

Proactive strategies for SMEs facing financial difficulties

Amid South Africa's ongoing economic turbulence, enterprises of all sizes grapple with a range of difficulties. These encompass frequent power disruptions, increasing interest rates, as well as incessant surges in petrol prices and interest rates. These challenges are sufficient to induce dizziness in anyone, underscoring the necessity for businesses to embrace innovative strategies to navigate these demanding circumstances.



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PJ Veldhuizen, MD of commercial law firm Gillan & Veldhuizen, says, "It's all about managing your cash flow during these tricky times."

Businesses should do regular cash flow checks and identify any potential money troubles ahead of time, to plan accordingly, adjust payment schedules, cut down on non-essential expenses and make the most of your working capital to improve cash flow.

Veldhuizen shares some measures for businesses in South Africa to safeguard their financial stability:

Stay on top of payments

"When you see you are about to start defaulting, don't wait to see if anyone notices because if you thought nobody cared about you, wait until you miss an instalment," remarks Veldhuizen. Keep creditors happy by paying them on time.

If you're on good terms, you might even chat with them to work out extended payment terms or other arrangements. "If you don't engage with creditors they will have no alternative but to relieve you of your assets," he adds.

Consider business rescue

Businesses facing severe financial distress should consider business rescue as a proactive measure. Under the

Companies Act, initiating business rescue proceedings allows a company to restructure its affairs with the aid of a business rescue practitioner, aiming to ensure the company's sustainability and protect stakeholders' interests.

“Business Rescue is like a superhero move for companies; an expert comes in to help re-organise things, so that your business can keep on going, and look out for the people who rely on it,” adds Veldhuizen.

Try mediation or dispute resolution

When facing financial difficulties and contractual disputes, businesses should explore mediation and alternative dispute resolution methods. Mediation offers a collaborative and cost-effective approach to resolving disputes, helping businesses reach mutually beneficial agreements with creditors, contractors or other stakeholders.

You might just end up with a win-win solution for you, your suppliers, and anyone else involved.

Check your solvency/insolvency status

If your business cannot meet its money obligations, it's time for an solvency/insolvency check.

“This isn't the end of the world - it's a way to figure out what's next,” says Veldhuizen. Seeking expert advice to understand the implications of insolvency and exploring restructuring options may provide workable solutions to avoid further financial distress or liquidation.

On a positive note, company liquidations in South Africa are on the decline. According to recent data from Statistics SA there were 802 fewer liquidations this year compared to the same time last year – that's a 14% drop and while we're not out of the woods just yet, this downward trend provides a glimmer of hope for businesses.

“As the economy starts to steady itself, we've got to keep our proactive hats on to avoid any financial road bumps,” adds Veldhuizen.

Business leaders need to keep their wits about them, be quick on their feet, and call in the experts when times get tough.

Engaging with stakeholders openly and honestly, and seeking professional advice from insolvency experts and business rescue practitioners can make all the difference for a struggling business.