

Business plan solutions



**ASSIGN
BUSTER**

Business Plan Solutions Question Which equity sources would you recommend to Rhonda Explain. In funding her start-up small business, Rhoda Allegro could not hope to get equity financing from stockholders. Small businesses are usually financed by the pockets of their owners. However, in Rhoda Allegro's case she cannot hope to generate the required amount utilizing her savings in her account. Therefore, she needs to seek other sources of financing in order to start the operation of her small music retail store.

Rhoda Allegro can start her venture as a part-time enterprise. If she is currently employed and if it is possible to raise the amount in the short run, Rhoda can still attend to her " day job" in order to earn some money to fund her music retail store.

The music retail store can also be funded by informal investors like family, friends, relatives, employees, or colleagues if they are willing to chip-in some of their available money. This possibility of course, is positively related to their support to Rhoda's business venture.

More formal sources of equity will be angel investors and venture capitalists. Angel investors are usually affluent individuals who provide capital to small start-up businesses. These individuals often hope for high returns on their investments (Ward, 2000).

Rhoda Allegro can also seek equity financing from venture capitalists.

Venture capitalists are also individual who supplies capital for the start-up or expansion of a business venture. Like angel investors, venture capitalists are looking for higher returns on their investments than traditional investments.

The main difference between angel investors and venture capitalists is that the former is usually equipped with skills in managing a business while the

latter is a professional investor. An angel investor is often interested in adding value to the company aside from profiting from his/her investments (Ward, 2000).

In summary, Rhoda Allegro's business can be financed by formal and informal sources of financing. Informal sources are friends, relatives, colleagues, employee, and family. More formal sources include angel investors and venture capitalists.

Question 2. What are the advantages and disadvantages of using equity capital

The operation of Rhoda Allegro's music retail store and other business ventures can either be financed by the entries in the left side of the balance sheet-liabilities and equity. The choice of financing has a huge implication on the management of a business entity.

Equity financing is less risky than financing sourced from creditors. It is because equity financing especially in the form of common stocks does not entail any responsibility to the providers. Using liabilities means an obligation for the company to pay a certain amount to the financiers in a certain period of time.

Another advantage of equity financing is that other investors which provide fund like angel investors can help the company's operation by bringing in valuable skills, contacts, and experience for the company's profitability (Equity, 2006).

However, sourcing equity financing will also mean being subjected to the influence of the other investor. Managing the company can be hard if you do not have the same opinion as the other investor in the essential managerial

decisions. It is also imperative that the owner invest in management time to report to the other investor. As you are not the sole of owner of the business anymore, your share of the company will also be diluted (Equity, 2006).

References

Equity: The Advantages and Disadvantages of Equity Financing. (2006).

Retrieved January 27,

2006, from <http://www.businesslink.gov.uk/bdotg/action/detailtype=RESOURCES&itemId=1073789573>

Ward, S. (2000). Part 2. Sources of Equity Financing. Retrieved January 27, 2006, from

http://sbinfocanada.about.com/cs/financing/a/bizfinancing_2.htm