

# Handling Late Payments

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At some time we all experience that awful feeling when we realize that the due date on an invoice has passed and we have not received the money. The prospect of having done the work for nothing raises it head, or the possibility of having been conned. At the very least we are going to have to spend time chasing the debt rather than doing what we would like to be doing.

When faced with an unpaid bill the first thing to do is to decide *why* it has not been paid. In order to pay the client must have three things: the administrative ability to pay, the intention to pay and the money. I label the lack of each of these things: *incompetence*, *malicious intent* and *desperation*, respectively.

I cannot offer any simple rules to distinguish between these, but it is worth looking back through all the previous communications with a fresh eye. It is a judgement you have to make based on your experience with the client so far, tone of communication, what they have actually said, and any news reports you can find elsewhere about the company. It is not easy, but it is important, as it affects how you should proceed.

## Incompetence – providing help

This category is where the client intended to pay, acted with the best motives, but somehow the payment didn't get to you. It could be that the editor stood a cup of coffee on your invoice, then a stack of papers and then lost it down the back of the desk. The accounts department have not even received it yet. Perhaps the money was sent but not to your account. Maybe they paid, but they sent the wrong amount.

There are many such scenarios, but the key thing is that they are trying to be helpful but just not succeeding. This means that *putting pressure on them will not work at all* – that can only make them try harder and we know that trying is not the problem. In fact they may well become *less* competent under pressure. We need to help, not pressure, them. We need to make it as easy to pay us as possible. Measures to combat this start even before the invoice is late.

First, include all possible information on the **invoice**. The invoice should spell out clearly exactly how much needs to be paid (don't make them work out early payment discounts, calculate gross or net of vat, etc., have a clear, bold "To pay" figure), by when, and all information they need to make the payment. So that should include, for cheque payment: to whom the cheque should be payable and where it should be sent, but also include an email address for them to send a "remittance advice" so that you know when the cheque is on its way. Also include contact details for "payment queries" including a phone number and email address – if they are unsure about anything, don't force them to look something up elsewhere.

Include your bank details so that they can make payment by direct credit/BACS/FastPay. Simply giving your bank details is not a security risk – you

give those details out every time you write a cheque. Making an electronic payment involves them sitting at a terminal; writing a cheque involves an envelope, a stamp, a covering letter and a trip to the post office. For you, direct payment to your bank means that the money gets into your account a week or more earlier than with a cheque and you don't have the extra work of banking the cheque.

Send the invoice electronically, preferably in a PDF format so that it is readable on whatever computer hardware they use. This means that it can be delivered quickly to the client, stored electronically by them and they can print extra copies when the coffee hits it or when it gets lost. Why force them to make an embarrassing phone call to ask for another copy and give them the opportunity to put the phone call off.

Make sure that they can cut and paste from the invoice. I have actually been the recipient of an invoice which was a .jpg image! That meant that I had to copy the bank account number by hand in order to make the payment – one more opportunity to get the number wrong and for the money to go astray. And if they pay the money to the wrong person it is going to take time to investigate and you are going to suffer delays – their mistake, your problem.

Include a unique invoice number on your invoice. If you are a limited company or registered for VAT then this is a legal requirement, but sole traders do not have to. However, it is good business practice because it makes discussing invoices much easier. You can enquire about “my invoice xxx-xxxx” and everyone knows when they have found the correct one. If you send two invoices for the same amount, for example, say you indexed two 200 page books, then they have the opportunity to think that it is the same invoice twice and only pay once.

Some indexers are concerned when starting out about the business information implicit within the invoice number – that sending out invoice “00001” trumpets that this is their first contract. That is easily avoided by using a suitable numbering scheme, for example, “2010-0001” which says it is the first invoice of the year, or “1003-001” which admits only to being the first invoice of March 2010.

Once the payment is late and we need to enquire about its progress, it is best to accompany the email by a **Statement**. The statement should show the current situation of the client, and as much information as could possibly be helpful. So, if there has been a recent invoice for a similar amount, make sure that it shows on the statement too so that it is clear that this is a different invoice. Ensure that any other invoices raised since then also appear – they may not be overdue yet but they emphasize how much money you have actually lent to the client and how much they rely on your services. Also, include the payment instructions again – why force them to find the copy of the invoice when you can include the payment and contact details on the statement. Help them make the payment now and worry about finding the paperwork afterwards.

For future payments, you can consider sending a statement a week before they are due to pay, just to remind them, or a regular statement at monthly intervals after the last statement you sent. (I wouldn't send statements when there is no outstanding payments, though).

If being helpful doesn't work, at some point you may decide that they are purposely trying to delay payment. This takes us to our next category, malicious intent.

## **Malicious intent – applying pressure**

This is where the company, by whatever means, is seeking to take advantage of the cash flow benefits of late payment. They have the ability and money with which to pay, but don't intend to yet. They want to hang on to your money as long as possible.

In business it is expected that people have administrative procedures to go through in order to make a payment and so it is conventional to allow 30 days payment terms. That means that the seller supplies the goods and notionally lends the payment money to the client, free of interest, for 30 days. In economics this is called Trade Credit, and is a major source of finance for many companies. Some companies, however, purposely extend this – not by having contractual payment terms of longer than 30 days (which is legal and acceptable – everyone knows what they are agreeing to up front) but by stealth. One large financial institution for which I worked in some years ago had a policy of never paying any invoice until it was at least 30 days overdue.

This is rarely the fault of the particular editor or person we are dealing with directly. Usually they will be saying that they have passed the invoice onto Accounts, but Accounts are very slow and there is little that anyone can do about it. It can even be built into the company's procedures – we might be told that our invoice has missed the Accounts' cheque run for the month and so will be paid next month. It is important to understand what is going on here – it is of no interest at all to us how the inside of their company works. Their company made a commitment to make a payment before a certain date and they seem incapable of making it. Would they really say that to the taxman or their electricity supplier? Here we do need to apply pressure. We need to make it better for them to pay us than to not pay us. We need to introduce consequences for not paying us.

First we need to understand what our options are – to identify the tools we have at our disposal. We then need to establish a scale of retaliation – a ladder of escalation, so that the client understands where they are on that scale, so that delaying payment makes things progressively worse. It is no good pressing the nuclear button on day 1, you have nowhere to go after that. The objective here is to get the client to pay, not to spend time chasing them through the courts.

In the UK there is the Late Payment Legislation which was designed to help small companies get paid by large companies. You NEED to read the detail and understand it for yourself [HERE](#), but the key features are:

- Once a payment is late, the late payer becomes liable for
  - An administrative late-payment charge of £40 (£70 for a debt of over £1000)
  - An interest charge of 8%+Bank of England Base Rate on the outstanding amount
- The only allowable reason for non-payment is intentional withholding of payment because of dissatisfaction with the product

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- The charges may be invoiced at any time over the next 7 years
- You may choose to waive the charge, but that does not remove the right to it, so it can still be invoiced later.

Of course, when pressuring a client we don't want to destroy the client relationship if we can help it. A particular advantage of this late payment charge is that it is automatically applied by the Law of the Land, and not by any decision on our part. So we can use that to distance ourselves from the imposition of the charge, whilst sympathizing with the client and helping them to pay us, but nevertheless pointing out the details of the charge to them.

One company uses this legislation by invoicing for the charge immediately the debt is overdue, and then deducting the charge off their next invoice if payment is made and this is the first offence.

Another tactic is to believe the company when they say it is a one-off oversight and to waive the charge. If however late payments persist and you eventually decide to dump the client, you can then invoice them for all the late payment charges over the previous years.

My procedure is to notify the company immediately they have gone overdue, emphasizing that they are continually accruing interest on the debt until payment is actually received by me, not simply despatched, so I (helpfully) emphasize that direct payment into my account will stop the debt accumulation as quickly as possible.

Reactions to this differ. Some immediately pay the outstanding debt and the charge – I am left in no doubt that it was a genuine mistake and our relationship is not impaired in any way. Others try to 'chivvy along' Accounts and the debt is paid, but not the charge – I tend to view this with suspicion but do not pursue the charge while this is a solitary oversight. If it were to happen again, then I would pursue the charge on the old debt and the new.

If payment is not forthcoming at all, then a solicitor's letter is the first stage of taking legal proceedings, and does not cost very much. Often, the fact that you have got a solicitor involved, which means that the client knows that you are practically prepared to pursue the matter, will be sufficient to prompt payment.

Whether you do then pursue the matter through the small claims court will depend on the size of the debt, whether you wish to commit the time, and whether there is a realistic chance of recovery. Of course, if there isn't, because they probably don't have the money, then we should have been considering this under the last category – desperation – below.

So, it is important to develop a ladder of actions, such as: email highlighting late payment charge; statement including charge and reminder; warning that you will proceed to legal action; solicitors letter; court action.

## **Desperation – salvaging what we can**

This category is where the client doesn't actually have the money to pay you. As with incompetence, applying pressure could have adverse affects. Consider the situation which the client may be in. Perhaps a large client of theirs has delayed payment and they do not have the cash to pay you. Very likely, you are not the only creditor demanding payment. They have numerous people, calling them up regularly, demanding payment and making threats. They just want to be left alone to perhaps get on with more work to get the money to pay everyone. Under such circumstances the threat of legal action might be viewed as being left alone for a while and might actually seem attractive!

The key judgement here is whether the client is going out of business – will they survive? If they are a large company and they say they can't pay your invoice, due 10th December, until 10th January because it has to come out of next years budget (or some such drivel), are you confident that you will get your money then? Search out all the news stories you can about the company; ask among other freelances who might work for them whether they are getting the same story.

If you view that the company might not survive, then make them an offer – explain that they have already incurred a late payment fee, but that you would waive that if they paid you 50% or the whole debt now and 50% in 30 days time. From their point of view, this is a great deal – suddenly they get one creditor off their backs, they get 30 days extra interest free loan on half the money, they don't get hassled for 30 days, and they retain a good relationship with their client (i.e. you).

But from your point of view this is good too – there is a real prospect that the company will fail and you will get nothing (or at least very little, and that long delayed) – you get 50% of the money, in your hand, now. That will probably help alleviate any cash flow problems you have, and you are perceived as going out of your way to be helpful to the client.

So it is key to identify what situation you are in. Proper preparation and professional practices reduce the prospects of late payment and convey to the client your expectation of being paid on time. Being paid by the time you agreed should be the norm. You deliver your work on time. They should deliver the payment on time.

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