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COMMENT

10 tips for managing small business finances

From keeping an eye on cash to controlled spending, it is key for entrepreneurs to keep their books in order to survive and thrive

Over 80 per cent of small businesses and startups fail largely because of cashflow problems. As shocking as this may seem, entrepreneurs should learn from these failed businesses and use these lessons to gain a deeper understanding of how to effectively manage their finances.

Here are 10 tips to help entrepreneurs:

1. DO NOT LOSE FOCUS ON 'CASH'

As an entrepreneur, although your focus will mostly stay on building your topline, do not lose focus on cash. 'Cash is king' is an old saying and will always hold good for any business. But this does not mean keeping idle cash in the bank; it means optimising the use of cash by managing one's working capital and expenses in a smart way and ensuring you have some cushion for unforeseen situations.

2. CLOSELY MONITOR YOUR BOOKS

The only way you can become more familiar with the finances of your business is by regularly monitoring your books – even if you have a bookkeeper.

This is extremely important because it will enable you to identify any possible threats to your business as well as plug any loopholes. Create time to study your bank reconciliation as well as to review any outstanding receivables. Re-emphasising the need for focusing on cash, if you delay your bills collection, you will end up being a banker for your customers.

3. CONTROL YOUR SPENDING

Spending your money without a plan is a recipe for disaster. Just because your competition has put up a glittering signboard doesn't necessarily mean that you must also do the same.

There is always another cheaper and equally effective way to achieve the same result. Spending money prematurely can lead to cashflow issues in the long run and could cost you more to remedy the situation.

Especially in the early days of the business keep asking yourself – 'is this expense a must-have or a nice-to-have'?

4. MANAGE YOUR INVENTORY

Avoid having too much inventory that will end up in storage gathering dust, or too little that you keep running out of stock, which causes you to turn away customers.

Always track how much inventory you have so as to avoid over-stocking or under-stocking. Keeping up-to-date sales records will help you to manage your inventory effectively.

5. LEASE VS OWN

While it is satisfying to own your office space or even a fleet of cars, leasing could be the best option for your business if you are tight on cash, or it's your early days of starting the business.

Do a simple math of lease vs own and see for yourself what is better from a cashflow perspective.

6. HAVE ENOUGH CAPITAL

Most small businesses fail simply because they don't have enough capital to get themselves through the

startup period. Most entrepreneurs are under the notion that the business will start making huge profits from day one.

To counter this, make sure you have enough saved up to see you through at least the initial 8-12 months. In ascertaining how much cash you may need, do best-case and worst-case scenarios.

7. GO EASY ON EXPANSION

Depending on how business is doing, you might be tempted to expand and grow your brand. While this is not a bad idea, make sure you do your homework. Study the market and look at different scenarios. A hasty expansion exercise can negatively affect your business beyond recovery.

8. DO NOT OVER-LEVERAGE

Although bank financing may be forthcoming (sometimes at unexplainable rates), do remember that debt needs to be serviced, and on time. There are some basic thumb-rules in terms of how much you should borrow for your business, such as debt/equity, debt/EBITDA and debt/service ratios. Ensure your accountant or financial consultant has put these KPIs in front of you before you leverage yourself.

9. HIRE A FINANCE PROFESSIONAL

As an entrepreneur, you will find it difficult to balance your books and even keep up with invoices. To avoid this, hire a professional to handle such duties so that you can focus on growing your business.

Although hiring a senior finance professional may be a burden until you achieve scale, there is no harm in having one on your side for specific advice, or on a regular retainer/time-spent basis, which will not cost you much. This will help you focus on your business and also allow you to plan your future growth strategy. Since your aim should be to 'get it right the first time', it is important you have such a resource handy from the very start.

10. USE TECHNOLOGY

As a small business owner, you might not have the financial muscle to deploy a fully-fledged finance department. However, you can still use readily-available technology to take care of some of your financial needs.

For instance, you can use cloud-based accounting software to access, track, and update data. Such solutions enable you to see your accounting records and create invoices with ease.

Managing small business finances is not easy, but with the right strategy and discipline, your business can perform as expected. The above tips are a good starting point to ensure that your business doesn't become a statistic.

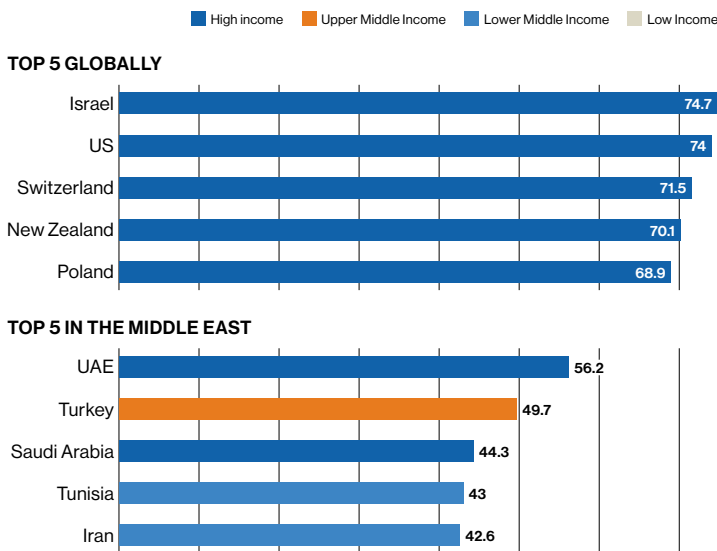
Rising power

Despite challenges and inhibitions, entrepreneurial-minded women are keen to shatter the glass ceiling and move ahead

Entrepreneurial spirit

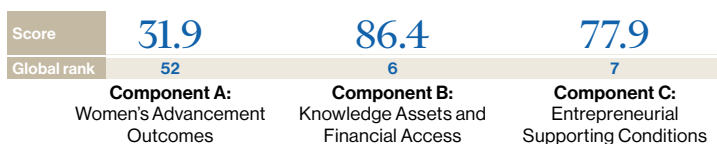
The rising number of women participating in the startup ecosystem reflects the transformation in the economic and social landscapes

Mastercard Index of Women Entrepreneurs (MIWE) 2020



Local perspective

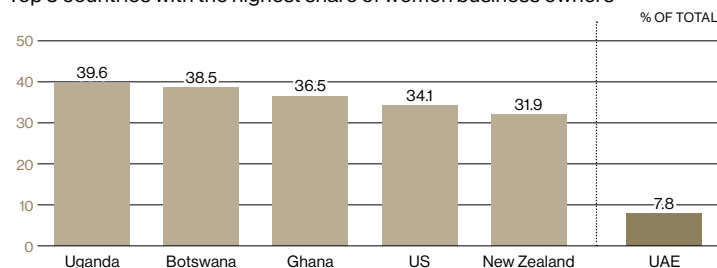
This is how the UAE fares on each component of the MIWE score



\$160.2trn The economic cost of gender inequality globally, according to the World Bank

Empowered to change

Top 5 countries with the highest share of women business owners



SOURCE: THE MASTERCARD INDEX OF WOMEN ENTREPRENEURS 2020 REPORT