

How much funding does your small business need?

Many small and medium-sized enterprises (SMEs) often struggle with determining the optimal amount of funding required for their business due to various practical challenges.



Louise Naidoo | image supplied

To begin with, no business is the same. Funding requirements and the use of credit will vary based on the business life stage (start, run or grow), operating cycles, growth plans, industry, and market conditions. There is no one-size-fits-all, and SMEs have to consider their unique circumstances and business goals when determining the right funding amount.

Furthermore, SMEs often have fluctuating income patterns and revenue streams, making it difficult to predict how much funding they may require at different periods - this may significantly affect startups and seasonal businesses.

In addition, while some businesses overflow with passion and product/ service expertise, they may fall short in essential financial management skills. Without knowing the ins and outs of money matters like cash flow and planning, these businesses might find it tough to figure out how much funding they really need to keep the business going and growing.

Embarking on a smoother financial journey starts with effective cash flow planning. Cash flow is like the oxygen that keeps a business alive and running smoothly. It's the money circulating in and out of a business, from income and expenses to investments and back, ensuring a continuous and healthy financial cycle.

"The working capital cycle, or business cycle, is the length of time from purchasing raw materials to receiving cash from the sale of finished goods. Businesses may face challenges when they must pay suppliers before generating cash from selling their goods.

A shorter business cycle is beneficial as it helps businesses free up cash faster for other needs, while a longer business cycle requires more working capital to sustain operations, as cash is tied for a prolonged period," says Naidoo.

Cash flow forecasting is like planning for continuous, essential financial oxygen for your business. To determine the cash flow gap that could be bridged with additional funding, analyse your sales forecast, and subtract anticipated expenses. Align this with business goals to ensure the funding addresses your specific needs. Key aspects of cash flow planning include:

- Strategic goal alignment: Make sure you align the cash flow plan with business objectives by outlining detailed short and long-term goals. Consider the associated costs to ensure your financial roadmap supports the broader vision for sustainable growth.
- Market research: Understand industry and market trends to gauge potential demand.
- Sales forecasting: Predict future sales to anticipate incoming cash. By analysing past trends and figuring out what's coming up next, business owners can forecast future income and expenses, to avoid running low on funds and to keep operations running smoothly. Businesses may use bank statements and transaction records, sales receipts, and invoices to do this.
- Credit terms: Negotiate favourable payment terms with suppliers and manage customer credit terms wisely.
- Invoice management: Invoice promptly, encourage upfront payments and follow up on payments to ensure steady cash inflow.
- Emergency fund: Maintain a reserve to handle unforeseen expenses.
- Review regularly: Regularly assess your cash flow plan and adjust based on actual performance.

Navigating the SME funding landscape involves more than just cash flow projections. One of the biggest challenges for SMEs is getting the correct form of funding.



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Businesses owners may proactively adopt the following practices, to get their businesses bank funding ready:

- Ensure cash is deposited into your business account. Banks rely on the digital footprint of transactions to evaluate profitability when assessing businesses for credit. Hence, banking cash makes it easier for better credit terms and funding options.
Having all business transactions in one place makes it easier to keep track of accounting records, income tax and

audit requirements. Plus, it makes cash flow forecasting easier.

- Embrace convenient banking tools for receiving payments. There are various devices available that are a great way to move from being cash-based to funds reflecting directly in your business accounts. Adopting digital methods ensures fast and secure transactions, without the risk of robberies, fraudulent cash transactions, and high cash handling fees.
- Ensure the correct governance processes are in place. Financial reporting is important, hence investing in a good bookkeeper will stand you in good stead. Funders typically require certain documentation to confirm the business's performance.
- Ensure compliance-related obligations are adhered to. This may include FICA documentation SARS, CIPC and others.
- Manage existing debt products to avoid overburdening business finances, and to ensure the business can comfortably service more credit.

"Careful cash flow forecasting and consideration of the factors above, can help businesses make informed decisions and determine the right amount of funding for their needs," concludes Naidoo.

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