



***PATHFINDERLINK***

PRACTICAL PROJECT MANAGEMENT SOFTWARE

# **6 COMMON FINANCIAL MISTAKES MADE IN CONSTRUCTION AND HOW TO AVOID THEM**



# Construction Finances

Finances for construction companies can be difficult to say the least. Timeframes for projects vary. Ordering materials and depending on vendors can be a hassle. Labor is almost always a concern, and those hours and costs add up quickly. With labor costs, and the inconsistencies of billing and receiving money, it is important to have effective procedures in place. It's also important to have a healthy bank account. You don't want to worry about money coming in from work done last week to pay for materials that are needed today. Here are some common financial mistakes made in construction and some suggestions for how to avoid them.





# 1. Failing to Document Work and Change Orders



Have you ever forgotten to bill a change order? A lot of changes and agreements happen on jobsites, and are concluded verbally, or with a simple handshake. It is far too often that these transactions don't get documented. Without proper documentation a contractor might do the work without adding anything to the original cost. If a subcontractor does the work, they might bill the contractor, but without documentation, the contractor could be stuck with the bill without marking up the change to the customer. Profit margins can be significantly affected by not documenting change orders.

## **Solution:**

Contractors need procedures in place so change orders don't get forgotten. There is software available to track these costs and interactions. An easy first step would be to require both the contractor and the customer to sign the change order before any work on it begins.



## 2. Late Invoicing and Missed Bank Draws

Have you ever missed a deadline for submitting an invoice or bank draw? Many projects have deadlines because they have established processes. Your processes then depend on their processes, and if you miss a deadline you might have to wait a month until you can submit anything for payment. That creates obvious problems for your system. You can't expect your workers or vendors to wait for their money because you missed a deadline. If this is common practice in your company, you will probably have to spend company money to pay bills instead of having a project pay for itself. This increases your risk and gives you less cash available to invest in your company.



### **Solution:**

Late invoicing often happens because of bad communication. Field managers may not communicate with office staff. The financial department could be overworked and unaware of the urgency with invoicing and bank draws. With sound processes and good communication, you will be less likely to miss a deadline to submit an invoice or a bank draw. Consider consulting with a CFO to look for where systems can be improved.



### 3. Failure to Job Cost

Do you know the profit margin for each of your projects? Many in the construction industry are unaware of their detailed job costs. The more detailed you can be with job costing, the more precise you can be with your bidding. You should be job costing labor and materials as well as equipment and administrative costs. Projects can be incorrectly priced, and end up being money losers if you are not attentive to detailed job costs.



### Solution:

Start with your profit and loss statements. Are all your expenses assigned to appropriate projects? Is every cost accounted for? Are you factoring in expenses like equipment depreciation, administrative expenses, and property rentals? A CFO advisor can help address these financial concerns.





# 4. Misplacing Costs

Do you think that money in the bank proves that all your projects are profitable? Most construction companies find that some projects are very profitable while others are not. If these projects balance out, they give the impression of general profitability. However, if you don't look closely, you might be missing out on better profits.



## Solution:

Get detailed financial information so you can make more strategic business decisions. A CFO, even hired on a fractional basis, can help with optimization and the implementation of better systems.



# 5. Failure to Adjust Material Costs

Have you ever created a bid on outdated material costs? Some contractors write contracts highlighting the fact that material costs fluctuate. These contracts allow the bid to be adjusted even after a project has started. Some don't write contracts like that though. There have been times when materials have spiked, and contractors have had to absorb the extra cost without being able to pass it on to the customer.



## Solution:

Make sure your service contract has language that allows you to adjust prices based on market price. Some companies have standard language stating that if material costs change by a specified percentage the extra cost will be passed on to the customer.



# 6. Not Enough Money in the Bank

Have you ever had to front material or labor costs to begin a project? Sometimes construction companies must front certain costs to begin a project. If a company doesn't have cash reserves, they might have to take out loans or postpone payroll or payments. Efforts like that always take the chance of accruing interest, not to mention distrust with vendors or employees.

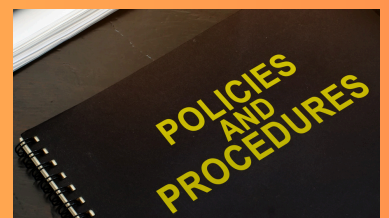


## Solution:

You can minimize your financial risk by keeping the time between paying your employees and vendors and receiving payment minimal. This will help keep more money on hand for rainy day situations. It also preserves capital so you can strategically grow your business.

Some contractors require a deposit before projects even start. This reduces costs to be fronted by the contractor. Some contractors negotiate vendor contracts so bills can be paid after a job finishes. Transactions like this require good and trusting relationships with vendors though. Don't put yourself in a position of mistrust.

Make sure your systems are in order so you can avoid these mistakes. Communicate effectively and establish relationships of trust.





# Summary

PathfinderLink is a practical project management software. It was created to eliminate multiple data entry and streamline construction management. With PathfinderLink you cannot over pay a subcontractor without them submitting a change order. You can keep your budget, bills, communications, and everything else related to project management all in one place. Don't waste your time with multiple applications and spreadsheets.

**See what PathfinderLink can do for you.**



## Sources:

Pack, B. (2021, January 18). *7 Most Common Financial Mistakes Construction Companies Make*. Preferredcfo.com. Retrieved March 20, 2024, from <https://preferredcfo.com/7-most-common-financial-mistakes-construction-companies-make/>