Avoid a Cash Flow Crisis: How Contractors can Capture Payments

A Technology White Paper

Managing payout applications for payment has always been a complex and frustrating process for contractors as it directly impacts cash flow. In light of the current economic conditions due to COVID, getting paid on earned schedule value is even more important.

Chief Economist for the Associated Builders and Contractors (ABC), Anirban Basu recently stated, **"*ABC's survey data indicates that we are in the early stages of a nonresidential construction spending downturn. With few exceptions, declines in backlog have begun to accelerate across all markets and regions.*"**
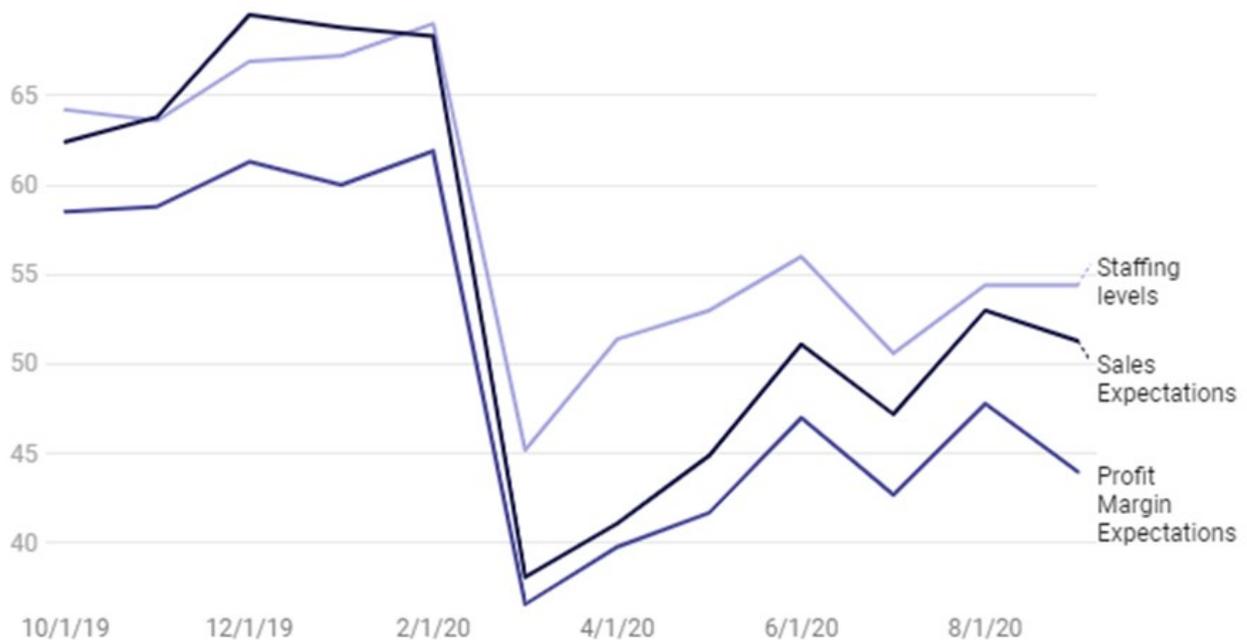
ABC's contractor optimism

Chart: Zach Phillips | Construction Dive • Source: Associated Builders and Contractors • Get the data •
Created with Datawrapper

More than a third of contractors expect their sales to decline, a dramatic increase from the less than 17% recorded at the same time last year, Basu noted, and more than three-fourths of contractors expect profit margins to be flat or worse over the next six months.

An FMI quarterly report was published earlier this year entitled, **How to Recession-Proof Your Business**. It argues that for a contractor to position their business for long-term success they should be fine-tuning the company's operations, specifically around project performance, project controls, labor and equipment. The report asks some key questions that should be on every construction leader's mind:

1 **Project Performance:**
- Even if a project has an acceptable profit, did the project perform as estimated?
- Were there opportunities to potentially improve gross margin?

2 **Project Controls:**
- Project controls must be repeatable and scalable, particularly as contractors grow and onboard new talent. Are your people consistently executing for steady results?

3 **Labor:**
- Labor management is the top driver of project success or failure for self-performing contractors. As your work program and craft labor workforce grows, is your labor productivity management getting stronger or weaker?

4 **Equipment:**
- Tracking equipment hours and understanding utilization are critical for optimizing fleet performance and yielding a return on capital-intensive assets. For the millions of dollars, you've invested in equipment, are you realizing an acceptable return?

I would argue that there is a fifth question.

5 How can I avoid poor cash flow and not jeopardize my company's livelihood?

With today's competitive business landscape, smaller margins, fewer sales and staffing it is more important than ever to manage cash flow.

Improve Your Payout App Process

Managing payout applications is a complex and frustrating processes for contractors. Payout applications work closely with the schedule of values. Together, they show the percentage of each work item that a contractor has completed, and the amount they should be paid for it. Most importantly, we need to keep in mind, contractors get paid for work completed, as long as it's documented.

Contractors get paid for work completed. . .

. . .as long as it's documented!

A pay app typically includes several documents that support each other, such as:
1. The payment application form
2. A schedule of values
3. Visual documentation
4. Change orders
5. Conditional lien waivers
6. Invoices from suppliers or vendors
7. Receipts

Explore Technology Solutions to Help Document Work Complete.
Never assume that the GC or owner already knows about the work that has been completed. It is extremely important that you pursue a technology platform to help document progress status to support payout applications.

- Pick a solution to assure you are not under-billed or over-billed.
- Be sure the system allows for tracking ALL status. For example, a duct run is not "installed" if it has not been Connected, Fire Caulked, Tested, Inspected, Insulated, Balanced, Set, Anchored, Started, or Commissioned.
- Taking a picture will only show that it is hung in place but will not correctly reflect installation status for payout applications.
- A model-based progress status tracking solution is best for documenting progress status, as it also provides accurate take-offs for installed quantities and lengths.

"With labor and materials being the largest cost factor in construction, it needs to be carefully managed. With ICT Tracker, we improved the utilization rates and were able to limit re-work and saw immediate productivity gains."
Bob Mahoney | Outside Superintendent | Worcester Air

"Using ICT Tracker helps make the job profitable. Cutting down the time, cutting down the guesswork is what makes digital field tracking the way to go to prevent margin slip."
Corey Chestnut, Project Manager, Climate Engineers

Innovative Construction Technology's ICT Tracker is a model based production app that automates installation progress tracking using augmented reality. It is an easy-to-use solution enabling real-time monitoring of construction site progress for scheduling, billing, and installation productivity data for project estimation.

The ICT Tracker mobile app replaces manual and inaccurate methods or expensive 3D scanning systems by digitizing the collection of data on site. Using patent pending technology, the user can view the actual 3D design model on an iPad and compare it against as-built systems onsite. This gives contractors real-time data to track, measure, and improve project installation productivity.

With ICT, Contractors can accurately track construction projects, control costs, get paid faster by documenting work done and make better decisions based on detailed, real-time information from the job site.

Author: Lisa Duncan, Co-Founder, CRO
Innovative Construction Technology, LLC

Sources
Construction Dive
FMI quarterly report "How to Recession-Proof Your Business"
KPMG report: Construction industry slow to adopt new technology