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Business Management

Improve Cash Flow To Ensure Project Completion

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In today's recession prone economy, cash flow improvements are particularly essential to a company's success. In the construction industry, cash flow issues run rampant. Whether it is because of a challenging economy or a poor collection process, cash flow issues can negatively impact a contractor's business. It is critical for contractors to



focus on improving cash flow. In our experience, companies with the most control over this process are the firms most likely to be in business 10 years from now.

Cash flow problems can be caused by a number of factors, including those unrelated to job profits. Examples include labor-intensive work; payments made to suppliers or subcontractors before receiving cash payment from the related project; retainage; cash purchases of fixed assets; time lags between billing and collection of receivables (slow payers); investments in joint ventures; cash used for outside investments; cash advances or loans to officers or employees; overstock of inventory; and unfavorable legal settlements. In this case study, we will examine the far-reaching effects of cash flow issues.

The following case study illustrates how cash flow improvements saved one of our construction clients' projects from being terminated.

Find Untapped Cash Flow

Problem: A major developer was forced to put a significant project on hold for lack of adequate capital, stopping work in its tracks and tying up significant resources that had already been committed to the project. The developer's financial resources were tied up in equipment (from its cash assets), overstock of inventory, and unresolved prior legal issues (funds not released in escrow). This adversely affected our client, who was projected to perform much of the work.

Solution: Cash flow issues were at the root of this problem. We needed to find a way to help this developer free up capital to keep the project moving along. If we couldn't help, our client, and other subcontractors, would have been adversely affected. When the project was evaluated from a financial/tax perspective we noticed that the developer had not taken advantage of a number of tax-saving opportunities. For immediate relief, we worked with the developer to initiate a

cost segregation study, uncovering that a project redesign would have major tax savings. Our team performed the study and created a substantial \$39-million deduction, resulting in a \$15-million tax refund. This "found money" stimulated the developers' cash

flow and allowed the project to move forward, thus allowing our contractor client to perform the work. In this challenging economy, we recommend that you sit down with your advisors and figure out a plan to improve your company's cash flow. Now more than ever, you need to ensure your company is financially sound and prepared for future projects.

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Analysis: Having an independent view on this situation, we were able to identify a way to help the developer find the capital to continue the project. Cash flow is integral to a construc-

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