5 FINANCIAL TRENDS

Small business owners need on their radar in 2023

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The five financial trends that small business owners need on their radar in 2023

A new year always marks a fresh start, and the new financial year is no different. It's an ideal time for SMEs to reflect on the previous 12 months and put their best foot forward for the year ahead.

Businesses have faced an onslaught of economic pressures over the last year. The war in Ukraine led to global supply chain challenges and inflation in the UK was pushed to the highest levels for 40 years. Rising energy, fuel and food costs had a knock-on effect on customer spending, leading many to tighten purse strings.

The businesses that have survived this turbulence have already shown remarkable resilience. But while the Bank of England believes inflation has now "turned a corner" and will fall from the middle of 2023, we aren't out of the woods yet. There are a number of financial challenges on the horizon that business owners will be focusing on.

As we enter the new financial year, the opportunities and challenges for small businesses continue to test the best of us. Increasing a business revenue line invariably comes with increased costs – keeping these costs to a minimum is key to enabling company growth, which will maximise company profit.”

– Graham Smith, Managing Director at Volopa

The planned increase to corporation tax went ahead at the start of April, rising from 19% to 25%. It coincided with the end of the government's support for non-household energy bills, leaving business owners braced for a sharp rise in costs.

In response, most SMEs will be looking at how they can better manage their spending and save on operating costs in 2023. Those that will prosper this year will be the ones that can utilise technology to improve internal efficiency, track expenses and cut back on waste.

In this whitepaper, you'll learn:

- Financial management lessons from previous downturns
- The top five financial trends for SMEs in 2023
- Practical ways you can get a better grip on your finances

Financial management lessons from previous downturns

Good financial management is important when costs are high elsewhere. This involves focusing on what you can control and being proactive about taking measures to improve efficiency.

At the time of writing, the UK has narrowly avoided a recession in 2023 but we're still in a downturn. Growth is flat and over half of consumers have cut back on non-essential spending, with a third planning to use savings to help with energy costs instead.

From the pandemic to the cost of living crisis, the poor economic outlook has felt relentless over the past five years. However, the good news is that businesses like yours have been here before – and survived.

There's a lot that we can learn from previous downturns about not only protecting your business but setting yourself up to thrive when the economy starts to grow again.

Severe cost cutting isn't always the answer

When faced with financial pressure, the instinct is to go into crisis mode and reduce costs across the board. However, research shows that companies that embark on severe cost cutting (e.g. shrinking discretionary expenses, lowering head count and preserving cash) during economic downturns rarely flourish.

Harvard Business Review spent a year analysing business strategies during global recessions, looking at the three years before a recession, the three years after and the recession years themselves. Its results are surprising, mainly because the winners aren't those you'd expect. Businesses that cut costs quickly and deeply didn't necessarily thrive, and had the lowest probability (21%) of pulling ahead of the competition when the economy improved. Equally, those that boldly invested didn't always fare better, with only a 26% chance of becoming leaders after a downturn.

Companies with the highest chance of outperforming the competition (37%) were the ones that balanced defensive and offensive measures during a downturn – cutting costs to survive today but investing enough to grow tomorrow. These companies reduced costs by focusing on operational efficiency, but invested in areas like marketing and R&D.

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It's a good time to invest in technology

One study compared more than 100 million job listings from 2007 to 2015 to see how the Great Recession (December 2007 to June 2009) affected the skills employers wanted. It found that there was a surge in digital skill requirements during this time, particularly in areas that were hardest hit by the recession.

While many business owners might hesitate to invest in new technology when times are tough, there's plenty of logic to it:

- **The opportunity cost is lower**

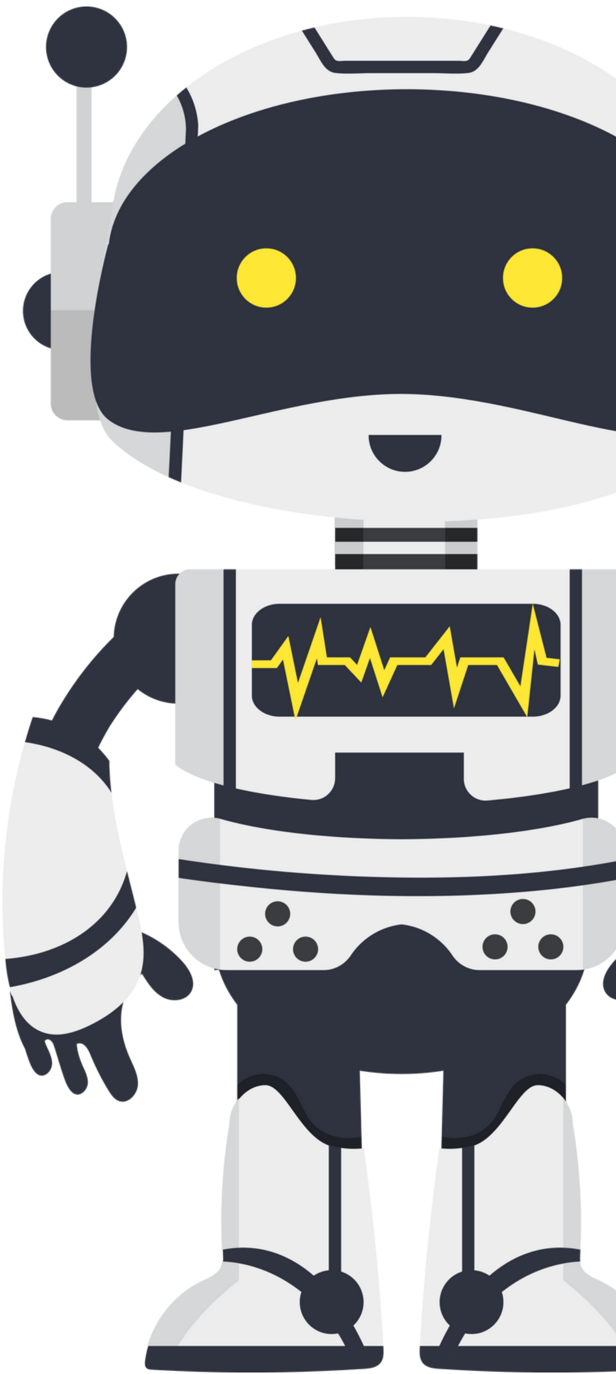
  One reason is that the opportunity cost is lower than in strong economic conditions. If you funnel internal time and resources into a technology investment when you're busy, it's time and resources you could have put into winning more business or delivering more for customers.

- **Greater flexibility and insight**

  Technology also makes your business more agile and flexible – something that's crucial when SMEs need to react quickly to changing market conditions. It can be used to speed up processes, simplify time-consuming tasks and improve visibility across the business, preventing silos from forming. The knock-on effect is that business owners have greater insight into business operations, allowing them to make better informed decisions about what to do next.

- **Technology can deliver instant results**

  It's worth noting that the technology you invest in should have an immediate impact, rather than be something you tap into two or three years down the line. For example, look for technology that can automate a complicated or time-consuming process and deliver instant time savings to your team.



Top five financial trends for 2023

If we take those learnings into 2023, it's clear that improving efficiency should be a key priority for SMEs over the next 12 months. It not only protects your bottom line in the short term, but will ensure costs stay low when customer demand returns.

Of course, reducing operating costs on a permanent basis is easier said than done. You need to be able to maximise your output from your given resources; to find ways to cut down the time you're spending on tasks without sacrificing on the end result for customers. Many of the biggest financial trends for this year echo this need for enhanced efficiency and visibility over business processes. They demonstrate how technology can be utilised to improve productivity and reduce costs, from automating processes to faster expense management.

Turn overleaf for the top five financial trends for business owners.

1.

Automation

Automation is a long-term business trend which will continue into this financial year. While automation has been transforming business processes and roles for a while now, there's been a new wave of innovation since the pandemic disrupted the labour market.

You can use automation to streamline workflows, reduce human error and give employees the time to focus on the most high-impact tasks. The latter point is especially crucial with global hiring shortages expected to continue – automation gives you greater flexibility to scale operations without having to go through a lengthy (and expensive) hiring process. Tasks that you should be automating in 2023 include:

- **Payroll**

  If you aren't already automating payroll, it should be the first place to start. Processing payroll manually each month takes up valuable time that could be better spent elsewhere, and there's always the risk of mistakes.

  Automating payroll will ensure your staff always get paid the right amount and it's on time. It also means that the person responsible doesn't always have to be around.

- **Expenses**

  Automation can speed up the filing, processing and payment of expense claims, cutting down on the time-consuming admin associated with expense reporting. With expense management software, staff can easily capture receipts at the point of purchase and add notes to each transaction.

  Software can be synced with the business's accounting system, giving business owners greater visibility and control over employee spend and cash flow.

- **Meeting bookings**

  If you have a lot of meetings, an easy way to improve efficiency and cut back on wasted time is to take the back and forth out of the equation. There are a number of popular appointment scheduling tools that allow people to see your availability and book a meeting.

- **Accounting**

  Similar to expenses, automating your accounting and financial management frees you up from repetitive, time-consuming tasks allowing you or your accountant to focus on more rewarding, high-value work such as data analytics and forecasting.

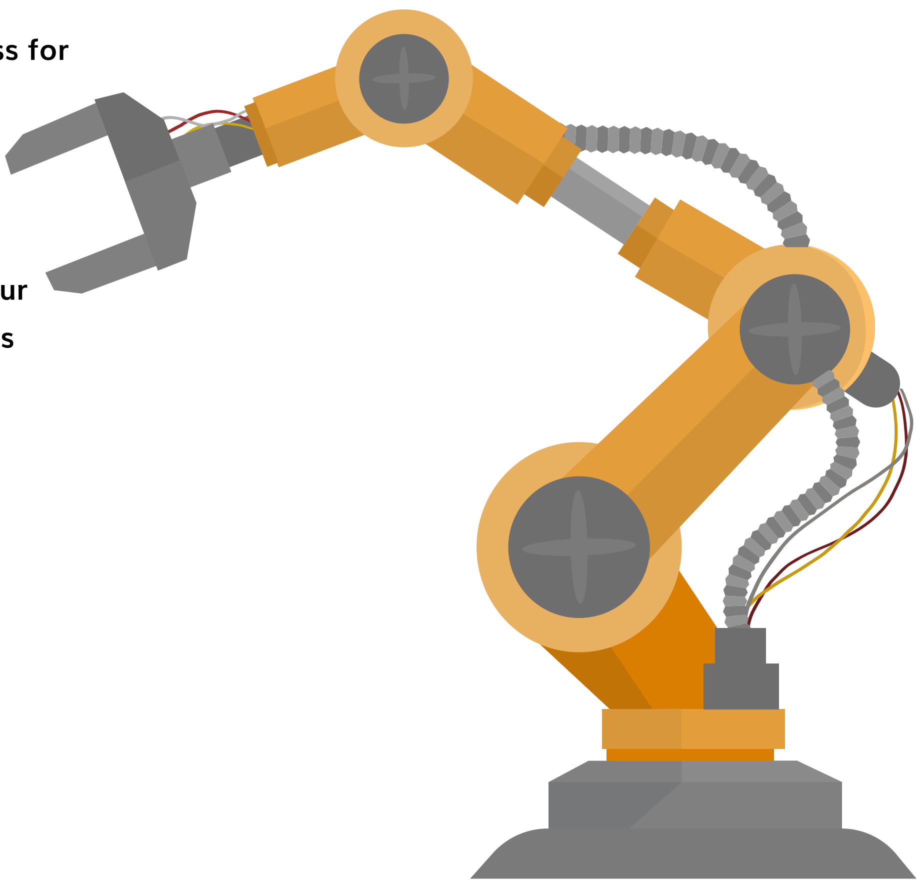
  Automating core processes such as taxes, bookkeeping, invoicing and accounts payable/receivable means tasks are completed instantly and more efficiently, reducing operational costs and increasing accuracy. Having a robust reporting process for your management accounts also means you can save time and improve focus.

  When you're trying to protect your bottom line and improve business performance, accurate financial reporting is essential to inform business decisions and strategy.

- **Inventory management**

  When you first start out, this might be as simple as a notepad and pen. But as your business grows, this will likely move through an Excel spreadsheet to a more comprehensive system that removes the need for manual processing and risk of human error – saving your business time and money.

  Automating your inventory saves you time by simplifying your workflows and making everything much more joined up. It's particularly useful for industries such as retail, where you've got lots of stock to manage, allowing you to manage your inventory in real time and helping to identify bottlenecks, make business-critical decisions and drive efficiency.



2.

Buy now, pay later

Buy now, pay later (BNPL) methods allow customers to buy products or services on credit and pay for them at a later point in time, often interest free.

The demand for pay-later methods has been a steadily growing trend in recent years, particularly with the cost of living crisis putting pressure on people's finances. Swedish BNPL firm Klarna was named Europe's most valuable fintech unicorn in 2020; a year later, it was valued at almost $46 billion.

While Klarna has since made multiple rounds of layoffs in the face of higher interest rates, there's no sign that interest in BNPL is waning. Usage continues to be strong, particularly amongst younger generations – research from Forbes Advisor found that consumers aged 18-24 are most reliant on BNPL services. More than two thirds (70%) of BNPL shoppers have turned to these services more often during the cost of living crisis.

Apple also recently moved into the BNPL market, with the much-anticipated launch of Apple Pay Later in the US. The service allows customers to split purchases into four payments with no interest or fees.

3.

Artificial intelligence

Artificial intelligence (AI) has made large strides in recent years, becoming more advanced but also more accessible. Gone are the days where AI was an exclusive tool for big corporations – it's easier than ever for SMEs to leverage the technology.

Recent AI breakthroughs have hit headlines around the world, from chatbot ChatGPT to deep-learning technologies that can outperform humans.

ChatGPT in particular is a landmark moment for AI mainstream usage: it took just two months to reach 100 million users and sparked a global conversation. According to its creator, OpenAI, the dialogue format makes it possible for it to "answer follow-up questions, admit mistakes, challenge incorrect premises and reject inappropriate requests".

ChatGPT is incredibly advanced, but it's still in its early stages. Like any AI tool, it has its limitations – it shouldn't be your first port of call for health, financial or legal advice, and it can't guarantee information is 100% accurate. Plus, the data available is limited to 2021, meaning some information may be outdated.

That said, the existing tool already has the potential to revolutionise how SMEs operate. It can be used to save time, streamline workflows and access skills you don't have in-house. In doing so, it gives SMEs the capabilities to compete with bigger firms and scale their business in new ways.

It can be utilised in a number of ways, including:

- **To create marketing copy**

  Social posts, email marketing, adverts, product descriptions, blog posts – there's a huge amount of marketing copy that businesses need to write on a regular basis. Asking ChatGPT to put together a dozen social posts to celebrate a new product launch will save your team a lot of time, but make sure you modify any posts to ensure they're in the right tone of voice.

- **To speed up customer service enquiries**

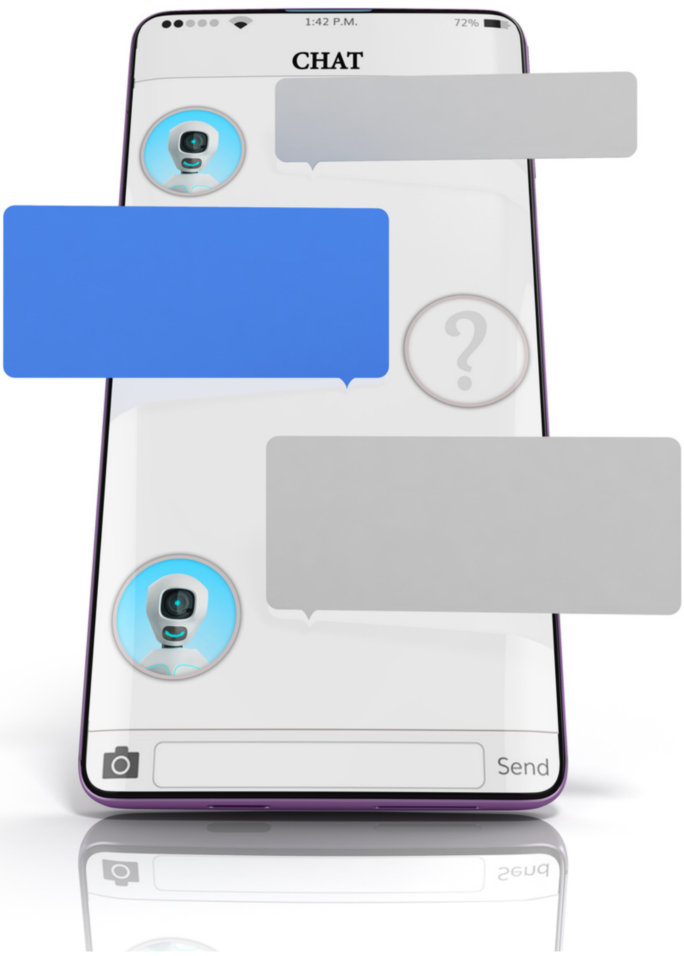
  Chatbots have been helping to automate customer service for a while now, but ChatGPT adds a new dimension. While you shouldn't rely on the tool for every aspect of customer service (some things still require a level of human interaction), it can automate tasks like:

  - Dealing with simple customer requests
  - Replying to frequently asked questions
  - Providing guidance and instructions for common issues

Utilising a tool like ChatGPT helps customers get a quick response, but it also saves time, maximises efficiency and frees up your team to focus on more advanced enquiries.

- **To generate simple code**

  If you want to add some code to tweak a page on your website, it can be expensive to pay for freelance web development time. You can ask ChatGPT to write simple code (for example, HTML for a WordPress site) but it wouldn't be wise to trust it with complex programming projects.



4.

Improved forecasting and scenario testing

Artificial intelligence will also play a role in another major business trend over the next year: next-level forecasting and scenario testing.

Ali Al Bajati, Head of Product at Volopa, explains that one of the biggest challenges for SMEs will be protecting themselves against further increases in operational costs. These increases are expected to be driven by the rise in the cost of imported materials and higher interest rates.

This, in turn, will drive greater usage of AI to assist with forecasting and scenario testing.

"With recent AI developments, the obvious next step will be for financial directors, CFOs or treasurers to utilise this technology to help them accurately forecast spending and budgets. This can be based on historic spend, but also future inflation rates, interest rates, currency fluctuations, economic growth or GDP, specific events and the political environment," Ali said.

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– Ali Al Bajati, Head of Product at Volopa

"SMEs can then adjust certain parameters to test different scenarios, and therefore be able to pre-empt and adapt to the challenges brought about by the increases in operational costs."

5.

Cybersecurity

Cyberattacks on businesses have become increasingly frequent and complex in recent years, as more companies move their systems online and work remotely. A successful cyberattack can have severe consequences, from disrupted operations to reputational damage and lost revenue.

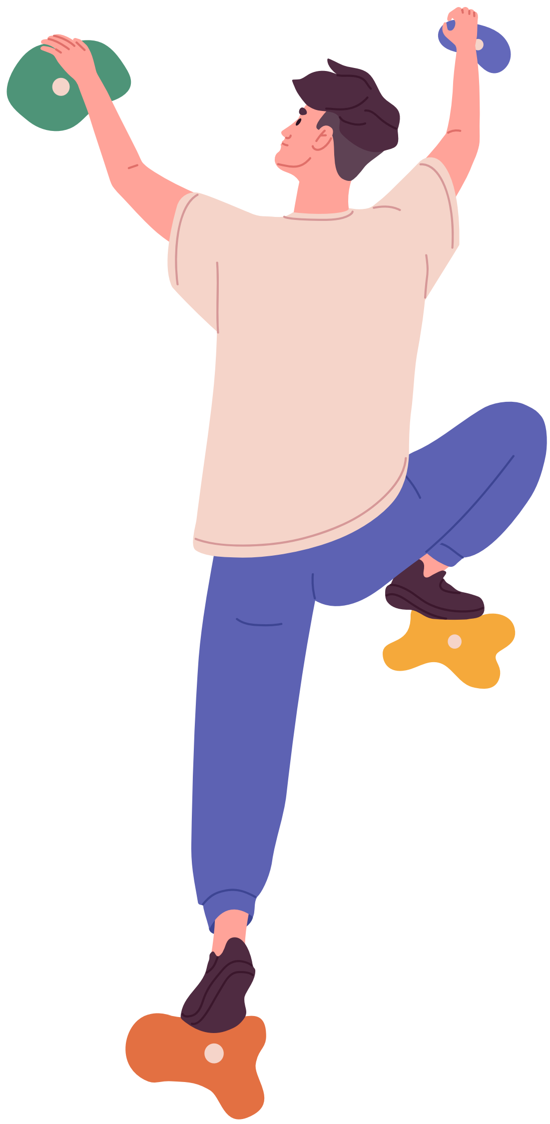
The UK government tracks breaches and attacks on micro and small businesses across the country. Around 38% of micro and small businesses have identified a cyberattack in the last 12 months, with 82% reporting phishing attempts and 25% identifying a more sophisticated attack type, such as a denial of service, malware or ransomware attack.

As the data shows, phishing attacks remain the most common threat for SMEs. Part of what makes them so effective – and damaging – is that they use social engineering to target humans rather than system weaknesses.

Cybercriminals will often pretend to be a colleague or trusted contact, or impersonate a well-known brand like Microsoft, Amazon or DocuSign. They will then encourage a user to click a malicious link or download an attachment, which can give them access to your systems.

Business owners need to be laser focused to not only ensure their systems are robust and secure, but that staff are trained to use strong passwords, regularly update their software and recognise phishing attempts. As the adage goes, your cybersecurity is only as strong as your weakest link.

Getting a better grip on finances



With the lessons learned from previous downturns and current financial trends in mind, what proactive steps can business owners take to get a better grip on their finances? We turned again to Volopa's Ali Al Bajati to get his three main tips for better financial management in 2023.

1.

Improve efficiency and reduce your working capital cycle

It's no surprise that introducing cost efficiencies is top of the bill – it's been a vital element in previous downturns and will help to optimise liquidity.

A key part of this will be to reduce your working capital cycle where possible. Your capital cycle is the time it takes between your investment in goods (manufacturing, freight, customs duties, marketing etc) to when you receive payment for their sale.

This investment can quickly add up, particularly with material and shipping costs among those spiralling over the last year. And, even when a customer makes a purchase, it can still take weeks for the cash to appear in your bank account if they've paid with a credit card.

Reducing your working capital cycle means that you have less capital held up in stock and greater liquidity. This gives you more capital to invest in your business growth or fall back on during any difficult periods.

The most obvious place to start is with your supply chain. Look critically at the current process to see if there are bottlenecks or inefficiencies between your initial outlay and when the customer's payment arrives in your account.

Ali also recommends looking at areas across your business that present material risks to liquidity:

"Look at your current solutions and processes for payments and expense management, collections and cash management, and financing and borrowing. You'll also want to look at your management of foreign exchange markets, cyber and supply chain risks."

You need to ensure your financial reports are created based on accurate and up-to-date information."

– Ali Al Bajati, Head of Product at Volopa

2.

Enhance reporting to maximise visibility

Better reporting processes gives you improved visibility over what's happening in every area of your business.

Ali emphasises the importance of maintaining an open relationship with stakeholders, which can help to keep information accessible and up to date.

"Review your current bookkeeping and reconciliation processes – are they integrated with other systems? Is the data available real time? You need to ensure your financial reports are created based on accurate and up-to-date information."

3.

Utilise forecasting to spot trends

Forecasting allows you to spot market developments and trends early, so your business has time to adapt and take advantage of any new opportunities.

Demand forecasting in particular uses predictive analysis of historical data to gauge and predict future demand for your product or service. This type of forecasting will give you a realistic idea of the amount of stock you're likely to need, which will help to improve your liquidity.

"Extend the reporting function to demand and revenue forecasting, cash flow forecasting and inventory and risk forecasting. You should also be conducting proactive scenario testing," Ali said.

The benefits of better expense management

To thrive over the next 12 months, business owners need to be able to work efficiently, manage cash flow and develop robust reporting processes to improve forecasting.

Expense management software enhances productivity by automating every step of the process, from recording to reimbursement. This means less time spent on manual tasks like chasing receipts or signatures, and fewer errors in your expense data. Your employees can quickly share any expense claims and then get back to the high-value tasks that matter.

The benefits are also numerous when it comes to improving visibility across your organisation and managing cash flow. Your expense management software should give you real-time insight into spending, so you can set budgets based on the most up-to-date information.

Volopa takes the hassle out of business expenses by providing complete visibility over your company's spending. Our smart cards and seamless expense management system help to save time and increase transparency, giving you instant control over employee budgets.

"At Volopa, we are committed to empowering businesses to thrive in exactly this environment, and we are committed to working together with our clients to achieve success."

“Embracing technological innovation and partnering with forward-thinking financial services companies is the first step towards solving some of the challenges over the next financial year. The next step is to have a clear focus on delivering products and services that streamline specific client operations and reduce costs at the heart of your business.

– Graham Smith, Managing Director at Volopa

With Volopa, you can:

- Eliminate reimbursements and out-of-pocket payments
- Cut down on time-consuming administration
- Easily capture receipts and add notes to transactions with the Volopa Business App

Find out more or book a free demo to see how it all works.

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