Finance and Sources of Finance

The Money Module

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Project No. 2021-1-ES01-KA220-ADU-000033439

What are we going to talk about?

What is Finance?

- Finance is the money that you use to start your business

- There are many different sources

Where can we get Finance?

This module will describe all the different places and people that we can go to for money – or ‘loans’.

Why Finance is so important…

- Can mean the difference between success and failure

- Money makes the world go round and the lights stay on!

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Here we go!

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What is FINANCIAL STRUCTURE?

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Financial Structure of a firm

Financial structure refers to the mix of *debt* and *equity* that an entrepreneur or company has in order to finance its everyday operations.

This composition will directly affect the **risk** and **value** of a business. It is up to each entrepreneur to decide the best mixture of debt and equity.

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Debt vs Equity

The structure consists of....

- Debt – money that is given or loaned to you which you must pay back.

- Equity – money that is raised by shareholders, or investors in the case of a small business, looking for a stake in the company.

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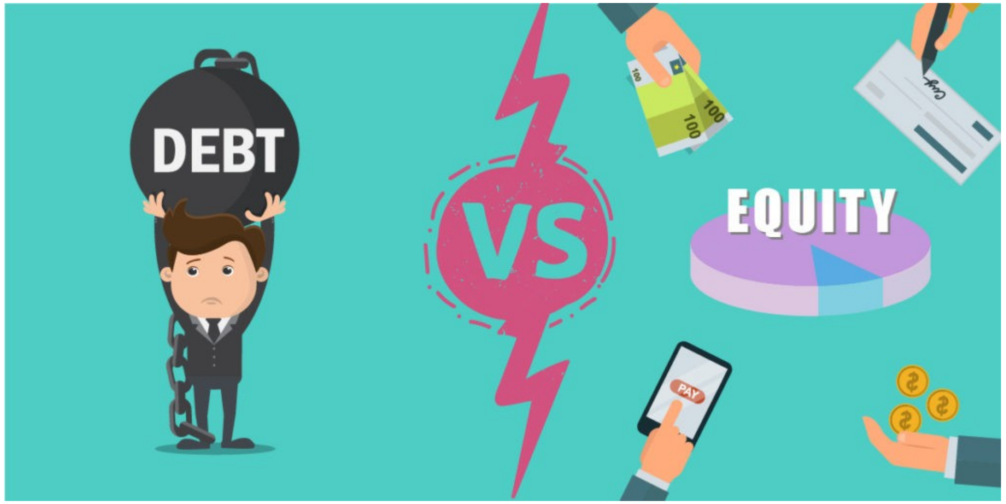
Entrepreneur’s Choice

The small business owner must decide what types of debt and equity he or she will take on.

There are risks to each type and only by honest reflection will the entrepreneur know how much of each to incur.



In a nutshell,

- If you decide to register as a *sole trader*, there will be little distinction between you and the business. This means that if your company gets in trouble and cannot pay its debts, you as a person can be sued and the outstanding liabilities taken from your possessions, such as your house, car, personal valuable etc.

- If you enter a *partnership*, it will work in much the same way as a sole trader. The difference here is that you have now signed a contract with one or more partners. The main issue with this form of business is that of trust. Since you all own the assets and liabilities of the company, you can all be held liable for the actions of your partners.

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Types of Finance

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There are a wide range of places that budding entrepreneurs can look to help them finance their ventures.

How much *debt* or *equity* do they wish to expose themselves to?

Main Sources of Finance

- *Banks* One of the most popular sources of funding, banks will generally lend money to people who can present a good case (business plan) on why they deserve a loan and why their business will succeed.
- *Personal investment* Best to use savings rather than everyday cash flow if possible to reduce anxiety. This means that funds will always be on hand in case of mishaps or unexpected expenses.
- *Credit Union* More competitive interest rates than regular banks, credit unions can be a very good source of finance for the small business owner.
- *Grant or Subsidy* Usually state sponsored, new businesses can often apply for government aid in the form of grants or subsidies. These often require a lot of paperwork and evidence-proving and can be difficult to get.

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Main Sources of Finance cont.

- *Family/Friends* Extremely popular, especially considering they often loan without the requirement to pay interest on top of the initial sum.
- *Loan Sharks* As the name suggests, people – often unscrupulous – who offer loans to people who are normally desperate for money.
- *Angel investors* These are wealthy people who like a project or idea and are prepared to help out financially.
- *Crowd Funding* This is when a person who has an idea asks the public to help him or her to get it off the ground. You set a funding ‘goal’ and if it is reached because people like your idea then you will get the money.

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Ultimately...

There are as many sources of finance as there are type of business and there is never a shortage of people or institutions to go to for a loan.

With a good business plan and an effective argument as to why you are worthy of the risk, there will always be someone willing to lend or help out.

Financial Strategy

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What is your strategy?

Before taking the leap of opening your own business, think about what type of venture it is first. Think about what type of structure it needs to be, for example, sole trader or partnership, and then think about the type of funding you will need to both cover yourself and help the business to grow, whilst also not investing more than you can afford to lose.

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Executing your vision

When you have given thought to these important questions, you can then decide what type of funding you need to apply for.

- Will it be a loan from a bank, an angel investor – friends and family?

- Remember there are advantages and disadvantages to all options so you need to figure out the type of risk and level of stress you can deal with without it affecting your health or interpersonal relationships.

E.G: How much of control do you want to hand over (more so with angel investors, or how much of your own money and savings do you want to put in?

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Being happy with your choices…

When starting your own company, it’s important that you feel comfortable and happy with the arrangements. If you don’t, it will eat away at you and put the venture at risk. Ensure that you,

- Retain enough control of your own company
- Having the right mix of debt and equity
- Being content with the level of savings and personal assets that you put into the business so that you don’t overwhelm yourself with the risk

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Give it your all...

Now that you've decided on all the most pressing details and made all the most important decisions regarding the financial situation for your business, it is now time to take this confidence out into the world and use it to give your business the best possible chance of success.

- *By planning and perfecting your strategy, you give yourself permission to succeed!*

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Advantages & Disadvantages of Finance

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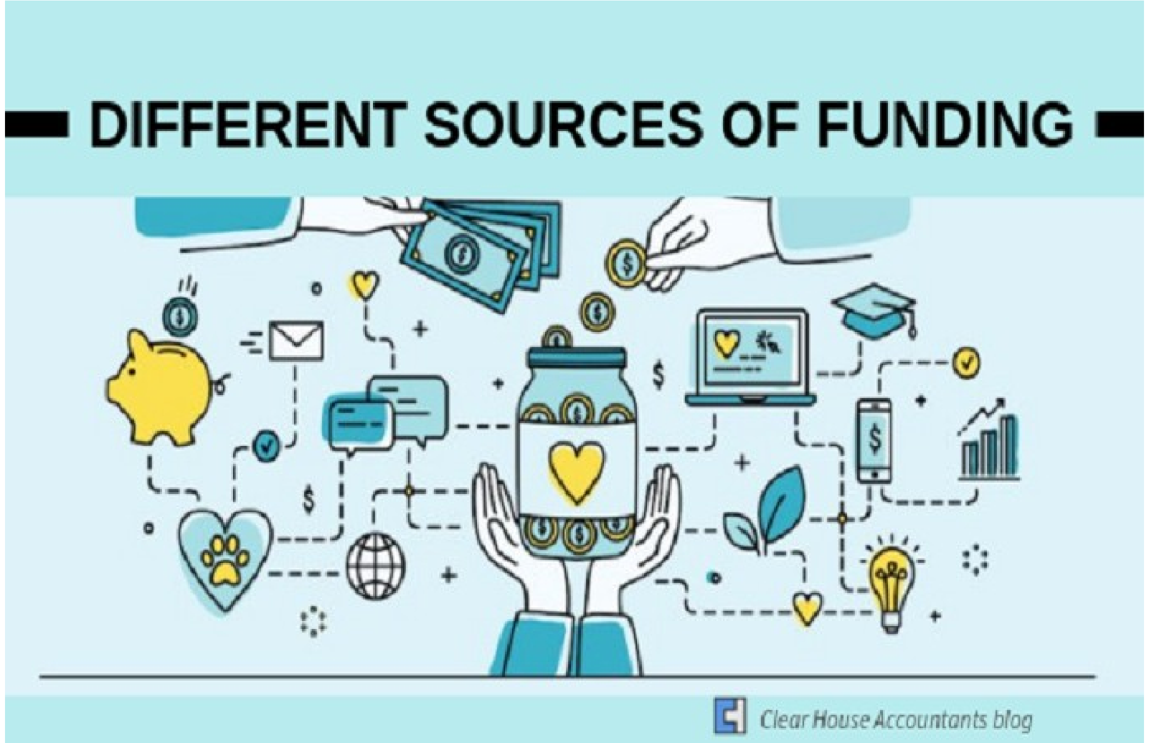
What are the merits of each?

Each source of finance has different advantages, while others have significant disadvantages which may hurt or even put the future of the business at risk. The goal is to keep the disadvantages to a minimum.



Advantages….

By making the right choices when it comes to where you source your funding, you are in essence,

- Retaining more control of your company
- Paying out less in interest
- Guaranteeing a better chance of success
- Preserving important interpersonal relationships
- Decreasing the levels of stress and anxiety

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Disadvantages….

By making poor (and often desperate decisions) when it comes to funding, you are essentially,

- Dooming future profits by having to make exorbitant repayments on loans
- Putting valuable personal relationships in jeopardy due to disagreements or not being able to pay back friends or family
- Increasing the levels of everyday stress that may result in sickness or failure due to overwhelming pressure

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The perfect balance

Getting the right balance is vital to being able to meet the expectation of repayment, but also having the required flexibility in order to be able to meet challenges and execute certain risks that can help the business to grow.

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