better coordination of the trades, and today's smart homebuilder will clearly find himself ahead of the competition.

Q. Where do you see the biggest opportunities for small residential contractors today?

A. If you look at the problems that the large homebuilders are experiencing today, you will see that a large part of their losses are from the need to mark down the huge inventories of real estate they need to stockpile for approvals that often take years to secure. Small homebuilders need to maintain tight control over the lots they purchase to build on.

Next, they can seek to be designers-builders who have total control over the design as well as construction processes (where subcontractors are forced to perform on time at the contract price).

Q. Can you explain how the complex web of laws and regulations stymies innovative breakthroughs in construction?

A. Compliance with the myriad of building regulations and codes is a complex process. Contractors learn over time to do precisely what the local inspectors expect of them in the manner that the code envisions from decades of use. Such laws place a large obstacle in the way of innovations and technology as contractors are loathe to suggest means and methods of construction — however more efficient or profitable — as it often is met with reluctance by local officials, married to longstanding or outdated codes and regulations.

Q. Can you explain how your book suggests mutable cost contracts prevent true competition in construction?

A. Today, contractors have every reason to bid low — bid at or below cost — in order to get the opportunity to make claims that hopefully will become the profit earned on the project. This low-bid system hurts the better managed firms who know the true cost of pricing the job, but know they cannot win the bid in the face of more inefficient firms who will low bid merely to get the job. The use of fixed-price contracts that include a fair profit will eliminate, over time, the truly inefficient contractors, who will go out of business as they fail to perform on time, and enable the better managed contractors to grow larger and more profitable and retain the best performing workers. ▲

Taking what you have coming

by Eric Wise, Editor

Robert Bernstein of the Bernstein Law Firm in Pittsburgh explains what businesses need to do to collect on debts. His book, "Get P.A.I.D.," helps businesses reframe their credit policies, improve customer loyalty and increase their profits. "Get P.A.I.D." is available at www.getpaidsystem.com and www.amazon.com. For more information, contact Bernstein at (412) 456-8101 or rbernstein@bernsteinlaw.com.

Q. How can businesses get in trouble by not planning for a delay in getting paid?

A. Very simply, a delay in collecting for sales means less cash flow into the business. Less cash flow means the business has to use its own capital (or credit) for the people it has to pay. If it uses up its cash, its capital and its credit, it cannot pay for what it needs.

Q. Why should a business have a written credit policy if most customers pay on time?

A. If the business is like a fast food restaurant, it probably doesn't need a written policy. It doesn't grant credit. Every business that lends money (extends credit) ought to have agreed rules for when and how that is done. As a sole proprietor, you may not need to have it written. But at some point, there is someone who is required to follow the credit rules the owners (or managers) set out. At that point, things should be written down. This doesn't mean you need a 100-page manual, but you should at least write it down so people can find it when making decisions.

Q. How should a business offer incentives for fast payment?

A. Extending the right to pay over time is an incentive. Not having to pay cash in advance (or on delivery) is worth something in and of itself. Whether the seller needs to offer discounts, prizes or anything other than the right to credit depends on the market, the competition, the profit and the size of the sale. A 2 percent cash discount may be expected in some industries, and it does represent a significant cost to the seller.

Q. What common mistakes do small business owners make that lead to problems in collecting what is due?

A. Too often sellers try to increase sales volume with easy credit. If they don't follow the basics of good lending practices (preparation, assessment, implementation and defense — P.A.I.D.), they will have failed to help the customer clearly understand the value he or she is getting, what is due and when, and the costs to the customer of a late payment. Not clarifying the deal, not getting good credit information and documentation, and not having good follow up and collection policies are also common mistakes.

Q. If a company in financial trouble owes another business money, what can be done to improve the chances of collecting on the debt?

A. One way to reach into the debtor's pockets is to get the written personal guaranties of payment of principals of the debtor company including partners, shareholders and spouses. Agreement of the principals' spouses is important, since Pennsylvania law adopts the concept of "tenancy by the entireties," where creditors of only one spouse cannot ordinarily attach jointly held marital property to settle the one spouse's debts. ▲

More Expert Insights on page 19