

February, 2009
Volume 5, Number 2

A Publication of
PSMJ Resources, Inc. •

A/E Rainmaker

The Guide to Attracting and Keeping Great Clients

Work With The Federal Government, Generate Reliable, Timely Cash Flow

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A note about the publisher of
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Headquartered in Newton, MA, PSMJ offers more than 150 titles in book, audio, and video and publishes two newsletters on A/E/C firm management. PSMJ also produces the industry's preeminent annual surveys on management salaries, financial performance and fees and pricing.

WORK WITH THE FEDERAL GOVERNMENT, GENERATE RELIABLE, TIMELY CASH FLOW

When the economy was in better times, many A/E firms were doing well despite vague business strategies. Overestimating their business acumen, leaders of some firms would use boastful clichés such as: “We want to focus our business development efforts on attracting ‘smart money.’” (In my consulting practice, I don’t distinguish between “smart” and “dumb” money. Become one of my clients, and if it makes you feel better, I’ll gladly encourage you to apply for Mensa.)

In the good old days, the sheer volume of new business, combined with relatively easy availability of credit for working capital, made “cash flow” a humdrum subject. Even in the conservative world of the AEC industry, the concept of increasing an A/E firm’s leverage was a badge of honor for some senior partners, further reducing their worries about slow receivables.

In today’s economy, though, cash flow is now Topic #1 in many A/E firms, and only one thing defines the degree to which money is “smart”: how fast did it arrive after the invoice was sent out?

Here are two pieces of practical advice. If you are not already performing contracts for the federal government, please read #1. If you are already in this sector, just skip to #2.

1. When cash is tight, the federal government business sector becomes more attractive. There are many advantages and disadvantages to consider when you are deciding whether to enter the federal market. In more than three decades of advising firms on this issue, I have consistently told clients that “cash flow” is one of the key advantages to consider. Federal government clients present you with zero credit risk: they have the money. And if you set up effective internal procedures (see #2, below), they will pay your invoices rapidly.

Here’s what one expert has to say about the issue. (This person is an expert because she heads the federal practice at a major A/E firm and has had wonderful success in getting the federal invoices paid in full, and on time.) “We often obtain payment of even large invoices in 15 days, and almost always within 30 days. Every now and then, a federal client

is a bit late—and we receive interest without even submitting a special request.”

One of my clients in another A/E firm put it this way: “At first, we didn’t want to do contracts for the federal government. At the time, we were leery of the various compliance issues, and the weirdness of some standard federal contract clauses. But now, we’re pretty happy that we’ve built up a solid federal practice. We can always count on getting paid on time. The profit margins aren’t as good on paper, but sending out a federal invoice is almost like putting money in the bank.”

2. If you are already doing business with the federal government, here are some simple steps you can take to get your invoices paid quickly:

- Learn the details. Format your invoices properly, and send them to the right place. Procedures vary by contract. On one contract, sending the invoice directly to the agency’s finance arm is the way to go, while on others this will only delay payment. For each federal contract, you have to read the “Instructions for Invoicing and Vouchering,” which are often in Section G. The vast majority of payment delays can be traced to the simplest of contractor errors in following these instructions. I have seen adult professionals in tears, and in total vexation, when an invoice is returned because of a seemingly minor formatting error. Don’t waste your emotional energy railing against “silly” requirements: instead, learn and apply them.
- Learn the special rules. For example, under certain types of federal contracts, you will be required to notify the client at least 90 days in advance when, in your best judgment, the cumulative invoices will equal 85 percent of the total current funding for the contract. If you ignore such requirements, this will lead to a slowdown in payments— among other, even worse problems.
- Talk to your counterparts. From the very beginning of a new federal contract, seek out the federal folks who are responsible for paying invoices under that contract. Show them some respect: travel to their offices, ask questions, and take notes. Learn the unwritten rules for how to speed payment on each contract. For example, does your technical contact need to make three extra copies of each invoice? Save him or her the trouble, and send them in triplicate, even if this is not required by the contract.
- Participate in electronic invoicing, if your client agency makes that option available. For example, some defense agencies enable their contractors to submit invoices electronically via the “Wide Area Workflow” system. You will need to incur startup headaches and costs to use this system, but once you start you’ll never go back. An AEC industry expert told me, “We wish more of our federal clients would participate in this program. We get these invoices paid within 10 to 15 days.”
- If you are a subcontractor, negotiate invoicing issues ahead of time. Prime contractors on a federal contract will vary in terms of how quickly they will pay your invoices. As a subcontractor, you might have to produce your invoices and get them to the prime contractor very quickly, in order not to miss the latter’s monthly invoicing cycle. Do so, and you have just added an automatic 30-day delay— at least— to the payment. Work closely with the prime contractor to learn everything you need to know about how to format your invoices for them. Especially at the outset of a new federal contract, the prime contractor can easily overlook the “minor” detail of telling the subcontractors such details.
- Don’t rely on “prompt payment discounts.” Offering such discounts will definitely increase the complexity of your billing procedures, but rarely will speed up the payment process. If you need to offer a prompt payment discount as a negotiating tactic in a tight competition for a new contract, it might help you win the award, but that’s about as far as it goes. Also, according to an industry expert I spoke with, “There are other complications. Offering a ‘prompt payment discount’ to various federal customers can throw a monkey wrench into other contracts— federal and commercial— if these other contracts include ‘most-favored customer’ clauses. It’s a headache we don’t need.”

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