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Pay As You Go

By **Hayden Alfano**

Collecting payment can be the most contentious part of a job. Keith Steier, president of Knockout Renovation in Brooklyn, N.Y., has found a solution to this problem. His company uses a frequent -- every week or every other week, depending on the size of the project -- progress billing system to facilitate his own cash flow.

Each of the trades on a job has a dollar value attached to it, based on the work scope in the itemized contract. After the original 30% deposit is collected, work commences. At the end of each billing period, the client pays Knockout for work completed, less the 30%.

For example, let's say the demolition on a particular job costs \$1,500, and by the time the first billing cycle is complete, it's 80% done. Knockout will collect \$750 at that time (80% of \$1,500, less the 30% already paid).

The same process is followed for each trade throughout the duration of the project. The company has a pre-programmed spreadsheet that does the calculations quickly and creates a bill that is easy to read and understand.

Steier says his clients like the system, because they know that the payments they are making are tied to the progress of the project. Knockout has been using the system since the beginning of 2003. "We run into conflict less often now," Steier says. "It's a lot less of an issue than if we're collecting the second 30% payment based on the entire project being half done." Customers are generally happier, he says, if they're paying smaller amounts more often, rather than taking a big financial hit all at once.

Change orders would alter the original projections, so they're not included in this system. Rather, once a customer signs off on a change order, it's charged in full on the next bill, not allocated as part of any trade. Unforeseen problems that result in a project going over budget are classified as change orders.

Steier admits that this system is a little more time consuming and is "not [ideal] for a company that doesn't have some sort of bookkeeper to do the invoices." However, he says the improved cash flow makes it well worth his time.

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