

XL Insurance @-Clips

Fee Collection – All in a Days Work

At some point, everybody has to do it. In order to stay in business, one must effectively and efficiently collect fees that are owed. But how? Effective fee collection begins long before your invoice is delivered to the client. It begins with a collection strategy put in place before the project begins.

The Design Professional group of the XL Insurance companies has reviewed the fee collection mechanisms of many highly profitable design firms to identify effective collection strategies and found that there is a strong link between profitability and a firm's fee collection strategy.

The following are a number of legal and contractual tools that are proven to both help collect fees and to avoid entering into a dispute or taking legal action that could result in a net loss to your firm:

PRIOR TO THE PROJECT:

- Develop a collection strategy for your firm and follow it consistently. Decide as a matter of policy how and when you'll follow up on invoices and how long you're willing to wait before you suspend or even terminate your services on a project.
- Do your homework before you accept any project. Routinely check the financial capability of each client. Who are the principals? What is the client's reputation? Do they pay their bills on time? Have they been involved in litigation?
- Address payment terms during contract negotiations with your client. Ask about the client's payment schedule: e.g., how long does their invoice approval and payment process take? Stipulate that you'll charge interest for late payment and list the steps you'll take in case of nonpayment, including the option of suspending your services on the project. Make certain any orally agreed-upon terms are clearly spelled out in your written contract.
- Don't accept any client-written provision that gives the client the power to withhold your fees or make unilateral determinations of fault or responsibility for damages.
- Consider asking every client—even existing ones—for a retainer, to be credited toward your final payment. Why should you finance the client's project during the month or two you wait for payment?
- Confirm the right person, department and address where bills should be sent.



DURING THE PROJECT:

- Keep your clients as happy as possible—this strategy can significantly aid the collection process. Make sure there are frequent and regular communications. If they never hear from you until they get your invoice, they’ll find lots of things to question.

AT BILLING TIME:

- Bill promptly. Provide all necessary information with the invoice and check it thoroughly for errors.
- Follow up quickly—within a week. Call the client to make sure the bill has been received and answer any questions the client may have.

WHEN PAYMENT IS LATE:

- Since a slow payment is often a danger sign, meet with the client to find out if there’s a problem with your services. If there are concerns about quality, performance or errors in billing, act quickly to remove any and all concerns and keep the client happy.
- If your client has cash flow problems, consider getting a promissory note and be on the lookout for other financial problems on the project.

- Continue to follow up with slow-paying clients. A weekly call is not too frequent. Be persistent and firm but maintain a positive demeanor. Remind the client you need payment to meet your own obligations.
- Don’t threaten any action (e.g., suspension of services or legal action) you’re not prepared to take.
- Maintain a written record of everything that happens during your collection efforts, including notes of phone calls, statements made and messages left.

By including clear payment terms in your contract and following consistent, well-designed billing and collection procedures, you can increase your chances of receiving payment in a timely fashion and minimize the risks of slow-to-pay accounts, write-offs and retaliatory liability claims.

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