

# “Get Paid”

*Presented by:*

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# Presented By

**Edward J. Callahan** is Director of the Construction Services Group at Feeley & Driscoll, P.C. Ed has extensive experience in accounting/tax and business planning issues as they apply to contractors. His areas of expertise include information management systems (job cost, accounting, and estimating), operational and financial analysis, workers compensation planning, surety bonding, and banking assistance. Mr. Callahan holds a BS degree in business administration from the University of Massachusetts (Amherst) and an MS in taxation from Bentley College.

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# Agenda

- Define the customer selection process
- Develop/refine billing process
- Accounts receivable management/the collection process
- Prepare cash flow projections
- Benchmark results against “Best of Class”



# Define Your Business

- What types of work do you do?
- How do you do it? (your distinctive competencies)
- For whom do you do it?
- Where do you do it?



# The Type of Work You Pursue

- Public building or private work?
- Lump sum hard bid, guaranteed maximum price, design-build, etc.?
- Residential, office space, manufacturing, medical/health care, food service, or a strategic combination?



# Define Your Market Niche

- Provider of value-added services or low-cost provider?
- Technical competencies?
- Consistency/dependability
- Industry leader



# Target the Work

- Define your “ideal” customer
- Define the criteria for your “ideal” type of project
- Define your “ideal” geographic area



# Select the Customers You Want to Bid

Do they have:

- A positive track record in this type of construction?
- A management philosophy consistent with your company's?
- Resolve extras fairly and quickly?
- Pay requisitions fairly and on time?



# Select the “Right Projects”

The key to making money in this business is learning which “opportunities” to avoid and having the discipline to say “no!”

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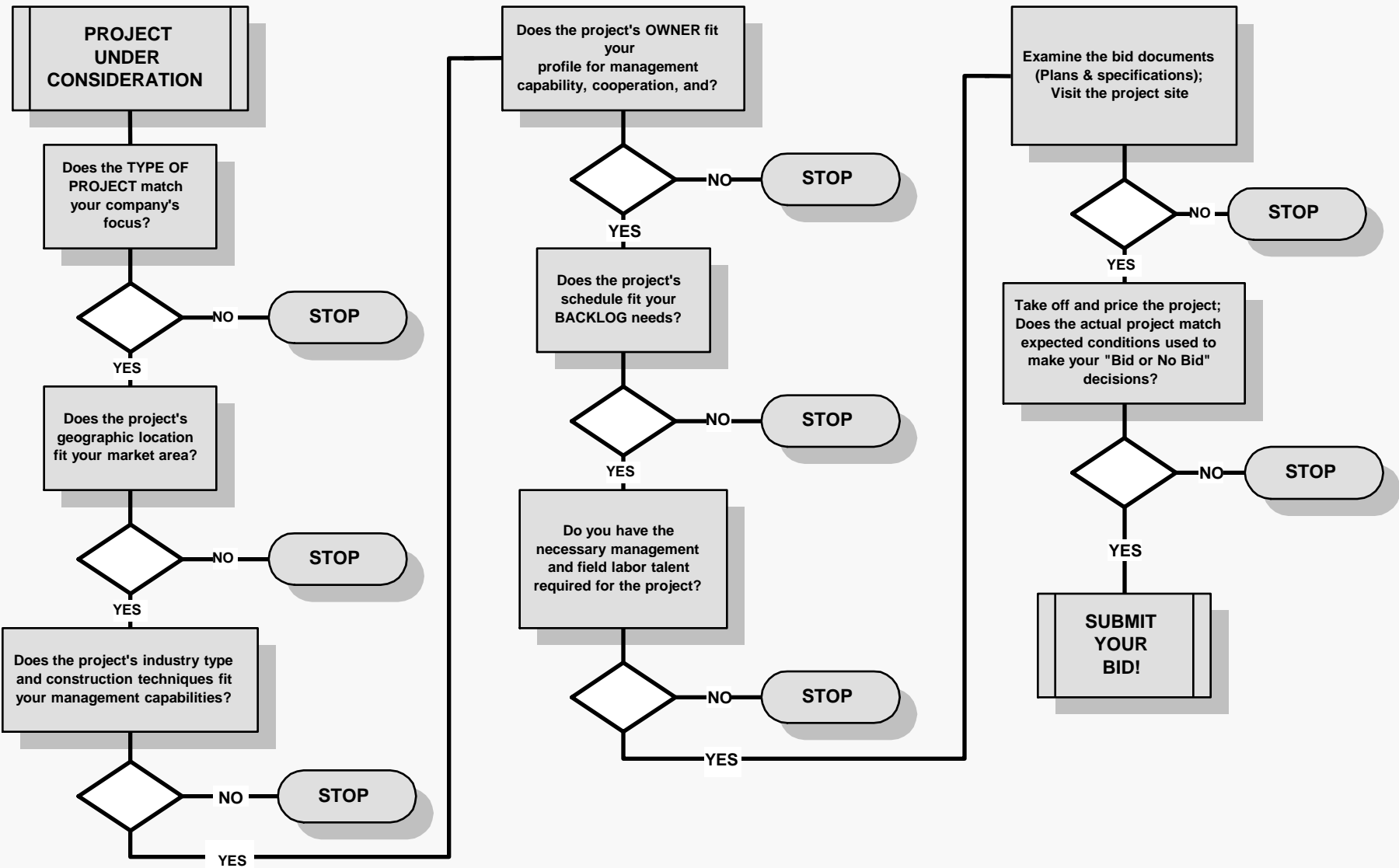


# Establish a “Bid Screen”

A “Bid Screen” is a flow chart showing bidding activities and decision points (“to bid or not to bid, that is the question”)



# "BID SCREEN" FLOW CHART of ACTIVITIES and DECISION POINTS



# Establish a “Project Selection Scorecard”

A Project Selection Scorecard gives you criteria for evaluating and scoring the desirability of different projects





# Researching Clients

- Understand the legal entity you are doing business for
- Check for claims and judgements
- Check frequency of bank changes and the pledging of receivables
- Obtain a credit report
- Look at reputation within the industry
- Ask for a copy of last years financial statement, bonding letter, customer/vendor testimonials, professional references



# Warning Flags

- Accountant/bank changes
- Underbidding of projects
- Vendor avoidance
- Change in business address
  - from street address to PO Box
- No recognizable competitors on the “bid list”



# Billing Process/Calendar

- Establish a cost control system
- Establish a job numbering system
- Establish a billing and closing calendar
- Approve bills within 2 days of month's end
- Mail within first 5 days of month
- Run WIP pre-billing and post-billing
- Scrutinize under billings/manage change order documents
- Establish recurring cost/billing meetings
- Stagger billing dates to customers
- Segregate billing terms into categories
  - T&M standard rates no detail
  - T&M with detail
  - Lump sum
  - Cost plus no detail
  - Cost plus with detail
  - At completion with sale order type
- Payment terms from client within 15 days



# Billing/Closing Calendar

Billing/Closing Calendar						
	Accounts Payable		Accounts Receivable	Final	General Ledger	
<u>Period</u>	<u>#1 Invoices due to Accounting</u>	<u>#2 Last Payroll of the Month</u>	<u>#3 Pencil Req. with backup</u>	<u>#4 Requisitions to Owners</u>	<u>#5 Month-end Closing</u>	<u>#6 Financial Statements</u>
January	01/26/07	01/26/07	01/31/07	02/01/07	02/07/07	02/09/07
February	02/23/07	02/23/07	02/28/07	03/01/07	03/07/07	03/09/07
March	03/23/07	03/30/07	03/30/07	04/02/07	04/04/07	04/06/07
April	04/20/07	04/27/07	04/30/07	05/01/07	05/09/07	05/11/07
May	05/25/07	05/25/07	05/31/07	06/01/07	06/06/07	06/08/07
June	06/22/07	06/29/07	06/29/07	07/02/07	07/11/07	07/13/07
July	07/20/07	07/27/07	07/31/07	08/01/07	08/08/07	08/10/07
August	08/24/07	08/31/07	08/31/07	09/03/07	09/05/07	09/07/07
September	09/21/07	09/28/07	09/28/07	10/01/07	10/10/07	10/12/07
October	10/26/07	10/26/07	10/31/07	11/01/07	11/07/07	11/09/07
November	11/23/07	11/30/07	11/28/07	12/03/07	12/05/07	12/07/07
December	12/25/07	12/28/07	12/28/07	01/02/08	01/09/08	01/11/08

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# Billing for Change Orders

- Discuss procedures for change orders before start of job
- Submit change order requests immediately
- Have personnel submit detail
- Notify owner immediately
- Bill and collect as change orders are issued/approved



# Refine Your Collection Process

- Implement and perfect a collections policy
- Involve your entire staff in the procedures
- Rotate the collections staff
- Reward employees - tie into compensation
- Produce timely A/R reports
- Pursue frequently delinquent customers
- Notify all staff of frequently delinquent customers
- Send customer statements monthly



# TOTAL CONSTRUCTION, INC.

## 2000 PROJECTED CASH REQUIREMENTS - 1st QTR.

	January	February	March
<b>Sales this Month</b>	2,988,603	2,066,755	907,186
<b>Amount Invoiced, less Retainage</b>	2,689,743	1,860,080	816,468
<b>Retainage withheld</b>	298,860	206,676	90,719
<hr/>			
<b>Cash Beginning Balance</b>	200,000	200,000	200,000
<b>Less: Payments from Cash</b>			
Direct Job Expenses:			
Pay within 30 days	996,781	689,319	302,571
Pay subs & vendors at 30 days	387,130	1,119,474	774,168
Pay subs retainage received, 120 days	19,594	13,871	17,735
Indirect Job Expenses (this month)	77,716	77,716	77,716
Pay previous month's note	265,000	766,530	0
G & A Expenses (this month)	112,583	112,583	112,583
Other (Income) Expenses this month	2,650	7,665	1,000
<b>Less: Other Cash Requirements</b>	0	0	0
<b>Add: Cash Receipts:</b>			
Progress Payments Received	930,150	2,689,743	1,860,080
Retainage Received	164,774	116,643	149,143
<b>Cash Balance Before Borrowing</b>	(566,530)	219,227	923,449
<b>Min. Cash Balance Required =</b>	200,000	200,000	200,000
<b>Cash to be Borrowed</b>	766,530	0	0

# Short -Term Cash Flow Projections

- Weekly basis
- Project by project
- Involve project management



# Financial Benchmarking

- Accounts Receivable Days Outstanding
- Accounts Payable Days Outstanding
- Working Capital benchmarks
  - Debt to Equity
  - Debt to Net Worth
- Net Over- or Under-Billings
- Benchmark verses Industry Standards and by personnel responsible



Questions?

