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Technology

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Using Technology to Monitor Receivables in a Way that Helps Your Legal Position

by Scott Wolfe

Big and small companies both appreciate the immense importance of accounts receivables. In fact, in a 2012 survey of CFOs by CFO.com, accounts receivables were ranked the most important way to influence working capital. In a world where cash is king, influencing working capital access is important.

But how? How does a company influence its working capital?

New digital technologies are available to enable companies to improve their accounts receivables performance. And, in fact, the opportunity to leverage these technologies for competitive advantage is huge. Nevertheless, the financial world of receivables performance constantly intersects with legal rights, and it is important to leverage those technologies that will help your legal position, and not hurt it.

Technology Is Everywhere — Except in Construction

There are few aspects of today's society that have not been optimized by technology in some way. If something needs to happen, it has either already been automated or somebody is trying to figure out how to develop that automation.

In the financial space, software platforms have been developed that enable contractors to manage projects, secure extensions of credit, track deadlines, manage relationships/customer contact, and monitor and manage receivables and payment. This tech revolution is a welcome change from the days of hand-written ledgers and Excel spreadsheets, but the use of these tools in the highly specialized construction industry lags far behind the use of technology in other industries.

This is frustrating to those who understand the value added by technology, but it is also dangerous. The Construction Financial Management Association's July/August 2014 issue of Building Profits, published an article, "The Gifted Technology Driven Contractor," in which the authors explain that "technology is not a necessary evil, but rather a competitive differentiator."

They are not making things up, nor are they out of line. This is a Business 101 concept, discussed in great detail by Geoffrey Moore in the 1991 business technology classic: *Crossing the Chasm.*

The advantage of being at the front-end of technological changes is one end of the spectrum, with the other end being at the back-end of those changes.

The failure to adopt new technology like this when available can have dramatic consequences. Companies that put off implementing new technological advances available to their industry run the risk of falling behind competitors with respect to the tools used, and falling behind those competitors' subsequent efficiency gains. In an industry with thin margins and a history of payment problems, losing the efficiency battle can quickly lead to problems competing in the marketplace.

Standing out from the crowd can sometimes be a good thing, but that is not the case when it comes to failing to adopt a game-changing technology. What happened to companies that didn't adopt the Internet back in the 1990s? Having some Web presence is compulsory, and the companies that chose not to embrace that new development quickly learned that was a mistake.

Unfortunately for the construction industry, staying ahead of — or even on pace with — technology trends is not typical.

Despite the very real hazards of failure to adopt technology, the construction industry still lags far behind other industries in this regard. In fact, construction companies only spend 25 percent of what companies in other industries spend on technology. This is not optimal, and provides evidence that change is needed in the construction sector, but it also defines an opportunity — nobody in the construction industry has missed the boat completely.

According to a recent survey by JBKnowledge, most construction companies use some sort of accounting software, but the vast majority of those are using software that doesn't communicate with their other programs. In fact, one-third of the 85 percent of construction companies using an "accounting software" are only using Microsoft Excel.

Client Relationship Management technology use is similarly proportioned. While only 21 percent of the construction companies surveyed uses CRM technology, one-third of those that did used only Microsoft Excel.

This over-reliance on Excel continues to plague the receivables game with the same problems. The problems are actually exasperated because receivables monitoring, follow up, and management is so key to a company's *top* and bottom line.

While Excel is a useful product, it's the wrong tool for subcontractors — especially as it's being forced into a *de facto* platform for which it is not designed. Among other issues, it's too general, it's not collaborative, and using Excel results in multiple spreadsheets with no ability to tie that data together. In some cases, there is just too much data to reliably and consistently track with a spreadsheet.

Receivables Monitoring Technology

To really provide clear and tangible benefits, a receivables monitoring solution for the construction industry should be able to perform several key functions. It should 1) provide good access to your information; 2) be able to store and intelligently display your data; 3) be able to communicate with other software applications; and, potentially most importantly, 4) monitor and track security rights and the steps needed to remain in a secured position. Monitoring receivables is all about getting paid, and nothing prompts payment more efficiently than remaining secured in all extensions of credit.

Cloud-based Solutions

The technological revolution in construction receivables management is happening, and it's happening in the Cloud. The benefits to Cloud-based technology are real, and they line up neatly with the requirements of a thorough construction receivables monitoring solution outlined above. Cloud-based solutions are agile, communicative, clear, attractive, and powerful.

With Cloud-based solutions, a company can connect products through APIs, and with products that talk to one another, the financial manager can do away with double data entry for good. What's more, Cloud-based solutions are formulated specifically to provide easy access to all of your information from wherever you are. If you have an Internet connection, you should have access to all of your data — and if you don't, something is wrong. Finally, Cloud-based solutions are powerful as well as pretty. Ugly applications can be functional, but when your important information is presented in a clear, attractive, and thoughtful manner, it's easier to make sense of it, and get paid.

Legal Issues to Keep in Mind

Managing accounts receivables is a financial task. No wait, it's an administrative task. No wait, it's a legal task.

The truth is that it can be all of these things. It is unavoidable. However, legal rights and obligations will weave in and out of everything a company does to manage its receivables. Here are a few important things to keep in mind with relation to technological tools.

Consumer Collection Rules When Working on Residential Projects: Those working on a residential construction project may be dealing with a consumer collection matter if work goes unpaid. The consumer collection rules are complicated and toxic. In part, there are a lot of technology products out there that understand standard consumer collection rules. Make certain that the product you choose does so.

Don't Blow Through Your Rights: The construction industry has a large number of very unique legal rights, which can vary from state-to-state and project-to-project. Consider the prompt payment statutes available nationwide, or the security, lien, and bond claim rights available to subcontractors. While these rights are terrific for subcontractors and very powerful, they are also easy to lose. When working with technology products not familiar enough with the construction industry, or even with these nuanced legal rights, it's likely that the actions aided by the technology will not protect these rights for a company. Be very, very careful about this, as it can make a huge difference in the collectability of a receivable. Seek out accounts receivable technology that has construction competencies.

Scott Wolfe is CEO of zlien in New Orleans, La., a platform that reduces credit risk and default receivables for contractors and suppliers by giving them control over mechanic's lien and bond claim compliance. Wolfe is a licensed attorney in six states with extensive experience in corporate credit management and collections law, including the use of mechanic's liens, UCC filings and other security instruments to protect and manage receivables. He can be reached at (866) 720-5436, Ext. 700, scott@zlien.com, or @scottwolfejr on Twitter.

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