Payment Terms: Set Yourself Up to Get Paid

by Claire Parker*, Staples® Contributing Writer*

You've just landed a huge client — great! But what happens in 90 days when your payment terms are up and your new client hasn't paid? Avoid this headache by following these tips from accountants, financial pros and small business owners who have implemented successful strategies that set the stage for getting paid.

Explain Your Payment Terms

Let's start with an exercise in communications. Every business needs consistent cash flow, so decide what works best for you and be clear with clients. Do you need cash payments? Ask for them. Want to be paid up front? Establish that from the beginning. Explaining the payment terms when you first engage with clients will reduce conflicts down the road.

"I implemented a policy built into the firm's engagement letter that requires 100 percent of our professional fees due upon engagement," says Michael Raanan, a former IRS agent and now president of Landmark Tax Group in Santa Ana, CA.

Another option is to spread payments over the course of the project or bill at the beginning of the month to cover what's to come. "I hardwire payments into milestones," says Joanne Cleaver, president of communications consulting firm Wilson-Taylor Associates in Chicago. "When we get to certain points in each project, I send a status report and an invoice. We keep working, but if payment drags, I remind the client that we have met the milestone and that if we are to continue to make their project a priority, they must process payment."

Enforce Your Payment Terms

Once you establish the terms, stick with them. Whether you bill at the end of the month or per project, create a consistent system so clients automatically know a bill is coming their way.

“Bill on time — it's amazing how many clients I've worked with created a billing problem by waiting too long to bill,” says Greg DeSimone, a CPA and business coach based in Mansfield, MA.

Read articles, like those on the Staples Business Hub, and blogs to learn about how other small businesses in your industry handle payment terms. Investigate software to make billing easier. Offer discounts for paying up front, in full or early. When you have multiple ways to pay, such as PayPal, Square or alternative options, you increase your chances of getting your funds.

“You want as much as you can get as frequently as you can get it,” says debt collection specialist and columnist Michelle Dunn of Plymouth, NH. “And be picky about new customers.”

Dunn warns against extending credit blindly. Have a strong contract and do your homework on potential clients. Check with other vendors or the Better Business Bureau to see if the client pays on time. If dollar amounts are large, ask permission to run a credit check. And if you get stung, Dunn says, use a collection agency.

Action Items for Successful Payment Terms

In summary, creating and enforcing successful terms for your clients can be done in four steps:

- **Establish clear payment terms:** Decide if you want to accept up-front payments, require deposits, or link payments to milestones.
- **Be flexible:** Offer choices on when and how clients can pay: at milestones, up front, via credit card, etc.
- **Do your homework:** Check into clients before agreeing to work with them. Run credit checks, ask for references and define terms clearly in a solid contract.
- **Invoice regularly and follow through:** Verify that the invoice was received and was sent to the right person. If not, resend immediately and update your records to avoid another miscue.

Follow this advice to establish payment terms that will get your invoices paid promptly and sustain a good working relationship with clients. And remember this advice from Donna Ettenson, vice president of operations at America's Small Business Development Center: "Your biggest customer who isn't paying is not your best customer."

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http://www.staples.com/sbd/cre/tech-services/explore-tips-and-advice/tech-articles/payment-terms-set-yourself-up-to-get-paid.html