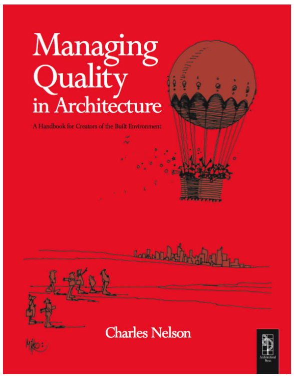

Managing Quality in Architecture

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A Handbook for Creators of the Built Environment

Quality in Managing Client Financial Arrangements

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This paper is Janet's complete unabridged paper, that was prepared for her chapter in MQIA, 2006 edition, and edited to fit the space available.

Never argue with anyone who owes you money or has a loaded gun. This is a very important concept to understand. Ultimately a firm's success is based on quality management of both projects and finances. Cash flow is the lifeblood of any business, and far too many firms operate in financial crisis. Damage control and dialing for dollars keeps project managers and project executives from being billable. Communication and well-defined credit and collection guidelines contribute to positive cash flow.

Quality management starts with each new project, whether this is an existing client or one who is new to your firm. By treating each project as a "first date", you will not get sloppy and skip the all-too-important steps it takes to ensure quality management.

Ground rules

Communication with clients not only tells you what they want from your firm but what your firm needs from them. Having very defined credit and collection guidelines removes the gray areas and misunderstandings that arise so easily around money. These guidelines need not be very elaborate, but with these in place your firm has removed the gray areas and frequently costly discord that leads to uncollectable receivables – or worse, litigation. Many people are not comfortable discussing money matters with their clients. Clients really like this!

However, with credit and collection guidelines in place, the project manager and the project executive are not the "heavies". The guidelines are from the firm's management committee and are not negotiable. If the client knows what the rules are it is easier for them to understand the process. If your firm is billing in a timely fashion, there is ample time for the client to discuss what he perceives as a problem.

Credit checks

Many firms are now routinely performing credit checks, not only for new clients but also annually for existing clients as a way to check their financial health. With new clients, you can see who controls the money, how the company is run, and what payment history they have with other vendors. Existing clients, whom you have a history with, may have gone through a restructuring or have been acquired by another firm or one of the many other changes that impact credit. An annual credit check will let you know how to proceed with work for the client. This is another tool to help ensure quality management. No surprises!

Project startup

When a new project is starting, assign one person in your accounting department to be the contact for your client.

Your accounting person then becomes responsible to the client to handle any problems that arise through the process to help ensure prompt payment. By including this as one of your services, you are also not taking you project managers away from billable time. It is all too often forgotten that this is a service industry. Frequently the only thing that separates you from your competition are your client relations and good service.

Building relationships with your clients' accounting departments is a must. To know the flow of payables from the client side is very important – especially when, if you are a subconsultant, your invoicing needs to be to your client, before a cut-off date to ensure that subconsultant bills are included in the correct billing cycles.

Your accounting department contact should call your client seven to ten days after your bills have been sent out to see if they have received the bill and confirm that it is correct. At this point, if there is a billing problem, you can request that the client mark up the bill with what they feel is incorrect and fax it back to your accounting department. This eliminates the "fax me a copy" when you call in thirty days looking for payment.

Your accounting staff is responsible; now, to see to it that if a problem has occurred that your firm makes the correction promptly. Remember: Service, Service & Service.

All too frequently, when an error occurs in billing, turnaround for the corrected invoice is very slow. You then wind up in the next billing period, and the whole receivable starts to be skewed, negatively impacting cash flow.

Contracts

Remember that receivables begin during contract negotiations. If your client has a specific billing format that they need, make sure that you understand what it is and follow their request. Have your accounting contact get a copy of what the bill needs to look like. Sensitivity to client billing requirements can avoid having hundreds of thousands of dollars held up and ultimately negatively impacting cash flow.

Clients are usually quite clear as to what degree of backup they require. Sending a complete bill in the correct format and all backup attached will help shorten the turnaround time of your receivables. Inability to bill properly erodes client confidence and just makes the client scrutinize your bill more and more carefully.

Starting work without a signed contract is very foolish. Litigation with public clients has clearly established that no fees are owed without a contract. If the contract is actively being negotiated, at the very least a letter to proceed, signed by the client is necessary. Additional services are one of the largest causes of uncollectable receivables. All to often, project managers and project executives find the client wanting additional services. There is nothing wrong with that as long as work is not begun until the client signs the request form.

Forms for additional services are very straight-forward. If your firm has its terms and conditions printed on the back of the Request for Additional Services the request then goes straight to the contract. Lack of signatures on both contracts, change orders and additional services requests cause unnecessary losses to firms and is a sign of lack of quality management.

Emotion

Money has no emotion. People become emotional when discussing money. Always remember: if you have done what the client has requested and in a timely fashion, then you are entitled to be paid for your services. Collect what is yours. Experience has shown taking project managers and project executives off being billable can negatively impact cash flow. Keeping on top of receivables is a job in itself and should not be left to be done on a slow day or Fridays at 3:00 pm, as so often happens in many practices.

Contacts that the accounting department develops are frequently different from those that are made by project manager or project executives. When the whole picture is put together you have one solid relationship built on communication. This is quality management.

Collecting receivables should never alienate your client. If you ascertain that all billing to your client is correct and you are doing your work, it is fair to explain that you have been instructed not to deliver documents until the account is brought current. This needs to be said in a tactful manner, as it is not your job to become a bully. Remember, at this point the client still has your money. In business, from time to time your client can experience cash flow problems, as all firms at some time are a little strapped for cash.

If your client is in this situation, you can, if you have in the past developed a solid relationship with him, work out payment terms. This gets you at least a partial payment and the rest to come in following payments. It is hard for someone to say that they cannot pay a bill. Listening is an important part of any relationship. Sometimes, what the client does not say is more important than what he or she does say. If you can help your client out in a tactful way and he/she then pays your firm in full, this is one more way to build the ever-important relationship.