

4 simple cashflow management strategies for small businesses

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Cashflow ranks high amongst the top concerns for small businesses in South Africa. And because business comes down to rands and cents, balancing the inflow of revenue with the outflow of expenses, and ensuring that your business remains liquid enough to deal with unexpected events, can be a make-or-break factor.

Not only will the way you manage your business's cashflow have implications for whether your small and medium enterprise (SME) remains financially viable in the long-term, but it will affect your business's ability to obtain credit.

These four strategies are simple ways of managing your cashflow efficiently.

Use bundled deals to add value

For small businesses, offering discounted deals is not always a financially viable way of moving stock faster to increase profitability, particularly during slower periods. One alternative is to create bundled deals on groups of products or services at a nominal discount that will be offset by the fact that offering deals of this kind will increase your customers' basket size. Not only do bundled deals offer SMEs a solution to generate more cashflow, they are also a great way to add perceived value to your offering. Bundled deals work particularly well with bargain hunters or price-sensitive customers for whom added value may be a deal clincher.

Negotiate with suppliers

A large component of effective cashflow management involves managing expenses. The rule of thumb to achieve positive cashflow is to lower expenses, or to stagger the payment of expenses to avoid a large outflow of cash at one time. Negotiating payment terms with suppliers can help in this regard.

Your suppliers may be inclined to offer you a discount on regular orders, or it may be possible to organise a discount on bulk orders placed by a group of SMEs that share the same supplier. Another option could be to negotiate 30-day payment terms at no extra cost, or split payments. This will ensure that expense payouts are more spread out and that the business has time to realise revenue.

Incentivise early payments

One of the biggest hurdles that small businesses face is late payments. In fact, last year the call for SMEs to be paid timeously catalysed a campaign called #Payin30, which encouraged South African corporates to pledge to pay their small business suppliers within 30 days.

As a way of remedying this, small businesses can offer an incentive for early payment in the form of an immediate discount or a discount on the next purchase. Conversely, you could enforce a penalty fee for late payment. Both these strategies can be effective at ensuring that you receive revenue timeously and that your business does not suffer the knock-on effects of a late payment.

Build a safety net reserve fund

Having an emergency fund is just as important for small businesses as it is for individuals. Commit to allocating a monthly amount to an emergency fund that will tide you over should the business run into cashflow problems.

Ideally, your business's emergency fund should be able to cover a three months' worth of expenses such as staff wages, operational costs, utilities and other essentials. A reserve fund of this nature can carry the business over when profitability is low, costly equipment breaks down or during other business disruptions. And the beneficial implications of a backup fund for keeping your credit record intact during tough times is invaluable.

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