

Business unpredictability brings cash to the fore in 2020

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The sluggish performance of the local economy means everyone is feeling the pinch and there is no doubt that businesses - especially growing, smaller ones - need to consider what it means to have accessible cash and how to use it to grow in both the short and long term. As the age-old adage saying goes, cash is king. Indeed, it is - but if it isn't being protected and managed correctly - your business could be facing a stalemate or even worse, a checkmate.



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Resolution to focus on cash

The New Year provides a perfect opportunity for businesses to relook their cash with the understanding that you don't have to choose between a rock of a "lazy balance sheet" and the hard place of having to borrow because of inaccessibility. Many South African businesses are falling into the lazy balance sheet cycle or the trap of 'saving for a rainy day'. While certainly keeping a healthy working capital is critical, lazy money or money sitting in low-earning call accounts that sacrifice earnings on a decent return means limiting potential growth. If your cash or investments aren't working for the business, it is a wasted opportunity and, in this market, opportunity is everything!

In fact, holding cash for emergencies definitely plays to a business's disadvantage, if it is sitting in a low interest account and not growing. Of course, another alternative would be to consider placing the money in a longer-dated deposit and earn a higher interest rate that way. However, this would mean locking in the cash for an extended period of time, which would restrict the business' flexibility and force the business to use an overdraft or other debt facilities more than it may prefer to – offsetting whatever

returns the business could be earning on its deposit.

Luckily, there are tailored cash investment opportunities now available for small and medium enterprises that can provide a balance between the benefit of a higher interest rate but, also immediate liquidity in line with the requirements of the business. With a little bit of planning, businesses can achieve the combined benefits of accessibility to cash, alongside earning a competitive rate. Flexible notice deposits, for example, are ideal for businesses with lumpy cash flows. As money collected at high inflow times of the year can be placed in a high-earning notice deposit, and then drawn on at later intervals. Also, unlike typical notice products that lock the capital amount in for a predetermined time frame, flexible notice products allow businesses to benefit from the higher interest rates available on longer term deposits, while at the same time granting immediate access to a percentage of the capital when the business needs it. This is the balancing act that can make a fundamental difference.

Building opportunity and relationships

There are a number of flexible notice products available for businesses, which gives them more choice, and they can select a variation that works best for them - taking their unique cash flow requirements into consideration. What is essential though, is the ability to earn off existing funds, instead of letting the unused money become an opportunity cost.

Of course, a one-size approach to customised liquidity doesn't work. Businesses need to think ahead and find a banking partner that asks the right questions and is willing to build a relationship that allows them to truly understand the business, its cash flow cycles and external market influences and then able to structure a portfolio correctly. This gives the business flexibility, security, guaranteed returns and very importantly, access to the funds when they are needed most and isn't that exact what businesses need going into 2020?

Even in an under-performing economy, businesses should not back away from identifying growth opportunities. Rather, it is about understanding the balance between how to grow the business in a tough time, without diluting emergency funds available, to carry them through the storm. The New Year provides the perfect opportunity to re-assess, re-evaluate and find a cash solution that works for you and your business!

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