

RUNNING A BUSINESS & THE ART OF MOTORCYCLE MAINTENANCE

An SME's accounting process needs to run like a well-oiled machine as a business can only get the investment that it needs by constantly maintaining its accounts to ensure a smooth and steady cash flow

BY KEVIN FITZGERALD

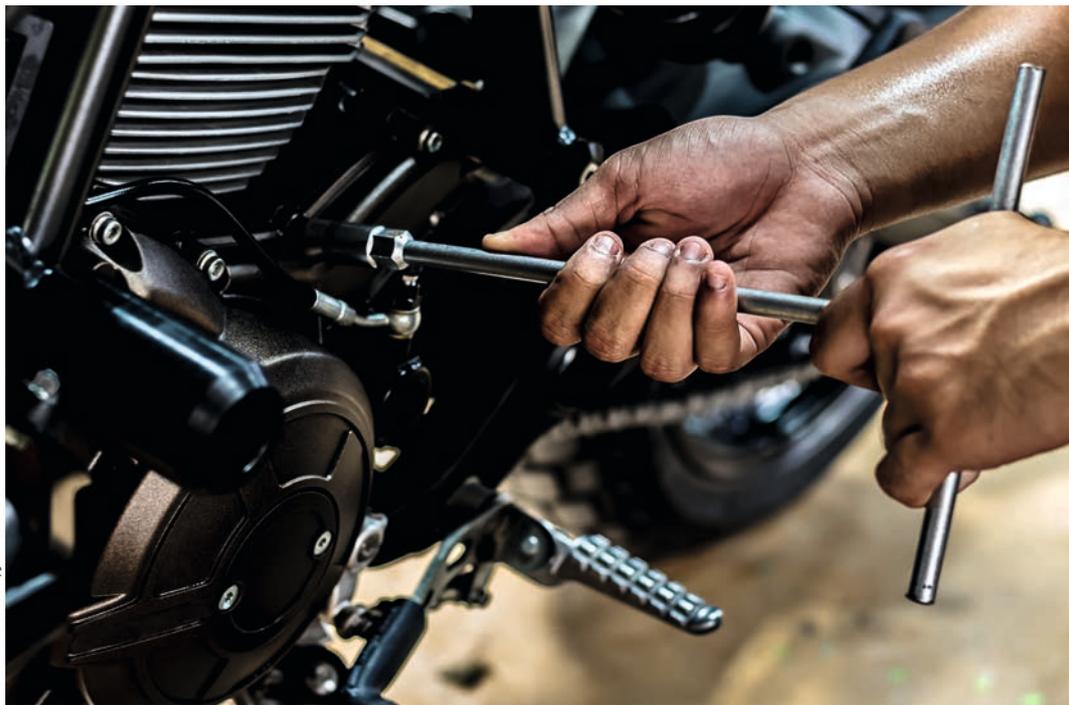


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ONE of my favourite weekend activities is getting on a motorbike and taking a ride with my friends to explore Singapore. It can be the most liberating feeling in the world. Unless you are a bike enthusiast like myself, what you might not realise is that behind the scenes, a motorbike requires plenty of maintenance to run smoothly and achieve peak performance. I thought it was an uncanny metaphor for the running of a small business.

For many small businesses looking to scale up, it can be difficult to secure the working capital to do so. In Singapore alone, barriers to financing have resulted in a funding gap for small and medium-sized enterprises (SMEs) worth as much as S\$20 billion. That is a major problem, as aside from expansion, business innovation also relies heavily on having the money to support the execution of new ideas. In other words, without a tank full of petrol, a well-oiled engine and well-maintained brakes, you will not get very far.

So how should small businesses get the money they need to scale up or innovate? By constantly maintaining their accounts to ensure a smooth and steady cash flow.

• Maintenance matters

Cash flow management is the process of tracking how much money goes in and comes out of your business. While that sounds simple enough, it is easily neglected. Business owners who are not adept with accounting processes may also find

it challenging to understand which transactions they need to record and keep track of, such as sales, supplier payments and non-recurring costs.

To avoid the consequences of prolonged cash shortage, business owners have to make proper cash flow management a priority. It starts with recording all the money coming in and out of the account in a cash flow statement. If a sale is made on credit, it does not go into the cash flow statement until payment is received. In other words, invoices and receivables do not count towards your cash inflow, only the cash received does.

Updated accounts are absolutely crucial when seeking out financing. Often, we find that the reason small businesses do not qualify for the full loan quantum is because their financial reports are outdated.

• Tackle bad habits

Another reason businesses often encounter cash flow issues is because their customers pay their invoices late. At first glance, a late payment to a small business may not seem like a major issue. However, according to a study we released, nine out of 10 small businesses in Singapore have clients who do not pay on time, and the data showed that at the end of 2018, S\$4.1 billion worth of late payments were owed to small businesses in Singapore.

The reality is that late payments pose a major problem for small businesses. On the one hand, it prevents them from paying their own suppliers on time, creating a vicious cycle of late payments among small businesses. On the other, having a shortage of cash in their account means that the small business does not have the capital that it needs to grow and improve its products and services.

Crucially, with small businesses comprising the majority of businesses in Singapore, if they are being held back from growing and flourishing, it is likely to have a knock-on effect for the wider economy in the long run as well.

• Make the most of machines

Good cash flow management does not have to be difficult or time consuming. Apart from diligently recording your cash flow every week, you can also leverage technology to optimise the process. Businesses do this by digitising the accounting process and taking advantage of application programming interfaces (APIs) to integrate apps that can perform financial analysis, business reporting, forecasting and then present it all beautifully on a simple dashboard for easy interpretation.

Cloud accounting platforms are also enabling small business owners to easily share accurate and up-to-date financial information with banks during the loan application process. This will facilitate faster and more accurate credit assessment to provide working capital to the business during periods of economic downturn, poor cash flow or simply for business expansion.

• Modify for the best fit

It is not just about making sure that everything runs smoothly. The experienced rider will also want to add modifications to their bike so that it fits their specific preferences and everything feels just right when they are on the road.

Likewise, while any offer of money may seem like a good thing for your business, if you are going the investor route, make sure to select the best possible partner for your business. It may be tempting for a cash-strapped small business or startup to accept the first offer of money that comes their way. But it is important to be discriminating when selecting an investment partner, as an incompatible relationship can lead to longer-term problems for the business. On the flip side, a partner with complementary strengths and who shares the same vision for the company can help the business grow in more than one way.

Whether it be grants or access to working capital, it is not just about taking money, but about taking smart money. ■

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