***Managing working capital: Work in Progress***

Work in Progress (WIP) is all the work we’ve done, but haven’t yet invoiced. Like all elements of working capital, it represents a cashflow problem. We’ve paid to do the work, but – because we haven’t yet invoiced the work – we haven’t yet received payment for it.

**Some examples of WIP**

WIP will look very different in different industries, but the impact on cashflow is the same.

In a law firm it’s the case-work that hasn’t yet been finished and invoiced. You’ll see it in the piles of client files scattered around the office. “Finishing it” might have to wait until the court date, or it may just be waiting for the review by the partner.

In a factory it’s the part finished products on the production line, in a shipyard it’s the skeleton of the half constructed ship towering up out of the dock.

For a housebuilding company it’s the foundations or half-finished houses within the development it’s building.

**Agreeing milestones**

One tool to manage WIP is breaking the job down into stages, and agreeing milestones along the way. As each milestone is delivered, it can be invoiced. That way we keep getting cash back in from the customer to help our cashflow.

It’s important that we word the milestones in such a way that we are in control of achieving them. A software salesman described a discussion about the wording of a milestone. He wanted the milestone to be “delivery of trail software” whilst the customer wanted “approval of trial software”. What’s in a word? Perhaps 2 years in this case!

**Invoicing in advance**

Another way of reducing WIP is to invoice at the start of each milestone, rather than at the end. That’s why school and university fees are paid at the start of the term, not the end, and why rent is paid at the beginning of the month or quarter.

Another twist in invoicing in advance is to ask for a deposit up front. On a long job – especially where the milestones may be several months apart – this means that at least the job is cash positive when it starts.

**Invoicing promptly**

Agreeing milestones and payments in advance involves good negotiation, whereas prompt invoicing is about good discipline.

We should invoice the customer at the earliest opportunity. Our thought process should be “What can I invoice today?” rather than “What will I invoice at the end of the month?”

If we need to provide supporting paperwork and certificates along with the invoice then we need to think about getting them in place this week so we can invoice promptly when we hit the milestone next week.

**Communicate**

This is an issue the whole team needs to be aware of. Everyone working on a contract should know in detail what the milestones are, and exactly what we need to do to achieve the milestones. Then everyone will understand what tasks will help us hit the imminent milestone, which will enable us to invoice. Staff and contractors shouldn’t have to be chased for the paperwork that we need in order to hit the milestone. On a building site the team should know which houses have been sold off-plan: we want to finish these houses first, because there’s a buyer waiting to pay us!

**What about your business?**

What does WIP look like in your business? What would have to be negotiated better to improve it? What do you and your team need to do differently to improve it?