



# FUNDING AN IDEA

SUGGESTED STEPS FOR FINANCING  
YOUR PROJECT

**D2M**

YOUR PRODUCT. OUR PASSION.

D2M Innovation has helped many clients achieve funding for their design concepts from a range of sources. We have pitched alongside clients to angel investors, secured government grants and worked with partner companies on patent box and R&D tax relief. All these funding routes have particular nuances: this document is designed to inform you of the best funding opportunities currently available and help you to avoid the traps some clients have previously fallen into.

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# 1. Government Funding

There are some sources of government funding available for research and development related to new products. These tend to be regional, so the following advice makes it clear where your company has to be registered to gain access to that funding. We have listed those sources that are relatively rapid to access and require minimal form-filling. There are also a number of organisations in receipt of government funding that provide advice on securing finance and access to potential investors, particularly growth accelerator.

## 1.1 Local Enterprise Partnerships

This is a network of thirty-nine growth hubs giving 4.7 million businesses across England ready access to the support they need to start up, scale up and create more jobs. Growth Hubs work across the country with local and national, public and private sector partners co-ordinating local business support and connecting businesses to the right help for their needs.

Visit the following link for information regarding the services on offer: [www.lepnetwork.net/](http://www.lepnetwork.net/)

The following link allows you to find your nearest Growth Hub: [www.lepnetwork.net/growth-hubs/](http://www.lepnetwork.net/growth-hubs/)



## 1.2 Product Development Centre (PDC) funding

The PDC project is being led by SWMAS Ltd and is part-funded by the European Regional Development Fund (ERDF) Competitiveness Programme. PDC is a new and exciting funding opportunity which enables support for the development and introduction of new products through acceleration of the journey from initial concept to 'commercial reality'.

PDC offer a bespoke package of support which is tailored to an individual company's needs. They can provide help with business strategy; Intellectual Property (IP); legislation; identifying and accessing markets; product and tooling design; prototyping and testing, as well as other services.

## Services Provided:

- A free Innovation Review and Action Plan to highlight the key areas for support and ensure the most appropriate help is provided at the right time
- Grants to support 40% of external costs (average £4k) associated with identified product development
- Provision of access to an exclusive 'Knowledge Hub', linking companies with specialist expertise within universities, colleges and research centres
- Signposting to further support from MAS and other providers to ensure maximum support available for businesses.

## Eligibility criteria for PDC funding:

- Business must be a small or medium-sized (SME) business located in the South West (except Cornwall)
- Business must be in an eligible sector.

Visit this link for further information regarding sectors of eligibility: <http://www.pdctr.org/>



# Innovate UK

Innovate UK is the UK's Innovation Agency sponsored by the Department for Business and Innovation Skills. They work with people, companies and partner organisations to find and drive the science and technology innovations that will grow the UK economy. All Innovate UK funding is done via a competitive application process. Amongst its many funding programmes are the following initiatives:

## 1. Innovation Vouchers

Innovation vouchers (IVs) are grants of £5,000 available to start-up businesses and SMEs. They fund knowledge or technology transfers from suppliers with whom those businesses have not worked before. IVs are designed to encourage a business to expand its boundaries of production by looking beyond its established networks.

### Eligibility criteria:

- be starting up or running a micro, small or medium-sized UK business
- need help with something that's a real challenge for your business, not just a small improvement or change
- have not worked with this expert before
- have not had an Innovation Voucher from Innovate UK or the Technology Strategy Board before

*Visit this link to find out about the process of application:*

**<https://vouchers.innovateuk.org/home>**

*For Frequently Asked Questions regarding the Innovation Vouchers please visit the following link:*

**<https://vouchers.innovate.org/faqs-documents>**

D2M has had several clients successfully fund their projects in this manner and their advice having been through the process is summed up below.

There are opportunities for funding that is larger than £5000 through this scheme but you have to be able to prove that your idea fits into very specific areas that relate to this higher level of funding. The regular grants of up to £5000 are perfect for the average consumer product and have virtually no restrictions in terms of being successful in the request for funding.

The actual process is carried out online and constitutes between 1000 and 2000 words in support of the idea you wish to achieve funding for. For each quarter of the year there are 100 grants of £5000 available. Depending on demand within in each quarter you may or may not be successful, but in the event you are not there is nothing to stop you re-applying.

## 2. Smart Grant

Under the TSB's Smart initiative, funding is available for businesses undertaking research and development projects in the fields of science, engineering or technology. Three types of grant are available:

- Proof of market grant: this is used to evaluate the commercial viability of a project. A maximum of £25,000 is available, which can fund up to 60% of total project costs. Timescale for completion: no longer than nine months.
- Proof of concept grant: this is used to develop the technical feasibility of a project. A maximum of £100,000 is available, which can fund up to 60% of project costs. Timescale for completion: no longer than eighteen months.
- Development of prototype grant: this is used to develop presentation prototypes and to test and trial products prior to manufacture. A maximum of £250,000 is available, which can fund up to 35% of projects for medium-sized enterprises and 45% for small enterprises. Timescale for completion: no longer than two years.

### Eligibility criteria:

- Businesses must qualify as an SME
- Business must be a Limited Company or a Legal Entity for a business to process an application.

### Additional information about applications for the Smart Grant:

- The process of application takes approximately two to three weeks and requires a lot of input and attention during this period.
- The requirements for business planning are much more involved than with MAS applications.
- Although only one application for each stage can be submitted, it is possible that one application can be denied but another accepted for a different stage.
- The TSB Smart Grant is highly competitive and each bimonthly period has limited funds available. Each application is ranked depending upon funds available within the period.
- Each section of the application is scored and assessors comment on each of the scores which are then fed back to the applicants stating whether the application has been successful or not
- An advisor is allocated to look after the investment, but if at any stage you do not or cannot continue, the grant is not required to be refunded but further funds would not be released.
- All funds are paid three months in arrears so you must have the capital to invest and sustain, until each stage is refunded.
- During the application process you must be able to prove that you can provide funding during this period.
- The sum paid is also subject to equal investment from the applicant(s) which again must be proved.

## Useful information and tips from previous applicants:

Create a Business Plan in advance of application and try to ensure that this is reasonably fool proof and something that can be followed by a person unfamiliar with your concept.

The online form is time limited. Therefore, it is sensible to download or cut and paste all of the questions into a word document (the questions are very lengthy and there is a limited number of characters to write your answers with). This allows you the time to get your wording as required without the pressure to complete the form within a limited time period.

Where possible, make the application as two applicants: this is seen as beneficial by TSB so that it appears you are not doing it alone. The business model is then likely to be more sustainable with regards to the volume of work to be carried out.

### 3. Open Funding Competition

Innovate UK regularly run 'Open Competitions' for the best business-led ideas or concepts. These can be drawn from any technology, engineering or industrial area. The latest round budgeted £15 million to fund projects with the percentage paid to a project varying depending on the type of research and size and type of organisation involved.

To be eligible your proposal must meet the following criteria:

- demonstrate innovation leading to novel, new products, processes or services
- articulate a clear and anticipated growth impact for the business(s) leading to a significant return on investment (ROI)

In order to lead a proposal, you must:

- be a UK based business
- be a business of any size
- carry out the project in the UK
- work alone or in collaboration with others (businesses, research base and third sector)

For further information please contact the helpline on:

0300 321 4357

support@innovateuk.gov.uk

***<https://www.gov.uk/government/publications/innovate-uk-open-funding-competition/innovate-uk-open-funding-competition-brief>***

# Wellcome Trust

There are some sources of government funding available for research and development related to new products. These tend to be regional, so the following advice makes it clear where your company has to be registered to gain access to that funding. We have listed those sources that are relatively rapid to access and require minimal form-filling. There are also a number of organisations in receipt of government funding that provide advice on securing finance and access to potential investors, particularly growth accelerator.

Award categories are divided into six areas, three of which include specific product development:

1. The Translation Award. Grants are designed to facilitate the commercialisation of new biomedical technologies by funding their development to the point at which they are viable for commercial use. To be eligible for a Translation Award, a project must address a medical need, offer a solution and be marketable.
2. The Health Innovation Challenge award. Wellcome Trust partner with the Department of Health (DoH) to encourage the development and creation of pioneering healthcare products, equipment and interventions which will benefit the NHS and beyond. An example is the repurposing of medical devices in the pursuit of a more efficient, affordable and sustainable provision of healthcare.
3. The Pathfinder award. These grants are intended to facilitate commencement of new projects that have substantial potential to help develop innovative new products in an area of unmet medical need, specifically orphan and neglected disease prevention and treatment.



## Growth Accelerator

Growth Accelerator is a partnership between the Department for Business, Innovation and Skills, and private companies that provide business growth services. It aims to increase the number of small businesses that achieve rapid growth, in part by helping businesses with high growth potential to become investment-ready and to secure finance. If you apply to take part in GrowthAccelerator, you can expect this help to include the evaluation of your business' potential for investment by finance experts; advice on what to do to attract investment and the establishing of contacts with potential investors. If accepted, you will have a personal Growth Manager who is an expert in business and has relevant experience in the field of your ideas.

As well as offering advice and coaching, GrowthAccelerator also offers a grant of up to £2,000 for the development of leadership and management skills. This grant is available to multiple individuals within a company, and is intended to match what that company can contribute to leadership development.

The logo for Growth Accelerator features the words "Growth Accelerator" in a white, sans-serif font. The word "Growth" is in a smaller font size than "Accelerator". Below the text is a thick, white, horizontal brushstroke that tapers at both ends, giving it a dynamic, hand-painted appearance.

### Eligibility criteria:

- The company must be registered in England
- The business must qualify as SME by employing fewer than 250 employees and having an annual turnover of less than £40 million
- Costs apply according to size of the business: For micro enterprises and start-ups (0-9 employees), a cost of £600 applies. For small businesses (10-49 employees), a cost of £1,500 applies. For medium-sized enterprises (50-249), a cost of £3,000 applies

Contact D2M for more information and to put in touch with your local advisor.

## Regional Funding Opportunities

There are opportunities for funding implemented by government on a regional level, which often make use of funds provided by the European Union to develop regional economies. The following are examples.

### Business West/ Gloucestershire Chamber of Commerce

Business West is a private, not-for-profit business leadership organization that comprises a network of regional Chambers of Commerce. Its Finance for Business programme, joint funded with the European Regional Development Fund, offers businesses in Gloucestershire and the wider South- West the opportunity to work with a finance coach to identify suitable types of finance and to get investment-ready. Pitching advice and the establishing of contacts with potential investors is also included in the programme. Fees to become a member of Business West range from £250-650 depending on business size.

### Welsh European Funding Office

Part of the Welsh Assembly Government, the Welsh European Funding Office (WEFO) manages the delivery of the EU 2007-2013 Structural Funds programmes in Wales. Under these programmes, funding is available for projects that will create jobs and sustainable economic growth in Wales. WEFO operates an open call for project proposals from the private, public and not-for-profit sectors.

#### Eligibility criteria:

- Present a clear business plan.
- The project must demonstrate that it is likely to have a positive effect on employment and growth in Wales.

### Smart Cymru/ExpertiseWales

Support and funding is available for Welsh businesses and research organisations to commercialise new products, processes and services developed through research, development and innovation processes.

The following link allows you to find the correct representative for your area of Wales:

***<https://businesswales.gov.wales/expertisewales/speak-someone-find-local-innovation-specialist>***

## Finance Wales

They make commercial investments in small and medium sized businesses based in Wales or willing to relocate.

The investment loan varies from £1000 up to £5 million in one SME. The repayment terms range from 1 to 5 years with the interest rates being based on the individual circumstances of the business.

It is very much about flexible finance providing any of the following:

- Micro Loans
- Technology Venture Investment
- Business Loans or Debt Investment
- Equity Investments
- Mezzanine Investments

For further information please contact on:

info@financewales.co.uk

0800 587 4140

<http://www.financewales.co.uk/what-we-do/finance-for-welsh-smes.aspx>

## Scottish Empire

Funded by the Scottish government, Scottish Enterprise offers research and development grants to support businesses developing new products, processes and services that will impact positively on the Scottish economy.

Eligibility criteria:

- The project must be innovative and commercially viable.
- The project must constitute a challenge for the business undertaking it.
- Scotland-based businesses of all sizes and in most sectors are eligible for funding.
- Applications must include an expression of interest, a project proposal and a business plan.

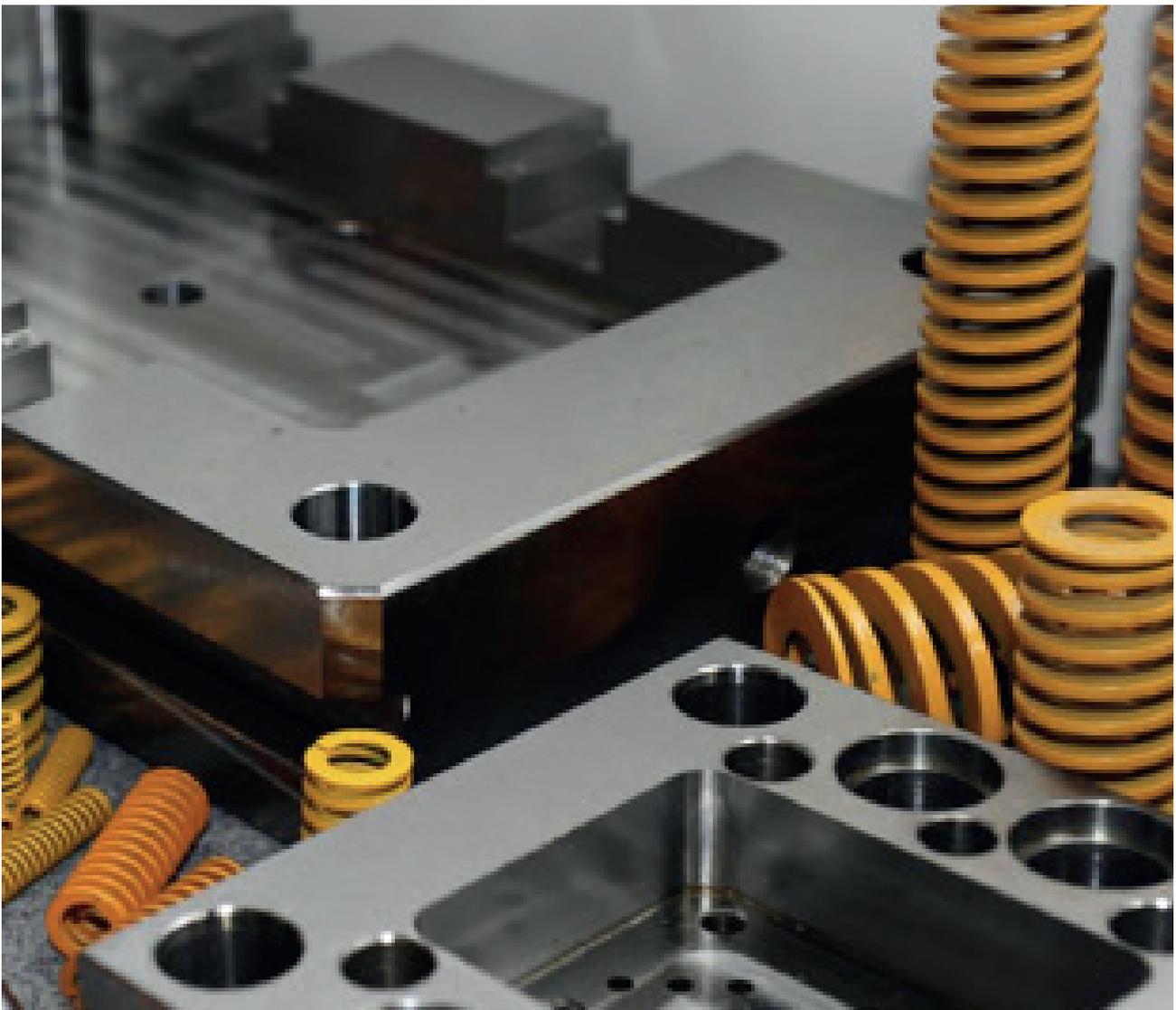
## Invest Northern Ireland

Part of the Department for Enterprise, Trade and Investment, the aim of Invest Northern Ireland (Invest NI) is to grow the Northern Irish economy. Invest NI offers funding for planning, researching and developing new products or processes.

### Eligibility criteria:

- The business must be able to demonstrate potential sales of over £100,000 annually over the next three years.
- Businesses must also be able to achieve sales outside Northern Ireland that are greater than 25% of annual turnover, or sales of £250,000 annually.

**Advice from D2M:** We would generally recommend that, when researching government funding opportunities, care is taken to avoid scam organisations. Many of these will charge a fee for what is claimed to be privileged access to channels of funding: often these channels consist of government initiatives for which anyone can apply directly and free of charge. Always enquire about upfront fees



## Approaching Investors

When approaching private investors with your business idea, it is important to know what will be expected of your presentation. Your idea should be presented clearly and concisely: investors will want to understand the proposed concept and likely benefits of a potential product as quickly as possible. For this reason, it is a good idea to limit the explanation of your business plan to 10-15 minutes; two to three sides of text or 10-15 slides of a powerpoint presentation. The plan can be described in greater detail in the appendices of written copies of your presentation. We would generally recommend that when presenting information digitally, you do so in a landscape visual format; this will ensure fewer problems in viewing your presentation for investors using tablet PCs or iPads.

In order to gain credibility, any financial forecasts you include as part of your pitch will need to be supported by qualified estimates. Including competitor statistics will demonstrate that you have undertaken adequate market research and evidence of sales (selling directly to customers online, for example) will help to instil confidence in investors, as will any correspondence with potential buyers. If there are any gaps in your knowledge or experience of your product or market make sure that you can provide expert opinions to confirm the viability of your idea. You should be very careful not to overestimate your market penetration. One percent of the market would be sensible for a first year post-launch and three percent in year three post-launch.

***“Any financial forecasts you include as part of your pitch will need to be supported by qualified estimates.”***

Before making your pitch, it is important to have filed a patent for your invention and to be able to provide either the results of a patent search or the opinion of a Chartered Patent Attorney on the likelihood of your patent being granted. Investment is unlikely to be offered if these requirements are not met.

Another consideration to make in advance is the amount of financial investment required. Having to request further funding before your project is complete is likely to shake investors' confidence, whereas launching your product on budget will strengthen it.

An alternative method of sourcing investment to that of approaching investors directly is to apply to appear on Dragons' Den or a similar television programme. The benefits of doing so may exceed the direct outcomes of appearing on such a show, as the publicity generated may lead to future investment.

Another method is to use an online angel funding platform. The term angel funding refers to the practice of finding investors to make significant investments in a business in return for equity. One example of an angel funding platform is Angels Den. As part of its services, this platform offers entrepreneurs free registration and consultations, followed by reviews of business plans and their circulation around a network of investors. Pitch training is also provided, as well as spaces at pitching events. One type of Angels Den event, Speedfunding, offers entrepreneurs the opportunity to pitch one on one to individual investors.

Another, the London Angel Club, brings together groups of investors to co-invest in established businesses. The investment packages that include spaces at these events cost £799 plus VAT and a 5% success fee, and also include the organization of follow-up meetings between entrepreneurs and interested investors.

## Crowd Funding

Crowd funding is a method of raising investment from many different backers (or a 'crowd') by which each backer takes a small stake in a business idea or project by contributing towards an online funding target. Most crowd funding platforms won't charge you for publishing a pitch and it is likely that you won't be charged at all if your funding target is not reached. If you do reach your target, the platform you've used may take a 5% commission.

Crowd funding has the potential to create a strong network of support for your product because each of your backers would want to see your idea realised. To that end, they may promote your product to others, sourcing more funding. A successful investment bid can also be used to promote your product by creating an interesting story that can be sold to the national or local press. Such publicity would also display the enthusiasm of your backers for your product.

Another benefit of crowd funding is that it provides a quick, simple way for people to invest in your product, for which there can be tax relief advantages. Under the government's Seed Enterprise Investment Scheme, anyone investing £500-£100,000 in a qualifying start-up will become eligible for income tax relief worth 50% of the amount invested.

Most crowd funding platforms share certain features, such as an all-or-nothing system of fundraising in which money is only received if a funding target is hit. However, platforms do differ as to whether they are reward-based or equity-based. A reward-based platform will require you to offer backers a reward as an incentive to invest in your product. Rewards often vary according to level of investment and are usually related to the product in some way (a discount on its purchase, for example). An equity-based platform will require you to offer investors shares in your business.

Reward-based platforms are most common, in part because they involve fewer legal restrictions than equity-based platforms. They are particularly useful to creative projects and start-ups because they provide a means of selling a product before it is launched and using the money earned for its manufacture. It is important to remember that most reward-based platforms use some form of payment processing service, which will typically charge 2-3.5% for every transaction. This is a cost you will need to consider when setting your funding target. If you use a reward-based platform, your commitment to your backers will end when you deliver their rewards.

Equity-based platforms are useful to businesses that require larger amounts of investment. If you opt for this type of platform, you will need to determine beforehand how much equity you are willing to distribute. You will also need to demonstrate to potential investors that your idea is commercially viable and that the value of their shares is likely to increase.

Unlike those that are reward-based, equity-based platforms generally make use of bank transfers, which means that you will not incur extra charges for using a payment processing service to receive your funding. Your commitment to your investors will be on going and may entail keeping them informed with updates on the growth of your business.

Crowd funding is most effective when you build an inspiring narrative around your idea in order to excite potential investors. Most platforms allow you to upload videos as part of your pitch, to help you to achieve this. Carefully constructing your business plan or reward scheme before you make your pitch will also help to ensure that you are successful at utilizing this method of funding.

For more information on crowdfunding and to find other crowdfunding services visit the following Wikipedia page:

[http://en.wikipedia.org/wiki/Comparison\\_of\\_crowd\\_funding\\_services](http://en.wikipedia.org/wiki/Comparison_of_crowd_funding_services)

Examples of funding platforms:

## **Kickstarter (reward-based platform) - [www.kickstarter.com](http://www.kickstarter.com)**



Recently launched in the UK, US company Kickstarter is a reward-based platform for creative projects. To pitch your project on Kickstarter, you must be able to complete it and to produce something by it; you cannot pitch an idea for an on-going service. If you want to pitch a design and technology project, your product must have strong aesthetics or be marketable, and your pitch must display an image of a functioning prototype. Kickstarter is primarily a platform for creative projects like making books, albums and films: as such, it features a list of prohibited items that it does not allow to be pitched. Notable amongst these items are mother and baby products (which can however, be pitched on other reward-based platforms such as Crowdfunder.)

To encourage investment in your project on Kickstarter, you must offer rewards. These are usually items produced by your project (a CD, for example) that may vary according to how much is invested (greater investment might obtain a signed CD, for example). You must list an 'Estimated Delivery Date' (a date on which your backers will receive their rewards) and can price rewards at £1-5,000. You will also be encouraged to present a plan for the completion of your project and to provide background information about yourself and any previous, relevant projects on which you have worked.



If you hit or exceed your funding target, Kickstarter will charge a 5% commission on what you receive and a payment processing fee of 3-5% on every transaction. VAT will also be added to these charges, which is likely to be approximately 1-2% of the funds you receive.

## **Crowdcube (equity-based platform) - [www.crowdcube.com](http://www.crowdcube.com)**

Crowdcube is an equity-based platform for new businesses and start-ups. In order to pitch a business idea on Crowdcube, you will need to state your funding target and the amount of equity you are prepared to offer in return for investment. You will also need to submit a clear business plan and financial forecasts. These are required to demonstrate your financial position, which will inform investors when evaluating your business model and growth potential. Three years worth of profit and loss, cash flow and balance sheet forecasts are necessary.

Crowdcube sets a minimum funding target of £10,000 and a limit of 60 days for the duration of pitches. If this time limit is reached but your funding target is not, you will not receive any funds and will not incur charges. If you reach your funding target, Crowdcube will charge a 5% commission on what you receive and £1,750 in legal fees when investment in your business has been completed. At this time, funds will be transferred to your bank account and investors will receive certificates detailing the equity they own in your business.

Crowd funding is most effective when you build an inspiring narrative around your idea in order to excite potential investors. Most platforms allow you to upload videos as part of your pitch to help you to achieve this. Carefully constructing your business plan or reward scheme before you make your pitch will also help to ensure that you are successful at utilizing this method of funding.

## **Seedrs (equity-based platform) - [www.seedrs.com](http://www.seedrs.com)**

Seedrs is another crowdfunding platform for required investments of under £150,000. They take 7.5% of successful investments (an AoN platform). The maximum investment period for someone on Seedrs is 90 days. Their aim is to help early-stage start-ups and especially pre-revenue businesses which means that potential investors who are looking to build up their investment portfolios can get involved at the start to help you grow and get the best rate of investment. Friends and family can also support pitches with minimum investments of only £10. To maintain the protection of IP only a brief description is included on the website.

## **FIG (find, invest, grow) - [www.findinvestgrow.com](http://www.findinvestgrow.com)**

FIG is a slightly different type of platform: a few projects or 'seeds' from a number of applications are selected. They also have an elite group of investors who can look through the projects on offer and decide to invest as well as sometimes help by managing or providing expertise. FIG is particularly focused on recent graduates and younger entrepreneurs.

## Research and Development

Research and Development (R&D) Tax Relief is part of an EU-backed initiative to increase levels of innovation across the UK and Europe by providing generous tax deductions (or a cash refund ie tax credit) to companies undertaking R&D related activities.

The relief currently allows UK resident companies to reduce their corporation tax bill by up to 230% e.g. an additional £130 deduction on top of £100 spent on qualifying R&D expenditure.

Technically, a company can only claim for R&D Relief if an R&D project seeks to achieve an advance in overall knowledge or capability in a field of science or technology through the resolution of scientific or technological uncertainty - and not simply an advance in its own state of knowledge or capability. However, eligibility extends far beyond laboratories and science-based research centres.

R&D tax relief can be claimed by virtually every business in every industry that is undertaking some form of software development, innovation, scientific or technological advancement, including restaurants, breweries and creative agencies. Most tech start-up's also qualify.

The following costs incurred in respect of R&D development can all qualify for the enhanced relief:

- staff costs,
- software or consumable items,
- externally provided workers,
- sub-contractor costs for Research and Development work.



# VAT

You must register for VAT if:

- your VAT taxable turnover is more than £82,000 (the 'threshold') in a 12 month period
- you receive goods in the UK from the EU worth more than £82,000
- you expect to go over the threshold in a single 30 day period

There's no threshold if neither you nor your business is based in the UK. You must register as soon as you supply any goods and services to the UK (or if you expect to in the next 30 days). You may have to register for VAT if you take over a business that's already registered.

## Late registration:

You must register within 30 days of your business turnover exceeding the threshold. If you register late, you must pay what you owe from when you should have registered.

You may get a penalty depending on how much you owe and how late your registration is.

## Voluntary registration:

You can register voluntarily if your business turnover is below £82,000. You must pay HMRC any VAT you owe from the date they register you.

## Get an exception:

You can apply for a registration 'exception' if your taxable turnover goes over the threshold temporarily.

Write to HMRC with evidence showing why you believe your VAT taxable turnover won't go over the de-registration threshold of £80,000 in the next 12 months.

HMRC will consider your exception and write confirming if you get one. If not, they'll register you for VAT.



**HM Revenue  
& Customs**