

9 ways to improve your billing and collections

Billing and collections practices are more important today than ever

By Consulting Magazine Custom Media

Soon after Ricky Reemer launched his London-based information technology (IT) systems and consulting service company, ThinHost, the company began hemorrhaging cash. The reason? A poor cash management workflow program: New employees and suppliers were taken on before a solid customer base had been established. "We could see we were heading toward quite a scary situation," Reemer, managing director, explains, "if we didn't get some real controls in place on cash flow." Reemer's predicament at ThinHost is all too common.

According to the U.S. Small Business Administration, more than 671,800 new businesses were created in 2005, yet 544,800 closed that same year. Earlier research indicates that one of the main reasons that businesses survive four years or more is because they have an ample supply of capital, including regular inflow of cash from products and/or services. Without strong cash flow management, a firm may find itself unable to make the investments in people, technology, and other assets it needs to be competitive.

Maintaining a regular inflow of cash depends on solid billing and collections practices. This is especially true of professional services organizations. The New York-based Institute of Management and Administration identifies several steps such organizations can take to improve these practices.

Here's what you can do:

1. **Evaluate your initial client interview procedures.** Take care when accepting new clients. Create a checklist to flag problem clients. Do your homework on prospective clients to root out any financial difficulties. Web sites such as Hoovers.com and the Lexis-Nexis-hosted Dun & Bradstreet site are good sources of information. Also, formalize your client approval process, including creating a committee that oversees such approvals.
2. **Don't discount your firm's rates to win work.** The value of your services is communicated by everything you do—including how you price them. If you undervalue your services, you may not collect sufficient fees (inflows) to cover your cost of services sold (outflows).
3. **Consider alternatives to hourly rates.** Offering fee alternatives can help your firm better market its services and gain the appreciation of clients that will be more likely to pay promptly. You can set fixed fees for certain work, use a combination of a fixed fee plus an hourly rate, or set hourly rates with a floor and ceiling.
4. **Try to get retainers from new clients.** Law firms and design firms commonly use this practice, but it can also be beneficial for consulting firms. Three months of fees is an acceptable amount to ask for at the start; after that the retainer can be replenished for ongoing work.

5. **Protect your billable time.** Administrative staff is best suited to handle billing matters, and the firm must offer them proper support. For partners to maximize their billable hours, they must be free of nonbillable tasks and distractions.
6. **Consider a centralized approach to engagement letters, fee schedules, and billing methods.** Assigning these functions to the firm's administrator or comptroller can free time for billable work. It also ensures consistency in the language of engagement letters and in your billing and collections practices. Let the accounting or administration department send all bills.
7. **Ensure that bills are clear and concise.** When clients receive bills that show what was done by whom, and that are not filled with questionable billed activities, they are more apt to make prompt payment.
8. **Make professionals accountable for timesheet deadlines.** Ideally, all partners in the firm should submit time sheets by the first working day of the month. Draft bills should be out by the end of the second or third working day of the month, so that staff can have their bills in by the seventh working day of the month. *The goal should be to get 90 percent of bills out of the door by the eighteenth calendar day of the month.*
9. **Give everyone who discusses billing and collections access to client spreadsheets.** Client spreadsheets identified by client number should be on your firm's network, so your firm's managing partner and all other owners can see detailed information about the client. This enables the firm not only to track trends, but also to immediately spot a client that used to pay bills regularly but stopped.

The next step: Choose an integrated cash-flow management solution

Correcting cash-flow problems is the first step; the next step is choosing a cash-flow management system that will help you continue to improve cash flow.

Choosing the right solution for your business is easy when you keep the following considerations in mind. An automated, integrated solution will enable finance and administration to improve the efficiency of billing, collections, and other critical financial operations. An effective cash-flow management system will streamline financial management tasks with integrated applications and give your people real-time access to inventory, work-in-process, sales, purchasing, and financial information across multiple locations. It will also support international office locations with multiple languages and currencies, and streamline data flows across the company so that every function is using the same data for real-time decision-making.

It's also important that the system you choose be able to test a variety of business scenarios and prepare forecasts. Finally, the billing format should be flexible enough to accommodate different customers' preferences.

Ricky Reemer's cash-flow problem at ThinHost was not simply a money-in, money-out issue. The problem was the lack of sophisticated reporting, which made decision-making unreliable.

Reemer solved this problem by calling in external financial consultants to initiate immediate cash-flow controls and to integrate cash-flow management into systems throughout his business.

The outside consultant "put every control in place on our cash flow that was necessary, and gave us clarity in our business that we couldn't have dreamed of," Reemer says. "All I need to run this business is clarity and control, and now I've got that."

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