

Nine Ideas to Help Cash Flow By Monroe Porter

There is nothing like having a few payday bucks in your pocket to make you feel good. Such a feeling cuts to the core of what a job is all about. Five o'clock Friday, cash in our pocket for the weekend equals life is good. Cash in the business also makes things feel good. You can make payroll, pay your bills and not have to deal with the hassles of trying to make ends meet.

The problem is that cash in itself does not mean the business is actually doing all that well. Too many businesses manage cash flow by the business's pain factor. When the business does not have cash, making payroll and paying bills is painful and management reacts to this pain. This type of planning is like waiting to have a heart attack before you practice better health practices. Cash should be managed factually not emotionally.

There are really two issues that impact your business cash; one is the long term funding of your cash needs and two, the impact of day to day cash administration. Cash flow management can become very complex because it involves taxes, the type of work your company performs, who you work for, your billing practices, your collection practices and much more. From a practical perspective, there are only several ways you can put cash in your business. One, you can put your own money in as capital or leave after tax profit in the business. Or two, you can borrow the money. If your business is losing money, you will find bankers are not too keen on lending you more. We suggest you seek help from professionals such as bankers, accountants and consultants to help you understand your cash funding needs. This article is not about funding losses but rather we are going to offer some quick and dirty ideas regarding cash administration.

1. **Bill in a timely manner.** You cannot collect money until the customer is billed. If necessary, bill daily. Set a specific time each day or week to do the billing. Too many contractors make doing the work more of a priority than doing the billing. Meeting with your office manager and accountant and doing the billing together can help. Working together can make the process go faster and also set a specific time to make it happen.
2. **Manage your accounts payables.** Understand each supplier's payment requirements. If a supplier offers a cash discount for bills paid within 30 days, pay that bill first. Also, ask if such discounts exist. I am always surprised, in our networking groups, when discounts are compared by participants, with the lack of uniformity.
3. **Know the Rules.** When working for businesses and general contractors, understand the customer's process and work within it. If the customer pays on the 10th of the month and your bill arrives on the 11th, you have a problem. The local utility is not going to change their payment procedures just so you can work for them. For customers you work with on a continuing basis, consider having your billing person meet their payment person and develop a relationship.

4. **Have a collection procedure.** Put it in writing and follow it with no exceptions. This procedure should also take local lien laws into consideration. Many states are requiring more stringent notice of liens procedures. Failure to follow them may leave you out of the loop. Where possible, have someone collect the money that is not responsible for selling the job. Many salespeople fear that having a more aggressive collection policy will hurt their next sale.
5. **Using Credit Cards.** This suggestion frightens me but it is a way to improve cash. Consider paying bills on credit cards and paying the balance when card comes in. This can give you a few days float. However, do not use credit cards to fund cash flow shortages as they are at a high interest rate and can quickly get out of hand.
6. **Job knowledge.** Have a clear understanding of each and every job regarding when you will get paid and how. If progress payments are involved, put a process in place that ensures people are billed at the appropriate times.
7. **Payroll.** See if you can extend your employee pay cycle to two weeks, instead of one. Most hourly people will balk at this but admin may not. This practice gives you another week of payroll float.
8. **Customer Deposits.** Where possible, consider taking customer deposits or pre-billing materials. Know your state consumer laws in this regard. Make sure the deposits are “booked” into your accounting as a prepaid and a liability, not as income. Transfer the income out of the liability account and into sales when the job is done. If not, you will distort your accounting records and make your income appear higher than it is. Deposits only become income when the job is performed.
9. **Review Monthly.** Each month compare cash on hand to the previous year. Why is it up or down and what is it an indication of? If cash is less, maybe collections are behind or you are doing a different type of work where it takes more time to get paid. On the other side, more cash on hand may not be a good thing. For example, I have a customer who rapidly went from 500k to 100k a month in builder and commercial sales. The business was losing money but cash was better because on the average it took them 30 days to get paid. That means previously that 500k in cash was tied up with receivables but now only 100k is tied up leaving a short term cash influx of 400k. The business is suddenly losing but cash is good. Overtime, the losses will eat through the cash but short term, things look better.

Think of cash as the grease that flows through your business. It is not necessarily an indication of the profit or loss of the business but without it, the business cannot operate smoothly. With a close look at procedures, most companies can improve their day to day cash flow.