

# Some suggestions for avoiding late payments

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Much advice is available about avoiding the late payment of invoices. This advice tends to concentrate on action to be taken when the invoice becomes overdue. However, the seeds of late payment are often sown before the goods are delivered, or services provided. I spent several years in charge of accounts payable and credit control departments and learnt that many overdue invoices result from problems other than a deliberate intention to pay late, or not at all. Here are some reasons why payment may be delayed and some suggestions as to how a small business might reduce the chances of overdue invoices. (The suggestions below are general. If you are in any doubt about legal agreements, consult a lawyer. The suggestions don't cover on-line transactions).

## Reasons for delayed payments:

1. Disagreement with the customer about the goods or services supplied. If the customer believes they have not received the goods or services promised, they will be reluctant to pay all the amount due,.
2. Not obeying all instructions about invoicing. Delays often occur with customers who have automatic invoice approval procedures when invoices don't have all the required information, such as order number.
3. Failure to specify payment terms in an agreement.
4. Customer considers that goods or services are not of the quality expected, or delivered on time.
5. Customer wishes to hold onto their money for as long as possible.
6. Customer never had any intention of paying (fraud).

## Suggestions for avoiding late payment:

### 1. Avoid later disagreements.

- a. You need to know what the customer wants and the customer needs to know what you will supply. If these differ, disagreement and late (and reduced) payment will occur.
- b. Agree in writing, in as much detail as possible, what you will supply; get the customer's signed agreement to this. The agreement will vary from a thick contract drawn up by lawyers to a quote on a piece of school exercise book paper. Just get the customer's signature on it.
- c. Where it may not be possible to be exact (for example when repairing cars or buildings) agree an amount for the repairs and what approval is required to go above this amount.
- d. Where possible, aim to retain ownership of goods until payment is received, or retain possession until payment (for example possession of a car until repairs are paid for).

## Suggestions for avoiding late payments

- e. If you have carried out similar work for other customers, it may be useful to get a customer to sign a photograph to agree that it what they want. In some businesses, the provision of samples or printing proofs is appropriate. Get them signed.
- f. Beware of subsequent additions to the work required. If the customer wants more than originally agreed, price the work, raise an additional agreement and get them to approve it.
- g. If you wish to change the terms of the agreement (do additional work, raise prices) agree this with the customer and get a new, signed, agreement.
- h. The above are only some suggestions. I've not included what to include in contracts because it is outside my area of expertise. If in doubt, take legal advice.
- i. Use trade associations for specific advice on contracts and payments for the goods and/or services you provide.
- j. If you have a customer who continually pays late, consider raising your prices.
- k. If you have a customer likely to go broke, require a deposit, cash with order or payment of the previous invoice before you will accept another order.

## 2. Check new customers can/will pay

- a. If possible, obtain credit references for new customers.
- b. Use trade associations and trade contacts for references, as appropriate.
- c. If the customer claims to be a member of a professional body (pharmacist, accountant, doctor) see if you can verify this with their association/institute. Failure to pay debts may be against their regulations - could be useful to know this.
- d. Consider taking deposits or accept only small orders at the start.
- e. If possible, visit the customer's premises. If it's a lock-up garage, get paid in advance, or on delivery.

## 3. Choose the most appropriate payment method

- a. This will depend on the goods and services to be supplied.
- b. Ensure payment terms are in the agreement signed by the customer. Make them specific, such as, 'Payment 30 days after invoice date', one third of quote at start of work, 'one third after 10 days and one third on day of completion'. Remember, large organisations are likely to have standard terms which they won't change for you (whatever your buyer/contact says). Find out what they are and, if you can, adjust your prices to compensate for any long payment terms.
- c. Make payment as easy as possible. Consider payment direct to your bank account (include details on the invoice) or by debit/credit card.
- d. If possible, ask for payment when goods are delivered, or the service provided. Make sure the customer understands this, so they have the funds available.
- e. Consider offering a settlement discount for payment earlier than your standard terms. Be careful, some customers will take this discount whenever they pay! I'd only offer settlement discount for payment on delivery.

## Suggestions for avoiding late payments

- f. Consider changing interest on overdue amounts but include the terms in any agreement.
- g. Consider some payment before work commences (a deposit), part way through the work and at the end.
- h. If the customer is new and the transaction a large 'one-off', consider using an escrow agent.. (Escrow involves a third party holding funds paid by the customer and released when certain conditions are fulfilled, such as the delivery of a car. So you know the funds are available and the customer knows they won't pay until they receive the goods. Search on-line for local escrow agents but make sure they are genuine. False agents also advertise).
- i. You could consider 'factoring' your invoices. In an invoice factoring, a business sells its accounts receivable (invoice) to a third party (called a factor) at a discount.

### 4. Obtain an official company order

- a. Some companies will not pay an invoice if an official order has not been placed.
- b. Make sure the order has an order number. Always quote this on the corresponding invoice. (So don't include several orders on one invoice).
- c. Check the accuracy of the order. It should include everything you have agreed with the customer during negotiations. If a contact has been agreed, it should refer to that. Query any discrepancies at this stage, especially with regard to price. Insist on a corrected order if necessary.
- d. Get an official variation order for any additional work or supplies. Remember: no order, no payment - and you're not a charity.
- e. If you need to change any details on the order (such as to increase the prices of items) renegotiate with the customer and obtain a new order.
- f. Do not accept promises of orders to come, instructions such as 'Send the invoice to me' or any other pleas. Remember, if the person you are dealing with works for a large company, they can easily avoid your overdue letters.
- g. Read the conditions and instructions on the back of the order, and comply with them. Be very careful if you are told to ignore any.
- h. Possibly only accept an order if no payments are overdue.

### 5. Understand how your customer approves invoices for payment.

- a. This is particularly important for those customers who have automated procedures for approving electronic invoices, or manual matching of paper invoices on computer. The approval procedure will vary with the nature of goods or services provided. In the simplest example, goods supplied to a warehouse or store, an order will be placed stating the product code, description, quantity ordered and price per single. When the goods are received by the warehouse, they will be matched to the order. When the invoice (electronic or manual) is received it will be matched to the order for price and receipt for quantity. If this 'three way match' (order/receipt/invoice) is correct the invoice will be passed for payment, if not, it will be held pending correction. That will delay payment.
- b. If you are selling to a large retailer and have increased prices on your invoice but not received an updated order from your customer, they may match your

## Suggestions for avoiding late payments

invoice for quantity received but raise a 'debit' note to compensate for the unauthorised increase in price. The value of the debit note is quantity multiplied by (your invoice price/item less their order price/item) plus any taxes. Thus they are effectively raising a credit note on your behalf. This allows them to clear the invoice from their sales (AR) ledger but it leaves you with a series of small unpaid amounts marching across your aged trial balance (list of overdue debts) unless you process their debit note onto your purchase (AP) ledger. If you get a debit note which you dispute, contact your customer (probably the buyer) immediately. Just make sure you have rock-solid evidence to support your dispute.

- c. Invoice approval systems for more complex situations (such as building work) will vary but the general principle is the same, find out how your invoice will be approved and make sure it complies with the customer's instructions.
- d. Ensure you understand their payment terms at this stage and who you should contact in the event of late payment.

## 6. Supply the goods, or carry out the work

- a. If appropriate, this is also a stage to check if any previous payments are overdue. Consider if you will supply more goods or services before outstanding payments are received.
- b. Again, make sure you obey the customer's instructions. Deliver to the warehouse when instructed with appropriate documentation stating order number.
- c. If you are providing a service, get approval signatures from the customer's staff as required.
- d. Make sure the customer is satisfied with the quality of goods or services provided. Correct any defects at this stage. Satisfied customers are more likely to pay.

## 7. Invoice for the goods or service provided

- a. Invoice immediately. The later the invoice, the more the customer will forget they haven't paid and the greater delay in payment.
- b. Quote any order number on the invoice and other details as required by the customer. Ideally the invoice should be a copy of the order (or contract or quote).
- c. Any variation between order and invoice may cause the invoice to fail an automatic matching stage and it will finish up on some exception report, possibly for months!
- d. Send the invoice to the address stated on the order. If you don't do this, it may not be logged into the customer's system and could 'get lost'.

## 8. Invoice is overdue

- a. Phone up and chase immediately. (That's why you need to know who to contact). Find out where the invoice is in the customer's system:
  - i. Approved, awaiting payment - when?
  - ii. Failed match - why? Who should I contact to correct the problem?
  - iii. Awaiting approval - on whose desk?
  - iv. Lost - I'll send a duplicate. Who to?

## Suggestions for avoiding late payments

- b. Companies with computerised accounts payable systems (which are most) will have payment terms set up against your account. Ask what terms are set up and, if they are not those agreed in your contract, find out how they can be changed.
- c. Keep chasing by phone. Threatening letters can be binned. Get a reputation for a supplier who is a pain if not paid promptly.
- d. If you are able, stop the supply of any further goods or services and let your customer know. No point in throwing good money after bad.
- e. If appropriate, call on the customer for payment.
- f. There is a danger that you will lose customers if you are tough on payment. But you can probably afford to lose customers who don't pay.
- g. Use debt collection agencies and lawyers, as appropriate.
- h. Take prompt action to reclaim goods supplied, where you have retained ownership, if they haven't disappeared.

## 9. Customer has no funds or won't pay

- a. You may need to take legal advice at this stage. Trade associations may also be able to help.
- b. Consider accepting a series of post-dated cheques, or the customer setting up some 'standing orders'. So if the customer owes £100 which they can pay over four months they could set up cheques, or standing orders, for £25 with payment on the first of each of the next four months. Note that in the UK banks advise against the use of post-dated cheques.
- c. If a customer's cheque has been returned by the bank because, 'Funds are unavailable' (the cheque has 'bounced'), consider paying it the again just before the end of the month before the month in which cheque expires. (Banks in the UK will not generally accept cheques more than six months after the date they were written.) This is taking the chance that the customer's funds are at a maximum just before the month end.

## 10. Useful websites

- a. Federation of Small Businesses ([www.fsb.org.uk](http://www.fsb.org.uk)).
- b. My websites:
  - I. <http://www.systemsimplementation.co.uk> How to specify, choose and implement computer systems
  - II. <http://www.managing-information.org.uk/> How to decide what information you really need.
  - III. <http://www.internalaudit.biz> Practice and principles of internal auditing.