Starting a business – getting the finance

The entrepreneur will need to finance to the business. This means they will need to find money to pay for:

- The **purchase of plant & machinery**, office equipment etc
- Renting or buying **premises and offices** (e.g. the first 3 months' rent may need to be paid in advance)
- **Essential business services** such as insurance
- The **purchase of stocks of raw materials and components** to allow production to start
- **The wages and salaries** of the first employees to join the business (who may be needed before any goods or services are actually sold)
- To **provide financial cover** whilst the business waits for customers to pay

The main ways in which an entrepreneur can find finance for a new business are:

- Own money
- Bank loans
- Bank overdraft
- Money from friends
- Grant assistance from government bodies

These types of finance can be split into INTERNAL and EXTERNAL sources of finance. Internal sources of finance are generated from the business itself (e.g. cash from sales) and external sources of finance from outside the business (e.g. a bank loan).

The business can also split the types of finance into categories relating to length of time the money is needed for

- **Short-term**: bank overdraft
- **Medium term**: bank loan; lease; hire purchase; government grants
- **Long term**: bank loan; mortgage; share issue (for limited companies); debenture

Business Plan

A business plan sets out how a business is going to achieve its aims and objectives. It is extremely useful for a new business to use a plan because it can be used to show potential investors how their money is going to be spent.

A business plan will probably contain the following elements:

- Statement of aims and objectives
- Description of market the business is selling to

- Main competitors (how will they respond to a new competitor?)
- Production and sales forecasts
- Equipment needed
- Distribution plan for how to get product to customers

In the plan, great care should be taken to estimate and forecast how the cash will come into and leave the business in the early weeks and months.

This is because in the early days of setting up a business, finance is hardest to manage. It is uncertain how easy it will be to find customers – and will they buy the product or service at the price that is being asked? The business will be incurring significant "start-up costs" which will eat into the available funds.

Key Links for GCSE Business Studies

http://www.tutor2u.net/

Discussion Board for GCSE Business Studies

Other GCSE Business Studies Revision Notes and Resources from tutor2u

Tutor2u GCSE Business Online Store