

Module Four – Invoicing and Getting Paid



This module introduces students to the principles of invoicing and getting paid as that relates to small service-based businesses. The learning outcomes of this module are:

- Ability to create an effective invoice
- Understanding of different pricing models
- Tips for getting paid faster, and on time

Topical overview:

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1 Introduction

Getting paid is a necessary part of doing business, it's single handedly the most important factor in getting a business off the ground. In fact, 25% percent of small businesses fail in the first year and 50% are gone by their fifth year.⁸ One of the biggest pain points for these small businesses is figuring out how to properly charge for their services, and successfully collecting payment for said work.

Small businesses generally have a tight revenue and expense ratio which means that waiting extended periods of time for clients to pay can cause financial distress. Learning how to effectively charge for your time, invoice effectively, and receive payment quickly is absolutely crucial to the success of a business.

2 Overview of invoicing and getting paid

The average time for small businesses to receive payment for a completed job is 30-40 days.⁹ If your business has the capacity to work only a few projects at once, this means that you can have long periods of time without revenue coming into your business. This period of time is extended if invoicing is delayed or if your client doesn't pay promptly.

Cash flow for new businesses: The typical cycle of securing a client, completing the project, and receiving payment can take a few months or longer depending on the size of the project. For a new business this can delay the availability of funds and create challenges for paying income to employee(s) or being able to pay for business expenses. Considering 50% of small businesses struggle with unpaid invoices the challenge of keeping cash coming into the business can be significant.¹⁰ There are strategies you can undertake to help streamline the invoicing process as well as tips for triggering faster payment. These strategies will be discussed in section 4 of this module.

The impact of what you charge for services: If you charge too much for your services, you may have a hard time acquiring clients who can get the same service for less (and possibly from someone with more experience). If you charge too little, you may run into the problem of not being able to bring in enough funds to your business. Taking the time to figure out how much you should charge, taking into consideration what the market will bear, and what your competitors are charging, is an important step in starting a new business. This sentiment is true for freelancers as well. Researching and understanding the rationale behind your rate as opposed to randomly picking an amount will also give you confidence in explaining your rate to a client.

Why is collecting payment important: Small businesses require positive cash flow to survive. If you don't have money coming in then you are unable to cover the cost of doing business. A small business cannot operate for an extended period of time without money coming in even if it has a solid business model and potential for long-term profit.

Unlike when you work as an employee for a company, payment does not automatically get deposited in your account on a predictable basis. As a small business owner, you need to take steps to ensure you are receiving payment and stay on top of who owes