



How to combat late payments

Late payments can be a major headache for small businesses, having a harmful effect of cashflow. Very few businesses can wait months for payment, so it's vital to chase up unpaid invoices as soon as possible to see where the problem lies. It may be as simple as the client hasn't received the invoice or the goods didn't arrive. A copy of the invoice can then be easily forwarded or proof of delivery found to speed up payment.

The excuses for late payment given by clients can be as common as "the cheque's in the post" to as outrageous as "my dog ate your invoice".

Small and micro-businesses can sometimes bear the brunt of late and non-payment due to their size. In a recent survey excuses included:

"I have no money left, but you'll get what you're owed if you work on my next project"

"Can I just buy you a pint and call it quits"

"I didn't end up using the work you produced, so I'm not paying you"

"I referred a friend, so I thought that would mean you wouldn't charge me"

Very few business owners can afford to wait months, or even years, to get the money they're owed, so it's vital to chase up late-paying clients as soon as possible. Be proactive by sending frequent reminder emails, calling clients regularly, reviewing any relevant late payment legislation and checking what kind of debt recovery or small claims options are available to you if your client still won't pay - otherwise you will be putting your business's cash flow - and potentially its future - at risk.

A recent survey from the Federation of Small Businesses (FSB) found late payments cited as one of the top three reasons for small business failure with 10 per cent of members waiting for payments of more than £35,000. Small businesses were owed over £26.8bn in late payments last year and this problem puts a quarter of small firms at risk of insolvency.

The Chartered Institute of Cash Management (CICM) has created two cashflow initiatives for the Department of Business, Innovation and Skills (BIS) - the Prompt Payment Code and Managing Cashflow Guides. Over 500,000 cashflow guides have been downloaded from its website and numerous larger companies have signed up to the Prompt Payment Code which gives clear guidance to suppliers and aims to encourage a culture of good practice by paying suppliers on time.

Philip King, CICM chief executive, said there has been a 'noticeable shift' in businesses' response to the payment issue:

“Political and media pressure have no doubt helped to bring the late payment debate out into the open, and that manifests itself in two ways. Firstly, it means that more smaller businesses have been wanting to learn about best practice, hence the surge in demand for our guides; secondly, more of the larger firms have been inclined to sign the Prompt Payment Code as their commitment to paying their suppliers to agreed terms that are fair and reasonable.”

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