surveyed had heard of the Startup Loans scheme only 5% had used it to fund their new business.

1 http://www.iod.com/influencing/press-office/press-releases/skills-shortage-and-access-to-finance-top-concerns-for-uk-entrepreneurs

Current Research on Startup Funding

There are lots of resources available online, and stories in the press, about new and innovative ways for startups to fund themselves. What we are concerned with in this report is the types of funding that real startups actually use. Some research has previously been done on this topic but it has some major limitations.

Some of the best pieces of existing research on startup funding are the Global Entrepreneurship Monitor (GEM) reports. Their report on UK startups from 2011[2] contained a comparison of where entrepreneurs expected to get funding for their businesses and where they actually got funding from.

The tables below show the top sources of funding GEM found that startups expected to use and the top sources that they did use:

TYPE OF FUNDING *EXPECTED*	% OF ENTREPRENEURS
No funding needed	6.2%
All funded by entrepreneur	47%
None funded by entrepreneur	4.9%
Close family member (spouse, parent, sibling)	7%
Work colleagues	10.1%
Individual Investors	1.1%
Banks or other financial institutions	18.6%
Government programmes	11.1%
Any other source	7.2%

TYPE OF FUNDING *USED*	% OF ENTREPRENEURS
Friends and family	16.8%
Individual investors (not friends and family)	7.1%
Unsecured bank loans	7%
Bank overdraft	13.2%
Non-bank unsecured loan	1.1%
Mortgage or other secured loan	6.8%
Equity finance or formal venture capital	0.9%
Government grants	4.1%
Credit cards	7.1%

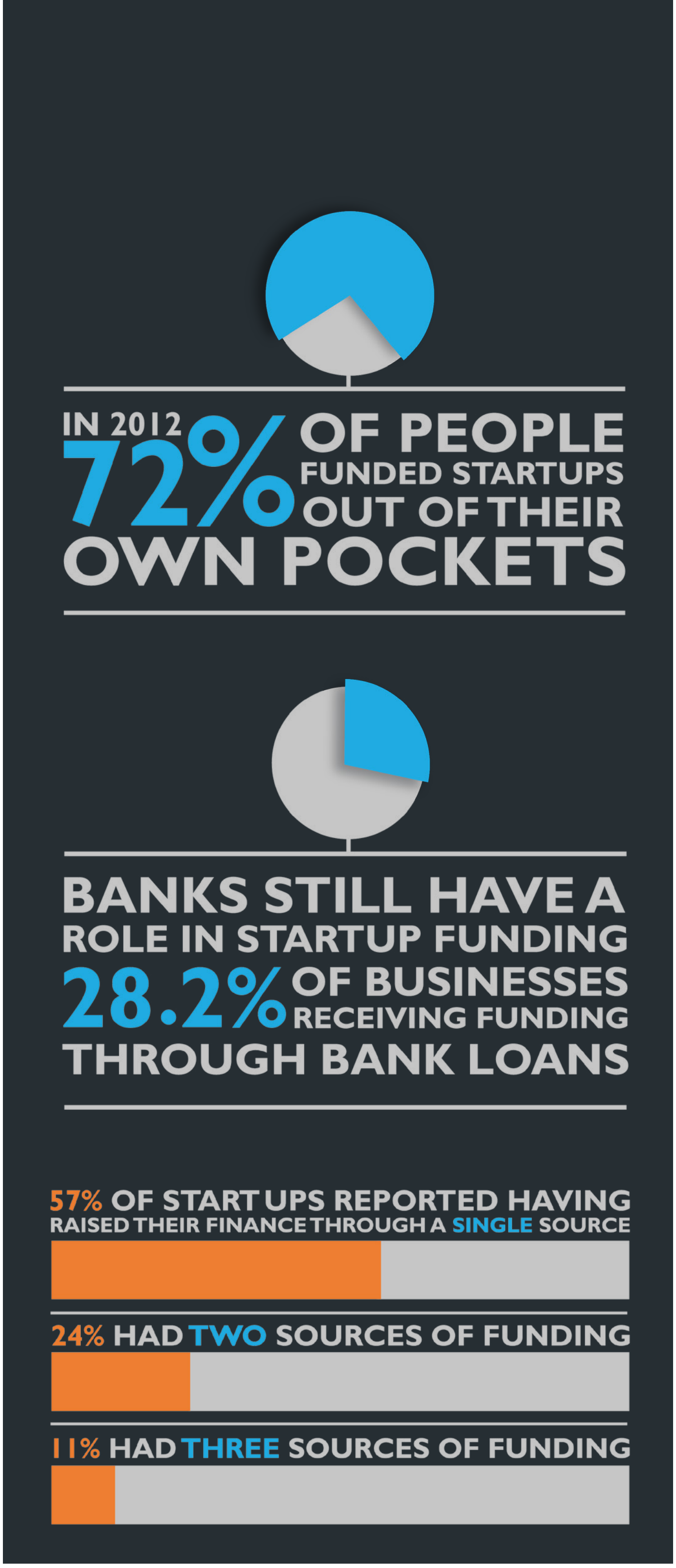
What this shows is that entrepreneurs ended up relying a lot more on family that they had intended. It also shows that they ended up using higher cost methods of funding including overdrafts and credit cards where they had not expected to do so. This points to entrepreneurs struggling to access adequate funding for their business.

In the 2011 GEM report 47% of startups expeccted to self-fund their business. From the most current GEM report, released in 2014, we can see that the percentage of entrepreneurs expecting to self-fund their venture remained fairly constant with only a slight drop to 46%. However there has been a dramatic fall in those expecting to borrow from the banks or other financial institution with a drop from 22.3% in 2012 to 8.8% in 2014.[3]

2 - GEM United Kingdom 2011 Report http://www.gemconsortium.org/report/48376
3 - GEM Consortium 2014 UK Monitoring Report: http://www.gemconsortium.org/report/49102

Research conducted by The University of Surrey in 2012[4] found an even higher rate of self funding start-ups with 72% of people funding startups out of their own pockets. The University of Surrey report suggests that this is partly down to a scarcity of other sources of funding and partly down to mistrust of the banks. The report found that the attitude towards the banks from small businesses "ranges from disappointment to contempt". However, The University of Surrey report did find that the banks still have a role in startup funding with 28.2% of businesses receiving funding through bank loans.

Another aspect of startup funding highlighted by the University of Surrey report was that most startups don't rely on a single source of funding. While 57% of start-ups reported having raised their finance through a single source, 24% had two sources of funding and 11% had three sources of funding. In most cases this meant startups using their own money to found their business but supplementing this with a bank loan, credit cards or other kinds of financing.



One of the major issues with both the University of Surry and the GEM reports is that they don't take into account the alternative finance options which have become available to UK entrepreneurs in the last few years. This would include options such as crowdfunding, peer-to-peer lending or invoice factoring.

Similarly, although both reports ask about use of government grants neither report specifically looks at the use of the government's Startup Loans scheme. Our report includes both alt finance and Startup Loans to try and get a more up to date picture of how startups are funding themselves in 2016.

4 - Success in challenging times: Key lessons for UK SMEs https://www.surrey.ac.uk/sbs/files/Success_in_Challenging_Times_Report%20.pdf

The Company Warehouse Research on Startup Funding

Many comment on the range of funding sources available, particularly with the advent of 'alternative' finance solutions such as crowd funding and peer to peer lending. When these are combined with government grants, startup loans, angel investors, CDFI's and more traditional sources such as banks, there are indeed a wide range of funding sources available. Access to funding remains an ongoing challenge for new businesses and the majority of new startup businesses continue to rely on their own funding and that of friends and family.

In order to try and better understand the funding landscape for new businesses in the UK this report looks at the budgets startups are setting, what sources of funding they know about and what sources they actually use. All of the businesses surveyed had either formed a limited company or registered as sole traders within the last 18 months and are based in the UK.

We also asked the new businesses being surveyed to tell us about their experiences finding funding and what advice they would want to pass onto other startups.

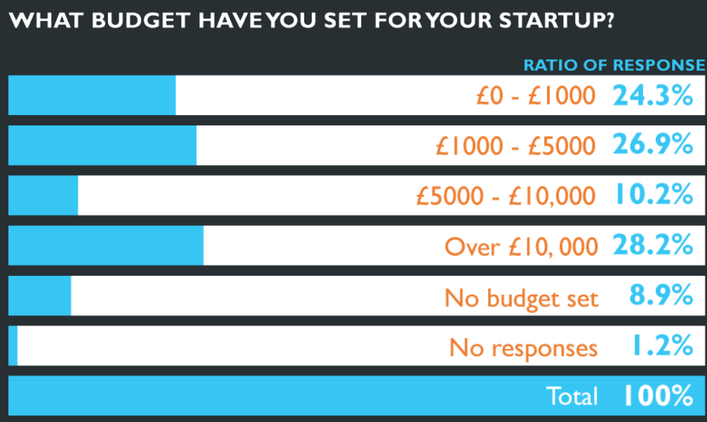
When people talk about 'startups' they often think of high-tech businesses like those clustered around Silicon Roundabout in London. However the tech industry is relatively small, only making up around 6% of the UK economy . In reality startup businesses come from all types of industry with construction, healthcare and retail being among the biggest drivers of small business growth . In this report we refer to startups simply as new businesses that are starting up, whatever sector they are from.

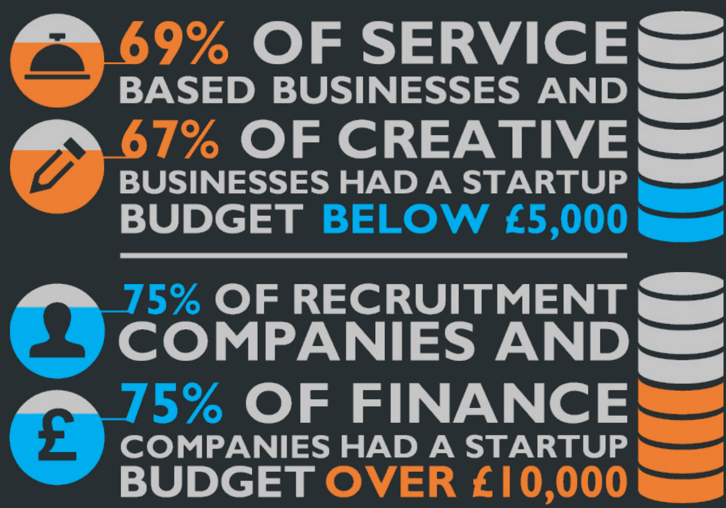
Startup Budgets

Before delving into the types of funding people were using to start their business we wanted to understand the amount of funding required. Therefore we asked the entrepreneurs in our survey what budget they had allocated to starting their business. **Most businesses surveyed had a startup budget of under £5,000.**

The businesses with the highest startup budgets were found in recruitment, property and finance. Those with the lowest budgets were found among traditional trades such as plumbers and electricians and service orientated businesses such as cleaning.

The vast majority of new startups had set themselves a budget with only 8.9% reporting not having one. When we asked the businesses in our survey for their tips for other startups the importance of planning and budgeting were key themes.





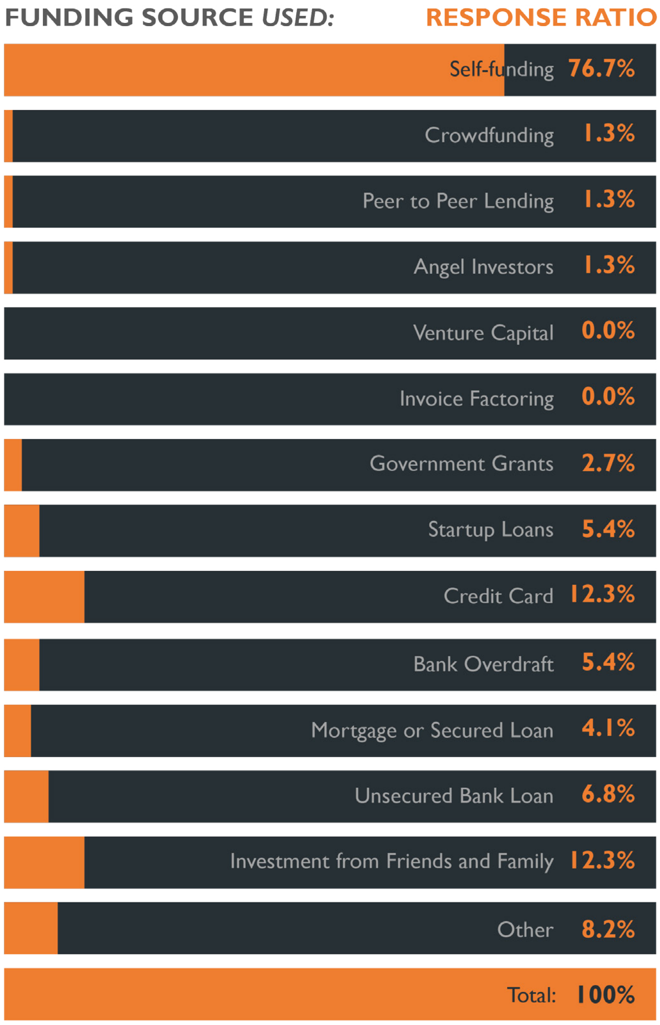
> *Have a great business plan, with clear goals and showing an in-depth knowledge of your market place, including competitors, market size, aimed for market penetration, etc. Be knowledgeable on your business, its aims and know your figures and SWOT analysis.*

Martin, Hmo Property Sourcing Limited

Awareness & Usage of different funding sources

Overall, startup business owners have a pretty high awareness of the different types of funding available to them. Even though we found that **16%** of people surveyed were not aware of any of the sources of funding listed, the vast majority were aware of more than one source. Startup Loans were the source that most people surveyed were aware of by far, with nearly **85%** of those questioned knowing that they could use Startup Loans as a funding source.

There is a clear disparity in the high awareness that business owners have of the different funding sources, and the funding sources that they actually use. Invoice factoring and venture capital had the largest disparity, with **25-28%** of those surveyed being aware of these funding streams but absolutely no one using them as a source of funding. This is perhaps not surprising as the businesses surveyed were all within their first 18 months and many were therefore likely not to be ready for this type of funding.



The more surprising figure was that while **85%** of those surveyed were aware of the Startup Loans scheme only **5.4%** of those surveyed had used a startup loan to fund their business. Of those that used startup loans, 100% used other sources of funding such as government grants, mortgage or family investment alongside.

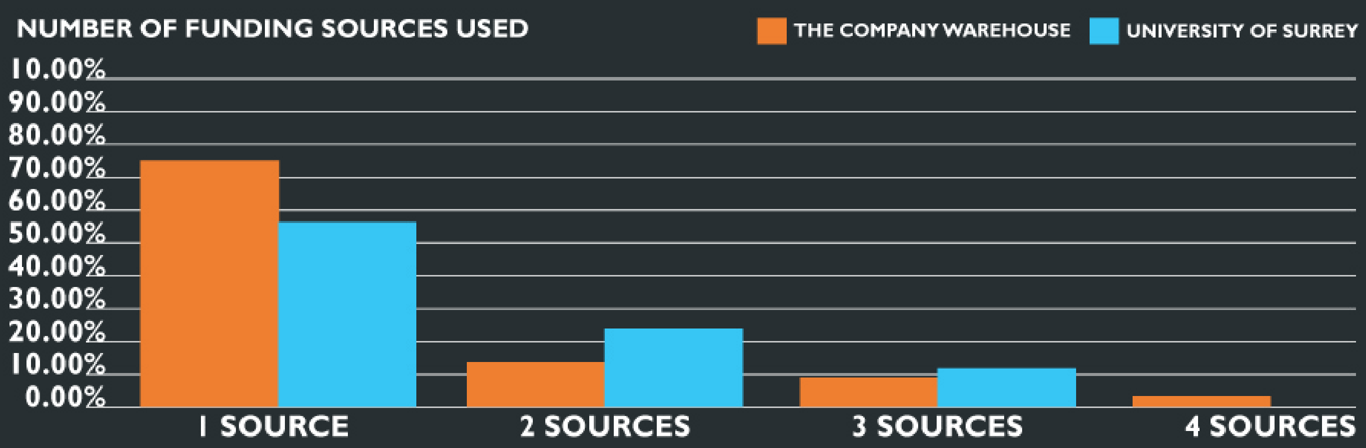
The Startup Loans scheme has been one of the government's flagship programs for encouraging entrepreneurship. The respondents to our survey are all people who have started businesses within the last 18 months and as such are the target market for Startup Loans. Our report shows that while the publicity around Startup Loans has clearly raised a great deal of awareness about them very few entrepreneurs are using them. Instead the vast majority of startup businesses are relying on their own funding, credit cards or their friends and family to start their business.

85% OF STARTUPS AWARE OF STARTUP LOANS ONLY 5.4% USED THEM

Awareness & Usage of different funding sources

Our survey shows 6.8% of startups surveyed using a bank loan to fund their business. This is very close to the figures in the GEM reports from 2014 which recorded 7% of startups using bank loans but is a big change from the figures nearer to 20% recorded by both GEM and the University of Surrey in 2012. This suggests a growing trend away from the use of banks to fund startups. As the University of Surrey report found there was a deliberate choice by many entrepreneurs not to approach the banks in the first place. Other studies suggest that the attitude of the banks may be causing bigger issues. A recent study conducted by Amigo Loans who found that more than 1 in 20 business that had been refused a traditional loan did not seek funding elsewhere[5]. This suggeststhat the unwillingness of banks to lend could be stifling many startups at birth as well as driving those startups that do continue further towards reliance on self-funding.

As The University of Surrey report found most of the startups we surveyed were using one source of funding to start their business. The University of Surrey report in 2012 found the figure to be 56%, among our sample in 2016 it was higher at 74%.



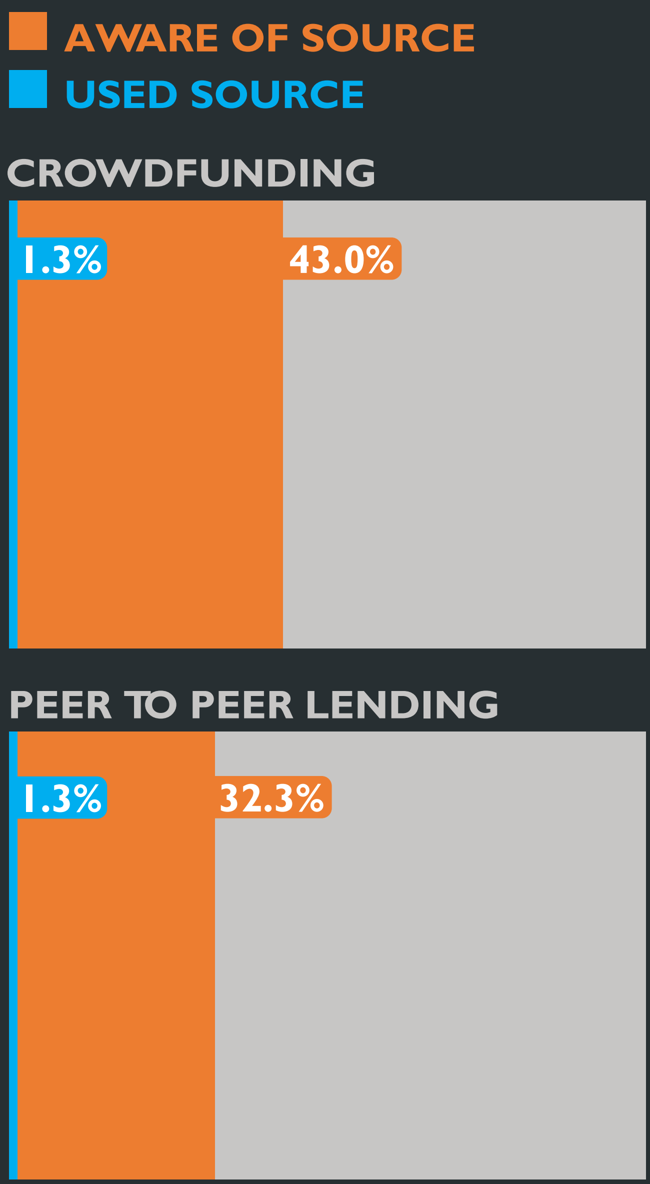
5 - http://startups.co.uk/over-one-million-start-ups-shunned-by-mainstream-lenders/#.VslS6cdjmD4.email

Alt Finance

Another, perhaps surprising, outcome of our research was the unpopularity of crowdfunding as a finance source. Crowdfunding is one of the funding sources that is almost always mentioned in articles and guides on finding funding for new startup businesses and there have been a number of high profile success stories in the last couple of years.

Early in February this year, crowdfunding site Kickstarter celebrated their 100,000th successfully funded project[6] while Seedrs reported that in 2015, more that £64million was made in investments into new businesses.[7]

However, despite the seemingly growing popularity as crowdfunding as a startup funding source, our participants did not seem to join in with this trend. Out of our participants, 43% were aware of crowdfunding but only 1 person used it to fund their business and they also used self funding alongside it in order to fully finance their startup.



6 - https://www.kickstarter.com/blog/the-first-100000-funded-kickstarter-projects-in-100-numbers
7 - http://www.crowdfundinsider.com/2016/01/79703-seedrs-releases-2015-statistics-infographic/

The Popularity of Bootstrapping

The majority of startups we surveyed were making a conscious choice to bootstrap their business. Investopedia define the term:
'bootstrap' to mean 'An individual is said to be boot strapping when he or she attempts to found and build a company from personal finances or from the operating revenues of the new company'.

Throughout our research it was clear that self-funding was being used as a main source of funding by startups. Of those surveyed by The Company Warehouse, 82% had used self-funding in some way to finance their business, with a huge 56% using self-funding as their sole source of income.

There was also a clear correlation between startup funding and budgets. Almost 25% of the businesses we surveyed planned to start their business with a budget under £1000. All of the entrepreneurs surveyed who fell into this budget bracket were intending to 100% self finance their business. As the budgets increased most entrepreneurs still planned to use self-financing but to supplement it with additional sources.

82% OF STARTUPS USED SELF FUNDINGTO START THEIR BUSINESS

56% OF STARTUPS USED SELF FUNDING AS THEIR ONLY SOURCE

It seems that a large majority of UK startups may now be considered as 'bootstrappers' because of the growing reliance on self funding. This was reflected not just in their advice on funding but also in the advice that they offered to other startup businesses.

> "Try your best to fund it yourself and only apply for funding when you need to."
>
> *- Nadene, Voices For Autism Limited*

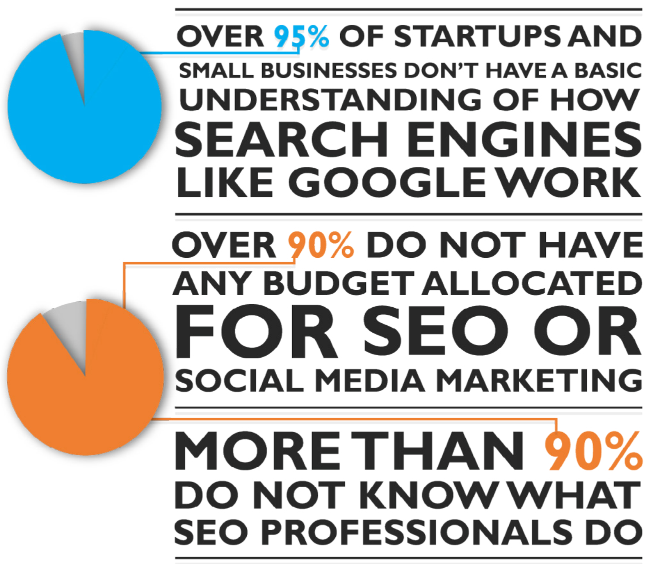
Managing Costs and Planning

As part of our research we asked what advice the respondents would give to other startups about funding. Although many of those who responded commented on specific sources of funding a lot of their comments were about making sure that a clear plan is in place and appropriate research had been done before starting. The overall theme of the advice our startups wished to give was to be as self-reliant as possible, and to bootstrap when you can.

> *Plan well ahead so as to cut down how much you think you need to borrow, there are always viable and legal ways of setting up things for free for your business. Like initial free websites, A Facebook page etc. Also if you don't know something, simply ask someone who does, never be afraid to ask for help or advice from others, as knowledge is power.*
>
> *- Christopher, Eaglestone Solutions Ltd*

> *Finance may not be needed if you have a handful of loyal clients . We are lucky that in the early days we has 1 such blue chip client who enabled us to start up without external funding and our client list has blossomed from here.*
>
> *- Frances, Green & Pleasant Event Management Ltd*

It was clear that for many startups controlling costs was as important as accessing funding. Finding cheaper ways to acquire clients was more important to them than accessing larger client bases. Those businesses that were able to take advantage of digital marketing were therefore at an advantage. However as our recent report **[BamGoogled: Digital skills among newly registered businesses]** found these skills are rare among startups and small businesses.



Source www.thecompanywarehouse.co.uk/report/report-title

Finding the appropriate help

As well as recommending strong planning and research many of the startups we surveyed we keen to emphasise the importance of finding the correct help and support. Thos who responded were not short on ideas about where help could be found.

Government funding would be my first choice to look at, different counties have various schemes available for startups. If you go to university or have recently graduated, they may run entrepreneur business schemes for start ups, which would include funding aid through pitching your business idea to them. The university may offer free mentoring too.

Michael, VEGISHAKE LTD

If you want affordable and ethical finance when the banks say no, contact the Responsible Finance Association or go to www.fredericksfoundation.org before trying any other source!

Charles Dodwell Ltd

My first port of call was the job centre. They helped me put all my plans into action, pointed me in the right direction. I was given a mentor who assisted me with my business plan & financial needs and I was then given help applying for a start up loan. They were absolutely brilliant and helped me every step of the way and I would 100% recommend.

Jasmine, Vapology Uk Limited

Interestingly one of the selling points of the Startup Loans scheme that our survey respondents shunned is that you get a business mentor as part of the package. Opinions on the benefits of Startup Loans mentors were mixed with responses including:

“

To join Startuploans.co.uk and receive mentorship in order to make a business plan, cashflow forecast and receive a loan.

- Andrea, Distinctive Move Group Ltd

Start up loans are a waste of time the advisers your given do not advise on your business idea or project they simply advise how to get the loan.

- Phil, Trades Bank Limited

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Conclusion

Our research shows that although UK Startups have a high awareness of many different streams of funding available the vast majority are still opting to self fund their businesses. Most were also very conscious of managing costs and the need for strong research and planning. This all indicates that most of them were starting their businesses with a bootstrapping philosophy and deliberately avoiding external funding rather than having major problems accessing it.

However, what is less clear is to what extent they are not seeking external funding due to mistrust of the banks and other financial institutions. Bootstrapping may be a reaction to their perceptions of the current funding climate as much as a philosophy in and of itself.
If the majority of new businesses are bootstrapping then the media concentration on startup funding may be misplaced. Instead the support startups really need may be access to low cost mentoring and advice and low cost marketing and development services to help them make their businesses profitable without the need for large amounts of external funding.