GETTING PAID: WHY WORK FOR FREE

Making money requires three important steps: obtaining new business; completing the work; and, then getting paid. Far too often, companies obtain new business, complete the work, but then never fully collect payment. This type of lost revenue is the worst, because the work has already been completed, and time, energy and money have already been spent. The company would have been better off refusing the work in the first place, as both morale and profits are heavily reduced. The following are five simple steps to getting paid that will make a company more profitable.

1. Detailed Contracts: Written Contracts Make Businesses More Profitable!

As a lawyer and entrepreneur, I know that some individuals incorrectly view written contracts as only a cost of doing business. This is shortsighted. Committing an agreement to paper is probably the single most profitable action that a business can take. A written contract is not incidental to the business. It is the business.

A written contract commits parties to perform certain actions, but more importantly limits what is required by each party and determines which party bears what risks. Outlining each party's obligations can result in earlier payment and less wasted resources. Detailing exclusions and risks makes the parties more profitable by avoiding or limiting costly disputes and litigation. Parties to a written contract are also more likely to be satisfied at completion of the contract and commit to repeat business. This means more profit.

Consider a contractor hired to remodel a room in a house where a written contract is not used. One party may believe certain work is included in the price and the other party may not. Who is responsible to move or cover the furniture? Who is responsible for certain types of damages and to what amount? Is there a warranty on materials or labour, how long for each and what do they include and exclude? Is there a deadline for completion?
These are simple questions with answers that can be easily written down. The act of writing the terms down will make a business more profitable and reduce disputes, not to mention the fact that it makes a business look more professional. A business will never be sorry it had a contract. It will only be sorry if it does not. The rule is simple; commit it to paper and make more money.

2. Security For Payment: Never Be Afraid To Ask For Money!

Smart companies require a deposit, down payment or some other form of security for services or products to be provided. The size or reputation of the company are not factors. In fact, the pre-requirement of security for payment usually makes a company look more professional and prosperous. Security for payment indicates that a company values itself and earns respect from clients subconsciously. Furthermore, serious consumers wishing to purchase products or services expect that you will require a retainer or downpayment. Moreover, clients who refuse or resist security provisions often turn out to be problem clients. Some security mechanisms to protect a company from non-paying clients include deposits, downpayments, payment schedules and collateral security.

Deposits and downpayments are legally distinct, although many people wrongly use the terms interchangeably. Downpayments usually serve as partial payment for products or services to be rendered and are usually refundable. Deposits, however, are used to secure performance of an agreement and are usually non-refundable, unless the deposit receiver cancels the agreement. Deposits are applied to agreements as downpayments if the deal is completed. Deposits and downpayments provide partial security for an agreement.

Payment schedules are actually an extension of retainers and downpayments, in that, as products and/or services are provided, additional retainers or downpayments will be required. Payment schedules are meant to parallel the completion of performance of any agreement. Construction contracts are good examples of where percentages of the advance are to be paid at certain levels of completion with respect to the contract. Another version involving time-based increments may require an amount to be paid each week or each month reflecting the effort expended by a company to complete a project for a client. The key in these types of payment schedules is that at no point is the customer very far behind in monies paid to your company versus the product or services provided.

Collateral security is often useful in larger contracts or large price tag product sales. Collateral can be registered under the Personal Property Security Act in order to put a company in first priority with respect to that item until all of the payments are made. There are costs involved and the key is to make the cost relative to the amount of revenue.

Obtaining security for payment is critical to the bottom line. Clients unwilling to pay now may not pay later, even after completion. Pursuing a bill is costly and it is important to protect yourself, even in advance of a contract, in order to ensure your company gets paid.

3. Acknowledgement/Sign Offs: Agreement Now, Avoids A Fight Later!

Having a client acknowledge or sign off on the completion of delivery of some service or product is so simple and effective in the event of any dispute, that it is hard to imagine not doing it. Nothing is more infuriating than trying to collect on goods or services delivered, with the client responding that they either never received the goods or that the goods were defective. This problem could happen months or even years after delivery, which is more difficult to deal with. This situation can be further complicated when the employees, who were present during the transaction, are no longer with one or both of the companies involved. Prompt and diligent tracking of performance will avoid problems and save money.

4. Better Communication: Confirm At Least Twice!

Effective communication requires both accuracy and timing. I am not sure which is worse, accurate information too late or inaccurate information on time. Asking questions and verifying answers more than once is not a waste of time, but is essential to reaching a good level of communication. Quick contract making without full verification can create a very expensive proposition.

5. Refusing Business: Just Say No To New Business!

Quite simply the best rule that I have learned for making more money, is to say no to new business. To operate with the thinking that every company should want every client it can get, is 100% wrong. There are two approaches to obtaining prime clientele and they both should be used simultaneously. The first approach targets good potential clients and the second approach filters out potentially poor clients. Seldom will a company fail if it employs both approaches properly; however, a company is more likely to fail if it incorrectly filters out poor clients, than if it incorrectly targets good clients. It may sound counter-intuitive to some, but poor clients can more quickly bankrupt a business than can the lack of good clients. Thus, it is essential to know what attributes make a client an excellent, a normal or a bad client. Saying no to certain potential clients that 'may be bad clients', is more important than obtaining a good client. One bad client can cost a company as much profit as ten or more good clients.

Most people would rather take the day off than work for free, but so often a business will accept work under unfavourable terms that it later regrets. Businesses must learn to protect themselves before an agreement is made. The five simple steps above can improve a company's profitability by avoiding deadbeat clients and acquiring better pieces of business.

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