

# Save today, succeed tomorrow: 3 effective saving strategies for small businesses

Issued by [Business Partners Limited](#) 19 Jul 2023

South Africa's small business sector is a tough environment to break into, but those who succeed in weathering the storms of the first few years of business, have a real shot at scaling their business to new heights. Arguably effective financial management is the single most important aspect of running a successful venture, part of which involves saving on a regular and consistent basis.



Arnold February, regional investment manager at Business Partners Limited

Providing commentary on this is Arnold February, Regional Investment Manager at small and medium-sized enterprises (SME) financier firm, Business Partners Limited. The ongoing quarterly SME Index conducted by Business Partners Limited has found, over a consecutive number of years, that cashflow remains the biggest challenge to local business owners. And as February says: "Saving and cashflow management go hand in hand."

## Contending against multiple market shocks

Evidence of this can be found in the events of recent years, which has seen many small businesses buckling under mounting economic pressures. 2020 saw a staggering 1,182 business liquidations between January and November, many of which were SMEs whose profitability plummeted as a result of the pandemic. And while the rate of liquidations has slowed in more recent years, local small businesses face several headwinds including the ongoing energy crisis, the rising cost of fuel and food and significant interest rate hikes.

## Why save?

Challenges such as these pose a serious threat to business continuity and are indicative of the increasing importance of saving during times of market volatility. For February, saving provides an effective buffer against cash flow gaps.

"When faced with unexpected misfortune, having an emergency savings fund can ensure that your business can continue to meet its financial obligations, pay employees, and cover essential expenses without disruption," he explains.

Furthermore, saving is a best practice that may play an integral role in the business' strategic growth plan. It could provide

the necessary capital to invest in new opportunities, such as entering new markets, launching new products or services, or expanding operations.

In addition, by saving diligently, small business owners can also allocate a portion of their funds to working capital, ensuring that there is enough liquidity to support ongoing operations and fulfill immediate and projected financial needs.

And, when the time comes to invest in capital expenditures, such as purchasing new equipment, upgrading technology, or expanding facilities, SME owners will have the available funding to do so without putting excessive strain on their cash flow.

### **Bring in tech to optimise efficiencies**

Unpacking a few key saving strategies for small businesses, February urges entrepreneurs to assess and audit the efficiency of their internal processes and production methods. As he argues, it is critical for SME owners to keep track of whether the resources expended are producing maximum output at minimal cost.

For some, the solution to greater efficiency can be found in replacing manual tasks with automated processes or streamlining everyday operations using technological tools.

As February says: “Now, in the wake of the pandemic, small businesses find themselves operating in a digital-first climate and need to embrace the new level of efficiency that this can enable.”

Some of these tools include cloud accounting, customer relationship management (CRM) and marketing automation, social media scheduling, and collaboration and productivity management platforms. Many of these available tools are relatively cost-effective and have free subscription offerings that can help business owners keep their outflows to a minimum.



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### **Consider temporary ‘quick fixes’ during the slow season**

Many small businesses in South Africa find themselves vulnerable to factors relating to seasonality. A key example of this can be found in the retail industry. Data collected by Statistics South Africa shows that the winter period between May to July typically sees sales volumes take a substantial dip before recovering ahead of the festive season.

In these slower periods, affected small businesses could find temporary ways to save by reducing costs where possible. For example, non-essential expenses such as subscriptions, memberships and services that are not vital to maintaining immediate operations can be put on hold.

Business owners could also review and negotiate with their suppliers for better terms, discounts or volume-based pricing in slower months. Another possibility is to implement energy-saving practices by optimising lighting, heating and cooling systems. It's advisable to explore the use of energy-efficient equipment or allow for remote working to reduce power pressures at the office.

### **Save on cash, save on credit**

Furthermore, business owners need to think of saving as a way of having more readily available cash as well as how they can save on their financing arrangements. February encourages entrepreneurs to consider factors such as the repayment period, frequency of payments, and flexibility in adjusting payments.

On this, he concludes: “As an SME financier, negotiating pricing and repayment terms is an important step in the financing process. This personalised approach to business finance allows us to meet entrepreneurs where they are and tailor our offering to their unique needs. The willingness and openness to negotiate is therefore one of the key things to look out for

when choosing business finance.

"By employing these strategies and taking a holistic view on saving that considers every operational aspect of the business, small business owners can improve their financial stability, reduce financial risks, and position themselves for long-term success."

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