

The Top Financial Challenges Faced By Small Business (and How To Overcome Them)



Running a small business is not for the faint of heart.

Even if you have a terrific idea and tons of customers clamoring for your product or service, the financial challenges of running a small business can quickly escalate.

While it's helpful for entrepreneurs to be prepared for those challenges, having solutions in place is even more important.

We'll go over the top challenges that small business owners face and provide you with some practical solutions for how to deal with those challenges.

1. Lack of Cash Flow

Whether your business is a startup or you've been in business for years, cash is king. The success (or failure) of your business rests on your cash flow.

Because cash flow measures the amount of money coming into and going out of a

business, it's the most reliable indicator of financial health.

Inconsistent cash flow can wreak havoc on a business and is the number one reason why businesses fail.

The bottom line is that if more cash is flowing OUT of your business than flowing INTO your business, you need to boost cash flow.

There are lots of ways to quickly increase cash flow, including better management of your accounts receivable balances.

You can start by limiting the number of customers you offer credit to. You can also change credit terms to Net 10 versus the more common Net 30 in order to be paid faster.

Another thing you can do is manage your inventory better. If you have a warehouse full of products or materials, you've effectively reduced your cash flow.

By limiting the amount of inventory you keep on hand, you'll have more cash flow into the business rather than out of the business.

The key is to implement and maintain proper cash flow management processes.

Run a cash flow statement weekly and look at where you stand in terms of total sales, purchases made, and money owed to you as well as the money you owe.

You may also want to calculate your free cash flow, which tells you how much money your business generates after all of your bills are paid.

Good cash flow is essential for business success. Make sure you monitor and manage it properly.

2. Insufficient Marketing and Advertising

Don't assume that if your products and services are great, people will find out.

While that may be true, by the time they do, you'll likely be out of business. In order to make money, people need to know that your business exists. To do that, you need to have a marketing and advertising plan.

While people tend to use the terms marketing and advertising interchangeably, they are very different things.

Marketing researches the market to better create a product or service, while advertising's main goal is to bring the completed product or service to the attention of the buying public.

For example, if you decide to create an organic dog biscuit, the marketing aspect would research the need for an organic dog biscuit. Are customers looking to purchase organic dog biscuits for their pets?

Are there currently any organic dog biscuits on the market that would compete with your biscuit?

And most importantly, what would differentiate your organic dog biscuit from the others that are currently available?

Once that marketing information is applied to your idea, you would then move to the advertising component, that alerts the public that your organic dog biscuit is available.

Social media also plays a huge role in both marketing and advertising. If you know your way around Facebook, Twitter, and Instagram, great. If not, find someone that does.

3. Not Using a Budget

Many new business owners spend hours creating a budget for their business, then proceed to put it in a desk drawer and never refer to it again.

Don't be that person.

A solid business plan and a realistic budget can help your business stay on track, but only if you use it properly.

A budget should never be static but instead, be used as a guide to determine how much on (or off) track your business finances are.

Using a budget helps you actively manage your income and business expenses in real-time, giving your business a solid blueprint for success.

4. A Lack of Capital

We already talked about cash flow. But equally important is working capital. It's difficult to grow and invest in your business without the necessary capital in place.

However, having sufficient capital is one of the biggest challenges small businesses face.

And while some businesses are lucky enough to have angel investors willing to fund operations, the majority of business owners start their business using credit cards or bank loans.

If you do look to lenders to obtain additional capital, be sure that you know what your business credit score is, since those that know their score are more likely to be approved for a line of credit, bank loan, or other business credit.

And don't forget to take a look at the numerous loan options offered by the Small Business Administration or SBA.

The best way to handle repetitive tasks is to take advantage of automation technology. Using technology in your business can improve communication, reduce the incidence of costly errors, and create flexibility.

5. Unexpected Expenses

You've prepared your budget, you monitor it regularly, and you spend wisely. But sometimes, that's not enough. The fact is, no matter how careful you are, you're likely to be hit with unexpected expenses.

Whether it's unexpected storm damage, vandalism, or a leaky roof, unexpected expenses can severely impact even the most careful financial planning.

You can prepare for unexpected variable expenses by padding your budget.

For example, if you estimate that your upcoming expenses will be \$100,000, budget for \$110,000.

But a better approach would be to implement procure-to-pay software to get

spend visibility on your committed spend. This will help avoid surprises while also helping with common accounts payable challenges.

6. Taxes and Government Compliance

As a small business owner, there are a lot of different taxes you're responsible for. Whether you're a sole proprietor, a partnership, or structured as a corporation, you'll need to pay taxes on profits earned for the year.

However, if you track your expenses properly, you can use some of those expenses as deductions, which will significantly reduce your tax liability.

This is the case whether you're a sole proprietor working out of your home or a corporation with dozens of employees.

Speaking of employees, you'll also have to pay employment tax for all of your employees as well as the employer portion of both Medicare and Social Security.

Whether you handle this in-house or use a payroll service, be sure to submit the required reports and tax payments on time, otherwise, you'll be hit with a penalty from the IRS. The same goes for any state or local taxes that may be due.

7. Mounds of Paperwork

You start a business because of your passion. But once you start, you realize just how much time is spent on mundane, repetitive tasks.

Suddenly, instead of baking pies, or offering consultations, you're handling bookkeeping, managing expenditures, and addressing other financial issues that take up most of your time, effectively cutting into your possible profit margin.

The best way to handle repetitive tasks is to take advantage of automation technology.

Using technology in your business can improve communication, reduce the incidence of costly errors, and create flexibility.

If you're still using manual systems, consider investing in a good computer and

find accounting software that will do the majority of your business accounting for you.

Having a system that handles your accounting can be extremely beneficial for small businesses.

For example, using software to process accounts payable can save you time and a lot of mistakes.

You can even take that a step further by using a software application such as PLANERGY that can help you with spending visibility, so you'll know exactly how much money is going out the door at all times.

Turning to technology simplifies financial management and lets you get back to what's important; running your business.

8. Hiring and Retaining Top Talent

As a result of the pandemic, recruiting and retaining quality employees at an affordable cost is more difficult than ever before, since small businesses often have to compete with larger corporations that typically offer a higher salary and a more comprehensive benefits package.

Another issue is retention. Onboarding new employees can be expensive, in both time and cost.

On average, bringing on an employee can cost a company upwards of \$4,000; an expense that can be difficult for a small business to absorb, so making sure they're a good fit for your business before hiring is important.

In addition, small business employees are more likely to seek career advancement elsewhere, should those opportunities not be offered in their current position.

In some cases, you cannot prevent your employees from leaving a position. But offering your employees a supportive environment, a competitive salary, good benefits, and room for advancement can go a long way towards helping your business retain its employees.

9. Staying Passionate

You likely started a business full of passion for the products or services you would be offering. But over time, that passion can fade, at times leaving you wondering why you started your business in the first place.

And when your level of passion drops, revenue typically follows suit.

Rest assured, there are ways to remain passionate about your business, starting with networking.

While some may shudder at the word networking, having an active association with other business leaders can help you to remember why you were compelled to start your business in the first place.

Adding a new product or service can also create a spark, while also working to increase revenue as well.

Another issue you'll need to address is burnout. While you'll likely continue to work long hours, make sure the majority of those hours are spent on your passion, and not on paperwork.

Find employees who can handle the day-to-day tasks so you can keep your focus on your products and services.

And finally, take the time to remember why drove you to start your business. Was it your desire to share your grandmother's recipes with the others?

Perhaps it was your love of beautiful landscapes or your passion to help others that drove you to start your business.

Remembering why you started your business can go a long way towards keeping the passion alive, and the revenues robust.

Conclusion

Small businesses help stimulate local economies, provide goods and services to consumers, and help to create the majority of new jobs.

In the U.S. alone, small businesses account for more than 99% of all businesses,

while employing more than 56 million Americans.

More than fueling an economy, small businesses are a way to fuel your passion. But owning a small business also comes with a unique set of challenges that you need to address.

Being prepared for these challenges can go a long way towards growing and maintaining your small business, both now and in the future.

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