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FINANCING YOUR BUSINESS

Your Business needs funds to:

- provide working capital – covering first 6 months of business
- invest in non-current assets – furniture, machinery, tools etc.
- for growth – taking your business to the next level

The main source of funds available is retained earnings (profit), but these are unlikely to be sufficient to finance all business needs.

Criteria for choosing between sources of finance

A firm must consider the following factors:

Factor	Issue to consider
Cost	Debt usually cheaper than equity (shareholders funds)
Duration	Long-term finance more expensive but secure. Firms usually match duration to assets purchased
Term structure of short- interest rates	Relationship between interest and loan duration – usually term is cheaper – but not always!
Gearing	Using mainly debt is cheaper but high gearing is risky
Accessibility	Not all sources are available to all firms

FINANCING YOUR BUSINESS

Before choosing a source of finance ask yourself:

- What will the funding be used for?
- How long you will need this financing?
- How much does the business need?
- What is the size of the business?
- What type of ownership has the business?

Internal Funding

Owners Self Investment

- Cash from personal savings
- Borrowing against assets, home etc.
- Use of personal Credit Cards
- Use of funds from employment income

Internal Funding

Retained Earnings - Self Investment

- Re-Investing profits earned back into the business
- Medium or Long term source of finance

External Funding

Seed Funding

- When an investor purchases part of a business, this financing model is called seed funding.
- It is a form of securities offering in which an investor purchases part of a business.
- Seed funding is an early investment.
- A support to the business until it can generate cash of its own
- It is one of the most utilized methods of external financing as majority of the early stage businesses lack the credentials for a traditional bank load.
- Seed money options include **friends and family funding, angel investors, venture capitalists** and **accredited investors**.

External Funding

Angel Investors

- Entrepreneurs have extensive knowledge and experience
- High net worth individuals who invest their own money into growing businesses through an equity stake
- They fund and invest in emerging companies
- Their capital comes from the sale of their own businesses
- S/he will have a partnership in the business management
- Key difference with venture capitalists is the fact that angels tend to make smaller investments and therefore target the lower end of the equity gap not served by venture capitalists.

External Funding

Venture Investors

- Venture capital is independently managed, dedicated pools of capital that focus on equity or equity-linked investments in privately held, high-growth companies.

- Quite similar to the angel funding, **venture capital** business financing is made through equity.

- Companies that provide **venture capital** generally take a minority stake in the capital of a company.

- This is a partnership as well. Venture capital financing provides financial support to business' development.

External Funding

Crowd Funding

➢**Crowd Funding** is the collection of funds through small contributions from many parties in order to finance a particular project, idea or venture

➢The model involves a variety of participants:

- ✓Usually include the people (entrepreneurs) or businesses that propose the ideas, and/or projects to be funded,
- ✓The crowd of people who support the proposals, and
- ✓Last but not the least, the model is then supported by an organization (the "platform") which brings together the project initiator and the crowd.

➢Three Types of Crowd Funding:

- ✓Donations, Sponsorship
- ✓Lending/Borrowing
- ✓Investment in exchange for equity, profit or revenue sharing

External Funding

Grants

- Funding that does not directly require a return of investment
- Grants are generally applied for and awarded for a specific purpose
- European Economic Area offers one of the largest amounts of financial contribution to new businesses

External Funding

Bank Loans

- Money that is to be repaid over a period of time
- One needs to pay the interest on top of the amount that has been given by the bank
- you do not need to transfer the company's control
- bank loans are more suitable for larger companies or companies that are aiming in expanding into other markets or investing on a new product
- Some examples of where bank financing is used in businesses are:
  - ✓ To purchase capital such as equipment, machinery, buildings and/or vehicles
  - ✓ To provide working capital
  - ✓ To provide match co-funding for grant applications
  - ✓ To enable funding new projects for further expansion
  - ✓ To finance business growth and expansion

PRESENTATIONS

AIB BANK – SME's Accessing Finance & Support

Microfinance Ireland

Linked Finance.com – 'Crowd Funding'

Thank you

If you have any queries please contact us at:

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