

# Using AI to Drive Efficiency Amid Financial Stress



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# Introduction

Small businesses are likely to encounter significant financial pressures over the next 12 months – from rising costs to tighter cash flow and changes in compliance requirements. Being proactive and improving efficiency in business processes can help ease some of these burdens. Read on to explore the types of financial stress your business may face and the practical ways to use AI to streamline operations and maintain greater visibility over the financial health of your business. Learn how adopting the right AI tools can help you make smarter business decisions and improve business processes – even during uncertain times.

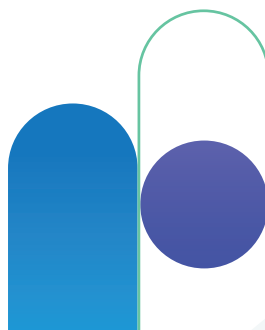
## Understanding financial pressures in business

Financial pressures are the anxiety or unease that businesses experience due to money-related concerns, management, or changes. These might include rising costs or slower sales. Oftentimes, financial pressures are a result of macroeconomic changes – things like a rise in inflation, changes in trade conditions, or shifts in employment trends. These changes can negatively impact a business's ability to make a profit, manage cash flow, and pay bills or staff.

Financial stress can be felt across businesses of all sizes, but more so amongst small businesses due to limited resources and a tighter cash flow. While you can't always control when financial challenges may hit, having the right tools and processes in place can help you respond more confidently.

In this guide, we'll explore five common financial pressures and show you how automation can help your business tackle them:

- Manage rising costs and inflation
- Stay ahead of cash flow volatility
- Speed up late customer payments
- Navigate complex regulatory and tax compliance
- Eliminate inaccurate financial reporting



# Manage rising costs and inflation

Rising costs are squeezing small business budgets, impacting profit margins. Prices are going up across the board – from materials and rent to utilities and wages. While larger companies may not see as big of an impact on their bottom line, small businesses feel the impact more deeply due to tighter budgets and fewer resources.

Increased costs can affect small businesses in several ways:

- **Forecasting and budgets:** Changing costs can make it difficult to plan ahead and determine if you're able to stay within your budget.
- **Cash flow:** Spending outside of your budget can lower your overall profit margin and hinder [cash flow](#).
- **Growth investments:** An unsteady cash flow can make it difficult to fund the growth of your small business and stall your ability to improve operations. You may need to pause marketing initiatives, delay hiring new employees, wait to fix broken equipment, or postpone the improvement of any work-related tools or technology.
- **Staffing decisions:** Without a steady flow of money coming in, you may need to temporarily pause employee bonuses, hold off on hiring, or even consider reducing your staff count.
- **Team dynamics:** Financial stress can trickle down, and your team might start to feel it too – leading to lower morale or burnout.

## What can small businesses do to stay on top of it?

You can't control inflation, but you can stay informed and take steps to prepare. Having a clear picture of your business's financial situation can help you make confident decisions before small issues become bigger problems.

Here are some ways small businesses can prepare for inflation and rising costs:

- Review your pricing and suppliers regularly to ensure you're spending your budget strategically. For example, if a supplier fails to meet performance standards, it may be best to allocate those funds elsewhere. Reviewing pricing frequently can also help you manage changing costs, market conditions, and competitor pricing.
- Automate your expense tracking. Using an [accounting system like Xero](#) can help you monitor costs, spot trends, and cut any non-essential spending to ensure you stay within your budget.
- Invest in tools with real-time insights and business financial data. Using tools that show live updates on your business's finances can help make quicker decisions based on facts.



# Stay ahead of cash flow volatility

When costs go up and customer demand shifts, your cash flow can start to feel a little unpredictable. That's called cash flow volatility – when the money coming in and out of your business varies more than usual over a period of time. For small businesses, this can be tricky to manage. If customers are spending less due to economic uncertainty, you might bring in less revenue than expected.

Some of the common challenges that come with cash flow volatility include:

- **Trouble covering short-term debts:** Unsteady customer demand can make it harder to accurately predict future sales. This could lead to challenges covering bills in the short term if your sales are less than projected.
- **Unpredictable stock levels:** With demand changing, it's harder to know how much product to keep on hand, which can lead to overstock or running out.
- **Limited room to grow:** When you're dealing with unsteady cash flow, it can be hard to invest any extra money into growing your business.
- **Higher credit risk:** A shaky cash flow may impact your ability to access affordable short-term credit.

## What can small businesses do to stay on top of it?

Preparing your business for potential changes in cash flow can make any big shifts in customer demand or market factors easier to navigate. Learn to spot early warning signs and build habits that give you more financial breathing room.

Here are some ways you can prepare for cash flow ups and downs:

- **Use AI-powered cash flow forecasting tools** to anticipate money coming in, highlight any trends, and get an idea for what you can expect in the future.
- **Automate invoice reminders** and payment follow-ups to get paid quicker. You can also give your customers additional ways to pay their invoices – look for software that allows this, like Xero.
- Consider using **auto-pay for your own bills** to avoid late fees or missed payments.
- Check in with your numbers regularly so you're not caught off guard. Tools like [Xero](#) give you a near **real-time view of your cash flow**, helping you spot trends early and make informed decisions with confidence.



# Speed up late customer payments

It's not just businesses that can experience cash flow issues. Your customers may be struggling with their own cash flow, which may lead to paying you past your invoice due date. This can cause a ripple effect – you may expect the income in your books, but the money hasn't hit your account yet, and could hold up day-to-day operations.

Late payments can lead to these challenges:

- **Inflated receivables:** It could look like you've earned more than you actually have.
- **Tighter cash flow:** You may not have the cash needed to cover bills because you didn't get paid on time.
- **Extra admin work:** Chasing payments and sending follow up reminders can take up hours of your day.

## What can small businesses do to stay on top of it?

You can't always stop late payments, but making it easier for customers to pay can certainly help. Here are some ways to stay ahead of the problem:

- Automate invoice reminders with a tool like [Xero](#) to gently nudge customers and speed up payments.
- Offer different payment methods, such as direct debit, card payments, and payment plans.
- Keep an eye on overdue invoices – know what's outstanding and follow up on late payments to make sure you're not falling behind on your own bills.



# Navigate complex regulatory and tax compliance

Tax and compliance regulations continually evolve, and the changes seem to get more complex every year. While complying with rules and deadlines is essential to running a legal and trustworthy business, they can be time consuming and confusing. For businesses without a dedicated finance team, the pressure can build up.

Compliance challenges may show up in your day-to-day in the following ways:

- **More time spent on accounting:** It takes extra work to stay up to date with changes, deadlines, and filing requirements.
- **Manual reconciliation and reporting:** The more complex the regulations, the more time you spend double-checking everything.
- **Risk of penalties or fines:** Missing a deadline or making an error may result in penalties or fines, which can add stress if cash flow is already tight.

## What can small businesses do to stay on top of it?

You don't need to figure it all out on your own. The right tools can make it much easier to stay compliant.

- Consider using software like Xero to help with automating processes to cut down on manual data entry and reduce the change of errors. Plus, Xero can help with tracking, reporting or filing for certain compliance requirements.
- Keep digital records with tools like Hubdoc, so receipts and invoices are stored digitally and easy to find when you need them.
- Work with an accountant or bookkeeper who is knowledgeable about the latest tax or regulatory compliance mandates.

# Eliminate inaccurate financial reporting

In order to make the most informed decisions for your business, it's important to have the most accurate information. Spreadsheets and manual accounting may be simple to use, but it's easy for errors to slip through. Even the smallest mistake can throw off your financial reporting – especially when it comes to managing cash flow or tracking late customer payments.

Inaccurate reporting can lead to some big challenges:

- **Poor cash management:** Inaccurate numbers can make it difficult to track your cash flow and result in limited financial visibility.
- **Increased risk of compliance issues:** Errors in reporting can lead to missed deadlines or incorrect filings.
- **Potential concerns from lenders, investors, or partners:** Inconsistent financial reporting may raise questions when applying for loans or funding.

## What can small businesses do to stay on top of it?

Getting reliable financial insights doesn't have to be difficult. A few smart tools can help you clean up your data and keep everything in one place.

- Use cloud-based accounting software like [Xero](#) for an up-to-date and accurate financial snapshot.
- Utilize AI-powered reporting dashboards to track your small business' monthly health data and changes in cash flow.
- Use online tools like Hubdoc to create and categorize digital receipts.



# How Xero's AI-powered tools can help make running your business a little easier

Xero takes some of the stress out of managing your finances by automating everyday tasks and offering AI-powered tools to give you smart insights into how your business is doing.

- Manage your cash flow and save time on reconciliation by [connecting bank feeds](#) and using automated transaction matching.
- Get [insightful analytics](#) into key data like short-term cash flow projections, business trends, and key financial metrics in one place to make informed and confident business decisions.
- Limit manual entry and use [Hubdoc](#) to capture, organize, and sync financial documents like bills and receipts straight into Xero.
- Supercharge your admin with [Just Ask Xero \(JAX\)](#) – automate tasks like sending quotes or invoices, and get answers to your how-to-Xero questions.

No matter where you are in your financial journey, using the right tools can help set your business up for success. Using automation and AI-powered tools can boost efficiency, give you a clearer picture of your business performance, and help you make confident, strategic decisions for the future.

[Learn more about how Xero accounting software](#) can help you track your numbers, stay organized, and make smarter business moves.





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