



Eight tips for managing your cash flow

April 23, 2012 - Financial Digest

In today's turbulent economy, we're hearing more and more from construction contractors having trouble managing their cash. Government contractors, especially, are grappling with cash-flow issues now that federal stimulus dollars have dried up.

Due to their very nature, problems of this kind often trickle down. Clients start struggling financially and stop paying their contractors on time. Contractors, in turn, have trouble paying their workers and their vendors. Frequently, the first thing contractors stop paying is payroll taxes-and then they can run into real problems.

It's an unfortunate position to be in, and it can wreak havoc on the long-term success of a business. Contractors may not be able to pay their workers or buy the essentials needed to grow and run a business. Facing scrutiny from the Internal Revenue Service is the last thing any business owner wants to encounter.

But there are ways to manage cash more effectively to help avoid running into trouble. Here are eight cash-management strategies we recommend for contractors:

- 1) **Bill promptly.** One of the best ways to ensure a company gets paid is by establishing a standard billing procedure and invoicing clients on a pre-determined schedule, promptly after work is completed. Clients should be billed before moving onto new projects and racking up additional financial obligations, making it harder for clients to make on-time payments.
- 2) **Designate a payment and collections manager.** Appointing one individual to oversee a company's payment and collections process ensures consistency and helps avoid missed invoices and other potentially costly errors. It also ensures that one person is responsible for tracking accounts payable. Of course, this person needs the oversight of an independent auditor or accountant to check over the company's books at least once a year for accuracy.
- 3) **Cut off late or non-paying customers.** It may be tempting to continue working with clients who fall way behind on payments while hoping they will bring their accounts current "someday." But that can lead to deeper financial problems, especially if the client goes bankrupt and never pays. Contractors should focus their time and effort on reliable clients who actually pay.
- 4) **Forecast cash flow carefully and realistically.** Many contractors don't forecast their cash flow accurately, which can lead to unnecessary shortfalls that compromise a business's financial security. Instead, cash flows should be forecast over the upcoming 12 months as precisely as possible; budgets should be made based on what can realistically be spent. We recommend projecting cash flow for each project individually, being sure to consider any retainage that the client doesn't pay until a job is complete. Failure to do so can throw off cash flow projections. To avoid solvency problems, a certified public accountant can help make more accurate projections..
- 5) **Stay lean and cut costs.** Being cost conscious is one of the best defenses in a tight economy. Of course, businesses need to spend money to grow. At the same time, it is prudent to look out for

smart and effective ways to cut costs. For instance, contractors can consider paying workers on a per diem basis, so they're only paid when they're actually working. A slow economy also presents a good chance to review and renegotiate insurance policies, employee benefits and other business expenses to ascertain the best deals available. Most businesses have lots of opportunities to slash costs-they just have to look for them.

6) Get a credit line-and increase it-when it's not needed! A common mistake contractors make is not applying for adequate credit soon enough. They wait until they run into financial problems, and by then, it's often too late. Banks are leery about lending to struggling businesses. Instead, we recommend obtaining a line of credit from a bank, credit union or other lender in advance of need and occasionally requesting increases from the financier. This serves a dual purpose: securing a better interest rate and a bigger limit when the contractor's credit is good. There's no reason not to have credit available, even if it's never used.

Consider cash alternatives, such as financing. Cash can be freed up by finding other ways to pay for equipment. Instead of buying outright, leasing and financing are practical options. Suppliers might be willing to arrange financing options. Like contractors, they are often faced with the same cash flow issues.

7) Sell idle equipment. Again, "someday" comes into the picture. Consider those four bulldozers that might be needed "someday." Equipment that sits idle is essentially sitting on value that cannot be tapped into to run a business. Consider selling equipment not in use to generate more cash.

Ultimately, business owners want to make sure they're running a tight ship in today's economy. A professional CPA can help to better project and manage cash flow to help weather the ups and downs in the construction industry, stay competitive and take advantage of opportunities on the horizon.

Lisa Ricciardi, CPA, is a founding partner of Armao, Costa, & Ricciardi, CPAs, P.C., New York, N.Y.

New York Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540