It's 3am, and Luke can't sleep. Why?

His biggest customer owes him just shy of $50,000, and he's worried they're not going to pay. It's been eight weeks no, and they've missed two progress payments...

"It's coming" they say, "Once we get paid, we can pay you."

This is causing some serious cashflow problems for Luke. Suppliers are getting upset. Staff need to be paid. If the money doesn't come in soon, he's in trouble.

I've changed the name. But yes, this is a true story. Have you ever found yourself in this situation?

Nearly every honest tradie has been stung at some point. If you're in business, odds are, you'll eventually strike a customer who doesn't want to pay - or doesn't have the money.

Here are some strategies I've picked up from years of being self-employed, helping tradie clients through the cashflow minefield, and from debt collectors and lawyers. These things won't completely protect you, but it's your best chance to keep losses to a minimum:

1 Spread your risk

It's always better to have a number of customers, rather than relying on one or two major ones. That way, if one customer stops paying, you're still okay.

2 Have terms of trade

Don't DIY. Source these from a professional like your debt collector, trade association, or lawyer. It might cost a few hundred dollars, but could save you thousands (even hundreds of thousands) if/when things turn to custard.

Always get your Terms of Trade signed off by the client or include them in your quote before starting a job.

Include:

- Notice period for any dispute or problem with workmanship (within seven days of completion of invoice is good). That way the customer can't come back six months later and say they're suddenly unhappy with the job.
- Any collection charges and interest can be added to the bill.
- Personal guarantee (with larger companies this is difficult, but it's possible with smaller companies or individuals).

3 Build expectations early

Make sure the client understands you're the one who makes the rules.

- Many customers won't read your terms of trade. Point out the payment terms part and ask them if they see any problems.
- If payment doesn't turn up on the due date, phone the next day and follow up. Check they got the invoice. Ask if they have any questions about it. (This shows they don't dispute the bill.)
- Sometimes all you need to do is ask them straight if they would please pay this today. Level with them - make sure they understand you need the money because you have bills to pay too. Get a commitment of when it will be paid (follow up with a quick email to put what they agreed in writing).

4 Deposits and progress payments

With bigger jobs, take deposits, and have progress payments at set milestones.

Make sure they are enough to cover the materials and labour so that, at any point on the job, if the customer doesn't pay, you're not significantly out of pocket. (You'll also find out quickly which customers are the good ones).

- Phone, email, or text with a friendly reminder before the due date of a progress payment. Remind them that this is so you can continue the job as planned.
- Watch like a hawk to make sure payments are on time. Be prepared to stop work till the bills are paid. You hold the cards here.

5 The job's not done until you get the money

Make sure there are no excuses for not paying.

- On smaller jobs, invoice and get payment on the job if you can.
- Invoice the job ASAP, and put the due date on the invoice.
- Send reminders.
- Make it easy to pay - put your bank account details on the invoice.
- Check the list of who owes you money at least weekly. Follow up on any overdue amounts immediately. Delegate this task if you want - but make sure it's done.

Phone overdues often. Don't let up till you have payment - or a payment plan. Say something like: "Look we can do this one of two ways, I can keep ringing you till we both get sick of talking about this, or you could sort it out now. So let's make that happen". Keep the tone light and friendly. It doesn't work every time but you might be surprised how often it does.

CONTINUED OVER...

CONTINUED FROM PREVIOUS

6 If you think you're not going to get the money, negotiate

One of my clients, a builder, had a larger building company that owed him a lot of money. They were using every dirty trick in the book, from challenging legit invoices to promising payments which would never turn up. It was a game to them.

But it wasn't a game to my client. He had a family to feed.

When he checked around, he found this big company was doing the same thing to other subbies. A really bad sign.

He lawyered up, negotiated hard, and they offered him reduced payment (as in, they decided to deduct around 20 grand off the invoice for no reason).

I told him straight: I don't think this company is going to be around much longer. They were burning too many bridges and telling too many lies.

He took the deal and walked away. Yes, it was a kick in the guts. But he's still in good shape. Imagine how much worse it could have been.

Sometimes it's better to get out with your shirt on your back - even if you have to leave your jacket behind. A few weeks later, that big building company went bust, and it sounded like no one else got paid.

7 PPSR (Personal Properties Security Register)

Put large amounts which are overdue on the PPSR - the NZ national debt register where you can register unpaid invoices.

If your client goes broke, anyone on the register gets priority. In other words, you get paid first (before others they owe money to - who, sadly, usually end up getting nothing).

8 Construction Contracts Act

This legislation is designed to help with contractor's cashflow. Basically, if your invoices are compliant, then it can dramatically improve your chances of getting paid.

Why? Because your client must dispute an invoice by way of a "payment schedule", it must be in writing, identify how much they will pay and the reasons and calculations why they are not paying the difference.

If they fail to issue this schedule within the acceptable time frame then they have to pay the full amount – usually, this is enforced by an application for summary judgment in the District Court or the High Court. Any legal fees spent chasing the debt can also be claimed. You can also reduce the time period the client has to dispute the invoice. The default time period is 20 working days, which on residential projects is really too long.

Consider putting on your quotes the due date for payment and a due date for payment schedules. This can be as simple as "DUE DATE FOR PAYMENTS: 7 calendar days from the date of service of our payment claim" and "DUE DATE FOR PAYMENT SCHEDULES: 5 calendar days from the date of service of our payment claims".

9 If all else fails, have a good debt collector ready

A good debt collector, in my book, is someone who is prepared to get on the phone, or go and visit, to chase the money. Not just write a few letters or emails that end up in the bin.

Bottom Line

Make sure you load the odds in your favour. Can you really afford not to?

You've done the work.

You deserve to get paid.

As for Luke, he's still waiting.

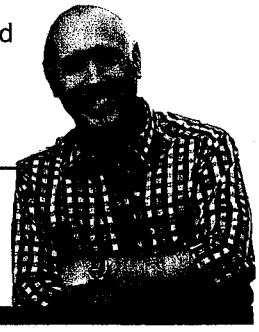
You can't control the environment, the economy, or that crazy client that is not happy no matter what you do.

But how you react will have the biggest effect on the outcome. Now is the time to get prepared and get the tools to deal with whatever happens next..

To see more about the PPSR, visit **ppsr.companiesoffice.govt.nz/**

NEXT LEVEL TRADIE

Daniel Fitzpatrick is a New Zealand based business coach and the creator of Next Level Tradie. Find him at **nextleveltradie.co.nz**



DANIEL FITZPATRICK
BUSINESS COACH

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