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NEWSLETTER

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Three ways to finance your business

Before you apply for a business loan, you should consider a few things that will increase your chances of getting the money.

There are three main types of finance for most businesses:

Debt: The business borrows from an external source to meet its business needs (i.e. a business loan);

Equity: A private investor provides a cash injection in return for part of the ownership of the business to support its growth;

Cash: A business can also finance its growth through cash from the business owner, family or friends, or grants from government agencies.

Borrowing from a bank is a form of debt finance. There are several different types of finance, and which type you use will depend on whether

the finance is for a short-term or a long-term use. The "golden rule" is to match the type of finance (short-term or long-term) to the intended business need (short-term or long-term).

Lending for short-term purposes adds to a business's working capital. Three main types of working capital loans are:

- **Overdrafts**
- **Invoice discounting**
- **Visa business cards**

For long-term purposes, the most relevant forms of finance are:

- **Asset finance, which covers leasing and hire purchase arrangements**
- **Term loans**

Let's look at each of these different types of finance in turn.

Overdrafts

Overdrafts are a short-term permission by a bank to a business,

allowing the business to issue payments or make withdrawals on the business current account, up to a specified amount (called an overdraft limit or permission). Interest is charged on a daily basis on the amount of the overdraft used. Generally, there will also be quarterly fees as well as an annual facility fee.

Most often, overdrafts are used by a business in managing its working capital and to meet a very short-term financial need.

The main advantages of an overdraft are that they are usually easy to arrange, they do not have a fixed repayment schedule and you only pay interest on the amount of the overdraft that is actually used by the business.

However, an overdraft is repayable on demand. This means the repayment of the entire amount can be demanded by the bank at any time, without explanation or notice. Because an overdraft is only intended as a temporary source of

finance, renewable annually, banks will usually require customers to manage without the overdraft for a set number of days each year to prove that the overdraft is not a permanent source of finance.

If usage of the overdraft shows that the overdraft is required on an ongoing basis, the bank may suggest that some or all of the overdraft be converted into a term loan.

Invoice discounting

This is a form of finance providing ongoing working capital, where the lender prepays a portion (usually 70% to 85%) of the business's accounts receivable (another name for trade debtors).

This is one of the key advantages of this type of funding. Cash flow is generated from actual, rather than future, sales. This type of finance is particularly suited to certain industry sectors (such as manufacturing) where the business concerned has a debtor book above a certain size, and where the sale is free of ongoing contractual obligations.

Typically, a lender will conduct an assessment of the quality of the debtor book and the suitability of the underlying transactions for invoice discounting. Assuming this is satisfactory, the lender then assesses the business's background, management and financial performance. If approved, then the lender will offer to lend the business an amount based on the eligible invoices issued by the business (up to 85% maximum).

The business retains full control of the administration of the sales ledger, and the relationship with the lender stays confidential.

As the cash is collected from customers, the lender is repaid, with



the lender paying the business the difference between the amount received from customers and the amount advanced to the business (less any charges). As more invoices are issued, more cash can be raised against these, providing a revolving (or ongoing top-up) loan to the business.

In a similar vein, but far less common in Ireland, is factoring. With factoring, the lender directly takes on the management of the sales ledger and the collection of money owed by customers. Because of the higher level of involvement by the lender, higher fees are charged for factoring.

Visa business cards

Visa business cards are an interest-free, short term, cashflow management tool offering you control, simplicity and certainty. It allows customers to put their expenses on the business card on a monthly basis and not utilise their business' cashflow for 37 days. There are no transaction fees when you use your credit card to pay for goods and services, making it a more cost-effective alternative.

Term loan

This is a loan that is made by a bank to a customer, which requires

the loan to be repaid in regular instalments over a set period of time. Term loans usually last between one and ten years (three to five years is common) but they may last for longer periods if buying a commercial premises.

These types of loans are usually suited to longer term, larger purchases, such as investment in capital equipment or business premises. A commercial mortgage is a type of term loan that is used to purchase a business premises, over a typical term of seven to 15 years.

Some of the main attractions of a term loan are the certainty that it provides to a business over its ability to finance itself into the future and the predictability of loan repayments. An overdraft would usually not be a suitable way of buying a long-term asset, not least because the repayment of the overdraft could be demanded at any time by the bank.

The length of the term loan is generally fixed at the outset, with the repayments being increased or reduced to take account of variations in the interest rate. The interest rate that is charged for a term loan may be fixed or variable.

Three ways to finance... (continued)

Depending on economic conditions, loan rates may vary significantly over the term of the loan, so it is important to work out which type of interest rate suits you. If going for a fixed rate loan, you should also check whether there are any charges if you repay the loan ahead of its scheduled repayment term. You may have to pay the bank's financial costs associated with finishing the loan early.

Depending on the size of the loan, the bank may seek security to protect its position if the loan is not repaid in accordance with the agreed terms.

This lease agreement gives the business the use of the asset for a given period (usually 3-5 years), in return for payment of a monthly sum to the asset owner (the bank). At the end of the lease period, the business can either extend the lease by paying a small annual rental to the bank, it can trade the asset in, or the asset may be bought outright.

Some of the advantages of leasing include a reduction in the level of additional security required because the loan is secured on the asset being financed. Also, provided the customer is complying with the terms of the lease agreement, the asset

and purchased by the customer, over an agreed term, normally 3-5 years. On completion of the agreed term, the customer may purchase the asset on payment of a nominal fee (called the purchase instalment).

Assets financed by way of hire purchase are treated as "owned" assets of the business for accounting and tax purposes, which can have useful tax benefits.

There are some important differences in the VAT treatment of goods that are leased or subject to a hire purchase agreement, which are summarised below.

Leasing

- VAT is payable on the rentals (lease amount) of the asset, not on the purchase price of the asset.
- A VAT-registered customer may be entitled to reclaim VAT on rental payments, but usually not in the case of motor vehicles, and then only in very restricted circumstances.

Hire purchase

- Businesses registered for VAT may reclaim the full VAT upfront on the assets/equipment, using a copy of the hire purchase contract as evidence of purchase.
- Note that VAT is not normally recoverable on motor vehicles.

Asset finance

This is a type of finance used to fund a wide range of moveable business plant and equipment, from machinery to transport vehicles. Under a leasing arrangement, the bank buys the asset and leases it to the business wishing to use the asset, by way of a lease agreement.

cannot be recalled during the life of the agreement. Some equipment manufacturers provide leasing arrangements direct to customers. This is called vendor finance.

An additional form of asset finance is hire purchase, where the asset is bought by the bank and hired to,



Small Business Tips

Becoming an entrepreneur is not for the faint of heart. Running and growing a business can be challenging – that's why about 90 percent of all new businesses fail.

Since the odds are stacked against you, it takes hard work and perseverance to achieve success. Whether you have a business or looking to start a one, it's important to listen to your peers and mentors. Some lessons you will have to learn on your own but some small business tips you can learn from others.

Don't quit your day job.

When you are just starting out, bringing in a consistent profit month after month can be challenging and stressful. You want to focus on building something that will make you money passively everything month down the road.

"A successful business is a marathon, not a sprint."

Keeping your day job until your business is financially stable will reduce pressure so you can focus on what matters. Remember – **it's not how you start the race, it's how you finish it.**

Study the pros.

You can read all the books on what you need to do to grow a successful business but what will push the needle is to study what the pros do. Find people inside and outside of your industry that you admire and dig into what they are doing with their businesses.

Study what the pros do more than what they teach. Analyse their code, writing styles, videos, etc. Of course, don't blatantly rip people off but take influence and make it your own. You will eventually develop your own style. First, **get inspired.**

Improve 1% every month.

Give yourself realistic growth goals. Growing 1% every month doesn't sound like much, however, after a year you will have increased 12.68% and 26.97% in the second year. **Just a little bit of growth consistently will start an exponential growth cycle.**

Just because you are improving 1% every month doesn't mean that every single thing you make will grow that one percent. If you want to make things that are amazing, things that become fruitful and well-known then you have to make a lot of things. The more you do, the more you will fail, and the more you succeed. Throw things at the wall. You never know.

Don't put yourself in the box.

Many people limit themselves to what they **think** they can do or what people expect you to do. Don't ever feel you need to fit into a box. Put your weirdness into your work, that weirdness sets you apart.

There are not a limited amount of opportunities.

There are an unlimited number, but if you chase every opportunity, you will never make meaningful progress on the ones that matter. **Only pursue opportunities that help you achieve your key goals.** Say no to everything else.

Also, stop thinking all the good ideas are taken. It will just paralyse your creativity. Your idea most likely has already been done. There are very few "new" ideas out there but who cares! Whatever you set out to do make it your own – give it a different spin.

Resistance points to true North.

Like a magnetised needle floating on a surface of oil, Resistance will unfailingly point to true North – meaning that calling or action it most wants to stop us from doing. We can use this. We can use it as a compass.

We can navigate by Resistance, letting it guide us to that calling or action that we must follow before all others, – Steven Pressfield, **The War of Art: Break Through the Blocks & Win Your Inner Creative Battles**

According to Pressfield, all creatives are engaged in a perpetual struggle. Resistance always tries to keep us away from the most important things. **Don't fight it, follow it.** It will point towards the things you probably should be doing.

Feedback is a gift, solicit it and take it seriously.

The emails you all send to are INVALUABLE and easily one of our biggest competitive advantages. You tell us when we're great, when we suck, you share your stories and when necessary, flame us. When creating your business don't be scared to ask people what they think. Ask your customers as well as individuals who don't know anything about your business.

Small Business Tips... (continued)



People love giving their opinions.

Some will give you good advice and some not so much, but you can filter what feedback is valuable. You still have to be the driver of your own success, but feedback will help you cover your blind spots.

Consistency

More often than not the people who succeed are the ones left after everyone else quit. The key is **consistency** in business. Every day go to work and do something. Even if you're not in the mood or not feeling inspired, do one thing to push the needle forward. Consistency is a necessity for success. When starting a new project there's always that initial excitement that will keep you going but it can wear off. At times it's hard to keep it up. **There are great tools out there to give the kick in the ass and keep you motivated**

Find a Mentor

You learn more with your mouth closed and your ears open. Heed advice from others. Building a business on your own can be isolating so find mentors- you need them! Having a mentor has been found to reduce stress and minimise the risk of burnout, according to research. They will help you focus on what is important rather than

running full speed ahead in all directions and spreading yourself too thin. If you surround yourself with the right kind of people, you will learn so much from their experiences.

Mentors can look at your business with fresh eyes and help you to spot the holes in your business plan. It may be your business, but sometimes you can't see the forest for the trees.

Thank people

This is an easy one but can easily get lost in the craziness of running a business. Show appreciation to all of your supporters; you **never know what kind of relationships can form**. Customers are the lifeblood of your business. Showing them appreciation will make them feel valued which is so important.

Know your business math.

If you are trying to start a business (that makes money) then a financial plan is a must. Sure it's your passion, and you want to help people but if you are planning on making it your full-time gig then you need to have a plan.

Many small businesses fail because the business owner doesn't

understand the importance of the numbers behind the business. You don't have to be a mathematician to figure it either. You can evaluate your business with simple math fundamentals. Take a look at the numbers **honestly** see where the business is going.

Discovering problems early on will help realistically plan for the future. Your business finances are just as important as your personal finances so invest in some finance software to help you stay on top of it and make it as painless as possible.

Find out what your customers need.

Don't just guess what your customers need – ask. Depending on your business, come up with the right questions to find out problems your customers are facing so you can create a solution. After you find out what your customers want you know where your time is best invested.

Serve those who love you.

You can't be everything to everyone, and that's not an easy pill to swallow. That first bad review or nasty email will crush you. So will the fifth, tenth and twentieth but you can not be all things to all people. Define your business and stick to it. Specialise in something and focus on being the best at it. You can always branch off later.

Learn by making

You can read all the business books out there, but you will learn more by doing. Try to work through any obstacle ahead of you. You might be surprised what you come up with.

Online business support programme

Online business support programme launched to help SMEs overcome business challenges.

MentorsWork, an initiative of Skillnet Ireland and the Small Firms Association (SFA), to support business recovery and deliver long-term growth for SMEs.

- **MentorsWork initiative offers expert business mentoring and targeted upskilling supports to SMEs on key business challenges, developing pathways to recovery**
- **MentorsWork four key pillars - People, Finance and Growth, Digitalisation and Automation and Business Processes**
- **The new phase of the MentorsWork initiative has a longer-term focus for SMEs, to help them thrive, by addressing the specific needs of individual business.**
- **Free places available to support SMEs operating across Ireland in all business sectors**

Skillnet Ireland in partnership with the Small Firms Association (SFA), has today launched a new phase of the MentorsWork initiative aimed at guiding Irish SMEs through their current business challenges towards stabilisation and recovery, six months on from the outbreak of Covid-19. MentorsWork is also supported by the Strategic Banking Corporation of Ireland (SBCI) and Microfinance Ireland.

The MentorsWork eight-week business support programme is free to SMEs nationwide and is designed to provide the skills and supports to help business owner-managers sustain and improve their business. The programme offers integrated learning supports across four key pillars; People, Finance and Growth, Digitalisation and Automation and Business Processes, all which help businesses to adapt and thrive by improving skills and competencies.

MentorsWork will connect business owners and managers across Ireland with experienced and skilled business mentors to address specific business issues on a one-to-one basis. The programme also offers specialist masterclasses and access to a bespoke online learning platform specially designed for SMEs.

Minister of State for Skills and Further Education, Niall Collins, T.D., said: The development of a highly skilled workforce and supporting our vital SME base is a key objective for the Government. MentorsWork from Skillnet Ireland offers SMEs expert support in overcoming current challenges and achieving their full potential. I would urge every small and medium sized enterprise to participate in these supports which are delivered by industry for industry."

Skillnet Ireland Chief Executive Paul Healy said, "The Covid-19 crisis has brought significant challenges for businesses. Working with the SFA, we want to support businesses to navigate the challenges they are facing by offering them supports that are targeted at their specific needs. The opportunity to gain expert advice and insight through the MentorsWork programme is

essential to drive sustainable long-term recovery across the SME sector."

Launching MentorsWork, **Graham Byrne, SFA Chair,** said: "MentorsWork is an initiative led by the SFA, in partnership with Skillnet Ireland, and designed in consultation with Irish businesses. Together we want to meet the needs of SMEs and offer them our full support at this challenging time.

We are delighted to have developed a programme that not only connects vastly experienced mentors with businesses to affect real change, but also incorporates expert-led workshops, access to a self-paced learning portal and the development of a bespoke business plan. We are calling on SMEs, across Ireland, to sign up and avail of this opportunity to seek expert advice, free of charge, to help their business not only adapt but thrive."

With up to 300 places available in this new phase of the scheme, the MentorsWork initiative is open to SME business owners and leaders operating across Ireland and in all sectors of the economy. The programme is free of charge and open to private sector businesses that employ between 5-250 people.

Business owners and managers can apply to participate in MentorsWork at: **www.mentorswork.ie**

'Ready for Customs' grant available





The new Ready for Customs Grant

€9,000 per full-time employee* to manage customs clearing

For more details visit
www.prepareforbrexit.com/readyforcustoms

*T&Cs apply





New Enterprise Ireland 'Ready for Customs' grant available

- **Up to €9,000 in funding for each new employee engaged in customs work**
- **Business urged to act now to be ready for major customs challenge**
- **Failure to act could damage important customer relationships**

A new 'Ready for Customs' grant was opened today by Enterprise Ireland, as part of the Government's Brexit Readiness Action Plan.

The €20m fund provides grant support for each new employee taken on in a customs role within a company. Up to €9,000 is available for each full-time employee hired.

According to **Julie Sinnamon, CEO of Enterprise Ireland**: "The 'Ready

for Customs' grant is one of a range of business supports the Government outlined today as part of Ireland's Brexit Readiness Action Plan. This new grant provides companies with financial assistance to cover the costs of taking on much needed additional customs clearance staff, which will be needed when Brexit becomes a reality on the 1st January 2021.

"Research indicates that insufficient customs clearance capacity is a significant risk for Irish enterprises. Business needs to act now to build capacity and this grant will assist them meet the challenge that will become very real on 1st January next. My clear message is don't wait – take action now.

"A grant of up to €9,000 for each new full-time employee taken on in a

customs role over the coming months is available."

"The Revenue Commissioners estimate that the number of customs declarations will increase from 1.7m a year to 20m in 2021, requiring approximately 2,000 additional staff to process them. There is currently not enough customs clearance capacity in Irish businesses. This is a real risk, that could ultimately damage valuable relationships with UK customers.

"The Ready for Customs grant is time limited and I would urge every Irish company, logistics firm or customs intermediary involved in trading with the UK, to apply for this grant through Enterprise Ireland today."

Details available at:
www.enterprise-ireland.com/ReadyforCustoms

Business Support Brochure

Enterprise Ireland has a number of supports available to help businesses mitigate the impact of Covid-19 (Coronavirus).

The Covid-19 pandemic is unprecedented and has introduced significant uncertainty and challenges for Irish business.

The Irish Government, through a number of departments and agencies, including Enterprise Ireland, has introduced a wide range of supports to help affected companies to stabilise their businesses and navigate through the immediate, critical challenges that Covid-19 presents as well as responding to the longer-term risks and opportunities.

The Government of Ireland recently announced new funding supports to help companies respond to Covid-19. These supports include the Sustaining Enterprise Fund administered by Enterprise Ireland to support the manufacturing and internationally traded services sectors to adapt their business model and return to viability.

Additional supports announced by the Department of Enterprise Trade and Employment include Covid-19 Working Capital Loan and a Future Growth Loan Scheme available through the Strategic Banking Corporation of Ireland (SBCI).

In addition to these supports, Enterprise Ireland has a €5,000 Covid-19 Business Financial Planning Grant to help companies prepare financial plans for their internal needs, banks and the SBCI,

The brochure cover features a dark blue background with yellow and white geometric shapes. At the top left, a yellow hexagon contains a white circle. Below it, a yellow plus sign is positioned to the left of a white box containing the text 'Sustain your business with our support'. To the right of this box, a yellow rectangle contains the text 'Covid-19 Supports'. Below the plus sign is a large yellow circle. The bottom half of the cover shows a man in a white shirt and dark trousers standing in a warehouse, looking at a tablet. In the bottom left corner of the image is the Enterprise Ireland logo, and in the bottom right corner is a logo for the Coronavirus COVID-19 National Programme.

as well as strategic consultancy grants and other supports to help companies maintain and enhance their competitiveness.

Enterprise Ireland is here to assist Irish businesses to deal with this significant challenge now and in the longer term.

For further information on the supports outlined in this guide, contact your Development Adviser,

the Covid-19 Business Response Unit or visit enterprise-ireland.com.

Download the brochure from:
<https://globalambition.ie/wp-content/uploads/2020/04/Enterprise-Ireland-Covid-19-Business-Supports-Brochure.pdf>