A CFOFORIT WHITEPAPER

6 Cash Killers

6 causes, 6 fixes

Why MSP CEOs Lose Sleep and How to Fix Them

CFOforIT

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Most IT services CEOs experience cash pressure long before EBITDA or revenue tells the full story. These moments of stress are symptoms of specific operational imbalances, and each one is solvable.

The 3 AM Problem

If you're a CEO in the IT services space, you know the feeling: it's 3 AM and you're awake, not because of strategy or vision, but because of cash. Payroll is due next week. A major customer is late on payment. Your AR team is chasing down invoices while your AP inbox fills with vendor demands.

You're not alone. Most IT services CEOs experience cash pressure long before EBITDA or revenue tells the full story. The good news? These moments of stress are symptoms of specific operational imbalances, and each one is solvable.

Here are the six most common causes of liquidity strain in growing IT services firms (what we call "cash killers") and how to identify and fix them before they derail your growth or cost you sleep.

13-Week Rolling Forecast: Your First Line of Defense

What most CEOs think: "We use operating cash flow or EBITDA as our cash metric, so we don't need a rolling forecast."

Reality: While operating cash flow and EBITDA are helpful, nothing gives you clearer visibility into your near-term position than a 13-week cash forecast.

Common culprits:

- The team doesn't understand the value of a 13-week forecast
- No existing model or template to follow
- Lack of ownership in Finance or FP&A

Implement a 13-week forecast immediately. Assign ownership. Train the team. Use it as your decision-making compass.

1. DSO: It's Not a Collections Problem, It's an Invoicing Problem

What most CEOs think: "Our clients are paying late. We need to chase them harder."

Reality: Most DSO issues start upstream, with how and when you invoice, not how aggressively you follow up.

Common culprits:

- Invoices don't clearly reflect what was delivered, how much, or when
- Milestones are ambiguous or missing
- Manual processes cause invoice delays
- Format issues prevent ingestion by the customer's AP system

Case in point: We compressed DSO by 18 days, without changing collections, by standardizing invoices to clearly show:

- The services delivered
- The quantity
- The price

We also sent proactive reminders before due dates and worked closely with sales and PMs to resolve issues before invoices became overdue.

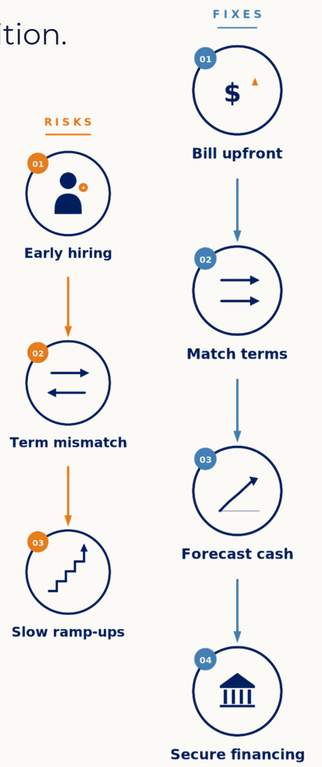
Fix the invoicing, and the payments will follow.

2. Growth: Your Revenue Is Up, But So Is Your Burn

What many CEOs miss: Growth isn't free. It's a cash-consuming machine.

Every time you add techs, expand delivery, or ramp onboarding, you pay before you're paid.

In IT services, growth frontloads expenses and delays revenue recognition.



Key risk periods:

- Hiring before billing begins
- Vendor terms that don't match customer payment timing
- Onboarding large clients with long ramp-ups

Mitigation:

- Use upfront billing or phased retainers
- Match vendor terms to customer terms
- Implement cash forecasts tied to bookings and backlog
- Ensure you have access to financing to support bursts of growth

Growth should never catch your cash model by surprise.

3. DPO: You're Paying Vendors Like a Startup

What's happening: You're paying vendors on Net 15 to 30, but clients are paying you Net 45 to 60. That mismatch forces you to float the difference, and it drains cash.

Fixes:

- Renegotiate vendor terms to align with customer terms
- Consolidate purchasing to leverage better rates
- Communicate early with vendors if growth creates temporary strain
- DO NOT delay payments without communication; it damages relationships

Pro tip: Vendors will usually work with you if you talk to them before a critical cash event. Proactive conversations signal maturity and operational control.

Bottom line: If you're paying faster than you're getting paid, you're financing someone else's business.

4. Unprofitable Customers: Your Worst Clients Drain Your Cash

Not all revenue is created equal. Every MSP has unprofitable clients, but most can't identify them.

In many IT services firms, 20% of customers destroy 80% of liquidity.

Why?

- They operate below your gross margin floor (e.g., <35%)
- They require excess service hours or admin effort (shadow delivery)

Solution:

- Implement client-level profitability reporting
- Reprice or terminate clients below your floor
- Include annual escalators in contracts
- Use profit corridors to trigger pricing adjustments

Revenue is vanity. Profitability is sanity. Liquidity is survival.

5. Margins vs. Overhead: EBITDA Doesn't Equal Cash

What many CEOs believe: "We're at 15% EBITDA, so we must be cash-flow positive."

Not necessarily. If you have slow AR, high prepaid labor, or bloated overhead, cash doesn't follow EBITDA.

Watch for:

- Gross margins <40% in labor-heavy orgs
- G&A spend disconnected from revenue performance
- CapEx or project costs that are capitalized but not cash-neutral

Strategy:

- Re-baseline service rates quarterly to track labor cost creep
- Measure EBITDA-to-cash conversion
- Treat cash as your real P&L

It's not just about margins; it's about timing and velocity of cash.

6. Strategic Debt Aversion: Fear Is Costing You Stability

Reality check: Not all debt is bad. Used wisely, debt smooths out lumpy cash cycles.

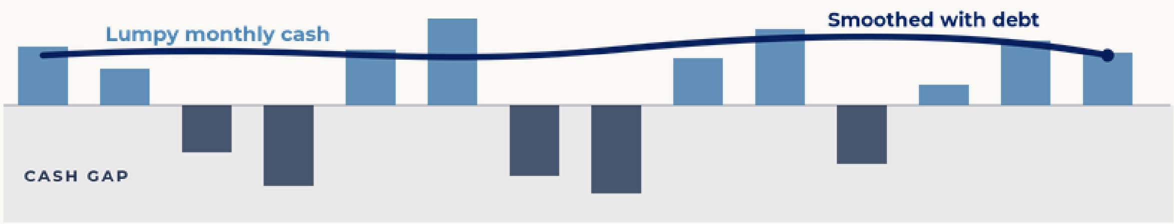
But many CEOs avoid debt due to:

- Fear of personal guarantees
- Lender scrutiny
- Misuse of funds

Instead:

- Secure a line of credit before you need it
- Use debt to fund AR growth, not operating losses
- Pair borrowing with AR acceleration and extended vendor terms

Cash stress isn't noble; it's optional. Smart debt buys time to optimize operations



Conclusion: Liquidity Is a Signal, Not a Flaw

Liquidity stress doesn't mean your business is broken. It means your operating model is out of sync with your cash model. Each of the six cash killers above is solvable, but only if you find and fix the root cause.

At CFOforIT, we help IT services companies align financial strategy with operational reality. We've scaled multiple firms past $130M, battled every one of these issues, and built the playbooks that solve them.

If you're losing sleep over cash, let's talk. You don't need another accountant. You need a strategic CFO who's been in the chair and solved these problems before.

About CFOforIT

CFOforIT is a fractional CFO firm built exclusively for MSPs, VARs, and IT services firms that want to scale profitably, operate with confidence, and maximize enterprise value.

Led by executives who have helped grow multiple IT services companies from under $20 million to over $130 million in revenue and executed more than 20 acquisitions, CFOforIT combines deep industry insight with proven financial architecture.

Our approach turns finance into a strategic operating system, integrating cash management, pricing discipline, forecasting, and KPI governance into the daily rhythm of leadership. Whether preparing for growth, pursuing acquisitions, or positioning for exit, we help founders and CFOs build data-driven visibility, optimize EBITDA, and unlock valuation multiples that reflect the true strength of their business.

CFOforIT partners with leadership teams to build the systems, metrics, and cadence that drive operational maturity and value creation, because in IT services, sustainable profitability isn't a mystery; it's a discipline.

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