

Finding funds need not be frightening

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Published: December 11 2009 18:14 | Last updated: December 11 2009 18:14

One of the defining characteristics of business over the past year has been the difficulty in accessing finance. But what is often not discussed is that many ambitious entrepreneurs do quite well without the aid of venture capital (VC) and bank loans.

Gerard Burke, director of the Business Growth and Development programme at Cranfield School of Management, says 90 per cent of the participants on the course are self-funded.

This is partly because of the nature of most businesses and the managers that run them, according to Burke. Businesses tend to be based on the particular skill, capability or network of the original founder and have a limited ability to reach the sort of scale that equity investors would typically seek.

Owner-managers often run their own businesses because they have high needs for autonomy and control, too. "Having an external investor is perceived as giving up some of that autonomy and control, and most owner-managers simply don't want to do that," Burke says.

One way to avoid recourse to the bank or a VC firm is to obtain a government grant. This is what Evan Rudowski and Miles Galliford did when they launched Sub Hub, a software company that enables other budding entrepreneurs to create commercial membership websites of their own.

They relocated from London to Cardiff Bay to take advantage of the grants, low-interest loans and other subsidies available in Wales, which have made up £330,000 of Sub Hub's funding to date.

New York-born Rudowski says Cardiff is a far cheaper place to be based and also allows the company to stand out from the crowd.

"In Cardiff Bay, we are one of the hottest companies, whereas in London we would be competing with many others for the best talent."

The Welsh assembly has also subsidised trade missions to the US, which was a great help for Sub Hub, 70 per cent of whose customer base is now in the US.

One of the advantages of taking public money instead of private is that you are not under such pressure to produce a quick return, Rudowski notes.

This was valuable for Sub Hub, which has changed its business model several times since Rudowski and Galliford quit their jobs to start the company in 2004.

"We have had a cushion to make mistakes and learn from them," Rudowski says.

Sometimes, successful self-financing is a matter of timing. When Ross Hugo launched Holidaylets.net in January 2003, the market for renting holiday homes online was white-hot.

He started with 500 properties on his website and increased this to 11,000 properties in four years, using his own resources. "It was a bit of a land grab," he says.

In 2007 Hugo sold to his much larger French rival, Homelidays, for several million pounds, shortly before his purchaser itself became the target of a takeover by the main US player, Home-away.com.

Hugo admits that he might have grown faster and bigger with private equity cash behind him. However, he doubts whether the outcome would have been any different.

"The Americans do it on such a grand scale," he says. "I don't think people would have taken us seriously enough to lend us the kind of money we'd need to compete with that."

Pure technology companies such as Sub Hub and Holidaylets.net have one advantage when it comes to self-funding, as they do not need significant amounts of capital investment to write computer code.

This is not the case if you are the head of a clothing business, such as Michael Conway at the Quayside Group. However, he too has self-funded his growth.

The business started off as a fashion import company that supplied garments to high street retailers, such as Next, House of Fraser and C&A.

The day before Conway was due to complete a £750,000 management buyout of the business – which he was running at the time for a large textile manufacturer – the venture capitalists backing the deal rang to say they were withdrawing their funding.

Conway went ahead with the deal regardless, saddling himself with £80,000 of personal debt, and kept the company afloat through asset and debtor finance from a trade finance company. "I put in pretty much everything I had," he says.

However, this gave him the freedom to remake the business model completely, reinventing the company as an online supplier of clothing for workwear, promotions and events. The business now trades under the websites clothes2order.com, polo-shirts.co.uk and safclothing.com, and boasts the Virgin Group and the BBC among its clients.

Over the past year, revenue increased by 70 per cent to £3.9m. Moreover, because customers pay when they place the order, rather than when they receive the goods, the Quayside Group has a positive cash flow and no longer needs its debt facilities.

"We have no limit on expansion through our own finances," Conway says, adding that the business is set to buy its second large distribution centre in the next couple of weeks. He claims he has had offers of funding from three banks and various private individuals to help expand the business, but that he has so far declined.

Conway notes that the years leading up to the credit crunch, when it was easy to obtain bank finance, were exceptional, and that business owners should be wary of accepting offers from lenders at the moment. "Short-term, day-to-day borrowing with a bank is fine, but be careful in your financial arrangements that you do not become reliant on a facility that can be pulled at any moment."

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