

Guide to your Back-Up Plan

What is a Back-up Plan and Why do I need one?

Before you take on a personal debt by borrowing money to start or grow your business, you need to be aware of the position that you could be left in, should the worst happen and your business fails. If your business fails remember, you will still need to repay your loan debt and you will still need to support yourself financially. Depending upon your own individual circumstances however, this may be comparatively easy or it may be much more difficult

If your back-up plan is strong, you are less likely to be placed into financial difficulty should your business fail. In these circumstances the risk to you is reduced and your back-up plan may even add weight to your application overall.

If your application is weak however, it is likely that you will find yourself in financial difficulty should your business fail. The level of risk to you is increased and your application is weaker as a result. In these circumstances you will need to provide additional evidence that your business can succeed, or your application may be declined



Trading Status

- > **My business is already trading successfully and I can provide financial evidence to support this**
- > **My business has contracts in place which will provide a guaranteed income from the outset.**
- > **My business has yet to start and has no contracts in place to guarantee income at the outset**

To fully appreciate the level of risk you face should your business fail, we therefore require you to construct a back-up plan which explains your own particular circumstances in more detail.

How to Construct a Back-Up Plan

Consider carefully, each of the statements within the 4 tables below. Select ALL of the statements that apply to your own individual circumstances, then use these statements to construct your own back-up plan statement, to be inserted into your Business Plan.



Income

- > **I can remain in my current full-time job- even after my business starts.**
- > **I can remain in my current job on a part-time or reduced-hours basis once my business starts.**
- > **I have no personal income available, other than the income I will take from my new business.**
- > **I have a guaranteed benefit income that is unaffected by starting a business.**
- > **I have a current benefit income that will be reduced once my business becomes successful.**
- > **I have a guaranteed independent income from another source- e.g. pension, savings, investment, property, existing business- which is unaffected by starting a new business.**
- > **My current financial commitments are minimal/I don't have any financial commitments at all.**





Asset-Background

- > I have personal assets that could be sold or used to borrow money against, if it was required.

- > I have no personal assets that could sold or used to borrow money against.

- > My business will have assets (vehicles, equipment, machinery etc.) which could be sold if it failed.

- > Other than stock, my business would have very few or no assets that could be sold if it failed.



Re-employment

- > I believe that I have either academic or professional qualifications that would put me in a strong position to be re-employed, if my business failed

- > I believe that I have a depth of experience that would put me in a strong position to be re-employed, if my business failed.

- > I would probably need to rely upon unemployment or other benefits to pay my bills and repay my loan if my business failed.

How to Address a Weak Back-Up Plan

Having completed your Back-Up Plan, you may realise that the level of risk in your application is higher than you had imagined. You may now have less confidence on your application as a result and feel it could even be declined, once assessed by the lender. In these circumstances, there are 3 alternatives that you may consider-

1. If your Back-Up Plan is weak, you are highly dependent upon the new business in order to provide enough income to pay your bills and repay your start-up loan. You must therefore be as certain as you can be, that the business can succeed quickly and you will need to provide clear evidence that this is so. Evidence of existing or potential customer demand is known as Validation. Please see the BizBritain Guide to Validation, which will now be critical to the approval of your loan application.
2. Consider reducing the risk-level, by reducing the amount of the loan. Re-examine the amounts and purposes for your loan and consider if they are both strictly necessary and 100% accurate?
3. Consider re-modelling your business down to a part-time, test-trading venture, rather than a full-time business from the outset. A test-trading venture would allow you to validate your business-model via lower-level trading and would require a significantly lower loan amount- thus reducing the risk. A model proven by successful test-trading would of course be a major benefit in any second loan application.

Please Note-subject to criteria- second start up loans are available after 6 months www.startpuloans.co.uk/secondloans/

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