

DEALING WITH

# Late Payment



A GUIDE FOR  
SMALL BUSINESSES



Get paid, faster.

# Contents

## INTRODUCTION

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### 01

#### **The Scourge of Late Payments**

Running a Small Business is Hard  
The Most Significant Issue

---

### 02

#### **How to Avoid Late Payments before They Start**

Evaluate the Credit-worthiness of Potential Customers  
Do Not Engage in Informal Agreements  
Offer Incentives for Pre-payments  
Require a Payment Backup Method  
Late Payment Checklist

---

### 03

#### **How to Manage Late Payments Once They Begin**

Is Your Customer Having Difficulties Collecting from Their Clients?  
Can You Get Installment Payments from the Customer?  
Call Your Customer Everyday  
Dealing With Late Payment Excuses  
Does the Customer bring you Consistent Value or Heartache?  
Find Outside Help  
Late Payment Checklist



**Get paid, faster.** We speed up collections, so you can focus on building your business. Our credit control app plugs into QuickBooks, Sage and Xero to automate invoice reminders & debt collection. It's simple, easy, fast. For further details or to arrange a free trial contact [hello@FidoHQ.com](mailto:hello@FidoHQ.com). (c) 2018 All Rights Reserved

# Introduction

If you are having issues with slow paying customers, you are not alone. Nearly 75 percent of businesses struggle with this issue, and Fido can help.

**Fido was founded by serial entrepreneurs. We understand the impact that late payments have on a company,** having experienced it ourselves in previous businesses. Over many years we developed a repeatable process to minimize and resolve late payment for our own businesses.

**Now we provide that expertise to other firms.** We are in the business of chasing down and collecting your outstanding invoices. With our help, you can eliminate those business cash flow problems that often begin with late payments. Our effective, ongoing payment management strategies allow your business to operate without the headache and hassle of dealing with customers who owe you money.

**How do we do it?** We combine real people who care with advanced technology (including sophisticated machine learning) to deliver solid credit control solutions in the cloud. Fido integrates with a wide range of accountancy packages including QuickBooks, Xero and Sage.

**Our tried-and-tested approach protects you** by evaluating, managing, and fixing slow payment issues that would otherwise negatively impact your business and its viability.

Since **Fido is in the field of helping small businesses recover their cash** assets in an efficient and effective manner, our experts want to pass along our knowledge in the form of this guide to help your business avoid or manage late paying customers.

While we hope the advice we offer in this book is helpful to reducing late payments and the anxiety and insecurity that comes with them, our services can follow through with your plan to deter outstanding customer accounts. We can start today or whenever you are ready.

**We wish you much success.**

Jem McCombe  
Customer Success Manager  
[hello@FidoHQ.com](mailto:hello@FidoHQ.com)

# 75

percent of businesses struggle with slow paying customers.

# The Scourge of Late Payments

Running a small business can be hard. It's not just the challenge of finding customers; that's just the start.

Once you have a customer, you then need to deliver not just a good service – but a great service – and to get paid promptly for that service. For a small businesses, receivables do not always arrive in a timely manner, and those slow payments can have a major impact on company momentum and morale. Anxiety accompanies late payments because a small business must pay its staff, keep the lights on, and purchase the resources to ensure sustainability and continued growth. And then there's the taxman...

**In the UK, a recent study found that 37 percent of small-to-medium sized enterprises must regularly wait beyond agreed terms for payments.** Those companies spend precious time pursuing past due accounts. In fact, 12 percent of those companies employ a dedicated employee for the task. This is costly. One-third of the UK's small and medium businesses report that they are spending £500 or more each month to handle late payments with their in-house staff. Often, these businesses never recover their money because they are not equipped with the knowledge or the tools required to adequately collect delinquent funds from their customers.

One-third of firms spend over

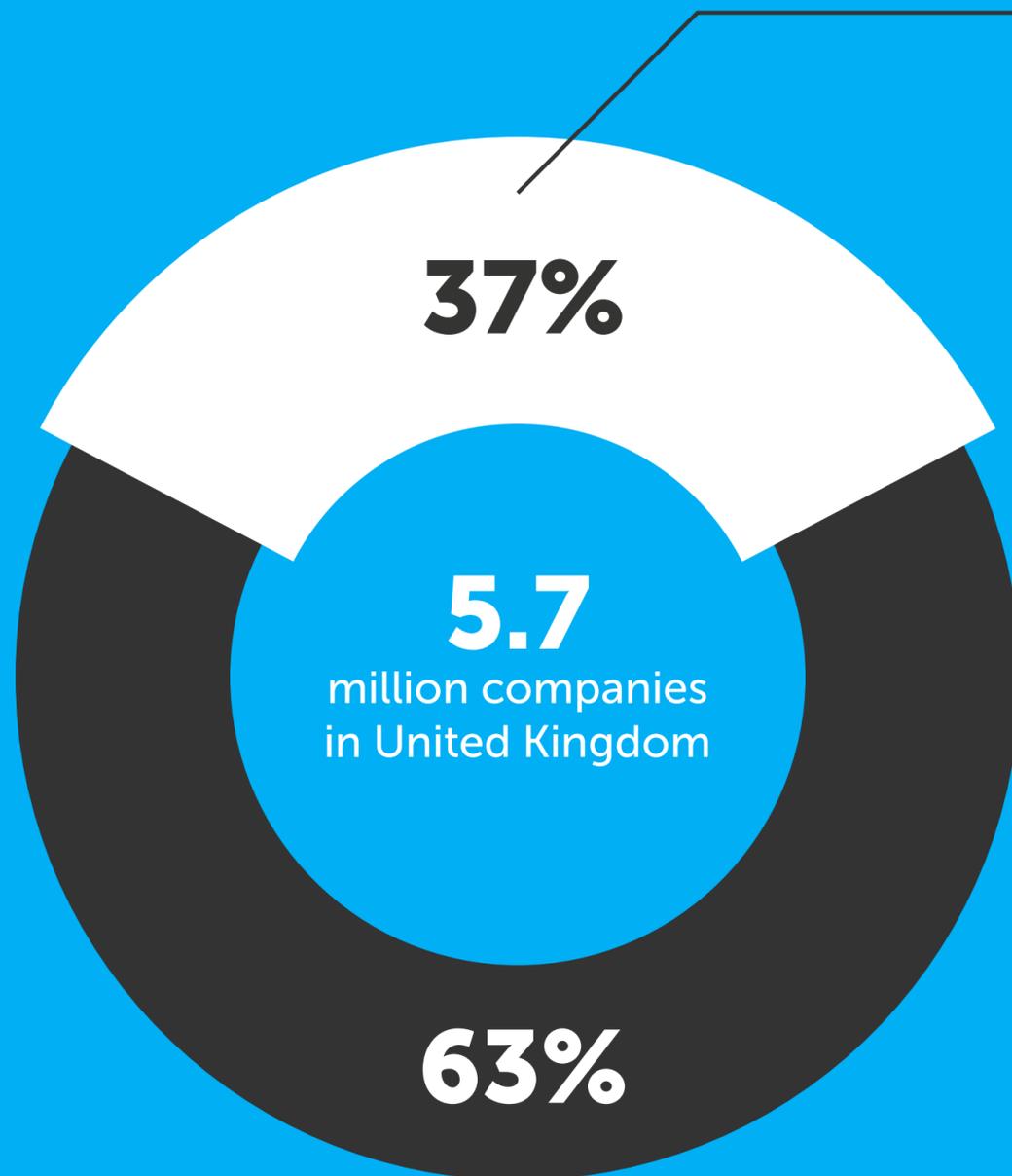
# £500

each month to handle late payments



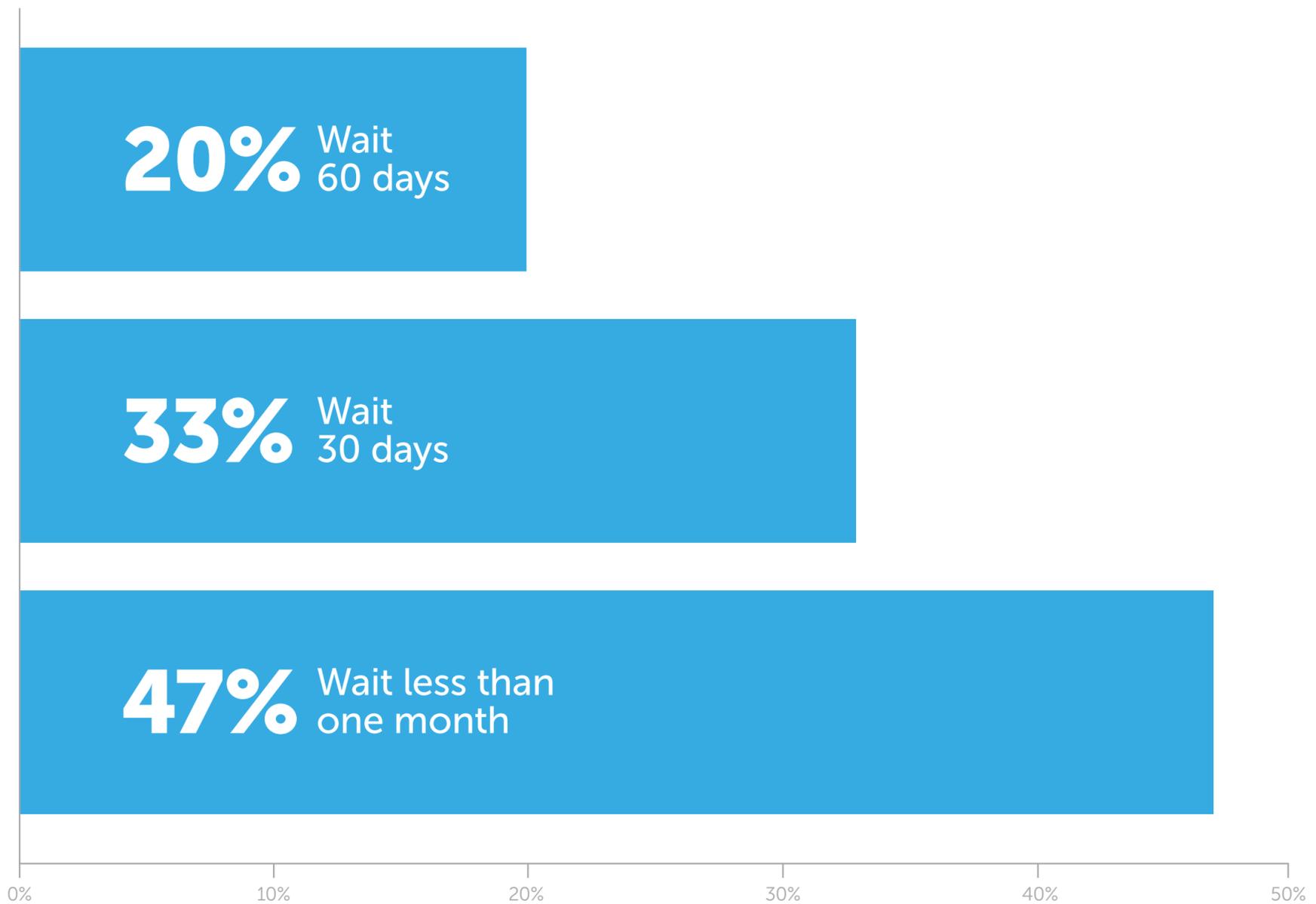
# 37%

of small-to-medium sized enterprises must regularly wait beyond agreed terms for payments



“LATE PAYMENTS COSTING SMALLER UK BUSINESSES MORE THAN £2BN A YEAR.” BACS, 11 July 2017

**The amount of time these SMEs must wait beyond the agreed-upon payment terms:**



**Few firms can afford a full-time expert to follow-up with clients for payment.** And it’s an expert you need; a well-intentioned but heavy-handed approach to credit control can damage customer relationships unnecessarily.

One in five of these companies fall into a dangerous area in which bankruptcy is right around the corner. These companies struggle when payday and bills arrives. Sixteen percent of them have trouble paying their staff on time. Another 28 percent resort to reducing the salaries of their directors in order to maintain working capital and survive. In addition, business bills, including rent and utilities become a burden, and a quarter of the businesses depend on bank overdrafts to cover all of their costs.

**The most significant issue is the amount of time these SMEs must wait** beyond the agreed-upon payment terms. Almost a third of companies face delays of at least a month beyond the scheduled payment date. Nearly 20 percent have to wait more than 60 days before being paid. There is a domino effect at play as well because 32 percent of companies with overdue invoices are forced into paying their suppliers late.

**32**

percent of companies with overdue invoices are forced into paying their suppliers late



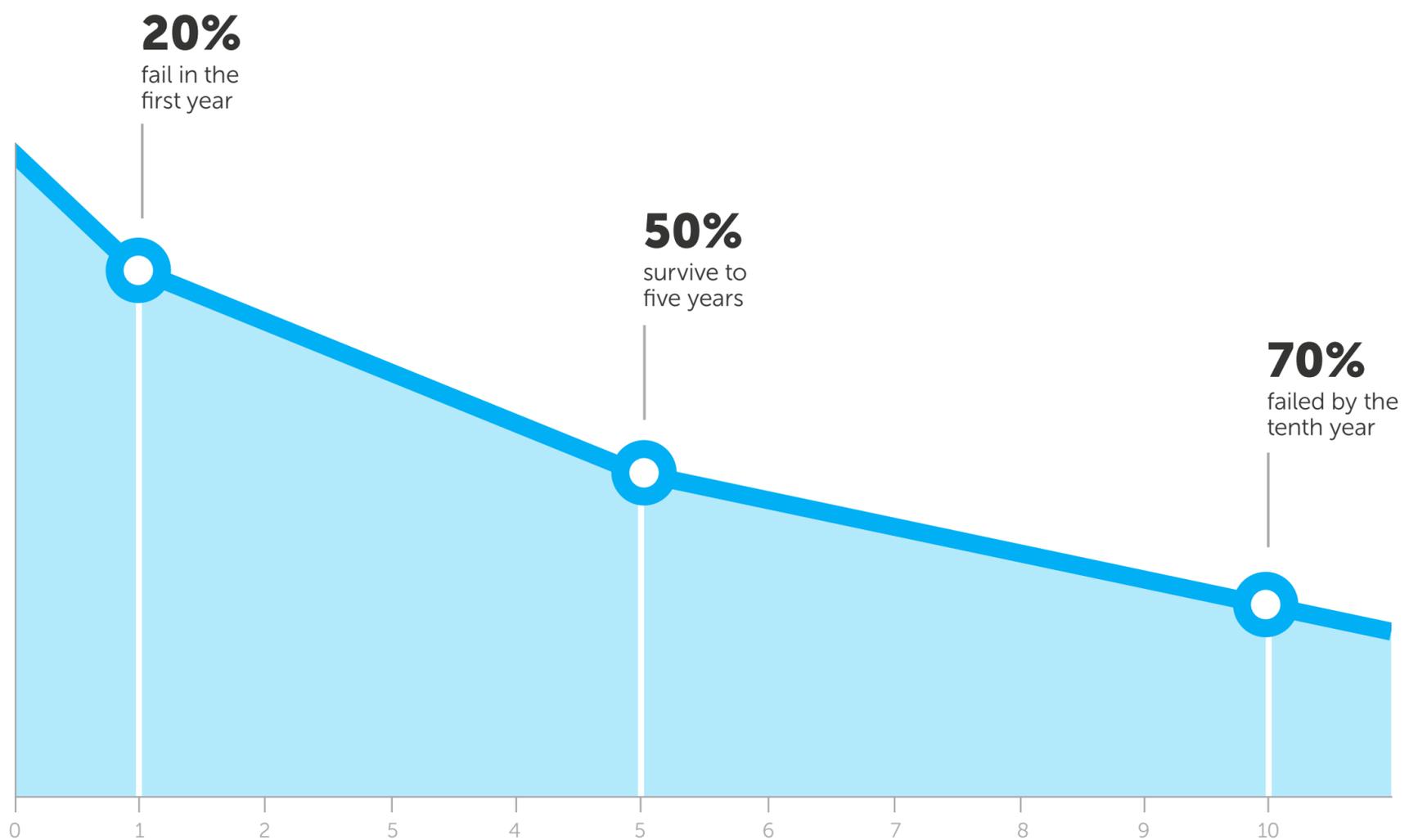
**It’s a global problem.**



*Financial experts find similar situations in Canada, Australia*



*and the United States*

**Small business survival rates in the USA :**

In the USA, 20 percent of small businesses fail in the first year, with only 50 percent surviving to five years, and by the tenth year, 70 percent have failed, according to the Bureau of Labor Statistics<sup>2</sup>. Of those failed businesses, **82 percent could not survive because they experienced cash flow problems.**

According to CB Insights<sup>3</sup>, 29 percent of those failed businesses simply ran out of cash, which left them unable to grow their business and expand. This forced them to reduce employee size and employee benefits, and they were unable to finance increased sales or increase inventory to meet demand.

Credit control is a vital, but often neglected part of running a successful business.

It is possible to avoid these issues before late payments get the best of your business and push your funding and stress levels to their limits. Collecting those promised funds can start today by contacting Fido.

**It is easy to get mad, but easier to get paid by going to FidoHQ.com, and letting an expert handle your past due accounts.**



<sup>2</sup>"Survival of private sector establishments by opening year." BLS, 16 March 2016



<sup>3</sup>"Startup failure post-mortems." CB Insights, 9 June 2017.

# 29%

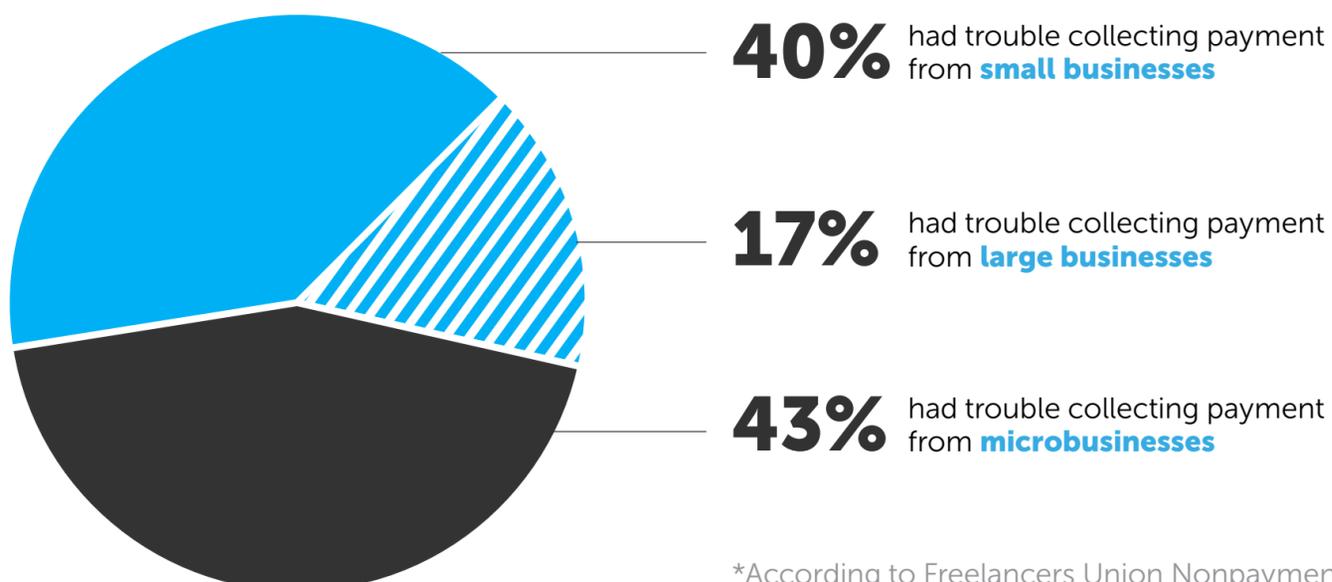
of businesses  
failed due to  
cashflow  
problems



# How to Avoid Late Payments before They Start

The key as a business owner or manager is to eliminate the insecurity that comes with late payments by putting a plan in place to command a good customer relationship with healthy payment habits from the beginning.

While late paying customers slip through the cracks regardless of calculated efforts, reducing the number of late payers is possible by analyzing the finances of potential customers and putting a solid agreement in place in order to close loopholes.



\*According to Freelancers Union Nonpayment Report 2015

Let us look at some ways to reduce late payments problems before they occur.

## **Evaluate the Credit-worthiness of Potential Customers**

Late payment prevention begins with evaluating a customer's credit-worthiness before delivering any goods or services to them. Small businesses can predict future payment problems by carefully gathering and analyzing credit data. It is crucial to do the required research on any potential customer relationship to determine if it is smart to contract with the company and how much credit to extend to them. Outside of reported slow payments and account defaults, other red flags include liens/charges/debentures, bankruptcies, and legal judgments or pending litigation.

Evaluating your customer's credit file does not end when a contract is signed. Business managers must maintain an ongoing system of credit reviews at regular intervals and at every turn in the relationship. In particular, a check of a customer's credit strength is important at the first sign of trouble to determine if a slow payment is an honest oversight, or a signal of evolving trouble that could lead to more late payments down the road.

## **Do Not Engage in Informal Agreements**

Get it in writing. A written contract defines a business relationship and reduces the risk of ambiguity. Informal agreements put together verbally and signed with a handshake lead to trouble down the road. In fact, the people or person with whom your business made the informal agreement might be gone from their position in the next week, month, or year. If this occurs, the verbal payment schedule gets lost, and there is no immediate recourse to recovering the money your business is due.

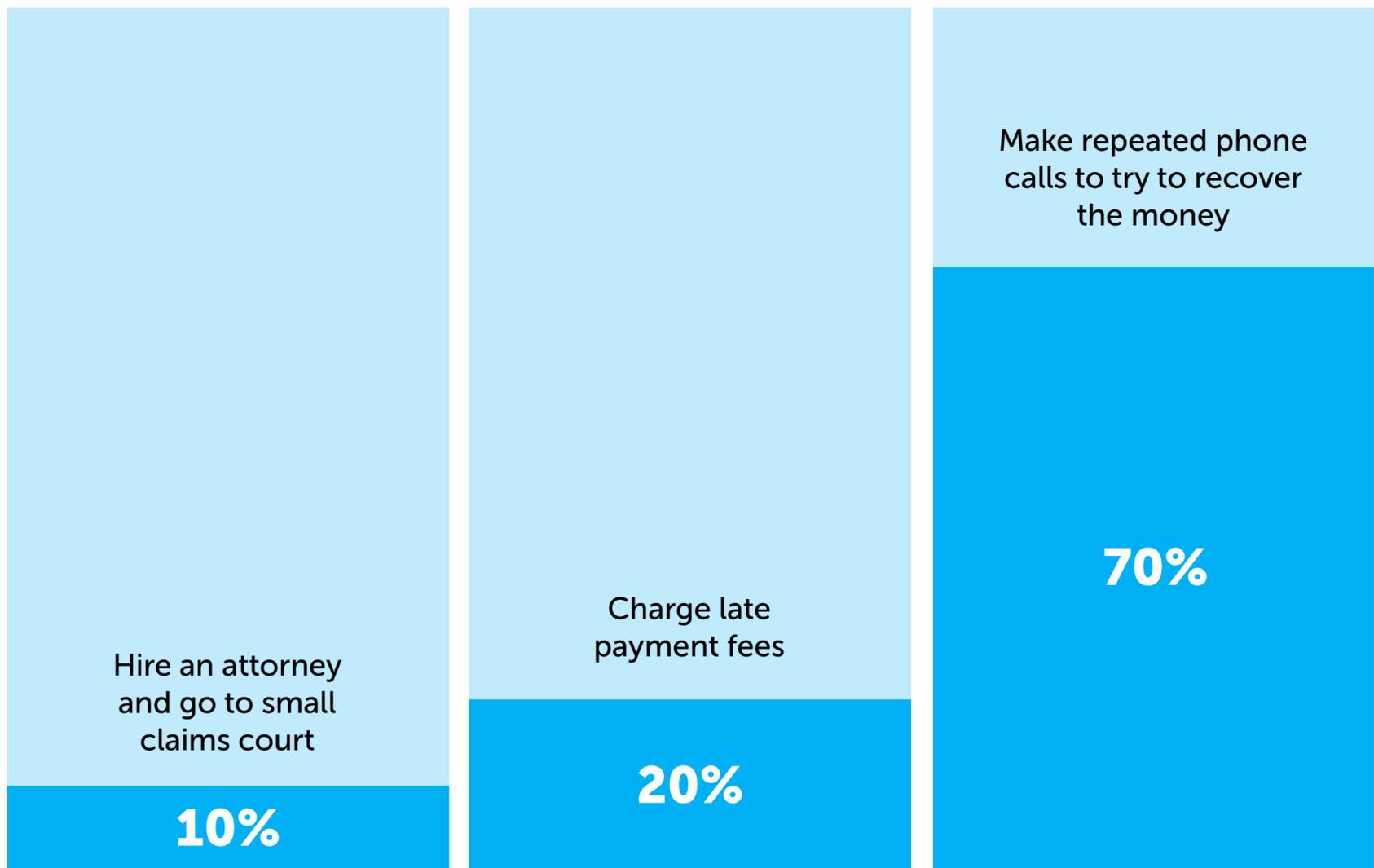
A formal agreement is imperative and a signed bond that details settlement dates and minimum payments is required to effectively manage a relationship and reduce the chances of late payments.

# 42

percent of freelancers use only verbal agreement.

\*According to Freelancers Union Nonpayment Report 2015

**What business owners try to do to collect their money:**



**Offer Incentives for Pre-payments Instead of Penalties for Late Payments**

Instead of focusing on late payment penalties, consider offering your customers an incentive to pay early. Collecting late payments and their accompanying penalties is stressful, consumes time and resources, and creates tension between businesses and their clients. Contacting a company to remind them of a settlement due date while offering them a standard percentage discount for early payment goes much better than calling a customer to discuss their late payment and penalty. An early pay discount is an evolving concept that companies use as a tool to deter slow payment problems.

**Require a Payment Backup Method or Arrange Automatic Payments**

When writing a formal business agreement, a request or requirement can be included in the arrangement for a payment backup plan. Ask customers for a credit card number that your business can use to withdraw automatic monthly payments or use in the case of a late payment. Or consider using direct debit automated payments. Entice customers to use an automatic payment system by offering them a percentage discount. Not every customer will agree with this payment method, but use it whenever possible.



## Late Payment Checklist

# Before You Start Working With a New Customer

- 
- Ensure you have a process for credit control & collections
  - Evaluate the credit-worthiness of potential customers
  - Get it in writing
  - Offer incentives for prompt payment
  - Establish payment methods
-

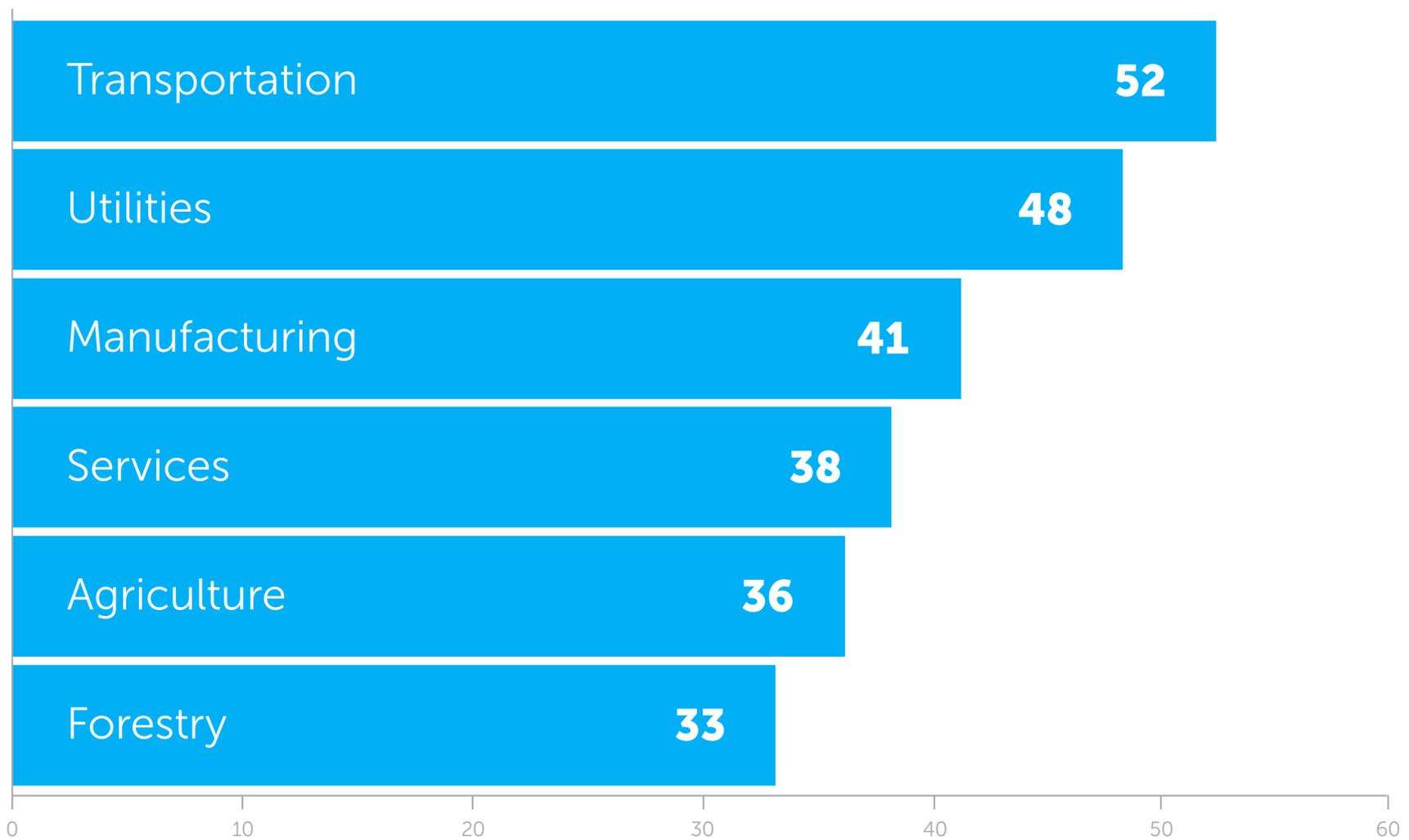
# How to Manage Late Payments Once They Begin

Stress in the workplace has a direct impact on company morale and productivity. Traction is lost, emotions get heavy, and every task, even the smallest ones, appears to management and staff like a burden that is insurmountable.

Cash flow problems cause the most anxiety because they consume every moment in the day. Once business owners and managers analyze the money flow issue, they often find that one or two slow paying customers are the cause of the problem and all of the stress.

Late payment issues can be tricky when dealing with valued customers who have buttered your bread through the years and are now going through an financial rough patch. The obvious concern is that if you take a tough approach, they will forfeit your partnership with them and never pay you. There are a few ways to handle the situation, which may end the anxiety and get your customer on track. Let us look at some ideas you can use to manage late paying customers.

**Average number of days to get paid (for a small business)**



**Is Your Customer Having Difficulties Collecting from Their Clients?**

Your customer may have a cash flow issue because their own customers are in trouble, and that is why they have not paid you. Sometimes, it is best to go to the source of the issue with your customer, as a team, to resolve the problem with the “ultimate” late-paying customer. Going about things in this manner will solidify the relationship with your client and is often effective in resolving the issue with an overdue account.

**40**

days is the average time it takes for a small business to get paid

**Can You Get Installment Payments from the Customer?**

If your customer cannot pay the entire bill because their customer has not paid them, or for any other reason, begin discussing a plan for a partial payment or installment payments in lieu of a lump sum amount. This is especially crucial if your cash flow is taking a hit and you need money now to stay up-to-date on your bills, employee wages, and other expenses.

## Call Your Customer Everyday

Persistence pays dividends. There's no need to be aggressive with your slow paying customers, but never stop calling to collect late payments. Make it clear that it is important to settle, so that the focus can return to more important issues within both companies. They might dodge calls and they might make excuses for a while, but your daily reminder will eventually become intrusive to the point where they finally send payment.

## Dealing With Late Payment Excuses

Excuses will come in all varieties, so it is important to take the excuses seriously whether they are real or you understand them to be dishonest. Act on their "excuses" right away.

If the customer says they are having trouble locating the bill, or that they need to reconcile their records to locate the payment amount, send them an updated invoice right away. If the customer is close to your location, hand-deliver the invoice to the specific person who handles the account. If hand-delivery is not feasible, email it and follow up with a call to ensure they received the bill.

Always remember that there is very little chance that your client is attempting to be malicious with their nonpayment. There is usually a genuine reason for the overdue invoice, and it is helpful to determine the honest and bottom-line justification for why they are struggling to pay their bill.

Start the conversation by asking the customer if they are happy with your product and service. If they are not, tell them that you will gladly rectify the situation. However, if they are pleased with your goods or services, then they should be willing to work with you to find a solution to the slow pay situation in an agreeable way.

# 5%

of small business owners  
hire an attorney to  
pursue invoices.

\*According to Freelancers  
Union Nonpayment  
Report 2015

## **Does the Customer bring you Consistent Value or Heartache?**

You must determine whether the customer brings you consistent value. Calculate their average order, contemplate the length of the business relationship, determine whether the client brings you referrals, and whether they have a long record of late payments or a few short periods of drought.

Once you have evaluated the value of the relationship, and have concluded that there are more cloudy days than sunshine, it may be time to reduce the baggage. Immediate relief will follow.

It is important to end the relationship in a professional and amicable way, though, so put a well-thought out plan in place to meet with the customer and let them down gently. You never know, they may hand you payment on the spot if you act cordially, and come to them firmly but with patience and honesty regarding the situation.



It may be time to  
reduce the baggage

## Find Outside Help

If your repeated understanding, patience, and overall goodwill are ignored, and your customer stops taking your calls and disregard your emails and letters, you must hire someone to help you. In the end, make it clear to the customer that the payment process has become more than you can handle in the form of stress and time-consumption, and you are passing along the situation to a professional to resolve the issue.

Hiring a lawyer and progressing matters through the courts is often too costly and time consuming. The continued energy spent on handling it in-house is much more costly than hiring a professional like Fido to do the work for you. In many cases, you will be astounded at how inexpensive it is to collaborate with a collections professional, and you will be kicking yourself for not doing it sooner.

Let's face it. **Chasing payments is awkward, difficult, and a wretched time waster and stress inducer**, but it is your money that is on the line. You put in the time, you supplied the product or service, and you are entitled to take steps to retrieve your hard-earned cash. Your business should not falter through cash flow problems because you are not being paid for your hard work; therefore, you are not being rude by asking for your money. It is the other way around. Do not let them walk all over you.

Credit control can be a distraction from your core day-to-day business. So, **it pays to engage a collections professional**, who is able to focus on this key aspect of business on your behalf.

The mental overhead of slow paying clients that create stress and lower productivity is costly to your enterprise on too many levels. **Get help, get paid, and get back to focusing on new business** and catering to those solid companies who never cause you stress or let you down.

#LatePaymentSucks.

We can help.

Contact Fido today  
hello@FidoHQ.com





## Late Payment Checklist

# If You Run Into Late Payment Issues

- 
- Talk to your customer,  
don't ignore the situation
  - Consider installment payments
  - Call your customer everyday  
Don't accept any late payment excuses
  - Re-evaluate the customer's  
contribution to your business
  - Find outside help
-

# Fido

## **Get paid, faster.**

We speed up collections, so you can focus on building your business. Our credit control app plugs into QuickBooks, Sage and Xero to automate invoice reminders & debt collection. It's simple, easy, fast. For further details or to arrange a free trial contact [hello@FidoHQ.com](mailto:hello@FidoHQ.com).