Guide to your back-up plan

Before you take on a personal debt to start or grow your business, you need to be aware of the position 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 on your own circumstances, this may be comparatively easy or much more difficult.

IN THIS GUIDE

01

Strong vs weak plans

Why a strong back-up plan reduces your risk and can add weight to your application.

02

Constructing your plan

Four tables of statements covering trading status, income, assets and re-employment.

03

Addressing a weak plan

Three alternatives to consider if your completed plan shows more risk than you had imagined.

WHY IT MATTERS What your back-up plan tells the lender

A strong back-up plan

You are less likely to be placed into financial difficulty should your business fail. The risk to you is reduced, and your back-up plan may even add weight to your application overall.

A weak back-up plan

You are likely to find yourself in financial difficulty should your business fail. The risk to you is increased and your application is weaker as a result. You will need to provide additional evidence that your business can succeed, or your application may be declined.

HOW TO How to construct a back-up plan

To fully appreciate the level of risk you face should your business fail, we require you to construct a back-up plan that explains your own circumstances in detail. Consider carefully each of the statements in the four tables on the next page. Select ALL of the statements that apply to your own individual circumstances, then use them to construct your own back-up plan statement, to be inserted into your Business Plan.

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

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 (pension, savings, investment, property, existing business) which is unaffected by starting a new business
- [ ] My current financial commitments are minimal, or I have no financial commitments at all

Asset background

- [ ] I have personal assets that could be sold, or used to borrow money against, if required
- [ ] I have no personal assets that could be 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 I have academic or professional qualifications that would put me in a strong position to be re-employed if my business failed
- [ ] I believe 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 on unemployment or other benefits to pay my bills and repay my loan if my business failed

NEXT STEPS

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, and feel it could even be declined once assessed by the lender. In these circumstances, there are three alternatives to consider.

01

Strengthen your validation evidence

If your back-up plan is weak, you are highly dependent on the new business 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 provide clear evidence that this is so. Evidence of existing or potential customer demand is known as validation: see the bizbritain Guide to Validation, which will now be critical to the approval of your loan application.

02

Reduce the amount of the loan

Consider reducing the risk level by reducing the amount of the loan. Re-examine the amounts and purposes for your loan and consider whether they are both strictly necessary and 100% accurate.

Subject to criteria, second start up loans are available after 6 months: startuploans.co.uk

03

Re-model down to a test-trading venture

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, reducing the risk. A model proven by successful test-trading would be a major benefit in any second loan application.

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NEED HELP?

Talk to an advisor today.

If you are in any doubt at any stage, we will walk you through every step, from enquiry to cleared funds.

0800 870 8739

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