BUSINESS GUIDE

Overcoming the 9 Key Financial Challenges All Small Businesses Face

How to Conquer Cash Flow, Payroll, Taxes and More

ORACLE NETSUITE

azdan

Grab a seat and enjoy.
Read Time: 9 minutes

Overcoming the 9 Key Financial Challenges All Small Businesses Face

How to Conquer Cash Flow, Payroll, Taxes and More

Only about half of small businesses manage to keep their doors open for at least five years, Small Business Administration (SBA) research shows, and about a third last 10 years.

There are many reasons a small business might close, but a failure to focus on the key aspects of financial management is a common one. Financial management is the umbrella term for all activities related to bookkeeping, financial projections and budgets, financial statements and financing. The advantages of sound and accurate financial management practices cannot be overstated.

For instance, the more often a small business creates and analyzes its financial reports, the higher its success rate. Those that do it annually have a success rate as low as 25%, the SBA notes. Done monthly or weekly, those rates climb to 75%-80% and 95%, respectively.

In short, avoiding the common financial challenges that threaten success for every small business takes sound financial management practices. With knowledge of the most common issues, your business can make plans and put solutions in place that help avoid problems.

Table of Contents

CHAPTER 1

9 Common Financial Problems for New Businesses

There are nine issues that almost every business—new or otherwise—confronts at one time or another, and addressing them is crucial to keeping the doors open. Paying mind to them early on and knowing how to respond to these challenges will help put your business on solid financial ground.

1. Cash Flow Management

Managing liquidity is a major concern for all new businesses as they try to bring in enough money to not only cover monthly bills but accumulate cash to invest in growth. It's a simple concept, but execution is often not so straightforward.

Cash flow 101 involves balancing accounts payable and accounts receivable. By accelerating the cash-to-cash conversion cycle, or how quickly a company turns money it's spent on goods or services into cash from customers, companies ensure consistent access to capital. Rethinking your invoicing processes can go a long way toward speeding up that cycle.

Sending out invoices quickly with a breakdown of costs, clear payment terms, available payment methods and any penalties for late payment can go a long way toward receiving faster payment. Offering discounts for early payment if you don't already can also reduce the cash-to-cash cycle. Companies should also study their data to understand the payment terms and timing of invoices that work best for your particular business, as it can vary greatly.

Developing cash flow forecasts based on historical performance and current conditions is another strategy proven to help here. Always factor in contingencies—industry changes, economic downturns, customer shifts—and use what-if scenarios to develop a plan for different potential outcomes.

Accounting software that automatically sends out invoices ensures timeliness, accuracy and consistency, which can reduce days sales outstanding (DSO). This system also holds all the data necessary to see current and projected cash flow so you can plan and adjust accordingly.

On the accounts payable (AP) side, an accounting system puts all your invoices in one place and can send out reminders to help you maximize discounts for early payments. Automated reporting on spend with specific suppliers can also help negotiate better payment terms to keep more cash on hand longer.

2. Securing Capital

The latest Small Business Credit Survey (SBCS) from the Federal Reserve Banks shows that securing credit is among the top five financial challenges for small businesses. The most common types of external financing sought by small businesses are loans and lines of credit, with more than 60% seeking somewhere between $50,000 and $1 million.

Small businesses owners reported they most often use a personal guarantee to receive financing, with 88% relying on an owner's personal credit score.

Additionally, 86% of firms said they would need to find new funding or reduce costs if their business didn't see revenue for two months.

Regardless of the type of funding your business is pursing—venture funding, private equity, SBA-backed loans, bank loans or financing through personal means (friends, family, and personal funds), access to capital is critical to realizing business goals. Even if you have cash on hand every month to pay the bills—with some left over—you'll still want access to capital to fuel hiring plans, expand into additional markets, introduce new products and more.

When your business can easily show accurate financials, it's much easier to secure funding—and quickly. Ensuring cash flow statements, P&L statements and the balance sheet are all recent, accessible and auditable is a major advantage when seeking capital. Banks and investors often require frequent reporting on current financials. What's more, software makes it fast and easy to provide detailed financials and calculate common key performance indicators (KPIs) they'll want, such as all details on AR and AP accounts, cash position, revenue and key ratios such as debt-to-equity ratio. These will prove extremely difficult and time-consuming for your accounting and finance departments to assemble manually on a frequent basis.

3. Closing the Books

The financial close process can be difficult. Even small businesses may have hundreds or thousands of accounts to track and reconcile, and it only gets more complicated as firms grow.

In the financial close process, closing the books is the last step. It has two objectives: Closing the books resets temporary accounts to zero and locks in the prior period's balance. Temporary accounts, also referred to as nominal accounts, are those found on the income statement to accumulate the period's revenue, expenses, gains and losses. The net result is transferred to the balance sheet as part of the second objective: updating retained earnings to reflect that period's results of operations. Retained earnings is an equity account found on the balance sheet, which holds undistributed profit or loss. It's an important account since it represents funds available for reinvestment.

> With the right accounting software, a company can eliminate many manual chores required to close the books, such as transferring journal entries into the general ledger and correcting human error, speeding up the month-end close process.

This improves the reconciliation process by automatically aligning data from discrete sources, spreadsheets and systems. Accounting software can also quickly detect errors so they can be resolved as quickly as possible. ERP systems can bring in data from other business systems to enable all departments to work from the same up-to-date data sources. This makes it easier for accounting teams to access key financial data in real time, instead of waiting for peers to share the information necessary to complete a close.

4. Paying Bills on Time

Everyone wants to get paid on time. And while the occasional late payment may be OK, consistently remitting payments late can cost a small business dearly. Damaged supplier relationships, being cut off from needed services and constantly running debt can all profoundly damage a company's financial health.

A system that can automate payments saves significant money and time; it also reduces data-entry errors and helps prevent fraud through a system of "touchless" controls that run behind the scenes. These functions, combined in AP automation software, translate into important benefits.

AP automation software helps reduce the number of manual tasks that finance staffers must perform. For example, instead of manually managing vendor invoices and recurring expenses, organizations can use an automated system to organize their invoices, manage the approval process and send payments to vendors. With better access to data, you can ensure you're taking advantage of optimal payment terms to hold onto cash longer for better liquidity or gain discounts for early payments.

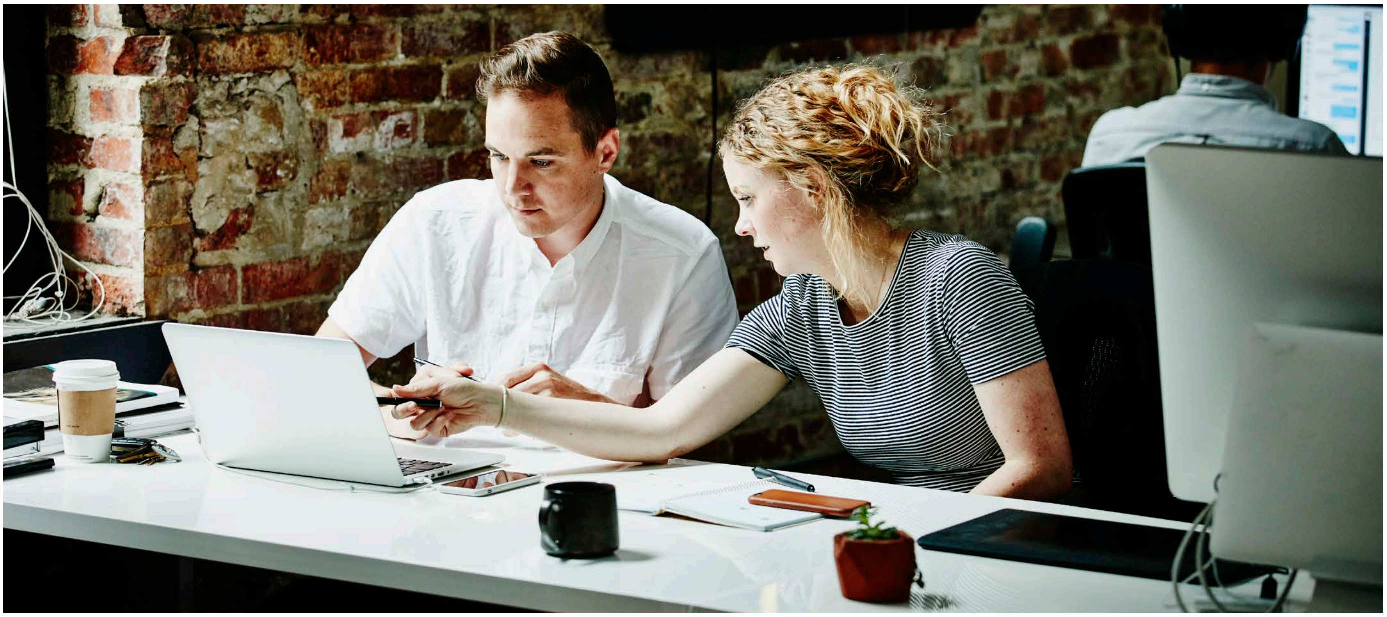
5. Paying Off Debt

Entrepreneurs are rightfully proud of "bootstrapping" their way to success, so it's not unusual for business owners to take on debt to launch their businesses. But there absolutely is such a thing as too much business debt. Maybe they ran up a little too much money on a personal credit card, or perhaps their local banker extended a line of credit that's now used up and commanding a high interest rate.

Whichever debt vehicle they tapped into, these situations can have significant short- and long-term impacts on the company. For example, it can take time for a firm's positive cash flow to start, and in the meantime, there are employees, suppliers and overhead to pay.

Several strategies for getting out of debt hinge on having easy access to accurate financial data. The business can identify areas where it can reduce costs within its own operations—and take steps to reduce or rein in spending. Refinancing to pay off debt or consolidating loans is also an option. The Federal Reserve's SBCS survey revealed 32% of those seeking financing are doing so to refinance or pay down debt, with most seeking amounts between $50,000 and $100,000. When refinancing, you'll need to provide accurate financial statements and detailed accounting information.

It's much easier to make these decisions when the business has access to and can trust the data. Automating accounting processes allows leaders to easily see up-to-date cash positions, key financial ratios and more, helping them make plans to get out of debt, or avoid getting there in the first place.



6. Meeting Payroll

Consistently paying employees, payroll taxes, employee health benefits and the owners' salaries from available cash is a strong indicator of financial health. Some 90% of businesses with excellent financial health in a Federal Reserve Bank of Chicago study said they always had enough cash from operations to meet these obligations. Only 50% of businesses that had poor financial health reported always meeting these obligations. A majority of better-performing companies budget and have a dedicated bank account for payroll.

The biggest related problem small businesses have—and have identified as their top financial challenge for decades—is the cost of health insurance, according to a survey from the National Federation of Independent Business (NFIB). Health insurance expenses have increased 43% over the last decade, climbing faster than both inflation and wages. Small businesses struggle to provide the health care packages larger businesses can and have resorted to shifting more of the costs to employees.

In addition to working conditions and developmental opportunities, pay and benefits are a key factor in employees sticking around. Therefore, health insurance is a huge factor in employee retention. Small businesses looking to control costs can negotiate for lower rates, shift to individual plans or look for plans on the Small Business Health Options (SHOP) exchange.

Payroll software ensures a solid employee experience, and helps employers maintain compliance with labor laws, which vary by state, change often and can be complex to keep track of. New payroll challenges from changing laws and regulations at the federal and state level are on the horizon. For instance, managing withholdings for employees in different locations has become a significant hurdle for payroll managers. And remote work has made the management of state income taxes challenging because of the complexity of determining a primary work location.

If you don't already, consider automating your payroll processes with a solution that's integrated with your accounting system. Payroll platforms help calculate earnings, deductions, company contributions, taxes and paid time off, while also easing the burden of employment forms, direct deposit and more.

7. Use a Budget

If you're running your business by the seat of your pants, just hoping that there will be enough in the bank to pay the bills at the end of the month, it won't take long to wind up with more debt and financial responsibilities than you can handle.

Companies need to develop a budget and then spend within their means. However, there should still be some flexibility to adjust as conditions change—it's difficult to predict what expenses will come up and exactly how money will be spent ahead of time. A budget should be a living document, not something you write then toss in a virtual (or literal) drawer.

At minimum, every small business budget should include these five elements:

- Fixed costs
- Variable costs
- One-time costs
- Cash flow statement
- Profits (what's left after all of the above are factored in)

Certain accounting software has basic budgeting functionality built-in that ensures the most accurate, up-to-date data is being used and makes building the budget less of a chore. It also eliminates problems with version control that abound when passing around and merging spreadsheets from different departments during budgeting season.

An accounting solution can also provide an up-to-the-minute view of your spending, including where you're under- and over-budget, so decision-makers know what changes to make in response. If sales of a certain item that's expensive to ship are spiking, for example, a bigger chunk of the overall budget may need to go toward fulfillment and shipping.

A dedicated budgeting and planning system integrated with that core accounting solution offers additional capabilities for companies that want to perform frequent financial projections, scenario planning and workforce planning.

8. Tracking Key Metrics/Ratios

Keeping a close eye on a few areas will help businesses avoid financial trouble by providing an early indication of potential problems. These include:

- Profitability. The income statement (or profit and loss statement) helps a business see its overall profit or loss during a given time period. Use the data on this statement to calculate profit margins, including the gross profit margin, operating profit margin and net profit margin.
- Efficiency. Some metrics gauge how well your company is using its capital and assets to generate revenue. For these metrics, you'll need information from your income statement and balance sheet, which is a snapshot at a given time of how much your company owes and how much it owns. Metrics that provide a measure of efficiency include return on assets, working capital ratio and working capital turnover.
- Solvency. To measure solvency, or your company's ability to pay its long-term debts, use the cash flow statement, which measures how much cash enters and leaves your company. Calculating operating cash flow will indicate how well the company can cover its current liabilities.

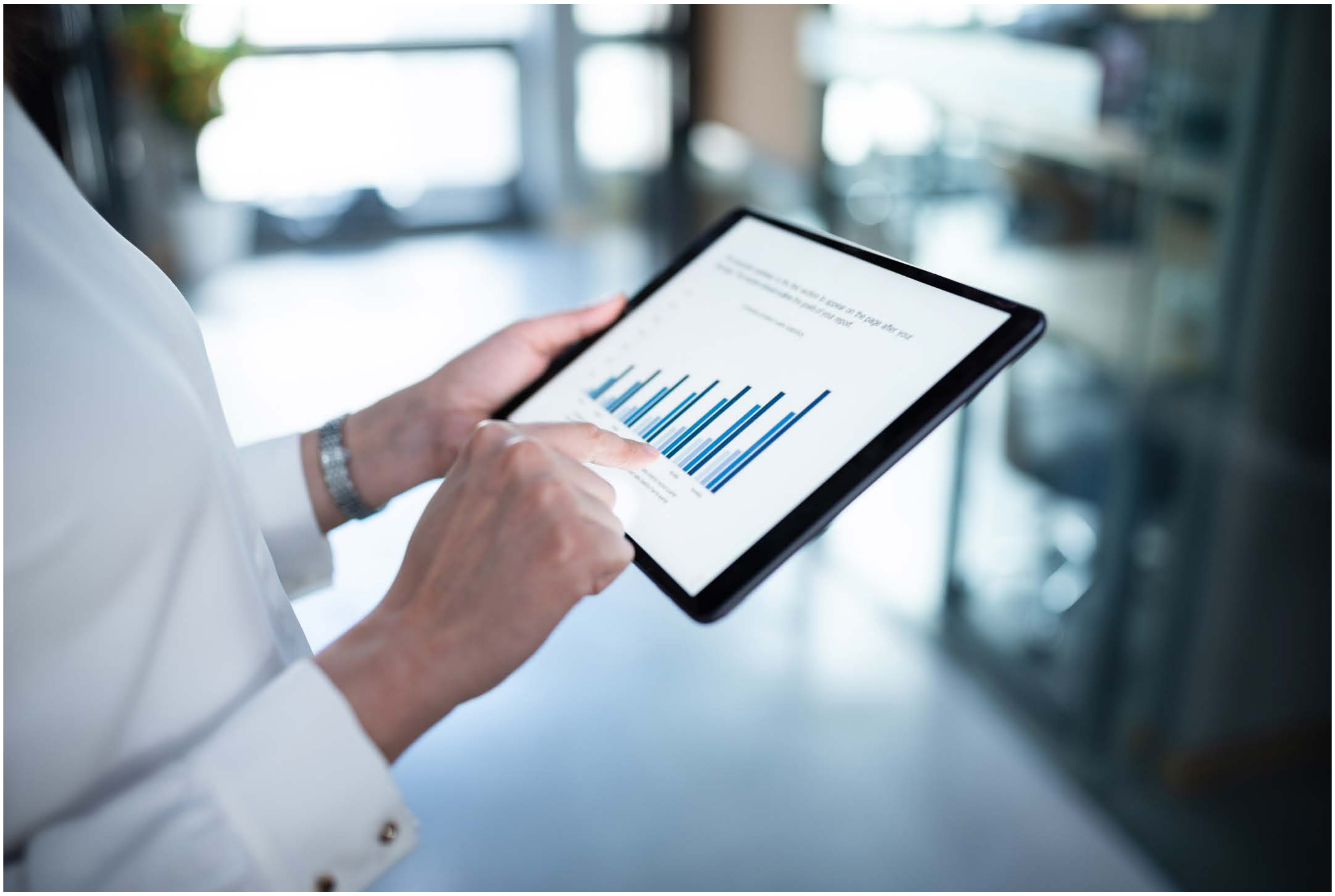
Business leaders need constant access to these metrics and ratios, and they need to update in real time because things can change quickly. The right accounting system offers that with customizable dashboards and KPI trackers that highlight the most critical information.

9. Calculating and Paying Taxes

Applying changes in tax laws is a common concern for accounting teams. In 2021 alone, the president of the National Conference of CPA Practitioners pointed out that practitioners would now need to absorb some 5,593 pages of new provisions in the Consolidated Appropriations Act, better known as the COVID stimulus, on the heels of a new tax season. This includes tax extenders, deductibility of PPP expenses, the potential for second-draw PPP loans and a simplified process for PPP loan forgiveness for amounts under $150,000.

Accounting teams must make tax changes a focus, especially understanding total tax liability and navigating shifting trade and tariff policies.

Effectively navigating the tax law changes can ensure more funds are available to weather other business challenges ahead. Digitized, accurate and easy-to-access records with accounting software will make a complex tax year more manageable, especially when it comes to managing accurate deductions for business expenses. A system that can calculate and remit taxes will continue to show its value as regulations keep shifting.



CHAPTER 2

How NetSuite Financials Can Power Your Success

The benefits of accounting software for a growing business are extensive. Accounting software gives you visibility into all revenue and expenses and allows you to track and analyze key financial metrics over time. Additionally, this software can automate accounts receivable processes to help reduce days sales outstanding and increase cash flow. It also helps businesses track bills and make the most of their payment terms to optimize cash flow, all while maintaining strong relationships with key suppliers. Such a system makes it easier for companies to provide financial statements and other essential information required to secure financing and satisfy compliance standards.

NetSuite financial management is built on the same platform as its other business applications—including order management, inventory, CRM and commerce—so you have access to all organizational data in one place.

Many of the challenges covered here will persist over the length of owning and operating a business. While a feature-rich accounting system will not magically make these problems go away, it will make them more manageable. It will provide all the information decision-makers need to make more informed decisions that lead to better results. Businesses need to invest in this software early, when they're most vulnerable, because it will help them stay in business, then grow and thrive.

NetSuite financial management solutions expedite daily financial transactions, ensure compliance and accelerate the financial close. The cloud platform delivers real-time visibility into the financial performance of any business, from a consolidated level down to individual transactions.

azdan