

SUCCESSFULLY MANAGING LATE PAYMENTS

A GUIDE TO IMPROVING PAYMENT PRACTICES

One of the UK's largest independent
funding specialists



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REDUCING THE IMPACT OF LATE PAYMENT

What is late payment?

Dealing with the day-to-day running of your business, whether you are self-employed, a company or contractor, can be difficult enough without having to deal with the financial side of things. Being owed money due to missed payments can cause detrimental funding gaps for SMEs in particular, affecting cashflow, hampering growth and impacting the ability to pay staff or bills on time.

It's estimated that late payment is currently sending 50,000 small firms out of business each year, showing the scale of the problem. According to payment processor Bacs, large companies make up nearly half of all debt to small businesses. With the average late payment debt at £32,185, £26.3 billion is owed across the 47% of SMEs that say customers and clients go beyond agreed payment terms.

In an effort to tackle a culture of paying invoices late, new regulations came into force in April requiring large companies and limited liability partnerships (LLPs) to report twice a year on their payment practices and performance. In addition, the government has appointed a Small Business Commissioner to support small businesses in resolving payment disputes.

In an environment where cashflow is key to small business survival, our guide will help you to adopt better invoicing practices and ease some of the pressures to reduce the time and money spent on recovering late payments.

KEY FACTS


- On average, it takes 36 days* for SMEs to receive payment from customers
- SMEs have written-off an average of £20,043* in bad debt over the past year
- Nearly half of SMEs** experience late payment, with £26.3 billion owed to them in total
- A third** of those who experience late payments are kept waiting at least one month, and a quarter over 60 days beyond agreed terms
- 42%** of SMEs spend up to four hours a week chasing late payments
- 18%** of SMEs are spending up to £500 a month chasing late payments
- 40%*** of SMEs don't currently know how much money they are owed

🌐 FIND OUT MORE

You can find out more about how we can protect your business from late payment issues at www.bibbyfinancialservices.com/funding/additional-features/bad-debt-protection



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1 IMPROVING PAYMENT PRACTICES

A regular, reliable cashflow is vital to the financial health of any business. There are some clear steps that companies can take to encourage their clients to pay promptly, and to limit the impact of late payment when it does happen.

Know your customers – Run credit checks on all new customers before offering credit terms and set appropriate credit limits. A simple credit check online could save valuable time, and money. This should be an ongoing process as even the most reliable payers can have a change in circumstances.

Explicit payment terms – Make your payment terms clear and consistent from the start and advise customers about any late payment charges to save disputes. The standard term of 30 days gives a basis on which to chase payment and take further action if necessary. Consider including payment terms on statements, invoices and in the Terms and Conditions of business.

Part payment terms – This is best suited for larger projects, but an agreement to pay half the bill at the onset of the project and the other half after completion is a sign of good faith and an indication that you'll likely get paid at the end of a job.

Keep records – The first step towards keeping on top of overdue payments is to maintain up-to-date records to identify any potential issues at an early stage, and where necessary take steps to resolve them. Track invoices and accounts receivable weekly to determine which clients have and have not paid.

Efficient administration – Send invoices soon after the job has been completed and stick to a regular payment schedule. The invoice should clearly state the nature of the work, the due date for payment and payment terms. A straightforward process can ensure that customer payments are made easily, and preferably online or by direct debit.

Effective credit control – Tighten any existing credit control procedures and look at using technology, such as quality credit control software to automate manual processes to enable a pre-emptive approach to payment delays. Sending friendly reminders up until the due date will also help clients remember that the deadline is drawing near or has arrived.

Flexible payment options – While some clients want to pay by credit card or online payment system, others prefer to pay directly to a bank account. A straightforward process and giving various payment options, gives clients more reasons to pay you easily and on time.

Early payment discounts – Offering incentives to encourage clients to pay early, even a small discount of 2% if paid within ten days, may motivate clients to pay you on time. Not only is it a great way to encourage speedy payment and maintain your cashflow, but it could also lead to a more long-term relationship.

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THE RIGHT FORMAT

A positive step to getting paid is to have robust Terms and Conditions and invoicing techniques that give your business the best chance of not having to deal with bad payers on a regular basis.

Terms and Conditions – One of the best practices to adopt when you've agreed to work with a client is to send over your Terms and Conditions for their approval. This doesn't need to be a long document. In fact, the more succinct the better, as you're more likely to get it approved quicker.

Your Terms and Conditions should set out what they expect from you, and what you expect from them, and include:

- Notice period
- Service level agreements
- When and how you invoice, when an invoice is expected to be paid, how an invoice will be paid, and what happens when a bill is not paid
- Revision limits – to prevent repeated demands for changes to work (and help focus the client)

Invoicing – Regardless of size, invoicing is an essential part of any business and there is a basic format that you should stick to. This document is important for both parties because the seller needs to keep a copy as a record of their sales, and the client needs to keep a copy as a record of their purchase.

Even though the invoice structure is industry dependent, there are some general elements that should be followed:

- A professional header that states 'invoice' and contains your contact details, logo and V.A.T. number
- Invoice number – always use a sequential order

- Date prepared – the day the project was completed and/or the invoice was sent out
- Payment due date – either 30-day, 45-day or 60-day timeframe
- Preferred payment option – the method you prefer to receive payment

The main details of your invoice include a breakdown of services that should contain:

- Services – a detailed description of the work or service you carried out or goods supplied
- Date – the date the service was performed or when a product was purchased
- Quantity – either how many hours you worked or how many items you sold
- Rate – the price you charge for your goods or services
- Hours – applies if you're working hourly
- Subtotal – the total amount you are charging for goods or services, including tax or additional fees

Below the total, detail any additional terms and conditions such as your returns policy, how many days the client has to pay before incurring a late fee and any discounts for early payment.

Adding terms like "Thank you for your business" and "We appreciate your timely payment" can also increase your chances of getting paid.



FIND OUT MORE

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MAKE SURE LATE PAYMENTS DON'T TURN INTO BAD DEBT

There are tools available to business owners to make sure late payments don't turn into bad debt. You're entitled to be paid for what you've done, so a consistent approach coupled with a strict adherence to the agreed credit terms will help you tackle overdue payments straight away and establish if there are any problems.

To keep vital cash inside your business and avoid having to make personal salary sacrifices, try different tactics to see which ones yield the best results.

Send reminders – As invoices become due send reminders. If payment is late, pick up the phone and have an informal conversation first with the client to understand why it is late. There may be a very simple reason. If there's no response within two business days, follow up again and if you're not satisfied with the explanation, request a face-to-face meeting to resolve the issue.

Reach an agreement – You want to be sure that you have a reasonable chance of recovering the debt. Take a diplomatic but firm approach and discuss the situation with your customer. Try to resolve any issues so that you can reach an agreement and explain what steps you intend to take to recover the debt.

Renegotiate payment terms – The last thing you want to do is lose a client. To show that you understand any changes in a client's circumstances, you can discuss different payment terms for a temporary period.

Amend invoice frequency – If you're concerned about a client, consider invoicing weekly rather than monthly. That way, they need to pay you quicker and if they do pay late you can charge a late payment fee on each invoice and reduce the risk.

Add fees for overdue payments – Under the Late Payment of Commercial Debts (Interest) Act 1998, interest on "qualifying debt" can be charged at 8% plus the Bank of England base rate. This can provide an effective deterrent to late payment.

Remove credit terms for persistent non-payers – If you have debtors who persistently pay you late, consider reducing or removing any credit limit that you otherwise agreed with them. You should include your entitlement to do this in your Terms and Conditions from the outset.

Persistent debtors – In the more exceptional cases, you might end up having no choice but to threaten legal action, but this should always be your last resort. If a customer continues to default on the money they owe, and you're spending more time chasing them than their business is worth, you should consider instructing a lawyer to send your client a letter. If they still refuse to pay, you can take the dispute to court. Generally, small to medium debts will be recovered through the County Courts. Larger claims will be pursued in the High Court.

Cashflow funding support – There are a range of established business financiers in the UK that provide funding and collection support to SMEs, helping to negate the impacts of late payment. Invoice finance solutions can be used to free up cashflow by releasing existing funds, which are tied up in invoices. As soon as an invoice is issued by the business, the invoice finance provider will release an agreed percentage of the total. This helps to provide a steady flow of cash to small businesses without having to take on further debt.

SUMMARY

Overdue payment affects a large number of businesses in the UK. Our guide aims to provide a practical source of help to enable you to take proactive measures and reduce the risk of late payment. Efficient administration and effective credit management are vital to help you to identify the signs of late payment before any problems arise. The key aspect is to deal with overdue payments quickly and to take action to recover what you are owed as soon as possible.

For more information on how we can protect your business from late payment issues, visit: www.bibbyfinancialservices.com/lp/baddebt

ABOUT BIBBY FINANCIAL SERVICES

Bibby Financial Services has been supporting businesses of all sizes since 1982. We are a trusted financial services partner to over 7,000 businesses in the UK and have built a reputation for consistently delivering high levels of client service. We don't just fund your business, we believe in it.



OUR PRODUCTS AND SERVICES

We help businesses unlock working capital for a range of scenarios, including cashflow funding, new equipment purchase, growth and expansion, management buy ins and buy outs, refinancing, corporate restructuring and mergers and acquisitions.

Our range of financing options includes:

- Invoice Discounting
- Factoring
- Lease Finance
- Export Finance
- Stock Finance
- Trade Finance
- Specialist finance for the construction and recruitment sectors
- Foreign Exchange