# Construction companies should digitise ahead of anticipated uplift in government spending

By Andrew Skudder

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There's no two ways about it: South African construction companies have endured a difficult few years. Not only have they struggled as a result of a slowdown in government infrastructure spending, but they have also faced near-insurmountable difficulties because of late or slow payment by their clients in the public and private sectors.

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However, there may be light at the end of the tunnel. Government recognises the need to invest in infrastructure to support growth and job creation. The news that it has set aside R100bn for an infrastructure fund could signal a new approach. Benefits may include more efficient use of money earmarked for infrastructure investments and better management of the payment cycle.

This comes at a time when the building and construction sector has highlighted late and non-payment as one of the most significant challenges it faces. The Master Builders Association estimates that government departments and entities collectively owe its members in the region of R5bn.

This situation is partially to blame for the string of poor results and business rescues we have seen among several South African construction groups in recent months. The knock-on effects are also significant, since prime contractors often pay their sub-contractors late as a result of delayed payments. According to the Construction Industry Development Board, 60% of sub-contractors have experienced delayed payments from main contractors.

In the construction industry, a late payment to one supplier or by one customer can have a ripple effect throughout the value chain. Given how thin margins are in the industry, variances in cost and scheduling can compromise cash flow and profitability, plus have a major impact on the viability of a project.

## Managing costs, risks across project lifecycle

Therefore, it is imperative for construction contractors to use technology to ensure better real-time visibility into their businesses and projects. An integrated costing, project control and enterprise accounting suite designed for the industry can help them manage costs and risks across the entire project lifecycle. Such solutions make it possible to accurately compare actual costs with anticipated costs, allowing for timely management interventions.

Tried and tested solutions enable construction companies to stay on top of their procurement requirements, payments to sub-contractors, and more. When paired with a robust forecasting solution, such solutions give construction companies a full analytical breakdown of every project based on past performance and the potential impact of future events.

With the right level of insight, the company can understand how project financing, payment terms and late payments may affect the profitability of a project. This gives it the ability to make informed business decisions about the projects it takes on, as well as the costs it should quote on, to ensure profitability.

We are hopeful the environment for the construction industry is improving, but late payment is likely to remain a challenge for major groups and smaller sub-contractors alike. Equipped with the right technology solutions, however, construction companies can better manage the risks attached to long payment cycles, protecting their margins. In addition, implementing the right technology today will give a construction company the competitive edge it needs to endure challenging times and thrive during prosperous times.

## ABOUT THE AUTHOR

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