

- 3 Tate & Lyle needs extra finance to expand in Mexico. The methods available are loans and leasing.

Evaluate which method of finance would be the most suitable for Tate & Lyle's expansion.

(20)

Firstly, a method available to Tate and Lyle to raise finance are loans. Tate and Lyle could use this method of finance as it likely raises the amount they need for expanding its 'Latin America product portfolio' and 'expanding and relocating its food-laboratory facilities'. A loan is also a good external source of finance as it will likely have a fixed repayment scheme that Tate and Lyle can plan <sup>for repaying</sup> ~~and repaying~~. This being beneficial to a large business like Tate and Lyle with large costs and outgoings. However, a loan will have interest added to repayments, which when borrowing a large amount can be considerable. As well as being affected by external factors that could lower interest rates but also increase them, meaning Tate and Lyle have to repay more.

Secondly, Tate and Lyle could use leasing to raise the extra finance needed to expand. This could be a good use of possibly under-capacity utilised machinery and it would be finance

raised without having a burden of repayment. However, leasing is only a viable option if the extra finance needed for Tate and Lyle is low. This is because leasing of machinery and other assets may not be very expensive to lease and could take a long time to raise the finance needed. Furthermore, the business could see an increase in demand and may require the assets they have leased. Resulting in having to reject orders from customers, impacting Tate and Lyle's reputation.

Finally, Tate and Lyle may want to consider using an internal source of raising finance. This possibly being from retained profit. This is because compared to loans, this requires no repayment and therefore holds no interest, being beneficial when expanding, with likely increased costs directly. Furthermore, this may be an option as there has been a "32% increase in" health products, which Tate and Lyle is expanding to produce. This meaning a higher demand for their products and so likely increased sales revenue to cover costs resulting in increased profit. This if retained could be used to grow the business. However, Tate and Lyle likely have many shareholders who may not appreciate the

reduced dividends from retaining profits.

To conclude, the most suitable method of finance for Tate and Lyle is the use of a loan. This is because they are only requiring extra-finance for their expansion, which shouldn't be too high. This meaning interest rates might be lower as Tate and Lyle is a big business, that also has many assets to secure a loan on to. This being the favourable option over leasing because, it could limit Tate and Lyles ability to respond to an increase in demand as assets are being used by someone else.