Cash Flow Planning Strategies for Contractors during the COVID-19 Crisis and Beyond

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As the COVID-19 crisis continues to bring uncertainty to the economic landscape, the construction industry, like many others, is feeling the financial impact. In an effort to assist contractors during uncertain times, the Moore Colson Construction Practice is providing the top tips for both short- and long-term cash flow planning. Whether or not your business is feeling the pressure of the current Coronavirus pandemic – and most are – cash flow planning is essential to consider for unexpected events that may impact your revenue stream.

Short-Term Cash Flow Considerations:

Short-term cash flow planning is necessary to help your business maintain operations for the next several months. As the Coronavirus pandemic continues, Congress has passed legislation to assist businesses with the associated financial impacts, including the CARES Act Paycheck Protection Program (PPP), giving companies access to SBA COVID-19 loan options. Any small business facing economic uncertainty due to the Coronavirus should consider applying for these loans right away, if they haven’t already. That being said, short-term cash flow planning will help your company bridge the gap until you have access to funds from the COVID-19 SBA loan programs and allow you to better manage your most vital assets going forward.

Maintaining Pace of Work

The first point to consider when looking at short-term planning is how you are going to maintain the required pace of work for contracts that remain in progress in the face of potentially slowing cash flows. This requires re-forecasting estimated costs on these projects, taking into consideration potential contract delays and impacts on productivity. A crisis can impact your contract performance, causing work to be less efficient and increasing costs – but will these costs be recoverable? It is critical to sustain a high level of communication with your customers, providing them with proper notice of delays and unforeseen cost escalation in accordance with the provisions in your contracts. The more communication you have with your customers, the better. It is also vital to maintain recordkeeping during this time to assist with future claims and cost recovery.
Supply chain and material availability may also impact your pace of work. If cash flow allows, consider pre-purchasing critical materials to help mitigate this impact. In addition to materials, there may also be a shortage of vendor and subcontractor labor. It is important to communicate frequently with these vital resources to help mitigate extra costs for your customers and be prepared to supplement or replace labor as availability issues arise.

Along with subcontractors and vendors, it is essential to ensure your employees are utilized and paid. The SBA 7(a) loan program offers relief by reimbursing payroll costs, but until this relief arrives, we recommend creating a short-term cash flow plan.

**Creating a Documented Short-Term Cash Flow Plan**

As most contractors know, you can’t manage what you can’t measure. Creating a cash-flow plan allows you to know where you stand and what changes to make in order to sustain current operations.

The first step in creating a cash-flow plan is determining your daily and weekly cash needs. Take a look at your weekly check run – how much money goes out the door on a weekly and monthly basis? Determine how long you can maintain that pace. When facing a potential stretch on your accounts receivable, it is vital to know what items in your weekly expenses can be deferred, reduced or eliminated altogether to help mitigate potential challenges.

One important aspect of cash outflows is vendor management. While you want to be fair with your vendors, it is not necessary to pay bills before they are due. There may be certain vendors where you can discuss opportunities to stretch payment terms. In evaluating your overhead, you may be able to reduce or eliminate unnecessary costs that are not critical to your current business operations, at least for the short term.

The second step in creating a cash flow plan is to evaluate cash inflows. How would you handle a pause in collecting accounts receivable for two weeks? Could you cover the cost with cash on hand? It may be time to get more aggressive with your billing processes and ensure you are following billing best practices. These include billing timely, billing for all work performed, following up on collections and communicating with customers to make sure your minimum cash flow requirements are met.

Another way to create a cash cushion is to utilize your line of credit and other financing options. We find that many contractors are debt adverse, which we recommend under normal operating conditions. However, in the face of financial disruption, it is wise to remain open to alternative sources of cash. If you have historically not utilized your line of credit and your lender is trying to reduce your borrowing capacity, now would be a good time to draw some much-needed working capital.

Finally, we also recommend contacting your bank as soon as possible to discuss your short-term cash flow plan. As mentioned before, you may currently have a line of credit, but the following are some additional items to consider:

- Can you defer loan payments (outside of your PPP loan covered period)?
- What about revised payment terms and reduced restrictions on accessing credit lines?
- How can you obtain new financing?

Talk to your banker and lean on them for assistance during this time. Borrowing cash is inexpensive in the current economic landscape, and infusions of cash into your business would assist with temporary cash flow concerns.

**Longer-Term Cash Flow Considerations:**

While it is tempting to focus solely on short-term cash flow in the midst of a crisis, it is also important to consider long-term cash flow. This allows you to see the bigger picture of the impact COVID-19 (or another crisis) is having on your business and how long it will take your company to recover. This analysis will also help your leadership team in making long-term decisions with clarity and objectivity.

One area contractors should focus on is a review of their equipment log for under-utilized (or idle) equipment, which they may consider selling in order to generate cash. When evaluating new equipment needs, consider the financial impact of leasing versus buying. For example, leasing equipment provides more flexibility and ensures you are not left holding equipment and debt when a job wraps up.

When considering long-term cash flow, evaluating personnel costs also comes into play. Do you have the potential to reduce your workforce and still support operations? Should you consider furloughing employees? While these decisions are very difficult to make, if cash flow is tight, they may become necessary for the survival of your business. Just as we highlighted with short-term cash flow plans, a continued focus on operating expenses and business processes are also needed with long-term planning. Ask yourself the following questions:

- Are the costs necessary?
  - If no, consider eliminating them. If yes, is there a more cost-effective alternative?
- Are there opportunities to be more efficient?
  - What about revised payment terms and reduced restrictions on accessing credit lines?
- How can you reduce your payroll costs?

Finally, when planning for the long term, evaluate your sales pipeline and beware of chasing incremental revenue at the expense of gross margin. Keep focus on your core competencies (do what you’re good at!). While the temptation could be to chase more jobs during uncertain times in order to keep personnel and equipment utilized, bad jobs will only exacerbate the problem and put additional strain on the company’s cash flow.
Next Steps:
As the Coronavirus pandemic continues to impact day-to-day operations, we are committed to keeping contractors informed with the latest updates. You can subscribe to receive future blogs and alerts here. If you need assistance with short and long-term cash flow planning, the Moore Colson team is available to assist. Visit our COVID-19 Business Services page, and contact us or call 770-989-0028 for more information.

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