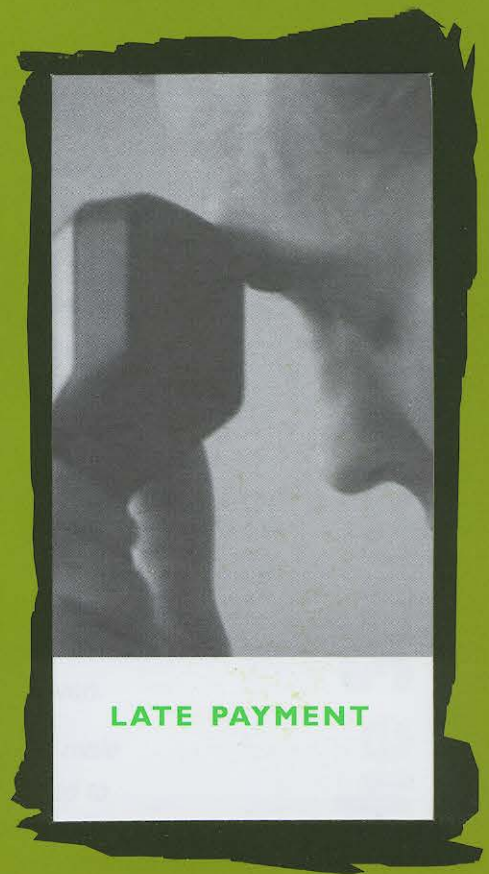


LLOYDS TSB
SMALL BUSINESS RESEARCH TRUST



QUARTERLY SMALL BUSINESS
MANAGEMENT REPORT

Issue number 2 • Volume 7 1999

CONTENTS

This issue contains a series of small business management reports based on surveys of small business owners, managers, employees, customers and suppliers. Reports of particular interest are Late Payment. The reports are as follows:

● *Survey of small business late payment* by William B. Burt, Jr. and Robert A. Giacalone. This report examines the extent of late payment in the small business sector.

● *Small business late payment - a comparison of small business late payment* by William B. Burt, Jr. and Robert A. Giacalone. This report compares the late payment practices of small businesses with those of large businesses.

● *Change in late payment* by William B. Burt, Jr. and Robert A. Giacalone. This report examines the change in late payment practices over time.

● *Small business late payment - a comparison of small business late payment* by William B. Burt, Jr. and Robert A. Giacalone. This report compares the late payment practices of small businesses with those of large businesses.

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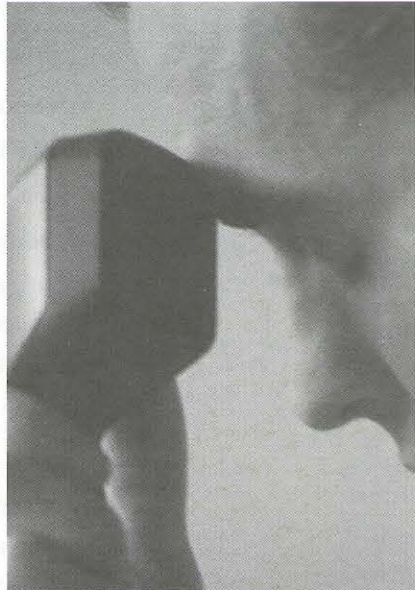
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LATE PAYMENT

**QUARTERLY SMALL BUSINESS
MANAGEMENT REPORT**

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Late Payment

WEB VERSION: INTRODUCTION

The Lloyds Bank/TSB-sponsored series of small business management reports commenced in 1992, and concluded in 2009. In total, 53 reports were published over a period of 17 years.

Our target audience comprised the owner-managers of independent small businesses, typically employing fewer than 50, and based in mainland UK.

The series originated from a longitudinal study of small business management, undertaken by the Polytechnic of Central London (now University of Westminster), and culminating in: *The Management of Success in 'Growth Corridor' Small Firms*, (Stanworth, Purdy & Kirby, Small Business Research Trust, 1992).

THEMES

The themes were wide-ranging – including such as entrepreneurship, work & stress, employment strategies, and the environment – a full list is shown overleaf.

INSIGHT

In addition to asking questions and supplying the respondents with a range of answer options, the corresponding questionnaire was included as an appendix to each report so that readers would know exactly what questions had been put to respondents.

We also sought qualitative information – in the form of verbatim comments about the key theme – to help elaborate on whatever related challenges respondents felt they were facing at the time.

Finally, the findings are primarily intended to be indicative rather than definitive – partly due to the sample size, which is, on average, 111 for the 2003-09 reports.

PUBLISHING FORMAT

The reports were published in hard copy form, obtainable via subscription. Initially

by the Small Business Research Trust, and from 2003, by the Small Enterprise Research Team (SERTeam), both research charities based at the Open University.

Regrettably, SERTeam ceased operating in 2009, and so in 2010 the authors felt that the more recent reports would find wider interest if they were made freely available in Acrobat format via the Internet – especially with the UK economy set for a protracted journey out of recession, and with the government in turn refocusing on smaller businesses to aid the recovery.

It is worth mentioning that the series commenced as the UK economy emerged from the early 1990s recession.

In 2015, the earlier reports were also converted (1993 to 2003), with the full series made available at Kingston University: <http://business.kingston.ac.uk/sbrc>

SUPPORTING INFORMATION (WWW)

In later years – as the world-wide-web developed and an increasing number of sources of information became more readily available – suggestions for online sources of related material were included.

N.B. For reports 2003 onwards - where successfully validated, the web links (URLs) were enabled in 2009. And in the case of many invalid web links, an alternative was offered, but not where the organisation appeared defunct and an obvious replacement was not traced.

**John Stanworth, Emeritus Professor,
University of Westminster**
<http://www.westminster.ac.uk/schools/business>

**David Purdy, Visiting Fellow,
Kingston University**
<http://business.kingston.ac.uk/sbrc>

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Quarterly Small Business Management Report
ISSN 0968-6444

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- 1 Surviving The RecessionFebruary 1993
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- 1 Entrepreneurship May 1998
- 2 Work & Stress September 1998
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- 4 Small Firms & The Environment .. Mar 1999

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- 1 The Impact of HolidaysJune 1999
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2002 (Vol.10)

- 1 Networking in BusinessAugust 2002
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Lloyds TSB & Research Team
Small Business Management Report
ISSN 1478-7679

- 3 Crime Against Small Firms June 2003

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- 1 Small Firms And PoliticsOctober 2003
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2004-05 (Vol.2)

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- 1 Local or Global ?January 2006
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- 1 Owner-Manager Flexible Working December 2006
- 2 The Ageing Workforce April 2007
- 3 Travel & Transportation August 2007

2008-09 (Vol.5)

- 1 The London 2012 Olympic And Paralympic Games April 2008
- 2 Competition: Small Firms Under PressureJanuary 2009

WEB VERSION PUBLISHING

<http://business.kingston.ac.uk/sbrc>

Certain content needed to be re-set, e.g., the figures in the earlier editions, but the report body content is intended to be identical to that in the printed original. This web version - an Acrobat document - is derived from the original DTP text and will permit searching.

LIABILITY DISCLAIMER

The information and analysis in each report is offered in good faith. However, neither the publishers, the project sponsors, nor the authors, accept any liability for losses or damages which could arise for those who choose to act upon the information or analysis contained herein. Readers tracing web references are advised to ensure they are adequately protected against virus threats.

HIGHLIGHTS

This is the twenty-sixth in a series of small business management reports based on surveys of a panel of small firms, mainly in manufacturing, retail/distribution and business services. The focus of this survey was on **Late Payment**. The principal findings were as follows:

- **Usage of recent 'Late payment' legislation** – *In the period in which the Late Payment legislation has been on the statute book (†), our results suggest that 95% of small firms have not used it.*
- **Awareness of legislation** – *Two-thirds of firms say they have an 'adequate' or 'moderate' knowledge of the working of the new legislation, but this still means that 62% of the respondents could benefit from further information.*
- **Change since introduction of legislation** – *93% of respondents say the situation on late payment has not improved since legislation was introduced in November 1998. 5% say it has improved and 2% say it has deteriorated.*
- **Extent of late payment problems** – *Three-quarters (76%) of respondents see late payment as some sort of problem, though only 22% see it as a 'major' problem.*
- **Reluctance to use the 'Late payment' legislation** – *Around half (53%) feel that they are most unlikely to use this remedy. A further 41% feel they might use it 'occasionally', with a final 5% feeling they would use it whenever the need or justification arose. Thus, there does appear to be the potential for fairly considerable use in the future, should respondents ultimately come to feel it worth their while, which they do not at the moment.*
- **Reasons for not suing** – *Amongst a range of reasons for respondents being reluctant to sue customers for late payment interest via the county courts, 43% felt that the 'time and effort involved would probably not be justified'. 'Fear of losing future orders' accounted for another 30% of main reasons given.*
- **Gender differences** – *Female respondents are more likely than their male counterparts to see late payment as a major problem, 31% as opposed to 20%, but are less likely to resort to court action.*
- **Late payment enforcement** – *The Inland Revenue and the clearing banks were cited as examples of the few organisations with the muscle to really enforce the payment of interest on overdue debts.*
- **Extension to protect larger organisations** – *Most small firms feel it only fair that, eventually, the late payment legislation should protect large firms, too.*
- **Small firms set to follow a lead ?** – *There appears to be a log-jam of good intent on good payment practice with a majority of small firms ready to reform their own payment practices if, and when, others change theirs.*

(†) *The Late Payment of Commercial Debts (Interest) Act 1998*

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ACKNOWLEDGEMENTS

The Small Business Research Trust wishes to thank all responding firms for their time and effort involved in participation in the production of this Management Report. The Trust acknowledges the help provided by David Purdy, The Open University, and The University of Westminster, in designing the survey, processing data and analysing the results.

This current edition of the report has recorded our best-ever response from the small businesses on our panel database. This outcome was influenced to a degree by high levels of interest in the particular topic concerned – *Late Payment* – but was much more a reflection of recent levels of successes by our production team, including Beverley Porter-Blake and David Purdy, in building up our panel of small firms so as to compensate for the inevitable levels of erosion encountered over time.

The Small Business Research Trust is particularly pleased to acknowledge the generous support provided by Lloyds TSB in sponsoring the research, analysis and presentation of this report. However, it is important to note that any opinions expressed in this publication are not necessarily those of Lloyds TSB.

Report Author – Professor John Stanworth (University of Westminster)

Series Editor – David Purdy

Lloyds TSB

The Small Business Research Trust

MANAGEMENT ISSUES

The emphasis of our Quarterly Management Reports is on monitoring the key management problems and practices of smaller business, with an emphasis on survival and success. Accordingly, each issue of the Lloyds TSB/Small Business Research Trust Management Report addresses one or more highly topical small business management issues. In this survey we focus on **Late Payment**.

PAST SURVEYS

1993 (Vol.1)

- No.1 *Surviving The Recession*
- 2 *Using Your Time*
- 3 *Management Style*
- 4 *Financial Management*

1994 (Vol.2)

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- 1 *Entrepreneurship*
- 2 *Work & Stress*
- 3 *Employment Strategies*
- 4 *Small Firms & The Environment*

1999/2000 (Vol.7)

- 1 *The Impact of Holidays*

THE SAMPLE

This report is based on responses received from a panel of over 350 small businesses situated in the Northern, Midland and Southern regions of Britain. Respondents are predominantly small firms with fewer than 50 employees, drawn mainly from the manufacturing, business services, and retail/distribution sectors of the economy. The precise distribution of firms varies from survey to survey, but typically over half of the participants employ fewer than 10 people.

RESULTS

The questionnaire completed by sample firms appears at the end of this report as an appendix. This survey was carried out during June-August 1999.

BACKGROUND

As of November 1998, small businesses with 50 or fewer employees have been able to claim interest – as a statutory right – from large businesses and the public sector for the late payment of business debts (The Late Payment of Commercial Debts (Interest) Act 1998). From November 2000, as well as small firms being able to claim interest for late payment from large organisations, small firms will be able to claim from each other. The eventual aim, as of November 2002, is for large firms also to be able to sue small firms.

The legislation surrounding the issue of late payment of commercial debt has been a debating point for some years in the small business field. Most people said that the introduction of legislation might be fair and just but felt that it simply would not work. So, what is the evidence so far ?

THE EFFECTS TO DATE

Figure 1 shows that 95% of our respondents had not charged interest on late payment and nor had they been charged interest in the period in which the legislation has been on the statute books (a minimum of 6 months at the time of the

survey). Just 4% claimed to have charged other interest and 1% claimed to have been charged themselves. Most of the modest amount of activity here involved the manufacturing sector, followed by business services. There was none in the retail/ distribution sector.

Thus, we can say that very few small firms appear to be using the legislation so far. But why is this ?

LACK OF KNOWLEDGE

Figure 2 shows that levels of knowledge concerning rights under the law for aggrieved parties experiencing late payment vary quite widely. Around one-third of our sample felt their knowledge was 'adequate', with around the same proportions claiming 'moderate' and 'problematic', respectively. But the latter responses also suggest that nearly two-thirds of the respondents (62%) could benefit from further information.

One respondent said:

"I did not know there was a Government agency dealing with late payment – information should be made available."

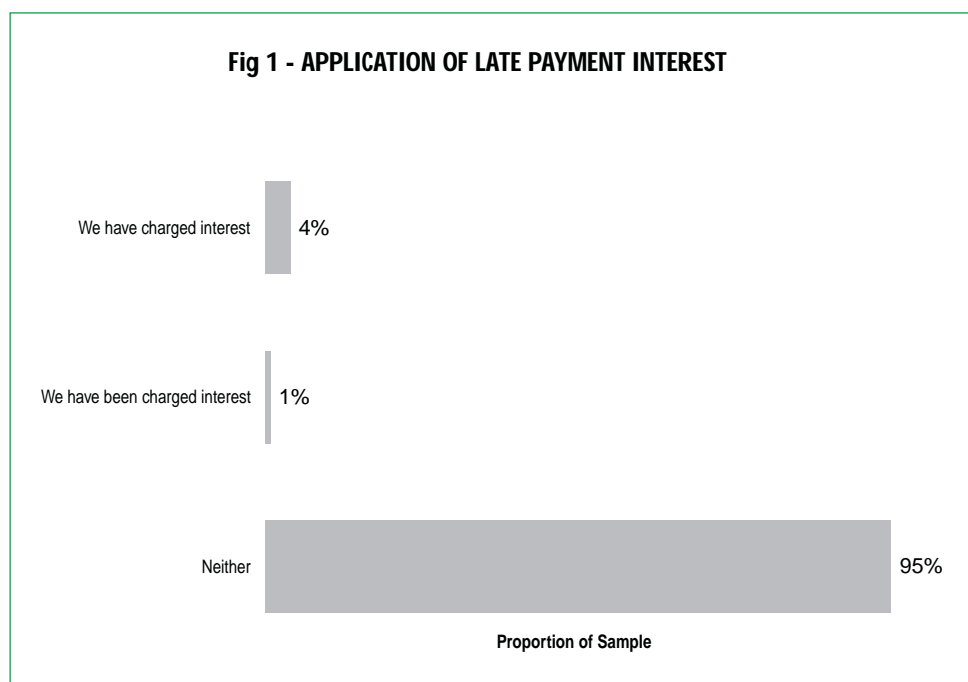
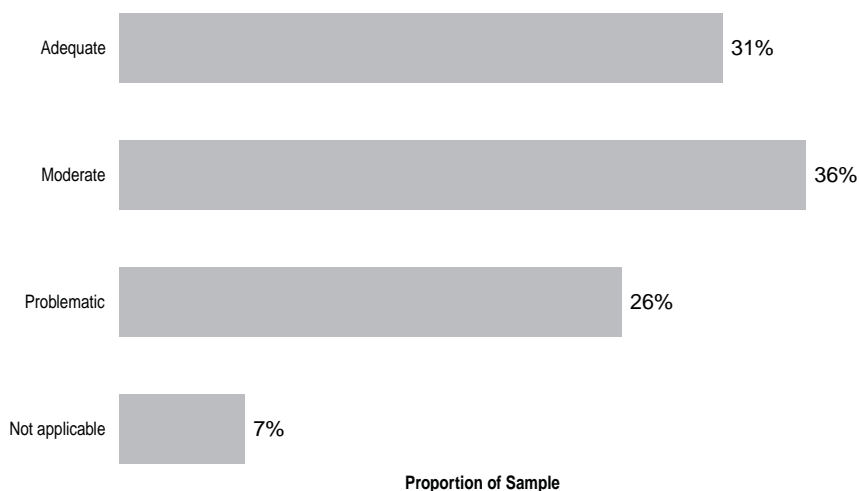


Fig 2 - AWARENESS OF NEW 'LATE PAYMENT' LEGISLATION

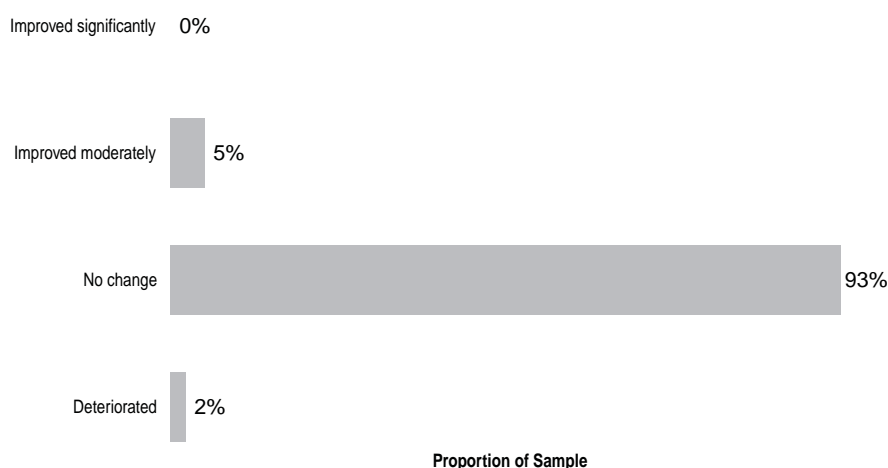
Nearly two-thirds of the respondents (62%) could benefit from further information

It appears that the legislation is not being widely used yet, though most of our respondents seemed at least aware of its existence. However, as **Figure 3** shows, many feel that the legislation simply is not working. When asked, 93% of our respondents detected 'no change' in the late payment situation since inception of the legislation. A further 5% detected a moderate improvement, and 2%, a deterioration. Thus, to date, the legislation would appear to have had little impact.

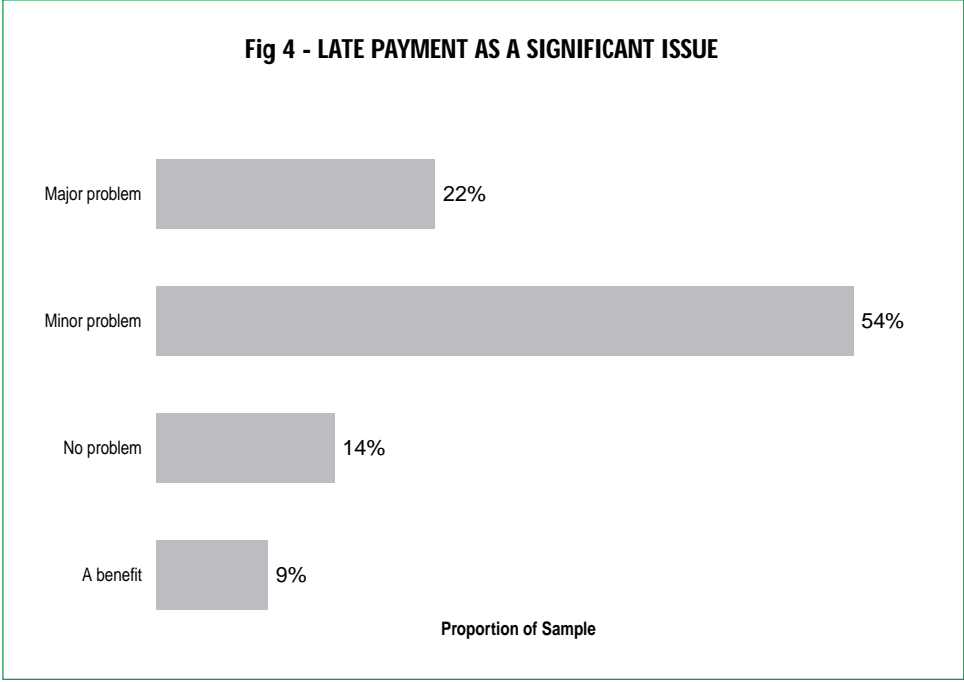
ONLY A MINOR PROBLEM ?

One possible reason for the low adoption rate of the legislative framework could be that our respondents simply did not view late payment as a major headache.

Figure 4 shows that only around 1-in-5 actually saw it as a 'major' problem for their business, with just over half seeing it as a 'minor' problem. Interestingly, it seemed to be a more significant issue to the female

Fig 3 - IMPACT OF NEW 'LATE PAYMENT' LEGISLATION

Women are more likely to see late payment as a major problem



respondents (Figure 5).

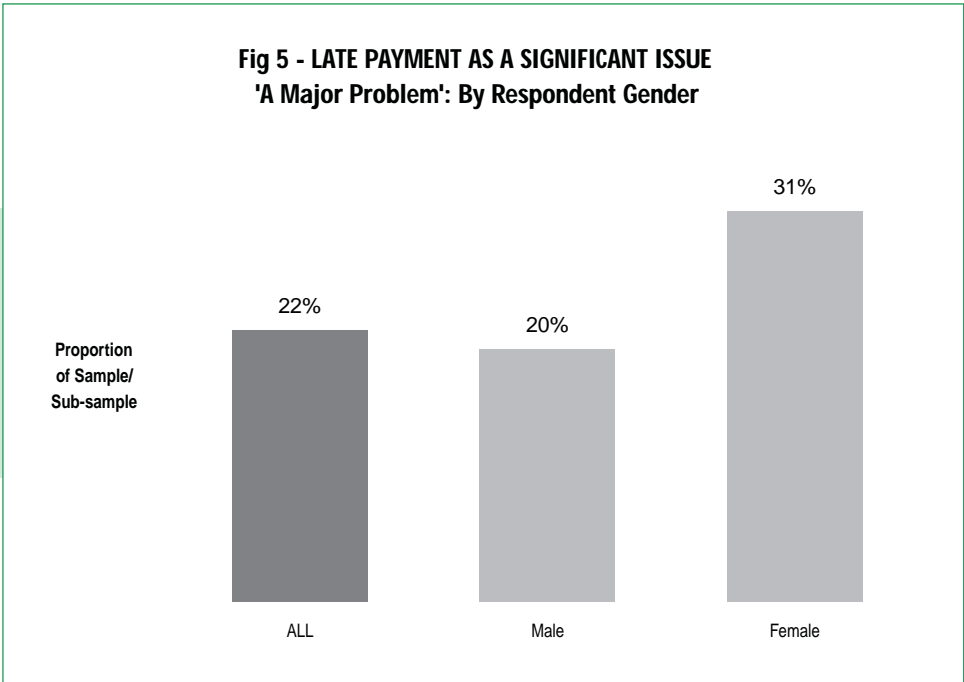
Overall, it can be said that most (76%) see it as some kind of problem, though, for the majority, at a lesser level.

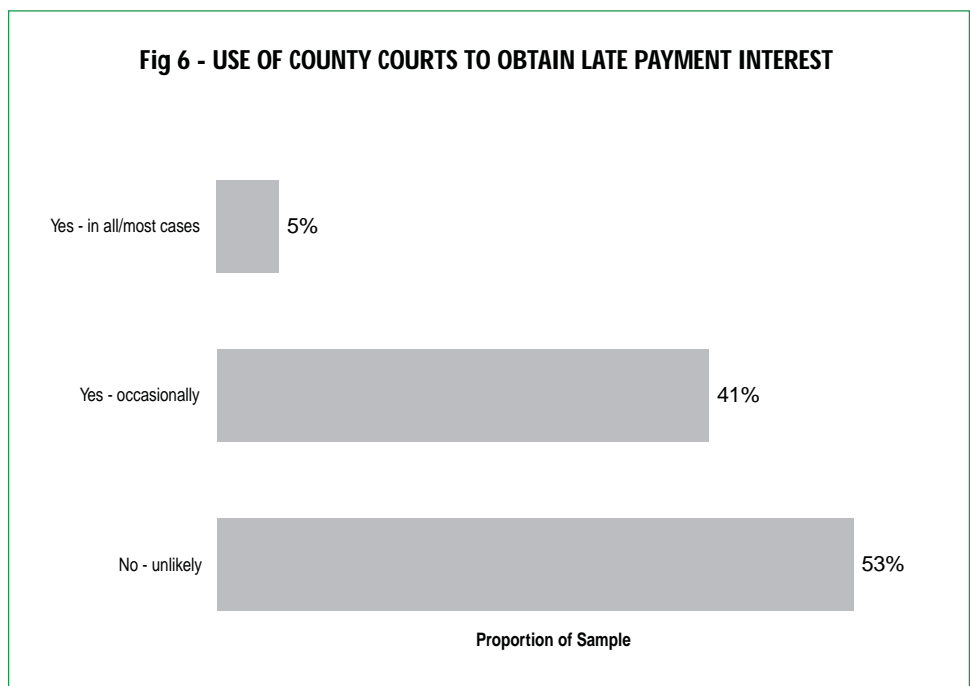
Another reason, though, for the current low usage rate of the county courts for the settlement of late payment interest could be that respondents doubted the cost-effectiveness of the process.

HALF MIGHT USE LEGISLATION

Figure 6 shows, however, that only around half (53%) felt that they were most unlikely to use this remedy. A further 41% felt they might use it 'occasionally' with a final 5% feeling they would use it whenever the need or justification arose. Female respondents were less likely to seek redress via the courts, though (Figure 7).

Thus, there does appear to be the potential





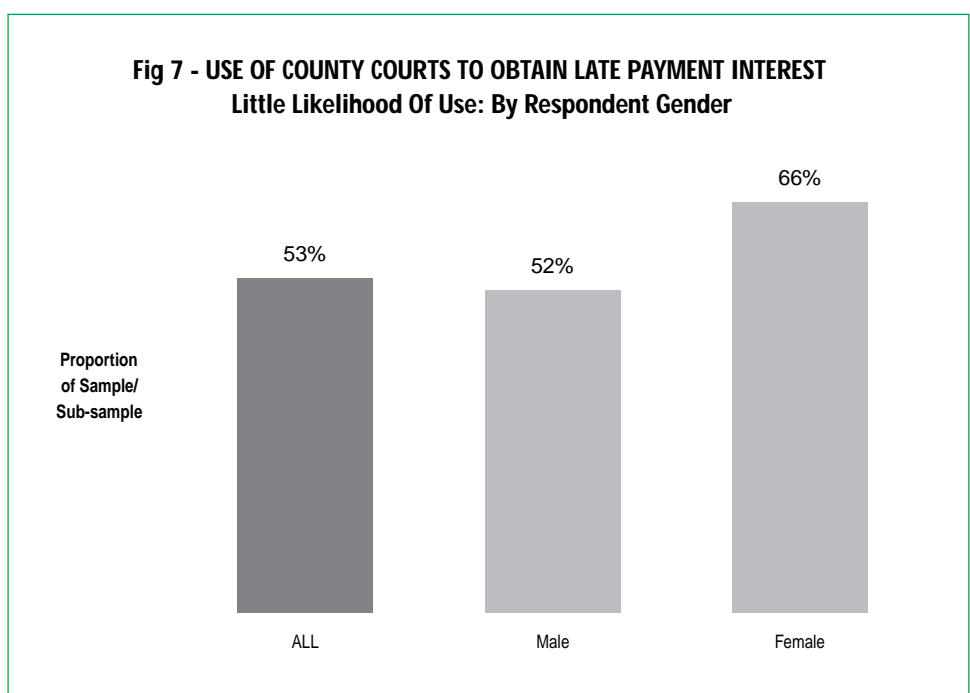
The majority are unlikely to use the county courts

for fairly considerable use in the future, should small firm owner-managers feel it worth their while.

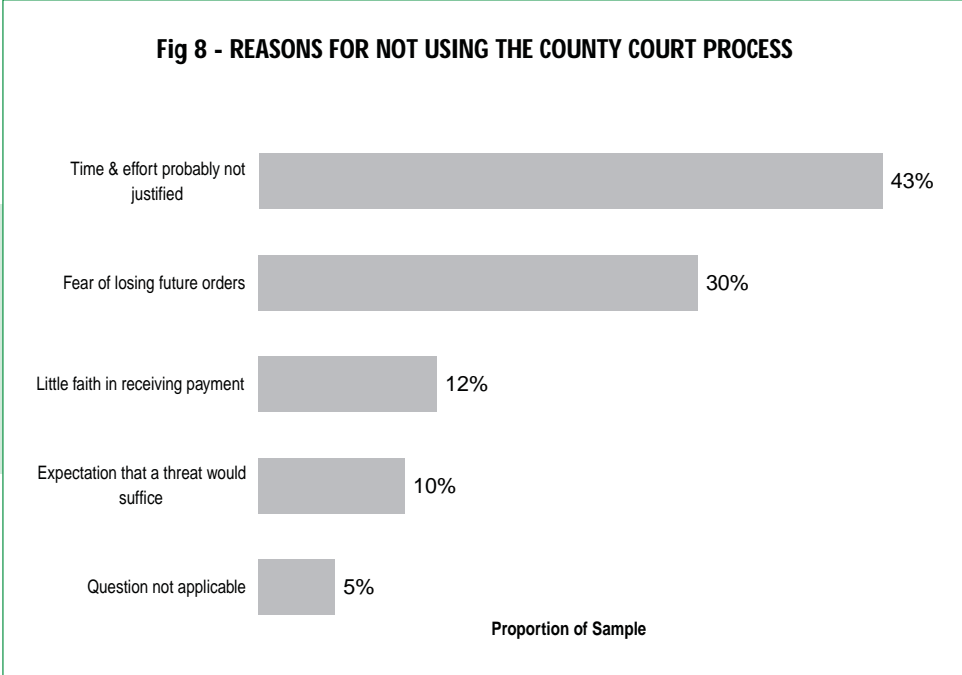
REASONS FOR RELUCTANCE TO USE THE LEGISLATION

Figure 8 shows the range of reasons for respondents being reluctant to sue customers for late payment interest via the county courts. Interestingly, perhaps the most obvious reason, i.e. 'fear of losing

future orders', accounted for only 30% of main reasons given. In the event, 43% felt that the 'time and effort involved would probably not be justified', whilst a further 12% gave a similar answer to the effect that they had 'little faith in receiving payment'. Thus, for 55%, it was seen as not being worth the risk. Interestingly, 10% thought that the mere 'threat' of court action might have the desired effect, with proportionally more females than males feeling more this way. Also, fewer females appeared to be



Is systematic customer screening & invoice handling a sounder bet than the courts ?



less concerned about the loss of future orders (Figure 9), although this may be better understood by knowing that more women than men pro rata were inclined to value of the *threat* of legal action. However, there was an awareness that the court route probably represented one of 'last resort', and that the relationship could be finished if things went that far:

"Charging large companies with late payment charges will lead to bad

relationships developing – they will just deduct payment charges and seek alternative suppliers."

Other quotes included the following:

"In our opinion the large companies know that the small company does not have the available manpower to implement legal proceedings."

"Late payment is a vicious circle. If

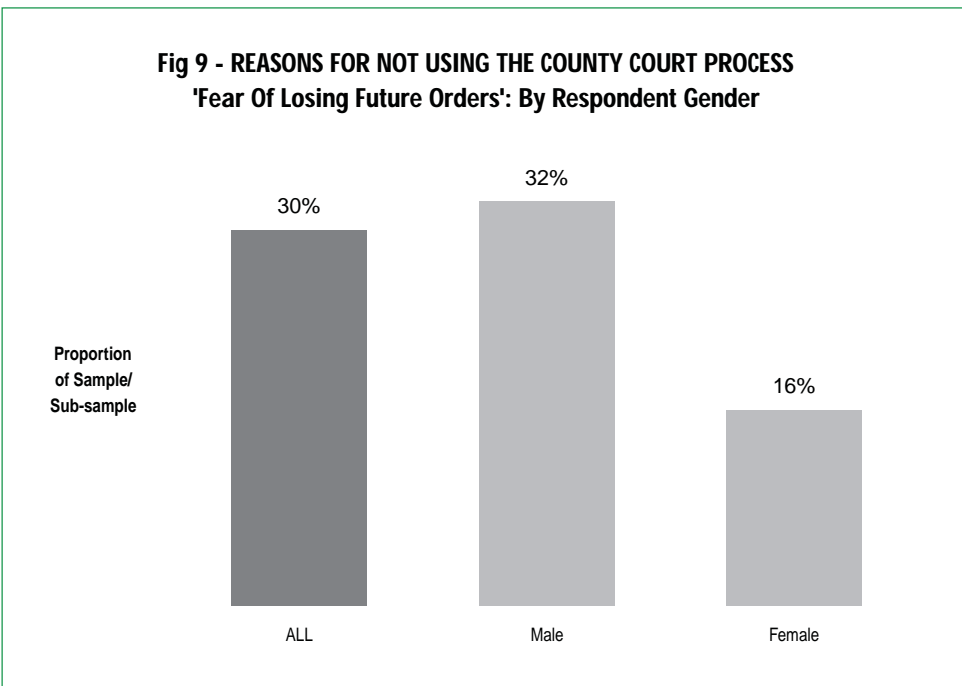
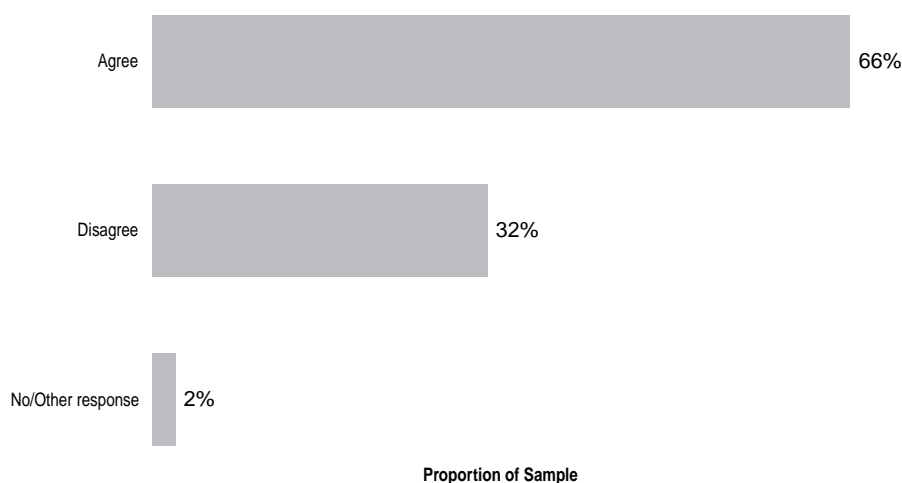


Fig 10 - O.K. FOR LARGE FIRMS ULTIMATELY TO SUE SMALL FIRMS ?

A sizeable minority are not persuaded that large firms should be allowed to sue small firms

your customers pay late then in turn, your suppliers are paid late."

"I am the (late payment) problem. Our trade is desperately quiet at the moment. My suppliers give me good service and I (should) like to pay everyone promptly but, until things improve, I will be late paying everyone."

"It is hard enough to get debtors to pay the debt when taking court action, let alone late interest payment."

"Most small firms turn a blind eye, as orders are difficult to keep in these competitive times."

Some fairly harsh criticisms were levelled against large organisations. For instance, some said that the only businesses who appeared to have the muscle to enforce late payment penalties were the Inland Revenue and the clearing banks and that small businesses were often the victims here. In addition, some large organisations were accused of using late payment as a method of levering discounts for early payment or even requesting that customers sign agreements to their terms, i.e. invoice

settlement extending to 60-90 days.

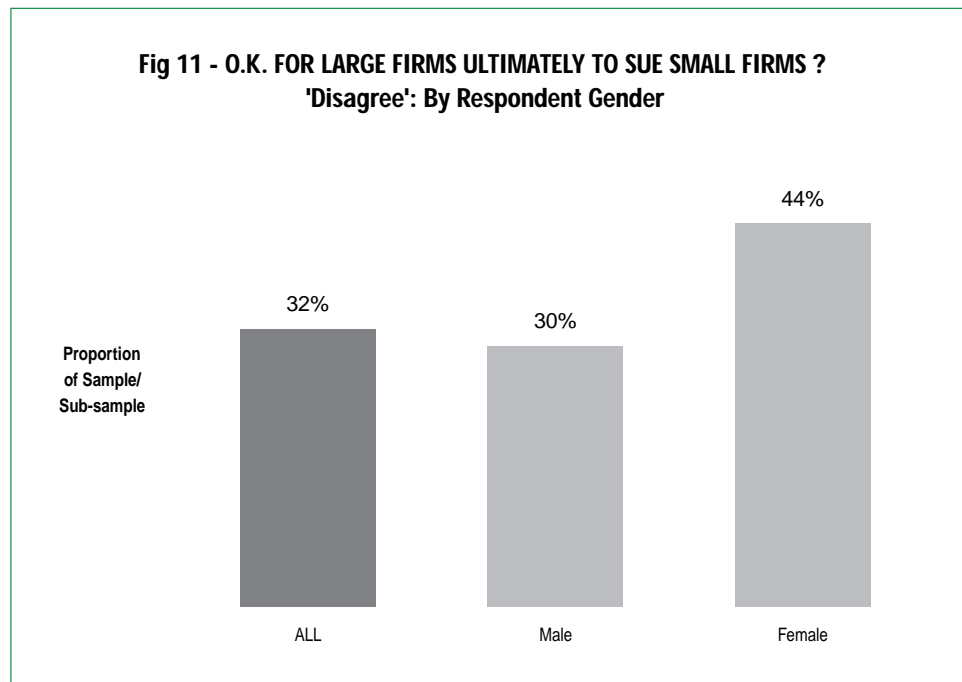
Other interesting comments involved construction companies not accepting invoices from small business sub-contract firms until they themselves have been paid by lead contractors. Others said that late payment was often due simply to large companies employing insufficient staff and stressed employees putting other issues ahead of approving invoices.

LARGE FIRMS

When asked how respondents felt about the legislation eventually allowing large firms to sue small firms for late payment interest, two-thirds agreed that this was fair and just, compared with one-third who did not (**Figure 10**). However, women were less convinced (**Figure 11**).

POLICY CHANGES

When respondents were asked (**Figure 12**) how the late payment legislation was likely to affect their own practices, 52% said their policies had not changed whilst a further 34% said they were willing to change but only if it proved to be a two-way thing. Thus, they were willing to change but only if others appeared to be doing likewise. A



final 13% said they had already conformed with the new '30-day' general guideline.

Hence, it appears that there is a log-jam. As many as half of our respondents would conform to the new guidelines if they felt others were going to do the same and thus not put them at a competitive disadvantage. The task facing government and business leaders is obviously that of freeing up this log-jam and getting the culture change moving. A wider awareness of attempts to improve payment performance by government departments – and also larger businesses – may be helpful in persuading small firms that a lead elsewhere is being taken.

But whether the existing legal routes to late payment satisfaction are widely viewed as workable – especially regarding smaller value invoices – remains debatable. Alternatively, some feel that prevention is better than cure, but one respondent didn't find it wholly satisfactory:

"We suffer little from late payment problems but only because we devote much time and effort to chasing monies due, and this is an expensive use of management time !

AGE INFLUENCES

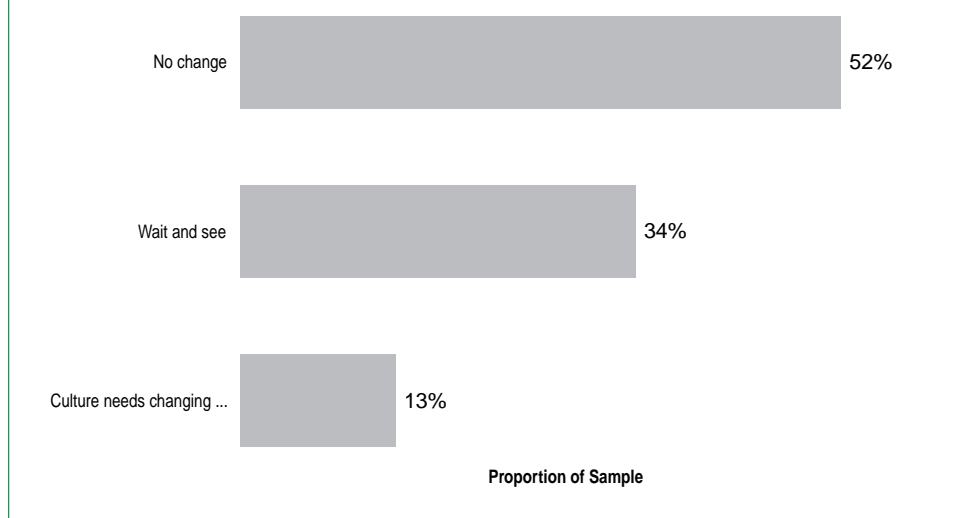
Interestingly, we found almost no substantial variations in reported experience when we searched for the influence of firm size, age of respondent, or business sector. In fact, the lack of variety here was almost unique in our experience of 25 previous reports.

When we looked at age influences, the only points of note we found amongst the different age groups featured the youngest group (25-34 years of age) who were the least likely to feel that they had an adequate understanding of the late payment legislation but were the most likely to feel that large firms should have the same rights as small firms. Additionally, they were the most likely group to feel that the act of suing late paying customers was not worth the time and effort involved.

SECTOR INFLUENCES

Virtually no differences were detected between firms of different size. However, there were modest sector differences with business services being the most likely group to feel that late payment was a 'major' issue and the retail/distribution sector as least likely to see it as a problem

Fig 12 - HOW WILL THE NEW 'LATE PAYMENT' LEGISLATION AFFECT RESPONDENTS' POLICIES ?



A third of small businesses may be waiting for someone else to take the lead

and the group most likely to see it as sometimes even an actual benefit.

GENDER INFLUENCES

Due to our enlarged sample size for this report (see also the notes in Appendix 1), we had enough female respondents to attempt a serious examination of gender differences. It is interesting to note that we found greater differences under the gender heading than under the sector, age, or firm size analyses.

For instance, women were less agreeable than men to the notion that large firms should eventually receive rights under late payment legislation. 31% of women, against 20% of men, considered late payment a 'major' problem in their businesses (**Figure 5**) and 66% of women (against 52% of men) felt they were most unlikely to use the county courts to seek interest for late payment (**Figure 7**). However, more women than men felt that the mere *threat* of going to court might solve late payment problems.

RESPONDENTS' COMMENTS

These are shown on the following pages.

REFERENCES: LATE PAYMENT

The references below are offered as an aid to readers interested in seeking further information, much of which is readily available via the Internet (WWW). The coverage is not intended to be definitive, and inclusion here should not necessarily imply either agreement or disagreement with the views expressed via these sources. N.B. Some pages may contain links to other WWW pages offering related material.

- **Late Payment of Commercial Debts (Interest) Act 1998**

The relevant Act of Parliament – “The text of this Internet version of the Act has been prepared to reflect the text as it received Royal Assent. The authoritative version is in printed form and is published by The Stationery Office Limited as the Late Payment of Commercial Debts (Interest) Act 1998, ISBN 0 10 542098 0 £2.40”. Available online via:
<http://www.hmso.gov.uk/acts/acts1998/19980020.htm>

- **A Summary Of The Late Payment Of Commercial Debts (Interest) Act 1998**

Published by the Department of Trade & Industry (DTI) – **reproduced in this**

- report as **Appendix 3 on page 25**.
Available online via:
<http://www.dti.gov.uk/latepay/index.htm>
- **Late Payment of Commercial Debts (Interest) Act 1998: A User's Guide**
14pp. Available online via:
<http://www.dti.gov.uk/latepay/dtiusrgd.pdf>
 - **Better Payment Practice Campaign**
"The Better Payment Practice Group (BPPG) was formed in 1997 as a improve the payment culture of the UK business community and partnership between the public and private sectors. Its aim is to reduce the incidence of late payment of commercial debt."
<http://www.payontime.co.uk>
 - **Better payment practice wallchart: your guide to being paid on time**
"Wallchart outlining the processes to go through to minimise late payments", reproduced in this report as **Appendix 4 on page 27**. 6pp. Ref. URN 98/964 Free; Available via e-mail order from: dtipubs@echristian.co.uk. Also available online, via:
<http://www.payontime.co.uk/newdocs/quickstep.html>
 - **Better payment practice: your guide to paying and being paid on time**
"Guide to credit management and debt recovery for small businesses."
26pp. Ref. URN 98/965 Free; Available from: dtipubs@echristian.co.uk
 - **Resolving Disputes Without Going To Court**
Online guide – published by The Lord Chancellor's Department
<http://www.open.gov.uk/lcd/civil/rdindfr.htm>
 - **Consultation Response – Late Payment, by British Chambers of Commerce** (undated)
<http://www.chamber.co.uk/newsandpolicy/smallfirms/>
 - **Interest on Late Payments: At Last**
Association of Chartered Certified Accountants, ACCA Industry and Commerce Review – Oct/Dec 1998
http://www.acca.org.uk/publications/funcsoc/icr/iandc26_p2.html
 - **ACCA Survey: The Late Payment of Commercial Debts (Interest) Act 1998**
Survey of members, June 1999, 14pp, hard copy
<http://www.acca.org.uk/index.html>
 - **Name and shame list shows some companies take 200 days to pay**
Article on Federation of Small Businesses report, April 7, 1999
<http://www.guardianunlimited.co.uk>
 - **Government Set Example For Paying Bills On Time**
Department of Trade & Industry Press Release P/98/587 23 July 98
<http://www.nds.coi.gov.uk>
 - **New Directive To Combat Late Payment Across Europe**
Department of Trade & Industry Press Release P/99/346 29 April 1999
<http://www.nds.coi.gov.uk/coi>
 - **The Enterprise Zone**
"The Internet is an important resource for your business, but it is hard to get to the sites that really matter. The Enterprise Zone can help you with links to information, resources, or sources of expertise on Finance, I.T., Marketing, H.R., Export and other key business issues." Launched in 1997 by the DTI and supported by Business Links.
<http://www.enterprisezone.org.uk/>
 - **Forum of Private Business (Small Business Lobby Group)**
"On Line Chat on the Enterprise Zone with Stan Mendham, Chief Executive, Forum of Private Business on late payment and the statutory right to interest." December, 1998
<http://chat.interesource.co.uk/ezone/mendham/chat.htm>

MANUFACTURING

[Manufacturing]	<i>"Large firms have got the likes of us by the short and curlies."</i>
Acoustic Products for Industrial Applications	<i>"In our opinion the large companies know that the small company does not have the available manpower to implement legal proceedings on a regular basis and will delay payment using very minor excuses, such as, 'we have not received your invoice'."</i>
Building and Joinery	<i>"I think that all companies large or small should pay on time, then the country will be in a better position."</i>
Cash Register Ribbons and Stationery	<i>"Apart from legitimate invoice queries there are only two reasons for late payment: 1) Inadequate (or ineffectual) credit control, 2) A weak Sales Manager or MD. If you haven't got the bottle, stay out of business."</i>
Catering Equipment	<i>"I did not know there was a government agency dealing with late payment - [information] should be made available."</i>
Clothing Manufacturer	<i>"Late payment is a vicious circle. If your customers pay late then in turn your suppliers are paid late. This cycle has a knock-on effect to many businesses. Therefore all firms should give priority to pay their suppliers on time."</i>
Computer Manufacture	<i>"Late payments waste time and resources. Ideally no-one should have credit."</i>
DIY Products	<i>"No single customer accounts for more than 5% of our [sales] turnover. This significantly affects our attitude to the payment issues."</i>
Designer & Mfr. of Helmets & Masks	<i>"Late payment is a business culture. Duration of payment stretched is also dependent upon how critical a supplier your customers think of you. It can be improved by personal or telephone chasing. Strong-arm tactics (solicitor's letter) will only harm business in many cases."</i>
Diamond Drilling Equipment	<i>"Most government agencies are too 'hog-tied' by 'red tape' to do anything useful for small businesses."</i>
Electrical Engineering & Contracting	<i>"I feel [that] if you offer a good service and run your company efficiently, [then] late payment does not become an issue, as you are as valuable to your client as he is to you and a prompt payment strategy is required to maintain this."</i>
Engineered Parts	<i>"Most small firms would turn a blind eye, as orders are difficult to keep in these competitive times."</i>
Equipment Maintenance. Garage Equipment Supply	<i>"To apply this legislation to SMEs could cause difficulties with cash flow."</i>
Fabrication, Welding, Machining, Special Purpose Machines	<i>"Much of our business is one-off special contracts and non-payment generally relates to 'final acceptance' and contract detail. Any delay due to reluctance to part with cash is difficult to ascertain."</i>

MANUFACTURING continued

Fibre-Optic Endoscopes & Video Systems	<i>"To get round the legislation some 'Blue Chip' customers have requested that we sign an agreement to their terms, i.e. 60-90 days."</i>
Fireplace Manufacture	<i>"Our trade is desperately quite at the moment - I am the problem. My suppliers give me good service and I like to pay promptly, but until things improve I will be late paying everyone."</i>
Golf Clubs	<i>"I have found only government departments, i.e., the Tax Office, are the only ones to implement interest charges."</i>
Graphic Design & Printing	<i>"It is hard enough to get debtors to pay the debt when taking court action, let alone late payment interest."</i>
Graphic Reproduction & Print	<i>"As all legislation emanates from Brussels, let's have European legislation now on late payment. 30 days maximum credit."</i>
Jewellery Manufacturer	<i>"Late payment legislation is unworkable. Charging large companies with late payment charges will lead to bad relationships developing - they will just deduct payment charges and seek alternative suppliers."</i>
Joinery	<i>"There should be an easier method than suing through the county court as this involves an outlay and does not necessarily bring results."</i>
Joinery Manufacture, Windows, Doors etc.	<i>"We feel that taking court action against late payers should be a guarantee that we will get paid. But in practice we find that if people don't want to pay - they won't. They don't answer the door when the bailiff calls and therefore the threat is negated. It is costly pursuing such people with solicitors."</i>
Kitchen & Furniture Manufacturers	<i>"Banks are still not tolerant enough with regards late payment by customers, this results in not only bad cash flow but being penalised by the bank as well - a 'Double Whammy'. Company history should be taken more into account."</i>
Lamination of Coasters, Placemats etc.	<i>"We suffer little from late payment problems but only because we devote much time and effort to chasing monies due, and this is an expensive use of management time !"</i>
Manufacture Diving Suits	<i>"The payment culture needs changing. Legal remedies are of little practical use. You will lose the customer and still not get the money. There needs to be a statutory obligation to pay with adequate enforcement. Debtor prisons would be good !"</i>
Manufacturing	<i>"Small companies suffer tremendous stress with late payment; if companies have had the work done satisfactorily they should pay without the need of threat of court action or interest being charged."</i>
Medical Electronic Instruments	<i>"Universities and hospitals use late payment as a lever to get a discount for early payment."</i>

MANUFACTURING continued

Pharmaceuticals	<i>"Late payment can significantly affect the cash flow of a small firm. Large companies are either efficient - quick payers - or inefficient and it's not just about payment."</i>
Pipe Organ Manufacture and Servicing	<i>"Small firms need protection but they must also run their own businesses efficiently regarding payments."</i>
Pipe Supports for Oil Refineries, Power Stations, Processing Plants etc.	<i>"In construction it is a chain reaction and mainly attitudes of individuals. Perhaps it would be shortening the chain that would have the most effect, not encouraging conflict."</i>
Plastic Fabrications	<i>"[It] Should be made law that every company - small or large - pay their suppliers in 30 days."</i>
Plastic Packaging	<i>"Large and small firms should be treated the same regarding late payment penalties or reforms."</i>
Printing, Graphic Design, Copy Service	<i>"Accountants 'advise' not to pay on time to help cashflow ..."</i>
Production of Plastic Mouldings	<i>"Question 7 sums it up [Benefits of legislation] - there is a need for a cultural change and any legislation will always be secondary to the requirement for education."</i>
Products for the Building Industry	<i>"Small customers do not seriously affect our situation if a bit late in paying - but larger customers can seriously hinder all other aspects of the business activity if they regularly delay payment."</i>
Publishing	<i>"The legislation just cannot work as it is. The Government should set up a third party body to enforce payment - large firms just still ignore (on any excuse/ruse) knowing little firms: i) dare not sue them, ii) don't know how to go about it, iii) etc., etc."</i>
Refrigerated Cooling Systems	<i>"Reference question 3 [Action against small firms] - Cash flow problems can equally affect both large and small organisations and therefore result in late payments. It is however only large companies who can 'choose' not to pay on due date since they present a more daunting target to anyone considering legal action."</i>
Software Consultancy & Equipment Manufacture	<i>"Very few large organisations have terms of 30 days. We were going to charge interest to one company that we deal with, but when I phoned the DTI for advice they seemed to suggest that interest should only be charged as a last resort and gave me the impression that I was wasting my time. The money turned up after a few threatening faxes !"</i>
Specialist Joinery Manufacture & Building Contracting	<i>"It would certainly help all round if everyone is compelled to pay within say 30 days."</i>
Steel & Aluminium Fabrications	<i>"The principle's fine - the commerciality is misguided."</i>

MANUFACTURING continued

Sub-contract Engineers	<i>"Late payments can cause havoc with cash flow problems. We need legislation to enforce payment - not to have to chase it through the courts."</i>
Sub-contract Engineering Machining & Light Fabrication	<i>"Small companies will be reluctant to sue larger companies who will still delay payment. If larger companies can sue smaller ones this will exacerbate cashflow problems further for small companies."</i>
Technical Materials	<i>"[The recent legislation is] Largely irrelevant but it may have improved the general awareness of the need to pay on time (or nearly so)."</i>
Textile Yarns	<i>"Most cash flow problems emanate from further downstream than our direct customers. Their customers, retailers, order goods 'on call' and delay taking goods in for weeks thereby causing large stock build-up and no cashflow."</i>
Timber Fire Doors	<i>"[It is] Only a benefit if legislation disqualifies directors who are persistent late payers."</i>
Vehicle Washing Equipment Manufacture & Sales	<i>"... Late payments from large companies are usually due to one person not approving the invoice due to workload - low priority."</i>

BUSINESS SERVICES

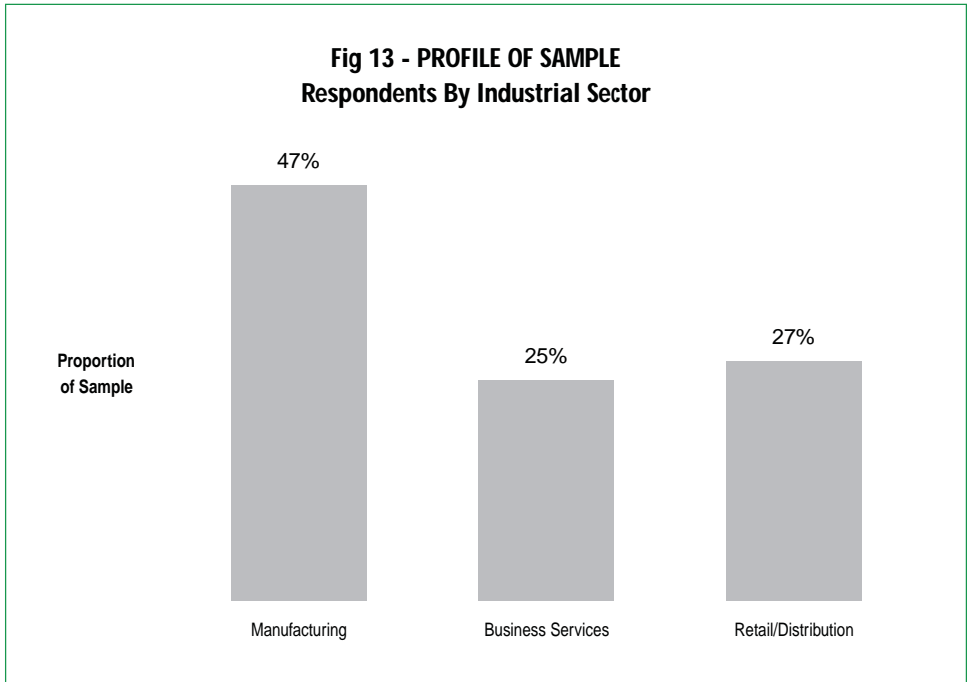
Architect	<i>"Clients should be adequately checked prior to accepting commissions [contracts]."</i>
Architect	<i>"Late payment is generally an expression of: a) lack of efficient contract, b) lack of good sense. Legislation does not solve either of these ! We have been charging interest on overdue accounts for 15 years !"</i>
Architect	<i>"We have for many years reserved the right to charge interest for late payment. We rarely exercise this right, but do so in exceptional circumstances, i.e., legislation makes little difference."</i>
Audit Accountancy and Taxation	<i>"Late payment is one of if not the most serious issue facing small business. It is still actively encouraged by all four major clearing banks as a method of 'improving cash flow' !"</i>
Computer Software For Exporters	<i>"Government should leave businesses alone to sort it out for themselves. The more commerce is controlled, the less successful it will be."</i>
Exhibition Organisers	<i>"If large firms are able to sue small businesses it will be detrimental to the latter. Large firms have high level of resources at their disposal which small firms have not. If there is a dispute about an invoice, small firms would be inclined to pay up rather than defend."</i>

BUSINESS SERVICES continued

Implementation & Audit of Quality Standards	<i>"As a provider of a service in a small field of expertise, it could be counter-productive to use Late Payment legislation, i.e., shoot oneself in both feet."</i>
Independent Financial Advisers & Insurance Brokers	<i>"As we are paid monthly by insurance companies, we have no problems."</i>
International Freight Forwarding Services	<i>"Late payment has become a 'culture' amongst certain firms who utilise it rather than borrow money - it is cheaper. We need to change this culture."</i>
Investment & Pensions Advice	<i>"Financial services suppliers (i.e. insurance companies, investment companies) are willing payers (of commission) but some have systems almost 'designed' for late payment."</i>
Logistics Consultant	<i>"With reference to late payment it is usually an oversight and phone calls solve the problem."</i>
Plumbing & Heating Services	<i>"A few years ago we were owed approximately £10,000 which was about 4 months overdue. After many letters, phone calls etc., I spoke to the Financial Director and told him that unless we received payment, we would go legal. His response [was]: 'You're going to play dirty are you'. That sums up the attitude of many people: 'it's almost a game'."</i>
Public Relations	<i>"It's the usual story - clients want jobs yesterday; you do them because you appreciate and need the business, but instead of playing the game and paying, they keep you waiting for months. One set of rules for them; a different set of rules for the small business."</i>
Shipping and Freight Forwarding	<i>"If you sue a client for late payment - or for late payment of interest - my experience in this always leaves us coming second, with our client third. The legal profession always win !!!"</i>
Software Development	<i>"Fortunately late payment has not been a problem for us. We always pay on time - we feel that's the way it should be when suppliers have fulfilled their obligations."</i>
Software Development & Maintenance	<i>"As a rule of thumb, 80% of [sales] turnover comes off 20% of customers. Suing takes time, costs money and is counter-productive and ineffective against large firms. [It is] A complete non-issue as far as we are concerned."</i>

RETAIL AND DISTRIBUTION

Architectural Ironmonger	<i>"We operate in a very price-sensitive area of the building industry. The big boys would use someone else if we become too dogmatic."</i>
Computer Software	<i>"We have had late payment conditions as part of our terms and conditions, due to the discounts we offer, long before the [latest] legislation."</i>
Computer System Reseller	<i>"1) The criminal offence of conspiracy to deprive is probably the only remedy - it only needs one successful case to change matters overnight. 2) Audit[s] having to show 'contingent liability' might help under new legislation. 3) Large customers are sending cheques dated on due date as much as 4 weeks later."</i>
Garage Services & Car Sales	<i>"[I] Do not think this law is well known enough. [We] Exhaust every avenue before suing as it only adds to cost."</i>
Garden Centre	<i>"As a 'user' of late payment as vehicle to manage working capital deficiency, shortening creditor days can only come from extending bank finance - institutional flexibility is therefore the key !"</i>
Hardware and Pet Store	<i>"Small businesses (1-25 persons) are most vulnerable to late payments. Lack of efficiency in large firms is the main reason for delay. Lack of will in small firms is the main reason for delay."</i>
Office Supplies & Printing	<i>"We are in a very competitive business and would just lose customers if we charged interest - the only hope is to make late payment socially unacceptable."</i>
Sales & Support of Computer Software	<i>"Late payment is typically not a problem for software companies since permanent [software password] keys are only issued on receipt of payment and support can be withheld if annual fee is not paid."</i>
Supplier of Flags & Poles	<i>"Large firms seem to ignore a 30 day payment term and just dictate their terms - very often the reply is '60 days, take it or leave it' attitude."</i>
Suppliers of Woodscrews, Adhesives, Fixings &c.	<i>"Since November payments have slowed down if anything, it is more the 'credit culture' and company acceptance of it which is the problem, i.e., people at our trade counter asking for £30 of goods to be enough to open an account."</i>
Supply & Support Computer Networks	<i>"Legislation doesn't go far enough. A compulsory interest fee imposed by law would have a much greater effect."</i>
Wholesale Bathroom Products Distributor	<i>"This legislation is rendered completely useless by the ineffective civil court procedures for recovering debts from businesses. Until this is sorted no amount of legislation will help. We choose to sell our debts and cut our losses."</i>



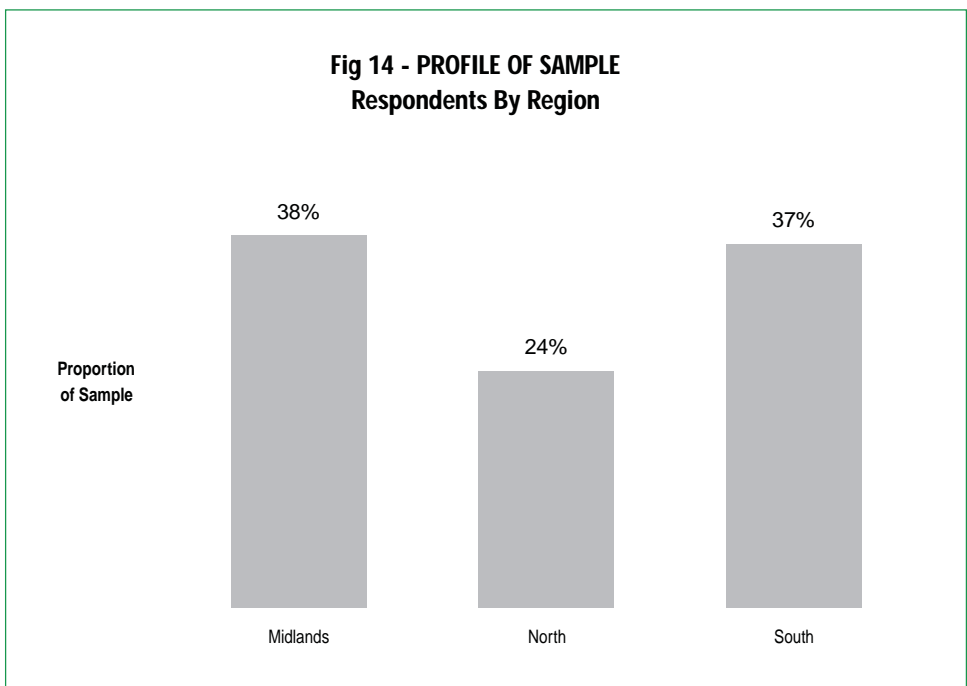
APPENDIX 1 - ADDITIONAL INFORMATION

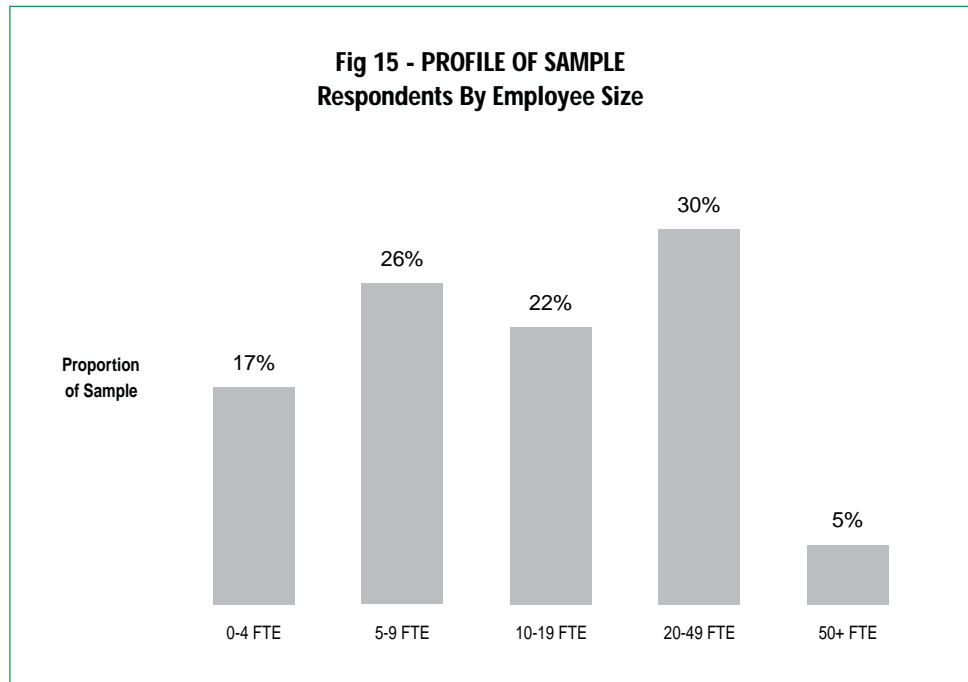
As an aid to the interpretation of the various figures (histograms), we have included some further information about the firms responding to this survey.

The analyses involve key variables, and **industry sector** and **employee size** are those most frequently used as they are reasonably reliable indicators and less

prone to misinterpretation. Other variables have also included **region**, **sales growth**, **respondent age** and **sex**.

Industrial sectors – based on the descriptions supplied by respondents, each firm is coded according to the Standard Industrial Classification (SIC 1980). Firms are then grouped into manufacturing, business services, retail/distribution. From 1996 onwards, firms falling outside these 3 bands – previously classified as ‘other’ –





are now allocated to the foregoing sector which offers the closest match.

Regions - firms are also classified according to their physical location, namely, North, Midlands and the South.

Employee size - finally, firms are placed in bands according to the number of employees. Each part-time employee is assumed to be equivalent to 40 per cent of a full-time employee ('FTE' = full-time equivalent). All of the surveys to date have received only a small number of responses from firms with 50 or more FTE employees. These responses have been **included** in the breakdowns for the **sectoral** and **regional** analyses, but have been **excluded** as a '50+FTE' band in the **employee-size** analyses (the 'All' band in each histogram includes all usable responses regardless). This is because a percentage breakdown band based on just two or three firms may not be representative of this size of business.

Figure axes/scales (histograms) - each figure uses a linear scale, with reference to a common zero axis, e.g. running horizontally across the bottom of each column, as in the figure above.

Distribution of firms

The highest proportion is in manufacturing (47%, previously 38%), followed by retail and distribution (27%, see **Figure 13**). Previously, the samples have contained the largest proportion of firms in business services, but the composition has shifted slightly due to the introduction of additional respondents to the sample late 1998, and again, mid-1999.

In this survey, the Midlands region has the largest representation, with 38% of the sample's respondents (see **Figure 14**).

Historically, the manufacturing and business services firms in the samples have tended to be larger, in terms of employees, whereas the firms in retailing/distribution have had fewer full-time equivalent employees. Likewise, the sample has been biased towards smaller businesses, but there has been an increase latterly in the 20-49 FTE firms (**Figure 15**).

As on previous occasions, the sample is predominantly male (86%).

 <p>SMALL BUSINESS RESEARCH TRUST</p>	<p>Quarterly Small Business Management Report No.26</p> <p>Sponsored by Lloyds TSB</p>
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This questionnaire will take approximately 5-10 minutes to complete – most answers require only a single tick. All information received will be treated in complete confidence. PLEASE DESPATCH AS SOON AS POSSIBLE.

MANAGEMENT ISSUE: Late Payment

1 a) Please indicate the total number of people working in your business (including yourself):

Full-time : _____ A

Part-time (16 hours/wk or less) : _____ B

b) Your age last birthday:

16-24 years A

25-34 B

35-44 C

45-54 D

55-64 E

65 or over F

c) Your gender:

Male M

Female F

2 Awareness – As of November 1998, small businesses with 50 or fewer employees have been able to claim interest from large businesses and the public sector for late payment of commercial debts. Please indicate your awareness of this new legislation and its implications: *Just ONE ✓ only*

Adequate A

OR Moderate – further information might be helpful B

OR Problematic – further information would definitely be helpful C

OR Not applicable D

3 Action against small firms – From November 2000, as well as being able to claim interest for late payment from large organisations, small firms will be able to claim from each other. Eventually, large firms will also be able to sue small firms. Please indicate which option most closely accords with your own view: *Just ONE ✓ only*

I agree – it's only fair A

OR I disagree – large firms & public bodies are the main culprits in delaying payments to others B

4 Extent – How much is late payment, either way, a significant issue for your business: *Just ONE ✓ only*

It is a major problem A

OR It is a minor problem B

OR It is not a problem C

OR It is a benefit – e.g. we sometimes delay invoice payments to help ease the financial pressure D

5 **Legal remedy – If a customer refuses to pay ‘late payment’ interest, you can use the County Courts to pursue settlement. Can you imagine yourself doing this:** *Just ONE ✓ only*

Yes – in all or most cases A

OR Yes – occasionally B

OR No – it’s most unlikely C

6 **Reluctance to sue customers for ‘late payment’ interest – If, in principle, you are reluctant to take customers to Court, what would be the main reason:** *Just ONE ✓ only*

Fear of losing future orders..... A

OR Time and effort involved probably not justified..... B

OR Expectation that a threat alone would suffice..... C

OR Little faith that payment would be received..... D

OR Not applicable – e.g. we would always sue..... E

7 **Benefits of legislation – How do you think the new Late Payment legislation will affect your firm’s policy ? Please indicate which option is closest:** *Just ONE ✓ only*

Only if it is a two-way thing – I shall have to wait and see A

OR No change..... B

OR The culture on late payment needs changing and we have already conformed with the new ‘30-day’ general guideline C

8 **Effect of legislation – Has the situation on late payments by customers to your firm changed since the November 1998 legislation ?** *Just ONE ✓ only*

It has improved significantly..... A

OR It has improved moderately..... B

OR No – it is largely unchanged..... C

OR It has deteriorated D

9 **Charges applied – Has your business charged, or been charged by another business, interest on late payment under the new legislation ?** *✓ Against all which apply*

We have charged interest A

We have been charged interest by another firm B

Neither..... C

10 **‘Late Payment’ – If you have any strong views about the topic, especially if you feel that any aspect is not fully appreciated by important sections of the business community (such as the government help agencies or the financial services sector), then please comment**

APPENDIX 3 – A SUMMARY OF THE LATE PAYMENT OF COMMERCIAL DEBTS (INTEREST) ACT 1998

Published by the Department of Trade & Industry (DTI)

The Act gives effect to the Government's commitment to introduce a statutory right for businesses to claim interest on the late payment of commercial debts.

Why was the legislation necessary?

The provision of credit by suppliers to customers is an established feature of business transactions and essential for the efficient operation of the economy. However, the provision of goods and services ahead of payment means that the supplier can be vulnerable to payment delays.

For this reason, it is important that businesses have sound credit management skills as, otherwise, late payments and, worse still, bad debts will eat into profits. However, where a supplier does everything right to ensure that credit given is not abused, it is still possible for the supplier to find that a payment is received late. By giving suppliers a statutory right to claim interest on late paid debts, the cost of late payment can be put into the hands of the party that can control it: the customer.

Consultation

The Government set out its proposals in its Green Paper "Improving the Payment Culture" published on 28 July 1997. Over 5,300 copies of the Green Paper were sent out and more than 450 responses to the proposals received, many from business representative organisations and trade associations.

The Purpose of the Act

The Act provides a statutory right to claim interest on late payment of commercial debts. The right to claim will be 'phased' in

three stages. In the first stage, which will begin on 1 November 1998, the right will be exercisable by small businesses against all large enterprises, including public sector organisations. The right will be extended, after a period, probably two years, for use by small businesses against all enterprises and the public sector. Finally, the right will be extended, again after a probable period of two years, to all enterprises and the public sector to use against all enterprises and the public sector.

Contracts

The Government wants to encourage businesses to agree their own contractual terms giving a right to interest if bills are paid late. The legislation, therefore, gives precedence to contractually agreed provisions. However the Act contains provisions to prevent parties to a contract "contracting out" of the legislation by setting very low rates of interest on late payments, or by extending credit terms excessively or by any other terms which result in no substantial remedy for late payment. The provisions apply a test of "reasonableness" to such terms.

Definitions of key terms

Late payment: a payment is late when it is received after the expiry of the contractually agreed credit period; or the credit period in accordance with trade custom and practice or in the course of dealing between the parties; or the default credit period defined in the legislation.

Commercial debt: the Act applies to a debt under a contract for the supply of goods or services where the purchaser and the supplier are each acting in the course of a business.

Small business: it is proposed that the legislation should define a business as being “small” if it has no more than 50 full-time employees, or part-time equivalents.

Territorial Extent and Applicable Law

The legislation applies across the UK and to any commercial contract, including imports and exports, written under the law of part of the UK, except where there is no significant connection between the contract and that part of the UK, and, but for the choice of law, the applicable law would be a foreign law. Where the choice of law is a foreign law, the Act applies if, but for that choice of law, the applicable law would have been a law of part of the UK and there is no significant connection between the contract and any country other than that part of the UK.

Size of Debt

No minimum level has been set below which a claim for interest cannot be made.

Credit periods

Where no credit period is defined in a contract, or no contract exists, the Act sets a default credit period of 30 days from delivery of the invoice for payment or of the goods and service, whichever is the later.

Interest

The Act seeks to recompense creditors for the cost of the payment delay. It provides a power for the Secretary of State to set the rate of statutory interest. The Government has said publicly that it will set the rate of interest at base rate + 8%. This is a rate at which the smallest and most vulnerable businesses are generally able to borrow from the banks. It will be possible to amend the interest rate.

Separation and assignment of interest

The Act allows the interest to be pursued separately from the principal debt and permits assignment of the interest to third parties, such as factors.

Free user’s guide

For a free copy of “The Late Payment of Commercial Debts (Interest) Act 1998: A User’s Guide (URN 98/823)” please ring 0870 150 2500, or access via this web site [see below].

Permission to reproduce here gratefully acknowledged – This summary may also be found at <http://www.dti.gov.uk/latepay/summary.htm>

APPENDIX 4 – THE BETTER PAYMENT PRACTICE CAMPAIGN

A QUICK STEP GUIDE TO HELP YOU GET INVOICES PAID ON TIME.

(Also published as *Better Payment Practice Wallchart*)

Get Your Attitude Right

A sale is not real until it is paid for

- Some customers pay on time
- Most have to be reminded
- Some have to be threatened

The interest cost of waiting for late payment can be bigger than bad debt losses. It can exceed your net profit. So do not allow credit to persistent slow payers - They drag you down

Make enough time for reminders at short intervals. The sooner you ask, the sooner you get paid.

Cultivate Large Customers

How many large accounts do you have ?

A

Their total value is:

B £

How many accounts total 80% of B ?:

C

They owe a total of:

D £

These are your major accounts

1. Check the credit rating of each firm: revise sales plans if near insolvency or perpetual bad payers.
2. Cultivate the payments person in each firm: visit, obtain priority.
3. Match the sales/buyer relationship with a good one between accounts staff.
4. Give top priority service and action on queries.
5. Phone or fax for payments; don't send routine letters.

Your non-major accounts total? (A-C):

E

They owe in total:

F £

1. Get a contact name for letters, faxes and phone calls
2. Collect by letter or fax but phone before legal action

Make Your Payment Terms Very Clear

- **Sales Negotiation** . . . State payment terms, with price. Ask "any problem in paying by then ?" [Discuss disagreement, don't duck it.]
- **Incoming Enquiry ?** . . . State terms boldly on quotation.
- **Order Confirmation** . . . Include payment terms as prime condition of sale. Ensure your conditions supersede buyers.
- **Invoice** . . . Payment terms to be boldest items on face. Add actual due date alongside.
- **Statement of Account** . . . Show payment terms at top. Mark invoices overdue - print reminder message

Open New Accounts Competently

Credit application Form: (to be completed by customer) **Trade credit is a loan.**

Name

Payment and delivery address if different

Phone

Fax

Bank details

Sole trader - Owner's

home address

Partnership - All partners
and addresses

Limited Co - Registered office
and reg. no.

Contact name for
payments

Customer to sign form to agree payments
terms

- **Credit References** . . . LARGE VALUE:
use credit agency report; SMALL
VALUE: obtain bank reference
- **Allocate account number only when
satisfied with risk** . . . Send 'welcome
letter' to payment contact. Re-state
payment arrangements. Phone 3 days
later to confirm all OK.
- **Telephone** . . . Every 2 weeks for first 3
months to achieve good habits

Invoice Fast

- Invoice each despatch separately - use
1st class mail.
- Courier very large invoices.
- On very large accounts: phone or fax to
agree all invoices received.

Have Clear Account Display

- Use Aged Debt listing every day. List
accounts in value order - largest first.
- Use progress sheet for large accounts
to record action and payments being
sent.

Use The Right Methods To Collect Overdues

- **Visit** . . . Very large accounts at
intervals. Phone twice per month
- **Phone** . . . All large accounts, largest
first in the first week of each month. Use
diary for follow-up within same month.
Escalate job holder if normal contact
fails
- **Letters** . . . To all not phoned. Send to
named contact. Sign personally. Only
two standard letters: polite first reminder

and strong final demand. Design letters
better than those you receive at your
own firm.

- **Fax** . . . Use when being ignored on
phone or letter. Send to senior person,
not failed contact.
- **Statutory Demand** . . . Send 21 day
notice of intention to have customer
wound up.; Only when all standard
efforts fail. Only large undisputed debts.
- **Threaten Third Party Steps** . . . State
threat on final demand. Can use
collection agency; solicitor; court action
- **Warning !** . . . Statutory 21 day demand
and legal action will lose the customer.
Before starting, try MD to MD contact.

Set Targets, Deadlines And Priorities

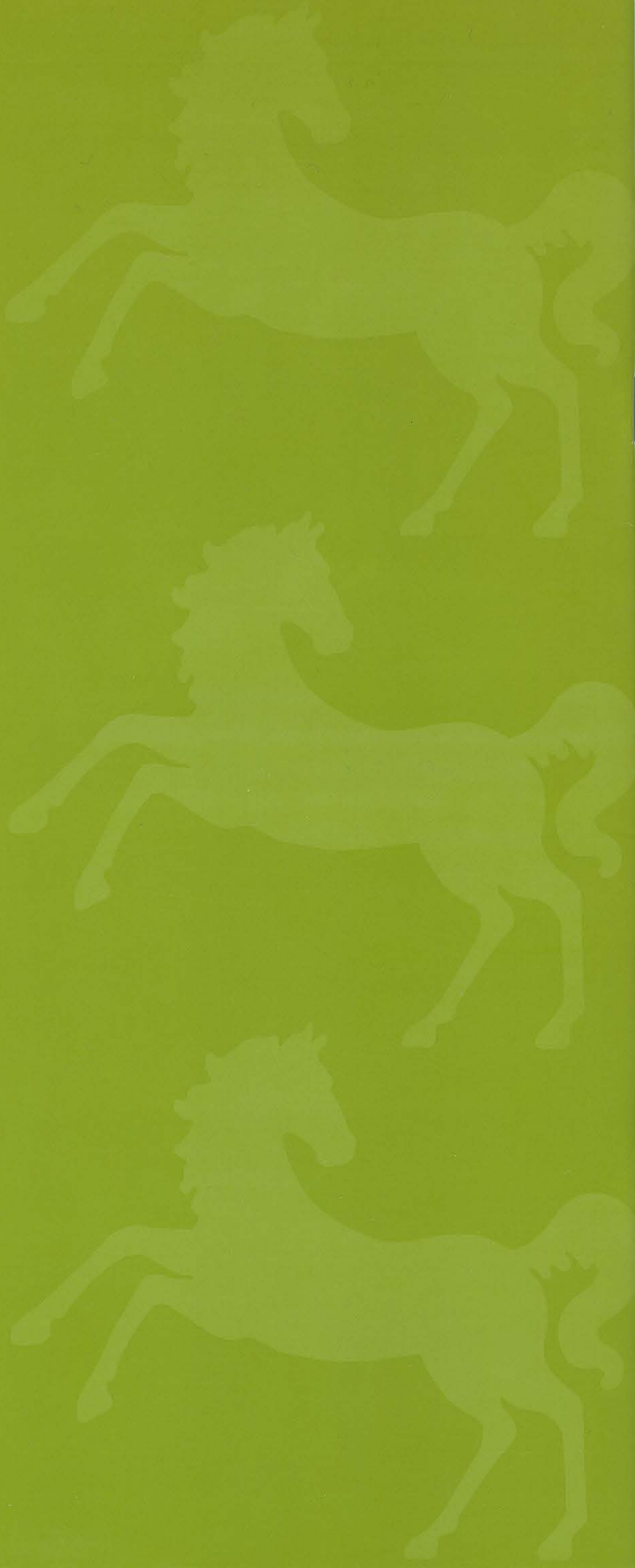
1. Decide total cash needed by month-end
deadline.
2. Use wallchart to plot daily progress
towards target.
3. Have monthly campaign to clear up
different types of debts.
4. Consider staff incentive - just like sales -
for exceptional collection performance.

Use Third Parties Sooner Than Later

If standard efforts fail, the customer won't
pay until severely threatened. Don't delay!
Use collection agency for undisputed debts
below certain value 3 months overdue. Use
solicitor for strong letter to try to avoid
proceedings. Use court action if debt is
undisputed and exercise your right to
interest.

IF DEBTS ARE TRULY UNCOLLECTABLE – WRITE THEM OFF AND LEARN FROM EXPERIENCE !

*Permission to reproduce here gratefully
acknowledged; the wallchart version
acknowledges the design effort supplied by
the Institute of Credit Management. This
guide is also accessible via
[http://www.payontime.co.uk/newdocs/
quickstep.html](http://www.payontime.co.uk/newdocs/quickstep.html)*



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