It’s Done Only When You’re Paid

To Maintain a Healthy Cash Flow Requires Careful Attention and Pursuit of Your Money

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The cash-flow needs of both general contractors and wall and ceiling contractors require that they vigorously pursue their right to payment.

It is the nature of the financing of the construction work that general contractors and subcontractors perform dollar volumes many times in excess of their working capital. The subcontractors and those general contractors who actually perform work must pay for their labor weekly and for their materials and overhead on a current basis.

If they are unable to collect payment currently, they will have immediate cash-flow problems. It is, therefore, incumbent upon contractors to understand the various remedies that are available in the construction industry for general contractors and subcontractors to collect their money for work performed.

Even better, contractors should establish standard procedures which prevent major disputes from arising in the first place.

One of the best ways is to have a tough, consistent collection system—a bill collected now cannot turn into a bad account or a lawsuit later.

Contract Complete
When Payment Made

The contract is never complete until the contractor’s payment is collected for his performance. In the contract, the contractor should establish a date certain for payment to him of amounts as they become due.

If payment does not arrive on that date, the followup procedure should be immediate. Accounts should be systematically “aged,” with notices sent and collection procedures initiated every time.

A reputation for collecting fairly and consistently can be of great value in this regard.

We know of one construction subcontractor who does a business of $2 to $3 million per year and never builds up more than $300 to $400 worth of bad debts. His approach is simple: he calls the account immediately after the payment date and demands payment.

He is not interested in why payment has not been made. If an excuse is offered, he says, “I have heard all the excuses before, and I am not interested in your excuses.

“I am sending a man over to pick up the check this afternoon.”

And he gets it.

Drafting and reviewing contracts for legal pitfalls is the first and most important stage of pursuing a remedy or avoiding the need to pursue it. In order to have the benefit of a tight-payment clause, fair disputes and arbitration clauses, or a right-to-work clause, they must be bargained for and put in the contract.

Important lien and bond rights must be preserved and not waived in the contract.