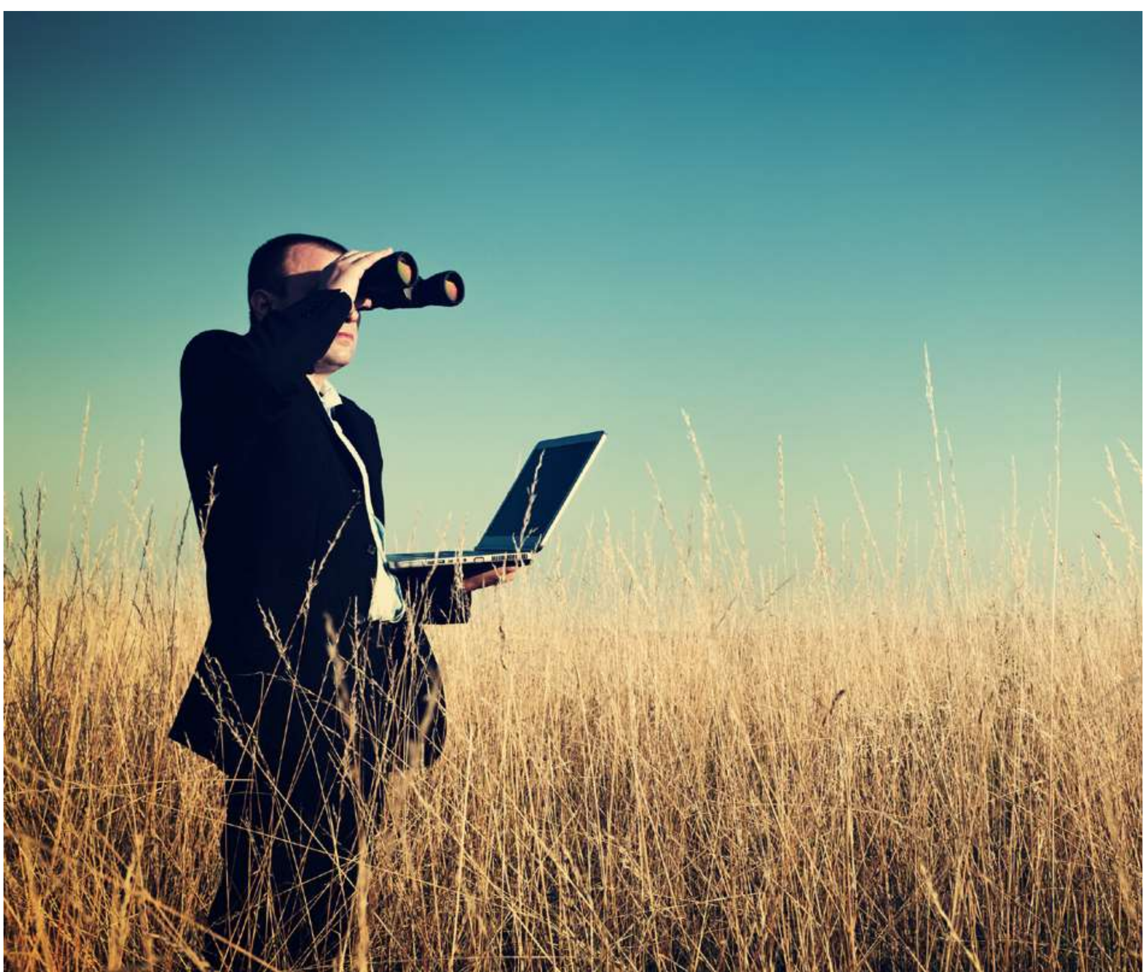
Investing in 2020
Business planning in a low interest environment

Heading into the New Year is a good time to reflect on what 2020 will bring. How can business owners plan what 2020 looks like, and take control of their businesses and investments?

STORY
Hamish Chang
Business Advisory Senior Manager
Baker Tilly Staples Rodway Auckland



Since the Reserve Bank cooled the official cash rate in August, economists are predicting a stagnant or overall fall in interest rates over the next 18 months. This is good news as it provides businesses with more certainty and more opportunity.

With lower interest rates, the message from a lot of businesses is that they are investing in themselves for 2020 – taking advantage of the low rates to extend lines of credit, borrow money or take funding from external parties. They are going back to basics and investing in their company, whether this is through their people or their product.

Planning for expansion or investment requires, as a first step, preparing a business case based on robust forecasting: one can't happen without the other.

No bank or investor is going to lend to or invest in an under-prepared business, so it is crucial to have the mechanisms in place to show their plan, and what the projected outcomes will be. There are a lot of tools in the marketplace that can assist in preparing reporting and forecasting for investors. Along with the payback period, banks and investors want to know what the business looks like after the investment is made. Depending on the levels of borrowings, they will want to track progress on an ongoing basis and hold borrowers accountable. This requires variance reporting, project accounting and cashflow analysis.

The better prepared the business is when seeking investment, the easier answering the hard-hitting questions will be.

The picture is the same, whether it is an established business, or a new entrant trying to create momentum in their own space. The fundamental constraint is the same for both – cash flow. Enabling freer cash flow will create opportunities for businesses to thrive, and with lower interest rates, that barrier is lower.

Too often in planning or growth phases, cash is reinvested into the company for operating and one-off expenses, but not for investment. Whether the investment is best applied to infrastructure, people or products depends on the type of business, and evaluating what growth constraints exist or will emerge if the right investment is not made.

Conversely, for those who are risk-averse, consolidating and paying off loans at lower interest rates may be what they consider investing in 2020. Sensible decisions are often made with cash in the bank. It may not sit easy with ambitious business owners or individuals, but pragmatism may be more beneficial in 2020.

Whatever the reasons behind investing in 2020 and how much of a funding overhaul is needed, a low-interest rate environment provides an ideal the time for business owners to capitalise, plan for the future, and explore different types of financing.

hamish.chang@bakertillysr.nz