

Discuss strategies
these business
owners used to
manage their working
capital

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Strategies Used By Business Owners to Manage Their Working Capital at Affiliation Strategies Used By Business Owners to Manage Their Working Capital

Most businesses face a major challenge when it comes to managing working capital. Working capital management involves ensuring that the company has enough current assets to meet short-term obligations as and when they are due. The aim of managing the working capital of a business is to ensure that the business continues to be in operation by having the ability to pay short-term debts and operating expenses anytime they fall due. This involves managing payables, stock, cash and receivables. The Week 3 video assignment presents different strategies that Allan Lutchman, the president and co-owner of Finagle Bagel and his wife Laura Trust, also the president and co-owner of owners of the company, use to manage their working capital. Allan reveals that they formed the company in October 1998 after both of them quit their previous jobs to venture into the food industry (WileyPlus, 2014). Trust starts by noting that as much as they ventured in a business they knew nothing about, they were sure that venturing in the food industry was a sound investment.

As the two proceed, they begin to acknowledge that maintaining the right cash flow is critical for business success. Therefore, since they started the business by obtaining a loan the two business partners had to ensure that the business had enough liquid cash to meet its short-term obligations. The first working capital management that the partners used was ensuring that a large part of their revenue comes in the form of cash. Allan reveals that more than 50% of their income in the retail business is in cash form while the

rest is in credit form (WileyPlus, 2014). The credit cash also come in the next 24 hours. Accordingly, having most sales in the retail in the form of cash has helped the business maintain enough cash flow, which it can use to service its short-term obligations and operating expenses easily and without any problems. In fact, Allan reveals that, since all the revenues come in immediately, they do not have to wait for 30 days to pay their bills (WileyPlus, 2014). Secondly, Trust, the co-partner in the business says that the business also tries to negotiate for a longer trade credit period. She asserts that they negotiate for a longer trade credit period with their suppliers to allow them time to get paid for the products they sell on credit. In fact, Trust reveals that they have been lucky to work with flexible vendors who allow them decent terms to get them paid back for the credit they take. Additionally, Allan states that they try to manage their working capital by trying to possess the properties, rather than lease them (WileyPlus, 2014). He notes that owning the property helps keep the business afloat by minimizing the amount of debts, which the business has to pay every month.

The two business partners conclude by acknowledging that working capital management is critical for the success of a business. It ensures that the business has enough current assets to settle short-term obligations and operating expenses thereby ensuring that the business continues operating without interference.

Reference

WileyPlus. (2014). Concept review video: Working capital management (Video). <http://edugen.wiley.com/edugen/student/main.uni>

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