

Sources of Finance

Obviously to start my business I will need a large amount of capital which will could be gained through a number of methods which I will describe below pointing out the advantages and disadvantages of each one and then deciding whether it would be a good choice for the business.

- Overdraft – This is a sum of money borrowed from the bank, usually for the purchase of small things such as stock, the advantages is its easy to obtain and quick however the main disadvantage is that you are charged daily interest on the money borrowed. This could be useful to the business once it is operating and making a profit however it would not be wise to get into debt with daily interest so early in the business's life
- Share Issue / Investor – This is the sale of part of the business for an amount of capital, the advantage is that it is quick and sometimes the investor can also help and/or offer advice, however an obvious disadvantage is that you are losing complete ownership of the company. I think that this could be a possibility for my company as it will need capital at the start and I would not mind selling a section of the company if it were to provide capital which would take the business further.
- Retained Profit – This is finance which is obtained from successful trading, when the business makes money and it keeps it in the business it is known as retained profit. The advantage is that the money is already in the business and your not borrowing any money, however a disadvantage is that it will only work with more successful companies that turnover a large enough profit to be able to do it. And also whilst the money is being put back into the business it means less can be taken out for the owner(s) At the start of trading this is not an option for my business however as trading continues and maybe a few years into business this may become an option where the money can be used to grow the business even further.
- Trade credit – Trade credit is where goods are received by a business but they don't have to be paid for immediately, the advantage of trade credit is that you have more time to gain the money to pay, and can use the capital that would otherwise have been used for stock for other purposes, however the disadvantage is that although there is no interest the money still has to be paid back, and therefore the business is in debt. Trade credit is definitely something that my business could use as a source of finance at the start as it could then use the capital it has for other purposes
- Hire purchase - Hire purchase is obtaining an item through monthly payments, however the business does not own the item until it has been totally paid for, the advantages of this system is that the business does not have to pay immediately. The disadvantage however is that interest has to be paid on the payments back and therefore the business will end up paying more than if they had just bought the item in the first place. Hire purchase is something that my business could consider however the sort of stock and items that is needed in a sports shop are not really the sort of items that would be bought on hire purchase.

- Grants – Grants is capital gained for free, usually given by the local or European government, the advantage is of course the free capital which will help the business, also it does not have to be repaid. However grants are only available under certain conditions, usually involving where the business is built, also sometimes there are constraints on what the capital can be spent on. My business will not benefit from a grant as after I completed my research I found that they are not available for businesses in Deal, the closest place is Thanet which is supported as a deprived area by the European government.
- Loan – A loan is a sum of money which has been borrowed, usually from a bank. That has to be repaid, usually on a monthly basis. They can vary greatly in amount from minor amounts up to very large amounts. The amount of time in which they can be repaid can also be negotiated with the longer the loaned time usually resulting in a higher interest rate, which is the disadvantage meaning you will end up paying back more than you borrowed. My business will probably use a loan at one point or another however to finance something as most business's do however I would have to be careful and make sure to get an affordable rate.
- Mortgage – A mortgage is a loan that is used to help buy a premises, they are usually from banks, although some firms do specialize in mortgages. The advantage of a mortgage is it allows you to buy a bigger, better or more suited premises for the business, the disadvantage however is that like all loans the payments are made with interest. My business will not need a mortgage as I have chosen property two which was a lease property meaning that the only money which needs to be paid is the £20,000 per annum fee.
- Lease – A lease is where an item is rented for a monthly or annual fee, the advantage is that lease products usually come with a 24 helpline and maintenance service, and also when the product becomes outdated you can just lease a better model etc. However the disadvantage is that the business does not actually own the product, and never will. Personally I feel that leasing an item is a good idea and if the situation where a suitable item is needed for my business I will try and lease it.

In the above points I have stated which sources of finance are most suited to my business and why, I will use these to gain the capital, stock and premises needed to start my business.