

Financial forecasting for SMEs: The key to the survival of your small business

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Starting a new business – out of interest or necessity – may seem exciting as not only will you be your own boss, but you can also have more financial freedom. However, there are a lot of financial management tips and tricks you need to know upfront to help you get your business off the ground, and later to scale.



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Among the most important is doing a financial forecast. This is where you look at a period of time e.g. six months or a year and plot your fixed vs. your variable costs.

Fixed costs are things that do not change often such as rent, salaries, utilities, accountants, equipment and the like, whereas variable costs could be, for instance, bringing a consultant in for a short period of time, or the raw material you use to produce your products.

Once you know your fixed costs and your variable costs you can determine your total running costs for each month forecasted. Let's say that it is R1m. You must then make sure your revenue, or the money you make each month, exceeds this.

The higher your surplus, the more money you have to cover those hidden costs and of course, to make a profit.

It's this little pool of additional money that you generate once you've paid everything else off that can work for you. The best advice is to create a savings pocket for these funds where you save your money and earn interest while doing so.

Avoid touching it unless it is absolutely necessary – you may suddenly need a new piece of machinery due to a maintenance breakdown for instance – but ideally, you want to keep that money to pay for all those extras that crop up regularly like workman's compensation, provisional tax, PAYE and VAT, and to create a nice little nest egg.

Seperate business costs

To be really nifty with your savings, you could separate your business costs, as per the above, from your additional income i.e. profit. Even though you will pay tax on this profit, putting it in a savings account will help you earn interest as you go.

Having an accountant, or managing your own accounting, is a key part of running a business. From the start you need to have someone – which could be you - keeping track of your spending. Expenses such as stationery, water and electricity, books, client meetings can be put through your business, meaning you pay less tax than if you paid for them using your personal money – just remember to keep all the payslips as you never know when SARS may audit you.

Another essential financial management tip is to set up a business banking account as soon as you open your SME's doors. Avoid running your business through your personal account as it creates accounting and tax confusion and it becomes tricky to allocate the correct tax amounts.

For those in more informal businesses, this may not seem necessary, but whether you have a fruit stall or run a clothing manufacturing business, it's best practice to separate the two entities.

If you run a cash business, this makes it difficult to get funding – to help you grow your SME for instance – as a credible financier will need to see your business's financial transactions to see if you are able to repay the funds. And don't think you can dodge the taxman as there is no record of your takings as this will eventually catch up with you and land you in trouble.

While for some businesses like taxis, cash is still king, it is better to have a mobile point of sale device such as a Yoco from which you can take payments and have a digital copy of your transactions. Not only is it safer than cash, it's a better way to manage your takings.

Monitor input costs

Lastly, your input costs i.e. the price of running your business day-to-day, before making any extra profit, need to be carefully monitored and your financial forecast managed.

Then there are utilities to consider: power and water are becoming more expensive and less reliable, and, with interest rates being as high as they are, things like company cars or office space are pricey. We also won't see the positive impact of a decline in interest rates until the middle of this year at the earliest.

There's also fuel. This impacts everything from the price of your wholesale goods through to their transportation, which means your prices may have to increase accordingly. This means your customers may look elsewhere for cheaper services and products.

Before you start your business get a basic grasp of accounting, financial obligations, where the best place to save any excess money as well as things like inflation as they all affect your business and its ability to grow, create more jobs, and give you and your staff more take-home pay.

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