Raising Finance for Inventors

Introduction

Most inventors will at some point need to attract financial investment to assist them in the development of their idea. Whether it is needed to create a prototype, research the market or initiate a business, funding is often a crucial factor in the success of an invention. The aim of this guide is to illustrate the types of financial support which are available to inventors and details of the organisations which provide this assistance.

Types of funding:

Personal capital

By providing personal finance, an inventor can prove commitment to the invention and take a far greater degree of control than is available with other types of funding. However, this is not a route that is open to everyone. Similarly there is a degree of risk involved in this method as capital could be invested against possibly little or no return, should the invention not live up to expectations.

Borrowing capital from friends and family

Borrowing from friends and family is a possible method of raising funds, however the risks outlined above should be considered. Potential investors should be provided with an accurate and up-to-date business plan and terms and conditions should be clearly defined, outlining such things as repayment dates and any interest payments. Lastly there may be tax implications associated with this type of funding, so it would be worth contacting Her Majesty's Revenue and Customs (HMRC) for a definitive outline of any obligations.

Grants

Obtaining a grant can be a good method of financing a project, as any funds received should not need to be paid back. Subsequently, competition for a place on such a scheme is often high and applicants may be required to negotiate strict and often complex guidelines. For information on government grants currently available please refer to the Department for Business, Innovation and Skills website. There are also two European initiatives: CORDIS - The Framework Programme and EUREKA.

Small Business Loans

This type of funding is a viable option for inventors, however it is important to realise that potential investors will view the invention in commercial terms. Subsequently individual inventors (of the traditional 'garden shed' type) should present themselves as entrepreneurs, and thus encourage investors that they have a strong grasp of the commercial aspects of their idea.



This is largely due to the fact that investors will only lend finance against what they view as a safe return. It is therefore advisable that a suitable business plan be drawn up which illustrates the market value of the idea and outlines financial, operational and strategic aims. It is worth bearing in mind that investors look more favourably at inventions that have reached the prototype stage. There are two reasons for this. Firstly, an inventor who has developed a prototype is clearly committed to the idea and is serious about positioning it within the marketplace. Lastly, and less importantly, a prototype will allow potential investors a better understanding of the invention and aid them in making a decision. For further information on small business loans please refer to the Department for Business, Innovation and Skills website.

• Private equity finance

Private equity finance can be broadly split into two areas: venture capital and capital supplied by business angels. Although both varieties share similar features, there are some subtle differences. Venture capitalists can be defined as investors who will inject large amounts of capital into firms which they believe will provide high levels of return. They will usually exit the project at a clearly defined point, commonly after a period of 3-5 years. Business angels are wealthy individuals who look to invest either solely or as part of a group. They often choose rapidly expanding businesses and will lend their expertise, skills and contacts to the enterprise. Both types of investment should not be the first choice of an inventor; rather someone who has made considerable progress with their invention. Similarly private equity financiers will only consider innovators who are presented as a business. It should be recognised that all aspects of the business and its key members will be thoroughly investigated. A detailed business plan must be provided, containing accurate financial records. Similarly, a presentation or pitch outlining the idea may be required. For further information contact the British Private Equity and Capital Association and the **British Business Angels Association.**

What we can offer you

If you need information on registered protection for your product we run free 1 hour sessions with IP advisors throughout the week. We also hold a patents clinic with CIPA registered attorneys every Wednesday, from 5.00pm to 6.30pm.

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