Cash Flow Forecasting Guide for SA SMMEs

Master Your Cash Flow, Master Your Business

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Introduction

Cash flow is the lifeblood of your business. You can be profitable on paper but still run out of cash to pay suppliers, staff, or rent. In fact, **82% of small businesses fail due to cash flow problems**, not lack of profit.

This guide teaches you how to forecast your cash flow 3 months ahead, so you can: - ✅ Predict cash shortages BEFORE they happen - ✅ Make confident decisions about spending and hiring - ✅ Sleep better at night knowing you won't run out of money

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Why Cash Flow Forecasting Matters

The Difference Between Profit and Cash

Profit = Revenue - Expenses (on paper)
Cash Flow = Money actually in your bank account

Example: You sell R100,000 worth of goods in January. Your costs were R60,000. You made R40,000 profit, right?

But: - Customers pay you in 60 days (March) - You must pay suppliers in 30 days (February) - Salaries are due end of January

Result: You're R40,000 profitable but have ZERO cash in January and February. You can't pay staff or suppliers. **This is how businesses fail.**

The SA SMME Reality

South African SMMEs face unique cash flow challenges:

1. **Late Payments**: SA average is 60-90 days (some customers pay 120+ days late)
2. **Load Shedding**: Unexpected costs for generators, solar, lost productivity
3. **Economic Volatility**: Rand fluctuations, inflation (5-7% annually)
4. **High Cost of Credit**: Bank overdrafts cost 15-25% interest
5. **VAT Timing**: You collect VAT from customers but pay it to SARS later (cash trap)

Without forecasting, you're flying blind.

The 3-Month Rolling Forecast Method

Why 3 Months?

- **1 month**: Too short - doesn't show trends
- **12 months**: Too long - too many unknowns, becomes guesswork
- **3 months**: Just right - actionable, realistic, adjustable

How It Works

Month 1: Based on confirmed orders and commitments (90% accurate)
Month 2: Based on pipeline and trends (70% accurate)
Month 3: Based on assumptions and seasonality (50% accurate)

Every month: 1. Compare actual vs forecast (learn from mistakes) 2. Delete the oldest month 3. Add a new Month 3 4. Refine your assumptions

This creates a **rolling forecast** that improves over time.

Step-by-Step: Building Your First Forecast

Step 1: Gather Your Data

You'll need: - ✅ Current bank balance - ✅ List of customers who owe you money (debtors) - ✅ List of suppliers you owe money (creditors) - ✅ Fixed monthly costs (rent, salaries, insurance) - ✅ Variable costs (stock, transport, marketing) - ✅ Upcoming large expenses (tax, equipment, licenses)

Tip: If you don't have this data, start tracking it NOW. Use a simple Excel sheet or accounting software like Xero, Sage, or QuickBooks.

Step 2: Open the Forecast Tool

The tool has 4 tabs: 1. 📈 **Dashboard**: Your cash flow at a glance 2. 📖 **Instructions**: How to use the tool 3. ⚙️ **Setup**: Your business details and assumptions 4. 📊 **3-Month Forecast**: The actual forecast

Start with ⚙️ **Setup**.

Step 3: Enter Your Setup Details

Business Name: Your business name
Forecast Start Month: Today's month (e.g., November 2025)
Starting Cash Balance: What's in your business bank account RIGHT NOW

Key Assumptions (be conservative!): - **Average Monthly Sales**: What you're confident you'll sell - **Sales Growth Rate**: 5% = 0.05 (monthly growth, if any) - **% Cash Sales**: How much is paid immediately (vs credit) - **Average Collection Days**: How long customers take to pay (60-90 days in SA) - **Cost of Goods Sold %**: If you sell R100, how much did it cost you? (e.g., 50%) - **Supplier Payment Days**: How long before you pay suppliers (30 days typical)

Example: - You sell R100,000/month - 30% is cash sales (R30,000 immediate) - 70% is credit sales (R70,000 paid in 60 days) - Your costs are 50% (R50,000) - You pay suppliers in 30 days

Step 4: Fill in the 3-Month Forecast

Go to 📊 **3-Month Forecast** tab.

CASH IN (Money Coming In): - **Cash Sales**: Sales paid immediately - **Collections from Debtors**: Credit sales from 60-90 days ago - **Loans/Funding**: Any loans or grants you're receiving - **Other Income**: Rent from property, interest, etc.

CASH OUT (Money Going Out): - **Suppliers/Stock**: Payments for stock or raw materials - **Salaries & Wages**: Staff costs (including UIF, PAYE) - **Rent**: Office, shop, or warehouse rent - **Utilities**: Electricity, water, internet, phone - **Transport/Fuel**: Delivery vehicles, travel - **Marketing**: Ads, social media, promotions - **Bank Charges**: Transaction fees, card fees - **Insurance**: Business, vehicle, liability insurance - **Licenses & Permits**: Annual renewals - **Loan Repayments**: Monthly loan or overdraft payments - **VAT Payment**: Bi-monthly VAT to SARS (if registered) - **Tax**: PAYE, provisional tax, company tax - **Load Shedding Costs**: Generator fuel, solar maintenance - **Other Expenses**: Anything else specific to your business

Tip: Start with Month 1 (most accurate), then Month 2, then Month 3.

Step 5: Review Your Dashboard

Go to 📈 **Dashboard** tab.

You'll see: - **Summary table**: Cash In, Cash Out, Net Flow, Closing Balance for each month - **Status**: ✅ Healthy, ⚠ Low, or 🚨 Negative - **Key Insights**: Which month is tightest, biggest expenses - **Action Items**: What to do if cash is low or negative

Red Flags: - Any month with negative closing balance - Closing balance below R10,000 (or 1 month's expenses) - Cash Out consistently higher than Cash In

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Interpreting Your Results

Scenario 1: All Months Positive, Healthy Balance

Example: - Month 1: R50,000 closing - Month 2: R60,000 closing - Month 3: R70,000 closing

What It Means: You're in good shape! Cash is growing.

Actions: - ✅ Build an emergency fund (3-6 months' expenses) - ✅ Consider investing surplus (high-interest savings, growth opportunities) - ✅ Maintain discipline - don't overspend just because you have cash

Scenario 2: One or More Months Low (<R10,000)

Example: - Month 1: R30,000 closing - Month 2: R8,000 closing ⚠ - Month 3: R25,000 closing

What It Means: Month 2 is tight. A small unexpected expense could cause problems.

Actions: - ⚠ Chase late-paying customers (focus on Month 2) - ⚠ Negotiate payment terms with suppliers (ask for 60 days instead of 30) - ⚠ Delay non-essential spending (marketing, equipment upgrades) - ⚠ Arrange an overdraft facility BEFORE you need it

Scenario 3: One or More Months Negative

Example: - Month 1: R20,000 closing - Month 2: -R15,000 closing 🚨 - Month 3: R10,000 closing

What It Means: URGENT. You will run out of cash in Month 2.

Actions: - 🚨 **Immediate**: Arrange short-term funding (overdraft, loan, invoice financing) - 🚨 **Cut costs**: Delay all non-essential spending - 🚨 **Accelerate collections**: Offer discounts for early payment, chase hard - 🚨 **Delay payments**: Communicate with suppliers, ask for extensions - 🚨 **Increase sales**: Run a promotion, offer payment plans to customers

Don't ignore this! Negative cash flow kills businesses.

SA-Specific Cash Flow Strategies

1. Managing Late Payments

The Problem: SA average payment terms are 60-90 days. Some customers pay 120+ days late.

Solutions: - **Offer early payment discounts**: 5% off if paid within 7 days - **Invoice immediately**: Don't wait until month-end - **Follow up aggressively**: Call on day 31, 45, 60 - **Use invoice financing**: Companies like Bridgement or Lulalend advance you 80-90% of invoice value - **Require deposits**: 30-50% upfront for large orders

2. Load Shedding Contingency

The Problem: Load shedding costs money (generators, lost productivity, spoiled stock).

Solutions: - **Budget R2,000-R10,000/month** for backup power (depending on stage) - **Solar investment**: Payback period is 3-5 years, then it's free power - **Adjust operating hours**: Work during daylight, close during peak load shedding - **Charge customers more**: Build load shedding costs into your pricing

3. VAT Cash Flow Management

The Problem: You collect VAT from customers but pay it to SARS bi-monthly. It feels like your money, but it's not.

Solutions: - **Separate VAT account**: Move 15% of every sale to a separate account immediately - **Don't spend VAT**: Treat it as SARS's money, not yours - **Claim input VAT promptly**: Ensure you claim all VAT on purchases - **Consider cash accounting**: If turnover <R2.5m, you can pay VAT only when you receive payment

4. Seasonal Cash Flow Planning

The Problem: Many SA businesses have seasonal peaks (December retail, January tourism, April tax season).

Solutions: - **Build cash reserves in good months**: Save 20-30% of surplus - **Negotiate flexible supplier terms**: Pay more in good months, less in bad months - **Diversify revenue**: Add off-season products or services - **Plan large expenses for good months**: Don't buy equipment in your slow season

5. Currency Fluctuations (Importers/Exporters)

The Problem: Rand volatility affects costs (importers) or revenue (exporters).

Solutions: - **Hedge currency risk**: Use forward contracts to lock in exchange rates - **Price in rands**: If possible, avoid pricing in USD/EUR - **Build in buffer**: Add 10-15% to quotes to absorb currency swings - **Review pricing monthly**: Adjust if rand moves significantly

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Common Cash Flow Mistakes (And How to Avoid Them)

Mistake 1: Being Too Optimistic

Example: "I'll definitely sell R200,000 this month!"

Reality: You sell R120,000. Now you can't pay suppliers.

Solution: **Conservative forecasting**. Use your lowest sales month from last year as the baseline.

Mistake 2: Forgetting Irregular Expenses

Example: You forecast monthly costs perfectly, then get hit with R15,000 annual insurance renewal.

Solution: **Annualize irregular costs**. Insurance R15,000/year = R1,250/month. Budget this monthly.

Irregular expenses to remember: - Insurance (annual) - Licenses and permits (annual) - Company tax (bi-annual) - Equipment maintenance (quarterly) - Accounting/audit fees (annual)

Mistake 3: Mixing Business and Personal Cash

Example: You take R10,000 from the business account for personal use. Forecast doesn't account for it. Cash runs out.

Solution: **Pay yourself a salary**. Fixed amount, every month, included in forecast.

Mistake 4: Not Updating the Forecast

Example: You create a forecast in January. It's now June. You're still using January's numbers.

Solution: **Monthly review ritual**. Last day of every month: 1. Compare actual vs forecast 2. Delete oldest month 3. Add new Month 3 4. Adjust assumptions

Mistake 5: Ignoring the Forecast

Example: Forecast shows Month 2 will be negative. You ignore it. Month 2 arrives. You can't pay salaries.

Solution: **Forecasts are warnings, not predictions**. If it shows a problem, ACT NOW to fix it.

Advanced Cash Flow Strategies

1. Cash Flow Forecasting by Week

For very tight cash situations, forecast weekly instead of monthly.

When to use: - You're close to running out of cash - You have large, irregular payments - You're in a turnaround situation

How: Same method, but break each month into 4 weeks.

2. Scenario Planning

Create 3 forecasts: - **Best case**: Sales 20% higher than expected - **Base case**: Your realistic forecast - **Worst case**: Sales 20% lower than expected

Use: Helps you plan for uncertainty. If worst case is negative, you MUST take action now.

3. Cash Conversion Cycle

Formula: Days Inventory + Days Receivable - Days Payable

Example: - You hold stock for 30 days - Customers pay in 60 days - You pay suppliers in 30 days - **Cash Conversion Cycle**: 30 + 60 - 30 = 60 days

What it means: You're funding 60 days of operations. The lower this number, the better your cash flow.

Improve it: - Reduce inventory (order more frequently, just-in-time) - Collect faster (chase debtors, early payment discounts) - Pay slower (negotiate longer terms with suppliers)

4. Working Capital Management

Working Capital = Current Assets - Current Liabilities

Current Assets: Cash, debtors, inventory
Current Liabilities: Creditors, overdraft, short-term loans

Healthy ratio: 1.5 to 2.0 (R1.50-R2.00 in assets for every R1.00 in liabilities)

If ratio is low (<1.2): You're at risk. Focus on building cash reserves.

Tools and Resources

Accounting Software (Automates Cash Flow Tracking)

For Micro/Small SMMEs (R0-R500/month): - **Wave**: Free accounting software - **Xero**: R300-R500/month, excellent for SMMEs - **Sage Business Cloud**: R200-R400/month - **QuickBooks**: R300-R600/month

For Medium SMMEs (R500-R2000/month): - **Sage 50cloud**: R800-R1500/month - **Pastel**: R600-R1200/month

Invoice Financing (Get Cash Faster)

- **Bridgement**: Advance 80-90% of invoice value
- **Lulalend**: Short-term business loans
- **Retail Capital**: Cash advances based on card sales

- **Merchant Capital**: Flexible business funding

Government Support

- **sefa** (Small Enterprise Finance Agency): Loans R50k-R5m
- **SEDA** (Small Enterprise Development Agency): Free business support
- **IDC** (Industrial Development Corporation): Funding for manufacturing

Free Cash Flow Templates

- **Operiva**: This tool!
- **Microsoft Office**: Free Excel templates
- **Google Sheets**: Search "cash flow forecast template"

Monthly Cash Flow Review Checklist

Last day of every month, spend 30 minutes on this:

✅ Step 1: Compare Actual vs Forecast

- What was your actual closing balance?
- What did you forecast?
- Difference? Why?

Common variances: - Sales lower than expected - Customer paid late - Unexpected expense - Supplier payment early

✅ Step 2: Update Assumptions

Based on what you learned: - Adjust sales growth rate - Update collection days - Revise cost assumptions

✅ Step 3: Roll Forward

- Delete Month 1 (it's now history)

- Month 2 becomes Month 1
- Month 3 becomes Month 2
- Add new Month 3

✅ Step 4: Check for Red Flags

- Any month negative?
- Any month below R10,000?
- Cash Out > Cash In for 2+ months?

✅ Step 5: Take Action

If red flags exist: - What will you do THIS WEEK to fix it? - Who do you need to call? - What expenses can you cut?

Write down 3 specific actions. Do them.

Conclusion

Cash flow forecasting isn't glamorous, but it's the difference between businesses that survive and those that don't.

Key Takeaways: 1. ✅ Profit ≠ Cash. You can be profitable and still run out of money. 2. ✅ Forecast 3 months ahead, update monthly. 3. ✅ Be conservative with sales, realistic with costs. 4. ✅ Act on warnings - don't ignore negative months. 5. ✅ SA-specific challenges (late payments, load shedding, VAT) require extra planning.

Your Next Step: Open the Cash Flow Forecast tool, enter your numbers, and see where you stand. It takes 30 minutes. It could save your business.

Need Help?

Visit **operiva.com** for: - Free and premium business artifacts - Financial management guides - Expert council resources - SMME community forum

Good luck mastering your cash flow!

This guide is part of the Cash Flow Forecasting artifact package by Operiva.