FUNDING

ecuring funding for a [**merger and acquisition (M&A)**](https://www.resurgentindia.com/the-ultimate-merger-and-acquisition-valuation-roadmap-expert-tips) can be a complex process. Here are some **acquisition financing strategies** to increase your chances of success:

1. **Identify your funding needs** - Before approaching potential investors or lenders, you need to determine how much funding you require. This will depend on the size and complexity of the M&A deal, as well as the amount of capital you already have available.
2. **Develop a clear M&A strategy** - You need to have a clear understanding of the target company or assets you want to acquire, the potential benefits of the acquisition, and the risks involved. You should also have a plan for how you willintegrate the acquired business or assets into your existing operations.
3. **Identify potential funding sources** - There are several options for funding an [**M&A transaction**](https://www.resurgentindia.com/cash-in-on-the-merger-and-acquisition-wave-in-india), including [**equity financing**](https://www.resurgentindia.com/private-equity-funds-overview-types-how-does-it-work), **debt financing**, and **alternative financing** sources like **venture capital** or private equity. Each option has its own advantages and disadvantages, so it's important to evaluate each option carefully and choose the one that best fits your needs.
4. **Prepare a comprehensive business plan** - Your business plan should outline the details of the [**M&A transaction**](https://www.resurgentindia.com/how-does-an-merger-and-acquisition-advisory-firm-work), including the expected costs, projected revenue, and potential risks. You should also provide financial statements, market research, and other supporting documentation to help investors or lenders makewell**-**informeddecisions.
5. **Seek professional advice** - It's important to seek the advice of experienced professionals, such as investment bankers, attorneys, and accountants, to help you navigate the complex M&A process and ensure that you are following all legal and regulatory requirements. They can also help you negotiate favourable terms with potential investors or lenders.

## ****Types of acquisition funding available****

There are several types of **acquisition funding** sources available, including:

1. **Equity Financing for acquisition** - This involves selling a stake in your company to investors in exchange for funding. It can be a good option if you have strong growth potential or if you want to retain control of your company.
2. **Debt Financing for acquisition**- This involves borrowing money from a lender, such as a bank or private equity firm, and paying it back with interest over time. It can be a good option if you have a solid business plan and a stable cash flow to support your debt payments.
3. **Mezzanine Financing** - This is a hybrid form of financing that combines elements of debt and equity. It involves borrowing money from a lender, but with the lender also taking an equity stake in your company. It can be a good option if you need more capital than you can get through traditional [**debt financing**](https://www.resurgentindia.com/services/debt-syndication).
4. **Venture Capital funding** - This involves raising money from investors who are looking for high-growth companies with the potential for significant returns. Venture capitalists typically take an equity stake in your company and may also provide guidance and mentorship for running the show.
5. **Private Equity funding** - This involves raising money from investors who are looking for established companies with strong cash flows and the potential for growth. Private equity investors typically take a controlling stake in your company and work closely with management to increase its value.
6. **Crowdfunding** - This involves raising small amounts of money from a large number of individuals through online platforms. It can be a good option if you have a strong online presence and a compelling story to tell.

According to the Australian Government’s [business.gov.au](https://business.gov.au/finance/funding/choose-your-funding) website, fluctuations in cash flow can have a serious effect on a business’s viability. As a result, one of the most common reasons a business seeks financial assistance is due to cash flow. But there are many other reasons why a business owner might seek funding. You might need business financing:

* to help establish a new business
* to purchase or lease property such as a factory or store
* to expand a business or begin engaging in [international trade](https://www.octet.com/blog/australia-international-trade/)
* to purchase stock
* for investment in vehicles, machinery or other tools and equipment
* for research and development
* during times of difficulty to help the business survive

## New challenges in business finance

The global pandemic and its aftermath wreaked havoc on the world’s businesses, but when we finally emerged from COVID, business leaders and owners faced new challenges.

The smallest SMEs to the largest multinational companies felt the impact of [global supply chain issues](https://www.octet.com/blog/logistics-and-supply-chain-management/), increased costs, skilled worker shortages and ongoing global uncertainty. Record levels of inflation and [rising interest rates](https://www.octet.com/economic-updates/what-rising-interest-rates-mean-for-aussie-smes-the-best-time-to-plan-was-yesterday-the-next-best-time-is-now/) put pressure on households, consumers and business owners alike.

According to a recent [KMPG report](https://home.kpmg/au/en/home/insights/2022/01/issues-facing-australian-leaders-2022-outlook.html), business leaders have also been left with concerns about staff acquisition and retention, cybersecurity and digital transformation, the disruption of remote workplaces as well as new technologies. If businesses are to survive in the future, they simply have to innovate.

There is no doubt that the way we do business has changed, and that includes finding new ways to access business finance. The good news is there are a variety of methods available to finance your business. Options range from the traditional, like loans and overdrafts, to the more flexible, like [Debtor Finance](https://www.octet.com/product/debtor-finance/) and [Trade Finance](https://www.octet.com/product/trade-finance/).

You’re probably familiar with the traditional funding options, but the more innovative types may actually suit your business better.

Let’s examine the various finance options available.

## Traditional methods of financing a business

[The Reserve Bank of Australia](https://www.rba.gov.au/publications/bulletin/2022/sep/the-current-climate-for-small-business-finance.html) reports that since the second half of 2021, small and medium businesses have experienced relatively strong growth conditions. As a result, demand is high for business finance. But though demand is strong, businesses face many hurdles, including rising interest rates. This makes accessing traditional bank funding difficult.

So, how do you finance a business? Many business owners still default to familiar, conventional options when they need financing, and there are three basic ways to go about it. It can be achieved by:

* using internal funds
* organising debt finance
* arranging equity finance

Each of these options has benefits and drawbacks. Let’s take a look at each.

### Business Financing Method #1 — Internal Funds

As a business owner, you might prefer to fund your expenses and growth through internal funds, such as the cash and savings you already have sitting in your business. These internal funds might come from profits you’ve already enjoyed or by selling assets the business no longer needs. The main advantage of using internal business funds is that you don’t have to take on debt or repay any money to a third party.

However, internal funding or internal financing uses up your company’s available cash or assets, which may cause cash-flow problems later on when it’s time to pay expenses. It may also stifle your business’s growth by keeping you from taking advantage of opportunities that require readily available funds.

### Business Financing Method #2 — Debt Finance

Financing your business through debt involves borrowing money from a lender, such as a bank or other financial institution. It most often takes the form of credit cards, overdrafts, lines of credit or loans.

On the plus side, this generally allows you to keep control of your business and profits, because no other parties have any ongoing shared ownership over your business. Plus, the interest paid is often tax-deductible.

The main disadvantage, of course, is that you need to repay the money you borrow — usually with interest. And in the days of rising interest rates, that’s of real concern. [The RBA has recently indicated](https://www.afr.com/policy/economy/no-doubt-interest-rates-will-continue-to-climb-rba-20221018-p5bqne) that not only will rates not fall in the near future, they will probably continue to rise.

So, while debt finance can be a good short/mid-term fix, it can also lead to more problems in the future. Many businesses also find it challenging to get debt finance without offering personal asset security, particularly if they’re just starting out or don’t have sufficient equity. But for an established business that is looking for [funding to grow](https://www.octet.com/blog/funding-for-business-growth/), debt finance is often a solid  option.

### Business Financing Method #3 — Equity Finance

The third popular business capital solution is equity finance, where an investor provides funding in exchange for owning a piece of your business. Typical examples of investors include venture capitalists (professionals who invest in existing companies) and angel investors (individuals who invest in start-ups).

This can be less risky than debt financing, as the investment isn’t a debt you need to repay.

The downside is that you lose control and ownership of part of your business. It can also be hard to find the right investors — people who are both willing to invest and who you want to share future ownership with.

### **Sources of Finance**

A company can raise capital from a variety of sources. Each source has distinct features that must be properly analyzed in order to choose the greatest accessible method of obtaining finances. For all organisations, there is no one optimum source of funding. A choice of the source to be used may be made depending on the situation, purpose, cost, and associated risk.

Finance is required at the point when an entrepreneur decides to launch a business. ***For example,***funds are needed to buy furniture, equipment, and other fixed assets. Similar to this, funds are needed for regular operations, such as buying supplies or paying employees’ salaries. Additionally, a business needs funds to expand. ***For Example,***if a company wants to raise funds to fulfil its fixed capital requirements, long-term finances may be necessary, which can be raised through either owned or borrowed funds. Similarly, if the goal is to meet the day-to-day needs of the business, short-term sources may be utilized.

Without sufficient funding, a business is unable to operate. The entrepreneur’s initial investment may not always be enough to take care of the company’s entire financial needs.  As a result, a businessman needs to look for various other sources where the need for funds can be satisfied. Running a business organisation, therefore, requires a clear understanding of the financial requirements and the identification of various sources of funding.

### **Different Sources of Finance**

**1. Retained Earnings:**

In most cases, a company does not release all of its earnings or share its profits with its shareholders as dividends. A part of the net earnings may be retained in the company for future use. This is known as retained earnings. It is a source of internal finance, self-financing, or profit ploughing. The profit available for reinvestment in an organisation is dependent on a variety of factors, including net profits, dividend policy, and the age of the organisation.

**2. Trade Credit:**

Trade credit is credit given by one trader to another for the purchase of products and services. Trade credit facilitates the purchase of goods without the need for immediate payment. Such credit shows in the buyer of goods’ records as ‘sundry creditors’ or ‘accounts payable.’ Business organisations frequently utilise trade credit as a form of short-term finance.

It is granted to consumers that have a solid financial status and a good reputation. The amount and period of credit provided are determined by criteria, such as the purchasing firm’s reputation, the seller’s financial status, the number of purchases, the seller’s payment history, and the market’s level of competition. Trade credit terms might differ from one industry to another and from one person to another.

**3. Factoring :**

Factoring is a financial service in which the ‘factor’ provides a variety of services such as :

* Bill discounting (with or without recourse) and debt collection for the client:  Under this, receivables from the sale of goods or services are sold to the factor at a certain discount. The factor takes over all credit control and debt collection from the buyer and protects the company against any bad debt losses.

Factoring has basic two methods: Recourse and Non-recourse.
The customer is not safeguarded against the risk of bad debts while using recourse factoring. Non-recourse factoring, on the other hand, involves the factor assuming the complete credit risk, which means that the full amount of the invoice is reimbursed to the client if the debt goes bad.

* Factors retain vast volumes of information on the trading history of businesses, which they use to provide information about the creditworthiness of prospective clients, among other things. This can be beneficial to individuals that use factoring services, and therefore avoid doing business with consumers who have a bad payment history. Factors may also provide appropriate consulting services in areas, like finance, marketing, and so forth.

**4. Lease Financing:**

A lease is a contractually enforceable arrangement whereby a one party, the owner of an asset, grants the other party the right to use the asset in exchange for a monthly payment. In other terms, it is the rental of an asset for a certain amount of time. The party who owns the assets is known as the ‘lessor,’ while the party who utilises the assets is known as the ‘lessee.’ The lessee pays the lessor a predetermined periodic sum known as lease rental in exchange for the usage of the asset.

The lease contract includes the conditions and terms that regulate the lease arrangements. At the end of the lease agreement, the asset will be returned to the owner. Lease financing is a critical tool for the firm’s modernization and diversification.

**5. Public Deposits:**

Public deposits are deposits gathered from the public by organisations. Interest rates on public deposits are often higher than those on bank deposits. Anyone who wants to make a monetary contribution to an organisation can do so by filling a specified form.

In return, the organisation gives a deposit receipt as proof of payment. A business’s medium and short-term financial needs can be met through public deposits. Deposits are beneficial to both the depositor and the organisation. While depositors receive higher interest rates than banks, the cost of deposits to the corporation is lower than the cost of borrowing from banks. Companies often seek public deposits for up to three years. The Reserve Bank of India regulates the acceptance of public deposits.

**6. Commercial Papers:**

Commercial Paper (CP) is an unsecured promissory note. It was first created in India in 1990 to allow highly rated corporate borrowers to diversify their sources of short-term borrowings and to give investors an additional instrument.

Following that, primary dealers and all-India financial institutions were authorised to issue CP in order to cover their short-term funding needs for their operations. Individuals, banks, other corporate organisations (registered or incorporated in India), unincorporated bodies, Non-Resident Indians (NRIs), and Foreign Institutional Investors (FIIs), among others, can invest in CPs. CP can be issued in denominations of Rs.5 lakh or multiples thereof with maturities varying from 7 days to up to one year from the date of issue.

**7. Issue of Shares:**

A share is the smallest unit of a company’s capital. The firm’s capital is split into small units and issued to the public as shares. The capital gained via the issuance of shares is referred to as ‘Share Capital.’ It’s a kind of Owner’s Fund.

There are two kinds of shares that can be issued:

* **Equity Shares:** These are shares that do not pay a fixed dividend, but do have ownership and voting rights. Owner of the firm refers to the company’s equity shareholders. They do not get a set dividend, but are paid dependent on the company’s profitability.
* **Preference Shares:** Preference shares are shares that have a slight preference over equity shares. Preference Shareholders get a set dividend rate and have the right to receive their capital before equity shareholders in case of liquidation. They do not, however, have any voting rights in the company’s management.

**8. Debentures:**

Debentures are an effective instrument for raising long-term debt capital. A firm can raise capital by issuing debentures with a fixed rate of interest. A firm’s debenture is a recognition that the company has borrowed a specified amount of money, which it commits to repay at a later period. Debenture holders are part of the company as the company’s creditors. Debenture holders get a definite stated amount of interest at predetermined periods, such as six months or a year.

Debentures issued publicly must be assessed by a credit rating agency such as CRISIL (Credit Rating and Information Services of India Ltd.) on factors such as the company’s track record, profitability, debt payment capability, creditworthiness, and perceived risk of lending.

**9. Commercial Banks:**

Commercial banks play an important role in providing finances for a variety of purposes and time periods. Banks provide loans to businesses in a variety of ways, including cash credits, overdrafts, term loans, bill discounting and the issuance of letters of credit. The interest rate imposed on such credits varies depending on the bank as well as the nature, amount, and duration of the loan.

**10. Financial Institutions:**

The government has established many financial institutions in the country to give financing to businesses. They provide both owned and loan capital for long- and medium-term needs. These organisations are often known as ‘Development Banks’ since they aim to promote a country’s industrial development. In addition to financial help, these institutes conduct surveys and provide organisations with technical assistance and management services. Financial institutions provide funds for the expansion, reorganisation and modernisation of an enterprise.