What are some best practices for managing cash flow year round?

Managing cash flow in the construction industry presents unique challenges due to the variability of projects, long billing cycles and complex contract structures. To stay ahead, construction companies must be proactive and strategic year-round.

Start by reviewing and negotiating contract terms that protect your cash flow, especially billing schedules, payment timing and retainage terms. For example, seek payment for materials once delivered to the site rather than upon installation, and negotiate phased reductions in retainage as project milestones are met (e.g., 10% reduced to 7.5% at 50% completion).

Additionally, maintaining a rolling 12-week cash-flow forecast allows you to anticipate and respond to short-term needs. Pair that with an annual budget and regular reviews of actual results to ensure alignment with financial goals.

Other best practices include minimizing under-billings, maximizing over-billings where appropriate and processing change orders quickly to avoid invoicing delays. Accepting electronic payments can also improve collection speed and reliability.

Finally, don't overlook tax deferral strategies. Coordinating with your accountant can help reduce short-term tax liabilities and preserve working capital. And when projects wrap up, efficient punch list management and a disciplined closeout process will help ensure final payments aren't unnecessarily delayed.

Taken together, these steps provide a practical framework for improving cash flow and profitability in an industry where margins are tight and timing is critical.

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