

# Working Capital: A Summary of Ratios by Industry Case Solution

## Working Capital and Business Strategy



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# Working Capital

Working capital refers to the money that is available for the daily running of a business. It is essential for all parts of a business.

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# Human resources

Working capital is essential to ensure that staff are paid on time.

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## Motivation Theory

Suggests that pay is a key motivator for many people. Even if a firm is profitable, insufficient working capital will lead to a demoralized and unproductive workforce.

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# Marketing



Marketing activities require plenty of cash. For example, only the largest firms can afford to advertise through the mass media.

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# Production

Manufacturers with long working capital cycles need huge amounts of cash in order to complete their projects.

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# Cash Flow

Can be an effective management tool in managing and controlling the working capital of a business. However, it is important to know that they only represent the cash flow situation of a firm at one point in time.

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The critical factor is to ensure that that the firm has sufficient liquidity in order to meet its costs and current liabilities.

However, it is hard to balance the conflict between the desire for sufficient working capital and the desire for profits. Larger profits can be made by granting credit to more customers to encourage them to buy, but this can prolong the working capital cycle.

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Working capital is regarded as being more important than profit in the short run. Profitable firms will not survive in the long run if they lack sufficient working capital.



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