

Why your business needs an emergency fund and how to create one

We've all heard of the saying "to save for a rainy day", but how many of us actually put those words into practice? If you're running a business, it might seem like the smarter choice to invest all of your money back into your company. After all, more funds mean more growth! But, this isn't always the smartest option.

Temps de lecture : minute

7 October 2022

If you own a company and you don't have an emergency fund in place for those rainy days, it's time to change that. Find out why and how you can start setting yours up in this guide.

Why your business needs an emergency fund

Every business advisor will tell you that you need an emergency fund. You've probably heard it a million times already from a million different people, but if you don't know why you need one, you might not be convinced. To shine a light on the matter, here are some of the top benefits of setting aside some of your cash:

Cover unexpected expenses

You never know when you're going to face an unexpected business expense. Even if you're a tiny startup with just a few employees, or perhaps you're a freelancer and have no staff at all, you can still run into trouble. A tool you rely on, such as a laptop or car, could suddenly break,

you could incur a surprise tax fee you didn't know about, or you find yourself in a *legal dispute* that needs a lawyer.

This is real life, which means that something can always go wrong. But if you have an emergency fund already in place, you can dip into it and cover the costs quickly and without stress, avoiding any lasting damage to your brand.

Prepare for recessions and market downturns

Periods of economic uncertainty aren't fun, and an emergency fund is essential to get you through a recession. Fortunately, forecasters can often predict *when recessions will arrive*, which gives you a bit of time to prepare. However, it's always good to have some savings ready to go to keep your company ticking over.

Individual market downturns are less easy to predict. It's common for industries and businesses to have dry spells, and these can end up being fatal for unprepared companies. Make sure you're not one of them by setting yourself up with a rainy day fund.

Protect your businesses' credit rating

Whether you're taking out traditional bank loans or receiving *money against luxury assets*, loans aren't a bad thing in business. What is bad, though, is not paying them back on time. To avoid having a bad month financially and missing your monthly payment, always keep some of your income set aside in an emergency fund. You'll avoid sinking into bad credit and instead keep earning the best interest rates for years to come.

How to create an emergency fund for a business

Creating an emergency fund is easy, you simply need to start saving! However, if you want to be more thorough in setting up yours, there are some steps to follow.

How much do you need to save?

How much money could you realistically need when an emergency comes about? Consider the operational costs for your company and how much it would take to keep it afloat for a few months without any revenue.

Also, think of the sort of emergency expenses you could incur. If you have a lot of expensive equipment that's essential to the running of your business, for example, you'll need to put more aside than if you only use a laptop and a phone.

Seasonal or cyclical businesses will need larger emergency funds, too. If you have a brand that depends on sunny weather for income - such as a paddle board hiring company - be sure to put more of what you initially earn aside to get you through those colder months.

How to save your money

Once you know how much you need to be saving, consider how you want to save. Some businesses prefer using a traditional bank as a secure place for their money. But, if you'd like to keep your money working, it could be wise to consider a very low-risk *investment fund*. You might not see millions in returns, but a small percentage is better than none!

Create a depositing schedule

To ensure you keep your emergency fund growing, it's vital you make regular payments to it. If you're transferring money into a bank account, set up a direct debit to automate your payments. For anyone using a different method, such as an investment fund, you might have to add a date to your calendar to transfer money manually, or let your accounting team know when to send funds across.

Start small and build up

Remember, you don't need to reach your goals straight away! The trick with creating a fund that keeps growing is being realistic. Start small with your deposits and see how it goes: if you realise you can afford to put more aside down the line, then do so. The aim here is to avoid cancelling your regular deposits or stifling business growth, but instead to strike a happy balance between saving and spending.

If your business doesn't have an emergency fund, this is your sign to start one! After reading this article, you should know everything you need to begin yours, but be sure to speak to a professional financial advisor if you're still unsure. When it comes to saving for your company's future, it's always worth taking it seriously.