

CASHFLOW STRATEGIES FOR RESIDENTIAL BUILDERS

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Cashflow management is crucial for residential builders as it can help ensure the financial health and sustainability of your business. Most construction companies encounter difficult times due to their cashflow rather than building-related issues. Here are some cashflow management strategies tailored to the residential building industry in Australia:

1. Detailed Budgeting and forecasting
 - Start with a detailed budget that outlines all your project costs, including materials, labour, permits and overhead expenses.
 - Create cashflow forecasts for each project to anticipate when you'll receive payments and when expenses will occur.
 - This needs to be done for every project.
 - There also needs to be a budget for your fixed overheads which cannot be allocated to a project. E.g. office costs, insurances, etc.
2. Accurate pricing and contracts:
 - Ensure your pricing is competitive but also reflective of the actual costs involved in the project. i.e., Include the mark-up and then the margin in your quotes.
 - Ensure you can articulate the value of using you as the builder vs competitors.
 - Use contracts that include clear payment terms and penalties for delays or changes to the scope of work.
3. Progressive billing:
 - Where possible, bill clients at frequent project milestones or stages of completion.
4. Payment terms negotiation:
 - Negotiate favourable payment terms with suppliers, subcontractors and clients whenever possible. Longer payment terms from suppliers can help delay cash outflows while shorter payment terms from clients can help accelerate inflows.
 - Shop around for better rates and terms!
5. Charge for Quotes:
 - Request upfront payment for quotes to cover the time and effort which goes into quotes as well as demonstrating their commitment to the project and you!
6. Manage your own finances:
 - Ensure you have access to your own funds and have available as much equity as possible in case you need to lend it to your company.
 - Make sure your home loans and personal debt is the best available – shop around via an experienced finance broker specialising in the construction industry!
7. Client Credit Checks:
 - Before taking on a new client, perform credit checks to assess their ability to make timely repayments and observing a possible history of non-payment.

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8. Cash Reserves:
 - Maintain a cash reserve for emergencies or delays with payments personally and in business.

9. Finance Options:
 - Explore Business financing options such as lines of credits, overdrafts, business loans, leasing finance, etc. to cover short term cashflow gaps.

10. Debt Management:
 - If you have outstanding loans, manage them efficiently by ensuring that repayments align with your cashflow.

11. Tax Planning:
 - Work with a tax advisor to optimise your tax planning and reduce tax liabilities to improve your cashflow.

12. Technology and Software
 - Use accounting and project management software to streamline your financial processes, track expenses and create accurate cashflow forecasts.

13. Continuous monitoring:
 - Regularly review your cashflow statements and forecasts to identify trends or potential issues before they become major problems.
 - Business management is imperative your survival and success – more so than spending most of your time ‘on the tools’.
 - Get help if you are unsure what to measure or how to do it.

14. Diversify and expand services:
 - Consider diversifying your services or expanding into related areas to generate additional income streams to supplement a slowing down of your market.

15. Professional Advice:
 - Seek advice from experts in the construction industry like accountants, finance brokers or industry advisors. If in doubt or unsure what the first step is, contact Chocolate Money for direction and a free business health check.