There are mainly three types of WC management strategies to choose the mix of long-term or short-term funds for financing the WC requirements of a firm.

The three strategies are:

- Conservative strategy
- Hedging strategy
- Aggressive strategy

Conservative Strategy:

In this type of strategy along with the fixed assets, permanent current assets & part of temporary current assets are financed by long-term financing. Short-term financing is used to finance the remaining part of temporary current assets.

The risk profitability trade-off in this type of strategy is low risk & low profitability.

Here funds are applied as follows:

Long-term financing >> Fixed Assets + Permanent Current Assets + Part of Temporary Current Assets

Short-term financing >> Remaining part of Temporary Current Assets

This is depicted in the diagram below:

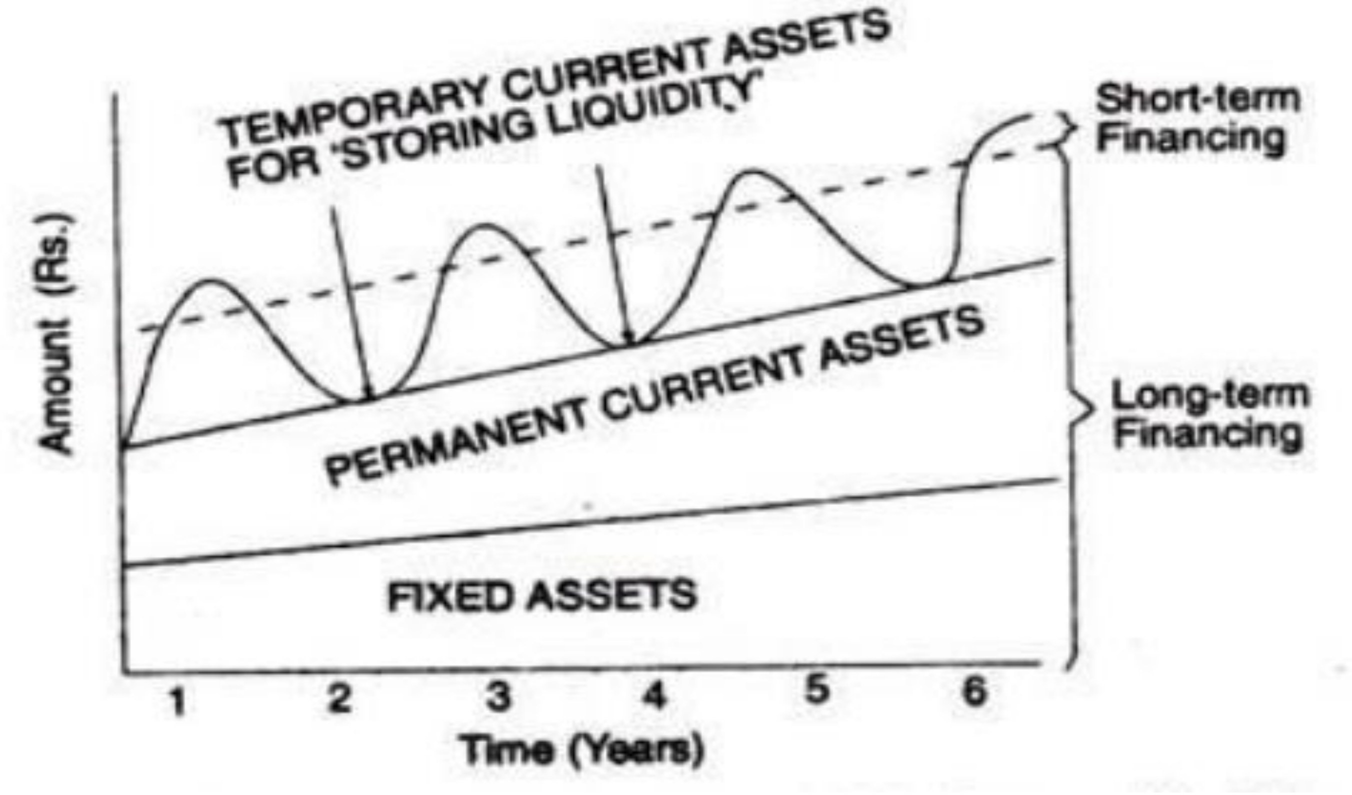

Fig 1 Conservative Strategy

Hedging Strategy:

In this type of strategy each of the assets are financed with a debt instrument of almost the same maturity.

It means if an asset is maturing after 30 days the payment of the debt which financed the asset should also have its due date of payment after 30 days.

This strategy follows the cardinal principal of financing i.e. utilising long-term sources of financing for long term assets & vice versa.

Thus, in this type of strategy along with the fixed assets, permanent current assets are financed by long-term financing. Short-term financing is used to finance temporary current assets only.

Here funds are applied as follows:

Long-term financing >> Fixed Assets + Permanent Current Assets

Short-term financing >> Temporary Current Assets

[The risk profitability trade-off in this type of strategy is moderate risk & moderate profitability]

This is depicted in the diagram below:

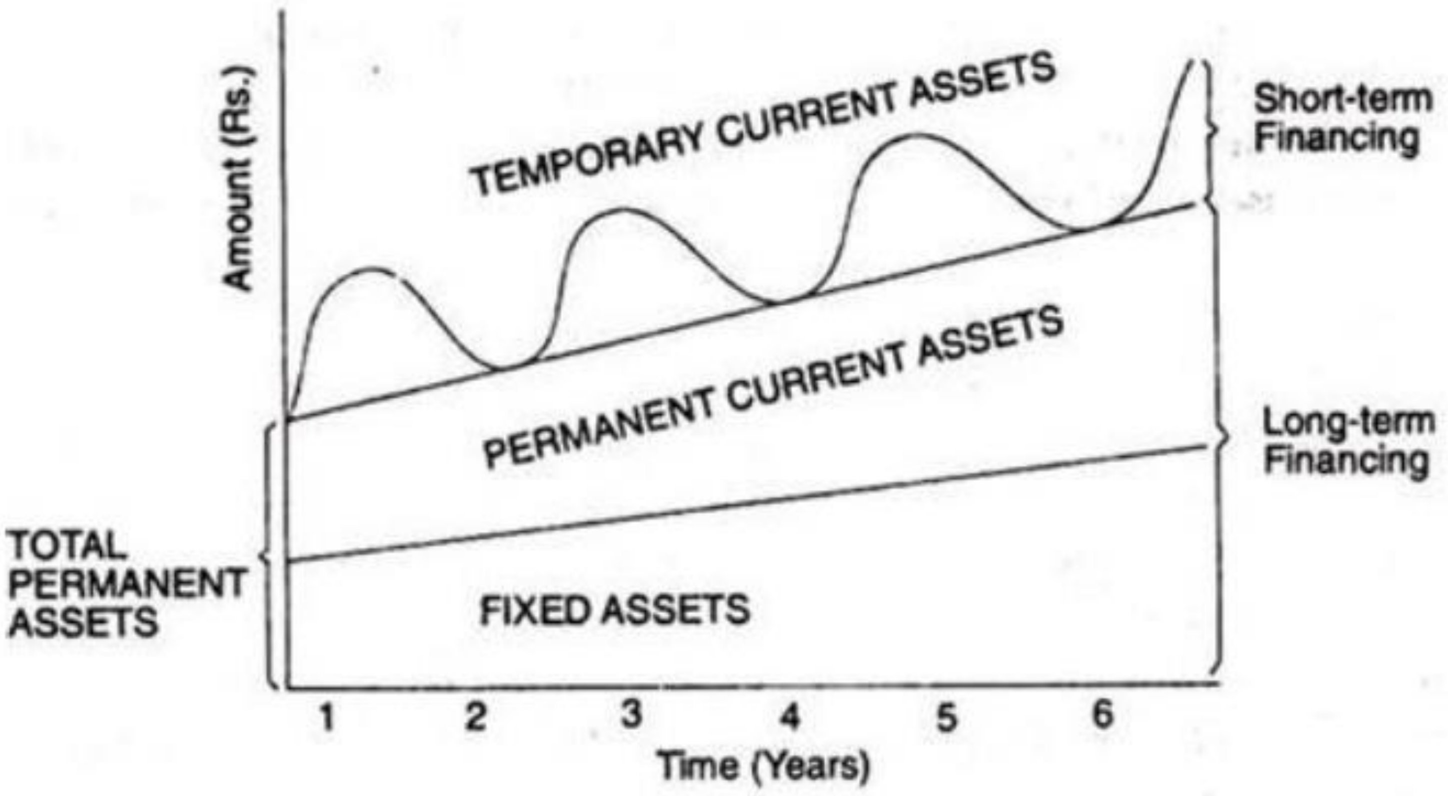

Fig. 2 Hedging Strategy

Aggressive Strategy:

In this type of strategy long-term financing are used for financing fixed assets & a small portion of permanent current assets. Short-term financing is used to finance temporary current assets & major portion of permanent current assets.

The risk profitability trade-off in this type of strategy is high risk & high profitability.

Here funds are applied as follows:

Long-term financing >> Fixed Assets + Part of Permanent Current Assets

Short-term financing >> Remaining part of Permanent Current Assets + Temporary Current Assets

This is depicted in the diagram below:

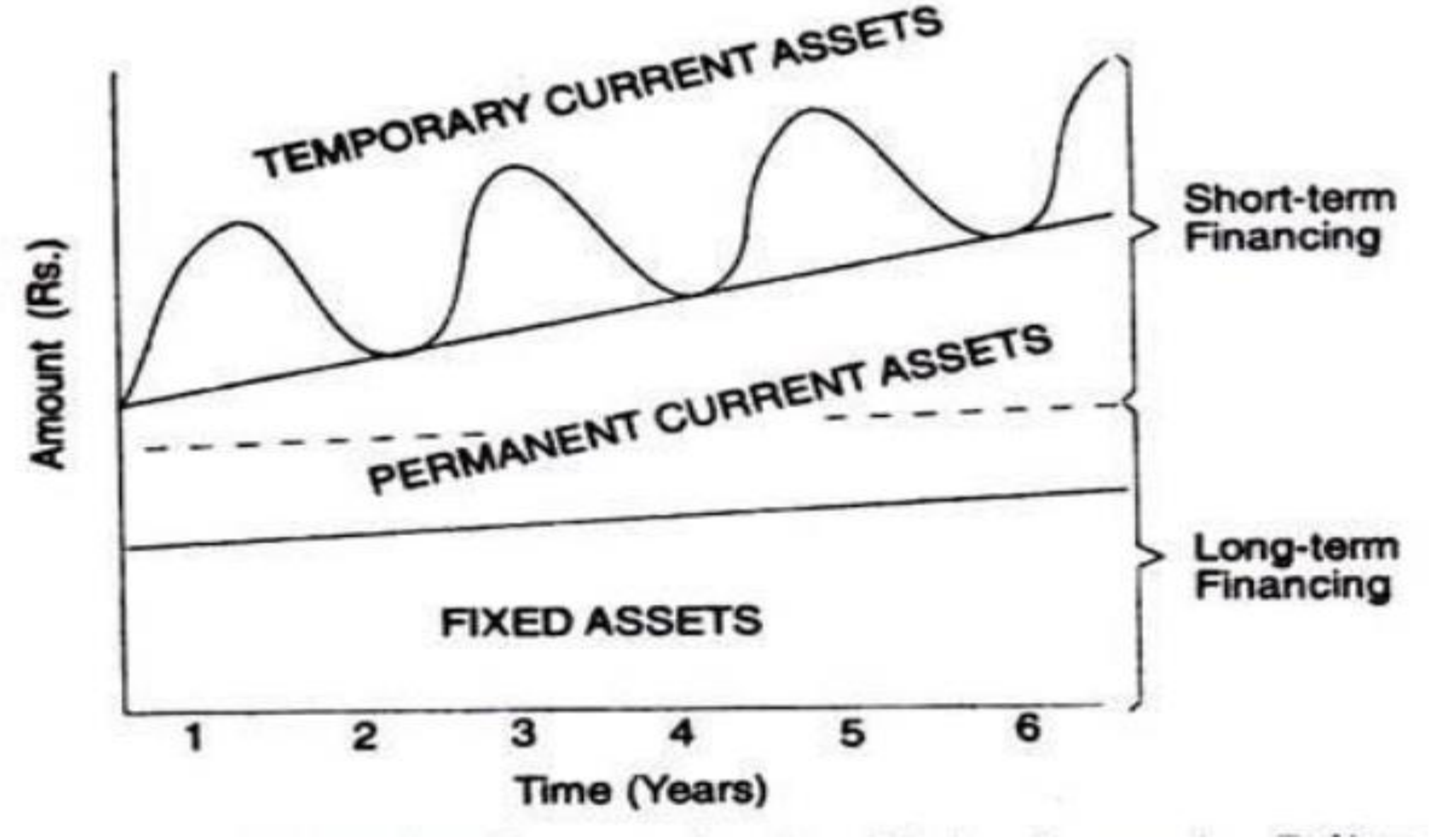

Fig 3 Aggressive Strategy