



GrowthForce Whitepaper:
The Five Rules to Improve Cash Flow

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In this challenging economic environment small businesses are looking to find innovative ways to get ahead. At GrowthForce we strive to offer financial guidance that will help your business' bottom line. Increasing your cash flow may be the key to turning a struggling small business into a thriving growing business. In addition, QuickBooks has a number of new features that are designed to help small business improve their cash flow.

With this in mind we would like to share "The 5 Rules of How to Improve Cash Flow".

Rule #1 – Prevent Cash Flow Problems Before They Happen

Said another way, "Don't let your clients' cash flow problems to become your cash flow problems".

Many businesses are not always smart about how they go about taking on new clients. If you are not getting paid up front for your services then you are giving your clients a loan. Before issuing that loan you should:

- ✓ Check client credit references
- ✓ Do a background check
- ✓ Check their credit rating

Most importantly make sure you have a **written credit policy**. The credit policy, which should be attached to the contract and referenced in your invoices, shows the rules of your company billing and collection. At the very least the credit policy should include:

- payment terms: when is the balance due?
- late fees: what are they and when they are going to be charged? We recommend 18% or 1 ½ percent per month once someone is late.
- Legal fees: spell out who will pay attorney fees if you have to go to court to collect

If you can prevent cash flow problems before they happen then you are well on your way to increasing your cash flow.

Rule #2 – Get Money Faster

The primary goal of a cash management program is to reduce the period of time in between the time you have to pay payroll employee services and when you get paid from your client. There are a few ways to do this:

Get a deposit up front.

Getting a 50% deposit up front allows you to cover payroll before you even start the job. Deposits are intended to cover your costs so you minimize the risks on every job.

Accept credit cards.

Small business owners often don't want to accept credit cards because of the 2 ½ % fee associated with Visa or MasterCard. Add to your invoice and billing process terms that allow you to automatically charge a credit card when the job is completed. Then do the math. Except for large engagements, the 2 ½ % merchant fees will generally be much less than the actual cost of billing and collecting that bill later.

Intuit Billing Solutions

Intuit has a service that allows you to send out an .html 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, you will also get an email with an attachment that opens up and automatically applies the Merchant payment against the outstanding receivables.

This process allows you to significantly reduce the cost of collections, cash application. This will reduce your DSO (Days Sales Outstanding), significantly reducing the amount of time it takes you to get paid and allowing you to put that money to work elsewhere. Credit cards are a great return on investment when compared to the cost of billing and collections.

Streamline your billing processing.

Look at and map out what are the steps involved to get a bill out the door. How many people are involved in creating an invoice?

How long does it take once you have completed a job to get the invoice into the clients' hands? Streamlining that process will get billing out faster and reduce the cost of invoicing customers, which will improve your cash flow.

Look at the timing of your invoices.

How often do you get invoices out? Many clients only send out invoices once a month, at the end of the month.

If you look at your cash flow and you finish a job on the 5th of the month and you don't send out that invoice until the end of the month, and the clients' payment terms are net 30. You are not going to get paid for 60 days and you probably have payroll at least 4 times during those 60 days. Invoice the client as soon as the job is done, or at least twice a month. We recommend you do it weekly.

Set up a Retainer Program

Take your best, repeat clients and look at how much they pay you on an annualized basis and divide it by 12 come up with equal amounts. Then implement a retainer program helps your client's budget for your services. Instead of having ups and downs, offer a monthly retainer program. Get an agreement from your client to charge their credit card or better still ACH their bank account for this monthly amount.

This allows them to budget your services in their cash flow much more easily. It helps reduce your cost of billing and collections and it helps reduce their cost of bill payment.

And if you set up your QuickBooks file to download transactions from your bank, you can set the default account code for repeat transactions. This way you have automated the accounting of those retainer billings, reduce the payroll cost on the back end as well.

If get your money faster, then you are well on your way to improving your cash flow.

Rule #3 - Implement Best Practices for Collections

Collections are often the last thing anyone wants to do. There are some best practices that will help.

1. Run accounts receivables (a/r) aging reports every week

Add the A/R aging report to your weekly management team report. That will give you the visibility that you need on the balances that are owed.

2. Sort the A/R aging by amount not account

When you create the report, sort it by amount not account. 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 highest amount owed. This puts the largest balance first on the list. Focus on the largest balance and you'll get the greatest returns.

3. Don't wait to make your first collection call

Businesses often wait until the balance is 30 days past due to make their first collection calls. Instead you should make your first call 5 days before the bill is due - not 30 days after.

You make your first call a courtesy call. This would be positioned as checking on the status of the account, not to get paid. A courtesy call would SOUND like this:

- ✓ *Are you satisfied with our services? Are we providing everything you need? Is there anything missing in the product or services we offer? We want to make sure...You have 100% customer satisfaction.*
- Then follow up by mentioning:*
- ✓ *I noticed that your bill is due on Wednesday; do you have a copy of that bill? Do you have everything you need to pay that bill?*
- ✓ *I have you on our cash flow forecast paying that bill next week Can we count on receiving your payment on Wednesday?*

That tells the client you are serious about collections. By implementing these best practices, you will change the collections dynamic.

Your client will tell you if there is anything wrong with your services when they are getting ready to pay your bill. A study of the best run Fortune 500 companies shows they use their collections calls as customer service focus groups. So call that client 3-4 days before as a customer service call.

4. Follow the 3 Fs of Collections – Firm, Focused, Friendly

Never end a call without a commitment. If you get a commitment of a pay date, call the day before and say “We have you in our system for payment tomorrow, can we count on that payment”.

QuickBooks 2010 has the ability to make a deposit from a scanned check. Now all you need is the bank account, check routing number and check number and you can enter it into QuickBooks and make a deposit. No longer are you stuck waiting to get that check in the mail.

If you follow collections best practices then you are well on your way to improving your cash flow.

Rule #4 – Be Ready for Collections Objections

Most small businesses don't have a dedicated collection person. As a result, the person making the calls is often not trained to do a great job. One quick way to improve collection performance is to anticipate what the client might say when you ask when are you going to pay your bill.

Be ready when you call a client who has a past due bill for possible responses. Here are the common excuses and some answers to help your collections

1. "The check is in the mail".
Let me log this into our system and get the check information. Can you tell me when it was mailed? What are the check number and the amount? With your approval I can enter that into Echeck (QuickBooks 2010) system.
2. "I will give you a partial payment now"
 - a. Ask "Why they are giving you a partial payment?"
 - b. When can we expect to receive the balance?
3. "I'm having a cash flow problem" – we will pay you in a few weeks.
 - a. Ask can you send a post dated check.
 - b. When can we expect to be paid on the balance?
 - c. Can we enter a repayment schedule and get a little bit each month?
4. Disputed Balance – "I'm not happy"
 - a. What do we need to do to make you satisfied and close out your balance?
 - b. Make sure you have a good process to communicate any disputes. If you show your client you are serious about resolving their issues you'll show you are serious about being paid.
5. More Information – "I did not get the invoice"
 - a. Make sure the person making the calls has the billing information at their fingertips. QuickBooks has the ability to email invoices. Give the person making the calls access to the screens needed to send another copy of the bill
6. Cannot afford to make a payment – "Cash is really tight right now"
 - a. How bad is the situation?
 - b. Can you enter into a repayment schedule?
 - c. You need to have an escalation process to decide when you decide to shut down services?
 - d. Remind them that once you go to collections they are responsible for any attorney fees they incur, so you both have an incentive to avoid that step.

If the client gives you any feedback, make sure that you are listening carefully and immediately address any concerns. These actions will show you are serious about high quality service and you are serious about getting paid.

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

Rule #5 – Manage Your Payroll Expenses Wisely

Pay payroll semi-monthly.

For most service businesses payroll is your biggest expense. The best practices of managing cash flow around expenses are related to managing the timing of your payroll. The goal is to pay payroll after you have been paid by your client – or at least to reduce the time period between when you pay payroll and when you get paid from your client.

First implement a two week waiting period between the time someone finishes work and the time you pay them. This serves two purposes, it allows you enough time to invoice your client and it also gives you more time to process that payroll, so it reduces the chance of errors.

What is the difference between semi-monthly and bi-weekly? The bi-weekly payroll has 3 payrolls two months every year. For many businesses, this is the biggest disruption in your cash flow – cutting that 3rd payroll check can make life difficult. A semi-monthly payroll allows you to have consistent payroll all 12 months of the year.

Implement a pay slowly rule

Make sure the person paying the bills does not have a “clean desk” rule. You need to 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.

We recommend that you pay your credit card bills first and prioritize them based on your interest expense. Make sure you pay attention to the interest that is being charged. Credit card companies have historically been able to change the interest rate without any notice. Higher interest charges make it difficult to get out of cash flow problems.

If you have one, 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.

By implementing “The Five Rules to Improve Cash Flow” your business will take steps to overcome this challenging economic period.

For more Information, please email info@growthforce.com or call 281-358-2007. GrowthForce would be happy to review your current use of QuickBooks processes and make recommendations on providing outsourced bookkeeping or Controller services to help improve your cash flow.