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[Finance](#)



Exploring the significance of alternative forms of finance and the importance of working capital management to Coyle’s business Institution Course Date

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1. 0 Abstract The report explores the significance of alternative forms of finance and importance of working capital management. It provides the

background of the need for optional sources of finance indicating the findings of unfair treatment of small firms by contractors. The report defines working capital finance and its use in small businesses. States and explains the meaning of various optional forms of finance and their importance. It offers a succinct recommendation and conclusion.

## 2. 0 Introduction

Small construction companies have been facing problems emanating from the main contractors practice of delaying their payments and demanding cash refunds especially, from the supplying companies. The research performed on over 250 subcontracting companies indicated about 97 percent of small companies that were discontented by the behavior of the main contractors (Hurley, 2012). The practice by the main contractors has retarded the growth of small companies. The purpose of this report is to explore the significance of alternative forms of finance and the importance of working capital to small businesses. The research considers various aspects of alternative finance plus working capital using peer reviewed articles and newspapers.

## 3. 0 Working capital finance

Working capital forms the basis through which businesses operate. It refers to short term plus current assets and liabilities. The net working capital determines the performance of a firm in terms of meeting its short term financial responsibilities. Working capital is fundamental in business because it tackles the needs of the business when seasonal demands arise. In cases of delays in cash receipts, working capital can play an important role of supporting the creation of short term assets that are responsible for generation of returns (Hurley, 2012). Working capital determines the growth of a business due to the need for large inventories and other aspects for the purpose of enhancing sales. Working capital in

small business aids their competitiveness with other bigger companies making them improve in terms of business operations and revenue. Working capital management is vital to a business; it ensures that the business is operating effectively even when there are delays in payments, or there are seasonal changes. Working capital entails the entire firm's non fixed asset investments. Proper working capital management in small firms is essential for their growth (Hurley, 2012).

#### 4. 0 Alternative forms of finance

##### 4. 1 Bond market

The bond market can act as an alternative form of finance for small business. Intermediate organizations can link small firms with other lending organizations for the purpose of offering finances to small firms.

##### 4. 2 Venture capital

Instead of relying to bank loans, which charge large interests rates, small business can operate well with the help of various forms of finance. For example, the venture capital can act as alternative finance where a developed firm offers capital or finances to a small firm and in turn receives a share of the firm. This is important for small businesses because they can overcome growth challenges especially, in times of seasonal variations of sales and profits (Ransom, 2009).

##### 4. 3 Angel investing

Small firms can benefit from angel investing as an alternative method of finance. In this finance form, individuals provide the firm with funds in exchange for a section of the company. This happens if the company manages to grow after provision of the finances.

##### 4. 4 Assets backed lending

Assets backed lending can be useful for small businesses because the lenders does not discriminate borrowers on the basis of their qualifications. However, the interest rates for the assets backed finances are high than other alternative forms (Ransom, 2009).

##### 4. 5 Invoice financing

Invoice financing is another form of finance

applicable to small forms of businesses. Invoice financing ensures improvement of the cash flows by freeing up money from invoices. Invoice financing is beneficial to small firms because it allows flexible finance reducing the need of a firm to borrow money from other sources (Ransom, 2009).

4. 6 Supply chain credit Supply chain credit is significant for small businesses where a large firm, upon approval of an invoice notices a bank which offers a considerable advance to the small firm that supplied to the large firm. This method will impact performance of small businesses in terms of growth and profit making.

5. 0 Conclusions Alternative forms of finances are fundamental for the well-being of small enterprises. This is because they prevent over reliance in bank loans, which charge undesired interests. The use of Bond markets, venture capital, angel investing, assets-backed lending, invoice financing, and supply chain credit are the available alternatives of finance in Coyle's situation. Management of working capital finance is essential for small businesses, as it forms the basis of their operation. Proper management of working capital prevents liquidation of most small firms.

6. 0 Recommendations Small firms should ensure proper finance of working capital in order to overcome growth challenges that may be seasonal. The government should introduce laws that regulate interest rates and qualifications for receipt of loans by small firms. The government should impose laws that govern businesses to prevent delays in payments from contractors and other unfair treatment to small firms. The government should promote the use of alternative finance forms such as supply chains (Hurley, 2012).

7. 0 Bibliography Hurley, J 2012, ' Construction giants 'bullying' small businesses,' The Telegraph, 12 October, Viewed 9th

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