How To Make The Most Efficient Use Of Your Funding

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Outline

- Sources of Funding
- Decision Making
- Factors affecting the choice of Funding
- Clearly define your Funding Requirements
- Classification According to Term Finance
- Capital Allocation
- Acquiring and managing financial resources
Sources of Funding

Types of Funding

Personal Finance

Owner’s funds
- Own money
- Borrows: from friends or credit cards
- Received from Government if entitled to some benefits
- Earned by sales of products and services

Profits
- Profits which have been retained. Earned by sales of products and services
- Own money
- Borrows: from friends, colleagues, banks and lending institutions
- Received from Government grants.
- Earned by sales of products and services
- From venture capitalists (seeking profit for spare funds)
- From private individuals (Business Angels)
- Private companies
- Micro loans

Business Finance
## Decision Making - Internal sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owner’s funds</td>
<td>• Owner keeps control</td>
<td>Could lose everything if business fails</td>
</tr>
<tr>
<td>Retained profit</td>
<td>• Owner(s) make decision</td>
<td>Reduces reserves and possibly future dividend payments. May be insufficient for needs.</td>
</tr>
<tr>
<td>Source</td>
<td>Advantage</td>
<td>Disadvantage</td>
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<tr>
<td>Bank loan</td>
<td>• Advice available. Repaid over an agreed period</td>
<td>Bank may refuse. Repayments may rise if interest rates increase</td>
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<td></td>
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<tr>
<td>Overdraft</td>
<td>• Flexible and quick to arrange</td>
<td>Bank may refuse. Only very short-term</td>
</tr>
</tbody>
</table>
# Decision Making - Other external sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Advantage</th>
<th>Disadvantage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government grant</td>
<td>• May not need to be repaid though spending closely checked</td>
<td>Complicated and restricted to certain areas/reasons</td>
</tr>
<tr>
<td>Hiring and leasing</td>
<td>• Saves paying ‘up-front’ for an asset. Asset may belong to business eventually.</td>
<td>Only useful for obtaining assets. Costs more than outright purchase.</td>
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</tbody>
</table>
Clearly define your funding Requirements

**Key Facts**

Business Owners tend to spend too much time looking for money and not enough time making it. This problem stems from lack of adequate pre-planning given to the initial use of the fund.

To determine what your short and long term funding needs are, you must perform the following analysis:

- Immediate need for capital
- Research and Development
- Capital Asset Acquisition i.e. Purchase of new machinery
- Necessary raw materials
- Working Capital Requirements
- Market Penetration

**Comments**

**Other factors to Consider**

If one of your main objectives is to mobilize additional funds, it also has to include the following:

- What is the total amount of funds required?
- In which currencies (Local or Foreign)?
- Development of new products
- Refurbishment of plant and equipment
- Borrowing type required (Overdraft or Term loan)?
- Repayment plan.
- What guarantees or collateral are you able to provide?
Classification According to Term Finance

1. Short Term Finance:
   Required primarily to meet working capital requirements. The focus is on maintaining liquidity at a reasonable cost.

2. Medium Term Finance:
   Defined as money raised for a period for 1 to 5 years. Medium term funds are required by a business mostly for the repair and modernizing of machinery.

3. Long Term Finance:
   Refers to those requirements of funds which are for a period above 5 years.

COMMENTS

• Working Capital
• Trade Credit
• Commercial Paper
• Factoring and Inter Corporate Deposits

• Commercial Banks & State Financial Institutions
• Lease Financing
• Hire Purchase
• External Commercial Borrowings
• Euro & Foreign Bonds

• Shares
• Debentures
• New Debt Instruments
• Retained Earnings
• Venture Capital
Capital Allocation

Capital allocation takes into account the link between target business mix and its impact on risk profile. Target business mix incorporates existing business and planned new business sales.

Most organisations allocate the same resources to the same business units year after year. That makes it difficult to realize strategic goals and undermines performance.

Here’s how to overcome it:

- Continually evaluate the performance of business units
- Acquire and divest assets
- Adjust resource allocations based on each division’s relative market opportunities
- Invest capital, talent, and other scarce resources
- Review cost structures to determine if they are optimized
- Capital allocation decisions should be based on the right metrics
- For Business portfolio, perform virtual carve-outs to assess the value of potential divestments opportunities.
Capital Allocation Strategies

Key Facts

• It is extremely important that your financial projections fully support the amount of funds you are seeking.

• If you are seeking debt financing, your request must be very specific.

• The tenor of the loan i.e. whether it is short term or long term.

• Estimate your capital requirements accurately instead of running short and be forced to request for more.

Comments

Major expansion of existing business.

If your business plan is produced with the main aim of raising finance to expand your business, the following two issues have to be properly covered:

• That the market of the business sector you are targeting has potential for further growth; and

• That your entity, on the basis of its history and competitive strengths, is well positioned to win a substantial share of this market.
Capital Allocation Strategies Contd.

Key Facts contd.

• Once you identify how much fund is required, you will need to find out possible institutions that will fund the project(s).

• Interest Rates.

• Forecast your capital requirements at least six months in advance.
Acquiring and Managing financial resources

**Using Funds Effectively**

- Using budgeting as a technique to help determine how resources will be needed
- Managing the rate of expenditures
- Be vigilant and try to be aware of all the reasons you’re drawn to a product
- Reduce production costs by 10 percent through automation of production lines
- Avoid impulse purchasing and don’t buy what you don’t need
- Clear distinction between business expense and personal expenses
- Avoid Transfer Pricing

All business owners must decide how to allocate their limited equity capital among lines of business or business units in order to achieve their company’s goals. If capital is allocated to those businesses with the highest returns on equity (ROE), the total company’s ROE can be improved.
Acquiring and Managing financial resources Contd.

- **Risk Appetite**
  - At portfolio level - increase the allocation of risk capital to private sector operations from the current limit of 40% to 50%
  - Strengthening Credit Risk Governance
  - Improve the risk reporting process

- **Monitor Financial Resources**
  - Installing and managing a financial accounting system
  - Appropriate supervision and periodic auditing of financial records and procedures.
  - Adherence to a higher standard of accountability.
  - Recording business activities
  - Continuous training programs for staff
Forecasting Organizational Cost

- Align rolling forecasts, multi year plans and detailed budgets
- Embrace statistically-driven approaches to enable efficient ‘what-if’ modelling
- Incorporate service line analytics to refine projections
- Adopt cross-departmental initiative –based modelling
- Promote feedback with management and executives via reporting
THANK YOU