

Preventing Late Payments

In a recession managing and reducing the risk of late payment is essential. Indeed, small and medium-sized enterprises are particularly vulnerable to the effects that late payment can have on cash flow, profitability, and ultimately the viability of a business.

If you want to avoid falling victim to the ‘late payment culture’, consider the following strategies.

Credit check your customers – Failure to research the credit history of both new and potential customers could leave your business at risk of late or even non-payment. Minimise this threat by conducting the necessary checks with the customer’s bank, a credit reference agency and some of their suppliers. Further financial information may be obtained from Companies House, the Institute of Credit Management and local media.

It is also advisable to monitor your customers’ payment trends on an ongoing basis, as this may allow you to spot potential problems before they develop into something more damaging.

Publicise your terms and conditions – Clearly print your terms and conditions for payment on all relevant documentation that is sent to new and potential customers. Terms should clearly state the payment period for any invoice – settlement is often expected within 30 days, although this may vary depending on the type of business.

Promote a positive payment culture – To encourage customers to pay on time, you could consider offering small discounts for the early settlement of bills. If a customer is having problems with their payment, you may want to negotiate a deal with them. However, be wary of excuses – if they tell you the cheque is in the post, ask for further details, such as the cheque number and the date of posting.

Invoice on time – Distribute invoices in a timely manner to ensure the payment process remains as efficient as possible, and prevent unnecessary delays by addressing the invoice to the correct contact and department. If a client has not paid on time, it is essential to pursue payment.

Know your rights – Under the Late Payment of Commercial Debts Act 2002, businesses have a statutory right to charge interest for the late payment of commercial debt, at a rate of 8% above the Bank of England’s reference rate. You should make it clear that you will enforce these rights if an account becomes overdue. Should it come to the worst, seek legal advice about how best to pursue the debt.

Remember: customers who fail to pay their bills could jeopardise your business. Enforcing a fair but strict payment policy will protect your client relationships and your business in the long term.

We can work with you to help improve your debt collection and cash flow management procedures. Please contact us for more information.