Y ou not only have the right to be paid (and on time) but you must maintain a steady cash flow to survive. Subcontractors and general contractors who actually perform work must pay for labor every week, and keep materials and overhead current. When payments are late you know the consequences immediately. Here are a few remedies to ensure you get every penny you’re entitled to.

Aggressive in Collecting

To prevent collection problems, you need a plan. Institute a tough, consistent collection system—when a bill becomes delinquent it can quickly become a bad account or eventual lawsuit. No contract is ever complete until you’re paid for your work.

Establish a “date certain” for payment as bills become due. If payment doesn’t arrive on time—take action immediately. Set up a system where accounts are systematically tracked. Your goal should be to collect every account every month. Send notices and initiate collection procedures whenever necessary. A reputation for fair and consistent collection will smooth out trouble spots and even up your cash flow before problems have a chance to develop.

One of our clients (a subcontractor) who does a $4 to $5 million business per year, never builds up more than $300 to $400 worth of bad debts! Their approach is simple: They set a date in their contracts when they are to be paid. Their bookkeeper automatically calls the account the day after the payment date and demands payment. They’re not interested in why payment hasn’t been made. They arrange to pick up the check themselves—that afternoon! And they get it. They’re respected by their customers because of their consistent business approach to collections. And they get all the repeat work they can handle.

Pursuing Collection

The first place to look for potential cash flow pitfalls is in how your contracts are drafted. You can’t be too careful in checking to see they’re executed right. Any contract you agree to must be drafted to avoid the need for collection activities. Remember to have specific dates written into the contract to indicate when payments must be made. The progress payment clause should also have a set date: “The contractor will be paid monthly progress payments on or before the 10th day of each month for the value of the work completed and the value of stored materials, suitably stored on or off the site.”

A Due Date For Final Payment

In the same way, final payment should be due within a set number of days after substantial completion of the contractor’s work; The owner will want a reasonable amount held back for any incomplete items, and specifics should be written into-your agreement for these amounts. Of course you always strive to reduce or
eliminate retention so cash flow is improved and you limit the potential complications with final payment.

Little Amounts Can Devastate Cash Flow

It’s amazing how a small sum of money, only a fraction of total sales or capital investment, can make the difference between being solvent or not. Typically a contractor has only enough working capital, or “net quick,” to carry through 30 days of operation without additional revenue. Sixty days of working capital is about the most any contractor carries. So, if payments are missed on contracts, it can virtually wipe you out. If you don’t collect your bills on time, all the skill and economics with labor and materials goes for nothing.

Manage Collecting Every Account

One family-owned firm has been doing business for over 80 years. In a matter of months the entire net worth of $1 million was lost because several of their contracts had fallen delinquent on large progress payments. Bankruptcy was eminent because they were failing to collect their money. While the principals considered liquidation, a key employee asked for a chance to get the company back on its feet in return for its now almost worthless stock. Figuring there was nothing to lose, the family agreed. Seven years after the employee had taken over operations, the firm’s net worth was back at $1 million. The company did have to write off almost all the outstanding accounts receivable but on a sales volume of $15 million they managed to collect all payments. Not one dollar was written off.

Conclusion

In the long run a firm no-excuses policy will always be effective. Lawsuits are slow and expensive . . . and they’re not always won. If payment due dates aren’t written into the contract, contract the customer as soon as you get the first invoice to check on how things are progressing. If everything is in order, reinforce their agreement to pay on such-and-such a date. If the customer says things aren’t going well with your work, find out why so you can correct any problems. Either way, you must take the initiative to manage and control the situation.