

# 6 New business

## 6.2 Vocabulary Funding a start-up

### Discussion

**1** Work in small groups. You are financial advisors to start-ups and small companies. What sources of funding would you recommend in these situations?



**1 BUSYBODIES** is a temping agency providing clerical help to other companies. It needs a new photocopier/printer but it does not have the cash available to buy it.

**2 FIXA** is a start-up providing home help for all sorts of everyday tasks or problems: gardening, household repairs, cleaning, ironing, etc. It needs £8,000 to cover start-up costs.

**3 DON BEAL** is an inventor. He has patented a new type of car engine which is 50 per cent more efficient than existing engines. He needs money to produce a prototype but wants to keep control of his business.

**4 ASC** is a small engineering company that has temporary cash-flow problems. It needs £1,500 to pay for raw materials. They are expecting to be paid £5000 in outstanding bills in the next two weeks.

**2** Read the advice leaflet below about business funding. Match each type of funding with the correct description 1–6.

bank loan   equity finance   friends and family   grants   leasing   overdraft   self-funding

**1** \_\_\_\_\_  
Drawing on personal savings and credit cards can cover start-up costs without having to wait for other people's decisions.  
The downside is that using credit cards can be expensive in the long-term.

**2** \_\_\_\_\_  
Regular repayments can make it easier to budget. On the other hand, repayment schemes can cause cash flow problems. You may also need to provide security, such as business assets, or a guarantor.

**3** \_\_\_\_\_  
This can be a very flexible option for short-term or day-to-day requirements.  
The disadvantage is that they usually bear a higher interest rate than other loans.

**4** \_\_\_\_\_  
They might be willing to provide an interest-free loan or not require security.  
On the other hand, funding from this source can put strain on your relationships.

**5** \_\_\_\_\_  
You get your funding, while the investor only realizes their investment when the business is doing well. You also get their expertise.  
On the downside, it's hard to raise this finance, and your own influence and share of the profits will be smaller.

**6** \_\_\_\_\_  
These appear to be a source of cheap financing. However, there is often strong competition, and you may be required to provide matching funds. You may also need to prove a wider benefit to the community.

**7** \_\_\_\_\_  
You can spread the cost of acquiring assets, and maintenance may be covered.  
But it's more expensive than if you buy outright, and you don't own the assets until the end of the agreement.

**3** Look again at your answers in 1. Would you change any of your recommendations?

**4** Find words or phrases in the leaflet with the following meanings.

- 1 the amount of money you pay back each month
- 2 money coming into and out of your business
- 3 an item you agree to give if you fail to pay
- 4 a person who takes responsibility if you fail to pay
- 5 debt which you pay back without any additional charge
- 6 money you provide alongside government funding
- 7 the cost of keeping something working



## Scan reading

- 5 Read the seven steps in an application procedure. Put the steps in order 1–7.

## Seventh Heaven Angel Investors Group



### The seven steps to heaven

- a Screening meeting. If they didn't *turn you down* at Step 2, our review committee will invite you to a screening meeting. Be prepared to make a ten-minute pitch and answer any questions that *come up*.
- b Self-assessment. Before *putting forward* your business plan for our consideration, you must *work out* if angel capital – and specifically capital from our group – is right for your company.
- c Due diligence. If your presentation is successful, interested investors will *check out* the statements made in your business plan, presentation, and financial projections. They will go over your team's background and *track record* in detail.
- d Funding. When all parties are happy with the terms and language contained in the term sheet, the deal can *go through*.
- e Online application. Once you have decided to submit a plan, complete our application online. This is designed to identify the most important details about your business so that our internal review committee can *weed out* the non-starters.
- f Term sheet. On successful completion of the due diligence process, interested angel group members will *draw up* a term sheet that *sets out* the structure of the investment deal, including type of equity and board of directors representation.
- g Presentation to membership. If you *get through* the screening meeting, you will be invited to make a 30-minute presentation to our full membership, the goal being to convince members that your proposal is worth investigating in detail.

- 6 Use the phrasal verbs in 5 to complete the sentences.

- 1 Only two per cent of business plans \_\_\_\_\_ the complete funding process.
- 2 Problems often \_\_\_\_\_ in the early stages.
- 3 Business angels may \_\_\_\_\_ proposals for no apparent reason.
- 4 Angels always \_\_\_\_\_ an entrepreneur's background thoroughly.
- 5 It's worth getting a lawyer to \_\_\_\_\_ any contracts rather than trying to write them yourself.
- 6 The term sheet \_\_\_\_\_ all the conditions of the deal.
- 7 A lot of hard work is necessary before the deal finally \_\_\_\_\_.
- 8 In your pitch, you should \_\_\_\_\_ clear and convincing arguments.
- 9 Get help if you can't \_\_\_\_\_ how much funding to apply for.
- 10 The screening meeting allows investors to \_\_\_\_\_ poor applications at an early stage.

### Listening

- 7 2:14 Listen to four entrepreneurs explaining why their proposals were turned down. Decide which reason from the list below each person mentions.

lack of skills in the management team  
financial forecasts based on assumptions  
inadequate financial returns  
lack of trust  
no clear exit route

no track record or proof of concept  
too complex  
not scalable: no growth potential  
lack of market awareness

### Internet research

Search for the key words "business angels" to find out more about their role in financing start-ups.

### Discussion and presentation

- 8 Work in small groups. You work for a corporate finance firm bringing together investors and entrepreneurs. Using relevant phrases and vocabulary from the previous exercises, draw up a list of *Dos* and *Don'ts* for start-ups looking for funding.

- 9 Work with a partner from a different group. Present and compare your lists.