12 FINANCIAL MISTAKES

THAT PUT

CONSTRUCTION COMPANIES

OUT OF BUSINESS



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Introduction

The construction industry is grappling with unprecedented challenges in today's dynamic business landscape.

Fluctuating material costs and labor shortages are major hurdles, alongside issues with regulatory compliance and project delays.

These factors create a complex web that impacts the financial stability and profitability of construction companies.

These challenges are further exacerbated by the need for strategic financial management to weather economic uncertainties and industry fluctuations effectively.

As construction companies strive to deliver high-quality projects on time and within budget, they must also grapple with the reality that a single financial misstep could have significant consequences.

This guide delves into 12 critical financial mistakes that have the potential to put construction companies out of business.

By understanding and addressing these pitfalls, construction firms can proactively safeguard their financial health and position themselves for long-term success in a competitive market.



MISTAKE

01

NOT USING JOB COSTING ON EVERY PROJECT AND REVIEWING THE RESULTS

MISTAKE # 01

Not Using Job Costing on Every Project and Reviewing the Results

Job costing is a crucial aspect of financial management in construction projects.

It involves tracking and allocating all costs associated with a specific project, including labor, materials, equipment, and overhead expenses.

By accurately capturing and analyzing these project costs, construction companies can gain valuable insights into their financial performance and make informed decisions to improve profitability.

When job costing is not utilized on every project, construction companies run the risk of underestimating or overestimating project costs, leading to inaccurate pricing and potential profit losses.

Without a thorough understanding of the true costs of a project, companies may struggle to remain competitive in the market and maximize their profits.
By implementing job costing on every project and regularly reviewing the results, construction companies can ensure that they are pricing their projects competitively and accurately.

This practice allows businesses to identify areas of inefficiency, control costs, and make adjustments to improve their profitability.

Ultimately, job costing serves as a vital tool for construction companies to make data-driven decisions and achieve success in a challenging industry landscape.





MISTAKE

02

NOT UNDERSTANDING THE DIFFERENCE BETWEEN PROFIT AND CASH FLOW

MISTAKE #02

Not Understanding The Difference Between Profit And Cash Flow

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MISTAKE

03

FAILING TO REVIEW FINANCIAL STATEMENTS ON A MONTHLY BASIS

MISTAKE #03

Failing To Review Financial Statements On A Monthly Basis

When it comes to financial management for construction companies, the practice of regularly reviewing financial statements plays a pivotal role in monitoring the company's financial performance and ensuring its overall health.

Financial statements, which typically include the balance sheet, income statement, and cash flow statement, provide a comprehensive snapshot of a construction company's financial status at a given point in time.

By neglecting to review these statements on a monthly basis, construction companies risk missing out on crucial insights into their financial health and potentially overlooking warning signs of impending financial challenges.

Regularly reviewing financial statements allows construction companies to track their revenue, expenses, and cash flow, enabling them to make informed decisions regarding budgeting, resource allocation, and strategic planning.

By analyzing financial statements consistently, businesses can identify areas for improvement, address inefficiencies, and capitalize on opportunities for growth.

To mitigate the risk associated with this common financial mistake, construction companies should prioritize the regular review of financial statements on a monthly basis.

By doing so, businesses can better understand their financial standing, track progress toward their financial goals, and proactively address any issues that may arise.





MISTAKE

04

FAILING TO CREATE SYSTEMS TO ESCALATE ACCOUNTS RECEIVABLE TO COLLECTIONS

MISTAKE #04

Failing to Create Systems to Escalate Accounts Receivable to Collections

Efficient management of accounts receivable (A/R) is a critical component of maintaining healthy cash flow for construction companies.

Accounts receivable represent the outstanding payments owed to a company by its clients for completed work or services rendered.

Failure to create systems that escalate A/R to collections in a timely manner can lead to cash flow limitations and hinder the company's financial stability.

Effective accounts receivable management involves establishing clear payment terms, sending invoices promptly, and diligently following up on overdue payments.

By developing systematic processes for escalating A/R to collections, construction companies can improve cash flow by ensuring that outstanding invoices are promptly addressed and payments are collected in a timely manner.

To address this financial mistake, construction companies can implement strategies such as automated invoicing systems, establishing clear payment terms upfront, sending reminders for overdue payments, and leveraging collection agencies when necessary.

By creating robust systems for managing accounts receivable and escalating collections, construction companies can enhance their cash flow, mitigate financial risks, and maintain a healthy financial position.





MISTAKE

05

NOT DELEGATING YOUR BOOKKEEPING TO THE RIGHT PERSON

MISTAKE #05

Not Delegating Your Bookkeeping to the Right Person

Accurate bookkeeping is a cornerstone of efficient financial management for construction companies.

Maintaining precise and up-to-date financial records is essential for monitoring expenses, tracking revenue, and ensuring compliance with tax regulations.

However, failing to delegate bookkeeping responsibilities to the right person can lead to inaccuracies, oversights, and potential financial mismanagement.

The importance of choosing the right individual to handle bookkeeping duties cannot be overstated. A competent bookkeeper possesses the necessary skills, knowledge, and attention to detail required to manage financial transactions accurately and efficiently.

By entrusting bookkeeping tasks to a qualified professional, construction companies can streamline financial processes, reduce errors, and gain valuable insights into their financial performance.

Selecting the right bookkeeper involves assessing their qualifications, experience, and familiarity with the construction industry.

It is crucial to choose a bookkeeper who understands the specific financial intricacies of the construction sector, including project-based accounting, job costing, and industry-specific regulations.

In addition to selecting a qualified bookkeeper, effective delegation of bookkeeping responsibilities involves establishing clear communication, defining roles and responsibilities, and providing the necessary resources for the bookkeeper to succeed.





MISTAKE

06

FAILING TO TRACK, RECORD, AND ENFORCE LIENS

MISTAKE #06

Failing to Track, Record, and Enforce Liens

In the construction industry, the practice of tracking, recording, and enforcing liens is crucial for protecting the interests of construction companies and securing payments for work completed.

A lien is a legal claim against a property that ensures payment for services rendered or materials supplied during a construction project.

Failing to properly track, record, and enforce liens can leave construction companies vulnerable to non-payment and financial losses.

Tracking and recording liens accurately is essential for documenting the work performed and materials supplied on a project.

By maintaining comprehensive records of liens, construction companies establish a legal basis for securing payment and protecting their rights to compensation.

Failure to track and record liens could result in delays or difficulties in recovering payment for completed work.

Enforcing liens effectively involves following established legal procedures to assert the company's right to payment for services rendered.

Strategies for enforcing liens may include sending formal notices of intent to file a lien, filing a lien with the appropriate authorities, and pursuing legal action if necessary to recover payments owed.

By prioritizing the tracking, recording, and enforcement of liens, construction companies can protect their financial interests, ensure timely payments for work completed, and mitigate the risks associated with non-payment or disputes.





MISTAKE

07

NOT PROACTIVELY PROTECTING YOUR PHYSICAL & MENTAL HEALTH FROM FINANCIAL STRESS

MISTAKE #07

Not Proactively Protecting Your Physical & Mental Health From Financial Stress

The construction industry is not only physically demanding but also places significant financial pressures on construction business owners.

Failing to proactively protect physical and mental health from financial stress can have detrimental effects on overall well-being and hinder business success.

Financial stress can manifest in various ways, including anxiety, insomnia, and physical health issues, all of which can impact an individual's ability to make sound decisions and effectively manage a construction business.

Neglecting to address financial stress can lead to burnout, reduced productivity, and strained relationships both personally and professionally.

To protect physical and mental health from financial stress, construction business owners should prioritize self-care practices and implement strategies to manage stress effectively.

This may include establishing a healthy work-life balance, practicing mindfulness techniques, seeking support from trusted advisors or mental health professionals, and engaging in physical activities to promote well-being.

By proactively managing stress and prioritizing physical and mental health, construction business owners can enhance their resilience, cognitive function, and overall quality of life.

Taking steps to protect well-being amidst financial challenges is essential for sustaining business success and personal well-being in the construction industry.





MISTAKE

08

FAILING TO TAKE ADVANTAGE OF PROACTIVE TAX REDUCTION STRATEGIES

MISTAKE #08

Failing To Take Advantage Of Proactive Tax Reduction Strategies

Proactive tax planning is a vital component of financial management for construction companies.

Failing to take advantage of proactive tax reduction strategies can result in higher tax liabilities, diminished profitability, and missed opportunities for savings.

By implementing effective tax reduction strategies, construction companies can optimize their tax planning and minimize their tax burden.

Proactive tax planning is essential for construction companies to strategically manage their financial affairs and ensure compliance with tax laws.

By forecasting potential tax obligations, identifying eligible tax deductions, and exploring tax credits, companies can develop a tax strategy that aligns with their business objectives and maximizes savings.

Suggestions for implementing tax reduction strategies may include structuring business operations to maximize tax advantages, utilizing tax credits and incentives specific to the construction industry, and maintaining accurate financial records to support tax deductions.

Additionally, consulting with a tax professional or accountant who specializes in working with construction companies, can provide valuable insights and guidance on tax planning opportunities.

By taking advantage of proactive tax reduction strategies, construction companies can effectively manage their tax obligations, optimize their financial resources, and enhance their profitability.

Proactive tax planning is a proactive approach that can lead to long-term financial success and sustainability for construction companies.





MISTAKE

09

NOT HAVING A SYSTEM TO MAKE SURE CHANGE ORDERS ARE SIGNED AND INVOICED

MISTAKE #09

Not Having A System to Make Sure Change Orders are Signed and Invoiced

Change orders are a common occurrence in the construction industry and play a pivotal role in modifying project scope, schedule, and budget.

Failing to have a system in place to ensure that change orders are signed and invoiced can have significant implications on project profitability.

Implementing an efficient system to track, manage, and invoice change orders is essential for construction companies to accurately capture additional work, avoid disputes, and maintain financial transparency.

Change orders can greatly impact the profitability of construction projects by introducing variations to the original contract scope.

Proper management of change orders is crucial for identifying and documenting changes, obtaining client approval, and adjusting project budgets and timelines accordingly.

Failing to track and invoice change orders promptly can result in missed revenue opportunities, project delays, and strained client relationships.

To address this financial mistake, construction companies should establish a systematic approach to track, manage, and invoice change orders effectively.

This may involve developing standardized procedures for documenting change requests, obtaining client sign-offs, updating project documentation, and accurately invoicing for additional work.

By implementing a structured system for managing change orders, construction companies can enhance project profitability, improve financial transparency, and foster positive client relationships.





MISTAKE

10

FAILING TO HAVE CONTRACTS SIGNED FOR EVERY PROJECT

MISTAKE # 10

Failing to Have Contracts Signed for Every Project

Signed contracts are the foundation of successful construction projects, as they establish clear expectations, outline project scope, timelines, deliverables, and terms of payment for both construction companies and clients.

Failing to have contracts signed for every project can expose construction companies to risks, disputes, and uncertainties.

Implementing strategies to ensure that contracts are signed for every project is essential for mitigating risks, protecting interests, and fostering positive relationships with clients.

Signed contracts provide a legally binding agreement that safeguards the interests of both parties involved in a construction project.

Contracts outline the responsibilities of the construction company, the client, and any other stakeholders, ensuring that everyone is aligned on project deliverables, timelines, and financial terms.

Without a signed contract, disputes may arise over project scope, expectations, or payment terms, potentially leading to project delays, cost overruns, and legal issues.

To prevent the potential pitfalls associated with not having contracts signed for every project, construction companies should implement strategies to ensure that contracts are in place before commencing work.

These strategies may include developing standardized contract templates, outlining clear project terms, obtaining client sign-offs on project scope and deliverables, and addressing any amendments or modifications promptly.





MISTAKE

11

NOT HAVING ENOUGH PROFIT TO RECRUIT AND RETAIN QUALITY STAFF

MISTAKE # 11

Not Having Enough Profit To Recruit And Retain Quality Staff

In the competitive landscape of the construction industry, the financial health of a company plays a crucial role in its ability to attract and retain skilled employees.

Insufficient profit margins can hinder a company's capacity to offer competitive salaries, benefits, and career advancement opportunities, making it challenging to recruit and retain top talent in the market.

Implementing strategies to improve profitability is essential for supporting recruitment efforts and implementing initiatives to retain a high-quality workforce.

Inadequate profit margins can have a significant impact on a construction company's ability to attract talented employees by limiting its ability to provide competitive compensation packages, professional development opportunities, and employee benefits.

Additionally, a lack of profitability may restrict the company's potential to invest in employee training, growth opportunities, and enhancements to the working environment.

Without sufficient financial resources to create an appealing workplace environment, construction companies may struggle to retain skilled employees, leading to higher turnover rates and a potential decline in project quality.

To address the challenge of not having enough profit to recruit and retain quality staff, construction companies can adopt strategies to improve profitability and enhance the overall employee experience.

These strategies may include optimizing project management processes to increase efficiency, reducing unnecessary expenses, diversifying revenue streams, and cultivating a positive company culture that values employee growth and development.





MISTAKE

12

NOT CREATING ASSET PROTECTION STRATEGIES FOR YOU OR THE BUSINESS

MISTAKE # 12

Not Creating Asset Protection Strategies For You or the Business

In the construction industry, safeguarding personal and business assets is essential to mitigate risks and protect against potential liabilities.

Failing to implement asset protection strategies can leave construction companies vulnerable to financial challenges, legal disputes, and unforeseen events that may impact their assets.

By implementing asset protection measures, construction companies can safeguard their assets, maintain financial stability, and protect against potential losses.

Strategies such as choosing the right legal structures, establishing trusts, and investing in insurance policies can provide an additional layer of protection for personal and business assets.

Selecting and establishing appropriate asset protection strategies is essential for construction companies to safeguard their financial well-being and protect against potential risks.

When developing asset protection measures, construction companies should consider factors such as the nature of their business operations, assets at risk, and potential liabilities.

By consulting with legal and financial advisors to assess their individual circumstances, construction companies can develop tailored asset protection strategies that align with their specific needs and goals.





CONCLUSION:

In conclusion, construction companies face a multitude of challenges in today's dynamic business environment, from fluctuating material costs and labor shortages to regulatory compliance and project delays.

Navigating the complexities of the construction industry requires a strategic approach to financial management.

The 12 financial mistakes outlined in this guide underscore the importance of proactive financial planning and risk management to safeguard the financial health and viability of construction businesses.

Given the unique financial demands of the construction industry, partnering with a construction-specialized firm can be instrumental in addressing these challenges effectively.

A construction-specialized firm brings industry-specific expertise and insights that can help construction companies optimize their financial performance, streamline operations, and enhance profitability.

By working with professionals who understand the nuances of the construction sector, companies can access tailored financial solutions and strategies to navigate industry challenges and capitalize on opportunities for growth.

A construction-specialized firm can provide valuable support in areas such as job costing, cash flow management, financial statement analysis, tax planning, and asset protection.

These services can help construction companies make informed financial decisions, maximize profitability, and mitigate risks that could jeopardize their financial well-being.

By leveraging the expertise of a dedicated accounting partner, construction companies can proactively address financial challenges, improve operational efficiency, and position themselves for long-term success and growth.



IRVINE LEGAL

About the Author

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Joshua started Irvine Legal with the desire to help businesses navigate the complexities and legalities of the business and tax world.

Constantly reading and learning, he often shows insights and advice with his clients to help take the guesswork and stress out of running and growing their business.

Some call Joshua the Law Man, others call him the Tax Man, but either way, he loves to help you grow your business, protect what you build, keep more of your money, and plan for when/how to exit your business.

Specializing in construction law, Joshua has won awards and recognitions, even being dubbed a 'legal wizard' for his expertise in the field.

Far from the stereotypical, stuffy lawyer depicted in the media, he adopts a relaxed and collaborative approach to help clients find practical solutions to their legal and tax needs.

Not just a legal wizard, Joshua is also a professor at a local college, entrepreneur, and family man.

Joshua has four, active boys who accompany him on many thrilling adventures in the great outdoors.

As a hiking aficionado, Joshua is always ready to tackle the next big mountain, ready to take the challenge head on.

