

Cash flow management for growing South African businesses: why cash comes before profit

Growth consumes cash before it produces it. This paper shows why a profitable business can be short of money, measures the working capital it ties up, and sets out six rules for funding growth from inside the business first.

White paper v1.0

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9 min read

IN SHORT

- A business that grows 20% needs about 20% more working capital, so growth is often the moment a profitable business runs short of cash.
- The cash conversion cycle (debtor days plus stock days minus creditor days) tells you how many days of sales are tied up. In our example it is 60 days and ties up about R888,000.
- Collecting ten days faster releases more cash than holding ten fewer days of stock or paying suppliers ten days later, because sales are larger than cost of sales.
- An early-payment discount is expensive money. A 2% discount for paying 20 days early costs about 37% a year.
- Fix collections, stock and terms before you borrow. External finance should fill a gap you have measured, not one you have guessed.

Why this paper

A common reason a growing South African business gets into difficulty is not lack of profit. It is lack of cash at a moment when profit looks fine. Profit is a measure of what the business earned. Cash is what it can spend. The gap between them is made of debtors, stock, tax and growth, and it is largest when a business is growing fast.

This paper does four things. It shows the gap with a worked example, measures the working capital a business ties up, prices the ways of releasing it, and sets out a sequence for funding growth. All examples are illustrative, and every number can be replaced with your own.

1. Profit is not cash

Take a business with R6.0 million of annual sales before VAT, R3.6 million of cost of sales, and a profit of R600,000. It grows 20% in the year.

From profit to cash	Amount
Profit for the year	R600,000
Extra cash tied up in debtors and stock, net of creditors (growth of 20%)	-R177,534
Loan repayments	-R120,000
Owner drawings	-R250,000
Change in cash	R52,466

The business made R600,000 and ended the year with about R52,000 more in the bank. In a slightly weaker year it would have ended with less than it started. Most of the difference is the working capital that growth demands, which we measure next.

2. The cash conversion cycle

Working capital is what the operating cycle ties up. It has three parts.

- **Debtor days:** how long customers take to pay. Debtors divided by sales, times 365.
- **Stock days:** how long stock sits before it is sold. Stock divided by cost of sales, times 365.
- **Creditor days:** how long you take to pay suppliers. Creditors divided by cost of sales, times 365.

The cash conversion cycle is debtor days plus stock days minus creditor days. It is the number of days between paying for inputs and receiving cash from customers.

Example business	Days	Amount tied up
Debtors (sales of R6,000,000)	45	R739,726
Stock (cost of sales of R3,600,000)	40	R394,521
Less creditors	-25	-R246,575
Working capital	60	R887,671

The business carries about R887,671 of working capital. If it funds that with a facility costing 12% a year (an illustrative rate), the cost is about R106,521 a year, before it earns a cent of profit.

3. Where cash is released

Each lever moves the cycle by ten days. The table shows the cash released, and the interest saved at an illustrative 12%.

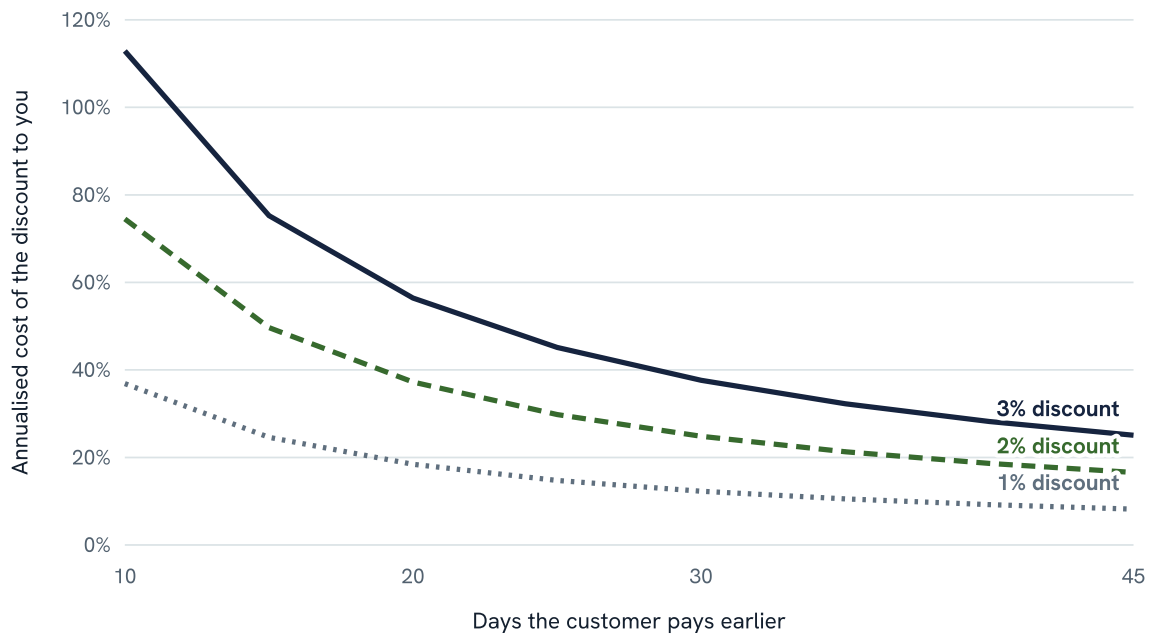
Lever	Cash released	Interest saved a year
Collect 10 days faster (debtor days 45 to 35)	R164,384	R19,726
Hold 10 fewer days of stock (40 to 30)	R98,630	R11,836
Pay suppliers 10 days later (25 to 35, within agreed terms)	R98,630	R11,836

Collections release the most, because sales are larger than cost of sales, so a day of debtors is worth more than a day of stock or creditors. It is also the lever least dependent on anyone else's goodwill. Supplier terms depend on the supplier, and stock reduction risks lost sales. Collecting faster depends on your own process. See our guide to getting customers to pay on time.

4. The price of speeding up: early-payment discounts

Offering a discount for early payment turns a slow debtor into cash, and it is often expensive money. The annualised cost of a discount d for paying n days early is d divided by $(1 \text{ minus } d)$, times 365 divided by n .

Discount	Paid 10 days early	Paid 20 days early	Paid 30 days early
1%	37%	18%	12%
2%	74%	37%	25%
3%	113%	56%	38%



What an early-payment discount costs you as an annual rate. If your own cost of money is lower than the line, offering the discount loses you money.

A 2% discount for paying 20 days early costs about 37% a year. That is far above the 10.25% a year that SARS charges on late tax from 2 March 2026, and above most ordinary borrowing rates. A discount only makes sense if your own cost of money, or your risk of losing the customer or the payment, is higher than the line on the chart.

5. Growth needs working capital

If the cycle stays the same, working capital grows in step with sales.

Growth in sales	Extra working capital needed
10%	R88,767
20%	R177,534
30%	R266,301

A business that plans to grow 20% needs about R177,534 more working capital, in addition to any equipment, staff or marketing. Plan for it in the forecast before you commit, not after the bank balance falls.

6. The playbook: six rules

1. **Measure first.** Calculate debtor, stock and creditor days from your last year's accounts. Do this before you look for finance.
2. **Forecast 13 weeks.** A rolling forecast shows shortfalls weeks ahead, when they can still be fixed. See our guide to improving cash flow.
3. **Collect before you borrow.** Invoice on delivery, state terms, follow up on a schedule, and take deposits on larger work.
4. **Negotiate terms and stock deliberately.** Ask suppliers for longer terms in return for reliable payment, and cut slow-moving lines.
5. **Reserve for tax.** Move the PAYE, UIF and SDL you withhold and the VAT you collect into a separate account, so tax dates never hit the operating account. Late payment to SARS costs 10% plus interest. Read our paper on the compliance calendar and the cost of being late.
6. **Finance the remaining gap last.** External finance, such as an overdraft, invoice discounting or asset finance, should fill a gap you have measured. Compare its cost with the cost of releasing the same cash internally.

7. Method and limits

The example is a single hypothetical business. The 12% cost of money is an assumption, not a market quote. Days are calculated on year-end balances, whereas real balances move through the year. The paper does not compare financing products or quote their rates, and it is not investment advice. TBL Accounting is not a licensed financial services provider under the Financial Advisory and Intermediary Services Act (FAIS). Raising capital is a transaction for our corporate finance colleagues at Caban Corporate Advisors.

Version history

Version	Date	Change
1.0	30 September 2026	First release.

Sources and further reading

- Budget 2026 Frequently Asked Questions (SARS interest rate on late tax), [South African Revenue Service](#)
- How to improve cash flow in a South African small business, [TBL Accounting](#)
- How to get customers to pay you on time, [TBL Accounting](#)

- The SME compliance calendar for 2026/27, and what being late really costs, TBL Accounting

Cite this paper

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<https://tblaccounting.co.za/white-papers/cash-flow-management-for-growing-businesses/>

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