28 Tips for Improving Cashflow

1)Calculate Gross Profit Margin

Gross profit margin is your gross profits shown as a percent of revenue.

You need to really understand gross profit margins so you'll know when to increase prices on which products and services. Increasing your prices, at the right time on the right things, is the best ways to impact cash flow, and as a result, your gross profit margin.

Looking at gross margin percentage is the best way to track the profitability of a customer or job.

Gross margin percent is calculated as follows:

$$\text{Gross Profit Margin \%} = \frac{\text{Gross Profit X 100}}{\text{Revenue}}$$

EXAMPLE: ($2,000,000 / $4 million) x 100 = 50%

Tracking gross margin every month and comparing it to your target gross margin, gives a business owner leading indicators of cash flow problems. A change in gross margins can provide insight into issues with a job, client or the company. This kind of actionable intelligence will help with pricing decisions.

2) Implement Job Costing

The best way to monitor gross profit $ and % is to implement some form of job costing.

A well-designed job costing system tracks the true costs to deliver a service or product so you can charge prices that help achieve target gross profit margins and improve cash flow.

If you make money on your people's time, you need to implement a simple time tracking system to see if you're allocating the right fees for the time spent on the job.

The biggest **benefit of true job costing** works is knowing that nothing slipped through the cracks and you're getting paid for all the value that you delivered

3) Understand Fully Loaded Labor Costs

Understanding your true fully loaded labor cost will help make sure your proposals and price quotes achieve your target gross profit percentage.

This will help you get your pricing right and solve most of your cash flow problems.

You can cover all your costs and bill for all your value if you know, and can explain, what it really takes to deliver on each job. Having visibility into real costs allows you to include details of all your value and time spent in your proposals, which will help you sell a higher dollar amount on every job. (Visibility into time leakage helps eliminate waste.)

Compare your gross profit percentage on every job against what you expected it would be and your industry averages. That will help you increase the accuracy and value pricing in future proposals.

Cost of Goods Sold (COGS) is an important number to help with your pricing because it’s used to calculate gross profit on a job. Make sure you know what your fully loaded hourly labor cost (with full true fringe benefits) is costing you. Do you understand how COGS relates to your organization's gross profits?

Use TSheets® with Intuit™ Payroll and you can automatically allocate labor cost to every customer or job in QuickBooks™.

4) Measure Days' Sales Outstanding

You Can't Manage What You Can't Measure

What management monitors gets done. You can't manage what you don't measure. To measure your cash flow, you need to keep track of Days Sales Outstanding (DSO).

$$DSO = \frac{\text{Accounts Receivable}}{\text{Net Credit Sales}} \times 365$$

You want to reduce your DSO to the smallest number possible. Why? Because every day you're doing work that you haven't been paid for. Unless you're in the business of lending people money – you should reduce your DSO.

DSO measures the number of days it takes to collect a dollar of sales. It's the average age of your accounts receivable — if your average is trending higher, then your business is more likely to struggle with cash flow. Knowing your DSO can also help determine whether or not you need to improve your current processes and policies or outsource collections.

The easiest way to reduce DSO is with timely billing through lightning fast invoicing, and fast payment incentives like keeping a credit card on file or shortening net terms for payments

5) Institute a 2 Week Delay in Payroll Start

Implement a two-week waiting period between the time someone finishes work and the time you pay them. After you set it up, it only affects new employees.

Setting up a delay in a payroll start serves two purposes:

1. It allows you enough time to invoice and possibly get paid by your client.
2. It gives you more time to process that payroll so it reduces the chance of errors.

For most service businesses, payroll is their biggest expense, accounting for roughly 70% or more of expenses. The best practice of managing cash flow of paying expenses is related to managing the timing of your payroll. The goal is to pay payroll after you've been paid by your client—or at least to reduce the time period between when you pay payroll and when you get paid by your client.

6) Automate Invoicing through QuickBooks™

One of the most important ways to improve cash flow is to map out the steps involved in getting a bill out the door.

Ask yourself questions like:
1. How many people are involved in creating an invoice?
2. Once you've completed a job, how long does it take to get the invoice into the clients' hands?

Studying and streamlining the billing process will speed up the time to get an invoice into a client's hand and reduce the cost of invoicing customers, both of which will improve your cash flow.

Setup recurring invoices in QuickBooks that automatically populate in QuickBooks – and send them out via email.

You can also sign up for Intuit Payment Solutions™ to automate client payments.
(*See tip #22)

Automate time tracking, labor costing and employee expenses so it automatically creates an invoice in QuickBooks for when you are ready to send an invoice. That will help make sure you are getting paid for all your value.

7) Get Paid in Advance (If Possible)

When you start a new job knowing you won't have a negative cash balance, you're already on the right track.

Getting paid in advance is the way to avoid situations where you need to chase clients that delay payments.

Is it likely? It depends on how much trust you have with your client. In some cases, it may help to offer a small discount for advance payment as an incentive. Advanced payment gives you peace of mind by reducing risk of nonpayment. It allows you to reinvest the money and lets you do better budgeting.

Ask for the largest amount you can get before you start work when they are in love with the idea of working with you. 50% is standard in many industries.

Getting an upfront payment that covers your out of pocket costs will **completely change your company's cash flow.**

8) Get a Deposit Upfront Before Work Begins

Get 50% upfront on every job and you will immediately change from a mindset of scarcity to one of abundance. Why? Because, since many jobs target 50% gross profit percentage, you will have covered all your costs at the start of the job. If you manage the job right, you don't have to worry about getting the next check to make payroll.

There's a big difference between 33% and 50% - Shoot for 50% if you can.

Deposit are intended to cover your costs, so you minimize your risk.

Remember: A deposit upfront ensures trust and relieves some of the risk of non-payment. You need to establish trust with the prospect to get money up front.

Get 50% upfront on every job and you will immediately **change from a mindset of scarcity to one of abundance.**

9) Set Up a Retainer

Retainer billing is a no-brainer. It's good for both you and your clients. A retainer program makes it easier for clients to budget and smooth out cash flow.

Look at how much your biggest clients pay you on an annual basis. Divide that by 12 to come up with a monthly amount. Give them a proposal that lists the services they use over the course of a year. Include a scope document that defines what they get for that monthly fee and what's out of scope and covered by a pre-approved work order.

Once you decide on the retainer amount, take it further by progress billing:

»» Set up recurring billing to automatically send out invoices
»» Send invoices between five and ten days before the end of each month
»» Put in your agreement that you will automatically ACH their bank account (on the first of the month if you can), or
»» For an extra fee, charge their credit card for this monthly amount.

This enables both parties to map cash inflows and outflows more easily. It helps you reduce your billing and collections costs, and it helps them reduce their accounting costs.

10) Bill Weekly Instead of Monthly

How often do you send out invoices? Many businesses only invoice clients at the end of the month. Why? It's always been that way. There's a flaw in that process

Billing weekly can significantly improve timing of payments

If you have the staff that are able to invoice weekly you'll have a major improvement in cash flow over monthly billing.

According to Vistr, if you issue invoices on the same day each week, the data suggests you should send invoices on the weekends to get paid faster.

11) Bill Milestones, If You Can't Bill Weekly

When retainer or weekly billing won't work for you, milestone billing is the next best way to help stay cash flow-positive throughout the course of a large project. Timing and the amount of the payments should be based upon something material you could point to.

The payment schedule should allow you to stay cash flow positive as you move through each stage of the job. This is the key to give you enough working capital to keep investing in the next phase of the project (e.g. planning, design, development and implementation).

Start with a mindset that you need to stay ahead of your out-of-pocket costs. That means getting 50% upfront and get the other 50% front loaded into major milestones.

The goal is to leave the smallest percentage for the final payment, when most of the problems arise.

»» "Fundbox's own research shows that 64% of small businesses are affected by late payments."

12) Get Cash Before Payroll

In the ideal world, you get cash from your customers on a project before having to pay payroll related to that project. That’s the holy grail of cash management — but it's not always possible in every industry and business model.

But you can shrink the time between when you get paid and when you have to pay payroll. This has a material impact on cash flow. The bigger and more successful you are, the more important that becomes. Why? Bigger companies need more cash to survive and the cash flow risks are greater.

Whether you're a $500,000 company or a $5 million company, you have to make every payroll. A big reason why so many small businesses fail, is because they spend their time chasing cash just so they can make the next payroll.

Here is the best part about cash flow maximization strategies of reducing expenses, reducing receivable days, reducing inventory days, or increasing payable days: **Very small changes can have enormous ramifications on your cash flow**

13) Assign a Collections Owner

Don't assign collections to a receptionist or office manager unless you've made it clear where it fits on the priority list and given them sufficient time to do it right. A receptionist can't make collection calls if he or she also has to answer the phone.

This is a cash flow mistake a lot of businesses make simply because the person making the call doesn't want to do it, hasn't been trained in conducting effective collections calls; and isn't given sufficient time for this time consuming, stressful task. As a result, collections becomes a low-priority job.

One option is to have the sales person be accountable for the collection process. If they get paid when the company gets paid, you'll have someone incented to make sure you get your money.

A bad collections process will lead to unnecessary cash flow problems.

Collections are often the last thing anyone wants to do, so oftentimes it rarely gets done well.

14) Automate Collections

If you use QuickBooks Online you can integrate the Funding Gates™ app, a receivable management system, to automate your collection process. Legacy uses Funding Gates to set up automatic collections reminders according to our collection policy.

And when someone is late, it will automatically send a series of progressively strident emails and make phone calls to get your money. Start at the largest balances that will impact your cash flow forecast the most.

Finally, when all that fails, Funding Gates will send a weekly email to the key managers telling who is late this week and which accounts you should watch. It shows how many customers were called or sent reminders, so you get an early warning if your collection efforts are faltering.

When cash is tight, most businesses separate their bills in a “must pay” or “like to pay” pile. If you’re a company that’s calling after a bill is one day late, or if your proposal has a serious late payment penalty, your bill will end up on the top of the “must pay” pile because it tells the client you’re serious about collections. By implementing these best practices, you’ll change the collections dynamic.

15) Call Clients 5 Days Before Bills are Due

An Ounce of Prevention

Most people wait until the invoice is 30 days past due to make the first call. That’s a big mistake

Your first call to a client should occur between three and five days before the invoice is due.

Frame it as a client service call to check on the client's level of satisfaction while also checking to ensure that the invoice was received and understood. And get a commitment as to when you can expect payment.

Be ready to respond to any client service issues. People will tell you what’s wrong with your service delivery model when you are trying to separate them from their cash.

16) Prepare for Collections Calls

One quick way to improve collection performance is to train your staff to anticipate what the client might say when you ask, “When can we count on you to pay your bill?”

They need to always be ready for possible responses when you call a client who has a past due bill. Here are the common excuses and some answers that can help your collections:

Excuse: “The check’s in the mail.”

Response: “Let me log this into our system and get the check information. With your approval, I can enter that into Echeck. Can you tell me when it was mailed? What is the check number and the amount?” (QBO and QuickBooks 2014 and later)

Waiting to get that check in the mail is no longer an excuse

Excuse: “I’ll give you a partial payment now.”

Response: “Great, may I ask, why are you only making a partial payment? When can we expect to receive the balance?”

Excuse: “I’m having a short-term cash flow problem. We’ll pay you in a few weeks.”

Response: “No problem, we want to work with you. Can you send a post-dated check? We’’ll hold it until the promised date. This way we both save time on getting this resolved.”

Response: “How bad is the situation?”

Response: “Can we enter a repayment schedule and get a little bit each month?”

Excuse: Disputed Balance: “I’m not happy.”

Response: “What do we need to do to make you satisfied and close out your balance?”

Excuse: More Information: “I didn’t receive the invoice.”

Response: Make sure the person making the calls has the billing information at their fingertips so they can tell the client when the invoice was sent out. QuickBooks has the ability to email invoices in real time and allow customers to view invoices and attachments (such as expense receipts) online through a portal. Give the person making the calls access to the screens needed to send another copy of the bill.

If you can **be ready with a response** and anticipate any objections your clients may have, then you will improve your cash flow.

Have an escalation process.

You need to have an escalation process to decide when you should shut down services.

However, if you are concerned a company's going under, make sure you file a claim fast, so you get first in line

17) Fire Low Margin Clients

Fire Low Margin Clients & Re-assign Staff to Higher Margin Projects

If you keep low-margin clients out of fear of losing cash flow or not being able to replace them with a higher margin client, you will stunt your business growth.

Don't be afraid to fire low-margin clients – after all, Low Gross is Grief (LGIG).

LGIG means your lowest margin clients usually give you the highest amount of grief and eat up your staff's valuable time. Eliminate those clients, and you'll have a more profitable business and a happier team.

Evaluate which clients should be fired and increase your revenue and your profits by replacing the lowest margin clients with higher margin clients before you hire any new staff.

18) Sort A/R Aging by Amount not Alphabetically

When you start the collection process, the first step is to create the aged A/R report.

Most accounting systems default their accounts receivable aging to an alphabetical listing. This puts the A's up front. Instead, sort your A/R aging reports by the highest amount owed.

Focus on the largest balances, and you'll **get the greatest returns.**

19) Use Semi-Monthly vs. Biweekly Payroll

What is the difference between semi-monthly and biweekly payroll? Twice a year, a biweekly payroll has three payrolls in a month. For many businesses, this is a big disruption in their cash flow—cutting that third payroll check makes life very difficult. A semi-monthly payroll allows you to have consistent payroll all 12 months of the year.

When you have a biweekly payroll, your cash basis income statement is incorrect. It overinflates expense during the two months with three paychecks, which makes your profits artificially lower. It also means your profits will be artificially higher the other 10 months. So every month your financial statements will be incorrect.

For example, for two months of the year, your income statement may show you have a $5k profit. However, you really only had a $4k profit because of the extra expense of that month being a three-paycheck month. You can fix this problem by switching from cash basis accounting to accrual basis accounting. Your income statement will take your payroll and accrue it evenly over a 12-month period, which will show your true expenses.

20) Manage Balances and Credit Rates on Credit Cards

Paying off high interest rates can quickly improve your cash flow. Always pay your credit card bills in full every month.

Use any available cash to pay down the credit card. A 20% interest rate will cost you big money per month.

The higher the interest charge, the harder it is to get out of cash flow problems. You should prioritize your credit card payments to the card with the highest interest rate. Make sure you pay off your credit card as soon as you have cash available.

If you have a high credit card interest rate, use your line of credit instead of your credit card. The line of credit only charges you interest for the actual number of days that you use it. So, if you get a payment from a customer in the middle of the month, you can pay that bill right away and reduce your interest charges.

21)Accept Credit Cards

Small business owners often don't want to accept credit cards because of the 2-3% fee.

However, unless your invoices are few and average very large amounts, the benefits of improved cash flow and lower billing and collection costs usually far outweigh the costs of the credit card fee.

Add a term to your billing process that allows you to automatically charge a credit card when the job is completed, then do the math. Except for projects that have large engagements, the 2.5% merchant fees will generally be much less than the lower risk of needing to chase cash, and the actual cost of billing and collecting that bill later.

We've seen businesses realize they don't have enough cash to make the next payroll. When that happens, the CEO's every waking moment is focused on collecting what anyone owes you. When CEOs are in this flight or fight mode, they can't focus on being strategic—and the costs being spent on bookkeeping and cash flow as opposed to building the company really adds up.

Add a term to your billing process that allows you to **automatically charge a credit card when the job is completed, then do the math**

Making it easy for your customers and clients to pay you will help prevent cash flow problems. Credit cards are a great return on investment when compared to the distraction of having cash flow problems and the true cost of billing and collections.

22) Use Pay Now Button in QuickBooks Bill Pay

Automate Invoicing & Payments

Intuit has a service that allows you to email an invoice with a “pay now” button. Your client can click on the “pay now” button, enter their credit card information and have it automatically processed through Intuit Merchant Services. A few days later, when you get the payment in your account, QuickBooks then automatically applies the Merchant fee against the outstanding receivables.

This system automates billing, collections, and even cash application. It reduces both the amount of time it takes to get paid, and your accounting fee, so you can put that time and money to work elsewhere.

Intuit Payment Solutions™ sends bills by email, and if a payment hasn’t been made within a week, it automatically sends a reminder. When customers start receiving emails each week about an invoice that is due, they’ll want the emails to stop—so they’ll pay their bills.

You’re also making it easy for your customers to pay their bills; plus, you’re eliminating a week of float while the check is in the mail and in transit at the bank. By using Intuit Payment Solutions, we’ve seen DSO at our clients drop from 30 to 14 days. The saving and lack of distraction by having cash in hand justifies the 2.5% credit card fee.

23) Follow the 3 F's of Collections

Be Firm: If you get a pay date commitment you can call the day before and say, “we have you in our system for a payment tomorrow. Can we count on that payment?”

Be Focused: If the client gives you any feedback about your services, make sure you’re listening carefully and address any concerns immediately. These actions will show that you’re serious about high quality service- and getting paid.

Be Friendly: Always be friendly and provide the highest-level customer service you can to help them through the process and make it minimally stressful for them as possible. This will help the customer feel comfortable and eager to help resolve the late payment issue.

24) Check Background, Credit Rating and Credit References

If you’re not getting paid upfront for your services, you’re giving your clients a loan.

You didn’t get into business to be a loan officer, but that’s the reality of providing services “on account.” Before issuing a loan do what a bank does. Don’t give out credit until you see if they are credit worthy.

25) Establish a Written Credit Policy

In addition to checking credit worthiness, make sure you have a written credit policy.

This credit policy should be included in the terms and conditions of your proposal or contract and referenced in your invoices. Make sure everyone, including the client, knows the details regarding the rules of your company's billing and collection practices, before you start doing any work.

At the very minimum the written policy should include:

Payment Terms

When is the balance due?
Who is the person paying the bills?
When does the client/company pay invoices?

Late Fees

What are they and when are they going to be charged?
We recommend between 1.5% (18% annually) and 1.8% (21.6% annually) per month once a payment is late.
Don't let your clients' cashflow problems become your cashflow problems.

Legal Fees

In the fine print, spell out who will pay attorney fees, if you have to go to court to collect your payment.

26) Audit Expenses

If you can cut expenses by 10%, the effect on your profits will be exponential.

Plus, it's usually easier than ramping up sales. Where can you decrease expenses to increase profitability without damaging productivity? Look at all your expenses, line by line, to understand if you truly need to incur each expense. Analyze how it contributes to new sales or retention of current clients. Look at your overhead; you don't want this number to grow unless it has to.

Look at all your expenses, line by line, to understand if you truly need to incur each expense

27) Implement Pay Slow Rule

Make sure the person paying the bills doesn’t have a “clean desk” rule. You should pay the bills when they are due and no sooner. If there are any discounts available, make sure you take all discounts that anyone offers you. Stretching payables to their due date can improve cash flow by simple timing, especially in the long run.

28) Experiment with Your Pricing Model

As we said in tip #1, the number one reason businesses fail, is they're not pricing their jobs or services right. How well you price your products or services, and the margin that pricing produces, is key to maximizing cash flow.

You should put more thought into optimizing your pricing model, as this will have the biggest impact on cash flow. Consider the pricing model that fits best for your business: Value-Based, Fixed Fee, Time & Material, or Milestone Driven.

Consider the pricing model that fits best for your business:

1) Value-Based Pricing
2) Fixed Fee
3) Time & Material
4) Milestone Driven

You have to have your prices cover your direct costs. They have to recapture your overhead and give you a profit.

So how do you optimize your pricing model to increase your company's profitability? You turn to your management reports and look at the data.

Management reports help you figure out if you are pricing your jobs right, and also to help you to really understand who your most profitable clients are, and what makes them profitable.

Conclusion

In these 28 ways, you've learned how you can use billing and collections policies to reduce accounts receivable and protect yourself from clients who are in default.

You've seen why it's important to get paid upfront if possible and make it easy for your client to pay you. We've discussed several QuickBooks solutions you can use to automate your billing and collections processes, and we've looked at the importance of finding out who's responsible for payments at a client company.

You've also learned why a semi-monthly payroll is better—and more accurate—than a biweekly one, why you should manage your credit card balances, and how to train your personnel to handle collection calls. Finally, we also discussed why job costing is an essential aspect of getting your pricing right—and getting your clients to pay.

Clearly, there are many steps you can—and should—take that will help you manage your cash flow. By looking at every aspect of your business, from how you handle your payroll to when you bill clients for sales, you'll understand where bottlenecks have occurred in the past.

If you implement the 28 ways outlined in this ebook, you'll have the tools and strategies you need to prevent them from occurring again in the future.

And by doing this, you'll spend fewer resources on invoicing and collections—resources you can put to better use building your company.

About Legacy

Legacy provides outsourced Bookkeeping, Management Accounting, Controller and CFO services for growing businesses and non-profits. Legacy combines advances Accounting Systems designed to significantly reduce the cost of in-house dedicated team of Bookkeepers, Accountants, Controllers and CFOs. Our customized financial reporting and KPIs help small businesses and organizations drive performance and profitability through data-driven decisions

www.legacytaxresolutionservices.com

Offices throughout the country

stephan@ltaxrs.com