

On-Site

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THE CONTRACTOR'S CORNER

What should I know
about 5-D BIM?



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Make a good year great

3 cash flow boosters for your construction company

Like every contractor, you want to have a good 2017. And this objective should be eminently doable as long as you stay within your strengths, manage your financials carefully and do good work. But why settle for a good year when it could be great?

The key, always, is cash flow. The more working dollars you have to work with, the more power you possess to control your own, profitable destiny. To that end, here are three cash flow boosters to consider.

1. Well-crafted contracts

When you think about money problems, your mind might immediately go to the end of the construction process when you're trying to get paid. But the seeds of monetary discontent are often sown before a shovel hits the dirt. Case in point: the contract's payment terms. In the broadest terms, contractors have two basic options:

1. Payments are received upon completion of specific job phases.
2. Payments are remitted in equal installments over the course of the project.

If you've been accepting one or the other without question, consider the negative impact on your cash flow. Receiving payments on completion puts you at the mercy of the many random events that can delay a project. Meanwhile, the installment approach may leave you underfunded at key moments. You might try renegotiating the payment terms if either approach has been a problem.

Also review a contract's payment terms in light of the owner. Does the language seem equitable given the person's or company's financial strength and creditworthiness? Don't stop there, either — assess the capacities of suppliers and vendors as well. And, as a job gets underway, try to establish a good working relationship with the owner's accounts payable representative to ensure the payment terms will be followed.

Another contract issue to scrutinize carefully is retainage. You may think you're in control of the cash flow from a job until you realize that 5% or 10% of retainage is going to take a while to arrive. Check your state laws and remember that effective renegotiation can have a positive impact.

2. Prescient financial forecasting

To the extent possible, establish financial forecasting processes that minimize the chances of an unforeseen cash flow slowdown. One best practice is to set forth a carefully planned, front-loaded billing schedule so you can start strong and know when to expect dollar inflows. Try to create a billing cycle that brings in money as soon as possible after each major expense.



For instance, let's say you know you'll need to rent, lease or buy an expensive piece of equipment at the six-week point of a job. If you can procure a payment at the sixth or seventh week, you'll be able to recoup those dollars as quickly as possible. This is how forecasting can help you stay in an optimal cash position.

And make no mistake — financial forecasting is a skill that every construction company must develop over time. It's not something that happens overnight. Make an ongoing effort to gather and organize job data into dynamic, usable information that you can apply to future projects.

The good news is that technology is your friend. A variety of financial management software products offer forecasting functions. Also, your CPA can help you identify and track the right numbers to keep you informed.

3. Intensive invoicing

Of course, it's indisputable that cash flow issues often originate with owners. Whether people or companies, project owners will typically delay payment as long as possible to benefit their own cash flows. Meanwhile, your unpaid invoices pile up and *your* cash flow drags.

One general rule of thumb says that contractors must live with getting paid within 60 to 90 days. But, to boost cash flow, set a company objective to whittle that down to 50 days. The nuts and bolts of precisely how to do so will vary on the type of construction work you do and the structure of your contracts. But there are certain tried-and-true procedures that can help. Use an electronic billing system to invoice owners instantly. Revise your invoice so they clearly express terms, amounts and consequences for tardy payments.

The many forms of flow — a cash flow glossary

Measuring and forecasting cash flow can involve many different data points and perspectives. As you strive to do so, here are a few key terms to discuss with your CPA:

Free cash flow. This term refers to the cash remaining after you pay capital expenditures for items such as real property and construction equipment.

Unlevered free cash flow. These are dollars available before accounting for debt and other financial obligations.

Levered cash flow. As you might have guessed, these are the dollars left over after you've made all of your debt and other financial obligation payments.

Cash flow from operations. This is money gathered from regular, continuous business activities — but not including long-term capital or investment costs.

Moreover, abide by that old expression: Know thy customer. Familiarize yourself with each owner and scale your invoicing procedures to suit the situation. With some owners, a clear invoice alone will do the trick. But others may call for a more hands-on approach. This is particularly true when dealing with an owner that has given you payment problems in the past. In these cases, make an extra effort to invoice them on time and be prepared to follow up diligently.

The challenge ahead

For construction companies, every year brings changes to the industry, economy and your local market that affect profitability. This year, look to meet that challenge head on by keeping your cash flow as strong as it can possibly be. ▀

Taking your project managers to the next level



Yesterday's construction project managers (PMs) had it so easy. They had one job: Get it done. That's a bit of an oversimplification, of course. They also had to complete the job on time and, preferably, under budget.

Nonetheless, the occupation has evolved over the years. Today's PMs have to get it done, too. But they also must monitor the financial impact of each job more closely, watch out for countless compliance issues and strive to enhance profitability as much as possible. There's only one way to get your PMs to this next level — proper training.

Start at the end

Many contractors don't provide much training for their PMs because they're not sure where to begin. You could send them to a local community college for a "Construction Project Management 101" course. But they probably won't learn much. In fact, they could end up teaching the course themselves!

No, to determine the right training for your PMs, you need to identify your targeted outcomes. What do you want them to do better? Most PMs rose to that level of the organizational chart by being good at planning, communicating, deploying people and assets, and monitoring job progress. But, as mentioned, doing these things alone doesn't cut it anymore. Many PMs struggle in areas such as:

- ▶ Project accounting (budgets, cash flow, tax impact),
- ▶ Data entry and management,
- ▶ Impact and management of change orders,



- ▶ Revenue recognition,
- ▶ Materials purchasing and management, and
- ▶ Regulatory compliance issues.

And these are just a few examples. Truly top-level PMs also run each job in accordance with their companies' strategic, customer service and branding goals. If every project is a chance to show the world what you can do, your PM is the one in charge of the presentation.

Consider the total cost

Once you identify the subject areas in which you want your PMs to improve, you'll likely find many options for training them. This is where you'll have to really pay attention to costs and look to maximize your return on investment.

For example, there are a variety of online training courses to consider. But will they go into enough detail and cover the specifics that pertain to *your* projects? There may be local colleges, universities or trade schools in which your PMs can enroll, but tuition can be pricey — especially if you're sending multiple employees.

Another option is to engage specific consultants to provide one-on-one or group training. This may be expensive as well, though a carefully vetted consultant can usually customize training for best results.

When forecasting the expense of training, remember that the dollars involved go far beyond just course fees and the cost of learning materials. You'll also need to put a dollar amount on the expense of traveling, the disruption to your PMs'

daily schedules and the loss of billable hours if training will keep them away from the jobsite.

Invest in leadership

Like virtually everything in business, there's a cost vs. benefit relationship to consider in providing ongoing training to PMs. But when you invest in leadership, the payoff can be substantial in more smoothly run, less costly and more profitable construction projects. ▲

Numbers matter: The finer points of your succession plan

When it comes to succession plans, construction company owners often focus on *when* they intend to leave the business or *who* will replace them. But, remember, numbers play an important role as well — particularly if you intend to sell the business to help finance your retirement.

Obtain an appraisal

A business valuation is a good place to start. Getting an appraisal will help you understand the various factors that drive your construction company's value. Armed with this information, and sufficient time, you can then take steps to enhance the value of your business before you leave.

Suppose, for example, that your management team is weak in certain areas or relies too heavily on your input. By bringing in new talent or

training your existing team, you can increase the company's value to prospective buyers.

Or, suppose that a high percentage of your projects are concentrated in a particular industry or a few key customers. By better diversifying your jobs, you may be able to boost your business's value while reducing its risk.

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These are just two examples of the many ways a succession plan can contribute to raising the value of the company. Keep in mind that

the right strategies will depend on the types of potential buyers you expect to target. For instance, a strategic buyer may be less concerned with the quality of your management team than a financial buyer.

Think about taxes

It's also good to start thinking early on about the tax implications of a business sale. These depend on a number of factors, including the organizational structure of your company and the way the transaction is structured.

If your business is a corporation, for example, you can structure the transaction as a stock sale or an asset sale. Selling stock is advantageous because your profits generally are taxed at lower capital gains rates. Asset sales are typically taxed as a combination of capital gain and ordinary income, depending on how the purchase price is allocated among various assets.

What's more, C corporations (or, in some cases, S corporations that have converted from C corporations) are taxed twice: once at the corporate level and again when the proceeds are distributed to shareholders.

Unfortunately, few buyers are willing to buy stock. For one thing, they don't want to acquire all of your company's potential liabilities. Plus,

buying assets generally gives the buyer a higher basis in depreciable property.

Explore sale options

Fortunately, assuming the sale of your construction business will be structured as an asset sale, there are ways to soften the tax blow. One common approach is allocating the purchase price among various assets to try to optimize the transaction's tax consequences. To pass muster with the IRS, however, the allocation must bear a reasonable relationship to the assets' actual value.

As the seller, you'll want to allocate as much of the price as possible to assets that qualify for favorable capital gains tax rates, such as real property. The buyer, on the other hand, will favor allocations to property that can be depreciated quickly, such as equipment and vehicles. This is usually undesirable for a seller, however, because gain on fully depreciated property is taxed as ordinary income.

Negotiation is key. Goodwill can be an asset that provides grounds for compromise because it has potentially beneficial tax consequences for both buyer and seller.

In addition, alternative payment forms may allow you to defer taxes on a portion of the sale price. For instance, you might negotiate an installment sale or an earnout provision (under which a portion of the sale price is contingent on the buyer achieving a certain level of earnings). Another option, if your business owns real estate, is to exchange it for income-producing real property in a tax-free exchange.

Start now

Even if you have no intention of retiring or changing careers anytime soon, it's never too early to start thinking about your succession plan. Get started now and you'll make tomorrow much easier. ▀





What should I know about 5-D BIM?

My company does electrical work on both commercial and residential buildings. We've been dealing with building information modeling (BIM) software for several years, but it's getting harder and harder to keep up. First there was 3-D BIM, then 4-D ... now I'm bidding on jobs that are deploying 5-D BIM systems! What should I know about this technology?

First, take solace in the fact that the hard part is over. You've already moved from conventional "2-D" paper building plans, which reveal only length and width, to 3-D BIM software that also portrays depth. You've even dealt with 4-D systems that associate time to completion with each building element. To work with a 5-D system, however, you'll face some of your biggest challenges yet.

It's all about the estimate

First and foremost, know that 5-D BIM systems were created specifically for *estimators*. The software can generate multiple, flexible estimates for the project owner to review in light of cost objectives. Flexibility is a key feature, as it allows for the estimator to add or remove job elements or tasks to demonstrate how such changes would affect the schedule and budget.

Some 5-D BIM systems even allow you to build and maintain your own internal estimating database. So you can quickly and accurately pull up data regarding cost and pricing, labor productivity and crew composition.

Challenges abound

Now, about those challenges we mentioned: There are several to consider. First, some

estimators may resist adopting this technology. Many have a hard time parting with their 2-D "takeoff" tools to efficiently generate an estimate. Others might have adjusted to earlier versions of BIM but struggle with transitioning to 5-D.

5-D BIM software can generate multiple, flexible estimates for the project owner to review in light of cost objectives.

The best way to deal with this is head on. Identify the specific software products you'll be dealing with and find training providers to work with your estimators. The software vendors themselves may offer such training, or you can engage an independent consultant.

Even with well-trained estimators, you might run into problems. Some design-side entities, such as architects, input an inadequate amount of information into BIM systems. In other cases, the software itself might not be able to store and process every single job specification. So your estimators may need to exercise creativity to work around such shortcomings.

A growing market

BIM, whether an older iteration or 5-D, isn't going away. In June 2016, data gatherers Research and Markets released its *World Building Information Modeling (BIM) Market — Opportunities and Forecasts, 2015–2022* report. It revealed that the world market for BIM software is expected to reach a value of \$11.7 billion by 2022. Stick with your efforts to incorporate this technology into your work. ▀



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