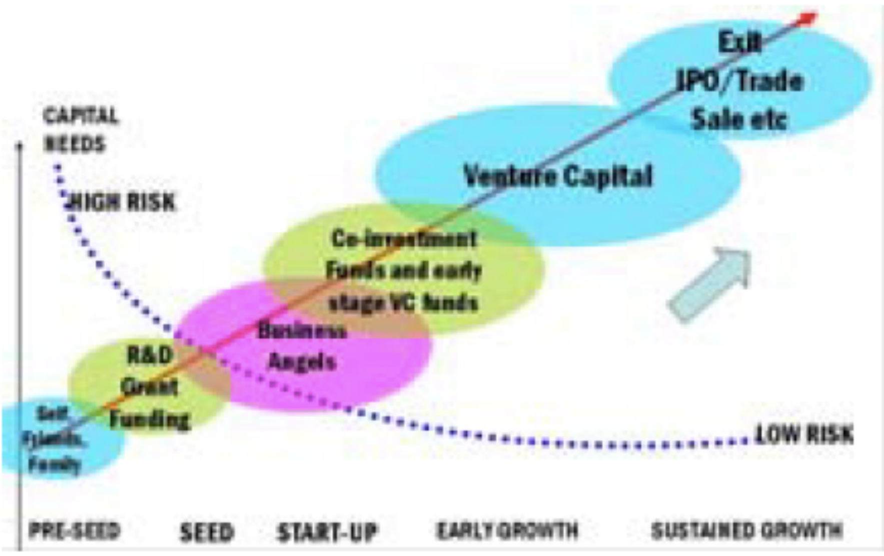
Lecture 1

Business Start-up Options

	Create a new, independent business	Buy an existing independent business	Buy into a franchise system
Financial Outlay at start-up			
Borrowing or getting investors			
Owner's freedom and flexibility			
Business processes and system			
Support networks			
Workforce			
Customer base and brand recognition			

How would you finance your ideas?



- **Self, friends, family**
- **R&D grant funding**
- **Business angels:** an affluent individual who provides capital for a business start-up (usually in exchange for convertible debt or ownership equity). A common second round of financing for high-growth start-ups – bridges the funding gap between self and venture capital. Personal investments → more significant personal risks taken with investments than the managers of venture capital funds → tend to invest close to home + keep investment activities private, therefore, invest in privately held business ventures that have not been quoted publicly on the stock market
- **Co-investment funds and early stage VC funds**
- **Venture capital:** money provided to seed early-stage, emerging growth companies; venture capital funds invest in companies in exchange for equity in the companies they invest in
- **Exit IPO/Trade sale etc:** exit options for investors – seeling investment/seeking a stock market listing in order to realise a return on their investment
- **Crowdfunding:** funding a project or venture by raising monetary contributions from a large number of people (often performed through internet-mediated registries, mail-order subscriptions, events etc.)

What ownership form to choose?

- Affects:
  - Tax liable to pay
  - Asset protection
  - Ongoing costs
  - Clients

<table>
<tr><td>Type of ownership</td><td>Advantages</td><td>Disadvantages</td></tr>
<tr><td>Sole Traders
- A business owned by a single person</td><td>- Simplicity
- Taxation at personal rates
- Privacy
- Flexibility and control</td><td>- Unlimited liability
- Small in scale
- Indifferentiable from owners, therefore impermanent
- Limited in capacity to raise and retain capital
- Limited in capacity to manage risk and diversify</td></tr>
<tr><td>Partnerships
- Two or more people carry on a business in common with a view of profit</td><td>- Simplicity
- Taxation at personal rates
- More resources
- Cost sharing
- Broader skill and experience base
- Longevity</td><td>- All disadvantages of sole traders
- Disputes between partners about sharing profits and administration of the business
- Partners can be liable for debts incurred by other partners</td></tr>
<tr><td colspan="3">Resolving the problems:
Corporations
- A large company or group of companies authorised to act as a single entity
o Characteristics:
- Can sue or be sued in their own names
- Enter into and enforce contracts
- Hold title to and transfer property
- Be found liable for violations of law
- Limited liability
- Perpetual succession
- Transferability of shares
Separate property</td></tr>
<tr><td>Private Company
- Business company owned by non-governmental organisations or by a relatively small number of shareholders
- Does not offer shares to general public on the stock market exchanges
- Often family owned</td><td>- Limited liability for shareholders so personal assets of shareholders will not be at risk of being seized
- Continuity of existence: business not affected by status of owner
- Pay corporation tax and tend to be exempt from higher personal income tax rates</td><td>- Shares in a private limited company cannot be sold or transferred without the agreement of shareholders
- Lack of public confidence because affairs are unknown
-</td></tr>
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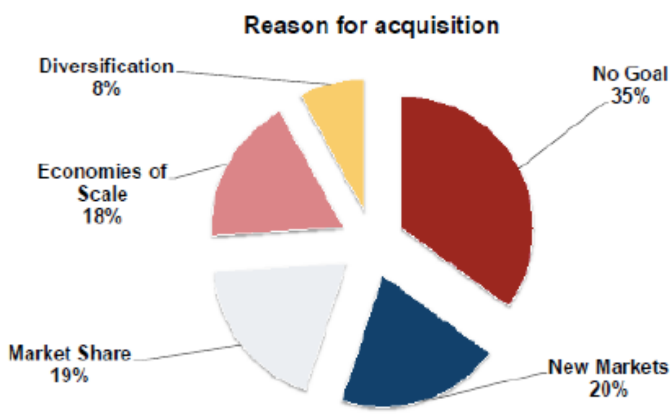
- Initial public offering – IPO
  - Selling shares in a company to the public
  - Usually via an exchange e.g. ASX
  - Expands investor base
  - Creates greater compliance and reporting burden

- Growth options
    - Scale
    - Efficiency – importance of innovation
    - Resources
    - Influence
    - Returns
- Organic Growth

Pros	Cons
- Deeper client base relationships - Harmony/opportunity - Internal innovation - Lower cost	- Retentions - Vulnerability - Scale - speed

- Non Organic Growth
    - Mergers and acquisitions
        - Mergers: two companies becoming a single entity
          e.g. Exxon and Mobil
        - Acquisitions: one company buying another company
            - Why?
              Synergy: increase in performance of the combined firm over what the two firms are already expected to accomplish as independent firms, e.g.:
            - Increased market power
            - Control of supplier
            - Consolidation of excess productive capacity
            - Key people/technologies as the focus of activity
            - Key customer acquisition

The KPMG Global M&A Survey – reason for acquisition



        - What drives post-acquisition performance?
            - Strategic readiness
            - Relative size
            - Method of acquisition
            - Method of payment
            - Previous acquisitions
    - Joint ventures
        - Separate legal entity between multiple firms
        - ‘two or more firms working together to achieve mutually beneficial objective…usually involves an element of shared ownership’ (Needle 2010, p. 546)
    - Strategic alliances
        - Long term partnership between firms to develop, produce or sell products
        - ‘two or more companies agreeing to cooperate on a specific venture, often involving shared facilities or services’ (Needle 2010, p.38)