

BY MELANIE HODGDON

## Ten Tips for Improving Cash Flow

**Too many companies go belly up** not because they aren't profitable, but because they have poor cash flow. With an unhealthy cash flow, you may need to delay payments—antagonizing your subs and suppliers—and you may end up paying interest on cash (by drawing on your line of credit or, far worse, your credit card). On the other hand, a healthy cash flow means you can keep up with your bills and stay on good terms with your subs and suppliers, as well as take advantage of date-driven discounts.

Here are 10 simple tips for keeping your business in the black.

### FUND PROJECTS WITH CUSTOMERS' MONEY

This seems so obvious, but at least once a week I discover yet another contractor funding his customers' projects. The strategies are somewhat different depending on whether the job is a contract price or T&M; the first three tips below relate to contract pricing, while the fourth applies to T&M.

**1. Get an initial payment at contract signing.** Even though it may feel like you haven't spent any money yet, you will certainly be spending it before the job starts. You will be planning and perhaps preor-

dering, and even if these tasks are treated as overhead in your company, you're still investing money in the project. It's easy to sell this deposit as a good-faith payment to hold the customer's place in your schedule. Be aware that some states regulate the amount that can be requested for a deposit.

**2. Base milestones on the start, rather than the completion, of a task.** If you have tied a 25% payment to "completion of drywall" and there's one piece of drywall sitting uninstalled next to a wall because of a last-minute change to the electrical, you'll be stuck. It's far better to have the payment tied to "delivery of drywall" or "ready for drywall installation." This also protects you from delays created by unexpected back orders. If those imported Italian tiles get hung up somewhere (or arrive broken), you'll still get your money.

**3. Get payment for change orders at time of signing.** Hopefully, you have already trained your customer to know that contracts are associated with a financial obligation. Get payment up front to cover not only the actual cost of the change order, but also the additional time and effort (think overhead) required to estimate and write up the change order, order materials, connect with subcontractors, adjust schedules, and so on. Waiting until the end of the job means the company will subsidize the change work and present the customers with an unpleasant surprise at the end of the project—just before you ask them to write you a nice testimonial.

**4. Avoid subsidizing T&M jobs.** By definition, T&M jobs are based on actual costs (and hours of labor) invested in the project. However, this also means that the company can end up subsidizing the project during the gap between the accrual of the cost and payment by the customer. The more time between payments, the larger

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this gap is. The best way around the problem is to request a deposit to cover costs incurred between the signing of the contract and the presentation of the first T&M invoice. Companies handle such deposits in a variety of ways. Here are some options.

- Credit the entire deposit to the first T&M invoice. This is not recommended, because you lose the advantage of having a significant new influx of funds.

- Credit the entire deposit to the final invoice. This works well as long as the deposit doesn't exceed the amount of the final invoice. If that happens, you'll be sending your customer a refund check, which sends a message to the customer that you really didn't need the amount you charged them.

- Credit percentages of the deposit to subsequent invoices. For example, if you have estimated a job will take six weeks and your contract states that you will invoice every week, then credit back one-sixth of the deposit amount to each invoice.

If you wait until the end of the project to get paid for a change order, you will be presenting an unpleasant surprise just before you ask your clients to write you a nice testimonial.

#### USE TIMING TO YOUR ADVANTAGE

For many contractors, the challenge isn't paying, it's paying *now*. Given another two weeks, they'd have the cash. Controlling when bills are due is one step toward being able to meet your payment obligations. Here are some suggestions.

**5. Work with big-ticket vendors (such as insurance companies) to position your payments away from other large payments.** For example, if you are making estimated income tax payments out of your company in January, April, June, and September, see if you can shift

the due dates for your workers' comp premium away from those months.

**6. Get two credit cards, with statement periods a half-month apart.** For example, if Card A's cycle ends on the 15th and Card B's cycle ends on the 30th, then you can split payments into two parts two weeks apart, to give you additional time to accumulate cash.

**7. Control withdrawals.** If the owner/partner/officer of the company takes a regular draw, schedule it so it doesn't coincide with payroll.

**8. Schedule sub payments to your advantage.** Create a subcontractor agreement that controls when you will pay bills. For example, your agreement may state that any bills received between the 1st and the 15th of the month will be paid on the 18th of the month; bills received between the 16th and the last day of the month will be paid on the 3rd of the following month. Engineer the schedule so that sub payments don't align with other large payouts.

**9. Watch discount dates.** Always take advantage of discounts; if it means saving \$2,000 on a materials bill, it may even be worth it to draw on your line of credit for a few days—although in theory you should already have your customer's cash in hand in time to make the payment.

### TAKE CONTROL

Ben Franklin said, "A penny saved is a penny earned." Obviously, if you spend less, you'll have more on hand to reduce potential cash-flow crunches.

**10. Do comparison pricing regularly.** Can you negotiate a lower cellphone bill? What about health insurance? When was the last time you discussed discounts with a supplier? The marketplace is constantly changing, with new plans and options. Check them out.

Life is filled with enough uncertainties—the ability to pay bills on time shouldn't be one of them. If you enact some of the strategies listed above, you may discover that you can exercise more control over cash flow than you realize.

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