Turning up the heat on slow-paying clients

Do you cringe when you must pursue unpaid bills with customers? You're not alone. Whether you're afraid of alienating clients or simply not succeeding at the task, collecting on unpaid bills is an uncomfortable task. Those who avoid doing it, however, may see their cash flow and revenue shrink.

Here are some tips that will help make difficult collection calls a thing of the past:

Include payment terms in contract

Successful cash collection starts with an action plan that is laid out at the contract stage. Make sure proposed contracts include a realistic payment schedule that the general or owner can meet. Then comply with the contract's terms and conditions to circumvent potential billing disputes. Try to determine, upfront, what type of paperwork is required by each party to expedite the payment process.

Moreover, find out the owner's or general's payment cycle and then time your billing so your invoice reaches their office by *their* due date.

Ask for lower retainage rate

Approach the owner or general about a lower retainage rate. Not only will this increase your cash flow during construction, but the owner won't have such a large payment to make when the contract is complete.

Make sure proposed contracts include a realistic payment schedule that the general or owner can meet.

Include as much detail in your invoices as possible and include related documentation, such as signed and approved change orders. This helps ensure clients don't delay payment simply because they don't understand what they're being charged for.

Do your best, but plan for the worst

Keep your projects running more smoothly — and your collections more timely — by working together and making success the ultimate goal. These basic steps will also minimize the potential for problems on the job and in your ledger book:

Know your customers. Projects often go bad because customers see projects differently than the contractors do. Keep the lines of communication open and everyone will come out a winner.

Scrutinize contracts. Too often contractors skim the legalese and, thus, don't realize what they're agreeing to. If you are a second- or third-tier contractor, avoid "paid-if-paid" clauses because you might not be compensated for your work.

Negotiate reasonable late clauses. If the contract states you'll be penalized for completing the project late, make sure the liquidated damages are reasonable. For example, if you're building a casino that can generate $10,000 a day in profit, $100,000 a day in liquidated damages may be considered reasonable. At the same time, negotiate a bonus for early project delivery if one isn't offered.

Review retention provisions. Negotiate a partial release of retention for meeting project milestones. When the project is substantially complete, negotiate a reduction in retainage, less an estimated cost for open punch list items.

The more you manage your projects, the more successful they will be. Try to anticipate problems and inconveniences and come to an agreement on how they will be handled before work begins.

Establish policies for taking specific actions at set intervals, such as billing on the same date every month and following up within five days to ensure the bill has been received. Involve project managers in both the billing and the collection process, as they often have the most knowledge of the job.

Follow up, follow up, follow up

Payment problems tend to worsen over time, so train your staff to respond promptly and proactively to delayed payments. If customers ignore the first bill, mail another one with a letter stating, "Our records show your payment is past due. Please notify us immediately if our information is incorrect or if there is a problem with this transaction. Otherwise, we request immediate payment."

It's also a good idea to follow up by phone and ask when payment can be expected. For local customers, you can offer to send someone over to pick up a payment. For those out of your area, ask them to express-mail a check or pay by wire transfer.

Don't accept excuses and make it clear that further delays are unacceptable.

Deploy the big guns

Resorting to more serious collection techniques may be necessary if you have exhausted all other options. For example, you can file a mechanic's lien to hold building owners liable for outstanding payments. Provisions and time limits vary by state and project category, so make sure you're aware of the laws in your state. One caveat: You may still not collect your debt unless the property is sold.

If you're a subcontractor and the project is bonded, file a claim against the payment bond. A payment bond is posted on almost all public projects and many private projects to ensure that all subcontractors and suppliers of material who provide labor, equipment and materials to the project are paid.

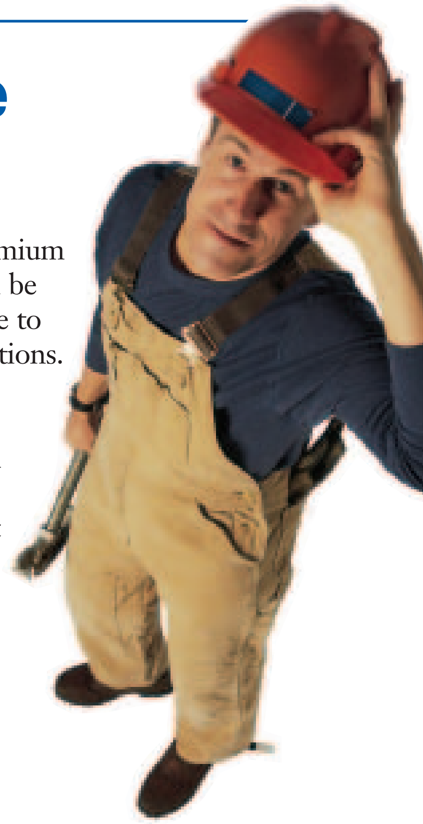
If a project is in progress, you may be tempted to walk off the job for nonpayment, but this should be your last resort. An owner's failure to make payments without reason normally constitutes a breach of contract. As a result, contractors *may* be entitled to stop work and sue for damages. On the other hand, if it's determined that the owner was justified in withholding payment and you have stopped work, you may be violating the contract and be held liable for damages.

Keep everyone from getting burned

Owners, general contractors and subcontractors must recognize that prompt payment is good for everyone. Nothing will guarantee that you'll get paid 100% of your money every time, but using these collection strategies will put the odds in your favor.

Workers' compensation insurance

How to keep it from straining your profits



Workers' compensation insurance is a necessary evil, but it doesn't have to strain your profits. Even small cost-saving moves can take a lot of the punch out of your premiums. A number of factors determine the rates you pay for workers' compensation insurance, and you may be able to adjust them in your favor.

Re-evaluate job classifications

Insurance rates are based, in part, on the jobs employees perform and their number of hours worked. Job types are assigned a classification code developed by the National Council on Compensation Insurance (NCCI). Lower-risk jobs, such as office staff, have lower rates than do hazardous ones, such as electricians.

Because the differences in premium rates among classifications can be significant, it's worth your time to review your workers' classifications. First determine whether they qualify for the lowest rates for the type of work they do; then try to reduce the number of employees whose jobs warrant higher classification rates.

Lower loss reserves for better rating

Loss reserves are established when you report an injury to your insurance

Cutting your losses with a loss-prevention coordinator

If your construction company has ever experienced a serious on-the-job accident, you know how costly it can be. Hiring a "loss-prevention coordinator" to head up a formal safety program can help you minimize the costs.

The coordinator's job is to create a safety program outlining procedures to prevent accidents in the first place and a process to follow if accidents occur. He or she should work with injured employees to ensure they receive the correct treatment at the time of the accident and during the recovery process. The coordinator also will track, record and analyze lost time and expenses — both direct and indirect — for the company.

Furthermore, the coordinator should investigate every accident as soon as it occurs and discuss it with the worker's supervisor. Every effort should be made to not only identify the cause of the accident, but to take corrective action.

With a loss-prevention coordinator and formal safety program in place, you should be able to reduce your company's experience modification rate. Take time each year to determine the program's effectiveness. Then, consider charging accident costs to specific contracts to encourage your line managers to support prevention and cost-control programs.

company. Every claim is assigned a reserve amount, which is the projected cost of the claim. The amount is based on the type of injury, statistics from similar cases, and your company's philosophy in helping with recovery.

By reviewing prior reserves and actual settlements, you can get an idea of whether your carrier is exaggerating your current reserves. Reducing your loss reserves will improve your experience rating, which is the ratio of actual losses compared with the industry average. The higher your claims, the riskier you are to insure and, thus, the higher your premiums will be.

Double-check experience rating data

Experience rating calculations are based on your audited payroll and losses for a period of three years. Incorrect or incomplete data cause incorrect experience ratings and inflate your premiums. Therefore, regularly verify your company's payroll and loss information.

Also review the auditor's worksheets, because the information gathered can affect your experience rating. Compensation — such as overtime and severance pay — is sometimes included on the worksheets, although they are excludable for workers' compensation premium calculation purposes.

Implement a return-to-work program

When accidents occur, returning the injured employee to work quickly can lower your claims' costs. Prompt return to work also reduces costs associated with:

- Replacing injured workers,
- Overtime,
- Medical care,
- Loss of production, and
- Service disruptions.

Develop a return-to-work program that encourages employees to get back on the job as soon as they are physically able to do so. The first line of defense in a return-to-work program is prompt, appropriate medical treatment. Immediately direct injured employees to occupational health specialists. Stay in touch with your injured workers during their recovery to demonstrate the company's genuine concern for them.

Recovery periods vary from person to person. So you may need to modify injured employees' work assignments and schedules or put them on light duty. Remain flexible and don't force the situation. If employees return to their regular jobs before they are ready, it defeats the purpose of having a return-to-work program.

Small changes = big savings

By evaluating your workers' compensation costs, you will be better able to identify any inaccuracies and areas for improvement. You might not be able to avoid accidents entirely, but you can better manage their outcomes. Fortunately, even small changes can add up to big savings in workers' compensation premiums.

Just rewards

Incentive pay plans benefit contractors and their employees

A growing number of contractors experience difficulty finding and keeping good employees. As a result, some are turning to incentive pay plans to infuse talent into the ranks and encourage longevity.

Incentive-based compensation recognizes effective performance and commitment to the company. Well-crafted plans can increase worker productivity, morale and satisfaction. Satisfied employees normally work harder, thereby contributing to the company's bottom line.

Tying performance to pay

Incentive plans are most likely to succeed if they clearly tie superior performance with pay or a valued reward, have clear, measurable standards, and put goals within employees' reach. Casual rewards that don't identify the precise relationship between performance and incentives may be perceived as unfair and create animosity among workers. Unrealistically high standards that offer workers little hope of meeting them will undermine the plan.

There are four basic steps to implementing an effective incentive compensation plan:

1. Determine goals. Before developing an incentive compensation plan, assess your business goals and what you want employees to accomplish in furthering those goals. Goals will differ with each worker's role within the company; for example, you might ask supervisors to improve safety and reduce reportable accidents or a controller to generate monthly reports in a timely manner.

Goals should, where possible, be linked to specific projects, timelines or budgets, and ultimately feed your bottom line.

2. Set compensation. After laying out management goals, determine how much you are able or willing to pay in incentives. Every company has its own way of rewarding performance. Some choose to provide compensation for employees who have no reportable accidents. Others provide quality or production incentives for reducing costs.

Another option to consider, particularly for managers, is phantom stock plans. Phantom stock enables employees to share in increases in company value over time. Unlike "real" stock, however, phantom stock does not convey actual ownership in the business.

A phantom share is a credit in an employee account for an amount equal to the value of your company's "real" shares. The account is credited with changes in share value, along with dividends and other distributions. Participants are usually required to remain employed by the company for a certain number of years or until retirement to cash in their shares.

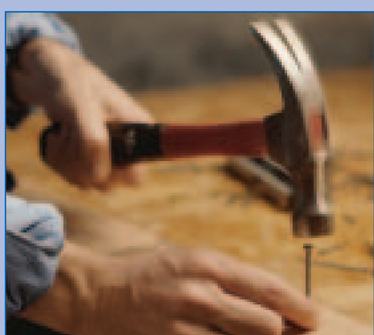
3. Explain the program. Put your incentive pay plan in writing and give your workers a copy. At a minimum, all workers need to know what is expected of them and how their performance will translate into increased pay. Employees don't always see a link between their efforts and profits, so make sure you clear up any uncertainties before implementing the plan.

4. Evaluate results. Periodically review the incentive plan to determine how well it's working. Keeping good records and performing a statistical analysis are critical to this effort. While feedback may indicate the need to make changes or improvements, in some cases incentive programs are dropped without giving them sufficient time to work.

Staying power

Acknowledging employees with incentive pay goes a long way toward developing loyalty within the ranks and contributing to the company's revenue. Well-designed incentives are an effective tool to attract, retain and motivate employees to work toward a common goal — the success of your business.

Hammer away at soaring materials costs



Prices for nearly all construction materials have been on the increase. Although steel product costs have been the most volatile, even basic materials such as plywood, lumber, gypsum and wallboard have seen significant fluctuations. Some prices have been reminiscent of inflation levels as far back as the 1970s.

Out-of-control materials costs can turn a profitable construction project into a boondoggle. While there may be little you can do to affect manufacturers' pricing, you can take a proactive stand to minimize your exposure to rising prices.

Some simple strategies you can use include:

Put price escalation clauses in construction contracts. These clauses allow you to renegotiate contracts and pricing when materials costs soar. For example, you might include a clause that allows you to pass the increase along if the price on an item for which you had a quote increases by more than a certain percentage.

Place your orders early. Planning is crucial. In some cases, it may make sense to take delivery earlier than usual to ensure firm pricing.

Plan for cost overruns. Place funds in a reserve account to cover added expenses.

Buy cheaper materials. Depending on your project, you may be able to substitute some less expensive materials for inflated ones. But do so wisely. Don't purchase faulty materials that could cost you more in the end.

Enhance your supplier relationships. Purchasing from the same supplier over time can earn you loyalty, possible price breaks and perhaps advance warnings of materials price increases.

Without a correction in the supply-demand imbalance, construction materials costs are expected to remain high through the rest of the year, generating bigger construction costs. The proactive steps you take now to lessen the blow will leave you in a better position to ride out the challenges and changes.

Contractor's toolbox

Use operational audits to identify opportunities and problems

Numbers don't lie, but they also don't fully reveal whether a business is performing at its best. Financial statements, for example, can only show a problem, not identify its cause. As a result, contractors who want to take full stock of their businesses should consider undergoing an operational audit.

Beyond figures

During an operational audit, an independent auditor or other objective third party reviews critical processes and goals, assesses whether a business uses resources economically and efficiently, and identifies opportunities for improvements. A thorough audit also pinpoints the operational causes of any financial problems. For example, an operational audit can help you locate inefficiencies in project budget management, closing processes and risk management.

One step at a time

A formal operational audit generally includes the following steps:

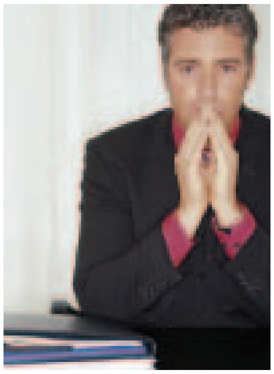
Introductory meeting. The auditor gathers information about the company, including history, philosophy, goals, policies and strategies. Company representatives share any concerns or questions they may have about the process.

Management survey. The auditor interviews managers for details of the construction company's systems and procedures. Topics discussed may include organizational structure, hiring and selection, worker relations, and performance management. The auditor will evaluate how well the team is able to meet the owner's expectations and whether appropriate resources are being allocated to meet project needs.

Employee survey. The auditor observes and interviews workers to gain a complete picture of functional responsibilities, competencies, workload distribution and staffing levels. He or she will also identify weaknesses in the labor force that require training. For example, if your company has a high number of reportable accidents, the auditor may recommend safety classes for affected workers.

Audit plan. The auditor develops a written plan that delineates the objectives and steps to follow during the audit. Every reasonable attempt is made to schedule audit procedures around busy times to minimize disruptions.

The audit. The auditor evaluates problem areas, sensitive activities and operations identified in the field survey. The audit's duration depends on its scope, level of cooperation, and access to personnel and records. The audit also maps out current reporting efforts for bidding and estimating, job management, productivity, billing, cash-flow management, risk management and financial reporting.



Final report. This report states the auditor's recommendations and conclusions and is supported by documented facts and opinions gathered during the audit. The auditor considers the costs and benefits of potential changes, but it's up to management to implement best business practices.

An audit that pays

Contractors are so busy with the day-to-day demands of running their businesses that they typically don't have an opportunity to focus on whether they are performing optimally. By undergoing an operational audit, you will be better positioned to compete in today's challenging business environment and realize improved profits at the same time.