Topic: Sources of Finance

Case Study: Blondie Ltd

Blondie Ltd is a UK company producing and selling Blondie, a 'challenger' brand of hair colourants targeted towards young millennial and Gen Z consumers. Blondie has built a strong brand, leveraging social media influencers and the credibility of its founder, a celebrity hair colourist, who developed Blondie's product range with a focus on ease of use, and with 30% less hair damage than competitors.

Market Map:

This shows Blondie and their main competitors, with price on the Y axis, customer age on the X axis.

Current position:

After great successes growing to 5% market share in its home market, the UK, Blondie Ltd launched into the U.S. market to take advantage of the opportunity to grow revenues quickly and diversify the business into international markets. The company has launched in the U.S. with a single large client: Walmart. Aside from some initial teething problems and the inevitable ups and downs of any growing business, the first year of the expansion has gone well. The company has been invited to pitch to other U.S. retailers, as these retailers have seen how successful this first year has been and want to explore taking a 'stock profile' of Blondie products within their own stores.

However, there are two challenges:

(i) The U.S. market already has established competitors, so Blondie Ltd would be required to invest £4m into advertising and promotions in the first half of the year to drive awareness of the brand ahead of peak summer trading.

(ii) The optimistic founder of the company would need to invest in bigger stock levels in order to service the increased levels of demand that's forecasted for its products. However, they must pay its own suppliers for the 'stock orders' 90 days before Blondie itself gets paid by its own retail customers, creating a working capital gap forecasted as up to £2.5m during the peak summer season.

This U.S. opportunity is exciting but as Blondie Ltd has been investing in growth already, cash is tight with little margin for error. The Board of Directors are meeting to review the financial position, particularly options for funding the expansion, with a view to deciding whether or not to go ahead.

The Board's agenda outlines two different approaches offered by the management team.

(i) The founder's preference would be to take out another bank loan to fund the expansion.

(ii) The CFO (Chief Finance Officer) is nervous about the financial risk that a loan would create, and is suggesting instead that the company seeks to raise further equity financing from existing shareholders.

The Chairman has asked the Board to also think through any other alternative routes.
Below is some of Blondie Ltd's financial information.

	£m
Extracts from balance sheet (last year)	
Fixed assets	2
Receivables	5
Cash	1
Payables	0.5
Bank loan	5
Retained profit	0
Extracts from income statement (last year)	
Revenue	10
Cost of sales	5
Gross Profit	5
Operating costs	5
Operating profit	0
Dividends	0

Exam question:

1. Analyse the possible drawbacks to the company of going ahead with the expansion. (9 marks)
2. In your option, how should the expansion be funded? Justify your views. (16 marks)