

## SMALL BUSINESS OWNERS

# An Agile Approach to Successful Cash Management

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Given the strength of the U.S. economy on the back of recent data and the continued increase in interest rates across the yield curve, investor concerns related to a broader recession in 2023 have largely subsided. As we serve our small- to medium-sized enterprises (SMEs), there are several factors to consider in addition to the macroeconomic landscape, including cash flow management and liquidity, supply chain and consumer demand optimization, and technology selection and implementation.

## Drivers of Economic Growth

What qualities make a business an SME? No uniform definition for an SME exists and various entities classify SMEs based on different criteria. But typically, businesses with assets, revenues and number of employees below certain threshold are categorized as SMEs. In the United States, the Small Business Administration (SBA) defines SMEs as independent businesses with fewer than 500 employees while the IRS classifies SMEs as companies with assets of \$10 million or less.

SMEs play a vital role in driving economic growth and innovation. Because they employ a large number of people, SMEs are the backbone of the U.S. economy. They employ nearly 62 million Americans and contribute 43.5% of the entire U.S. gross domestic product. According to the SBA, as of 2022, there are more than 33.2 million small businesses in the U.S.—and almost all businesses—99.9%—fall into the small category. As such, SMEs can be found across most industries but are more likely to be centered around businesses that require fewer employees and less upfront capital investment. Common establishments for SMEs include restaurants, legal firms, dental offices, coffee shops and gyms.

SMEs operate differently than large, multinational corporations whose operations are more complex and advanced. They require fewer systems and employees to function, allowing them to be nimbler and more flexible than large corporations. With smaller target audiences, they have more freedom to innovate. Despite this flexibility and spirit of entrepreneurship, SMEs also face numerous business challenges that can get in the way of their success.

## Cash Is King

One of the most pressing concerns facing this segment is cash flow management (i.e., how money moves in and out of a business). Cash flow management is undeniably the lifeblood of any business, serving as a crucial barometer of its financial health. SMEs often grapple with the delicate balance between incoming and outgoing cash, and the last three years have left many SMEs in uncharted territory.

The coronavirus pandemic exacerbated the cash concern, with disruptions in supply chains, fluctuating demand and government restrictions posing significant challenges. Business owners find themselves juggling payments to suppliers, payroll obligations and other operational expenses while striving to ensure a steady stream of revenue. At the same time, many SMEs have found themselves flush with cash primarily due to government stimulus and support programs, pent-up demand, shifts in consumer behaviors and the rise in e-commerce.

Access to funding also remains a persistent concern for SMEs, especially during economic downturns. Liquidity is key to staying in business, and many SMEs must turn to financing. However, traditional lending practices often pose challenges for smaller businesses, as banks generally consider lending to SMEs riskier and more costly than lending to larger companies. Part of this assumption is based on the fact that smaller companies fail at a higher rate than large businesses. The reality is only a third of small businesses survive to their 10-year mark. Additionally, lack of clear information about the business along with challenges in evaluating credit risks make loans to SMEs more expensive—and in some cases cost-prohibitive for borrowers. Lack of affordable credit has driven the need for alternative financing options.

Fintech solutions like peer-to-peer lending, crowdfunding and online lending have gained traction as accessible means of raising capital. However, business owners must exercise caution and carefully assess the terms and interest rates associated with these avenues to avoid falling into a debt trap—such as taking out new loans to repay existing debt obligations. Interest and late payment penalties can add to the loop of debt, severely impinging on a business's ability to repay its loans and manage cash.

## The Need for Agility

The unpredictability of the current business landscape has forced business owners to become more agile in their financial planning. The need for accurate forecasting has never been more evident, as businesses strive to anticipate potential disruptions and to adjust their strategies accordingly. Many SMEs are turning to digital tools and financial technologies to streamline their cash flow processes. Automated invoicing, expense tracking and real-time financial data analysis are becoming essential components of effective cash flow management, allowing business owners to make informed decisions in a timely manner.

**Several ways Cerity Partners has leveraged technology within small businesses to optimize cash management, include:**

### High-Yield Savings Accounts

One advantage of the vast technological innovation occurring within the financial services sector at large is the emergence of high-yield savings accounts that can also offer next-day liquidity. For those businesses that find themselves in a holding pattern with current cash, the yields are extremely lucrative and the highest we've seen in more than 15 years. For most SMEs that haven't typically invested large cash balances due to the risk, we have opened high-yield accounts that offer extended FDIC insurance for deposits up to \$25 million. This has resulted in additional income for businesses while having access to next-day liquidity.

### Invoice Management Automation

Many vendor contracts offer prepayment benefits for businesses, meaning a business sends payment prior to receiving goods or services. Our team has partnered with businesses to identify opportunities within vendor contracts to automate early payments, resulting in savings of nearly 5% of the total invoice. Depending on the size of the invoice, this can save thousands of dollars while increasing gross margins. As businesses develop the practice of automating accounts payable and pay invoices ahead of due dates, there is increased negotiating power with other vendor contracts. From a human capital standpoint, automation reduces manual tasks, human error and processing time. This has led to increased efficiency, faster order fulfillment and reduced labor costs, saving upward of 40 hours per month for some of our clients.

### Improved Inventory Management

Managing inventory is key to building a successful business but it can be time-consuming and expensive. Carrying costs—what a business pays for storing inventory before it is sold—can account for up to 30% of total inventory value. Common carrying costs include warehouse storage fees, insurance, taxes and employee costs. Leveraging technology to help with inventory optimization greatly reduces the need for excess stock and associated carrying costs, ultimately leading to meaningful savings. For some of our SME clients, tracking inventory and sales in real time with an inventory management system not only saves money but also ensures seamless transactions, better organization and increased workforce productivity.

## Practical Solutions for Moving Forward

The concerns plaguing small- to medium-sized business owners today are multifaceted and interdependent. Cash flow management stands as a cornerstone concern, exacerbated by the unpredictable nature of the current business environment. However, by embracing technology, honing their financial forecasting skills and exploring diverse financing and investing options, SMEs can better navigate these challenges. As these businesses continue to drive innovation and economic growth, addressing their concerns becomes pivotal for fostering a resilient and thriving business landscape.

Whether you're a start-up striving for growth, an established business seeking to optimize operations or an entrepreneur aiming to scale your venture, Cerity Partners has the strategic insights and practical solutions to propel you forward. Experience the difference of personalized guidance tailored to your unique needs. From financial strategies to operational excellence, our comprehensive approach will empower you to make informed decisions that drive tangible results.

**Learn more about cash management strategies for your business.**

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