



Finding finance in hospitality: New alternatives

By Luke Nicholls , 02-Aug-2013

 1 comment

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So, you've been turned away from the bank, run out of deep-pocketed friends and family and aren't keen on giving away an equity stake in your company. Is all hope of securing finance to develop or expand your business lost? No. There are still plenty of other options to explore, and some of them might actually be more beneficial than the aforementioned alternatives.

"Reading about the banks rolling out the carpet to multi-million-pound corporate borrowers is positive but all pretty safe and boring," commented one reader after a **previous part of this feature**. "Let's not get so focused on the big boys."

He has a point - while recent figures from the Bank of England show that lending from the banks is on the up, the likes of the Government's Funding for Lending scheme and the recently launched **Leisure Fund from RBS** appeared to have failed many SMEs, particularly those that have been recently incorporated or have a lower turnover.

So what alternative forms of finance are there for smaller, independent hotels, restaurants and pubs? Perhaps this question in itself highlights one of the biggest issues when it comes to alternative forms of finance: while many of the smaller, independent hotels, restaurants and pubs will be aware of overdrafts, loans and mortgages as ways to fund business growth, there remains a serious lack of understanding of what else is actually available.

"I think the first hurdle for many businesses is the awareness," says Marc Glazer, chief executive of small business loan provider Boost Capital - his firm has been supporting hospitality businesses in the US for over 12 years, launching a UK channel last year.

"From our experience, most business owners look at it as 'I went to my bank and they said no, so I can't get any capital'. Our goal is to change this perception; to make these establishments aware that this type of financing exists.

"Companies like ours are an integral part of the SME growth and stability that we're going to see in the UK over the next five to seven years. Alternative financing is currently looked as a secondary to a bank, but in the near future I think this type of financing will make up the vast majority of deals that are done for smaller businesses."



Business plan

Ben Wilmot, a financier for GSM Finance, which has been supporting a range of new and existing hospitality businesses throughout the recession, echoes Glazer's view, adding that in some cases a specialist loan provider can be used alongside cash from the bank.

"Businesses will nearly always speak to their bank first which is a sensible thing to do," says Wilmot. "However, relying solely on your bank can mean that your business will be at the whim of their sentiments should times turn tough.

"When looking for funding, a restaurant business should explore all of its options - especially asset finance as it is an intelligent, tax-efficient way of growing your company without having to give away equity.

"Banks' assets divisions are quite picky about what equipment they will finance, whereas we can usually provide funding for all aspects of a new site fit out or restaurant refurbishment including fixtures and fittings, IT, security systems, extraction and other essential items.

"Usually all we need to do so is a set of year-end accounts and a recent P&L or balance sheet, and for a newly incorporated business we would need forecasts, business plans and assets and liabilities statements for the directors."

So, with many hospitality operators feeling let down by the more traditional funding process and the levels that banks are prepared to lend at, specialist loans are a viable alternative. And there are others - angel investors and crowd-funding initiatives for example - which could provide the capital needed to fund that all-important business development.



Business: Hollins Hey Hotel

Owner: Ian Carruthers

Type of funding: Specialist loan

Used for: Refurbishment

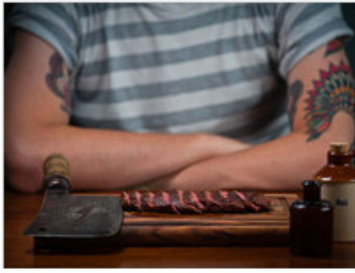
Wirral-based hotel and wedding venue Hollins Hey Hotel was in need of a refurbishment of its bedrooms,

but owner Ian Carruthers was growing frustrated after his dealings with the banks.

"Despite all the grand schemes announced by the government to ensure banks lend to small businesses, the banks will not lend," says Carruthers. "It has always been my experience that a bank is someone who will lend you an umbrella until it starts to rain."

Carruthers turned to a specialist loan provider, and Boost Capital was happy to help. The hotel was funded the £12,000 it needed at a time that suited the business - when it was quiet, so as to avoid disruption.

The finance from Boost Capital was based on the hotel's recent trading history and therefore fit with its cash flow. Carruthers was able to use the money for any business use he wanted. "If other hotels wish to invest in their businesses - and now is the time to do it - specialist loan providers are the way forward," he adds.



Business: Flat Iron

Owner: Charlie Carroll

Type of funding: Angel investor

Used for: First premises

Popular steak concept Flat Iron started life as a pop-up, situated above The Owl and Pussycat pub in Shoreditch. Owner Charlie Carroll was desperate to secure a bricks and mortar site for the concept and, after just six weeks, angel investors were attracted by the prospect of opening a permanent site.

In total, seven people invested in Flat Iron in return for a stake in the business. This gave Carroll enough capital to secure a site on Beak Street in Soho, opening towards the end of 2012. As his first site opened, Charlie employed the Solutions 4 Caterers hospitality consultancy to handle Flat Iron's accounts, leaving the team on site to run and grow the business.

The first site has been a great success and Carroll is now looking to expand to another site. He would 'definitely' look to angel investors for support once again, as they can not only offer financial backing, but also assist through their industry expertise - which was the case with several of his investors.



Business: BrewDog

Owners: James Watt and Martin Dickie

Type of funding: Crowdfunding

Fast-growing brewer and bar operator BrewDog recently returned to investors in a bid to raise £4m as part of its latest expansion plans. Its 'Equity for Punks' online crowdfunding scheme made 42,000 shares available at £95 each. BrewDog raised £2.2m through the same scheme in 2011.

Crowdfunding is a method of raising equity by asking a large number of people each for a small amount of money, often via the internet. BrewDog co-founder James Watt describes Equity for Punks as 'the world's biggest independent crowdfunding initiative'.

"With the help of almost 7,000 punk investors, BrewDog has become the fastest-growing food and drink company in the UK," he says. "As we need funds for more growth plans, we never considered a bank or an investment group - it's another opportunity for our customers to benefit from our growth directly.

"It proves that there is a viable alternative to the financial establishment, and as the self-interested banks continue to stunt economic growth, people are looking for better places to put their money."

In its first 24 hours, the initiative raised over £1m, selling over 10,500 shares to fans in one day. BrewDog has reported average annual growth of 167 per cent and says it is now on track to reach turnover of £20m in 2013.

The future

With the perfect storm of high taxes, lack of support from the Government and the on-going recession, hospitality businesses are increasingly looking to alternative finance options to fund their growth aspirations.

But the important thing to note is that the UK market is changing to meet this need: while traditional forms of finance will remain a critical and significant source of business lending in the future, there is a growing choice of lenders, with new challenger banks entering the market.

Hopefully our **series of articles** has given you an insight into the range of ways that you can develop your business, from ploughing **your own cash** into it, to securing a **bank loan**, to **private equity**. But when it comes to investing, nothing will pay off more than educating yourself. Do the necessary research, study and analysis before making any decisions over securing funding. And continue to invest in your people, after all they are the ones helping to make the business the success that it is.

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