

Internal and external finance for a selected business essay sample



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All business needs money in order to operate properly. Finance simply means the management of some amounts of money. And source of finance is generally the place where money comes from. Example Waitrose gets money by selling their products to the customers and hence customers are the different classes Internal and External source of finance. Internal Sources:

Internal source are usually from inside of the business organisation which are often preferable to any organisation as they will usually be cheaper and perhaps easier to arrange. However, the potential of arranging large amounts of finance may be lower than expected. The Internal sources of Waitrose might be: 1) Personal Saving: The manager of Waitrose might operate the company through saving in his own. Personal saving mainly applies to sole traders and partnerships. Waitrose owners may use some of their own money as capital to invest in the business. This is relevant to Waitrose Internal sources as it is assumed that money lent to the business will be paid back to the private individual in the future, possibly with an extra amount to compensate the individual for the help they gave. 2) Owners Investment: Owner investment, this is the money which comes from the owner's own saving. It is relevant to Waitrose because the owners of Waitrose Waite, Rose, and Taylor first invested their own money before starting the business and when it gains popularity and goes in profit they put the profit in business and tried improving the things around them.

And hence this shows that owner investment is very important when you want to start your own business in your own. Owners Investment means it doesn't need to be repaid. It's up to you if you want to keep the profit or put

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it on the business as Waitrose owners. 3) Sales: Sales are basically the money that comes from selling certain things that is no longer needed. Sales depend on the value of the substances available. According to Rod Gammon a personal assistance in Waitrose, he said Waitrose gains lots of profit through Sales and without sales Waitrose, can be in financial crisis.

Hence this will give them access to some capital, even though they are then burdened with annual leasing costs. Sales are a good way to raise financial from substances that is no longer needed. But even though there is some disadvantage for business. Some businesses are unlikely to have profit from the substances that they sell and can be slow method of raising finance for organisation. 4) Capital from Profits: Once a business starts to run properly it may be able to invest its money that came for their profit. This means that even bigger profit can be made in upcoming days. The amount of profit in Waitrose depends on how much profit the owners want to keep for themselves against how much they wants the business to expand.

External Sources:

External sources of finance are generally from outside the business. It involves business owing money to outside individuals or institutions. There are a number of different external sources that can be used to fund a business. 1. Banks: Banks are the most commonly used external source of finance. Waitrose do depends upon Banks as a part of External source. Sometimes they can be in loss but however they do need to pay their employees, rent, electrical and gases bills, etc. Hence they can take loan form the Bank and pay it later. As Banks are able to offer loans, business accounts, and commercial mortgages and overdraft facilities based on the <https://assignbuster.com/internal-and-external-finance-for-a-selected-business-essay-sample/>

business plan. And in return interests are paid to them with the actual amount they had provided to the individual or organisation. 2. Building societies: A building society is a form of financial that is similar to a bank.

They are able to provide loans but specialises in providing mortgages. And interest is payable based on the risk of the venture. It might be useful to Waitrose in some point of view as they function like that of Banks. It is very useful in relation to Waitrose for getting small amount of money which probably might be in low interest rate. But if Waitrose wants to get a large amount of money then Building societies may not afford such amount of money. 3. Venture Capital: Some individuals join together to provide finance for new businesses that are just starting up. They look for promising businesses and invest them; hoping that the business will grow and those they will make a profit. Waitrose could be able to use venture capital as an External source as it is much cheaper than Bank and interest rate are much cheaper than the Bank rate. 4. Hire purchase: It is legal term for contract; in which person usually agree to pay for goods in parts or a percentage at a time. This type of external source could be beneficial for Waitrose when they are in heavy debt and are unable to pay at a mean time. Hence, they can be able to pay it in parts at a time and can be able to clear their debt easily.