

# Show Me The Money!

***A Guide to Generating and Retaining  
More Cash in Your Contracting Business.***



The Top 5 Strategies for Long Term Success

From

The Trades Coach

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## A Guide to Generating and Retaining More Cash in Your Contracting Business.

### The Big Issue

Word of mouth is producing plenty of leads for new business. You are “there or thereabouts” with your pricing and converting enough of them to keep your team, or teams really busy. You are working long hours, either on site or in the office at night, or most likely BOTH.

BUT.....

You never seem to get ahead consistently or have the spare cash to fund growth, buy new equipment or have the comfortable lifestyle that matches the efforts you put in.

So what's the problem? Most people say, “It's a cash flow issue.” I say, “Probably not”. *What the.....!!* I hear you say. So, if it's not a cash flow issue, what is it?

I'm not trying to be cute, but most companies I talk with that express their frustrations around a lack of cash actually have GREAT cash flow. It flows in the front door.....and right out the back door, just as fast! The flow of cash is not the issue. It's a volume and retention issue.

### The Magic Pill

Sorry, there isn't one.

Unfortunately the “We have plenty of work, but no money in the bank” problem is not one that can be fixed with one action (or it is very unlikely to be). The generation and consumption of cash in your business involves many activities and so a more holistic and systematic approach needs to be taken to improve your cash volume and retention performance. I can talk about more than 20 strategies you could implement that will have a positive effect on your cash situation. This guide would be 100 pages long if I went into all of them, so I have selected my **Top 5 Strategies** to get you started on your journey to generate and retain more cash in your business, and start to enjoy the fruits of your labour more. You deserve it!

## 1. Get Your Pricing Right

Just like Goldilocks and her porridge dilemma, price too high = no work, price too low = no business, price just right = perfect! With little knowledge of their true company costs, no desired owner salary target and no profit goal, many owners tend to price on the low side. While this helps to secure work, a too low a price has set you up for failure from the start. It's a rare job that delivers MORE than the budgeted profit. Unforeseen issues, errors and time delays typically eat away at the profit and so this needs to be factored in to your pricing calculation, or at least tagged out so additional billing can be issued to make up for shortfalls.

Most contractors use a labour charge-out rate plus materials & subbies (including mark-up) in order to calculate a job price. This is fine, but do you know if your charge-out rate covers your TRUE overheads and does the mark-up generate sufficient profit to grow your business and give you a return on your investment?

I suggest that pricing is done two ways. The way you have always done it, but then a cross check to ensure the total margin for the job is in line with the required gross profit rate (porridge temp just right) that will consistently generate a fair bottom line return for you, considering the effort and risk that you are expending.

## 2. Build a Better Sales System

Pricing your work a bit higher than you perhaps feel comfortable with will require you to up-skill a bit in the sales process. The advantage of a lower price is that it is easy to sell, but as I mentioned above, you are setting yourself up for a disappointing financial result right from the get-go. No matter what you do in the delivery process, you won't improve on the job profit, as the die has been cast. (This excludes pushing through dodgy variations to create revenue, which I don't condone).

You don't need to wear white shoes and gold chains to be a good salesman. Thankfully that's old school. Like any business skill, becoming a bit better at selling your business services to a prospective client can be learned and even better, it can be systemised. It's about building trust with a prospect, asking the right questions, adding value to them early and then helping them make the right decision. It should be comfortable and natural and just takes a bit of planning and some practice.

Becoming better at the sales process will enable you to present your higher priced serviced in such a way that the prospect recognises the additional value they are receiving and is prepared to pay for it. It will also enable you to eliminate the price checkers and time wasters early, before you have invested a lot of your precious time preparing detailed quotes, for free.

### 3. Know Your Numbers

You probably went into business because you didn't enjoy dealing with numbers and all the issues that they seem to bring. You love your trade. That's where your passion is and where you want to spend most of your time.

That's fine, but you are not just a builder, a plumber, an electrician, etc. now. You own and run a building company, a plumbing company, an electrical company, or whatever trade your company is in. You need to get a new attitude to money and the numbers that monitor what is happening in the money department of your business. You need to know the magic gross profit figure for your business, whether the last project achieved it and if not, why not. Are the current project(s) on track compared to budget? What are the leading indicators for your trade and do you monitor them to prepare for the future, or do you just wait to see what happens and react accordingly? Is your business in a safe cash position to meet upcoming commitments (your liquidity)? What other KFI's are you looking at on a regular basis?

You do not need to become an accountant to monitor and understand your numbers, but you do need to develop an interest in certain ones and have systems in place to generate them for you on a regular basis. Just like driving a car. You don't need to be an expert motor mechanic and understand everything that is going on in the engine, but you need to look at your dashboard from time-to-time and check the speed, the fuel, the oil pressure, etc. to see if you need to take some corrective action. What is the dashboard for your business?

### 4. Get Paid Faster, and In Full

As the saying goes, "A sale's not a sale 'til the money is in the bank". With some trades there could be many months between making the sale and banking the last bit of money, and it's often the last payment that's the hardest to nail. With this payment often goes the profit for the whole job and so there is some merit in thinking and discussing this last payment with the customer BEFORE the job starts.

Credit control of your customer payments is often a task that comes towards the end of your relationship on any particular job. It can be a touchy area and one that many trades business owners are not comfortable. The best way to minimise issues in this area is to address it at the start of the relationship and set out your terms and expectations clearly, before any work is done. By raising a possible issue that might arise at the end of a job (slow payment of final invoices) at the start, it can be dealt with more calmly before the pressures of the job start to add tension to the relationship. By getting written agreement over when and how invoices are to be paid, you are in a much stronger position to press for payments, right through the project's life cycle.

All payment agreements should be in writing. Use industry provided contracts if they are available. If not, engage a professional to draft up your own templates that can be used for your own situation. Make sure they are signed as accepted by the client before work starts, any deposits are received and any financial interests noted in the PPSR (if applicable) Consider using an escrow service to look after the final payment in trust and agree this will be released upon practical completion. This saves the never-ending snag list excuse for not making the final payment.

What is your variation process like? Do you have a system that documents any agreed variations and invoices these to the client immediately? A lot of money is often left on the table by owners through shoddy or non-existent variation processes. These are obviously vital for quoted jobs, but something similar should be used for charge-up work as well. Even on a charge-up job the client will still have a figure in their mind as to what the total price should be, so if the scope has changed from what was discussed originally, this needs to be documented and brought to the attention of the client. Better that way than dealing with an angry client near the end of the job who doesn't want to pay you.

Invoice promptly and have a documented system for following these up before they fall due, and then after. Who will do this for you? Handle in-house or out-source? Either way, make sure that it happens. Even paying someone to do this role will probably be cash positive with the increase in payment speed achieved.

## 5. Make Less Mistakes On Site

One of the fastest ways to burn profit, and therefore put pressure on your cash supply, is through wastage on site. Poor performance on site comes straight off your bottom line net profit and can have a multiplier effect as well. For example when materials are wasted, not only do you need to replace them, you need to pay for the removal or demolition of the mistake and then more labour to repair and rebuild to the point you were at before.

Wastage can come in many forms and so you need to be aware that it is not only out-and-out mistakes that cost money, but also wastage through: waiting time, over-production, excess movement, excess materials purchased and not credited, theft and weather delays. Strategies to minimise these areas of waste form the basis of the Lean Construction process. Doing more with less. If you are working on every project yourself it is easier to monitor things closely and ensure the minimum of mistakes are made. If you are running multiple projects it will be essential to install systems to enable you to remotely drive quality control, production efficiency and communications through your key personnel. Do these people have the right training, attitude, responsibility and authority to represent you on site as if you were there yourself?

So, there are my Top 5 cash generation and retention strategies for your business. Implementing these will build a solid foundation for your long-term business stability and success. You will have better profits to fund long-term growth and your personal life. Also more cash on hand to better meet your day-to-day funding requirements and help you sleep better at night.

**Contact me at [andy@tradescoach.co.nz](mailto:andy@tradescoach.co.nz) or phone 027-688-6721 to make a time to discuss how these strategies can be adapted for *your* specific situation and whether additional strategies can be added into the development process.**