

Feature: Waking the Deadbeat

Dealers nationwide employ a variety of techniques to catch up with builders and contractors who are slow to pay their bills. Here are some of their favorites.

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By Andy Carlo

Reminder stickers. Wrap-around agreements. Extra-early lien notices. Complaints to licensing boards. Even a round of golf. Building material dealers nationwide employ a wide variety of techniques to make certain they get paid, notwithstanding today's housing slump. ProSales spoke with a number of dealers who shared their favorite techniques for collecting funds from customers who were overly slow to pay. What we found are dealers who have preventive systems in place that help avoid going to collection, often by sending a strong, consistent message to customers: Pay up, or there will be trouble for you and your business down the road.

Here are several examples of how dealers and industry experts across the nation cope with deadbeat customers.

Arleen Mantel and Tom Zuern

Credit Manager and Sales Manager
Zuern Building Products, Allenton, Wis.

Zuern has been putting lien laws with teeth to work in the Badger State.

Beginning with its first delivery to a job site, Zuern implements a construction lien notice, or subcontractor identification notice, notifying the customer, or the end-user, that the dealer is delivering materials. It also informs the homeowner that Zuern will be requiring payment for the materials in order to provide a lien waiver.



Photo: Robert Tolchin / www.roberttolchin.com

FEELING THE BITE: Tom Zuern and Arleen Mantel of Zuern Building Products make liberal use of Wisconsin's lien laws to ensure that contractors pay up.

"It makes the homeowner aware that Zuern is going to be involved in the process," says Arleen Mantel, company controller and credit manager. "And we are going to be requiring the money."

The notice is also a warning to the builder that Zuern expects to be paid specifically for the materials it has delivered and the funds should not go astray. Essentially, funds paid to the builder and designated to Zuern

should be paid to the dealer, keeping the builder on track in the process.

"This has been a valuable tool for our company," Mantel says. "It really puts the pressure on the builder to use the funds specifically from that job to pay us."

"There's been a lot of robbing Peter to pay Paul going on," Mantel notes. "This pretty much stops some of that."

When funds are not paid to Zuern, the dealer enters into discussion with the builder. If funds are not paid within a 90-day period following the delivery, Zuern files an "intent to file lien" notice, and the customer has 30 days to clean up the bill.

"It gets people a little frantic when they see the word 'lien,'" Mantel says.

Since implementing the policy, 80% of customers who received an "intent to file lien" notice have paid the debt within 30 days of receiving the notice, Mantel says, with another 20% going to an actual lien.

Tom Zuern, the sales manager, estimates the company has put more hours into catching up with collections "than one would want to."

But the lien technique brings contractors and builders to the table to discuss financial matters once they receive a lien notice. "If not for the lien, they could care less," Zuern says.

For one thing, the house can't move forward or be sold until the lien is actually cleared up. At the same time, the lien is bad publicity for the contractor and brings into question how he is running his business.

"When it's not unavoidable, and it's a last resort, it has proven to be a valuable technique," says Zuern, noting that the company's history when it comes to collecting judgments has not been stellar.

"It's one of the few security practices you can have when sales are not what they were a few years ago," he adds.

Zuern Building Products recently held a builder breakfast at a local Cabela's to help educate builders about the lien technique and lien laws. The event drew more than 100 builders as an attorney walked them through the lien law process from start to finish. Builders were also given a lesson on how they can protect themselves from the lien law.

"Everyone that came away from that event was impressed by what the attorney put forth," Zuern says. "Our builders felt much more comfortable with what measures they should be taking."

But the attorney also works for Zuern and has trained the dealer on how to fill out its own paperwork for claims of \$5,000 or better that ultimately are fought out in court.

"Our attorney works very closely with us and he has helped us understand a lot of paperwork for filing a large claim," Mantel says. "We prepare a lot of the work to help save some of the cost." However, the paperwork for claims is finalized by the attorney.

Glenn Miller

Owner, Miller Wholesale Lumber, Tempe, Ariz.

With nearly \$350 million worth of construction liens in the metro Phoenix, Ariz., market in the last 30 months, Glenn Miller at Miller Wholesale has been forced to get tough. The company has taken a number of preventive measures to avoid collection altogether.

"We started denying credit as a collection tool and making the smaller guy that didn't deserve any credit pay cash," Miller says. As a result, Miller's cash sales and cash flow have increased 25% in terms of total percentage of sales in the last two years.

"We don't give credit as a convenience. We only give it when it's the right situation," says Miller.

The company has also created a wraparound agreement for all four parties involved in the process: the supplier, the builder, the subcontractor, and the homeowner. At Miller Wholesale, all parties must sign the agreement before materials are delivered. "It's court tested and it puts everyone on the same page," according to Miller. "Without a third-party agreement, you don't have a leg to stand on."

Miller has been burned in the past by contractors who have forged and signed their name to checks payable to Miller, cashed them, and split town without paying Miller Wholesale a cent.

"We set up every job on its own two feet and if you can't cut the mustard, we say 'no, can't do it,'" Miller explains. "I'm only as good, and the company is only as good, as the next order you give us."

Miller has gone so far as to have bank accounts frozen in cases of fraud, thanks to the wraparound agreement. "During desperate times, people do desperate things, and they take desperate measures," he says.

But the wraparound agreement has proven to have firepower. In a recent situation where a homeowner ordered \$40,000 worth of lumber from Miller, had yet to pay for it, and was about to declare bankruptcy, Miller sued the homeowner and was awarded a judgment. The company is now getting paid every two weeks by the homeowner.

"You have to have a good contract," Miller says. "You have to dot your I's and cross your T's and you have to be vigilant, because if you're soft on credit, you're going to get beat."

Tammy Adams

Credit Manager, Economy Lumber, Campbell, Calif.

"I try to work with everybody," says Tammy Adams of Economy Lumber. "We're sort of in this boat together."

If a customer is behind, Adams is willing to negotiate and keep the customer on track before taking strong measures.



Photo: Martin Christopher / www.martinchristopher.com

.PREVENT DEFENSE: Glenn Miller of Miller Wholesale Lumber Company utilizes a wraparound agreement with contractors and home buyers before even making a delivery. The practice helps prevent accounts from ever going to collection.

"As long as they are working with us, and we're trading dollars, we give them a chance to catch up," Adams explains. For instance, if a customer continues to order materials, Adams will continue to take new payments and place it against the past due amount—hence, trading dollars—rather than forcing the customer into a COD agreement for new materials only.

"It gives them a chance to complete the next job and get paid for the job and pay us," says Adams.

However, the credit manager at Economy Lumber occasionally gets the customer who just doesn't want to work with the company and doesn't cooperate. In those cases, Adams has discovered a new tactic that seems to be pretty effective in the Golden State.

Adams contacts the bond firm that holds the contractor's license: the California Contractors State License Board, a division of the state's Department of Consumer Affairs.

In California, contractors without a license are not allowed to perform large jobs. The license is designed to protect the homeowner or home buyer, but in this case it can benefit the materials supplier.

"What I've been doing is contacting the bond holder, or the board, so I can file a claim for non-payment of materials," Adams says.

In the last few months, she has contacted the board nine times and collected past-due amounts seven times. The exceptions were two contractors who filed for bankruptcy.

"The rest paid up or made agreements to pay," Adams says.

If the payments are not made, the license is suspended, with the contractor being notified by the licensing board. According to Adams, that's when panic sets in for the contractor.

"They are actually starting to know me [at the license board]," Adams says.

Craig Wisheart

Manager, Seward Lumber, Seward, Neb.

In his small town just west of Lincoln, Craig Wisheart doesn't just know all the contractors he serves—he's pretty good friends with them, too. Hence, Wisheart has found at times that employing guilt tactics resulted in past due accounts being paid up.

When an account goes 90 days past due, Wisheart puts stickers on the monthly invoices to customers. The stickers are polite reminders that the account needs to be paid up. Wisheart continues to place them on invoices up until the 210-day mark.

"Once someone gets the second or third one, I usually get a payment," Wisheart says.

Wisheart believes the most important factor with regard to getting paid is maintaining communication lines with the past-due customer. In one case, he said he and his assistant took a couple of builders—one of whom



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**FRIENDLY
REMINDERS:
Seward (Neb.)**

Lumber puts a series of increasingly tough stickers on past-due invoices to help remind contractors and builders when an account needs to be paid up. Most recipients usually pay after getting the second or third sticker.

was past due on his bills—to play golf. Wisheart said he regards the builder as a friend, so the invitation to golf would have been extended regardless of the guy's status.

But as it happens, after they finished the round, the builder pulled out his checkbook and wrote a check for \$3,000—pretty much all that he owed.

Wisheart says he doesn't know whether it was the round of golf that did it, or whether the guy just chose that moment to pay because he was going to do so anyway, and figured it would be the next time he'd see Wisheart. In any case, the check cleared and all was well.

He also thinks it's wise to have a third party that can be referred to when discussing past-due accounts with customers. Seward Lumber has always been investor-owned rather than family-controlled, and approximately 50 people hold shares in the company now, many of them based in Seward. So Wisheart uses the board as a scapegoat from time to time, saying to the builder in effect, "you and I are friends, and I understand your challenges today, but the board of directors is on my back, pushing me to collect on these bills." The tactic works, he says.

Ed Gegen

President, Mount Vernon Building Center, Mount Vernon, Wash.

"Customers who don't pay are always a touchy situation. It really depends on who the customer is and our relationship," says Ed Gegen.

According to Gegen, any customer who is 30 days past due typically receives a "friendly" phone call. "That usually does the trick," he says.

But if you are talking about run-of-the-mill non-paying, and ignoring every late notice stamp, then Mount Vernon Building Center turns up the heat.

Once an account has gone 60 days past due, a letter is sent out restating Mount Vernon's credit policy, accompanied with copy of the credit application that was signed and agreed to by the contractor or builder. The customer is then given five days to respond to the letter by payment, a return phone call, or an in-person visit, Gegen says.

If no response is received, a second certified letter is sent stating that the amount owed will be pursued for collection via small claims court. "Usually this is the only action we need to take; the money appears," says Gegen.

When the contractor continues to avoid Mount Vernon and the letter, the company goes after the contractor's bond or moves ahead by scheduling a court appearance.

Gegen says Mount Vernon's track record for getting its money back is better than 90%. "I live on the premise that the squeaky wheel gets the grease," says Gegen. "If nothing is said, then the creditors who are also owed money get paid first, especially if we don't stay on top of the client."

Robert Andreu

Director of Business Development
Hunter Warfield, Tampa, Fla.

"Having a good offense is your best defense," declares Robert Andreu, a 26-year veteran of the collection

industry and now director of business development at Hunter Warfield, a firm that represents more than 300 clients, including LBM giant Beacon Roofing Supply.

He advises dealers to do their homework on customers, including the use of thorough credit checks and reports during the credit application business. While it might not be necessary to spend \$300 on a report for a customer buying \$5,000 worth of materials, it might be a "must have" when a contractor walks up to the desk and orders \$50,000 worth of goods.

"The first aspect is the preventive medicine side," Andreu says. "What you do internally is the best place to start."

But if you have a customer who doesn't pay you, what do you do? Andreu advises his clients to write a plan, stick with it, and be event sensitive rather than emotionally sensitive with customers.

Action has to be taken once an account hits a certain point or date, he stresses.

"When you don't have a systematic approach, you are certainly going to lose some of your ability to collect," Andreu says, noting dealers should attempt to resolve any bad debt before it blows past the 60-day mark.

Customers should be hearing from dealer once a debt reaches the 45-day mark, if not sooner, according to Andreu. By the 60-day mark, terms should be communicated.

That could mean cutting the customer off, switching them to a charge on delivery account, or placing them on COD while making sure the customer is paying for some of their past debt at the same time.

"The credit manager should be asking for a payment arrangement without having to outsource to a collection agency," Andreu says. "That's truly the mark of a good credit manager."

He also firmly believes in personal visits to customers to avoid any disconnection during the process. By meeting with the customer face-to-face, the dealer can get a better perspective of what the true picture is.

"If the guy owes you \$10,000, that's a good guy to take to lunch and spend \$25 to \$50 on," says Andreu.

Back to the preventive side, Andreu advises dealers to attend industry association or bank-run meetings where dealers can discuss common customers who might be an issue. "The vast majority of people placed with us we've seen once or twice in the past," he says. "Frequent fliers are very common in the industry."

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