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Factsheet 1- P4



# Sources of Finance

## Internal

Owner's Savings are used to start or expand a business as banks may not be willing to take the risk of offering them a loan. This is a useful source of finance as the owner has complete control over the money and can use it how they want. Joseph Hepworth begun his company that later developed into Next in 1864, and would've used some of his own savings to start up the company.

Capital from profits is where the owner puts profits that are made back into the business. This is so that they can increase their profits as the owners can decide how much goes into the business to make improvements to the business and then how much they keep themselves, as a form of wage. Next will use capital from profits in order to make improvements throughout their stores and to also invest in some assets, which could be commercial buildings etc. Some other businesses such as charities cannot use their profits in this way as they earn donations, which are not profits so the money isn't theirs to keep.

## External



Banks are a form of external finance as they can offer loans to businesses as well as a business account, commercial mortgages and overdraft facilities. Interest is then payable from Next, based on the potential risk of the loan. Some security will then need to be provided, for example, assets such as a house. Next will use loans from the bank in order to fund any investments they need to make when they don't have the funds. Next also gain commercial mortgages from the bank in order to buy new stores and warehouses etc.

Hire purchase is where resources, such as equipment, are used by a business whilst they are being paid for directly to a finance company. These resources are then not owned by the company until the last payment is made and if they don't make these payments then the finance company will take the resources back. Next will use hire purchase for any machinery they may use, for example to produce their clothing and homeware. They may also need to hire purchase machinery such as tills, if for example some of theirs break and they need to repair them.

Leasing is that a business makes use of resources and then must pay back each month to use them. They do not own the resources when the lease is over and leasing is often done by companies for vehicles. Next can use leasing, again for machinery and equipment in order to benefit their production and this can overall benefit the company as they can continue to increase profits.

Factoring is where a business sells its debts to another company and they receive the money from this instantly. The company then collects the debts and they take a percentage cut for this service. Next can use factoring to sell their debts, in order to increase their