



**COUTTS  
REDINGTON**  
CHARTERED ACCOUNTANTS

# 4 SIMPLE STEPS TO GET PAID QUICKER

**IMPROVE CASHFLOW IN YOUR  
CONSTRUCTION BUSINESS**



## **It's no secret that around 80 percent of businesses fail due to cash flow problems.**

The big challenge for tradies, builders, plumbers, electricians, and other contractors for the construction industry is when cash flow problems creep up unnoticed.

That's why it's important to understand the main risks in your business and take the steps to manage cash flow before it becomes a larger issue.

Following are four simple steps you can take immediately to get paid quicker – and some other quick tips for improving cashflow.

First, though, make sure that you 're able to identify the 'red flags' that can lead to a crisis situation if you ignore them.





## CASH FLOW RED FLAGS

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Cash flow has nothing to do with profit.

It is the amount of cash available to your business: the difference between the cash paid out and the cash received. Tradies and construction businesses may face periods when cash becomes tight because of high outlays or slow-paying customers.

If you start to address cash flow issues only when the situation is already an emergency, you're asking for trouble.



Here are a few tell-tale signs of a construction business that may be entering a crisis cash flow situation:

- You're operating with less than twice your monthly expenditure available as cash in your account
- You have multiple unsettled bills from suppliers and relationships have become strained
- You have multiple customers with unpaid invoices 30-60 days after invoice date
- Customers are frequently asking you for payment extensions
- You're spending too much time on the phone chasing customers who owe money
- You feel stressed and it's difficult to focus on the jobs that bring cash in

# 4 STEPS TO GETTING PAID QUICKER

One of the most effective ways to improve cash flow is simply to take steps to get paid quicker by customers:

## 01

### **AUTOMATE AS MUCH AS POSSIBLE**

Collecting payments can largely be automated, saving you time and money. Xero can be set up to automate invoice reminders and statements, as well as email reminders to customers for overdue invoices.

## 03

### **DOCUMENT YOUR CONVERSATIONS**

Record all conversations about outstanding debts with customers. Making notes will prevent you forgetting what was said, which makes it easier to restart the conversation later, if necessary. Sometimes, a customer's own words are your best weapon!

## 02

### **PRIORITIZE THE BIGGEST INVOICES**

Focus on either the biggest amounts or the oldest amounts. You've sent your automatic reminders and statements and they still haven't paid. Start phoning the biggest ones – not the ones at the top of an alphabetical list.

## 04

### **FOLLOW UP IN WRITING**

Follow-up your phone call with a reminder letter or automated email clearly stating the amount outstanding and details of the conversation. Also state what further action will take place if payment is not received by a set date. The threat legal action often spurs slow-paying customers into action.



## OTHER QUICK TIPS TO IMPROVE CASH FLOW IN YOUR CONSTRUCTION BUSINESS

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### FOR NEW CUSTOMERS:

- **Conduct checks**

Always conduct checks before taking a new customer on: include a credit check and use a Credit Review Checklist to make sure you have it covered.

- **Start good habits early**

If you're just engaging a new customer, start instilling good payment habits early on. In your estimate, let them know clearly about when payment is expected, when they will receive invoices, and the payment terms that apply.

### FOR NEW AND EXISTING CUSTOMERS:

- **Start collecting upfront payments**

Collect an upfront payment at commencement and then progress billing throughout the course of the job. If you are clear with customers on the process from the beginning, it should help cash come in regularly to your business.

- **Invoice ASAP**

Send the final invoice as soon as the job is completed. Don't wait until the end of the month. Most customers will pay earlier if the final invoice is received earlier.



- **Specify an exact date of payment**

Ensure that all invoices clearly identify the due date for payment – an exact due date is much more effective than saying “within 14 days”.

- **Get the timing of statements right**

Send statements showing outstanding amounts two days after the exact due date for payment rather than on the due date. This allows for bank processing time and internal receipting time to clear any payments received near to the due date. You can automate this process.

- **Make it easy to pay**

Ask regular or ongoing customers for monthly direct debit payments. That way you know precisely how much is arriving and when.

- **Be strict on credit**

Never over-extend credit. Be sure to keep a lookout for warning signs that customers are experiencing financial difficulties.

- **Don't be frightened of walking away from bad payers**

Encourage regular customers to stick to payment terms or consider whether they are really worth retaining.

Following up with bad payers costs you time and money that you can ill afford.



Contact our team of construction business advisors as a first step to solving your cash flow challenges:

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