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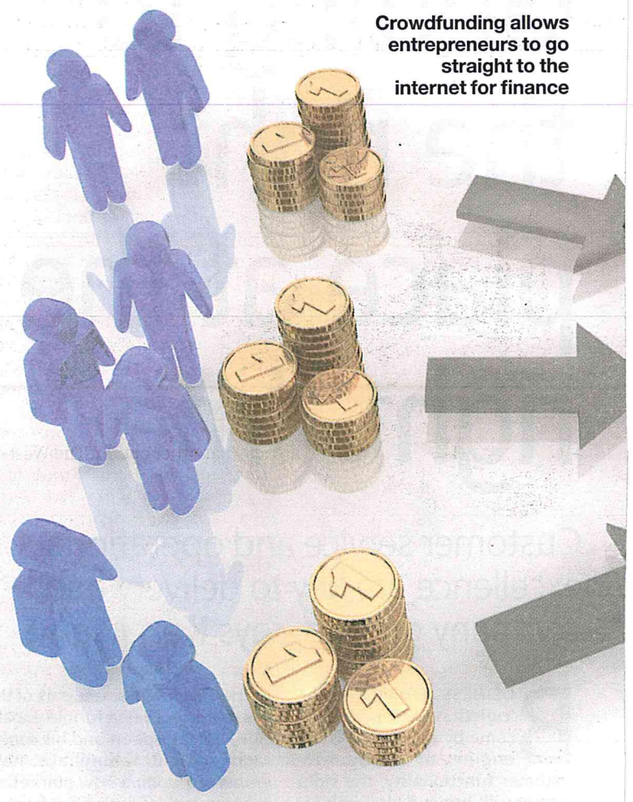
Friendly faces in the crowd



Crowdfunding allows entrepreneurs to go straight to the internet for finance

Start-ups are increasingly looking at more innovative forms of finance, writes Rob Stokes

SEEKING finance for his Confman web service for conference organisers, Edinburgh-based Ryan Stenhouse turned to Seedrs.com, a London based crowd-funding website that is a full-blown investment platform for start-ups seeking equity backers.

Stenhouse's one-man company, The Happy Geek (THG) Ltd is offering a share of equity for what he describes as "a five figure sum" to get a final version of THG Confman ready for market and to free up the 27-year-old Fifer's time to concentrate more on commercial aspects.

Confman is an event management tool designed with the needs of small regional conferences in mind. Stenhouse says its strengths lie in its wealth of features – ticketing, cost tracking, accounting, other management functions and, crucially, full integration with social media such as Twitter and Facebook.

It will be Software as a Service (SaaS), accessed through its own website and paid for through a percentage of ticket sales or, for larger users, subscriptions. "I've been developing it in my spare time outside my job as a software engineer," says Stenhouse, who has been a professional software developer since age 16 and studied at the University of Abertay Dundee.

"Securing the funding I need would allow me to employ software engineers to finish the job. I chose Seedrs because I think Confman is the kind of project that will appeal to lots of smaller investors. It's only been on the Seedrs site for a couple of weeks, so I am waiting in hope."

"Seedrs has had a great deal of interest from investors and entrepreneurs in Scotland," says Martin Campbell, spokesman for the only UK crowdfunding site licensed and

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regulated by the Financial Services Authority.

Crowdfunding is hot. Investors and companies worldwide can meet through Scottish website Bloom VC (Venture Catalyst), which featured extensively in The Herald recently. Kickstarters, an American crowdfunder that elicits donations and pre-sales of goods and services rather than offering equity, plans a UK launch soon.

Brewdog, the Fraserburgh based craft brewer bypassed crowdfunders to appeal directly through the internet for growth funding in what was effectively customer loyalty finance in return for equity for customers who liked its iconoclastic style and self-styled 'hardcore beer for punks'.

£2.2m was raised and a new brewery will start production shortly.

Truth be told, though, many startups are still funded in traditional fashion: finance from the family, remortgaging a house, or even using a credit card. It depends on size. Yet recession has tested the ingenuity of SMEs who cannot get, or do not want, bank loans or government money.

Loan funds represent another option. The West of Scotland Loan Fund is a consortium of the 12 west of Scotland local authorities providing loans to new and growing, small and medium-sized businesses.

"Loans up to £50,000 are available to existing businesses trading for more than two years, while loans up to £30,000 can be arranged for new or existing businesses trading for a shorter period," says fund manager Andrew Dickson. "Businesses from a range of sectors can apply for funding and the fund will normally operate in conjunction with other commercial lenders. The fund has lent over £28m to some 1500 businesses, allowing them to access the gap funding needed to create some 6000 new jobs and generate an additional £250m of sales."

David Leslie, head of corporate finance at accountants PricewaterhouseCoopers Scotland (PwC Scotland) says he has seen some enterprising ways of raising new money, Brewdog being a good example. "Business angel finance is well formed in Scotland, receives steady enquiries but expects high returns, so businesses need to show a well-defined growth plan."

He adds: "New channels for raising money are a good thing, but the other side of the coin is that a board has responsibility to the shareholders, so just who are the investors providing the capital for you through this route?"

Carlos Silva, Seedrs' president, will be among speakers at a conference in Stirling this month to review trends in early stage investment, the effect on young companies, and the way in which these access finance in Scotland.

These are the themes of the tenth annual conference organised by Young Company Finance (YCF) Scotland for a subsidiary of LINC Scotland, the Scottish angel capital association.

'CROWDFUNDING AND ANGELS WORK BEST FOR EARLY STAGE MONEY, GIVEN THE RISK INVOLVED'

LINC Scotland members invested £15.5m in early-stage Scottish companies in 36 deals in the first half of 2012, 50% more funding than in the same period last year. Some was almost certainly for proposals that would previously have been shunned by angels: lower risk but lower return.

"It's cause for a little concern," says David Grahame, LINC Scotland's chief executive. "Some angels are tempted, but it could draw them away from higher risk, higher growth potential businesses."

Grahame welcomes crowdfunding up to a point. "I think it's terrific for social enterprises and for non-angel businesses that are not high growth and can get by on one big slug of money. But if a crowdfunded business then comes to angels with a complex share register it would be a deterrent."

Seedrs claims to overcome this by acting as a single nominee, holding all shares of all companies funded through the platform, and representing the shareholders' interests.

"Crowd funding and angels work best for early stage money, given the quantum of money and element of risk involved at this stage of development, but they are not the answers for more developed opportunities," says Neil McInnes, head of corporate finance at accountants Grant Thornton Scotland.

"For other growth companies, engaging with private equity (PE) and venture capitalists (VCs) is a good choice. Also, certain companies require more specialist financing products, such as mezzanine finance or asset-based lending and there are a number of providers in the market who focus on these products."

This year's Glasgow for Business Week (October 8-12) will tackle alternative ways to finance businesses through its programme of events. The Federation of Small Businesses will hold a workshop examining alternative methods of raising finance other than banks.

Given that bank lending in this sector is very tight, it will highlight other methods of financing the purchase of equipment and property, such as leasing and invoice factoring that will help ensure healthy cash flow. ■