



CONSTRUCTION INDUSTRY ADVISOR

Work hard, get paid

Accounts receivable
management for contractors

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your construction company?

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Accounts receivable management for contractors

Slow payments create many problems for construction companies. They reduce cash flow, undermine profitability, and shrink the working capital needed to fund current projects and other expenses related to day-to-day operations — any and all of which may lead to higher financing costs.

The good news is you don't have to take the problem sitting down. By proactively addressing accounts receivable management, you may be able to better expedite payments and improve the financial stability of your construction business.

10 tips to consider

The following tips can lay the foundation, so to speak, of a solid approach to accounts receivable management:

1. Scrutinize project owners' creditworthiness.

Never sign on the dotted line unless you have some assurance of the owner's ability to pay. A full credit check may not be necessary for every project. Small jobs, for example, typically present less risk. But be sure to gather some evidence of creditworthiness every time — and the larger the project, the stronger the evidence should be.

2. Where appropriate, learn about owners' processes and procedures. Some project owners — such as for-profit companies, nonprofit organizations and government entities — have distinctive accounts payable processes that could affect payment timeliness. Before work begins, reach out to your contact to see whether there's anything in particular you should know or can do to avoid delays.

3. Review the contract as work starts up. The terms of a contract also affect billing and payment. Examples include those stipulating project milestones, due dates, and required forms and

documentation. You no doubt became familiar with these terms during contract negotiations. But review them with the job's project manager and other pertinent parties when work begins so everyone knows what payment targets you're aiming for.

4. Consider early payment incentives. You can, for example, provide a 2% "early bird discount" for payments received in 15 days instead of 30. Discounts obviously eat into your profits, so you'll need to determine which is more valuable: prompt payment or full payment. The answer may differ depending on the owner or project.

5. Invoice for success. Develop a standard invoice format that includes key data points such as:

- Date invoice was created,
- Date(s) work was performed,
- Detailed descriptions of goods and services provided (including prices and quantities), and
- Clear, bolded statements about payment terms.

If your invoices aren't well-designed and easy to read, you're giving owners an excuse to delay payments. Similarly, don't be surprised if owners are slow to pay if you drag your feet invoicing them



The high cost of ineffective accounts receivable management

Taking the time to improve accounts receivable management can seem like a distraction to construction business owners who'd rather focus on winning jobs and turning a profit. That's understandable, but recent research reveals the high cost of failing to do so.

For example, financial management software company Rabbet's *2023 Construction Payments Report*, an annual survey of general contractors and subcontractors, found that the estimated cost of slow payments approached 14% of total construction costs in 2023. The survey also revealed that:

- Nearly three-quarters of contractors suffered payment delays of more than 30 days in 2023, vs. 49% in 2022,
- The number of liens filed in 2023 surged by 141% compared to 2022, and slow payments were 17% more expensive, and
- The total cost to the construction industry of carrying the fees and costs of slow payments came to \$273 billion in 2023.

Moreover, the survey found that slow payments didn't only result in direct costs. More than half of respondent general contractors and 78% of respondent subcontractors reported that late payments had delayed or even stopped work in the previous 12 months.

The message is clear: Accounts receivable management is a high-stakes business function. Be sure your construction business is addressing it appropriately.

in the first place. Doing so sends a message that time isn't of the essence.

6. Offer multiple payment options. If you don't already, expand the payment methods you accept. Most payors today expect to be able to use a credit card, Automated Clearing House (bank-to-bank payment) or, more so than ever, online platforms such as Zelle, Google or Apple Pay, PayPal, or Venmo.

7. Establish communication channels. Say an owner has a question about your invoice, do they know whom to contact? Assign a dedicated contact person for payment inquiries and establish strong procedures for quickly addressing them. Done right, you'll reduce delays *and* boost owner satisfaction.

8. Follow up persistently. You're well within your rights to contact owners when they're late with payments. Establish sound procedures for sending reminders at regular intervals, generally starting at 30 days. Also, escalate the urgency of contact as time goes on — for instance, go from emails to phone calls.

9. Leverage legal protections. Federal and state laws can help protect your payment rights. For example, prompt payment laws may establish reasonable deadlines and impose penalties for noncompliance. Mechanics' liens against property are another widely available legal remedy. Laws vary by state, so work with a qualified attorney to understand your legal rights and exercise them when necessary.

10. Take advantage of technology. There are many software products on the market that can help construction businesses excel at accounts receivable management. Today's billing software standardizes invoices, improves accuracy of calculations, and aligns invoices with project milestones or due dates. The right software can also auto-send payment reminders, track payments and generate reports that help you identify problem areas.

Critical priority

Accounts receivable management for construction companies is a critical priority. Your CPA can help you identify, organize and analyze the key data involved. ■

Keeping up with fast-track construction projects

Construction is hard enough when you're handed a typical project schedule. Given the uncertainties of weather, supply chains and some owners' wildly vacillating preferences, you just never quite know how things are going to go.

Now slash that delivery time in half and start work with an uncompleted design. That's generally what contractors face with fast-track construction projects. Such jobs can be particularly challenging — and risky. But they also often pay a premium, and construction companies able to complete them successfully can build considerable brand strength.

Pay close attention to the contract

For any project, having a well-negotiated contract that defines the scope, responsibilities, requirements and costs associated with each job phase is paramount to protecting your financial interests. But it's especially important with fast-track jobs, so be sure you're not relying on a boilerplate contract. Ask your attorney to review any agreement you're considering.



The contract should provide clear guidance on how proposed changes will be handled.



Of particular importance is signing off on an agreement that clearly and equitably spells out the change order process. Many fast-track projects require the assemblage of a small team of project leaders to review and approve design and construction modifications after the job starts. The



contract should provide clear guidance on how proposed changes will be handled.

Address design risks

As mentioned, one of the defining characteristics of fast-track projects is, typically, the design is still being completed while construction gets underway. Therefore, among the biggest impediments to success is substantial, unanticipated design changes that require work stoppage, repeated steps, major redesigns or engineering overhauls. Knowing the owner's expectations and studying the engineering specifications up front can help you anticipate such challenges and avoid costly delays.

For example, say a commercial project's groundbreaking is only weeks away. Yet the load requirements for a critical piece of equipment remain uncertain. Lacking such details may pose only a minor hiccup to a typical construction timeline; in a fast-track job, they could spell disaster. Getting involved early and pushing the design team to settle such matters can save the day.

You may encounter some fast-track projects that use the design-build delivery model. Here, the architecture, engineering and construction components of a project are all managed under a

single contract. This approach can make sense for fast-track projects because it keeps everyone on the same page from day one. But design-build has its risks, including disagreements, miscommunication and difficulty adjusting to the different approach.

Gather your star players

Fast-track projects are no place for rookies. Flexibility and communication skills are important qualities in experienced project managers and laborers who can either contribute to or inhibit the job's financial success.

If you're a general contractor, picking subcontractors with proven collaborative experience also is important. An electrical sub may have to work side by side with plumbers, cement pourers or ironworkers. Do you trust your preferred providers to do so effectively?

By the same token, if you're a subcontractor, you've got to reassure general contractors that you can work quickly and seamlessly with other parties to the job. In fact, this may be a great way to differentiate your company from the competition.

Wield data to your advantage

Any construction project, fast-track or otherwise, may conjure images of a jobsite bustling with busy workers and noisy equipment. But the information tracking and number crunching that happens behind the scenes play an equally important role in ensuring the success of the job.

The right accounting and project management software can make or break a fast-track project's accelerated timeline. Adjustments to design plans, labor costs and supply inventories occur continually, so make sure you're not operating at a disadvantage with outdated technology.

Proceed carefully

Obviously, fast-track projects aren't opportunities to be undertaken lightly. But if you can marshal the resources and control the costs, the quick completion time can be a boon to your cash flow and profitability. Should one of these jobs emerge in your market, proceed carefully by gathering the details and exploring the possibility of a bid with your leadership team and professional advisors. ■

The state of modular construction

Simplify defined, modular construction involves manufacturing building components called "modules" off-site in a factory then transporting those components to the jobsite for assembly.

Although the modular industry's market share in North America has nearly doubled since 2017 and tripled since 2015, it still holds a tiny percentage of the construction market — 6.64% in 2023, according to the Modular Building Institute's (MBI) 2024 annual report.

Attractive advantages

While "modular" (as it's often called for short) has yet to achieve its full potential, both MBI's annual report and another report by industry market research firm Fortune Business Insights found that it's gaining traction in several key markets, including:

Single-home and multifamily/student housing.

As demand rises, modular offers a speedy and cost-efficient way to construct affordable housing when needed.

Commercial, institutional and industrial.

Modular's design flexibility and quick turnaround make it an attractive option for new builds and expansions in certain industries. One specific example given was operational hotels.

What makes modular so attractive? First, standardized factory processes and efficient materials use can substantially cut costs. Factory settings, along with rigorous inspections, ensure consistent quality. And manufacturing modules off-site while preparatory sitework is done concurrently can shorten project timelines.

In addition, modular offers a positive environmental impact by producing less waste and enabling easier recycling of materials. Plus, controlled factory environments tend to be safer for workers and allow for better conditions, boosting productivity and potentially drawing more job candidates than traditional construction.

Persistent obstacles

Various obstacles, however, have hindered modular's widespread adoption. These include:

Steep learning curves. Modular requires a different approach to sequencing, staging and coordination with infrastructure. Project teams need retraining to adapt to these new methods and develop consistent workflows, which can be time-consuming, costly and difficult.

Negative impact on skilled trades. Because modules are often preplumbed and prewired, modular builds typically don't require highly skilled workers. On the one hand, this can be an advantage in today's tight labor market. On the other, excluding subcontractors in skilled trades such as plumbers and electricians doesn't always sit well with project owners or the industry in general.

Transportation challenges. Job budgets can easily get blown if modules require additional structural support for transport or if the factory is far from the jobsite.



Best practices

For construction teams looking to pursue modular projects, the MBI recommends the following best practices:

Tailor designs for modular. Architects and designers should create plans that optimize modular's strengths, including standardizing module sizes and addressing transportation challenges.

Collaborate early and often. Everyone involved — from designers to manufacturers to contractors — should communicate from the get-go to ensure smooth integration and minimize delays.

Leverage technology. Modular project teams should use the latest software to improve the design, manufacturing and assembly processes. The right technology, used effectively, can help identify and resolve issues before they become costly problems.

Focus on workforce development. Everyone involved needs to invest in training programs to continuously improve workers' skill levels.

Expected growth

Fortune Business Insights projects the North American modular construction market to grow at a compound annual rate of 7.1% from 2023 to 2030. However, for the approach to truly disrupt the construction industry, those practicing it will need to find creative solutions to the existing problems. ■

Is wearable tech a good fit for your construction company?

Construction technology has been growing and improving in a variety of ways. Much of the focus is on front-office technologies such as project management systems and building information management software.

But there are exciting digital tools for your workers in the field as well — namely devices that can be physically attached to oneself to enhance perception and avoid accidents. Indeed, this “wearable tech” holds the potential to revolutionize how construction happens.

Augmented reality

One example is augmented reality (AR) headsets or glasses that overlay digital imagery onto the user’s physical surroundings. These devices provide visual cues and real-time information that can streamline and improve a variety of activities.

Before ground is even broken, AR headsets or glasses can allow everyone from the project manager to the crew to do a “virtual walkthrough” of the intended structure. This can better ensure everyone is on the same page about the final product.

As construction proceeds, workers wearing AR headsets or glasses can superimpose three-dimensional models over what’s already been built to ensure that work is being completed as planned and to correct mistakes before they cause major problems. In turn, job progress speeds up, making crews and equipment more efficient and less costly.

Wearable tech can also help train workers more safely than traditional methods by creating a fully immersive environment. AR-based software is capable of simulating real-world building scenarios, so workers can operate heavy equipment and spot dangers without putting real equipment or people at risk.

Smart devices and RFID

Among the most important uses of wearables is to improve safety. Smartwatches, smart helmets and other devices can monitor workers’ vital signs and detect signs of heatstroke, fatigue or other life-threatening health conditions. Smart boots equipped with motion or pressure sensors are able to detect falls and alert emergency personnel on the jobsite who might be well out of visual range of a mishap.

In addition, wearable tech can help prevent accidents involving heavy equipment or vehicles. Radio frequency identification (RFID) tags embedded in hard hats or safety vests track workers’ locations, while sensors mounted on equipment or vehicles can detect tagged workers and sound an alarm if they’re too close. This technology can also be used to improve security on the jobsite by limiting access to workers with RFID-equipped badges.

Serious investment

Could wearable tech be a good fit for your construction company? If interested, proceed carefully. Discuss any potential purchases with your leadership team, project managers and professional advisors. Outfitting even a few workers with wearable tech will entail a serious capital investment, and you’ll want to feel confident you’ll get an acceptable return. ■



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Since 1953, local leaders have counted on GBQ to navigate the complexities of the construction industry while crafting bold tax, accounting and consulting solutions that empower growth.

A Top 100 firm, our industry expertise and innovative solutions lay the foundation for architects, developers, builders and contractors to uncover opportunities that leave lasting legacies. But it's not all about what we do; *it's how we do it.*

Empowering growth takes a team.

Think of our industry partnerships and certifications as required permits to protect your business and empower growth. GBQ proudly stands as the sole representative for the Construction Industry CPAs/Consultants Association (CICPAC) in Franklin and several surrounding counties. Joined by a select group of CPA firms with significant industry experience, our exclusive role enables us to contribute invaluable insights to The American Institute of Certified Public Accountants, actively shaping accounting policy specifically tailored to the construction sector.

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