How can small businesses thrive in volatile times?

By Carlos Martins

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Between 10 and 13 May 2023, importers and exporters were subject to a significant devaluation of the rand against the US dollar as question marks were raised around South Africa and its relationship with Russia. Rumours began to circulate in the market on Wednesday, 10 May. The rand started losing support and an explosive press conference by the US ambassador on Thursday 11 May saw the rand weaken by over 1%. As an importer or exporter, these events could have a material impact on your business.

Carlos Martins, advisory and compliance at Change Financial Solutions | image supplied

While the relationship between the US and South Africa was at the forefront of the news cycle during said week, we cannot forget that this is not the only issue impacting the rand.

The first is domestic issues such as the unstable energy supply situation and a fractious relationship between resource groups and government as well as the "grey-listing" of South Africa due to weak anti-money-laundering regulations and the monetary policy in response to a rapidly evolving global inflation and interest rate environment.

On the other side of the coin, we have the issues playing out in the global economy including the conflict in Ukraine, rising tension around Taiwan, debt defaults in emerging markets, rising global interest rates, supply chain constraints and inflationary pressures which are persisting longer than many expected.

As a business owner who is importing or exporting products, these factors can be overwhelming – none of these are factors you can control but they have a material impact on your profitability and possibly even the liquidity of your business. Speculative or view-driven activities in managing forex risk should be avoided as much as possible, as they could result in very painful financial consequences, particularly in volatile times.

How do you turn this volatility and uncertainty into stability and certainty?

Ultimately you want to limit financial market risk while still focusing on the day-to-day operations of your business.

This means taking a few key actions:

1. Identify financial market risks for your business

While there is a focus on foreign exchange currently, we cannot forget that there are other financial market risks that may directly impact your business including interest rates, commodity input prices and liquidity.

You cannot look at a single metric in isolation.

2. Quantify financial market risks for your business

If the Rand was to weaken by 1% against the US dollar in a 24-hour period, what would the impact be on your business? How would a 3% increase in interest rates impact your debt profile over the next 12 months?

As an organisation operating in an emerging market environment with a volatile currency, it is critical that you are consistently stress-testing various scenarios to ensure that you remain both profitable and able to respond to liquidity issues.

3. Establish clearly defined treasury/ risk management policies

Once you start to quantify the financial market risk to your business, it will quickly become apparent that you need a treasury or risk management policy in place that responds to all market conditions. In the same way that you apply accounting or human resource policies, you need a set of rules to guide you around managing your treasury activities – these cannot simply be run on “gut instinct” or in response to what you see in the news headlines.

4. Implement appropriate risk management strategies

Once you can quantify your risk and have internal policies to guide you, you will be required to start implementing these strategies in your day-to-day operations. You are only as good as the systems you have in place.

As a business owner, your first response on reading this may well be: “I don’t have time, skills or resources to do all of the above – I’m trying to run a business – not play financial markets.”

This is where many importers and exporters in South Africa derive significant benefits from engaging the services of an outsourced Treasury provider. This equips your business with finance professionals who can assess market conditions and put in place risk management strategies on your behalf.

If one thinks of the currency as a valuation metric for a country, it is easy to get caught up in the short-term news headlines and the associated volatility. As a business owner, you can make better decisions when you are operating in a framework which provides you with certainty and stability … 2023 has already proven to be a volatile year but that doesn't mean the rest of the year has to spiral out of your control. With a managed approach, you can put a degree of control back in your hands.

ABOUT THE AUTHOR

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