

BY MELANIE HODGDON

Creating Coherent Company Policy

I often hear the phrase, “It depends.”

Whether I’m working with a company’s owner or the bookkeeper, these two little words always signal the absence of a coherent company policy. Other key indicators of a company’s need for policy are words such as “if,” “sometimes,” and “usually.”

Here’s an example based on one of my recent conversations with a bookkeeper.

Bookkeeper: “Can you show me how to enter this customer payment we just got?”

Me: “Sure. What is the payment for?”

Bookkeeper: “It’s a deposit from the customer for some initial design work.”

Me: “Is this non-refundable?”

Bookkeeper: “Well, it depends.”

Me: “What is the purpose of the payment? What does it secure for the customer?”

Bookkeeper: “It’s sort of a sales incentive. It’s supposed to hold the customer’s place in the schedule, and it is also for some initial design work; but if the project is sold, the payment can be credited back to the job price. And if the project doesn’t sell, then we usually keep it. But sometimes we give it back.”

PROBLEMS CAUSED BY MISSING POLICY

When there’s no policy, the company is often stuck with many unprofitable repercussions, not the least of which is that the

decision-maker (owner, salesperson, or estimator) becomes a kink in the hose; everything “downstream” comes to a halt until that person makes a decision.

Sales, too, is affected: Without a policy, the sales process is more complicated because the same service or payment request may be altered according to gut feelings about the prospective customer, current cash-flow realities, or even whimsy.

And as for the bookkeeper, he or she is stuck with three less-than-effective methods to choose from. There’s the “crystal ball” approach: He or she can try to guess which way the decision-maker will land in this instance. Or the bookkeeper can simply “wait and see,” in which case the payment won’t be processed pending a decision—resulting in decreased cash flow. The third approach is to process the payment, but file it in some type of “pending” account and make any required revisions when a decision is finally made—which obviously leads to duplication of effort.

Not having a policy may also cause the financials to fluctuate. For example, if a payment is received on May 27 and classified as income, the Profit and Loss for the month of May will include that money as income. But if in June the “income” is reclassified as an A/R credit, then the income reported in May will suddenly disappear.

INTRODUCING CONSISTENCY

The first step to turning this scenario around is to identify your purpose. What are you trying to achieve? Next, what strategy will you use to achieve it? What policy must be in place to implement the strategy? What procedure must be created to implement the policy? When there’s policy and procedure, there’s no need for language such as “it depends.”

Here’s how the scenario above could be represented to reflect a coherent company policy.

Purpose: Increase close ratio (primary purpose). Get paid for initial concept design (secondary purpose).

Strategy: Use initial customer payment as a sales tool to encourage customer buy-in.

Policy: Customer deposits will be treated as credits to the project sale price if the project is sold; they are nonrefundable if the project isn’t sold.

Procedure: Classify all customer deposits as liabilities (reported on the Balance Sheet), not income (reported on the Profit and Loss). If the job is sold, convert to a credit against the project. If the job is not sold, convert to income.

Establishing policy and supporting procedures relieves decision-makers from making inconsistent “seat-of-the-pants” decisions. Policy-based procedures permit bookkeepers to follow a consistent process, promoting efficiency. Finally, you can save money by making it unnecessary for your bookkeeper to call me for advice.

Melanie Hodgdon, owner of Business Systems Management, works with clients to generate realistic solutions that reflect the resources and style of their companies. She co-authored A Simple Guide to Turning a Profit as a Contractor, with Leslie Shiner.

Key indicators that a company needs a policy are the words “it depends,” “if,” “sometimes,” and “usually.” When there’s no policy, the decision-maker becomes a kink in the hose; everything “downstream” comes to a halt until he or she makes a decision.