

## Member Communication Experience

# Managing Cash Flow During the Slow Season

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The very mention of fluctuating cash flow can cause anxiety for construction company owners. Without sufficient planning for a slow season, even seasoned businesses may find themselves in a cash crisis from time to time. While weather can be an obvious culprit for midsized general contractors – particularly those in nonresidential construction such as commercial, road and highway, or heavy construction – a slow season can also be related to factors such as project life cycles, regional labor shortages, or a poorly quoted or scoped job. In severe circumstances, a company must be strong enough to survive the cash drought without becoming insolvent and remain well-positioned for new projects as the market improves. Consider these tips to financially prepare for and navigate an unexpected slow season.

### Even the Best Plans Require Review

A well-managed job-level forecasting model allows a company to anticipate future cash ebbs and flows. Jobs rarely go exactly as planned, often facing unexpected challenges. But there are many factors a company can control: job design, cost adjustment sales contract clauses, pay-when-paid trade partner contract clauses, site management and supervision, business processes that provide current and accurate information, efficient billing practices, and invoice collection practices are just a few. Investing time and effort into a well-



thought-out forecasting model should be a priority even during the busy season. Waiting until business slows down is too late to implement cash strategies that can mitigate an impending cash crunch.

### Consider This Cautionary Note

Without a forecasting model, a company may experience uncontrolled growth. During this phase, companies often envision endless opportunities and ramp up personnel and expenses in anticipation of the continued rise. However, uncontrolled growth can lead to operational inefficiencies and financial strain. The use of forecasting software (much

like project management and accounting software) and incorporating input from project managers, the finance team, and other key stakeholders can greatly enhance the accuracy and efficiency of forecasting. Creating scenarios – best, worst, and most likely – will assist in strategic discussion and decisions. These scenarios provide insight for short, medium, and long-term planning. During the chaotic busy season, it may seem unrealistic or counterintuitive to divert attention to processing fundamentals, but having efficiencies in place when the slow season arrives will prove to be time well spent.

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## Continued Focus and Reaction to Details

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A forecasting model remains effective only when using the best available information of the last updates. As with any forecasting, ongoing maintenance and consistent, accurate updates are necessary to achieve long-term visibility into potential cash flow issues. Even with operational excellence, unplanned changes (change orders, equipment and supply chain delays, trade partner issues and inflation) need to be evaluated and updated as either critical or noncritical job updates. In addition, unavoidable or surprising delays in customer payments may cause a domino effect. Clear and transparent communication with both customers and vendors about realistic payment expectations is essential for effective planning.

While job costs and estimates are included in the forecasting model, other company costs such as overhead payroll, benefits, business insurance, rent, legal and tax payments need to be addressed as well. It costs money to run a company! While jobs are active, margins are built into contracts to support these additional costs. But what about when jobs are inactive?

Preparations and plans need to be developed for gaps in project life cycles. Hoping to land the next big contract may not be enough to eliminate the slow season impact. Data visualization is a fantastic way to take the guesswork out of the massive data available to construction companies. Data visualization techniques are visual representations in the form of charts, graphs, and diagrams – usually in an executive dashboard – that allow teams to quickly digest data, trends, key performance indicators (KPIs), and forecasted cash flows to make informed decisions.

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## Rainy Day Fund

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There is little argument over the need for a cash reserve at all companies, in all industries. But how much? Wouldn't cash be better reinvested into the company, used for large asset purchases or placed in outside investments?

This decision-making can feel like a tightrope, finding balance between investing in the future and saving for a rainy day. In cases where lenders are involved, debt covenants may dictate cash reserve. But for all others, a good rule of thumb is keeping a cash reserve between three and six months of expenses. This reserve may need to hold the company over during the slow season, so it is critical to understand the entire universe of cash inflows and outflows.

Armed with a current forecasting model and data visualization highlights, a company can see the expected excess and shortfall months. It can be tempting to pay cash for large asset or equipment purchases during cash excess months, but often the better choice is financing these purchases and funding the cash reserve. Transfers to the cash reserve account in the cash-excess months (while not jeopardizing the overall cash plan) is one strategy to build and maintain a cash reserve. Alternatively, a percentage of each invoice can be transferred to a cash reserve account, which spreads the transfers out and may feel less painful.

The reserve account might be held in a money market or even staggered certificates of deposit (CDs). Consult with a banker or financial advisor for the most lucrative alternatives.

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## Correcting Course

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Another valuable item in the business toolkit is the 13-week rolling cash-flow model. This is particularly useful for companies heading toward or currently experiencing a cash crunch. This very detailed view of cash inflows and outflows allows management to navigate on a daily and weekly basis and identify priorities (and where borrowing funds may be needed) with ease. By utilizing the current accounts payable and accounts receivable aging, payroll requirements, any debt service payments and automatic bank pulls, a “sources/uses” forecast can be created down to the day. By relying on these

three important tools – forecasting model, data visualization highlights, and the detailed 13-week model – strategies to extend the cash runway can be implemented.

Operational efficiency is always a great place to start prioritizing improvements with an immediate impact. Possible areas for improvement include processing change orders quickly, negotiating accounts payable/rent/debt payment terms, considering borrowing options, invoice financing, limiting purchases of additional inventory, and encouraging early payments with discounts. In addition, an evaluation of employee versus trade partner status and the pros and cons of maintaining fixed overhead are worthwhile exercises.

Planning for the slow season in the construction industry is not only about survival, but also about positioning the company for long-term success. By implementing forecasting models, maintaining clear communication with stakeholders, and building a financial cushion, companies can weather any storm. As challenges arise, the ability to adapt quickly, manage cash flow meticulously, and make informed decisions will set the company apart. 



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### About the Author

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Pam Wismer is a fractional chief financial officer (CFO) with [Ascent CFO Solutions](#), partnering with leadership teams to give them clear visibility into how to drive growth in their businesses. With more than 35 years of professional finance experience, including nearly 15 years in the construction industry, Wismer truly enjoys helping business leaders overcome financial challenges.

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### About the Article

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