

Ensuring payroll security: 3 strategies for SA SMEs

Cashflow management is a critical aspect of running a successful small or medium-sized business.



Source: [Unsplash](#)

For many South African businesses, ensuring that there is always enough money for payroll and salaries can be a daunting challenge.

According to a survey conducted among over 500 small and medium-sized businesses in South Africa, a staggering 91% of these enterprises are grappling with the repercussions of late invoice payments. This alarming trend points to a growing culture of delayed payments within the business landscape.

The survey, detailed in *The State of Late Payments* report by the global small business platform Xero, further reveals that the average overdue invoice is settled approximately 18 days (about two and a half weeks) past its due date.

Such delays in payments have profound consequences, significantly affecting these businesses' capacity to meet their own financial commitments, including paying their staff and suppliers.

"People are the lifeblood of any business, small or large. As a result, ensuring a timely payroll and salary payments is not just a legal obligation but also a moral one," says Michelle Austin, finance director at Keegor Group of Companies.

Three strategies small and medium businesses can use to ensure that they always have money for payroll/salaries:

1. Create a detailed cashflow forecast

A cashflow forecast is a powerful tool that can help SMEs predict their future financial needs and identify potential cash flow gaps. According to the Department of Small Business Development (DSBD), cashflow issues are one of the primary reasons why SMEs fail in South Africa, with 70% to 80% of them closing their doors within the first five years of operation due to financial difficulties and only about half of the survivors last for the subsequent five years.

Cash flow forecasting is the bedrock of financial planning for SMEs. Without it, you're essentially navigating through a financial blind spot," explains Austin.

To address this issue, businesses should create a detailed cash flow forecast covering at least the next 12 months. This forecast should include all sources of income, such as sales and investments, as well as all expected expenses, including rent, utilities, salaries and supplier payments.

By tracking and analysing these numbers, business owners can anticipate potential cashflow issues and take proactive measures to address them.

2. Implement effective invoicing and payment collection systems

Late payments from customers can significantly impact a company's cashflow and make it challenging to meet payroll obligations. Recent research sheds light on the impact of delayed payments on South African SMEs, with 48% expressing their greatest concern about overdue invoices and cash flow.

The study, conducted by Xero, a cloud accounting software provider, reveals that small business owners dedicate an average of 1.3 days each month to chasing unpaid invoices, with the typical invoice being settled 10 days beyond its due date.



Outsourcing payroll can help SMEs save time and resources

31 Jul 2023



"A structured approach to receivables management is paramount. It can mean the difference between a thriving business and one constantly struggling to meet payroll obligations," advises Austin.

To combat this problem, SMEs can implement effective invoicing and payment collection systems. This includes sending invoices promptly, setting clear payment terms, and following up with customers who haven't paid on time.

Additionally, offering incentives for early payments or penalties for late payments can encourage customers to settle their invoices promptly.

3. Build a financial safety net

Even with careful planning and efficient cashflow management, unforeseen circumstances can disrupt business operations and strain cash reserves. To ensure they always have money for payroll and salaries during these challenging times, SMEs should consider establishing a line of credit or an emergency fund.

To underscore the significance of financial buffers, Austin says, "Think of it as a business's insurance policy. It provides peace of mind during uncertain economic conditions."

According to a Fatoki and Smit report, new SMEs in South Africa often face challenges when it comes to obtaining external financing. The utilisation of trade credit among these emerging SMEs in South Africa is notably low, standing at just 0.2%, which limits their ability to weather financial storms.

By proactively securing a line of credit or setting aside a portion of profits as an emergency fund, businesses can bridge the gap during tough periods without compromising their ability to pay their employees.

"Ensuring a steady payroll for small and medium businesses is vital for their financial health and employee satisfaction. By implementing these three strategies, SMEs can better manage their finances, reduce the risk of payroll disruptions, and provide a stable and secure working environment for their valuable employees. These strategies empower SMEs to navigate financial challenges with confidence and ensure their continued success in a competitive business landscape," concludes Austin.

For more, visit: <https://www.bizcommunity.com>