How to Get Paid
On Time, Every Time

Other articles and resources by Melissa Nash Andrews may be found on her website:

www.howtogetpaidontime.com

How to Get Paid
On Time, Every Time

by Melissa Nash Andrews

Published by ARI Publishing, LLC.
West Palm Beach, Florida

ISBN 978-0-615-22430-5

Printed in the United States of America
Second Printing

Contents

Acknowledgements

There are so many people who have inspired me throughout my life. There is no way I could mention everyone here, without actually writing another book . . .

First, I have to thank my grandmother. My grandmother is proof that the American Dream is obtainable through hard work and determination. From her, I learned that no one has to sacrifice his/her morals and integrity to achieve a lifetime of happiness. She instilled in me core values and a basic wisdom that come from a great education.

Second, my business career was elevated by Quincy Johnson. A leader and visionary, Quincy guided me through many years that broadened my capabilities. He also introduced me to Don Thompson, a management consultant, who stressed the importance of process, systems, and checks and balances in business. Quincy and Don, this book would not exist without you. This book is the result of your mentoring.

Also, I would like to thank Bob Kanjian for his belief in my sales and marketing abilities. I love every minute of working with you.

Heartfelt thanks to Michael Roberts, Natalie Schwartz, Barbara Howard, and Bette Anne Starkey for their tireless hours of helping me behind the scenes. I would have not gotten here without you.

Friends and family have encouraged me every step of the way. Thank you for your continued support.

Finally, none of these successes would mean anything without the love and support of my husband, Bobby. You are my rock, my best friend, and my partner in every endeavor of my life. I enjoy sharing every moment with you. Here's to the next chapter.

Introduction

Are you an architect, attorney, drywall installer, pilot, accountant, graphic designer, or programmer? Chances are, whatever your profession, you did not go into business to lose money or to not get paid. Even if you volunteer part of your time, you do so for a reason and that, too, is dependent on your ability to make money from the work you do for paying clients.

Following the steps outlined in this book will result in on-time payments, as agreed in advance for your products or services. Or you can do business as usual and get paid later, through a series of collection steps which may include a lawsuit and/or judgments. The ultimate goal is to get paid on time, so we'll settle for just getting paid—on time, every time.

I've always believed in American enterprise and have a huge respect for all business owners. The risks and rewards of owning your own business are immeasurable. On many occasions, I have found myself helping a colleague with a billing and/or collections issue.

With over twenty years of experience in multiple business industries, I have acquired the knowledge and experience to guide you through the steps to develop a process that leads to payment on time, every time.

Let me share a story with you. I explained once to a potential client why he needed the services of my company, ARI, for outsourced accounts receivable service with collection agency services.

This gentleman is an outstanding criminal defense lawyer working in South Florida. He has his own practice with no shortage of clients. The work involves a constant cycle of new clients with new criminal charges, dealing with families, 24-hour calls, emergencies, and the grueling work of preparing for cases, issues with clients on bail, trials, and appeals. Despite all of this, he is like most professionals in that he is doing what he loves, after years of study and hard work to fulfill his dream.

While he is a great lawyer and a brilliant man, he had a major problem. He was working for free all too often on cases that were not *pro bono* and did not fully realize it. He never considered himself a banker and a loan officer, but indeed he was. He was financing his own services for a *presumed innocent* individual. As part of his fee negotiation, he needed to clarify his payment terms, as well as his fee and scope of service. It was all too easy to provide an excuse that not getting paid on time was just part of doing business as a criminal defense lawyer.

I explained to him that I had heard this same excuse over and over again. He thought I was talking about other criminal defense attorneys. "No, concrete cutters, accountants, landscapers, supply stores, and piano teachers have all given me that exact same excuse."

But it is *not* just part of doing business in a certain industry. Not being paid on time and sometimes not being paid at all is widespread and not isolated to one industry.

Along with giving up the excuses, there is another *very* important point here. What is at the heart of your firm's internal philosophy? Remember this:

Good things don't come to those who wait; *good things come to those who initiate*.

In this book, I will discuss the accounting system problems facing professionals and small businesses who grant credit. If you provide any product or service and any part of your payment is *later* rather than right now, you are granting credit.

Too many businesses grant credit without guidelines, limits, and policies, or do not follow those that may be in place. Invoices are not sent out correctly or on time. Simple things that can be done to assure payment are ignored. When clients do not pay, the typical business or professional makes a series of common mistakes that actually further reduces the chances of getting paid.

I am not describing poorly-run businesses. There are vast numbers of small businesses and professional offices run by intelligent entrepreneurs who may be great at what they do, but are not being as effective as possible when it comes to accounts receivable (AR) and collections.

In this book, I will show you—the small business or professional office—techniques that you can implement immediately to turn an AR problem into a well-functioning, organized, and systematic part of your business.

By the way, the lawyer hired our services. He now has a system of payment plans, with efficient invoicing and a series of payment calls to clients. He has guidelines and policies in place that determine how and to whom to grant credit. The turning point was when I asked, "So, you went to law school all those years to leave your family in the middle of the night to see a potential criminal in order not to get paid?"

I hope that AR/Collections will become either the favorite department in your company or you will use these techniques to know when it is time for outside help. Either way, it is all about getting paid for your work on time, every time.

One

"Time is more valuable than money. You can get more money, but you cannot get more time."

-Jim Rohn

Pen-to-Paper Time

Do you own or work for a professional service firm? Do you sell time as any part of your business? Many small businesses and professionals neglect to pay attention to the division of labor principle. Division of labor, or specialization, is what enables that professional or small business to have a marketable skill to offer. Otherwise he or she is just a generalist and the value of his or her offering declines.

Unfortunately, many specialists act like generalists when it comes to running their businesses.

About working at home, a business owner once said to me, "You can mow your own lawn and clean your own house, but do you? Other people can do those things."

Now, I admit there are people who may enjoy mowing the lawn as some form of relaxation, but consider the critical point:

What is it that you do that pays? Attorney or not, what are your "billable hours"? Common AR mistakes and practices directly take away from your "pen-to-paper" time, which is the core of what you do.

This term comes from the architectural world. When architects take time away from designing to deal with billing problems, negotiate a contract, or handle office inefficiencies, whatever their cause, they are losing pen-to-paper time.

Performing the billable work of your profession is pen-to-paper time. There are only so many hours in a week. You need to eat, sleep, relax, and enjoy your family, hobbies, and friends. The time you choose to work must produce the maximum value for you.

The practices explained in this book should be implemented as procedures regardless of who is doing them. Each step in the process—which can be done by yourself, in-house by employees trained to follow these steps, or outsourced—is meant to result in effective AR.

To reduce losing pen-to-paper time, I strongly suggest that you delegate to your employees or outsource it. Later, in the chapter on tracking dollars, it should become clear that implementing these processes should be considered an investment.

Whatever small costs are involved in re-training, hiring, purchasing inexpensive software, or even outsourcing, your AR will likely pay off big!

Your company will enjoy the benefits of invoices paid in a timely manner, with less credit risk exposure, along with the immeasurable value of your professional time spent on doing what you do best.

If you are not in the business of doing what you love to make money, then why are you in business? You translate your skill set into dollars and the dollars into your lifestyle! You own your own business or have a special skill to offer. When it is time for your paycheck on Friday, you realize the rewards for your risks.

I recommend sharing this book with the people in your office involved in handling money, billing, client contact, or office management. Their work and dedication to a smart system can make your professional life easier so that you can have more pen-to-paper time.

Two

"Put not your trust in money, but put your money in trust."

-Oliver Wendell Holmes

Why Are You Issuing Credit?

To ask why you are issuing credit first requires asking if you are issuing credit at all. An alarming number of small businesses and professionals are issuing credit without realizing it.

If you provide any services or products without full payment at the time of delivery, then you are issuing credit.

Even if you have simple terms like "half now and half when the brochure design is completed," you are issuing credit. You will finish the work before being paid. You have issued credit to that client.

The question is *why*? In this chapter, I will help you analyze why you are issuing credit.

Are you issuing credit because it is standard in your industry and everyone else is doing it? Maybe you work in an industry in which there are common practices and you are following along with what you have learned or you issue credit because of a general customer expectation.

Take the auto parts industry as an example. Most suppliers are small businesses and work in an environment in which credit terms are expected.

Most businesses are afraid to question this practice out of fear of offending a client and losing business to another supplier who may be perceived as ready to please.

Do not fall for this misconception. Ask some tough questions:

What is standard in your industry and how can you adjust the standards in favor of protecting your business while still being competitive?

Are you getting personal guarantees as a part of granting credit? If someone objects to a personal guarantee, I simply say, “So you are telling me right now that you are not going to pay my bill?”

There are industries and businesses for which personal guarantees are not very common at all, but think of this: If the nonpayment for your services will hurt you personally, why not get a personal guarantee from each and every client granted credit?

Most small businesses and professionals I deal with directly feel the effects of nonpayment by clients.

Are you placing undue risk on your business or risking failure by granting credit? Is everything "on the line"? A good example is a clothing wholesaler. If the wholesaler has given inventory to a handful of stores *hoping* that the stores will perform and pay back the lines, then maybe he/she is going too far.

Of course, the retailer wants his stores full of merchandise, but in this case the clothing wholesaler has really become a "partner" in these stores. If a few key accounts perform poorly, then the clothing wholesaler could go out of business because of careless and thoughtless credit-granting decisions.

Remember that you aren't a banker. When you are discussing a contract or reviewing pricing with a potential client, the payment terms are a key ingredient to assure a win-win business relationship.

Don Thompson once told me about an engineering firm that had just broken away from a larger organization. One client really wanted to maintain its professional relationship with this particular team.

The small firm wanted the contract, but knew that they would not have the resources to front the payroll for essentially two months—the time it takes to work for thirty days, produce an invoice, and then wait thirty days to be paid. The client agreed to a weekly invoicing system in advance, resulting in a win-win situation.

Like this company, you must ask yourself why you grant credit. Here are some possible reasons:

- ❑ Your work is a long process that is finished in defined stages. Here is a perfect reason to grant credit according to set terms. If you are designing a large building, there are distinct stages to the design process. Your client can pay according to set terms as the work progresses. You are granting credit, but expecting timely payment.

- ❑ Another case is when your client will use the line of credit to generate a profit and get paid in the short term, and in turn pay you back expeditiously. For example, take the auto parts wholesaler. The mechanic who receives parts on credit is going to get paid as soon as the customer picks up his/her car. A well-developed credit policy can be a positive boost for your business and your client's. See further chapters for important issues regarding limits and guidelines.

- Also consider granting credit when you can consolidate many scheduled deliveries into an effective invoicing system. If you deliver fresh fish to restaurants daily, opening a line of credit to your customers may be a way to simplify business for both of you.

With proper limits and guidelines, you may have made a positive decision to grant credit.

Credit can be granted carefully if your industry involves “unknowns” that affect the final bill. An attorney who takes a court case may not know how many days or hours the case will last or may not know what curveballs the opposing side may throw. The attorney may be granting credit to creditworthy clients by working beyond the hours on the original retainer and billing them later. It is critically important that they realize that credit is in fact being granted and that the decision is made intentionally, not just as a habitual practice in law.

There may be reasons not to grant credit, no matter how badly you want that customer.

- Refusal to sign a personal guarantee is a reason not to grant credit.

- ❑ If the news is reporting that a company or industry is in trouble, carefully review the situation or decline credit.

- ❑ You may want to deny credit to a major builder who is projecting a loss. Do you really need this business on credit terms?

- ❑ A client who has new credit or no prior history may be two reasons not to grant credit.

Listen to your applicants. They may be giving you reasons not to grant credit. They will always say, “it’s not that bad,” but you have to do your due diligence.

Another reason not to grant credit is what I call the loyalty factor. I am a big believer in customer loyalty, so when a long-time customer of a competitor wants to change suppliers or a service provider, the first thing I think is *why*?

You must find out why they are leaving their last business relationship. Even if you decide to grant credit to the new client, you may have learned valuable intelligence that will give you a competitive edge.

If you find out that they are not paying their previous suppliers’ bills, act accordingly. Implement COD and find a way not to become a victim. If you find out they are leaving because their last supplier was always making late deliveries, then you can use this information to make a new client thrilled with your services and develop a profitable relationship.

Don't enter blindly into new credit relationships. Small businesses tend to be the worst at this because they *desperately* need the business. They tend to over-service and over-grant. They put emotion over intellect in order to be competitive.

Small businesses tend not to ask the hard questions. The large companies have huge advantages of capital, manpower, and reputation in many cases.

Unfortunately, many small businesses find themselves in trouble not because of the competitive environment, but because of poor credit-granting decisions resulting from a perception of what *needs* to be done in that same competitive environment.

Don't be a victim! Make the tough choices and have the courage to say "no" to granting credit. Always ask *why*. The answer to *why* will allow a smart answer to *how*.