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Landing a big client on Net-60 terms can leave a profitable business short of cash. How to use deposits and milestones, compare financing carefully and follow up on invoices on a set schedule.

Not legal or financial advice. This article is general education, not legal, financial, tax or credit advice. Rules on late fees, collections, small claims and financing disclosures vary by state. Talk to a business attorney before you change your contract terms or pursue a debt, and to an accountant or a Small Business Development Center advisor before you take on financing.

Landing a big client feels like the moment the business turns a corner. Then the contract arrives with "Net 60" in the payment terms, and the math changes. Your team still gets paid every week or two, and suppliers still expect to be paid on their schedule. The client pays you two months after you invoice, if they pay on time.

That's how a business can be profitable on paper and broke in the bank. The sale is real, but the cash isn't there yet, and payroll doesn't wait for the cash.

Some of this is in your hands: how you write your contracts, how you finance the gap without falling into the most expensive money on the market, and how you follow up when an invoice goes past due.

How common is the problem?

Very. In the Federal Reserve Banks' 2023 Small Business Credit Survey payments module, 39% of employer firms said "customers are slow to pay," the second most common payments problem after processing fees. 1 The way a business gets paid matters a lot. Among firms whose main arrangement was invoicing after delivery (such as net 30), 64% reported slow-paying customers, compared with 14% of firms paid in full at the time of sale. 1

In the Fed's 2025 survey, 50% of employer firms reported "uneven cash flow," a category that includes collecting on receivables, as a financial challenge in the prior year. 2 And strain travels down the chain: among firms facing financial challenges, 24% made a late payment on their own obligations or didn't pay. 2 One client's slow payment can become your late payment to someone else.

The squeeze is sharper for many Black-owned businesses. In the same 2025 survey, 73% of Black-owned employer firms reported trouble paying operating expenses, compared with 51% of white-owned firms, and

35% of those facing challenges paid their own bills late or not at all, compared with 22%. 3 The gap on uneven cash flow itself was small (52% vs. 49%). 3 The bigger gaps were in covering expenses and getting credit, which is what makes a slow-paying client so dangerous.

Here's a useful reference point, with caveats. A 2016 JPMorgan Chase Institute report, Cash is King, looked at about 597,000 Chase Business Banking customers using 2015 data and found that the median small business held 27 cash buffer days: enough to cover about 27 days of typical outflows if money stopped coming in. 4

A separate 2020 report from the same bank-sponsored institute, Small Business Owner Race, Liquidity, and Survival, used Chase data from 2012 to 2019 and covers only three Southern states: Florida, Georgia and Louisiana. Among firms founded in 2013–2014, Black-owned firms had a median of 12 cash buffer days in their first year, compared with 14 for Hispanic-owned firms and 19 for white-owned firms. 5

Both figures come from older samples of bank customers, not national statistics.

What follows is our inference, not a finding of either study. If your cushion looks anything like those numbers, a 60-day payment term is longer than your runway. That mismatch is the heart of the Net-60 trap.

1. Contract armor: shrink what's at risk

The best time to protect your cash is before you sign, while the client still wants to say yes.

Deposits and milestone billing. The Illinois Small Business Development Center's cash management guide advises owners to "Require deposits" and "Divide invoices," offering as an example "a third up front, a third when the job is in progress, and a third when the job is done." It also suggests working on retainer whenever possible and sending "a work-in-progress invoice if a project stalls." 6 Other splits are possible. For example, a business might ask for 50% up front and 25% at each of two later milestones. No split is a standard. Pick one that covers your out-of-pocket costs before the work starts.

Be honest about what milestones do and don't fix. In the Fed's 2023 data, firms paid mainly in installments, such as at project milestones, still reported slow-paying customers 56% of the time, which is not far below the 64% for invoice-after-delivery firms. 1 The survey doesn't show that milestone billing eliminates late payment. What deposits and milestones change is how much of your money is at risk at any moment and when you get it. That's valuable, but it's one tool among several, not a cure.

Write the consequences in before you need them. Your contract or engagement letter should state the due date, what counts as a proper invoice, who at the client approves it, and what happens when payment is late. Some businesses add a late fee to their terms. Whether and how much you can charge depends on your state and your contract, so check your state's rules and state the fee clearly in the contract before you ever charge it. Other levers to consider:

- **A right to pause work** if an invoice is a set number of days past due.

• **An early-payment discount.** The Illinois SBDC defines one as, for example, "1% is deducted from an invoice if it is paid within 10 days." 6 Weigh that cost against what waiting costs you.

• **A credit application** for new clients. The same guide recommends developing "a credit application and policies." 6

If your client is the federal government. Federal payment is governed by rules rather than custom. The due date is generally the 30th day after the designated billing office receives a proper invoice (or after acceptance, if later). 7 For small business contractors, agencies aim for accelerated payment, "with a goal of 15 days," but that goal creates no new legal right. 8 When the government pays late, it owes interest. As of November 16, 2026, the Treasury's Prompt Payment interest rate for July 1 through December 31, 2026 is 4.75%; a new rate takes effect January 1, 2027. 9

2. Finance the gap without the most expensive money

Even good contracts leave gaps. The question is what you use to fill them.

Know the field. In the Fed's 2025 survey, the products employer firms used regularly were credit cards (62%), loans (44%) and lines of credit (36%). Merchant cash advances (7%) and factoring (3%) were far less common. 2

Lines of credit built for receivables. The SBA's CAPLines program "helps small businesses meet their short-term and cyclical working-capital needs." Its Working CAPLine is "an asset-based revolving line of credit" that is "generally used by businesses that provide credit to other businesses," and its Contract CAPLine "finances the costs of one or more specific contracts, including overhead." 10 As of November 16, 2026, the SBA's 7(a) Working Capital Pilot offers monitored lines of credit of up to $5 million for businesses that want to fulfill large contracts or borrow against receivables or inventory, with SBA-set maximum interest rates. Borrowers must produce receivables and payables agings. 11 These aren't easy money. In the 2025 survey, 32% of SBA loan or line applicants were fully approved and 40% were denied. 2 But they are built for exactly this problem.

Factoring. Factoring turns unpaid invoices into cash now, at a cost. As the OCC's Comptroller's Handbook describes it, the factor buys your receivables "at a discount," usually without recourse, and "assumes all the credit risk for the purchased accounts." The handbook adds that "most factoring is done by nonregulated businesses." 12 Without recourse means the factor, not you, takes the loss if your customer never pays. For pricing, the closest government figures we found cover export factoring, not domestic invoices: the Commerce Department's Trade Finance Guide says advances are "generally limited to 80 percent" of factored invoices, and that collection factoring carries a fixed cost "usually ranging between 1 and 4 percent." 13 Fees vary by provider and by how long invoices stay outstanding. Get the total cost in writing and compare it to an annualized rate before you sign. Some factors market their service as "payroll funding," so read those offers the same way. New York's Commercial Finance Disclosure Law requires standardized disclosures, including how to calculate an APR, on commercial financing offers of up to $2.5 million, and it explicitly covers factoring and merchant cash advances. 14

Why the merchant cash advance is the expensive yes. An MCA gives you a lump sum in exchange for a share of your future sales. In the Fed's 2025 survey, MCAs had the highest approval rate of the products tracked: 48% fully and 40% partially approved, with 12% denied. 2 Easy approval isn't the same as low cost. In a 2020 report, FTC staff summarized panelists' views that a business repays the advance "plus a 'factor'—often between 20% to 50% of that amount," typically within a few months to a year, and that MCAs can carry "in some cases, estimated APRs in the triple digits." 15 Enforcement shows how badly it can go:

• The FTC's case against Yellowstone Capital ended in a stipulated order with a $9,837,000 judgment over alleged deceptive practices, resolving allegations without a finding of liability. 16

• In FTC v. RCG Advances, the complaint alleged confessions of judgment filed improperly and threats of physical violence in collections. A 2022 order permanently barred RCG Advances and its principal from the business. 17

• New York's Attorney General announced a $1.065 billion judgment against Yellowstone and related parties in January 2025, alleging the advances "actually functioned as short-term loans with ultra-high interest rates of up to 820 percent per year." 18 Those are allegations resolved by consent judgment, not a typical rate.

Read the disclosure. California requires sales-based financing offers to show an "Estimated Annual Percentage Rate (APR)." 19 New York requires standardized disclosures too. 14 At the federal level, by contrast, the CFPB's small-business lending data rule, as amended in May 2026, excludes merchant cash advances from its data collection. 20 Wherever you are, ask any provider for the total dollars you'll repay and an estimated APR, and compare offers on the same basis.

Know the credit landscape, and its limits. In the 2025 survey, 32% of Black-owned applicants were fully approved for financing, compared with 57% of white-owned applicants. Those figures are not adjusted to control for credit risk, profitability or other measures of creditworthiness. 2,3 Black-owned applicants also applied to online lenders more often (36% vs. 29%) and to CDFIs more than twice as often (14% vs. 6%). 3 Across all firms, 60% of online-lender borrowers said their actual borrowing cost was higher than they expected. 2 If you've been turned down at a bank, a CDFI or an SBA-backed line is worth checking before an MCA.

3. An AR follow-up playbook

Slow payment is often a process problem on the client's side: an invoice stuck in approval, a missing purchase-order number, the wrong contact. A steady, documented follow-up routine fixes many of these before they become collections problems. The SBA lists accounts receivable among the functions someone in your business must own. 21

The Illinois SBDC lays out an escalation sequence: sort late invoices by date and work the larger balances first; send the invoice marked overdue; call if there's no response; offer a schedule of smaller payments; and finally "use a collection agency if you are not successful." 6 Here's one way to put it on a calendar. The day counts are an example to adapt, not a rule:

- **Before the due date:** confirm the invoice was received, approved and matched to any purchase order.
- **7 days past due:** a friendly email with the invoice attached, marked overdue.
- **14 days past due:** a phone call to your contact and to accounts payable. Ask what's holding it up and get a date.
- **30 days past due:** a formal written notice that cites your contract terms, including any late fee or work-pause right, and offers a payment plan if that helps.
- **Your cutoff:** some businesses set a cutoff, such as 60 or 90 days past due, before escalating to a collection agency, an attorney's demand letter or court. Choose yours and put it in your terms.

Small claims is a real option for smaller balances. As of November 16, 2026, California generally limits small claims to $12,500, or $6,250 if the plaintiff is a business. 22 In Texas, the limit is $20,000, and a business can be represented by an owner or employee who isn't an attorney. 23 Check your own state's court website for its limit and rules.

Know which rules apply. The federal Fair Debt Collection Practices Act defines "debt" as a consumer obligation for "personal, family, or household purposes," 24 so it generally doesn't govern a business-to-business invoice. That doesn't make aggressive collection lawful, and some state laws may reach commercial debts. Keep every contact professional and documented.

Putting it together

A big client can make your business, as long as you can survive the wait for their money. Deposits and milestones shrink what's at risk, though they reduce the problem rather than end it. Line up working capital before you need it, and compare every offer on total cost. Then follow up on every invoice on the same schedule, every time, whoever the client is. If you're unsure about a contract term or a collection step, a business attorney or your local SBDC can help.

Companion: Receivables Escalation Scripts & Cash Cushion Framework

General education, not legal or financial advice. Check your state's rules on late fees and collections, and have an attorney review contract changes.

Cash cushion framework

1. **Count your buffer days:** cash on hand ÷ average daily outflows (payroll, rent, suppliers, debt). Compare the result with your longest client payment term.

2. **Map your payment gap:** for each big client, list the days from when you pay for the work to when their payment clears. That gap is what you have to finance.

3. **Set your terms floor:** decide the deposit or milestone split you need to cover out-of-pocket costs, and don't start work below it.

4. **Arrange working capital before you need it:** compare a bank or CDFI line, SBA CAPLines or the Working Capital Pilot, and factoring on total cost and estimated APR. Treat an MCA as a last resort.

Contract checklist

1. **Write the payment terms in:** due date, proper-invoice requirements, the client's AP contact, PO numbers, deposit and milestone schedule.

2. **Add consequences:** a late fee (only if your state allows it and the contract states it), a right to pause work, and optionally an early-payment discount.

Escalation scripts (adapt the timing)

1. **Before the due date:** "Hi [Name], confirming you received invoice #[ ] for $[ ], due [date]. Is there anything you need from us to approve it?"

2. **7 days past due:** "Hi [Name], invoice #[ ] for $[ ] was due on [date] and is now past due. It's attached. Could you confirm when it's scheduled for payment?"

3. **14 days past due (call, then email a recap):** "Following up on our call: you confirmed invoice #[ ] will be paid by [date]. Please let me know if anything changes."

4. **30 days past due:** "Invoice #[ ] for $[ ] is now 30 days past due. Under section [ ] of our agreement, [late fee / work pause] applies from [date]. We're glad to discuss a payment schedule. Please reply by [date]."

5. **Your cutoff (for example, 60 or 90 days):** decide in advance whether you'll go to an attorney's demand letter, a collection agency or small claims, and check your state's small-claims limit.

6. **Keep a log:** record every invoice, contact, promise date and response. You'll need it if the account escalates.

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About the editorial team: BlackRefer's editorial team researches and writes practical guides for Black business owners and the people who support them. Every statistic is linked to its primary source, and examples are labeled as examples.

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