Instructional Scenario
Funding a Business

Course/Duty Area: Principles of Business and Marketing/Exploring Financial Concepts

Scenario: For the past nine years, Maria has been building a small business creating hand-made, artisan-quality pottery. Years ago, she was able to receive a micro grant which helped get her business off the ground. At that time, she incorporated the business as an LLC and she used the grant money plus her personal savings to purchase a kiln. She has now reached her production capacity and cannot grow the business without a second kiln and an additional potter. She will also need a new supply of raw materials and estimates that her overhead will increase. Her company today is profitable and has no debt. She does not have enough cash to fund the expansion out of her pocket or out of the company account. Her credit rating is excellent.

Maria has asked you to explain to her how she can use her great credit rating and the strength of her balance sheet to raise funds for her big expansion. She estimates that she needs $1,000,000. She wants to maintain control over her business. She is considering either a public offering of stock or issuing 10-year, 10 percent corporate bonds, as opposed to taking out a large loan.

Big Question: Where does a company acquire funds to get started or expand?

Focused Questions:

1. What is corporate stock?
    a. How does the corporation raise money by issuing stock?
    b. Why does a corporation issue stock?
    c. What are the obligations of the issuer of stock to the investor?
    d. How does the investor profit from this investment?
    e. How does the investor lose from this investment?
2. What are corporate bonds?
    a. How does the corporation raise money through issuing bonds?
    b. Why does a corporation issue bonds?
    c. What are the obligations of the issuer of bonds to the investor?
    d. How does the investor profit from this investment?
    e. How does the investor lose from this investment?
3. What are grants? (include small business, government, and micro)
    a. How does the corporation raise money through grants?
    b. How does a corporation qualify for grants?
    c. What are the obligations of the issuer for grants?

Use the focused questions above to compare Maria's options for raising capital. Use the measurement grid below to rate each issue with a -1 for disadvantage, a 0 for neutral, and a +1 for advantage. Remind Maria that ultimately, the decision rests on her shoulders to decide what to do, but you can help her evaluate options and decide.

Consideration	Stocks	Bonds	Grant
Paying back the amount raised			
Paying interest on amount raised			
Dilution of ownership			
Effect on balance sheet			
Total score			
Recommendation			

Teacher Resources:

- Bonds vs. Stocks: A Beginner's Guide (https://www.nerdwallet.com/article/investing/stocks-vs-bonds)
- Equity vs. Debt, Khan Academy (https://www.khanacademy.org/economics-finance-domain/core-finance/stock-and-bonds/venture-capital-and-capital-markets/v/equity-vs-debt)
- Equity Financing: What It Is, How It Works, Pros and Cons, Investopedia (https://www.investopedia.com/terms/e/equityfinancing.asp)
- How Debt Financing Works, Examples, Costs, Pros & Cons, Investopedia (https://www.investopedia.com/terms/d/debtfinancing.asp)