

## **What does the future hold for your cash flow?**

They say you can't predict the future. Technically, that's true — no one can say, within every minute detail, what will happen tomorrow. But, when it comes to their cash flow, contractors have to at least try.

Knowing what the future holds for your cash flow is, in many ways, the key to your success. If you know you're headed for a position of strength, you can be more aggressive in your bids. Tough times ahead? Then it might be best to scale back. Let's look at some ways to prognosticate about those dollars.

### **Evaluate your inflows**

The first step to realistic forecasting is to approximate incoming cash flows. Start with projected cash flows for planned, in-progress or completed jobs for which you haven't billed or collected fully. This task relies heavily on billing schedules.

At the beginning of each project, develop a well-thought-out, front-loaded billing schedule. Doing so will optimize cash flow by helping you anticipate timelines of costly expenditures related to the project, and allow you to schedule a billing cycle directly after each expense.

For example, if you know that you'll be buying or renting an expensive piece of equipment six weeks into a project, send an invoice directly after the expense to recoup cash as quickly as possible. Better yet, if possible, prebill the owner for the cost of the item to get a head start on recouping that cash.

Without this kind of careful planning, you may have to wait months to recover large cash expenses. Such billing schedules can also keep you on track with forecasting because they factor in expenditures related to the project and billing cycle dates.

### **Work up billing schedules**

The next step is creating estimated billing schedules. Here you must determine approximately how many projects you'll bid on this year, and then break these projects into categories.

Breaking the bids into categories is necessary for more accurate forecasting because you might, for example, bid on more jobs for school construction projects, yet have a better success rate when bidding on health care construction jobs. Each category may have a different billing pattern as well. You may also want to determine the breakdown of your negotiated contracts vs. hard bids.

Once you've determined the number of bids and the success rate for each category, look to past projects to determine average billing cycles and create your cash flow projections. For example, to create a predicted billing and cash forecasting schedule for an office

building project secured through a hard bid process, you should review typical items for a job such as this.

Pertinent items will likely include average contract values, expected expenditures and typical billing schedules. You'll also want to take into account the general financial effects of these types of projects and potential cost-escalating events.

Doing so will not only help you predict future cash flows, but also allow you to identify patterns and areas where you may be able to improve your cash flow management.

### **Put the info to work**

With your estimated cash flows and billing schedules in hand — along with an overview of projected general operating expenses such as payroll, fleet costs, mortgage or rent — you're finally ready to forecast your cash flow in the near future.

So how do you do it? Well, your construction company should have the internal financial capabilities to start producing information for cash flow forecasting. But getting your CPA involved as early in the process as possible will get you to the finish line more quickly. Carefully organizing the data into easy-to-read categories and "bottom line" results is also key.

In addition, many financial management software applications come preloaded with cash forecasting functionalities. Work with your IT staff or advisor to determine whether you have this capability. And, if you don't, consider an upgrade.

### **Get in the habit**

Coming up with an accurate cash flow forecast isn't exactly easy. But, practiced regularly, it can be an invaluable tool in helping you guide your construction company's strategic direction.

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