Free business plan on financing decisions making and source of funding

Business, Company

Business plan

The business in perspective is of a collector`s item (s). It involves the sale of inventory held from collection of materials and items that include coins, lawn gnomes, books, movies, music, and or paper money. The business has an expansive network of outlets and its focus is on the maintenance of an inventory so ancient and antique yet so hard to find and for the purpose of satisfying the customer`s need for items with sentimental value.

The business has been operational for the past two years since the year 2011 until presently this year 2013. The business is operational in two states with 10 distribution outlets. The annual turnover of the business in the year ended 30th June 2011 was U. S $100, 000. Then in the year ended 30th June 2012, the turnover grew to U. S $140, 000. The profits of the business grow at a steady rate with the business maintaining its vision of growth and expansively adding retail distribution stores across every state.

The business is adopting various strategic measures to ensure maximum revenue is generated. These adoptions of distribution and collection partnerships go a long way in reducing the production and marketing costs thereby reducing the costs incurred during the production, assembly and management of the inventory of the collection. Ultimately, profits are retained and ploughed back. This is keen in the prospect of seeking addition capital and luring of investors who will provide funds.

Creating and building new business outlets is quite a significant investment to the company. There is the shortage of cash outflow in building new business distribution branches and outlets and any positive cash flow from sales of the collector`s inventory will majorly be realized at as the year ends or during later periods. The major source of funding for Antique Collectors Inc. for building new retail outlet is by issuing corporate bonds, commercial papers or getting corporate investment loans from international and resident banks.

Opening of about ten new distribution outlets will majorly be financed through debt sought from shareholders or investment banks. Building these ten distribution outlet will not require or need such a heavy form of financing that involves going for a rights issue in public offering. It is quite evident that Antique collectors Inc. prefers to minimize and limit shareholders decisions the making of major project appraisals for the business. This is done by striving aggressively to finance the buyback of shares. Investors are usually weary of new capital projects by considering the return and risk aspects of every new projects.

Getting a commercial paper, a bank overdraft or issuing a one year corporate bond would a good start for getting financing and budgeting the new distribution outlets among the states. These forms of financing help the company meet their strategic decision with minimum influence coming from equity fund holders and other stake holders to the business. The business has a strategic plan that edges out its competitors.

The focus of the business is dependent on the quality of the collector`s item and the sentimental value it possesses. Since this is crucial in the sale of items and the return to be acquired, aspects such as the dissatisfaction of the consumers and (or) the inability to purchase because of the reduction in purchasing power of the customers may prove to be a threat to the growth and expansive plan for growth.

The basic purpose of this systematic approach appraisal technique is to achieve better spending decisions for current and capital expenditure on projects and programmes. This capital budgeting technique is for the evaluation of the company`s ability to attain its objectives, it`s primarily the planning process in which it is the determinant and the facilitator of the concerned and particular firm`s investment prospect of opening up of ten new distribution stores.

The most efficient way of capital budget technique to be applied in the company`s valuation is the net present value appraisal technique that measures the cash outflow and cash inflow from the existing outlets for Antiques Inc. company and the projected value of revenues expected as the new distribution outlets get operational and cash inflows from the distribution partnerships with major companies such as Barnes & Noble. com and Amazon. com. Also, the project`s potential for growth and the final criteria and proper plan that would be in accordance and assist the business manage the scares resources and efficiently utilize the investment funds for profitability.

Since the project`s viability and analysis involves a complex and more sophisticated approach, to keenly note the factors to be taken into account such as the risks involved in the ambitious growth plan. This is to ensure an effective and efficient valuation, so accurate and inclusive of tax, sensitivity of the cash inflow and cash outflow to the different economic scenarios and eventualities. This depicts the level of uncertainty is reduced by the capital budgeting technique.

The company`s strategy for the expansion to other market segments includes the careful acquisitions and strategic alliances that will add new stores and markets to the existing stores. The ability to open up new stores largely depends to a great extent the potential to locate, hire and retain skilled personnel, and the ability to acquire new store sites on acceptable terms. Local laws can affect the company`s ability to acquire the pre-existing buildings in which to put up units or expand the new units.

In addition, the residual risks incurred are to be borne by the reduction by pricing of the loans for the set present value and they should be in order with the projects goals and objectives. The risks such as the change in law, commissioning, completion, commercial, financial, implementation, investment planning, residual value and upgrade risks are to be assessed in a manner for proposal development that includes risk sensitivity.

The mitigation and management of these risks go a long way in ensuring the commencement of the project and the ascertainment of the future value of the project and its consistency with the valuation. This will prove important and rife in the company`s future investment prospects and be prudent in boosting investor confidence.

The cash flow of analysis from the activities in the past stood at £11, 767 in 2011 and presently at £416, 274 in 2013. This is an increase of 97% in the net cash flow. This growth can be attributed to the increase in number of distribution stores, the addition and extensive inventory of a collection. This growth is contrary to the fact that there is an increase in the interest expense from additional tax and purchase and operational expenses incurred.

A cash flow forecast is required to assist in the computation of cash disbursement, cash receipt, and both the cash flow and cash inflow at hand. For the cash flow forecast we follow the formulae; Total cash receipts are equal to the receivables summed with open sales plus open service orders plus open purchases plus fixed assets acquired plus the fixed asset investment plus the budget expenses and the manual expenses incurred. The net present value of the project will be sought using the formulae; the subtraction of the initial cash flow from the sum of cash flow divided by the factor (1 + r) ^n where r represents the costs of borrowing or the discounting rate and n is the number of period the company is valued.

The projected return to be received by the company in the year 2014 is expected to fall 5% on year to year sales. The net present value of the business will reflect the additional income to be received from the additional stores. The profitability will decrease in volume and rate and this is due to the inventory acquisitions and fees that increase operational costs. The risk assessment to be inclusive in the comprehensive capital budgeting appraisal is important because it allows the use of sensitivity analysis to challenge the robustness of results to changes assumptions made such as the rate, estimated value of costs and revenues. In doing so, the possible outcomes in the addition of the ten retail distribution outlets will determine the need of venturing into the project.

A poor cash flow into the business will be an indicator for an alternative consideration as to whether to venture into the expansion project or to utilize efficiently the existing distribution channels in marketing and sale of the collector`s items. The NPVs from the years in which profitability is projected to fall by 4% is because of the infrastructural investment and the increased rates.

Appendix

CASH FLOW STATEMENT

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