

Good morning, everyone. This is Travis Hendrick with FBI, where *We Build Better Contractors*.

Today we're going to be talking about the lifeblood of any business and especially a construction business, and that's cash. A lot of contractors who go out of business are actually profitable at the time that they go out of business, but it's poor cash management that forces them to close their doors. So today I'm going to go over five tips from both a project and a company perspective to hopefully improve your cash balance and your overall company's focus on cash. So, start off on the project side.

So, the first one, it seems pretty obvious, but it's often overlooked, and it's getting the client's expectations dialed in from a billing perspective before the first billing goes in. So, the suggestion would be within five days of the billing deadline for a new project, reach out to the billing contact, prepare a draft billing, have a Zoom meeting, walk through the billing, and make sure that you can uncover any hurdles that aren't called out in the contract that would hang up your first billing from being approved and therefore paid. Okay? So that's tip number one.

And then that feeds into tip number two, which is turning your collections folks, whoever's responsible for that, if that's project manager, project accountant, project engineer, accounting clerk, no matter who that is, turning them into a proactive collection agent. So, what does that mean? Hopefully you have accounting software that's able to determine when the due date is for a specific contract billing based on the specific terms of that contract. Make sure that that is front and center to whoever's doing the collections and that they're following up with the client, again, five days ahead of when payment is supposed to be received. And that way you can uncover any additional hurdles that may be coming up. And you're also setting the tone with the client that you are expecting payment per the terms of the contract as well, and that you're professionally managing your business, knowing that cash is very important to the overall success of your company and their project. Right?

So, third, and I think this is the most important, is making cash position visible at the project level on all project cash report or all project cost reports. So that'd be a job cost summary report, transaction detail report, change order logs, WIP reports. A lot of your more progressive contractors and your well-managed contractors, they're really hypersensitive to over billings and under billings on a WIP report. But an overbilling is just that. If it's not being paid, if invoices aren't being paid by your client, it's just an overbilling. It's not improving your cash position. So, I'd make sure cash position is definitely on a WIP report, but for all other project reports, I'd want it front and center. If you're in a negative cash position, I want a big red, bold number at the top of any report that highlights to the team that while you may be profitable, you're actually financing these projects.

And what it will do is it'll change the decision making of everything that takes place within your project team, whether it's can I continue to do change order work for this client without the ability to bill the client for it? Should I pay a subcontractor sooner than when we've received cash from a customer to help them out? Or it may even just jog their memory to take a look at the receivable schedule and see, hey, why are we so cash flow negative? Maybe there's an invoice out there that hasn't been paid and I need to follow up with the client.

So, I make sure that that cash position on every project was visible to the project team at all times. And to come up with the cash position is very simple. It's receipts, so payments received from the client, less job to date cost, so all your costs on the cost report, but then add back in any job specific costs that are still on an aging report, right? So, they haven't been paid yet. So, it's receipts minus job to date cost, plus job costs that are still on a receivable, that's your cash position for the project.

And then fourth is focusing on the closeout and the retention of a project. I've been able to work with many really strong project managers throughout the time. We've talked about this topic. How do you make for a smooth closeout and receipt of retention? And when you start thinking about retention at five and 10%, sometimes your project's margin, your gross

margin isn't 10% on a project. So really what we're saying with retention is that that's profits. Those are profits that are sitting out there. So how can I get those profits sooner rather than later? And most project managers will tell you that the project closeout process starts at the beginning of the project.

And what do they mean by this? It's going through the contract and understanding what is going to be required for the closeout, what's going to be required for the release of retention, building that list of items and tracking and collecting those items throughout the project instead of waiting until the end of the job when things could be hectic, people have left the project that used to be involved that now it makes it a lot more difficult to track down that information to help you close out and receive retention.

And in the last bullet point, this is more from a company standpoint, financial leadership, accounting leadership, it's developing a cash flow forecasting tool. Even if it's a short-term tool, maybe you're only looking ahead three weeks, six weeks at most, utilizing the data that's in your ERP today, something is better than nothing. Ideally, you would like project managers to be able to be forecasting billings and costs well into the future. So, you'd have a little bit longer perspective, I guess, and forecast for your cash into the future. But if you don't get that, having something that's three to six weeks at least provides you a baseline for where to set your expectations from a cash balance.

And it'll do a primary thing for you. You'll always keep cash front and center on what your cash balances should be. And then as soon as the balance isn't where you expected it to be, you're going to be diving in to try to figure out what assumptions were made in the cash flow forecasting model that didn't come to fruition. A lot of times this will be receipts that you thought you were going to get that didn't show up, and it'll just prompt you to make those follow up calls to get that cash in the door.

And then secondly, you have to have a statement of cash flows as part of your financial reporting package. Any solid financial professional that's out there, that's going to be evaluating your financial reports, that's the report that they're going to go to. Because if we remember on the profit and loss statement, that's built from a lot of guesses from all your different project team and estimates, right? Balance sheets still the same. Statement of cash flow, there's no projections involved in that, right? Cash flow is what it is. So having that available to your leadership team so they can see, how did we do this month from a cash perspective, where was the cash going, that's valuable. And it's secondarily, it'll increase your credibility to anybody who's asking for your financials that you actually include a statement of cash flow, and they realize that you see the importance of cash and that you're monitoring it on a regular basis.

So that's the five tips that I have today for you that hopefully improves your cash position, your overall focus on cash. And as we kind of continue in these uncertain times and we don't know where the economy's going, it'll be imperative that your cash position is as strong as possible so you guys can handle any scenarios that are thrown at you in the next 12 to 18 months. Right?

So, a final announcement that I have. Get those next gen business leaders enrolled in one of our construction business Boot Camps. The first one coming up, Dallas, May 11th and 12th. Denver, August 10th and 11th. Toronto, October 5th and 6th. And then one here in Raleigh, November 9th and 10th. So that's what I have for you today. Again, my name's Travis Hendrick with FBI, where *We Build Better Contractors*.