



Foundation

ACCOUNTING & CONSULTING

5 Step Formula to Secure Cash Flow as a Contractor

Scenario

Lou is a client of mine that owns a landscaping company. He has been in business several years and got himself into debt trouble a few years back. Lou is doing much better now and is a dedicated Dave Ramsey fan. He is desperately trying to run his business as a cash only business, but never has cash in the bank when he needs to make payments. Lou has a Cash Flow problem.



1—Understand

Lou is confused about how he is always short on cash even though he has steady work and is showing a profit on his Profit and Loss.

The secret to Lou's problem is called the Cash Cycle—this is the period of time from first paying out cash for a job to receiving his final payment for the job.

If you are like Lou and most other contractors, you haven't yet realized that you are giving a loan to every client that you bring onboard and bill using Accounts Receivable.

Think of it this way, **if I came to you today and asked you for a \$30,000 loan, would you do it?**

Of course not. You don't know me. You don't know if I can be trusted to pay you back. And even if you did have the money in your bank, you have bills to pay with that money and could most likely not afford to wait for me to pay you back. And yet every design/install client you take on, you are doing exactly that!

Even if you get 50% down up front, it catches up to you. You have to pay for materials, make payroll, pay rent and utilities and on, and on, and on multiplied by every client you have given loans to. Will 50% cover you while you wait? Not very likely. Cash Flow needs to be managed better and you cannot run a cash only business unless you have a lot of money sitting in savings—enough to cover 3 months of materials, payroll and other bills.



2—Project



Project the verb, as in 'to project your Cash Flow.' Once you understand the problem you can begin to work on it. Take a look at your list of current jobs and make a good guess on when milestones or complete jobs will be finished and then make a guess on when you will bill each customer and when they will actually pay you. Write all of these deposits (you don't need invoice dates) on a large blank calendar (or do it in Excel, like I do).

Next, go through your books and put together all of your recurring payments (utilities, phone, rent, etc) and make note of how much you pay each month and what day of the month the bill is usually due. Add all of these to the calendar. Also add when you will make payments on materials and the estimated amount and each payroll and their dates. We are just guessing here, so don't spend too much time getting the exact dates and numbers.

Do this for at least thirteen weeks on your calendar, with week 1 being the current week so that you now have numbers for the current week and for the next 3 months.

Last, go through each day and subtract the outgoing money (payments) from the incoming money (deposits), and write down the difference on each date in large, bold writing.

If the number is positive, your bank account balance will be going up that day, if the number is negative, you bank account balance will be going down that day. If you would like, you can look up your bank account balance for today and then go through the process of adding the change in cash (up or down) for each day of the thirteen weeks to **project what your bank account balance will be each day.**

3—Plan

So did your bank account balance go in the negative? I don't need to explain to you what that means! The next step is to plan for those days so that you still have cash in the bank on those days. **How will you keep the bank account balance positive?**



4—Find

There are many resources for helping you through these times. A Line of Credit is probably the best option for that. They are usually low interest and fairly easy to qualify for. Most Lines of Credit will only require a minimum interest only payment on the amount you have drawn. **So go to your bank and apply for a line of credit.**

Then look through your calendar and schedule what days you will need to make draws to keep your account positive, and also look ahead for a day when your balance is high enough to pay back your draw and schedule that as well and then recalculate balances going forward.

Another resource commonly used with construction contractors is trade accounts. You may already have several



vendor accounts. Do not do what most contractors do and either pay these accounts off as soon as you can or pay them when they call and harass you for money. Schedule every payment.

Don't let a threat from the vendor or the fear of carrying debt for the full thirty days disrupt your cash flow. You understand your problem, you have projected your cash flow, you have planned for the down times and you have found resources to help you. Don't disrupt your work because someone wants your money. Stick to your plan!

5—Protect

Develop a policy today that you will go through the necessary processes to protect your rights to lien properties where you do work. Every state is different and in some states you have to file a pre-lien while in others you have to post the job on the State Construction Registry. Do the research, find out what you need to do and do it! Do not put this off anymore.

I think that most people are pretty willing to trust other and expect to get paid on time by their customers. Hopefully that will always be the case for you. However, if you stay in the industry long enough, you will have someone skip out on you and if you have a policy to protect your lien rights, you will not be left holding a HUGE cash flow problem. Protect yourself first, then be nice and trusting.

If you are having trouble wrapping your head around how to introduce this topic to your customers, especially the ones you have had for ages, use this phrase, "my accountant is requiring me to do this on every job now." Blame it on me. The two of you can curse me together, but you will at least be protected.



That is the Five Step Formula to Secure Cash Flow as a Contractor. Understand, Project, Plan, Find and Secure. We are here to help if you need any help with:

- Understanding Cash Flow and cash problems in greater detail
- Projecting your cash flow
- Planning for negative bank balances
- Finding a Line of Credit or other resources
- Learning how to protect your lien rights in your state

Call, text, or email now for help!

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