

MORRISON & ASSOCIATES, CPA'S, PLLC

CONTRACTOR 20-POINT PRESCRIPTION FOR A HEALTHY CASH FLOW

If you follow this prescription, you should see a dramatic increase in your cash flow.

1. Establish a sufficient line of credit or have another source of funds available to provide for temporary or emergency cash-flow shortfalls.
2. Prepare and maintain a 12-month moving cash flow forecast or budget, with the first 3 months functioning as an early warning system.
3. Negotiate for the lowest possible retention percentages, as well as the phase-out of retention, into the payment terms of each contract. (In no event should the retainage be higher than that being retained by the owner from the general contractor).
4. Strongly encourage speedy resolution of proposed additions and deletions to each contract by requiring signed authorization in the field for, at least, scope changes before work begins.
5. Always know your customer's approval and payment process, including the person who does the approving.
6. Consider offering discounts to your customers for early payment.
7. Have excess daily cash sweep first against your line of credit. (This makes sense because you usually cannot earn as high a rate of interest in any other investment vehicle).
8. Bills should be paid on only a few designated days of the month to enhance cash flow planning, as well as to promote office efficiency.
9. Make sure purchase discounts are never missed because the standard 2% 10 days, net 30 approximates a 36% interest rate.
10. Require the same method of retention from your subcontractors and suppliers to help offset your company's retention that is being withheld.
11. Make sure you have a knowledgeable construction industry management team consisting of your accountant, banker, surety agent, and lawyer to advise your company on cash flow issues.
12. If appropriate, consider asking your bank or leasing company for a waiver or skip payments for 2 or 3 months during off-season periods.
13. Always perform a "lease vs. buy" analysis prior to acquiring any major purchases, such as equipment or rolling stock.
14. Debt restructuring and cash flow enhancement should always begin with officers, owners, and other related parties repaying their loans.
15. A contract clause providing for reimbursement of attorney's fees can be critical to ensuring the collection of receivables. It discourages the owner or general contractor from withholding payment and helps make litigation more cost effective should it become necessary to file a claim.
16. Never lose sight of the fact that the collection of accounts receivable is a right, not a privilege.
17. Have your attorney prepare a series of standard form letters for use with certain problem customers. (Many people pay upon receiving the first letter from an attorney).
18. Do not fear offending or alienating your customers. Remember, persistence pays. If you can shorten your collection cycle by 5-10 days, you will have achieved a significant number of extra days of cash.
19. Consider in-person delivery of the first invoice and subsequent large invoices, as well as picking up checks to help eliminate delays and excuses.
20. Copy every check you receive to verify your customer's bank and account number, this allows for future verification of sufficient funds.