

4 ways small businesses can better manage their cash flow

We are all familiar with the saying in business that 'cash is king' and, if that's the case, then cash flow is the lifeblood of any business. For small or mid-size businesses, cash flow is a critical component of success. Profits are meaningless without it. The harsh reality is that small and medium-sized enterprises (SMEs) who don't exercise good cash flow management may not be able to survive the current economic climate.



In South Africa, the recession and pandemic have had a devastating impact on the approximately 2.5 million SMMEs accounting for 10.8 million jobs. In a recent report published by Transunion, 6.4% of formal SMEs going into bankruptcy (up 50% from last year), with 260,000 jobs lost and another 240,000 at risk.

According to Trevor Gosling, CEO of SME funder, Lulalend, there are four practical ways in which businesses can manage their cash flow. These steps include invoicing quickly, offering various payment options, using software to manage your business' cash flow, and reviewing your operational expenses regularly.

"The first step to managing your business's cash flow is preparing invoices quickly. The faster you invoice your customers, the quicker you'll get paid. Rather than waiting until the end of each month, send out your invoices as soon as you have rendered a service or delivered goods. Your customers will still have 7, 30, or 60 days - whatever your business terms may be - to pay, but you'll save yourself valuable time right from the start."



Cutting costs can help SMEs grow

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Gosling explains that the next step to improve cash flow lies in offering multiple payment options. Offering customers various ways to pay, including online options such as accepting credit cards, debit cards, or mobile payments, the more likely they

are to pay you faster. “For example, making use of mobile payments can get you paid on the spot as soon as the job is done.”

Managing the flow of cash in and out of your business can be challenging enough but dealing with the additional accounting and tax work that comes with it, is another matter. Gosling recommends using a cloud-based accounting system as the third step to make managing this easier. “More advanced systems come with built-in plugins like project costing, quoting, and inventory management to help alleviate the burden of system administration and it automates these processes for you - giving you valuable time to focus on growing your business.”

Reducing the cash going out

According to Gosling, managing cash flow isn't only about the money that comes into a business but also involves reducing the cash going out as much as possible. For small businesses, taking the time to review expenses and reducing operational costs is important to the overall success of the business.

Small businesses should avoid spending money on things that aren't necessary and choose wisely the areas of their business that they would want to focus on. Business owners should be sure to cut costs only where they can afford to and not cut back in areas that may be harmful to their business.

“Understanding your business's cash flow will not only help you plan for future growth and development but will also give you great insights into your businesses' current financial state and how cash is moving within your organisation,” concludes Gosling.

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