

MAXIMISE INCOME RECOVERY

GOOD FOUNDATIONS

Early planning to work out how you are going to maximise Income recovery on your projects can pay significant dividends. Financial managers on construction projects have two concerns: the control of expenditure; and Income recovery. After the procurement phase, how and when money is spent is largely in the hands of others. At that point, his ability to affect the profitability of the project lies in Income recovery.

A construction planner's rule is: "*Schedule the work and work the Schedule.*" The scheduler's techniques can also be profitably applied by the financial manager whose work is to recover the maximum Income from the project in the minimum time.

A Good Income Recovery Plan has Four Elements :

1. An Income Recovery Strategy - the Baseline Plan
2. Early planning for the uncertainties - the risks and opportunities
3. Processes in place for managing the balance of power
4. Methods of managing relationships with the Owner

1. An Income Recovery Strategy - the Baseline Plan

Every project needs a strategic plan and one aspect should always be Income recovery – '*when?*' and '*how?*' the major sources of Income for the project can most efficiently be banked.

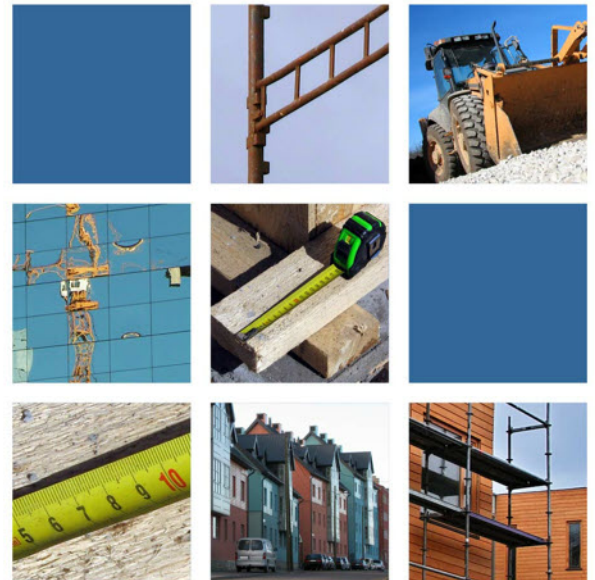
Answering the question '*when?*' always requires a balance between time and cost. So the project's senior management should be involved in considering the answer to this question.

The real work is recovering the maximum Income for what is done on the project

Answering the question '*how?*' usually involves two issues :

- Working out a strategy for getting the Owner's team to fit into your desired timetable; and
- Assessing the internal resources that will be needed to convert the completed work on site into money in the bank.

It is far too common to see projects with financial problems suffering from delayed submissions of applications for payment, for want of people to prepare them. And then further delays ensue as the Owner is allowed to hang on to his cash for longer than he should.



2. Early Planning for the Uncertainties

Once the baseline plan has been developed, the second part of the strategy must consider the Income recovery risks and opportunities. In other words, the first part states how Income recovery will be achieved – if everything goes to plan. The second part considers the reality of uncertain futures and develops contingency plans.

It is rare to find a project on which there is no opportunity to enhance Income

Much will depend on looking at the risks which might diminish or delay the Income flow. However, the opportunities should never be forgotten. It is truly rare to find a project on which there is no opportunity for enhancing Income. These Income additions, uncertain at the outset, can be extremely important. Properly managed, they are capable of significantly enhancing a project's profitability.

3. Keeping the Balance of Power

Without doubt, information is power. Managing Income recovery on the basis of high-quality information, fed back quickly from both the project and the parties concerned with your Income flow, will ensure you keep the *balance of power*. So the third part of your Income recovery plan needs to involve careful analysis of what information should be secured and how to go about it.

High-quality information, available quickly, is vital once the plan is put into effect. Prompt information about the progress of the work is needed for making applications for payment.

Managing Income recovery on the basis of high-quality information will ensure you always keep the 'balance of power'

Early information will give the earliest warnings about any unforeseen circumstances and give more time to manage potential problems. Delays in the Owner's processing of payments and changes in the Owner's requirements will open up the opportunity for additional payment.

4. Managing Relationships with the Owner

A Contractor's relationship with the Owner should be governed by the principle : *"Hard on the problem; soft on the people."* It must be honest and forthright.

A Contractor needs to acknowledge and speak about problems at an early stage. If he avoids telling the truth at the outset, it will undoubtedly cause difficulties in the longer-term.

Even if it may be painful, in the long-term, you will secure a healthier relationship with the Owner if you can say: *"Yes, we can do that piece of extra work but it will take us longer to complete and it will cost more. This means we will need an extension of time and some additional payment"*.

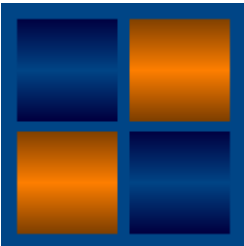
All communications with the Owner and his team should be made with care and sensitivity. The Contractor should present a face that is co-operative but also one that is determined to avoid covering up issues that need to be resolved. Every part of the strategy should be checked to ensure that each is aligned with this principle.

Be hard on the problem and soft on the people

CONCLUSION

Some of these issues may sound obvious; and so they are. The simplest plans usually work best. Essentially, early planning about how Income will be recovered and how recovery might be affected by changes, will provide the best foundation for the financial success of your project.

CONTACT



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