



Improving Contractors Accounts Receivable Management

Nearly every contractor must deal with clients who pay late or not at all. All clients expect prompt and professional services, but they do not always meet the same standards when it comes to paying their invoices.

Accounts not paid within terms can severely affect a contractor's cash flow. Yet business owners may hesitate to push for the money they're owed. A clearly defined and carefully communicated payment policy can help prevent difficult collections. Ten simple steps can dramatically improve your results and cash flow.

1. Have clearly defined terms

Clearly state the expected terms for payment on your contracts, bid and invoices. If a late fee is to be assessed state it on the invoice but do not expect to add late fees month after month as Courts may find this excessive and may disallow these charges.

2. Invoice promptly

Establish a systematic invoicing process to occur immediately after service or projects are complete. Prompt billing can prevent an account from becoming a collections issue.

3. Contact clients with over due accounts frequently in the first 30 days past due.

Phone past due clients at 15 and 30 days past due outlining a *specific date* of expected payment. If payment is not received, contact with a written format for documentation purposes.

4. Contact non responsive clients with over due accounts in writing at 45 days past due.

The old adage "the squeaky wheel gets the grease" has merit when it comes to past-due accounts. Contact non-responsive clients in writing for no more than an additional 30 - 45 days. If no response is seen seek a third party solution.

70% of all non responsive issues over 90 days past due will not get resolved until they receive a written contact from a third party. Find the most effective way to provide this response.

5. Use your aging sheet, not your feelings

Many a contractor or well intentioned employee has let an account age beyond the point of timely collection because they “felt” the client would eventually pay. While an unexpected late payment may happen, stick to your systematic plan. You’ll soon know who intends to pay and who doesn’t. If a positive response is not forthcoming seek a third party solution.

6. Train your staff

Even experienced accounting staff can grow jaded from dealing with clients who make false promises of payments. Train staff to treat such clients courteously, yet firmly. Accounts receivable staff may benefit from customer service training because, in effect, they must “sell” clients on the idea that you expect to be paid.

7. Admit and correct your mistakes promptly

Many times clients don’t pay because of unspoken dissatisfaction. Encourage your staff to ask if the client was satisfied with your service with every call or client contact. This will unearth information that will expedite payment and improve your work quality.

8. Follow Michigan’s collection laws

You must have an agreement with a licensed agency to indicate that the slow pay client’s situation may be turned over to a Collections Agency. If you make this claim with out a current agreement this may be construed as harassment and may lead to legal implications against your business.

9. *Consider using a third party*

If you have systematically pursued a past due account for 60-90 days from the due date, and it's not paid, the client is sending a message. The time and financial resources budgeted for office staff efforts should focus on the first 60 days when the bulk of your accounts are easily resolved. From that point on, you may want to consider using a third party to emphasize to the client it's time to pay the bill.

10. *Realize that you may not collect on every account*

Even with a carefully designed and administered plan a few accounts may be uncollectible. Identify them early to save your office time and money. You'll benefit from improved cash flow from the vast majority who pay timely.

Developing and implementing a sound accounts receivable policy is a vital part of running a successful business. By following these 10 steps, your business will thrive financially and you will maintain good relationships with your clients.

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