

Preventing Late Payments

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 Chartered 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.

What if your customer is a large business?

From 2017, large businesses and limited liability partnerships (LLPs) are required to publish details on how quickly they pay their suppliers. The measures require large firms to publicly report twice a year on both their payment practices and their performance, including the average time taken to pay supplier invoices.

A government-sponsored voluntary Prompt Payment Code also exists, requiring signatories not only to pay within 60 days – in line with legal requirements – but also to work towards payment within 30 days.

The government publishes data which you can search for any large company to find out their payment performance. See 'check when large businesses pay their suppliers'.

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.

The Late Payments of Commercial Debts (Interest) Act 1998 and later Regulations means you can charge interest to businesses (but not consumers) as soon as their payment is late. A payment is considered to be 'late' after 30 days, unless you agreed something else with the customer. You're also entitled to add compensation to the interest charge. This compensation (called a 'debt recovery cost') varies depending on how much you're owed.

The Small Business Commissioner and the Chartered Institute of Credit Management have -previously provided an example of how this can be stated in your terms and conditions and on your invoices:

'We will exercise our statutory right to claim interest (at 8% over the Bank of England base rate) and compensation for debt recovery costs under the Late Payment legislation if we are not paid according to our agreed credit terms.'

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.

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.

The Small Business Commissioner has useful advice on how to deal with an unpaid invoice:

- Check – there's nothing wrong with the invoice
- Chase – informally by calling or emailing
- Choose – if chasing hasn't worked, decide what further action is required.

See: <https://www.smallbusinesscommissioner.gov.uk/deal-with-an-unpaid-invoice/>

How we can help

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.