

## *Financial training for non financial staff*



*The financial training specialists*

### *Food for thought answer – managing work in progress*

Tony has a cashflow problem, not a profit problem. This means that the answer is not to try and improve prices or reduce costs – that will not affect the cashflow problem. The solution is to get the cash in more quickly.

At the moment it is about a year between the customer first coming to see Tony, and the cash coming in.

Part of the solution will be to have stage payments, or even money up front. Tony needs to identify the points at which he can reasonably ask the customer for some money. Typically, this is best done by identifying the points at which something has been achieved. People are happier to pay over the money if they perceive that they have received something in return.

Such points might include:

- the initial sketch showing what can be done with the space – how about an initial payment for the customer to be signed up
- planning permission granted – we've got planning permission, and here's the next bill!
- building regs drawings completed
- the successful tender of the job, and a start date fixed
- end of building work for the remainder of the fee

In addition Tony needs to set credit terms. At the moment it takes six weeks between the invoice going out and the customer paying. Fourteen days wouldn't be unreasonable as an alternative.

All these terms need to be outlined to the client at the start of the job in some form of contract (nothing complex is needed) that the customer signs.

Read the section on Managing working capital in **Managing cashflow pocketbook** by Anne Hawkins & Clive Turner for more on managing work in progress and debtors.