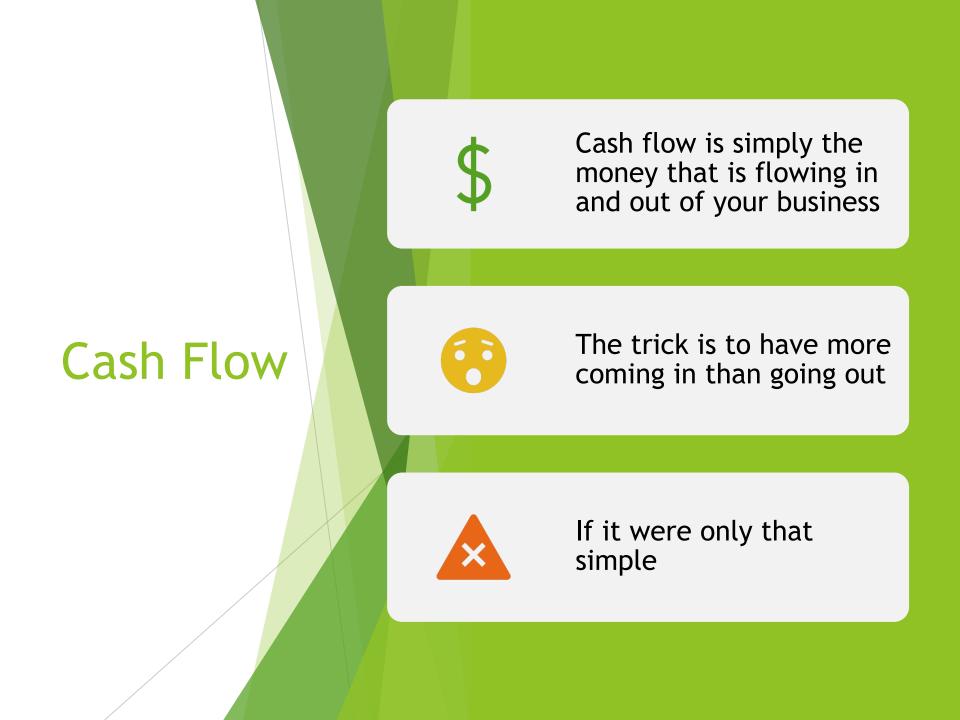


Strategies to Improve Your Business Cash Flow

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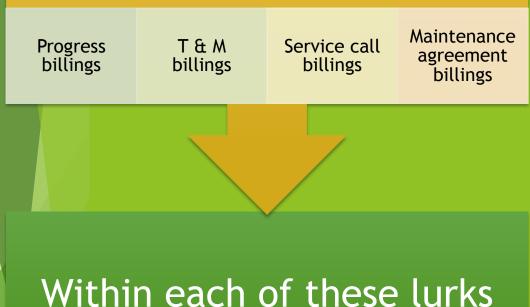






Inbound

Cash comes in from billings



opportunity and peril

Outbound

Cash goes out for materials, subs, equipment, payroll, fringe benefits, taxes, insurance, overhead, loan payments

Within each of these lurks opportunity and peril



Back up a minute—before you do a billing you have to agree to perform a service or a project for someone or some entity

Back up

How do you make sure they can and will pay you?



Well, sometimes you don't; which may make us our own worst enemy

Extending Credit





Assure you understand what the payment terms in your contract and the prime contract are



Aggressive collection efforts

Consider

Companies who have the least operating capital are the most likely to extend credit to questionable clients

They are also the most likely to be poor at collections Credit Policies-Service Work



New service customers should complete a credit application

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Check their credit rating and references



Consider that if the phone rings with an emergency call that customer may have just been fired by your competition!

Credit Policies-Construction



Contract Payment Language

Review payment language in proposed contracts

Be aware that the contacts you are asked to sign may have nasty payment language

You Took the Call or Got the Job



You have the job or are going on the call

You cannot collect if the billings are not done timely and correctly

Billings

Internal problems with billings are often the cause of delay in payment

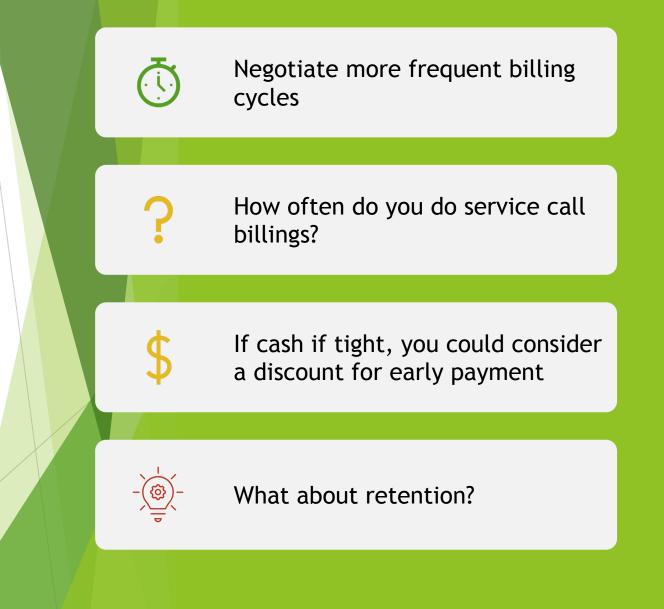
Wrong format, timing, attachments

Often, problems with the bill is not discovered until the collection call is made

In the client's mind, a resubmitted billing resets the payment terms

Ensure everyone involved in the billing process understands the requirements for submitting a billing

Other Billing Strategies





Cash Forecasts

Most good companies do some kind of cash forecast

It can be simple or very robust

No matter the format, it helps you see what cash may be coming in, and what cash needs you will have

Someone in your company should be doing this manually

Manage What you Measure



Reducing Days in Receivable



Managing Overhead

Overhead is the semi-fixed costs of doing business

Within the boundaries of "overhead" are many opportunities for maximizing cash

If overhead is considered semi-fixed, an overhead budget could be prepared

Carefully monitor and manage this budget, just like you do on a quoted job Make someone the "PM" of the overhead

Managing Overhead

Look at soft costs such as cell phones, copy costs, software expenditures

Re-negotiate leases on office equipment if possible

Take a hard look at your liability, workers compensation and auto insurance

Make sure exposures are right

Managing Overhead



Any dollar you can save on the overhead budget puts a dollar on the bottom line

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Conversely, an extra dollar spent means you must generate revenue to cover it

\$

If your net profit before tax is 2.5% and you spend and extra \$10,000 on overhead, you would have to generate \$400,000 of profitable work to cover the \$10,000

What Else Eats Cash?



Earn Cash

Taking payment discounts will earn more money than most any investment

If the terms are 2% 10 days Net 30, the return on your money is 36%

Discount % X (360 ÷(full payment days - discount days))

Final Thoughts



The 10 Rules of Business

Rule 1-Don't run out of cash

Rule 2–Don't run out of cash

Rules 3 though 10—See rules 1 and 2

Most contractors go out of business because they ran out of cash, even though they had plenty of work

Thanks for joining!

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