

Managing Cash Flow

By Shawn McCadden

Managing the work flow and finances of my construction company was fairly simple when I was starting out. Money came in faster than it went out, so I was able to pay the bills on time. This was especially important with subcontractors. If I paid them right away, it was easier to get them back for the next project. In addition, happy subs were more likely to bail me out if I got in a bind.

As the business grew, I found myself juggling the checkbook to keep suppliers, subs, and employees paid. Part of the problem was that my contracts were poorly written: My payment schedules allowed me to spend more for ongoing job costs than the money I had collected from the customer. This led me to shift crews from job to job so that I could take progress payments from one project and use that money to pay the bills for a different project. It was definitely a vicious cycle; I didn't break out of it until I learned to manage cash flow.

Control When the Money Is Due

Most contractors have vendor accounts that operate on credit. Lumberyards and supply houses keep track of your purchases and issue a monthly bill. The money you owe is due by a certain date, typically the end of the following month. If you don't pay on time or in full, you'll owe interest on the outstanding balance. Interest is expensive, and the money to pay it comes out of your pocket.

It's important to keep track of the cut-off date for each monthly billing cycle. For example, if the lumberyard's current cycle ends on the 26th of August, anything you purchase on or before that date will be billed to you on the next statement. Payment will be due by the end of September. Anything you

ORIGINAL INVOICE

P.O. Box 1000, Woburn, MA 01801
FAX (617) 966-0111 • TEL (617) 966-0111

CUST. NO. INVOICE NO. DATE
07/28/95

INC. AVE. 02174

ORDER NO. 313393 ORDER DATE 2/23/95 CUSTOMER NO. 00000000
INVOICE BY Invoice Number 272067-1 INVOICE DATE 2/27/95

TERMS: 1% DISCOUNT AFTER 10 DAYS ON UNPAID INVOICE 10% FINANCE CHARGE PER MONTH AFTER 30 DAYS
***** SAVE 20 - 40% ON GENERIC SUN RAILS *****
WE STOCK NAILS THAT WILL FIT BOSTITCH PASL
BUDFAST HITACHI SENDO *****
ASK ABOUT HARDI-PLANK SIDING 50 YR WARRANTY

TIME	DELIVERY DATE	DELIVERY TRUCK	QUANTITY	SHIP TO	DRIVER	LEADS BY
--AM	2/27/95	40094	01	Dur. Truck	JB	

DESCRIPTION	QTY	PRICE	AMOUNT
#1.40CCA TRTD 8 FT	PC	8.5299	42.85
#1BYP.40CCA W/EXTRA 16 FT	PC	8.2924	66.34
#1.40CCA TRTD 14 FT	PC	10.5134	21.03
#1.40CCA TRTD 12 FT	PC	15.1452	15.15
PRES.TREATED BALUSTER 36"	EACH	0.8855	61.99
V.3 PRES.TRTD.LATTICE 4XB	PC	15.9330	63.73
SEL.40CCA W/EXTRA 16 FT	PC	16.5440	33.09
0-12 JOIST HANGER	EACH	0.6000	8.40
POST BASE	EACH	4.6500	13.95

SUBTOTAL 4111.93
TAX 5.00 205.60
TOTAL DUE 4317.53

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POSTED

ANY CLAIMS FOR SHORTAGE MUST BE

One simple way to ease cash flow crunches is to make large purchases after the close of your lumberyard's billing cycle. This adds nearly a whole month to the due date for those items, and makes it easier to get the discount for prompt payment.

purchase after the 26th of August will fall into the next billing cycle and will be due by the end of October. It's more or less the same with any vendor account or credit card.

Different vendors will have different credit limits, due dates, and interest

rates on open balances. Most offer a grace period during which no interest is charged. But if you don't pay on time, interest may be charged on new purchases from the day the charge is incurred. When this happens, you end up paying interest on everything you

buy. In addition, many vendors offer a discount for paying by a certain date. Most of my vendors give a 2% discount for paying in full by the tenth of the month. I bend over backwards to get this discount because it goes straight into my pocket.

The grace period is like an interest-free loan — you want it to last as long as possible. Here's an example of how it can work. My production manager ordered a stock bow window and took delivery on the 25th of the month. The project was starting a week later and he wanted to be sure the window was in hand. The account closed on the 25th, so if we wanted the 2% discount we had to pay for the window by the 10th of the following month. He could have taken delivery a couple of days later. The window would still have been there early, but we wouldn't have to pay for it until the 10th day of the second month. We'd still get the discount, but we'd have 45 instead of 15 days to pay.

Other things being equal, having two vendors for the same material may allow you to buy from the one who gives you the most time to pay or the best discount. If the vendors have different closing dates, one may be better to buy from than the other depending on when you need the material. (At times, I've gotten discounts just by asking for them and letting vendors know that the competition has already offered them.)

It's important to know the details of how each vendor bills your account. One of our vendors bills for customized windows on the date they are

ready for delivery. A different vendor doesn't bill until they're actually delivered. Knowing this allows us to order and accept materials when it's the most advantageous to us.

Using Credit Cards

My company uses credit cards for mail order items and vehicle expenses and to buy materials from vendors who don't set up accounts. Some companies allow you to choose when the bill is due, so you can time payments so they won't coincide with the due dates on your other accounts. At one time, vendors were willing to take credit card payments and still give a 2% discount. Credit card fees have risen, so you're less likely to get that deal today. Not only is using a card convenient, but I also get several free airline tickets a year from the miles I earn from business purchases.

Get Your Money When You Need It

Every contract should stipulate when progress payments are due. I used to set specific dates, but stopped when I found myself chasing clients for what they owed. It's better to tie payments to milestones such as the beginning or end of a certain phase of construction. This helps in a number of ways. It gives clients confidence that they're getting what they paid for because payments are linked to progress. It also makes it clear to customers that the job will not move forward until they pay what they owe. If you set it up correctly, the client's payments will at a minimum match your direct costs to date plus overhead and profit.

It's easier to collect payments if you're careful about the milestones you choose. For example, you could say payment is due after the insulation is in. But what happens if you have to leave out a small piece of insulation until a special joist hanger arrives? There are clients who will argue that they don't owe the payment until the last piece of insulation is in. Do you allow this to delay the job or do you start drywall without being paid? It's easier to move ahead if the payment is linked to the start of drywall instead of the completion of insulation. Bear in mind that you need to talk to an attorney before you put something like this in your contract.

Front Loading

Front loading payments is another cash-flow strategy. Essentially, it's collecting more money on a contract than has been earned from work completed. If you do it right, the client will be ahead on payments instead of behind. Keep in mind that contracts are often regulated by the state. Some states do not allow front loading. My company is in Massachusetts where we're allowed to collect up to one third of the total cost of a remodeling project as the deposit. We're only allowed to collect more if special-ordered material exceeds one third of the contract price.

Shawn McCadden is president of Custom Contracting, Inc.; a remodeling company in Arlington, Mass. He is also a franchise systems manager for DreamMaker Bath & Kitchen in Waco, Texas.

Do You Really Want to be Competitive?

By Melanie Hodgdon

I worked recently with a contractor looking to improve his bottom line, which was suffering mostly because it was costing him too much to produce the volume of work he was doing. As soon as I suggested he needed to bump up his markup, he declared, “I can’t raise my prices if I want to stay competitive!”

When I hear the word “competition” in a business context, I think of the old gasoline wars of the 1950s, with two filling stations offering precisely the same products and services squaring off on opposite street corners and slashing their prices. Or I imagine car dealers and chain stores offering to match the competition’s prices on

identical products. But if you can’t make what you need by staying within the flock of same product/same service companies, then you have to find a way to be seen as something unique — and uniquely valuable.

A while back, a local subcontractor took out a half-page ad in a major periodical that said simply, “We return phone calls.” They’d identified the one thing that drives homeowners and general contractors nuts around here — the failure to receive acknowledgement, much less service. Their stated policy — to call people back — lifted them out of the crowd. Once you’ve separated yourself from “the competition,” you don’t have to worry about

staying “competitive.”

The key to successfully charging more is to make sure you’re delivering unique, superior services. The quality of your customer’s experience will identify you as either a top-notch service provider worth every penny or a price-gouger who delivers run-of-the-mill products. In these times particularly, people place as high or higher value on their time as on their money. They will gratefully pay more for dependability, promptness, and follow-through. Be exceptional, and there will be no competition.

Melanie Hodgdon is a business systems consultant for builders in Bristol, Maine.

Don’t Skimp on Employee Benefits

By Patricia McDaniel

When starting out in the construction business, you wear all the hats in the company. You probably have few, if any, employees (not counting your spouse who is doing all that paperwork without being paid, but that’s another story). You file everything in your head, your contracts are handshakes, and you’re probably proud to work over 55 hours a week.

But as the company grows, you’ll need help getting everything done. If you want to maximize the use of your time, you’ll need to find and keep the very best help available. One way to do that is by offering benefits to your employees.

Since we actually put people on the payroll (instead of calling them “subs” when they really weren’t) we have to pay for such things as workers compen-

sation insurance and withholding taxes. These things are benefits, even if people take them for granted. And as my company grew, benefits were added gradually. Here are a few we offer today:

- **Flexible work hours.** This can be harder for those in the field, but if you’re in search of office help, consider offering a work schedule that accommodates the demands of raising young children (let’s not even talk about the demands of raising teenagers). Or you might even consider letting your employees bring an infant or a sick child to work.

- **Holidays and vacations.** Yes, you will need to offer paid time off. We provide ten paid holidays per year: the employee’s birthday, Memorial Day, July 4th, Labor Day, Thanksgiving Day and five days at Christmas. We also

have a tiered schedule for vacation time: 1 week after 1 year, 2 weeks after 3 years, and 3 weeks after 10 years.

If you do the math, for a three-year employee, that’s 20 paid days, or 160 hours. For a \$15 per hour employee, that will amount to \$2,400 (not counting tax and insurance implications).

- **Training.** We provide direct training to our employees, and we support an employee’s own continuing education efforts. Once a month we have a two-hour company meeting that includes safety and technical training. We give employees an automatic pay raise for completing certain product training programs on their own. We also send employees to trade shows at the company’s expense. Each year, we spend about 40 hours of payroll per employee plus roughly \$600 in travel

and seminar costs.

- **Tool purchase plans.** The company reimburses employees for 50% of the purchase cost for power tools, up to a maximum of \$500 per year.

- **Health insurance.** We pay a portion of the cost of health insurance for our employees. This is one of the most rapidly escalating costs of our benefit program, and currently costs us about \$125 per employee each month.

- **SIMPLE IRA plan.** This is a form of retirement plan. Participation is voluntary, and employees may contribute up to \$9,000 per year. The funds are fully vested, and our company will match contributions up to 3% of earnings (the maximum allowed by law). So for an employee earning an annual salary of \$30,000, this costs us up to \$900 per year.

- **Profit sharing.** We offer an incentive plan as a form of profit sharing. Each year we set gross profit goals based on both the volume of work and the intended gross profit percentage. The available incentive will be in ratio to our performance against these goals. We divide the pool among all employees based on the number of regular time hours worked. In recent years the amount has ranged from \$1 to \$1.50 per hour.

Stop thinking of benefits as expensive. Instead, consider them a cost of doing business with the best and the brightest. (If you don't, contractors like us will be around to siphon off your best people). You should run your business as well as you run trim or frame a roof — and benefits are a given at this level of play. 

Patricia McDaniel is owner of Boardwalk Builders in Rehoboth Beach, Del. She is also host of the Exterior Details forum at jlconline.com.