

A plan for growth



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A Plan for Growth Question Where would you suggest Andy look for the financing he needs for Custom Stitches Custom Stitches, in its pursuing its expansion can avail of many financing alternatives. The main classifications of these financing alternatives are debt and equity financing. Debt financing refers to borrowing a specified amount to run the business. There are two types of debt which Andy can avail of depending on the duration of the loan. A short term financing refers to a loan which is paid within a year or shorter. This loan is often used to finance the daily operation of the company like purchase of inventory, payment to suppliers and wages of employees. Long-term debt on the other hand, is usually required in financing the acquisition of equipments and fixed assets. The loan is paid based on the estimate useful life of the asset purchased (Ward, 2000). Andy can avail of these financing alternatives through financial intermediaries like bank and government institutions which are willing to help small entrepreneurs.

Another alternative that is available for Andy involves equity financing. Unlike debt, equity financing for small businesses undergoing expansion are less risky. Equity financing includes seeking fund from angel investors and venture capitalists. Angel investors are affluent individuals who are willing to invest in an expansion in quest for profit and other personal interests like involvement in the business operation. Venture capitalists, on the other hand are professional investors who are only seeking high returns for their money (Ward, 2000).

Andy can also liquidate his old equipments to purchase new ones which will contribute to the overall efficiency of Custom Stitches' operation.

Question 2. Explain the advantages and the disadvantages of using each

source of funding you listed in question 1.

There are various pros and cons in using the financing alternatives listed in the previous question. In general, using debt financing is advantageous to Andy as his ownership in the company is not diluted. Also as creditors will have no ownership in the business, they cannot meddle with the decisions and policies implemented to run the business (Growing Your Business, 2006). However, utilizing debt financing will leave an obligation to the company to pay interest at certain periods. This will be very detrimental to the company especially if Custom Stitches is unable to generate a profit. Losses will mount up it will necessitate the company to borrow money in order to cover its interest obligations.

Equity financing on the other hand does not entail the company to pay any interest. The company is also entitled to reap the benefits of having investors which can contribute their skill, contacts and expertise in managing the business operation. However, equity financing also exposes Andy to the responsibilities of reporting to the investor, sharing profits, dilution of ownership, and difficulty in decision making especially if the investor and Andy cannot come to an agreement (Growing Your Business, 2006).

Question 3. Which sources of financing do you think would be most promising for Andy's capital needs

I believe that Andy should first consider liquidating his two-headed machines in order to raise money for his expansion. This will not only generate some cash but will also enable him to really find a machine which will suit his expansion needs. The needed fund can be raised by asking the financial assistance of a local bank. Since Andy has been running the business for quite a long period, he should not find it difficult to get the required amount.

Long-term debt will be the most suited form of financing as the company will be profiting from the expansion in the long-run and it will be used to invest in the acquisition of non-liquid assets.

References

Growing Your Business. (2006). Retrieved January 27, 2006, from <http://www.womanowned.com/Growing/Funding/Financing.aspx>

Ward, S. (2000). Debt Financing. Retrieved January 7, 2006, from <http://sbinfoCanada.about.com/cs/financing/g/debtfinance.htm>