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For contractors, obtaining prompt payment upon completion can be difficult. Privately held construction companies in the United States waited 56 days for payment in 2013, according to financial analysts Sageworks. That's more than 20% higher than all other private U.S. companies. This also marked a three-year high in 2013 — up from 54 days in 2012 and 52 days in 2011.

Such long payment times are, unfortunately and increasingly, the norm. Under the right circumstances, however, a variety of financial solutions are available to remedy uneven cash flow situations, invest in expansion or pay off debt.

Take out a loan

Along with equipment and property, unpaid invoices can provide banks with collateral for a line of credit. This form of secured borrowing is typically an ongoing arrangement that allows a construction company to leverage receivables from the moment they're issued.

> Each financial institution sets its own rates and conditions for loans, which often depend on various criteria.

Banks and other financial institutions typically charge both fees and interest for securitized receivables, which remain an asset of the borrower. These invoice-financing arrangements may provide immediate loans for up to 90% of the value of an outstanding debt and are typically paid back when the customer pays its bill. Each financial institution sets its own rates and conditions for these loans, which often depend on criteria such as your:

- Overall financial situation,
- Customer mix,
- Annual revenues, and
- Collection history.

For example, a 30-year-old electrical contracting company with $10 million in annual revenue had difficulty making payroll after two of its large clients waited 90 days to pay outstanding invoices.

Looking to prevent this cash flow crunch in the future, the contractor met with a local banker, who was able to extend the firm a $180,000 line of credit at a competitive interest rate. To secure the loan, the company was required to put up $200,000 in unpaid invoices as collateral and then pay back the loan, plus fees and interest, once customers remitted payments.

Dealing with delinquent debt

Banks and factoring firms (see main article) generally won't buy or loan money against accounts receivable more than 90 days past due. For many construction companies, the 91st day after an invoice has been issued marks the beginning of the dreaded collection process, which typically means letters and phone calls of increasing frequency and urgency.

After 120 days, some businesses may attempt to seek a legal remedy, contract with a commission-based collection agency or sign on with another third-party firm that buys the debt outright for a low cost. When a late bill becomes bad debt, bear in mind these dangers:

Legal fees are expensive. Contractors often throw good money after bad by attempting to chase down nonpaying clients through the court system. Work with your attorneys and financial advisor to ensure that suing for nonpayment is worth the investment.

Going off-script can cost you. Every construction company should have an established protocol for collections. Once a bill goes delinquent, it's important to carefully follow procedures to increase the likelihood of payment and guard against legal liability.

Something isn't always better than nothing. Your nonpaying customer may soon be bankrupt, which could mean you'll never get paid. Ask your tax advisor whether writing off a bad debt may make more sense than spending time and money pursuing it.

Try factoring

Another option for construction firms looking to ease their cash flow is the sale of unpaid — but not yet delinquent — invoices to financial firms specializing in accounts receivable "factoring." Rather than obtaining a short-term loan for unpaid invoices, factoring allows construction companies (and other types of businesses) to receive an immediate cash payment through the sale of the receivable to a third party.

Costs associated with receivables factoring can be much higher than those for collateral-based loans or other forms of traditional commercial bank financing. What's more, factoring providers likely will closely scrutinize the creditworthiness of your customers. Still, particularly for smaller construction companies, selling receivables for upfront cash may be advantageous because it reduces the burden on accounting staff and saves time.

For instance, over many years, a 10-person residential plumbing business faced cash flow issues because many of its smaller clients paid their bills between 60 and 90 days after issuance. As a result, the company's owner routinely used a high-interest-rate credit card to make payroll and spent at least five days a month chasing down late bills. Two years ago, the business began selling off roughly $200,000 of its annual receivables to an online factoring firm.

In the end, factoring saved the plumber about 1,000 combined personnel hours annually and unnecessarily high-interest credit card payments, while considerably easing cash flow concerns.

Play ball!

With baseball season fast approaching, you might think monetizing your receivables as a particularly useful bench player. Getting it into the game at just the right time could drive in some winning dollars. But there are also major risks if you overrely on these strategies or deploy them at the wrong time. Work with your financial advisor to determine precisely in what inning to make the call. ■

3 best practices for organic sales growth

When it comes to increasing sales in the construction industry, there's always room for improvement. Doing so rarely comes easy, with referrals and word-of-mouth representing the primary sources of new business for contractors.

With such an extended method to each sale, organic growth — that is, sales growth *not* related to acquisitions or consolidation — should be a focus of every construction company owner. Let's look at three best practices for achieving it.

1. Attentive customer service

Providing your clients with premier customer service is more than smiling and offering a handshake. Are your employees really hearing clients' problems and concerns? Do their solutions not only fix the issue but also, whenever possible, exceed the customer's expectations?

The ability to conduct productive dialogues with your customers is key to growing sales. Creating an ongoing conversation can be as simple as holding regular update meetings or phone calls between principals, or checking periodically with project managers about customer feedback.

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Trust and honesty are critical. These traits will increase the likelihood that the client will remain happy and the project will succeed. Thereby, your odds of getting a referral will rise — along with the stronger possibility that your customer will voluntarily sing your praises to anyone who will listen.

2. Smart marketing

Do you often find yourself wondering why all of your marketing channels aren't generating new leads for your construction business? Most likely, it's because some of those channels are no longer the right fit. Marketing is all about getting your company's name and logo in front of exactly who wants to hire you.

This is why you might want to step back and reassess the nature and strengths of your business. If you work directly with the buying public, you may want to cast as wide a net as possible. But if you're a commercial contractor or subcontractor, you might grow sales more organically by focusing on participation in professional networking groups, social organizations and trade associations.

3. Great employees

Ultimately, people are what make or break a construction business. Even

the best idea can fail if ill-equipped or uncommitted employees are marketing, selling or producing the product or service. Of course, as you well know, employing talented, industrious staffmembers requires much more than simply getting them to show up for work.

First, employees must be well trained. This means they need to know both: 1) how to do their jobs, and 2) how to contribute to sales growth. You might ask: Does every worker really contribute to sales? In a sense, yes, because quality work — from laborers on the job site to executives in corner offices — drives sales.

Second, once an employee is well trained, he or she must be retained. Happy workers are more likely to preach the excellence and values of your company to their family and friends. Sales may occur as a result.

The right moves

These best practices are, obviously, general in nature. The specific moves you need to boost your construction company's sales organically will depend on your market and specialty. Work with your business and financial advisors to pinpoint those moves and then implement them in a cost-effective manner. ■

Cash vs. benefits: The prevailing wage dilemma

Federal contracts can be a good way to expand the profitability reach of a construction company. But these jobs have their own complex rules, including paying prevailing wages pursuant to the Davis-Bacon Act. Many contractors face one particular dilemma when sorting through the prevailing wage requirement: Should they pay all applicable wages in cash or remit some of them as benefits?

Reviewing the basics

As you may know, the prevailing wage is the minimum wage contractors generally are required to pay employees working on construction, reconstruction, demolition and maintenance projects initiated by public agencies. The Davis-Bacon Act requires that a prevailing wage be paid on all federal projects for which costs exceed $2,000. Many states also have their own prevailing wage laws.

The Department of Labor (DOL) sets prevailing wage rates for federally funded projects. For each job, the prevailing wage is divided into a minimum basic hourly rate and a fringe benefit amount. For state-funded projects, individual states determine their own wage rates and fringe benefit amounts. If a project uses both state and federal funds, the higher wage typically applies.

Making the choice

Although contractors are required to pay employees the base rate in cash, the fringe

benefit portion can be paid in cash or in the form of a "bona fide" benefit plan. This plan may fund:

- A retirement account,
- Life, medical, dental and vision insurance, and
- Vacation days and other paid time off.

Many contractors, however, still choose to pay *all* prevailing wages in cash. This is mainly because of the perceived complexities of a bona fide benefit plan. And it's true: Paying the entire prevailing wage in cash is generally simpler and entails fewer administrative and compliance complexities.

Bear in mind, however, that cash wages you pay employees are subject to payroll taxes — including the Federal Insurance Contributions Act (FICA) and Federal Unemployment Tax Act (FUTA) taxes, as well as state unemployment taxes and workers' compensation. These taxes typically add about 25 cents to every dollar in wages paid. So channeling the fringe benefit portion of the prevailing wage into a bona fide plan should reduce payroll costs.

Beefing up benefits

There are other benefits to allocating the fringe portion of your employees' prevailing wages to a retirement plan. For one, you'll be providing workers with a reliable savings plan other than simply relying on Social Security. If you already have a 401(k) plan in place, it may be possible to amend it to add qualified employees' prevailing wages as an additional contribution.

> Channeling the fringe benefit portion of the prevailing wage into a bona fide plan should reduce payroll costs.

If you've established a profit-sharing plan, you won't be able to combine the two. But you can still beef up benefits by establishing a separate, parallel plan for your employees' prevailing wage contributions.

Recognizing pitfalls

Common pitfalls of a prevailing wage plan include a potential "annualization" requirement, depending on state law. An annualization provision requires an employer to make the same fringe benefit contribution on all hours worked, including time spent on private projects. Other areas that vary according to state law include overtime payments and transportation compensation.

Employees may also grumble when informed they'll receive less cash in exchange for benefits. Perhaps explain to them that the savings generated by the new plan could ease cash flow, helping the company and strengthening their job security. You might also remind participants that the plan will help them save more for retirement and pay medical expenses.

In addition, implementing a prevailing wage benefit plan could lead to an audit from the DOL's Wage and Hour Division (or one of its state equivalents). The agency keeps an eye on a variety of compliance issues.

Planning to bid

As you can see, there are viable reasons for paying a portion of prevailing wages as benefits — but there are pertinent risks to consider as well. If you're planning to bid on a federal job in the near future, discuss the issue with your financial advisor. ■

Construction Success Story

Surety bond scam uncovered in the nick of time

A small but growing commercial subcontractor recently learned that a little due diligence goes a long way in protecting against surety bond fraud. For several decades, the family-owned company had worked relatively small but usually profitable jobs in its local niche. And now it was moving into larger, municipal projects.

By law, the business was required to use surety bonds on these public jobs. The owner had some familiarity with bonds, but he'd never dealt with one of this size or settled on a single provider. So he contacted his financial and legal advisors to help him avoid trouble. That turned out to be a wise move.

Out of the blue

Required by many state, county and local governments, surety bonds are essentially umbrella insurance policies that protect taxpayers in the event that the contractors involved don't complete the job. Bonds also protect contractors and subcontractors by guaranteeing payment in the event that one or multiple parties go out of business or refuse to pay.

Out of the blue, the construction company owner received contract paperwork from a surety offering quick and easy bonding for the upcoming municipal project. Both of his advisors recommended that, before he signed anything, they perform some due diligence on the provider.

To further protect himself, the contractor requested the surety's standard forms and documents and asked his lawyer and financial advisor to review them as part of the due diligence process.

A near miss

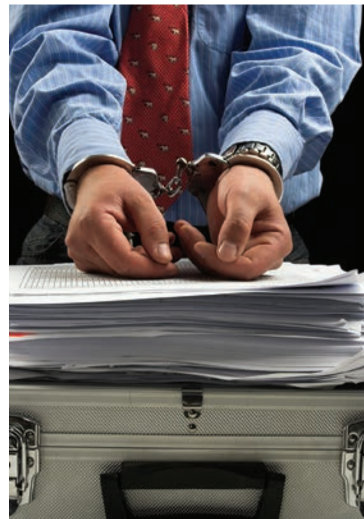
About a week later, the construction company owner sat down with his advisors. It didn't look good, they said. For starters, the surety didn't meet their "three L's" for bond issuers:

1. Licensed,

2. Local, and

3. Long industry track record.

Turning to the surety's contractual documents, the advisors noted that most of the language in the agreement was boilerplate. Both agreed, however, that some important provisions were missing and the contractor would have to negotiate amendments, should he decide to move forward.



But then came the kicker. A background check on the surety's owner revealed that he was a twice-convicted felon who was currently under investigation by state regulators for surety bond fraud. What's worse, state officials confirmed that the bonding agreement on the table was likely a scam — or at least highly unlikely to provide the needed protections.

On your side

"Well … no harm, no foul," the construction company owner shrugged as he deposited the dubious surety's documents in his shredder. He was just relieved that he had the right advisors on his side and had followed their advice. ■

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