A New Best Practice Playbook

For Specialty Contractor CFOs

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Modern Best Practices for Specialty Contractor CFOs

For specialty trade contractors across the nation, persistent supply chain challenges and ongoing inflation mean that cash flows are more constricted than ever.

Against that backdrop, however, is a once-in-a-generation growth opportunity. Commercial construction activity is at its highest level in years due to pent-up development backlogs and stimulus funding such as the Infrastructure Investment and Jobs Act. The only specialty contractors who are able to take advantage of this building boom are the ones that are in a favorable cash position, so that they can effectively line up budgets and resources for new projects.

In addition to cash flow challenges, established construction firms also face workflow and process disruptions as a younger generation of workers takes over both in the field and the office. These workers communicate, work, and consume information digitally and expect their teams' operations to reflect this.

This landscape of challenges and opportunities puts major responsibilities on the shoulders of specialty contractor CFOs. These business leaders need a new set of best practices to help them navigate emerging challenges and make their companies more competitive and future-proof. In this report, we'll share what many of these best practices look like based on conversations and observations from Kojo's 500+ specialty contractor customers.

CFOs need to adopt new best practices to optimize cash flow, stay competitive , and future-proof their companies.

OBSTACLES TO SUCCESS

82.5%

Construction materials experiencing price increase since 2020

40.7%

Average increase in construction materials price since 2020

20%

Increase in construction wages 2021–2023

Obstacles to specialty contractor CFO success

While many challenges faced by CFOs are universal across industries, specialty contractor CFOs tend to grapple with a unique set of obstacles.

Cash flow squeeze

First, specialty contractors must contend with cash flow challenges stemming from the logistics of working with general contractors. In most cases, subcontractors must pay their workers and purchase materials before they receive payment from the project's GC. This exposes subcontractors to financial risks and limits their ability to make additional spending decisions or take advantage of emergent opportunities as needed.

To make matters worse, cost pressures continue to squeeze contractors nationwide. Building materials prices have moderated somewhat recently, but they remain elevated compared to pre-pandemic levels. According to construction cost data tracking firm Gordian, about 82.5% of construction materials have experienced a significant price increase since 2020. Based on a recent U.S. Bureau of Labor Statistics report, the overall price of construction inputs have increased by 40.7% since February 2020.

The ongoing construction labor shortage and macroeconomic factors have also kept wages elevated. According to the Structural Building Components Association, construction wages rose an average of 20% between 2021 and 2023.

Supplier power dynamics

Second, subcontractor CFOs often face complex supplier power dynamics. When purchasing from large, national suppliers, many specialty contractors lack the purchasing scale to exert any pricing pressure, so they have little recourse when suppliers decide to raise prices or adjust product offerings to the contractor's detriment. In other cases, there may be a smaller set of suppliers to choose from, giving these suppliers more power at the negotiating table. In either scenario, subcontractors may not have much leverage in pricing negotiations.

The "if it ain't broke, don't fix it" mentality prevents teams from realizing their legacy processes are inefficient and unproductive.

Obstacles to specialty contractor CFO success

Resistance to change in the ranks

Finally, specialty contractor CFOs face a challenge from the inside as well. Many employees, whether field-based or office-based, are reluctant to change their old ways of doing things even when changes are justified and necessary. The "if it ain't broke, don't fix it" mentality prevents teams from realizing their legacy processes are inefficient and unproductive. Long-term use of inadequate methods and outdated technology leads to productivity loss and employee burnout, stifles innovation, and kills a company's growth potential. Employee resistance to change often happens when workers can't envision why new technology or workflows will benefit them or the business. CFOs must tackle this resistance head-on by establishing concrete goals for process and workflow improvements, as well as clear-cut plans for change management.

A new set of "rules of thumb" for CFOs

As the leading procure-to-pay software for specialty contractors, Kojo is the central hub for all materials-related workflows and financial activities for our customers. We interviewed and observed more than 500 specialty contractors throughout the United States and gleaned the following best practices from their operations.

01 Ensure you have real-time visibility into purchasing data

With high inflation and elevated prices across many categories of construction materials, there is no excuse for not knowing what materials are in your inventory, what's being ordered, how much they cost historically, what new materials cost, and whether there are opportunities to cut spending. Once you can see what's going on in your purchasing operation, you'll be able to catch costly but easily corrected mistakes like double buying, buying what's already sitting in inventory, or ordering the wrong materials in the first place. Better visibility into purchasing data is a low-hanging fruit that many CFOs surprisingly overlook. Getting a full view of your spending data is like turning the lights on in a dark room—it can uncover opportunities for immediate savings and enable more strategic purchasing decisions in the longer term.

02 Integrate your software systems and minimize manual data entry

Relying on manual data entry across multiple standalone software systems introduces countless points of failure in your processes. Instead, consolidate your tech stack, limit the number of people who touch your accounting software (and other crucial data systems), and cut down the number of manual steps your designated responsible employees have to take. The best way to accomplish these objectives is to integrate your purchasing and accounting platforms, reducing the number of "cooks in the kitchen" and automating the most repetitive tasks across these functions. Your data will be more accurate, and your employees can spend more time on higher-value work rather than typing numbers into spreadsheets.

03

Master your invoice system

A surprisingly high number of invoices contain errors.

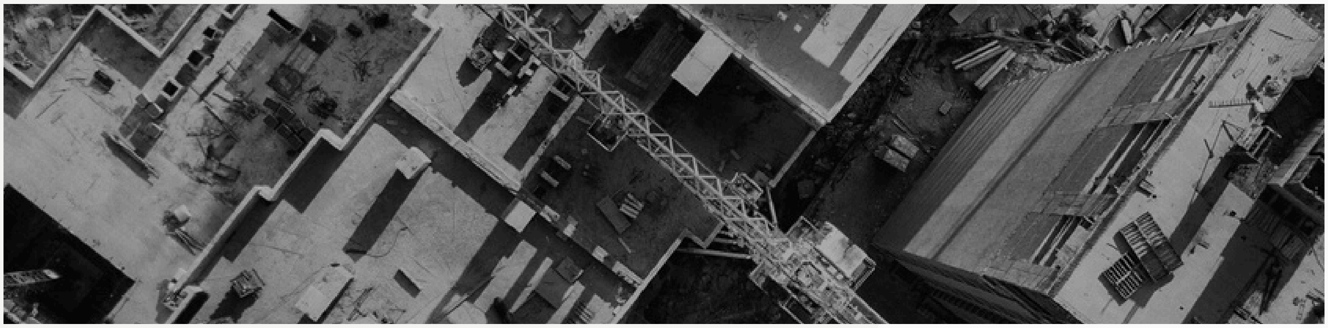
Based on data collected from Kojo customers, a whopping 27% of invoices are incorrect in some way. Every invoice you receive is an opportunity to ensure that you aren't wasting money. Consistently reconcile invoices against purchase orders and delivery records so you don't pay out for mistaken orders or invoices with errors. Additionally, ensure your invoice process doesn't have too many steps. Team members with purchasing authority can quickly become bottlenecks. Build processes that keep those with purchasing authority in the loop with other team members. If not, you may wind up spending too much time tracking down that one person who can pay an invoice on your team at 4:30pm on a Friday.

04

Move beyond paper checks

This is a simple one. Paper checks are an outdated, inefficient form of payment that requires manual action from multiple people—on your team and the recipient's—and have a built-in cost due to the fees associated with purchasing, printing, and shipping physical checks and ink. Paper checks also make their users vulnerable to significant risks associated with check loss or theft. Surprisingly, many companies continue to use paper checks, despite the complications that can arise from them.

Modern payment methods like ACH and virtual credit cards offer the benefits of speed, accuracy, and security, and are widely adopted in other industries for good reasons.



05 Defend your CFO's time for strategic decisions that drive profitability and growth

Finally, ensure you free up time for your CFO to work on strategic initiatives that will propel business growth. The CFO's role has become one of the most complex and challenging in the C-Suite. Too often, all the tactical work of overseeing financial operations means CFOs are not focusing on the things that truly matter. A finance function that runs smoothly due to well-designed processes and automation will enable CFOs to work with sales teams to win more bids, find ways to cut costs, and invest in new technologies with high ROIs that can help the whole business run more efficiently.

Cost pressures and increased competition often require business transformations, and finance leaders have more on their plates than ever before, which is why it's so crucial to take proactive steps to allow them to work on the business, not in the business.

> If you are not managing your AP digitally, you definitely need to make that move to save yourself time and increase your accuracy.

Jason K., Controller
Zuni Electric, inc.

Read Jason's Story

Best practices in action

What do these best practices look like when deployed at a specialty contractor? Here are some of the most important touchpoints.

Track materials data from end-to-end

You can't make data-driven decisions without reliable data. Best-in-class CFOs have a single trusted data source for all their materials spend and have visibility into the movements of POs, Order Acknowledgements (OAs), delivery slips, and invoices. To achieve this, they have typically mandated their purchasing teams to adopt modern procurement software that digitizes PO creation, automates OA reviews, and tracks PO changes. A good procurement software should also integrate directly with the accounting softwares that the finance team lives in. As a result, the CFO has accurate, up-to-date data at their fingertips and can quickly spot errors as well as savings opportunities.

Automate invoice matching

Manual invoice matching is a waste of time, effort, and human resources. Accounts Payable teams can, and should, optimize invoice matching using modern technology. Automated invoice matching significantly changes the way AP departments work. Invoices are scanned using Optical Character Recognition (OCR) technology, converted to digital form, matched against POs and delivery slips, and any discrepancies and errors are automatically flagged. After an automated and digital approval process, the invoices are then processed for payment. This method saves time and money and protects against duplicate and fraudulent invoices.

> I I value my team and I don't want them doing things that computers can do.

Jason S., Owner
Shelton & Case Electric

Read Jason's Story

Best practices in action

Standardize & automate repetitive workflows

One major benefit of automation is streamlined business activities, especially repeatable ones that include document management and delivery, such as tracking PO changes and managing invoice approvals. Automating simple clerical tasks as well as enterprise-wide processes enables firms to standardize and streamline activities and track their progress. This helps avoid human errors, simplifies business practices, and drives productivity and operational efficiency.

Optimize payment processes across suppliers

Organizations can gain significant value by streamlining their processes for paying suppliers. Aim to minimize manual tasks for invoice payments, including invoice capture, approvals, and payment execution. Besides saving time and driving efficiency, a streamlined payment process can also improve relationships with suppliers because suppliers can expect more timely payments. In many cases, faster and more reliable payments can lead to more favorable payment terms from suppliers, as well as rebates and incentives that amount to significant savings for the contractor.

A call to action
for specialty contractor CFOs

To summarize, analysts expect overall growth for the U.S. commercial construction industry through the rest of 2024. A cooler outlook may persist for office and warehouse construction, but those negatives are outweighed by strong demand for manufacturing plants, data centers, infrastructure, and more. A younger generation of employees is entering established construction companies, and they expect their organizations' operations to reflect how they digitally communicate, work, and consume information.

Specialty contractor CFOs should face these challenges and opportunities armed with a new set of best practices. They don't have to go it alone, either. Taking inspiration and learning from other companies and trades can give your business a competitive edge and put you on the fast track to innovation and growth. Specialty contractor CFOs don't always need bold new ideas and initiatives—sometimes, the most impactful changes are iterative improvements to the processes they are already busy executing.

Technology is instrumental in helping contractor CFOs meet their goals, but tech stacks should be kept lean and streamlined. Tools for automating supplier payments and other AP department processes have great benefits. However, all tech tools deployed should aim to alleviate real challenges, not theoretical scenarios.

As construction activity grows, accounting and finance leaders will play an increasingly powerful and influential role within their businesses. We at Kojo hope you can put some of the modern best practices in this guide to use, and we look forward to hearing about your success.