

Achieving Financial Stability for Small & Medium Enterprises

According to the National Bureau of Statistics, small and medium scale enterprises (SMEs) in Nigeria have contributed nearly 50% of the national GDP in recent time. The critical role SMEs play in the growth, productivity and competitiveness of the economies in both developed and developing countries is acknowledged universally and cannot be over emphasized. SMEs are identified as a major driver in achieving equitable and sustainable industrial diversification and a contributor to job creation, hence attention has to be given to SMEs to ensure sustainability and continuous growth.

Starting and ensuring sustainability of a small businesses is no easy feat. SMEs in Nigeria are faced with numerous challenges both at the micro and macro level which include infrastructure deficit, constrained access to fund, shortage of skilled manpower, competition, weak linkage among different sectors, strategic planning problems amongst others.

Finance is an important part of every business, assessing funds is a challenge on one hand ensuring that these funds are put in best use to ensure sustainability of the business is another. Financial management and sustainability is a key responsibility that is borne by business owners. A business can be generating revenue and still not be financially stable. Financial stability is the ability of a company to meet all necessary obligations even in the midst of adverse situations. A typical example is the case of the COVID outbreak that was an unexpected event. Most SMEs were unable to withstand the hit and were forced out of the market. Businesses from time to time need to examine their financial health by analyzing their cashflows and conducting stress testing to be sure there are able to survive any temporal problem. An organization with the aim of ensuring sustainable finance is able to create a picture of potential liabilities that could occur and is able to plan and prepare to deal as they arise.

For SME's, achieving financial stability can be challenging however, several strategies can be deployed by businesses to ensure financial stability:

- **Build and maintain customer relationships**

Building an optimal customer experience is an important step in achieving financial stability. If customers aren't happy, they won't stick around for long. It's important to understand and anticipate customers' needs, maintain contact, and be completely transparent. Understand their goals and how you can help them achieve those goals moving forward. Research shows that customers are willing to increase patronage on businesses that have excellent customer service.

- **Cashflow management and forecasting**

Estimating future income and expenses is important and helps businesses identify their funding needs as well as their funding gaps in business operation. Forecasting requires a lot of data - Internally or externally generated. In addition, the integrity (completeness and accuracy) of the data must be ensured so as to avoid wrong outputs arising from faulty data. Forecasting helps to avoid cash shortages and investing options for surplus funds can be easily identified. Customers purchase pattern,

seasonality of demand, business objectives, risk appetite of management, inflation rate, exchange rate, government policies are factors that can be considered during the process of forecasting. Forecasting can be done in the short, medium or long term.

- **Engage professionals**

Most entrepreneurs and small business owners do not talk to professionals for advice. Often, the owners are responsible for all functional areas of the business, this can reduce efficiency. Engaging the services of professionals to handle various functional areas can increase productivity, efficiency and help achieve business objectives. and fund-raising activities etc. For example, engaging a financial planner who is an expert to advise on how cost optimization techniques such as tax planning, Interest optimization, Inventory optimization, Investment decisions (Liquidity management) etc. will provide significant benefit to the business. Although additional cost is incurred. Irrespective, the benefits to the business are far reaching on the long run.

- **Planning for growth**

It is important to set aside funds that can be used to take advantage of growth opportunities, having adequate working capital on hand to fund activities that will help increase revenues in the future is a key aspect of Financial Management/Stability. Organizations with this type of proactive growth plans, are able to scale quickly, attract and retain quality talents, satisfy their customers more and earn their loyalty. All these, will result into better profitability and in turn overall financial stability

- **Efficient billing strategies**

Billing and Invoicing circle is critical to business financial stability. Customers should be invoiced on a timely basis, having clear payment terms, timing and due consideration for customer's peculiarity. One of the most efficient ways of managing Invoicing is to first understand the customer's payment pattern/policies and then align your invoicing accordingly. Where they have slow payment pattern or long payment circle, the sales contract and invoicing should provide avenue for early invoicing or upfront payment so as to enhance the liquidity position of the business. Also, incentivizing customers for early payment as well as short payment circle should be factored into the business model. The cost benefit analysis of the incentives should be critically considered before communicating same to the customers.

- **Debts and working capital management**

Business owners often times focus on increasing market share and ignore debt management. Loans are taken to expand business activities, covenant on these loans can sometimes be very demanding and lead to financial burden if not properly managed. Too much debt can cripple a business. Fluctuations in interest rates should be monitored and business owners can consider refinancing debts during an era of low interest rates. Credit and payment terms with suppliers can be re-negotiated to allow for spread of payment. Another aspect to closely monitor is Foreign

currency denominated debts. Due to the fluctuations in rates, organizations and several start-ups are in critical financial status as their debt obligation has ballooned in a short period of time over and above what their operations can support.

- **Government grants/support**

In Nigeria today, the government acknowledges the vital roles SME's play in the growth and development of the country and has shown commitment both at the state and federal level towards supporting the SME's. Several agencies have been set up to support this cause. Grants, intervention funds are made available to small business owners for setup and expansion.

How can Mazars help?

- **Equity funding**

Manage this process for you from start to finish. Create competitive advantage to ensure you get the best possible equity partner at the best possible terms. Designing an acquisition strategy, identifying targets, conducting pricing analyses, negotiating terms, liaising with other advisors and project management. Leverage our extensive contacts in the global equity markets to bring a wide range of equity partners to compete for the transaction

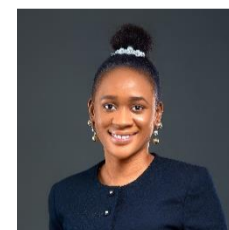
- **Debt advisory**

Run a competitive process in respect of your debt raising requirements to ensure that you get the best terms available in the market. Bring our significant experience, knowledge, and contacts in the banking and alternative debt markets to bear on your transaction. Negotiate the terms of the debt to ensure that they work for your business

- **Contingency planning**

During times of financial difficulty, uncertainty or corporate transformation, our team can help preserve value, implement rescue strategies and enhance the outcomes for your business. We believe early action to identify the root causes of a business problem gives the best chance of implementing a plan that will sustainably improve business performance.

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About Mazars

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