

# [Financial management discussion week 7](https://assignbuster.com/financial-management-discussion-week-7/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Financial Management Discussion Financial Management Discussion Raising capital to boost and expand a business has turned out to be tougher each and every day. Customary lenders are implementing terms that are no longer attractive and that require an individual to jump more hoops. Investors and private lenders as well have become more cautious and have also upped their criteria. Therefore, for a business to raise capital a perfect business sense should prevail. Businesses should also have the capability to sell because selling is a vital skill in business (Baron, 2011). The process of raising capital takes place in four stages, which include prototyping, customer base, expansion, and exit.
Prototyping being the first stage requires entrepreneurs to keenly listen to prospective customers. Cheap and simple prototypes, however, should be built for the purpose of acquiring customer feedback. This level advocates for invested labor and credit card borrowing to finance the venture. At this stage trying to produce any venture capital would be fruitless except when the business can prove that it may make profits at early stages (Brooks, 2012). A vivid business model should follow the proof to offer a powerful bargaining upper hand with a venture capitalist.
Customer base is useful especially after finding a customer who is willing and capable of paying for the final prototype. Also if one might want to ask capital from angel investors or family members who might want to buy a lesser stake in the particular company. At this level, the business or entrepreneur can raise money from many people who cannot scheme to oust the founder. Some Companies start g capital at this level even though it is advisable to wait and proceed with the activity at the third stage (Lawrence, 2010).
Expansion is another process implemented after acquiring a trivial share of the market segment and surprisingly when also the growth of the company becomes stunted. Acquiring a new market becomes a vital activity while developing and updating products. At this level the startup CEO is in a position to discuss with capital providers because the venture is lucrative. The exit is the final process where the entrepreneur sells the business to a customer or gives a public offering (Baron, 2011). Sadly after the initial public offer is done most entrepreneurs leave their business because of the boredom brought about by the administration of a sluggishly growing publicly traded business.
A company can raise capital using various ways for different uses depending on the financial necessities or on the size and nature of the business. Business forms such as partnership and sole proprietorship may raise capital by borrowing from friends, using savings, and borrowing from banks. These methods raise a limited amount of capital for the companies. Loans are risky because when the companies fail to pay the debts, they may be liquidated and cease their operations. Public companies, on the other hand, raise capital by borrowing loans from banks, debentures, shares and public deposits (Brooks, 2012). Loans and debentures are risky because they may lead to liquidation when the company is unable to repay the debts. Shares are less risky because in the case of bankruptcy, shareholders are repaid their funds after all other capital providers have been paid (Baron, 2011).
The main reason why companies go public is for the purpose of having more cash or liquidity on hand and to raise funds by publicly selling shares. When companies become public, they reveal their financial status to the public under the scrutiny of the Securities and Exchange Commission. On becoming public, organizations have to conduct shareholder meetings and follow the rules of disclosing their financial information. All these rules became a setback to companies that aim at becoming publicly owned (Brooks, 2012).
Going public has benefits with one of the advantage being that issuing shares can be a unique technique of attracting mighty management candidates through offering perks. A stock option plan is an example of a perk. Another benefit is that stocks can be used in acquisition and merger deals as a form of payment. It also acts as a bragging right for key stock exchange like NASDAQ and NYSE (Baron, 2011). The money acquired is then used to expand the business or to rebuild the company’s infrastructure.
The Initial Public Offer is among the most famous routes taken by companies to increase capital from markets. An IPO is a means through which companies raise capital by selling shares to the public for the first time (Brooks, 2012). Seasoned Equity Offering, on the other hand, is issued out by a company with shares that have shown price stability and high trading volumes. The excellent reputation of the stocks in the secondary market makes them to be highly liquid (Lawrence, 2010). Both IPO and SEO still offer a cheaper way of retrieving capital and improve the liquidity of the already existing shareholders, but the best method is the IPO because it supports growth and expansion of medium and small enterprises when they become public.
The rigorous activity of raising capital for a business is both beneficial and risky. Sole proprietorships and partnerships may raise capital by borrowing from friends, families, and banks, or by using their savings. These means of raising capital are risk free except for the method of borrowing loans from banks, which may lead to the liquidation of the company in case of bankruptcy. Public companies, on the other hand, raise capital by borrowing loans, issuing debentures, shares, and public deposits. These methods are beneficial because they raise huge amounts of capital. However, they are risky because they may lead to the closure of the company when it is unable to repay the debts. Companies become public when they issue Initial Public Offerings and Seasoned Equity Offering.
References
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