A plan for growth case study

Finance, Investment

Abstract

Business success is measured on a scale of its growth and expansion. Expansion is essential as it places a business on a better competitive edge in the market place. The level of growth on the other hand may be subjected to the level of the capital base. Wise selection of finance therefore, for an already established business is the stepping stone to being competitive in the market place. Besides, the firm and form of financing require concrete analysis to avoid compromising the equity stake of the business while accessing the fund. Also, the source of funding should not compromise the business ownership and operations. The use to which the finance is needed for needs prioritization as each and every source in the market place can be used differently. The size of finance required is of concern too.

The market is saturated with various kinds of financing. Some forms perfectly suit the operations of entrepreneurial ventures while others do not. The business owner has the opportunity to decide to source for the finance internally or externally. Whether the source is from within the business or from outside, the constraints, benefits, and collaterals required must be assessed and noted for through analysis. For growing and larger businesses, as noted by various studies, equity financing, finance from commercial banks and lending institutions, and appropriately fit their financing needs. This is because growing businesses find these sources cheaper, convenient, and readily available for their financing needs. These are the major sources discussed for a growing entrepreneurial business with a larger capital base. However, a recommendation is made on finance from banks and lending institutions.

Introduction

Business financing of a growing business is the process of injecting more capital to boost the capital base. Financing is the lifeblood of entrepreneurs business and to ensure that a business has enough blood to live and to be successful, sufficient capital must be injected. This capital is needed to start, to operate, and to make it grow. It is compulsory to every business as it also enables the acquisition of more assets. Besides, it stabilizes the net worth and profitability of the business. There are numerous sources of finances for a growing business. However, analysis of the business and the source must be undertaken to avoid compromising the business control and equity stake. For this paper, equity financing, borrowing from commercial banks and financial institutions, and venture capitalist financing are taken to be the most appropriate source of finance for a growing, innovative and entrepreneurial business.

Discussion of possible sources

The business is sort of an entrepreneurial venture and needs an extra capital to remain competitive enough in the market. As an entrepreneur considering growth and development, he should opt for a source that does not compromise the equity stake of his business. The following sources of financing for a growing business are thus identified as appropriate.

Equity financing

It is the act of raising money for business activities by selling common or preferred stock to individual or institutional investor (Gompers, et al., 2004). The owner of the business can as well commit his own funds into the

business. This could be either from his personal savings from- the profits realized at the end of every trading period- or from friends, family and relatives.

Home equity finance can be the cheapest mode of equity financing. Home equity financing is where the business owner uses the value of their homes, less existing mortgages, to source for finance to help expand the business (Metrick, 2007). It is a much far cheaper, faster, and usually easier mode to get credit. Amount of credit advanced is based on the home value, therefore, the higher the home value, the higher level of credit. Besides, it does not demand collaterals as the home itself is enough to act as collateral. This source however, has a limitation of placing you home at risk. The home may be lost if repayment of the credit is not done in time. It also has limitation in the sense that it cannot be accessed by those entrepreneurs who lack homes.

Another form of equity financing is through accessing Angel investors. They are private individuals who invest their money in entrepreneurial business with high growth potentials with the sole objective of keeping the entrepreneur to run the business and often provide excellent industry expertise. This is one advantage of angel investors-providing the entrepreneur with an expertise concerning his business and the industry in which he operates. Nevertheless, they expect higher returns on their investments and their quality and level of commitment depends on the potentiality of the business. This makes them disadvantageous to many entrepreneurs.

Commercial Banks and Lending Institutions

It's a form of debt financing. A good number of commercial banks and lending institutions provide an extra finance that is tied to the collateral. It implies that credit is not advanced unless collateral is provided. Banks lend money either in form of short term loans repaid on a monthly basis on long term loans repaid over a longer span of time, usually five to ten years. It is the most common source of entrepreneurial financing as it doesn't interfere with the business operations. Also, it is advantageous because banks charge lower interest rates thus cheaper cost of capital. It is disadvantageous to those businesses without collaterals. Financing cannot be done without collateral. Personal credit history is also very important.

Venture Capitalists

Gompers, P. et al (2004), hypotheses that Venture Capitalists invest people's money in exceptionally growth oriented businesses, with sole aim of getting massive ownership and return on their investments within a very short time. They may as well take ownership of the business as they bring in others to run the business thus replacing the founders. Ortgise confirms this notion by noting that Venture capitalists identify noble technologies before committing their money (Ortgise, 2007). They only finance those businesses with higher potentiality of finance investment returns. Besides, the cost of financing is high. These form their limitations as source of finance. The positive side of this type of financing is that the providers are willing to take the risk of financing and are ready to finance massively (Metrick, 2007).

Conclusion

From the above list of three major sources of financing growth, the author is of the opinion that commercial banks and lending institutions financing is most appropriate for the business. This is because the owner requires a source that does not demand ownership interests in the business and thus has no obligations besides full loan repayment. The business can provide collateral through business valuation. Secondly, the bank would not interfere with his company's operations. And thirdly, the rate of interest would be low as cost of capital as compared to the other forms of funding. It is either short term or long term hence leaves the business owner time to plan his operations well.

Reference

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