

CASH FLOW MANAGEMENT FOR BUILDERS

Cash flow is one of the biggest challenges facing construction businesses. It starts from the very beginning where many companies get their quote wrong and mistaken mark-up and margin. This mistake usually means the project will never deliver the expected profit margin. Then, add project delays, subcontractor management, fixed overhead over-runs and things spiral quickly.

Without excellent cash flow management processes in place, your construction company will ultimately fail even if you can keep all the balls in the air for a period of time! These are straight forward steps to consider to help your cash flow:

1. Get the quote / estimate for the job correct! Do not submit a page of inclusions, a page on exclusions and a bottom line price and expect negotiations with the client to go in any other direction except down! Know your market, what they value and build it into a professional and well-presented tender document.
2. The quote needs to be accurate and not guess work. You should have 3 quotes to compare and focus on value-for-money rather than merely cheap prices. Put in the time for a job you actually want.
3. Know the difference between margin and mark-up so your estimates deliver the profit margin you expect.
4. Close off the jobs at their completion analysing any issues or gains and their impact on the expected profit margin. Do not repeat mistakes and ensure you replicate gains.
5. Ensure each project has a schedule with a cash flow forecast showing expenses and claims and then the actual expenses and claims. This will ensure the jobs get completed on time and on budget.
6. Improve your billing procedures; bill on time, bill accurately and remind prematurely!

7. Plan your taxes well. Know what you will need to pay and when you will need to pay it.

2. Plan Your Taxes Carefully

Tax surprises can really throw off your cash flow, and that's why it's so important to plan your taxes carefully. Build a strong accounting department or outsource your accounting to a firm that has plenty of construction experience. You may be able to defer tax payments in order to finish projects or grow your company.

3. Analyse Your Financial Ratios

When you know what to look for, financial statements do more than just lay out your numbers on one page. Key ratios can help you to track patterns and identify patterns early, allowing you to fix potential problems before they do significant damage.

Pay close attention to the following ratios: Days Sales Outstanding (the average number of days it takes to collect receivables), Accounts Receivable Turnover, Retainage Balances, Working Capital (current assets minus liabilities), Debt-to-Equity (total liabilities divided by owners' equity) and Project Gain.

4. Review Your Internal Systems

Do you currently have adequate internal infrastructure for keeping your cash flow under control? For example, is your accounting department running smoothly enough to give you up-to-date data as often as you need it? How is your project management flowing? Proper communication between accounting and project management is essential for streamlining billing and keeping your cash flow healthy.

5. Spread Out Your Costs

Unless you receive a steep discount for paying with cash, it's wise for construction companies to consider using financing for the purchase of materials and supplies. Even though you'll have to make some interest payments with this strategy, you'll be able to spread out your payments and leave yourself more cash for day-to-day operations.

6. Process Change Orders Quickly

Since change orders (variations) are so common in the construction industry, it's important to make a point of processing them quickly. Schedules can change due to extreme weather and all kinds of delays.

Project managers should process change orders immediately rather than waiting for the project to be completed. The quicker you receive payments, the better off your cash flow will be.

7. Create Accurate Estimates

Accurate estimates will make it easier to forecast your cash flow and stay on track. One of the best ways to improve the accuracy of your estimates is to use estimating software. It can be used by many different construction professionals, including estimators, surveyors, builders and contractors.

With all of your pricing information collected in one place and saved as template price lists, you'll have greater accuracy and all the information you need at your fingertips.

Managing your cash flow is one of the most important things you can do to position your construction company for growth.

To learn more about these and other strategies to help your company's cash flow, contact Chocolate Money on 1300 137 539 or info@chocolatemoney.com.au