Introduction to Business Administration Lesson 9

9. Finance Management

Finance Management– the management of large amounts of money, especially by governments or large companies.

Finance can also be defined as the science of money management.

Financial Manager:

- Determines how much money the company needs
- How and where it will get the necessary funds
- How and when it will repay the money

9.1 Types of Finance

Corporate Finance is all of the activities involved in:

- Planning for funds
- Obtaining funds
- Managing funds

Corporate Finance analyzes the company as a whole and has a main goal of maximizing value of the corporation.

Managerial Finance – analyzes companies at the department or product level

The Simple Difference:

Corporate Finance - arms organizations with essential financial data that helps them compete in an increasingly competitive marketplace.

Managerial Finance - uses this data to help develop processes around internal decision-making, financial planning and budgeting.

9.2 Long and Short-Term Financial Management

Long-Term:

- Capital investments – choices about which projects receive investments, whether to finance that investment with equity or debt and when or whether to pay dividends to shareholders.

Short-Term:

- Balance of current assets and current liabilities
- Focus on managing cash
- Focus on managing inventory
- Short-term borrowing and lending

9.3 Developing a Financial Plan

In the area of finance, it is very important to develop a financial plan.

Financial Plan is critical for all business but especially so for new ventures.

- Calculating Funds Needed
    - Estimating Sales
    - Project Costs

- Getting the Money
    - Owner's Personal Assets
    - Loans (Family/Friends)
    - Bank Loans
    - Capital Markets
    - Bonding
    - Going Public

- Making The Financial Decision – equity or debt financing

Basic Options for Financing:

Equity Financing

- Personal
- Family
- Friends
- Others
- Venture Capitalists

Debt Options for Financing:

- Personal Loans
- Bank Loans
- Credit Cards – high interest

9.4 Managing Fixed Assets

Long-Term (Fixed) Assets

- Buildings
- Information Technology Systems (equipment)
- Equipment

Managing Fixed Assets:

- Analyzing needs and electing the assets that will maximize company value long term
- Assessing risks of investments
- Assessing ROI or return on investment

9.5 Asset Classes and Characteristics

Asset Classes:

- Cash
- Bonds
- Real Estate
- Stocks
- Alternative Assets

Characteristics of Assets Classes:

Exchanges = How assets are distributed

Return = How Risky are they

Correlate = benefits of diversification

Asset Class Matrix			
Asset Class	**Stability**	**Liquidity**	**Return**
Cash	HIGH	HIGH	LOW
Bonds	MODERATE	HIGH	MODERATE
Real Estate	MODERATE	LOW	MODERATE
Stocks	LOW	MODERATE	HIGH

9.6 Security Markets and Investments

Organized United States Exchanges for the Securities Markets

- New York Stock Exchange - NYSE - The NYSE is primarily auction-based, which means specialists are physically present on the exchange's trading floors.

  Each specialist "specializes" in a particular stock, buying and selling the stock in the auction.

- NASDAQ - The Nasdaq, an electronic exchange, is sometimes called "screen-based" because only computers connect buyers and sellers over a telecommunications network.

9.7 Measuring Market Performance

Ways to measure market performance include:

- Market Indexes
    - Dow Jones Industrial Average
    - NASDAQ Composite
    - S & P 500
- Bull vs. Bear Market

Bull Market = Stocks are going up

Bear Market = Stocks are going down

9.8 Financial Analysis

Assessing the following elements of a firm:

1. Profitability - its ability to earn income and sustain growth in both the short- and long-term. A company's degree of profitability is usually based on the income statement, which reports on the company's results of operations.

2. Solvency - its ability to pay its obligation to creditors and other third parties in the long-term;

3. Liquidity - its ability to maintain positive cash flow, while satisfying immediate obligations;

Both 2 and 3 are based on the company's balance sheet, which indicates the financial condition of a business as of a given point in time.

4. Stability - the firm's ability to remain in business in the long run, without having to sustain significant losses in the conduct of its business. Assessing a company's stability requires the use of the income statement and the balance sheet, as well as other financial and non-financial indicators.