ASSIGNMENT

DALMA IT CONSULTANCY

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Introduction

The need for analyzing the financial alternatives which are suitable for a company have become a common concern in the financial management over a number of years which for sure would be examined again in the future (Dumitrescu, and Dumitrescu, 2018). This has now become one of the key areas in the syllabus of the Financial Management and the requirement could be a worth the significant amount of marks. Unfortunately, a number of students fail when the question about suitable approach is asked from them. It is thus important for the students to learn first about the alternatives which are available for financing for a company and then move towards the option which is the most suitable (Dumitrescu, and Dumitrescu, 2018). The foremost thing which has to be evaluated is the recent performance of the company and current financial position of the company. The key areas which must be evaluated here would consist of the growth which is found in the turnover of the company, the growth in the profit of the company, the growth in the profit both before and after the tax and the movement of the margins of profit (Dumitrescu, and Dumitrescu, 2018). For the evaluation of the current financial position of the company, it is important that the financial risk of the company is evaluated. Financial gearing must be considered as a key ratio which must be considered which would represent the financial risk while utilizing the data from the statement of interest cover and the financial position.

Common factors to be considered while recommending a suitable financing method

Cost – debt financing is considered to a less expensive than the equity financing so if the company would go for more debt, if it has the capacity, it would be cost advantage for the company.

Cash flows – an obligation is put on the company if it uses debt financing to pay out the cash in the form of interest to the financier (Waweru, 2017). The failure to do so could make the company to get under serious trouble hence the company must look at its ability to generate interest.

Risk – the company's directors must take control of the complete risk of the company and put it at a level where the stakeholders and the shareholders are content. The total risk is created of the business risk and the financial risk (Waweru, 2017).

Security and the covenants – security is required if debt has to be raised. From the data which is given, it should be made possible for establishing whether the security which is suitable is available or not.

Availability – the availability of finance which is likely should also be considered when a suitable source of financing is recommended to the people.

Maturity – the most basic rule for recommending a financial option is to see whether the source of finance is matching with the financial needs of the company which means the short-term financing is required for a short-term project (Waweru, 2017).

Control – there would be no longer change in the control if the debt is raised however if the equity is raised, then the control might get changed.

The yield-curve – the term structure must be given the consideration of the interest rates. If the curve is becoming steeper for instance the rates of interest would rise in the future. In this type of condition, the company might turn more wary for borrowing the debt which is additional or might also prefer to raise the rate of debt which is fixed or might look for hedging the rate of interest in some way.

Below are discussed the top five alternatives for financing which the companies typically use.

Financing Alternatives

For the business who are looking for the financial alternatives and are finding it difficult to get an access to the capital through the traditional sources which are traditional for instance the high street banks and the lenders have to refer to the financial advisor as to see which type of options they must opt for the financing of the company (Waweru, 2017). A plethora of alternative finance options are available for the business in the contemporary world and have made it easier for the established business owners to know what types of alternatives would be the best suitable for them. The sector of finance sector is growing rapidly and is evolving greatly (Lawal, Iyiola, and Adegbuyi, 2018). For a number of entrepreneurs it could be very difficult to keep with the pace of the change which is occurring in the company. It is thus important to build an understanding of the current available financial alternatives which could help the company to grow its financial stability and grow in its sector.

Incubators, accelerators and facilitators

Business incubators

Business incubators is referred to a company which help the new and the startup companies for the development of their firms by the provision such as the office space and the training of the management (Lawal, Iyiola, and Adegbuyi, 2018). The business incubators have been defined as the catalyst tool for either national or the regional economic development by the National Business Incubation Association (NBIA).

Business accelerators

The business accelerator is referred to a program which gives the companies that are developing to get an access to investors, mentorships and other types of support which could facilitate them in becoming stable and have a business which self-sufficient (Lawal, Iyiola, and Adegbuyi, 2018). Business accelerators are typically referred to the companies which are generally the start-ups which have moved past the earlier stages of becoming established.

Business facilitators

A facilitator is referred to the group of people who are engaged in a business for reaching an outcome or a decision for which everyone would be responsible and would be committed fully (Lawal, Iyiola, and Adegbuyi, 2018). The facilitator would help the company by the provision of the structure for a process while enabling the decision-making which cooperative. It must be noted that the facilitator would not lead, rather he would guide.

Business crowdsourcing and crowd-funding

Business crowdsourcing

The crowdsourcing is referred to the collection of the opinions, information or the work that has resulted from a group of the people and has been sourced usually from the internet. Crowdsourcing works make the companies to save the money and time while tapping into the individuals through different thoughts and skills from all over the world.

Business crowd funding

Crowd funding is referred to the utilization of small amounts of capital from the number of individuals for the financing of new venture of business. Crowdsourcing makes the use of accessibility which is easy of networks which are vast through the use of social media and the websites of crowd funding to bring the entrepreneurs and the investors together with the potential for bringing increment in the entrepreneurship while expanding the pool for the investors beyond the circle which is traditional circle of all of the relatives, owners and the capitalists of the ventures.

Commercial vs. venture bank lending

Commercial lending

The commercial loan is referred to the debt-based funding arrangement which is made between the financial institution and any business for instance a bank (Lawal, Iyiola, and Adegbuyi, 2018). This is typically used for the funding of the major expenditures of the capital and covering the operational costs which the company might otherwise not be able to afford.

Venture lending

The venture lending or the venture debt which is often also referred as venture lending is considered to be a type of debt financing provided to the companies which are venture-banked by the banks which are specialized or the non-bank lenders for funding the working capital or the

expenses of the capital for instance buying an equipment. The venture debt could be complement with the venture capital and for the provision of value for the companies which are fast growing and their investors.

Unlike the bank lending which is traditional, the venture debt is available to the growing companies and the startups that do not have the cash flows which are positive and using the significant assets as a collateral (Lawal, Iyiola, and Adegbuyi, 2018). The providers of the venture debt combine the loans with the warrants or the rights for the provision of equity for compensating for the default's higher risks. The venture debt could be considered as a source of capital for the companies which are entrepreneurial. As a complement for the financing of equity, the venture debt helps in the provision of growth capital for expanding the cash runway of the companies which have just started for the achievement of the milestone while minimizing the dilution for both the investors and the employees.

Credit card financing

The credit card financing helps the companies by providing them with a modern solution of financing. They provide a convenient access for the credit which is revolving. By having a credit card in the wallet, the company can cover the gaps in the cash flow easily and payoff the expenses of the business in the short without applying for the loan (Lawal, Iyiola, and Adegbuyi, 2018). This type of flexibility could be great advantage of the business which have a revenue which is more sporadic. The second opportunity which is provided by the credit card for the businesses is to build up the credit of the businesses which could be used by the lenders for evaluating whether the business is eligible for the loan which is found down in the line. By separating out the business

and the personal finances, the business could make sure that the personal credit of the entrepreneur would not have any effect on the score of the business or vice versa.

Receivable funding and factoring

The accounts receivable funding is referred to the financing which allows the firms to receive the payments early on the invoices which are outstanding (Obiora, and Csordás, 2017). The company which uses the financing of accounts receivable might commit some or all of the outstanding of the company to be a funder for the early payments in return of a fee. The receivable finances has typically three types:

Asset-based lending

The asset based lending also known as the business line of credit or the traditional commercial lending, the asset-based lending is considered to be an on-balance technique and it comes typically with a significant fee (Obiora, and Csordás, 2017). The majority of the receivables are committed by the company to the program and have the flexibility which is limited for which the receivables are committed.

Traditional factoring

In the factoring which is different than the reserve factoring, the business has to sell the accounts receivable to the funder but the payment which is made initially is for lesser than the full amount of the receivables for instance the company might receive an early payment for the 80% of the amount of invoice minus the fees of processing (Obiora, and Csordás, 2017). As compared to the lending which is asset based, companies would be having more flexible choices in choosing the receivables for the trading but the fee of the funders could be high with smaller credit lines.

Selective receivable finance

The accounts receivable which is selective allows the companies to choose and pick the receivables which must be chosen for the advance early payments. Along with this, the selective finance receivables enables the companies for securing the advance payments for the full payment of each of the receivables finance makes the companies to secure the advance payments against the full amount of all of the receivables.

Financial advice for the DALMA IT software consultancy and solutions

Since the company is entering into the maturity stage, it could be seen that the company would now be recognized as one of the market leader with a team of management which can operate and grow the business venture independently of the input which it is putting (Obiora, and Csordás, 2017). One risk which is obvious to be avoided after all is making the business to slow down and making it stagnant. Any of the business which is at the top of the game would attract more competitors and perhaps the players would be having more modern technology and flexible approaches (Obiora, and Csordás, 2017). The company must not underestimate what has been required to be reinvested in the company at this stage and just like other things have been achieved with the company, it would require planning and effort. The two of the most suitable alternatives in such situation are: venture lending and receivable funding. The reasons for selecting them are discussed below:

Venture lending

The venture lending or the venture debt which is often also referred as venture lending is considered to be a type of debt financing provided to the companies which are venture-banked by the banks which are specialized or the non-bank lenders for funding the working capital or the expenses of the capital for instance buying an equipment (Obiora, and Csordás, 2017). The venture debt could be complement with the venture capital and for the provision of value for the companies which are fast growing and their investors. When the venture lending is structure is structured properly (Obiora, and Csordás, 2017). The venture debt could be financing option which is attractive because it results in lesser dilutions of equity for the investors and the entrepreneurs, it does not need a valuation to get set for the business, board seats are not required by the venture

leaders, and the process of due diligence is found to be less exhaustive as compared to the equity. This would provide benefits to the DALMA IT software consultancy and solutions if it goes for choosing the venture lending option for the business such as: fuel growth which helps in the provision of growth capital with minimal dilution of equity, extending the runway of cash for achieving the next milestone (Obiora, and Csordás, 2017), bridging to the next round of financing at a greater valuation, enhancing the liquidity and strengthening the balance sheet, and it could be subordinated with a bank debt which is senior.

Advantages vs. disadvantages of Venture Capital

Advantages of Venture Capital

The following are the advantages of venture capital:

Business expertise – apart from the financial backing, the attainment of the venture capital financing could provide the business with a more valuable source for the consultation and the guidance (Obiora, and Csordás, 2017). This could help with a number of decisions of the business, including the financial management and the human resource management. Making a good decision in these main areas could be important vitally for the growth of the business.

Additional resources – in a number of areas which are critical which consist of tax, legal and the personnel matters, a firm which is venture capital could help in the provision of active support which is important at a key stage in the company's growth (Obiora, and Csordás, 2017). The two key benefits are the faster growth and greater success. A connected community could be built through the capital ventures.

Disadvantages of venture capital

Loss of control – the greatest drawback for the equity financing generally could be compounded with the venture of the capital financing (Obiora, and Csordás, 2017). These are considered as steroids. When the cash and professional investors are injected heavily, it is highly possible that the partners of venture capital would get involved.

Minority ownership status – depending on the venture capital's size and stake in the company, the management control could be lost which eventually could result in the company giving up on its own business.

Receivable funding

Receivable finances is referred to the condition in which the funding are received by the business which are based on the invoices of the company. These invoices are referred to the purchases which are made but the payment has not been received till now. From the perspective of accounting, there are two types of payments which are made: accounts payable and accounts receivable (Obiora, and Csordás, 2017). Looking at it practically, the difference is dependent upon which angle of invoice we are looking at. The accounts payable refers to the payment which the company or the buyer owes to the supplier. Conversely, the accounts receivable is referred to the money which is owed to the company (Obiora, and Csordás, 2017). For example, if DALMA IT software consultancy and solutions have made the software services of about $1 million and has the whole amount as receivables from the customers who have not yet paid for the widgets. Now DALMA needs cash right away to expand and it needs an asset for it which would appear on the balance sheet and is noted as a current asset and the amount which is owed is expected in the next 12 months. The company would be calling for a factor of $1 million. In this deal, the company

would get the money right away and the factor would get the right to all the money from the receivables of the company.

Advantages vs. disadvantages of receivable financing

Advantages of receivable financing

There would be quick cash on the balance sheet instead of the capital. The working capital for the other purposes could be freed up by using accounts receivable funding (Obiora, and Csordás, 2017). The equity would be given up and there would be no collateral required and the time would be saved by outsourcing the collectibles.

Disadvantages of receivable financing

There would be a loss of control of the customers of the company while using the accounts receivable financing as the factor might tell the company that the customers are not trustworthy. Financing the receivables of the company is found expensive than the traditional loans.

Conclusion

The foremost thing which has to be evaluated is the recent performance of the company and current financial position of the company. The key areas which must be evaluated here would consist of the growth which is found in the turnover of the company, the growth in the profit of the company, the growth in the profit both before and after the tax and the movement of the margins of profit. For the evaluation of the current financial position of the company, it is important that the financial risk of the company is evaluated.

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