nextec

Construction Guide

How to Keep Cash Flowing and Get Paid Faster

A Guide to Project Billing and Invoicing for the Construction Industry

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The average number of days it takes for a company to receive payment after a completed sale is known as Days Sales Outstanding, or DSO. The higher the DSO number, the more likely a company is not receiving monies owed to them in a timely manner. Such payment delays can and do cause cash flow issues—an issue many construction professionals have first-hand experience with.

Late payments is a typical practice in the construction industry, and this practice is reflected in the construction industry's DSO. According to PwC, the construction industry's DSO is an average of 51, which is a whopping 11 points higher than what is accepted as a "good number." Unfortunately, late payments negatively affect a construction company's cash flow, so what do leading companies do to overcome this?

In this guide, we outline the steps needed to get paid in construction. We discuss common construction billing methods, including the benefits of each method and other causes of late payments. We also look at best practices for speeding up payments and ensuring invoicing accuracy. Finally, we discuss how Enterprise Resource Planning (ERP) software designed for the construction industry is the key to keeping cash flowing.

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Causes of Late Payments in Construction

Late construction payments often stem from the fact that construction projects involve financial risk resulting in possible loss of profit or revenue if a project fails. Because of this inherent risk, those responsible for the project (e.g., general contractors, property owners and lenders) try to reduce it by withholding payments until projects are verified for completion and quality. On the other side, those responsible for completing the work (e.g., architects, subcontractors and laborers) try to do the work as quickly and efficiently as possible in order to pay their workers on time without going into debt.

In addition to risk, project delays due to inclement weather, supply chain troubles, labor shortages and equipment failures translate into payment delays, and should quality or contract disputes arise, it's almost guaranteed that payments will be withheld until the conflicts are resolved. But that's not all. Following are a few more examples of what can cause construction payment delays:

- Scope changes.
- Manual internal processes.
- Inaccurate and/or late invoices.
- Prolonged retainage release timeframes.

Regardless of why late payments occur, they do. And when they do, they limit a company's cash flow, adversely impacting its ability to pay bills and employees on time, take on new projects, invest in emerging technology, fulfill contracts, secure working capital, protect its reputation and so much more.

> "According to a survey by YouGov, 59% of small businesses have experience with late payments. The pandemic has only exacerbated this problem. About one-third of small businesses in the U.S. say they're at risk for closure because of it. But unless you convert your accounts receivable into cash, your business can't operate, whether it's paying vendors, acquiring assets or adding staff."
>
> – Jim Conroy,
> Contributing Author, **Entrepreneur**

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Common Construction Billing Methods

Now that we know why late payments occur, it's time to turn our attention to invoicing and billing. As with all companies, construction companies send invoices detailing the work that has been done—or will be done—for a client and the total amount due based on the contract signed by both the construction company and the client.

There are different types of billing methods used by construction professionals, so let's take a high-level look at the four most common.

1

Progress/AIA (American Institute of Architects)

The American Institute of Architects (AIA) is a professional organization that creates construction industry standards, including for billing. AIA billing is based on the progress of a project, enabling construction companies to bill their clients at regular intervals. For example, when 25% of the job is done, they bill for 25% of the contracted amount. AIA billing has specific forms (G702 and G703) that standardize how the invoices should be prepared.

According to CPA Practic Advisor, there are benefits to AIA billing:

The biggest benefit of progress billing is that you don't have to wait for arbitrary milestones (or even the end of the job) to bill. Instead, you bill to receive cash on a regular basis. That allows you to more easily control budgets, pay laborers and subcontractors, purchase materials, and manage other debts.
But there are other benefits. Paying in smaller installments is often easier on the customer and allows you to increase the likelihood you'll be able to collect. It forces regular communication on the progress of a job, and requires you to have a good understanding of what might be going wrong.

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Common Billing Methods...

2

Time & Materials

Time and materials (T&M) billing is based on a specified hourly, daily or weekly labor rate and on the cost of materials used during the project. Often, T&M contracts are used for projects that are challenging to estimate and are established before the scope of the project is fully known, which means the end amount may be higher or lower than anticipated. With T&M contracts, the construction company must provide a complete accounting of labor and material costs throughout the project and determine in advance if there will be caps to the number of hours and the amount of materials for which the client will pay. T&M billing is a flexible, transparent billing method, ensuring that contractors receive compensation—and customers pay—for the exact work that was completed.

3

Lump Sum

Lump sum billing is setting a specific amount for an entire project, which includes labor, subcontractors, materials, equipment and overhead. The lump sum is based on a thorough estimate of the project, and though the name would suggest otherwise, it is usually paid in installments (e.g., payment schedule determined by project milestones). It can also be paid in advance or after the work is completed, depending on the contract's terms. To benefit the construction company, the contract should stipulate the project's scope, have a defined project start and end date, and have built-in contingencies for unanticipated changes or events.

There are pros and cons to each of these billing methods, and different projects will require different payment structures. To protect your construction company, it's critical to understand the complexities of each method before signing on the dotted line.

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Common Billing Methods...

4

Retainage

Retainage is the practice of withholding a specified amount until contracted work is complete. According to the Construction Financial Management Association (CFMA), retainage has been a fixture in construction for more than 175 years and is highly regulated on a state-by-state basis. Because a construction project requires significant money and time, most contractors need to be paid prior to a project being complete. In general, contractors are paid incrementally throughout a project as work is finished so contractors have access to better cash flow. For the client, however, making these incremental payments puts them at risk of not having enough money to complete the project. Retainage works as a type of insurance for the client. It also incentivizes contractors to complete work quicker and to the client's satisfaction.

It's imperative that construction firms carefully read through project contracts before agreeing to the terms to ensure funds are released upon project completion if not earlier. It's also important to note that retainage can be applied to any of the three billing methods mentioned above.

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Best Practices for Speeding Up Payments

To speed up the payment process, leading construction companies implement these best practices:

Send Invoices On Time

Ensuring invoices are sent out at the correct time will help ensure clients don't use late invoices as an excuse to pay late.

Make Sure Invoices Are Accurate

It's imperative that every item on the invoice is double-checked for accuracy before it's forwarded to the client. Invoice errors take a lot of time—and effort—to fix and extend the time it takes for clients to pay.

Send Proforma Invoices

A proforma invoice is an estimate of the preliminary charges for the service to be rendered or goods to be delivered before they actually occur. This gives the client insight into what will be owed and what is included. The proforma invoice also allows any errors to be fixed prior to the invoice being generated.

Streamline Internal Invoice Approval Process

An internal best practice for speeding up payments is to streamline the invoice approval process. This may include creating a standard operating procedure for approval processes as well as automating approval workflows.

Follow Up On Invoices

Prior to the due date, send courtesy reminder notices or emails to clients, which helps put invoices top of mind and eliminates excuses for being late.

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Where Integrated Construction Software Fits In

The billing and invoicing best practices are pragmatic options for construction companies seeking to create positive cash flows. Properly establishing each practice can take significant time and effort, but with integrated construction software, establishing effective billing and invoicing processes is simplified.

Integrated construction software is specifically designed to handle the complex processes involved in managing construction projects and is embedded within a comprehensive Enterprise Resource Planning (ERP) solution. An ERP solution is a full-featured system that acts as the central repository for company-wide data. Together, they act as a comprehensive **construction ERP solution.**

With a construction ERP solution, construction companies can easily monitor, adjust and synchronize their financial, communication and collaboration needs from one, centralized solution. They can also integrate their ERP solution with critical, third-party construction applications, such as Procore, ProEst and Prophix.

In terms of billing and invoice management needs, integrated construction software offers automated project billing features and functionality. For example, construction companies can email invoices directly from the system, eliminating the need to manually compile and mail invoices. Even better, prior to sending out the invoice, users can use the software to review the invoice, check—and correct—errors and set up automated approval workflows.

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Integrated Construction Software...

The many benefits of integrated construction software outweigh any hesitation construction companies may have about adopting new technology, but choosing the right software is critical to ensuring billing and invoicing success. The right construction ERP streamlines communication and replaces manual approval processes with automated capabilities. It should also deliver the following capabilities:

- Change order management.
- Project billing, including tracking retainage by project.
- Digital invoicing.
- Online timesheets.
- Cloud-based access for vendors.

It's a tall order, but there's one solution that provides these functionalities while also helping construction companies get their invoices paid faster and keep their cash flowing: **Acumatica Construction Edition.**

"Acumatica modernizes construction workflows with real-time task views, AIA reporting and billing, compliance management, daily field reports, and certified payroll. With this vast improvement over Sage in system functionality, the Carlson-LaVine team eliminated duplicate processes in areas such as billing, automated other processes, and recouped time employees spent on generating reports. They now spend time on more important tasks."

– Carlson-LaVine, Customer Success Story

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About Acumatica Construction Edition

Acumatica's cloud-based construction accounting software provides the best path to thrive in the new digital economy. Built on cloud and mobile technology with a unique customer-centric licensing model, Acumatica Construction Edition delivers a suite of fully integrated construction software, including financials with job cost accounting, project management, field service, CRM, project billing and mobile. This means your teams can get the latest project reports, contracts, budgets, change orders, invoices, purchase orders, and job costs from wherever they are. **Acumatica construction** software provides:

- Real-time views of every construction project.
- All of your data in one complete system.
- The ability to adapt the software to your specific requirements.
- Seamless integration of your processes (project accounting, contracts, change orders, document management, compliance, retainage, inventory, customer management and more).
- Availability wherever, whenever you need it.

Whether you're a general contractor, subcontractor, specialty contractor, homebuilder or land developer, you can rely on Acumatica to handle all of your processes—including billing and invoicing—in one solution, saving you time, effort and money.

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The NexTec Difference

NexTec is a gold-certified Acumatica implementation partner with almost 30 years of experience in the consulting industry.

Acumatica
EXCELLENCE AWARD
Construction Partner

We take a holistic approach in integrating the many moving parts of your business to remove the manual guesswork and improve your ROI. As leaders in our industry, we bring a unique advantage to our clients that allows us to:

- Focus on giving customers the best software options.
- Leverage our experience in ERP and the industries we serve.
- Support your key business initiatives.
- Drive tangible growth across your business

Learn more about
Acumatica Construction Edition

Schedule a Demo

Connect with NexTec expert to explore how a modern ERP can improve your business.

Let's Talk

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Acumatica
The Cloud ERP
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NexTec Group is one of North America's largest and most experienced technology consulting firms, specializing in industry-specific solutions for mid-sized organizations. For thirty years, NexTec has been a trusted partner to businesses, delivering, implementing, and supporting the core Enterprise Resource Planning (ERP) and Business Intelligence (BI) solutions they need to scale and grow. With seasoned consultants from coast to coast, and a premium portfolio of innovative business management solutions including Acumatica and Sage X3, we help you get the most out of your technology investments.

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