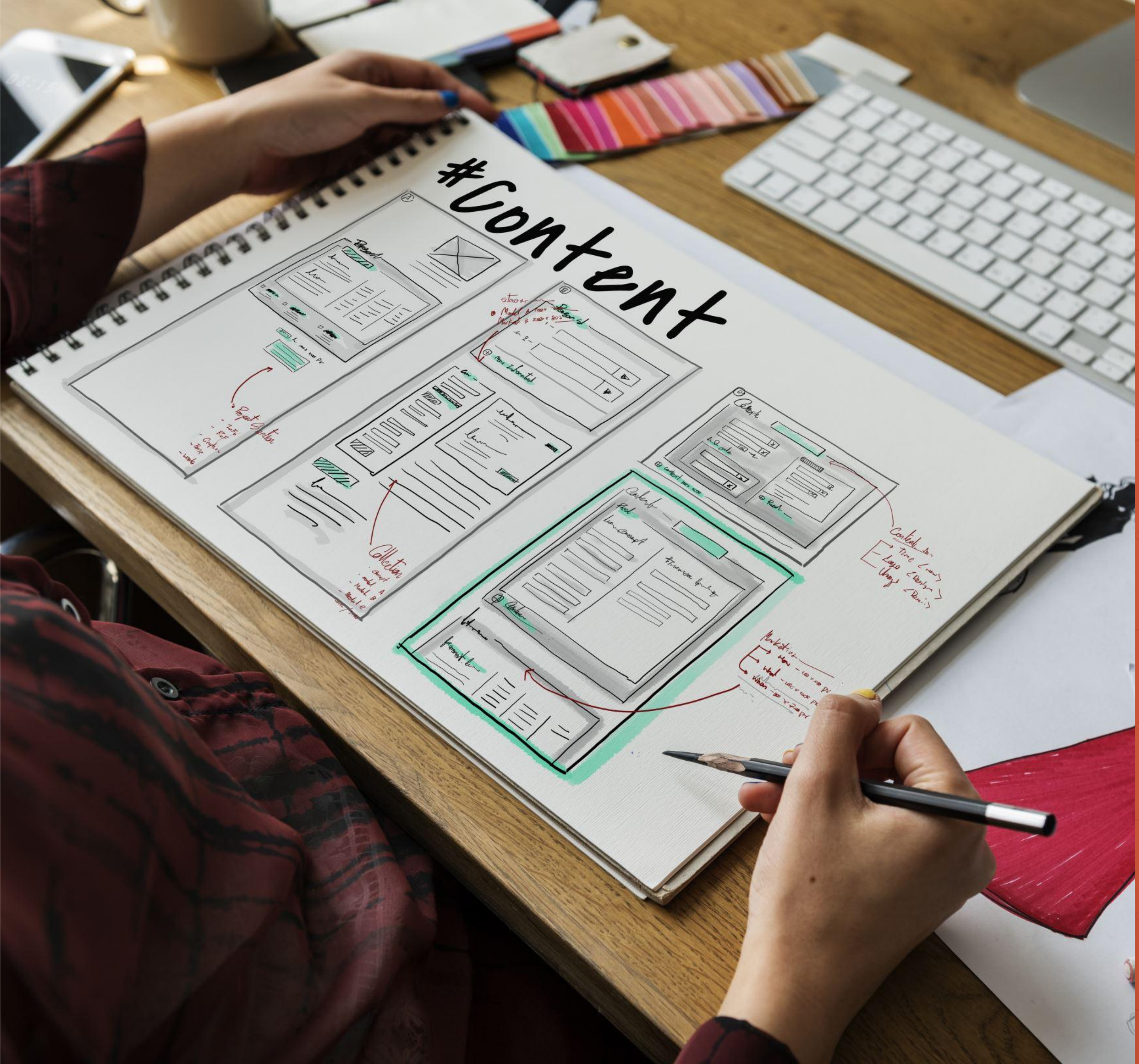


Financial Objectives
Start up business

Chapter 6

Start Up Regulation and Financing

Pages 213 - 218

Learning objectives today

- Financial objectives for a start up business [SUB]

- Text pp 208 - 218

1. Financial Objectives — The big 5
2. Sources of Finance — Equity Finance
3. Sources of Finance — Debt Financing
4. Get the Balance Right — Equity –V- Debt
5. Review — Learning objectives

Financial objectives for a SUB

New learning

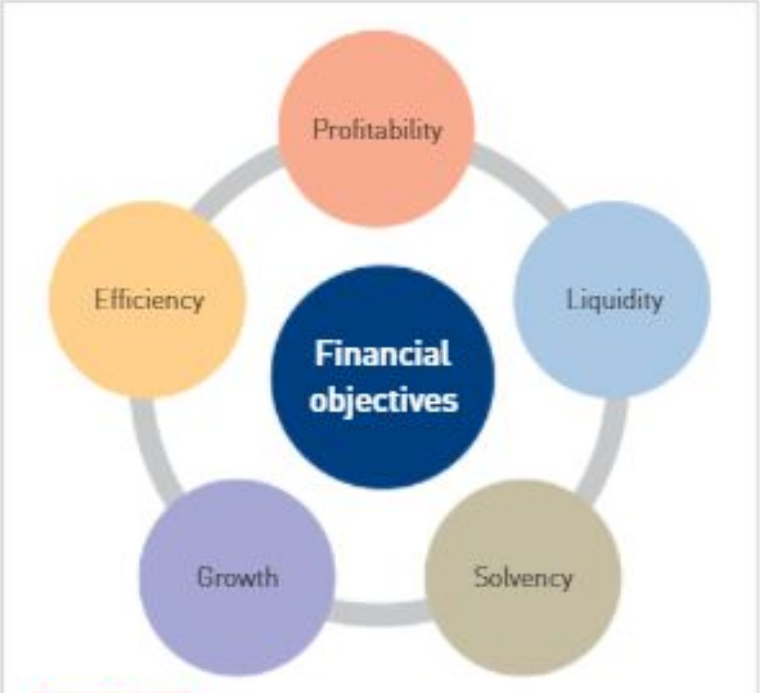


Figure 6.23 The main financial objectives for business

Key Points to ***Explain*** & ***Describe***

- **Profitability** – main objective of the business
- **Liquidity** – short term cash flow of business]
- **Solvency** – have sufficient cash for both short term and long term to pay its debts.
- **Growth** – complements profitability to grow larger from start up position
- **Efficiency** – is achieved as a business strive to maintain the value of its assets, while earning a significant profit Crowdfunding sources from any individual, from family or friends
- Macro environmental factors including, political, economic, socio cultural, technological, legal and environmental can have substantial impact to financing objectives

Source of Finance - Equity Finance

Requires business owner to contribute savings before applying for a loan from banks or investors

New Learning

Equity finance options for a SUB

Figure 6.28 Equity finance options for a start-up

Key Points to *Explain* & *Describe*

- Investments are made by owners or others [eg; Shareholders]
- Business legal structure most likely, sole trader, partnership or private company.
- Self Funding is by owners
- Private investors can be either (angel investors or venture capitalists)
- Crowdfunding sources from any individual, from family or friends
- Business profit can also be reinvested
- Business must achieve profit and solvency to ensure a return on investment

New Learning

Source of Finance - Debt Finance – Short Term Suitability

Business borrows funds from external lender or finance intermediary

Debt finance short term suitability for a SUB

Key Points to *Explain* & *Describe*

Type of Debt Finance	**Explanation**
Bridging Finance	Financial institution provided when new asset being purchased using debt finance, owner has to sell another asset, high interest rates and fees
Credit Card	Small loan from bank for incidental purchases. Usually 44 Days to pay high interest rates
Overdraft	A facility that allows withdrawals on bank account to an agreed amount when the account has insufficient funds
Trade Credit	Supplier agrees to provide goods on credit to a set amount with payment within x days after goods supplied

New Learning

Source of Finance - Debt Finance – Long Term suitability

Business borrows funds from external lender or finance intermediary

Debt finance long term suitability for a SUB

Key Points to *Explain* & *Describe*

Type of Debt Finance	Explanation
Bank Loan	Financial Institution, contractual, set period of repayments usually monthly, with interest rate and fees,
Leasing	Offered by finance company or agent. Agreed repayment term and frequency. Asset is owned by leasing company until loan repaid

New Learning
** reference for group activity

Source of Finance – Get the Balance Right

How much equity and debt is right for your SUB?

The balance of Equity or Debt finance

Figure 6.29 Business owners need to consider how to balance equity and debt financing at start-up.

Key Points to <u>*Compare*</u> & <u>*Discuss*</u> & <u>*Evaluate*</u>

SOURCE	CONSIDERATION
EQUITY	• The biggest advantage with internal funding is the alignment of the current owners to the investment objectives is least impacted. • Generally, it has a short time frame and the fewest legal restraints.
DEBT	When assessing the benefits of each debt product, attention needs to be given to the: • cost of debt versus the cost of equity; • impact of gearing (borrowing money) on the company’s Financial statements (including cash flow); • potential for movements in interest rates and exchange rates; and • likely changes in government monetary policies and any capital transfer restrictions in other countries where the company transacts.

Case Study – Scotdesco Espresso Cafe

Background

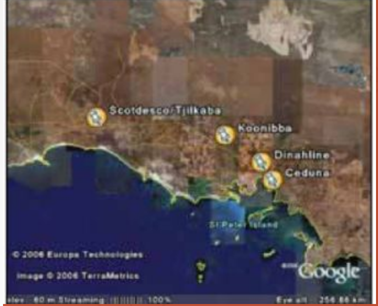
- *This Aboriginal enterprise is a roadside tourist café located on remote, traditional homelands in desert Australia.*
- *The community of around 75 members is situated on the Eyre Highway 300 kilometres east of the South Australian– West Australian border, and 100 kilometres west of Ceduna, South Australia.*
- *The café is the first in a series of Scotdesco Aboriginal Community enterprises designed to capture the trade of tourists and travellers from the highway.*
- *The Scotdesco example of enterprise is based on the strength of the homeland concept, with ten related families functioning as a community unit, sharing work and supporting each other.*
- *The motivational catalyst to start the enterprise was the community's need for healthy food for healthy lifestyles and for feeding the elderly*

Key Challenges

- *The key challenges to advance the business are related to the uncertainty of commitment of the workforce, the costs of vehicles and the backing by the community committee..*

Your Question

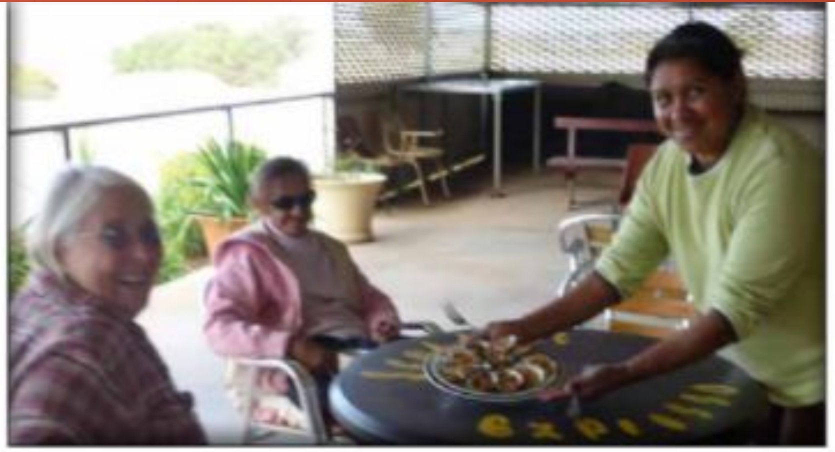
- **Evaluate and describe the sources of finance you would choose and the reason why as the owner of Scotdesco to address the key challenges to advance the business?**



What source of finance would you choose?

Start up Businesses Case Study

The Best Coffee in the West



Case 11: Scotdesco Expresso Café

Joan Gibbs with Maureen McKenzie, Lerline Crisco and Glenette Miller

Source: Rola-Rubzen MF, et. al., (2011). Growing businesses

in the desert: Case studies of Australian desert micro, small and medium enterprises. DKCRC Report 74. Ninti One Limited, Alice Springs.

Your Question

Evaluate **and** ***describe*** **the sources of finance you would choose and the reason** ***why*** **as the owner of Scotdesco to address the key challenges to advance the business?**

Knowledge deepening activity

Equity Finance

Type	Why

Debt Finance

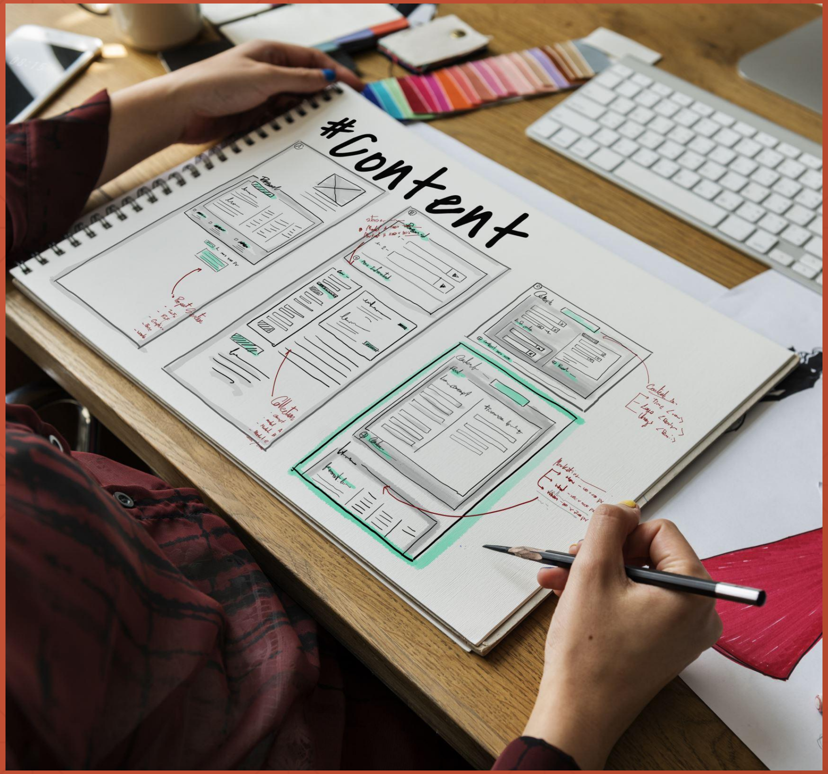
Type	Why

Key Learning Objectives

- Can source finance through debt and equity. They use these funds to purchase business assets and to support its establishment.
- Equity finance relates to funds contributed by the business owner or investors, who will expect a return on their investment through the business's achievement of profit.
- Debt finance relates to funds provided by a financial intermediary. A contract that outlines repayment schedules, interest payments and time frames forms part of this source of finance.
- A business needs to consider when to use equity and debt finance, and if it is a short-term or long-term situation.

What did we learn?

Start up Businesses Sources of finance



Content for a Kahoot Quiz for end of lesson:

1. What type of financing instrument is a credit card?
   a. Possible answers: (Debt / Equity)
      i. Correct answer is Debt
2. True or False: Equity finance is always funding from one's own money.
   a. Possible answers: (True / False)
      i. Correct answer is False
3. What type of finance is an "angel investor"?
   a. Possible answers (Equity / Debt)
      i. Correct answer is Equity
4. If you needed to borrow money to cover a short term cash flow problem, which type of finance is appropriate?
   a. Possible answers: (Credit Card / Trade Credit / Overdraft / Bridging Finance)
      i. All answers are potentially correct - depending on the scenario/context
5. Profitability is the main objective of a business
   a. Possible answers: (True / False)
      i. Correct answer is True

What did we learn?

Start up Businesses Sources of finance