

Plan Your Success with Better Cash Flow Management

By Judith Hector

When the dot-com bubble burst in mid-2000, agencies took it in the shorts. Big-time. But step back from the write-offs and red ink and look at the underlying cash flow lesson. The main reason, maybe the *only* reason, dot-coms tanked is bad cash flow management. Not to vilify them—some dot-coms are indeed profitable and their collective growth fueled a terrific economic expansion—but overall, the two-rule lesson is this: get your income as soon as possible and make sure there is cash to pay the bills when they are due.

"Five years ago times were good so I managed my revenue by watching sales to make sure income was coming in steadily. Now my business paradigm has changed," says Roxanne Cowan, controller for Rutherford Bolen Group in Campbell, CA. "Every morning I check my bank balance so I can release checks."

Planning costs and monitoring your revenue stream is the foundation of good cash flow management. Clients & Profits has many built-in features to get you started, from budgets to automatic e-mail to client and financial reports as well as invoice choices for every scenario. The first step



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BETTER CASH FLOW



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is to develop a strategy to manage cash. This includes establishing budgets, invoicing and collections processes, payment strategies, and investment options for idle cash (because, of course, cash should never be idle!).

Sloppy budgets don't help

The biggest part of planning cash flow is budgeting. Budgeting is hard work, and a lot of shops don't bother doing it, or they do it with loose numbers. Sloppy budgets don't help, so let's break down the process and tighten up the numbers:

First, know your costs. There are two types of costs, *fixed* and *variable*. *Fixed costs* are ones that don't go up or down as the volume of business changes (like rent and salaries). *Variable costs* change as the amount of work you do changes (like paper and long-distance phone calls). To budget for these, you need to determine how much they change and whether they go up or down (i.e., will you get a volume discount if you use more) and what the relationship is to sales. Some managers predict variable costs using a percentage of job cost, while others use an average quantity per job. Crunch some numbers from past years' data to decide which predictive model works best for you.

One you've framed a budget, fine-tune it annually (or even quarterly if you're growing). Over time you'll have a crackerjack model. "I use Clients & Profits financial statements and subsidiary reports for my budget's base," says

Roxanne. After revising it annually for five years she says, "Man, do I have a good workbook on budgeting for advertising!"

Watch revenue indicators

Predicting revenue is harder since many factors are outside the shop's control. Besides monitoring sales, keep an eye on things that affect your revenue sources. For example, if you're heavy in B-to-B advertising for the construction industry, watch housing starts, mortgage rates, and civic legislation. Two good indicators for the economy in general are the *consumer price index* (the change in how much consumers pay for stuff) and the *gross national product* (the value of goods and services produced by a country). While you don't need to sit on indicators and jump when they do, economic acuity helps you better plan your business cycle and identify new business targets.

How to measure cash flow

Your shop's cash flow is a good indicator of its financial strength, and you can measure it with tools built right into

Clients & Profits. The Balance Sheet, Cash Flash, Cash Flow, and Budget Analysis reports are great starting places. Ratios like *A/R Turnover* and *Days Sales Outstanding* are also helpful. "Every Friday I run the cash flow report and e-mail it to top management," says Suzanne Conklin, VP/controller at Lancaster, PA-based Howard Miller Assoc. "I want them to know what's going on."

However you decide to measure cash flow, run some numbers to get a set of base figures.

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What do you like about managing cash flow with Clients & Profits?

A recent survey asked: What do you like about managing cash flow with Clients & Profits? Their answers explain why so many shops use it as their one, and only, agency software.

- **Unify cash flow information from various G/L accounts in an easy-to-read Cash Flash window.**

- **Easily email CashFlash totals (with no rekeying of information) to designated persons.**

- **Create, track, and analyze budgets within your user-defined chart of accounts.**

- **Bill clients quickly and easily at any time during the month using prebill, estimate, retainer, and progress invoice types that require no rekeying of information.**

- **In one easy-to-use window, auto-pay dozens of vendor invoices through a user-defined due date so no invoice is paid before it is due.**

How do you compare?

- **86% of shops analyze their cash flow**

- **71% say the A/R aging report is the C&P feature that has most helped in improving cash flow (and if you like this report, try the Cash Flow—Accounts Receivable report. See pages 4-5 to read more about it.)**

- **75% say their A/R terms are 30 days yet only 25% say their A/R collection is 30 days or less (Shorten the leash: 25% of shops have terms of 10 days or less!)**

- **Shops who wait to pay to their vendors until being paid by their clients: 40%**

- **68% of shops send out invoices more than once a month (an easy way to improve cash flow when you're using Clients & Profits!)**

TIPS FOR GETTING PAID FASTER

By Mindy Williams

Getting paid faster is the result of taking the right steps at your shop and getting clients to do the same. Here's how:

TIP #1: Bill faster. (This one is completely in your hands!) For tips on speeding up the billing process, see our newsletter on Faster Billing at www.clientsandprofits.com/support/newsletters/billing/news_billing.html.

TIP #2: Address the invoice to the person who approves the checks, not just the company in general. Follow up with a courtesy call by the AE to that person to ensure that the invoice was received and to see if there are any questions.

TIP #3: Include return envelopes with return postage affixed. There's nothing easier than just popping a check into an envelope that's already addressed and stamped. You're saving them time and money!

TIP #4: Fax or email invoices to clients. (Save yourself the postage!) Take advantage of the technology that gets invoices to your clients instantly. For instructions on how to

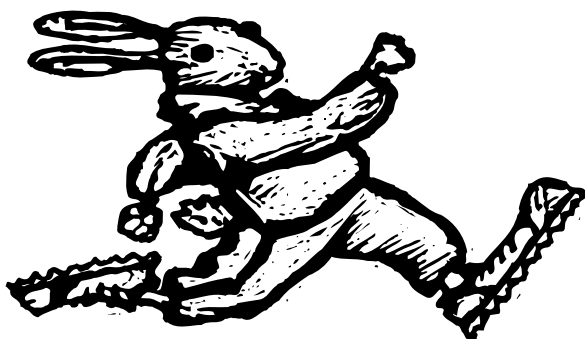
save an invoice (or any report in Clients & Profits) as a PDF file, see the technote at www.clientsandprofits.com/support/FAQs/tech_notes/technote_PDFs.html.

TIP #5: Bill retainers early to allow time for client processing and payment. This decreases WIP turnaround on retainer work.

TIP #6: For very delinquent accounts, send a messenger to pick up a check, authorize the client to use your Fed Ex account, add late payment penalties, offer discount on early payment, and require full payment or deposit up front prior to beginning new work.


TIP #7: If early attempts at collection fail, making collection calls regularly lets clients know you are serious about getting paid. (See next column to help you create a debt collecting process and determine who's best suited to wear the debt collector hat at your shop.)

Mindy Williams is a senior member of the Clients & Profits Helpdesk and coedits the quarterly newsletters.





Who's the debt collector at your shop?

It's a job that no one really wants to do. But it helps to know who is best suited to be the debt collector. Debt collectors are pragmatic, persuasive, persistent, and even tempered. *Obviously, not everyone is suited to this demanding task.* You need to have a debt collecting hierarchy and policy. The big guns won't have to be called in unless early attempts at collection are ignored. The first step should begin with an AE, and is not a collection call at all!

 **AEs** follow up with clients shortly after invoices are sent. Ask if an invoice was received, if everything seems in order, and if there are questions. This call sets the tone for collecting money ASAP. It lets clients know you're concerned that they understand what they're being billed for and that there is an outstanding invoice you're interested in receiving payment for.

The true collections part begins gently, and assumes an invoice has simply been overlooked or lost after an AE's call. So follow up with the:

 **Accounting department** sending statements if invoices aren't paid within your terms. Statements recap what's outstanding, and also include an aging which shows aging period balances. Your accounting department can call a client's accounting department for an even stronger stance. Statements and phone calls give clients a chance to save face before:

 Collection calls are made by a **controller, office manager, or owner**. Once the debt collector is chosen, the accounting department regularly notifies this person if an account goes into arrears. Calls to clients need to secure either payment information or reasons why payment is not imminent. If needed, a payment plan is worked out with a client. Based on your policy, work in progress for a client may be put on hold. Last, a decision needs to be made regarding your future relationship with a delinquent client.

KEEP TRACK OF WHAT'S COMING AND GOING

Here's how to know what's outstanding, pay what's due, and plan for the future

The Client Invoice Aging is a detailed report showing the individual client invoices whose grand totals appear in the Cash Flash Client Balances.

1. Each client with outstanding invoices appears separately on the Client Invoice Aging.

2. The total number of outstanding invoices for each client is listed.

3. The key contact and phone number appear for each client making it easy to call them as you refer to the aging.

4. Each invoice is listed separately with its invoice number, work date, due date, and payment terms.

5. Depending upon its work date, the invoice's full amount due appears in the current, 30-, 60-, or 90-day column. (Don't age on 30-, 60-, 90-day intervals? No problem! Just specify your aging of choice when running the report.)

6. The invoice aging is totaled for each client, by each aging period, for a quick summary of where your receivables are.

7. Each invoice's full amount due also appears in the Total column.

Supra Kit & Associates Client Invoice Aging Unpaid invoices as of 07/31/96				Current:	30-Day:
Number:	Date:	Job:			
1 American Bios/Integrated Systems (ABI) 310-926-0947					
2598	05/01/96	ABI-107			\$ 53.04
2583	06/02/96	ABI-999			\$ 53.04
TOTAL: 2 invoices					
Audience Technologies Inc. (ATT) Dawn Gibbs					
2445	02/16/96	ATT-152			
2444	04/02/96	ATT-133			\$ 339.41
2518	04/29/96	ATT-234			
2542	05/25/96	ATT-167			\$ 339.41
2608	06/28/96	ATT-171			
TOTAL: 5 invoices					
BAC-Channel Partners (BAC) 312/558-3400					
2576	02/06/96	BAC-999			
2546	03/22/96	BAC-158			
2527	04/29/96	BAC-157			
2599	05/01/96	BAC-281			
2566	05/05/96	BAC-170			\$ 1,000.00
2548	05/28/96	BAC-166			
2558	05/30/96	BAC-164			\$ 3,410.35
2512	06/06/96	BAC-163			\$ 311.40
2577	07/06/96	BAC-169			
2593	07/14/96	BAC-173			\$ 1,000.00
2 TOTAL: 10 invoices					
3 Banyan Data (DMF) Angelia Taylor 202/272-8490					
2559	02/06/96	DMF-136			
2574	02/26/96	DMF-126			
2573	03/01/96	DMF-131			
2554	03/04/96	DMF-127			
2585	03/10/96	DMF-909			
2575	03/13/96	DMF-909			
2538	04/29/96	DMF-138			
2600	05/01/96	DMF-176			
2570	05/30/96	DMF-133			
2571	05/30/96	DMF-140			
4					

See more examples of cash flow reports:
www.clientsandprofits.com/report-o-matic.html

Vendor Invoice Aging

The Vendor Invoice Aging is a detailed report showing the individual vendor invoices whose grand totals appear in the Cash Flash Vendor Balances.

1. Each vendor with outstanding invoices appears separately on the Vendor Invoice Aging.
2. Each invoice is listed separately with its invoice number, work date, and due date.
3. Depending upon its work date, the invoice's full amount outstanding appears in the current, 30-, 60-, or 90-day column. (Like with Client Invoice Aging, you can choose other vendor aging periods as well.)
4. Each vendor's invoices are totaled so you can monitor how much you've committed to each vendor.
5. The Client Paid column shows the date on which a client paid their invoice of which the corresponding vendor invoice was a part.
6. Each invoice's full amount outstanding also appears in the Total column.

CASH FLOW QUESTIONS AND ANSWERS



Q. When is the right time to write off a client's unpaid invoice?

The right time to write off a client's invoice depends on why it's not being paid. If there's a dispute about work that was done, wait until your negotiations have ended. Perhaps you'll reach an agreement to collect at least some of the outstanding monies. If a client goes bankrupt, you may be able to collect as a creditor of the business, so don't rush to write it off. If it's just a few dollars or cents (the client misread the invoice) and you'd rather just write it off quickly, see below.

Q. How do I write off a client's unpaid invoice or the balance of an invoice?

Once it's been decided that it is the right time to write off an invoice, it's easy to do. When adding a new Client Payment, select Write Off for the payment type. Automatically, the usual dGL (probably a cash account) is removed. You'll type the amount you're writing off as the Amount and the G/L account to which you're debiting the write off, probably a "bad debt" expense account. After saving, apply the amount you're writing off, either some portion or all of an invoice, just as if you're paying it. This action reduces the amount owed for the invoice or removes the invoice entirely from the aging without raising the amount in your cash account.

Q. Can I place a vendor on hold?

If you need to ensure that a vendor is not used for any new work, you can place the

vendor on hold. In their Vendor file, click the On Hold checkbox. Once selected, a user is stopped from adding a new PO or A/P invoice for that vendor. A user-defined explanation of why the vendor is on hold can also be included.

Q. Can we be automatically notified if a client approaches its credit limit?

Credit limits can be set up for each client as part of their billing information:

When a client's total outstanding invoice amount is within 10% of its credit limit, you'll be notified in two ways. First, when a new job ticket is added for the client and also when a new A/R invoice is added for the client.

Yes, credit limits can be set up for each client as part of their billing information. When a client's total outstanding invoice amount is within 10% of its credit limit, you'll be notified in two ways. First, when a new job ticket is added for the client, the person adding the new job sees a message stating that the client is close to, or over, its credit limit. And, when a new A/R invoice is added for the client, the person adding a new invoice sees a message stating that the client is close to its credit limit. If the client is over its credit limit, a new A/R invoice can't be added.

Q. Our shop doesn't want to pay vendors before our clients pay us. Can I have

that print on all our orders?

You need to state on all your POs, BOs, and IOs, that you are acting strictly as an agent for your clients and won't pay vendors until your clients pay you. Include this text on all orders through the disclaimer. Choose Setup > Preferences. From the Preferences menu, choose Insertion Orders. Add the text in the Disclaimer. Click Save. Then from the Preferences menu, choose Purchase Orders, and do the same thing. BOs copy the disclaimer from the IO preferences.



GUARANTEED GREAT IDEAS!

Cash Flow Tips from Real Clients & Profits Users

These Clients & Profits users share their tips for managing cash flow:

Require signed estimates "After getting burned a number of times, we've gone to almost always requiring a signed estimate before work will begin," says Rey Scott of Kich & Company. "Or if it's a verbal OK, that gets documented as well. This requirement has strengthened our position when it's time to get paid."

Stick to a budget "Originally, there were just two persons doing purchasing, so cash outflow was easy to track," says Sharon Walker of The Wallace Agency. "Now that the company has grown and more people are purchasing, we watch carefully so our outflows don't exceed our budget. We're working on a more extensive budget right now which we'll add to our C&P database to take advantage of the budgeting reports."

Collect up front...or not at all "One of our biggest rules is for jobs over \$5,000, we require an up-front deposit of 50 percent. Without that, you become a bank, and the margins in advertising aren't that great," says Susan Ackman of Fraser Wallace Advertising. "Also, we don't pay any media. Vendors bill the clients directly."

Bill faster = faster Cash "Billing status codes automate the billing process and let me know what's ready to bill. I don't have to ask a lot of questions or chase people down," says Rey Scott of Kich & Company. "Before C&P, the communication wasn't that clear cut so jobs would be finished and just sit there unbilled. Now I can go in, sometimes each morning, and pull up a list of jobs that are ready to bill, and bill them."

Squeak, squeak, squeak "Always be the squeaky wheel. Always make noise and never let your receivables slide," says Roxanne Cowan of Rutherford Bolen Group. "I make phone calls for collections. Knock on wood, our client relationships have remained good. We go into it smart; we know where our invoice is in their cycle, and the account team is always working with the client."

WHY BUDGETS MATTER

By Elaine Hilmer



In today's business environment, an entrepreneur is most likely to succeed when using a budget to measure business performance. A budget forecasts cash flow—how money will move through your business—and is the dollars-and-cents implementation of your business plan. A budget is your key to success.

When setting up your budget, it's important to be realistic (perhaps even a little pessimistic) and consistent. Once your budget is set up, don't put it away! Budgeting is an ongoing process and the budget should be reviewed and revised regularly. Regular attention will spotlight any upcoming shortages so you can prepare for them.

As a practical tool, your budget must be realistic and easy to use. There are many methods for creating a budget, so choose one that you're comfortable with. The simplest method is the top-down approach using last year's actual figures and adding a percentage. As you review your budget, update each expense to allow for changes.

Budgeting for large capital items is crucial. Capital spending, if not controlled, can have a debilitating effect on cash flow. To assess the viability of a project, express it in financial terms based on how much revenue it will produce or the expense it will replace. Consider the benefits and risks of the expenditure, allowing for any additional expenses it might generate. Also, if you use short-term financing, include the cost of financing in your outflows, and be sure to include sales and income tax payments.

When you drop your actual figures into the budget you get a projection of the year's results immediately. By benchmarking your predicted cash flow against actual agency performance, you'll see how money is moving through your business. Managing your cash flow with budgets is a powerful tool, and you'll be amazed at the level of comfort you get when you know what you're dealing with.

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Squeezing Vendors: Get the most from suppliers

At the grocery store, it's how you choose the most delicious fruit. Why not apply the same method to secure the best possible terms from your vendors? Squeeze 'em!

1) Secure volume discounts Determine who you spend the most money with and make sure they know about it. To find out, print the Vendor Last A/P report. Then contact them to negotiate a volume discount. Or consider using other vendors more often than in the past.

2) Always use POs POs remember what was agreed to—both about dollars and scope of work. They are your backup should you need to deal with situations that are outside the originally agreed-to work.

3) Determine when it pays to take vendors' early payment discounts A rule of thumb is to take a discount if you could not invest the money and earn more than you'd save. For example, 2/10, net 30 terms equal 36.73% a year! If you can't beat that with an investment, take the discount!

4) Pay vendor invoices when due Unless it pays to take a discount, pay vendors only when invoices are due. And know the ones to call for an extension (with no interest charged) should you get into a bind. Take advantage of the "weekend float". Send checks out on Friday. This keeps your money in your account a little longer (and earning more interest, right?)

5) Place vendor on hold If situations warrant, place vendors on hold. (Each vendor's file has an "on hold" checkbox.) New POs or invoices can't be added for a vendor who's on hold. Include a user-defined reason why the vendor is on hold, as well.

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Set your plan in motion, then run the analyses again to see how you're doing.

The payoff: improved cash flow

When it comes to improving cash flow, look at both payables and receivables. (You'll find more tips on how to improve cash flow throughout this newsletter.) Focus on improving collections by including payment terms on invoices, working with signed estimates or contracts, and, when necessary, going after delinquent accounts. "We use the white hat-black hat method for collections," says Rey Scott, comptroller at Kich & Company in San Antonio, TX. "Because our owner deals with the client, she wears the white hat. I wear the black

hat and get tough if the situation calls for it."

Move earned income from work in progress to your bank account by billing more frequently. Clients & Profits includes many billing options like progress, estimate, multi-job, media, and retainer billing. Your staff can easily flag jobs that have reached a billable stage using a billing status code on the job ticket. Set up billing status codes for estimate, partial, or media billing, for example, then change the status code when the job is ready to bill. Changing the status code triggers the automatic e-mail to A/R, letting them know that a job is ready for invoicing. It's a great way to effortlessly increase billing frequency.

Bill for big expenses up front so you don't carry a big liability on your books (or stress out about collecting it). "With media, we request prepayment prior to the space or broadcast close date," says Dawn Jaworski, controller for Gabriel deGrood Bendt LLC in Minneapolis, MN. "If we don't get payment before the close, we cancel the buy." Also, be sure to track and bill for all costs, like travel and photocopies.

Plan ahead for vendor expenses with POs, IOs, and BOs—then hold the vendor to the

committed amount. Also, use auto-pay in Clients & Profits so checks are automatically generated on the date you want to pay them (subject to manual proofing and approval, of course). If possible, mail checks on Friday to earn interest on your funds over the weekend.

Complete the cycle

There are dozens of ways to increase your cash flow, and only a few are mentioned here. But however you go about improving it, give equal attention to inflows and outflows.

Doing a good job of managing cash flow requires using every tool in your professional toolbox, from schmoozing vendors for looser terms, to motivating staff for better productivity, to getting the most out of Clients & Profits.

Let Clients & Profits handle the bulk of day-to-day cash flow management so you can focus long-term financial strategies for long-term profits.

Judith Hector is the director of marketing for Clients & Profits. She coedits the quarterly newsletters.

CLIENTS & PROFITS is job production and accounting software designed especially for creative businesses. Since 1986, more advertising agencies have chosen Clients & Profits over any other agency management software for Macintosh and Windows. Over 2,500 ad agencies, graphic design firms, and corporate marketing departments use Clients & Profits to track jobs, costs, and billings every day. For more information, send email to sales@clientsandprofits.com.

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