BILLING RATES AND ENSURING ADEQUATE CASH FLOW

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Access to funds won't help you unless those funds are available when you need them — the timing issue. Your usual financial cycle is probably:

pay the expense ➜ *complete and invoice your work* ➜ *receive payment*

Obviously, you want to shorten the gap between when you pay out for staff time or expenses and when you get paid. You can do this in several ways:

a) Invoice clients more rapidly, billing the day your work is completed and faxing or couriering the invoice to them.

b) Invoice clients more frequently, as milestone payments or monthly instalments, instead of just at the end of the contract.

c) Follow-up with clients before 30 days are up to see if you can get payment within the standard 30 days.

d) Negotiate a fee advance for the beginning of a contract so that you have payment before you incur expenses.

You can also free up cash through the way that you manage your liabilities. For example, when cash is tight, make only partial payments to vendors or delay payment past 30 days (*if* you can do this without jeopardizing their good will and your credit rating). Instead of paying cash for equipment, see if there is some kind of small business loan for which you qualify. Or talk with your banker about spreading loan payments out over a longer period of time so that you can reduce the monthly amount. You can also see if clients will pay for large expenses, like airline tickets, directly themselves.

One of the things that will affect how much cash you have is what you set as your billable rate. In many instances, professional service providers underestimate what they need to charge because they want to be priced competitively. The basic formula to keep in mind is that you *must at least breakeven*. What does this mean? It means that, using the billable days available to you, you need to be able to cover all of your expenses (see Box 1). If your annual expenses, for example, are $90,000 and you have 180 billable days, then your breakeven rate is $500 per day.

The accounting profession has developed ratios to help you analyse your financing needs. The one that you may find the most useful is the *current ratio*, which is your current assets divided by your current liabilities. This ratio should be more than 1 (i.e., you should have more funds than debts) and ideally closer to 2.

Box 1: Setting a Price for Consultancy Services

The following is an approach for determining your breakeven (or before-profit) fee for consultancy work, to which you would add your expected profit margin in order to get the professional fee that you should be charging.

Components of Your Professional Fee

______________	Domestic breakeven fee*
+ ______________	Allowance for travel and any non-billable expenses
+ ______________	Allowance to cover financing of receivables
+ ______________	Expected profit (as a percent of annual sales)
= ______________	Professional Daily Fee

[divide by the number of working hours to get your hourly fee]

***Establishing Your Domestic Breakeven Fee*:**

A = expenses to be covered by your fee
[general overhead + contract-specific expenses]

B = number of days you are available each year
[260 days minus:
statutory holidays, vacation days, sick leave
administration and supervision time
record keeping; staff meetings
professional development
business development]

Breakeven = A/B

The final issue you need to manage, if you are invoicing foreign clients in a currency other than your own, is foreign exchange risk. For example, if you bid a contract in US dollars when the exchange rate is 100:US$1 and the rate is 150:US$1 when you get paid, you will be very happy with the extra money you have made. But what about the reverse? What if the rate is 50:US$1? Then you will have potentially lost a lot of money. When you are dealing in large sums of money, it is possible to "hedge" against an unfavourable rate change. You should consult your banker or accountant about this matter.