BUILDLOGIQ

A private local circle for owner-led contractors

Builder Intelligence Series

BI Economics 01

Every Job Borrows From the Company

A Profitable Project Can Still Put You Out of Business

How to Read the Cash Load Before You Sign the Contract

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What's in this paper

THE TRAP

A profitable project can still put you out of business.

A $3 million project. A 12 percent margin. On paper, $360,000 of expected gross profit.

The team celebrated the win.

By month three, the company was borrowing from its line of credit to make payroll.

The margin was real. The company just didn't have the cash yet.

That isn't an accounting problem. It's what every project does.

Every job you take on is a loan from the company to the client. It's funded by the company's cash, credit, bonding, people, and attention. Think of the cash exposure as the principal the company puts at risk, and the margin as the return expected for carrying the entire project load. That comparison isn't accounting treatment. It's a way to understand what the company is financing.

The question isn't just whether the project is profitable.

It's whether the company can afford to be the bank.

THE CLAIM

What a project actually borrows.

Every project is a temporary claim on more of the company than the contract shows.

Cash. To fund mobilization, materials, payroll, and subcontractors before the customer pays.

Credit. Line-of-credit capacity used to bridge the gap between what you spend and what you collect.

Bonding. Bonding capacity tied up until the project is closed out.

People. The strongest superintendent, the best project manager, the estimator's attention, the owner's calendar.

Reputation. Every project is a bet on the company's ability to deliver, backed by name and history.

The P&L may eventually show the project's revenue and cost. It won't show the timing, capacity, or concentration risk the company carried to earn the margin. All of that is real, and all of it is what the company financed.

The margin is a return on the whole load, not just on the labor and material spent to earn it.

THE GAP

The gap between margin and cash.

Expected margin is the number the owner remembers. Peak cash exposure is the number that can end the company.

A $3 million project with a $360,000 expected margin might create $400,000 of peak cash exposure while it runs. If the company has $250,000 of available working capital, it can't carry the project without borrowing more, factoring receivables, or squeezing another job.

The margin can be excellent and the project still unaffordable.

Most owners can't answer this basic question: what's our peak cash need on this job, and when does it hit?

If they can't, they aren't evaluating the project. They're hoping.

THE LOAD

What creates the load.

The load has predictable components. Every project has some version of these:

- Mobilization and startup costs before the first draw
- Payroll paid weekly before the customer pays monthly
- Material deposits and long-lead orders before installation
- Subcontractor payments due regardless of when the draw releases
- Retention held back 5 to 10 percent for the life of the project
- Underbilling on any pay app where work performed exceeds the amount billed
- A weak schedule of values that back-loads value into activities you haven't finished
- Contract terms that restrict front-loading or limit mobilization billing
- Change orders performed while approval and payment lag by weeks
- Owner approvals that stretch draw cycles
- Payment cycles that add 30 to 60 days beyond the billing date
- Closeout costs that continue after substantial completion

Add these together across the project's life. That's the loan the company is making.

THE SHAPE

Read the shape of the loan.

Two projects with the same margin can produce very different cash exposures.

A tenant improvement with fast draws, low material outlay, and short duration produces a modest, short-lived exposure.

A ground-up commercial job with long-lead materials, retention held for months, and 45-day payment cycles produces a much larger, longer-lived exposure at the same margin percentage.

The percentage doesn't tell you what you're carrying. The shape does.

Read the shape before you sign. Model the cash curve, month by month, from mobilization through final collection. When does it hit its lowest point? When does the project turn cash-positive? What happens if the customer pays 30 days later than expected?

If you don't know, you're guessing whether the company can afford the project.

THE STRESS CASE

When the borrower can't repay on schedule.

Every project has a base-case loan and a stress-case loan.

The stress case is what happens when the customer delays, the change orders don't get approved, the punchlist stretches, the retention gets stuck behind a document dispute, or the project slips 60 days.

None of these are rare. All of them extend the loan the company is making.

The owner who evaluates a project only in the base case is pricing risk they aren't measuring. The owner who evaluates the stress case knows what happens if the project doesn't repay on schedule, and whether the company can survive it.

A base-case yes and a stress-case no is a project that requires specific controls: shorter payment terms, joint checks, a smaller scope, or a walk-away trigger written into the contract.

Every yes that isn't stress-tested is a yes made in the dark.

CONCENTRATION

Multiple projects at once.

The cash math changes the moment you carry more than one loan.

Two projects that each have $200,000 of peak cash exposure aren't a $400,000 problem when the peaks are staggered. They're a $400,000 problem when the peaks overlap. And they're a company-ending problem when the peaks overlap and one of them slips.

The company's total cash exposure isn't the sum of its projects' exposures. It's the sum at the worst moment.

Most owners can't tell you when the worst moment is until it arrives.

The Project Cash Load Sheet forces the question at the decision point, when the company still has options, instead of at the moment when the company doesn't.

THE TOOL

The Project Cash Load Sheet.

Fill this out before you commit serious estimating time, and again before you sign the contract. If the numbers move materially between those two moments, the negotiation isn't done.

PROJECT

Project / package: _____

Client: _____

Contract value: $ _____

Expected duration (months): _____

Reviewed by / date: _____

RETURN

Expected gross profit: $ _____

Expected gross margin: _____

THE LOAN

- Monthly billing schedule (expected draw by month)
- Payment lag (days from billing to receipt)
- Retention (percent and expected release date)
- Material and equipment deposits (amount and timing)
- Payroll exposure (weeks of payroll carried before first receipt)
- Subcontractor payment timing (when subs must be paid vs. when the draw arrives)
- Unapproved change-order exposure (dollars of work performed but not yet approved)

BUILD THE CASH CURVE

Fill in month by month through final collection, not just through substantial completion. A job isn't finished financially because the field has left.

Month	Beginning	Cash in	Payroll + burden	Materials	Subs	Job overhead + other	Monthly change	Cumulative
1								
2								
3								
4								
5								
6								
7								
8								

Monthly change = cash received minus payroll and burden minus materials and equipment minus subcontractors minus job overhead and other costs.

Cumulative position = prior month's cumulative position plus this month's monthly change.

Each month begins with the prior month's cumulative position. The lowest cumulative position across the whole curve is the project's peak cash requirement.

WORKED EXAMPLE

A $3 million project, six months in the field, with retention and final progress payment collecting after substantial completion:

- Month 1: cumulative position of ($125,000)
- Month 2: ($290,000)
- Month 3: ($410,000) ← *peak cash requirement*
- Month 4: ($360,000)
- Month 5: ($180,000)
- Month 6: $40,000 ← *project turns cash-positive at substantial completion*
- Month 7: $240,000 ← *final progress payment received*

- Month 8: $360,000 ← ***retention released; project fully collected***

Peak exposure of $410,000 in month 3.

Now compare that against the company's actual liquidity, not against working capital.

Available project liquidity is unrestricted cash above the company's required operating reserve, plus undrawn committed credit, after accounting for existing project commitments.

If the company has $250,000 of available project liquidity and another $200,000 of undrawn committed credit, the project may fit on paper. But a $410,000 peak leaves only $40,000 of cushion before you factor in payroll protection, existing project commitments, or a payment delay. That isn't enough unless the operating reserve and current projects are already protected.

If liquidity is $150,000 and the credit line is already drawn against another project, this job doesn't fit at the current terms, no matter how strong the margin is.

The comparison isn't margin against margin. It's peak cash exposure against real project liquidity.

PEAK AND DURATION

Peak cash requirement: $ _____

Month the peak occurs: _____

Months until cash-positive: _____

Months until fully collected: _____

STRESS CASE

Downside if payment runs 30 days late: $ _____

Downside if payment runs 60 days late: $ _____

Downside if project slips 60 days: $ _____

Other projects drawing from same liquidity: _____

THE WALK-AWAY THRESHOLD

If the stress-case cash requirement exceeds available project liquidity and committed credit after protecting payroll and existing projects, the company can't afford the job without changing the terms.

THE DEFINING QUESTION

If this job performs exactly as expected, can the company afford to carry it?

THE ONE THAT MATTERS

If it doesn't perform as expected, what else will it put at risk?

If the answer to the first is uncertain, the answer to the second may be everything.

THE CLOSE

The margin is the return. The cash is the principal.

Every job you take on is a loan from the company to the client.

The margin is the return the company expects for carrying the whole load. The cash exposure is the principal the company puts at risk. The duration is how long the money is out. Slippage is default risk. Overlapping projects are concentration. The comparison isn't accounting; it's a way to see what the company is actually financing.

The best contractors don't just win the work. They price the loan. They evaluate whether the company can afford to make it. They know their peak exposure by project and in aggregate. They stress-test the base case before they commit.

The margin tells you what the project might return.

The cash load tells you whether the company will survive the wait.

A profitable project can still put you out of business.

Every job borrows from the company.

Know the loan you're making before you sign the contract.

NEXT

Bring this to the room.

This is one of the hardest disciplines to build alone because most owner-led companies don't have a CFO to force it, and most bankers only see the aggregate picture after the fact.

In the Circuit, members can compare cash exposures, working capital positions, and the specific pressures they're carrying week to week. Someone at the table will have already signed the contract that almost broke them. Someone else will have walked away from a job that looked great because the cash math didn't work.

Bring the project you're weighing. Bring the peak exposure number if you have one, and be honest if you don't. Bring the assumption you're making about how quickly the customer will pay. The room will do the math with you.

ABOUT BUILDLOGIQ

BuildLogIQ is a private local circle for owner-led contractors doing $2M to $10M. Members meet monthly to solve operating problems, make better decisions, and build companies that depend less on them.

The room begins over dinner at the Builder's Table, runs monthly in the Circuit, and goes deeper in the 3-Deep. Align, our back-office service, runs alongside members whose books need the same operating discipline.

IN THIS SERIES

Foreword · The Room Should Have Existed All Along
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Vol. 05 · The Foreman You Need
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Vol. 07 · ***Every Job Borrows From the Company*** *(this paper)*

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