

# ProNetwork News

## Risk Management Tools for the Design Professional

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Timothy (Tim) Corbett is founder and President of SmartRisk, LLC with over 25 years of focusing on improving the performance and profitability of design firms with effective risk management solutions. Tim has held VP positions with insurance carriers, with responsibilities for underwriting, risk management and claims analysis. He is a member of American Institute of Architects (AIA), American Council of Engineering Companies (ACEC), and U.S. Green Building Council (USGBC) and sits on national risk management, environmental and business practice committees. Tim is called upon as a speaker at regional and national forums, has been published on the topics and owns copyrights to risk management strategies. Mr. Corbett holds a BS in Security and Risk Management, MS in Management, Environmental studies degree, Architectural Design Technology Certificate and is LEED accredited.

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### Getting Paid For Design Services

By Tim Corbett, SmartRisk, LLC

The last few years have been challenging for many design firms. Adding fuel to this fire, many firms are having difficulty obtaining payment for their services. In a recent and ongoing SmartRisk Survey: 81% indicated trouble with getting paid. Successful account receivable programs do not have to be time consuming or daunting. By implementing some straightforward practices, a firm can implement an effective program that gets invoices paid on time along with maintaining a positive relationship with clients.

**Establishing Financial Expectations.** In an initial meeting with clients, explain in a clear and concise manner exactly what your services will be and the value you bring to the project, along with clearly stating your compensation terms. Your communication should be clear in establishing the financial expectations with the client. At this face-to-face meeting, you will obtain a sense of the client's financial capability and ability to pay for your services. If you don't get that warm and fuzzy financial feeling, this is the time to walk away.

**Contract Agreement.** The boundaries discussed at the initial meeting should be outlined in the contract agreement. Include a specific scope of services for the project, associated fees, expenses and cost of additional services. In basic terms, the agreement should explicitly state your client owes you money for services you will be rendering. The agreement should also specify the terms of payment, including any payment in advance of services.



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**Contract Review.** Review contract terms verbally with the clients before signing. This allows you the opportunity to answer any questions the client may have, and to reinforce the financial conditions and obligations. There should be no question at this point as to what services are being offered, what is expected of all parties, and how much it will cost. It is important to identify what documents the client requires when submitting invoices, and who in their organization will be responsible for reviewing them and making payment.

**Retainer.** For any client, but especially for new clients, and on larger and longer-duration projects, requesting a retainer is recommended. This could be a percentage of services or a set dollar amount. Even a small retainer shows a commitment by the client of financial commitment and responsibility. Specify that the retainer will be applied towards the final invoice.

**Accounting Procedures and Standards.** Internal accounting procedures affect any accounts receivable program. Hold your firm to an invoicing standard calling for no errors and consistently punctual delivery, allowing time for clients to review and meet payment terms. Make sure invoices are not delayed, send invoices to the person who must approve them, and then follow up with a reminder, with a phone call and in writing, when necessary. To help speed up payments, consider incentives to clients that pay promptly. Incentives are usually only effective when they are directed to the decision maker. If incentives are offered, considered this option when developing your fee structure.

**Accounting Programs.** The off-the-shelf accounting program that was used when you started your business may not be the right program as your business has grown. Look for an accounting system that provides features such as automatic updating of customers, projects, balances and flexibility for change as your business evolves.

**Late-Payment Fees.** It is very difficult to collect late-payment fees, however, they do help when there is a collection problem. If your firm uses them, be consistent when they are applied. When negotiating late payments, you can state that all or part of the late charges can be removed if overnight payment is made.

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**Client Relations.** Principals, you were involved in negotiating the contract and payment terms. During the project, your role has focused on fostering a long-term relationship with the client. This would be difficult if you are also the person demanding payment for an overdue invoice. During the initial steps in dealing with payment problems, principals should distance themselves from the billing process. However, you should become involved in the final steps for slow-paying or nonpaying clients.

Should a client contact you to complain about a collection call, the distance allows you to respond that you will look into the call. The separation allows you to maintain a distinctly different image in the mind of the client. You have two main goals: 1) Preserving the valuable business relationship you have built up with your client and 2) obtaining payment for your firm's services. After confirming with your accounting department, review conditions with your client along with the agreed upon contractual payment obligations. You would like your clients to view your "accounting department" and you as separate arms of your business, if possible.

**Stubborn Clients.** For those really stubborn, slow, nonpaying clients, a delicate and balanced approach is always needed. Principals, when it gets to this point, you must take the lead. These conversations are never easy, but the best time to address payment issues is when things are going well or at a critical stage of a project. In either case, have a face-to-face meeting away from the project, outline that you have financial obligations and a payroll for your employees. Make it clear that you do not want to, but a delay in paying will force you to suspend, or even terminate services on the project. Explain that you would be out of business if you did not obtain payment for your services. Speaking to your client in a fair and businesslike manner should go a long way towards solving the problem.

**Payment Disputes.** When a payment dispute arises, both parties should agree the first step would be through negotiation. This process should be outlined in the contract agreement. If an agreement cannot be made during negotiation, mediation would be the next step, followed by arbitration. This approach is less costly for both parties, and allows problems to be resolved faster than litigation.

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**Control Emotions.** When problems do arise, the best advice is stay calm and keep emotions under control. Outline the situation to your client clearly and repeat the payment terms and options verbally, and follow up in writing. The objective is obtaining a commitment from your client on payment. Consider a compromise when necessary, but do not walk away empty-handed. Work with a professional to craft contract language that would release you from all liability on the project. The approach can be used as leverage for at least partial payment.

### Broker's Notes