Credit as a cash flow management tool

A good business credit line continues to play an important role in helping small businesses manage provisional cash flow challenges.

Valentine Jingura, Head of Pricing at FNB Business says given the prevailing economic conditions, adequate cash flow management has become crucial to the survival of SMEs. During these turbulent times, even the most well managed business can face unexpected cash flow headwinds – impacting on its ability to manage operations.

“These vary from delayed invoice payments to unexpected power cuts and unexpected equipment failure amongst several factors,” adds Jingura.

He advises SMEs on the ideal approach to use business credit for sporadic cash flow shortages:

- **Short-term solution** – Revolving credit is best used to supplement unexpected or short-term cash flow challenges.

  “Businesses should be careful not to rely on revolving credit regularly or over a long-term period. If a business starts relying on credit to solve cash flow problems there is often a bigger issue at hand,” cautions Jingura.

- **Cash management strategy** – credit complements a strong cash flow management strategy. SMEs should first aim to perfect their skill of managing cash coming in and going out of the business before credit is considered for cash flow purposes. A good cash flow management strategy will inform how credit can effectively be used.

- **Type of credit** – the correct type of credit and terms of use usually depend on the cash flow challenges that a business is facing, at a certain point in time. For instance, a business that normally orders material directly from suppliers using its own funds should consider specialised or trade finance to ensure the payment of goods.

- **New business opportunities** – a new or unexpected business opportunities may require a substantial financial commitment, impacting cash flow for a few months while the business adjusts. In this instance, a good line of credit should be regarded as an investment, as long-term gains would far outweigh the cost of credit.

“SMEs often use secured, unsecured loans, credit facilities and specialised credit lines as cash management tools. When used appropriately in conjunction with a proper cash management strategy, credit can be a great tool for small business to supplement short-term cash challenges,” concludes Jingura.

ENDS

For media queries contact:
FNB Corporate Affairs
Themba.Msimango@fnb.co.za or 083 620 2941