



# Strategies to Improve Your Business Cash Flow

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What is cash flow?

Extending credit

Protecting your rights

Managing and measuring

Budgets

# Cash Flow



Cash flow is simply the money that is flowing in and out of your business



The trick is to have more coming in than going out



If it were only that simple

Inbound

Cash comes in from billings

Progress  
billings

T & M  
billings

Service call  
billings

Maintenance  
agreement  
billings



Within each of these lurks  
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



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



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



First and foremost, remember YOU ARE NOT A BANK



Stack the deck to assure you will get paid



How is that done?



Establish a credit policy including how new customers are handled



Protect your lien rights



Make sure funding is in place



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



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



How do traditional contractors protect their investment or potential investment?



Check the owner out



See if any lawsuits or liens have been filed



If it is not a public job is 100% financing in place?



Enlist the help of your bonding agent or bank

# 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



Negotiate more frequent billing cycles



How often do you do service call billings?



If cash is tight, you could consider a discount for early payment



What about retention?

# Collections



As a rule, contractors are poor at collecting past due invoice



Times have been good



You did the work; the client owes you



Someone in your office should be doing collections CALLS a couple times a week



Maybe you are training your poor payers by letting them slide by

# 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



Measure “Days in Receivable”



This will tell you how long it takes you to collect



Net Accounts Receivable balance ÷  
(Total Annualized Revenue ÷ 365 days)



You could measure service separate  
from construction



Whatever it is, the goal is to shrink it

# Reducing Days in Receivable



RE-EXAMINE YOUR  
CREDIT TERMS



BE ALERT TO THE  
PAYMENT SCHEDULES  
OF YOUR CLIENTS



ESTABLISH  
RELATIONSHIPS



DON'T MISS AN  
OPPORTUNITY TO DO  
A PROGRESS BILLING



FOCUS ON  
COLLECTIONS



CONSIDER CHARGING  
INTEREST



DO YOUR HOMEWORK,  
DON'T GIVE CREDIT  
TO JUST ANYONE



# 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



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 an extra \$10,000 on overhead, you would have to generate \$400,000 of profitable work to cover the \$10,000

# What Else Eats Cash?



Fixed assets that, although paid for, are not fully utilized



Payments on loans



Loans or advances to employees



“Inventory” or parts on trucks or vans



Poor management of Accounts Payable and other liabilities

# *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  $(360 \div (\text{full payment days} - \text{discount days}))$

# Final Thoughts

1

Keep a sharp eye  
on the cash-to-  
cash cycle

2

Let your  
competitors have  
the slow payers

3

Manage your  
Accounts Payable  
and Accounts  
Receivable

4

Never take your  
eye off the ball

# The 10 Rules of Business

Rule 1—Don't run out of cash

Rule 2—Don't run out of cash

Rules 3 through 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

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# Thanks for joining!

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