

LATE PAYMENT: A CULTURE OF CONTEMPT

Late payment can strangle cash-flow and suck up time and resources. For some, the impact is catastrophic. **Stefan Volak** asks what can be done to change a big company culture of contempt for small suppliers.

Steve Paul's plastering business, SDP, collapsed in 2012, putting a dozen people out of work, when unpaid bills crippled his cash-flow. "It was soul-destroying," said Steve, who is still owed £450,000 by a building firm that was being paid fortnightly by its client, yet refused to pay its own bills. "The worst thing was having to tell my employees that they no longer had a job when they'd done nothing wrong."

In a recent highly-publicised case, a glazing company announced that it would sacrifice 40 per cent of its turnover rather than carry on supplying construction giant, Balfour Beatty, because of the constant struggle to get paid.

For most companies though, taking such a stand is unrealistic, says Karen Woolley, Development Manager for Staffordshire and the West Midlands for the FSB.

"Small businesses simply have to grit their teeth and put up with it rather than risk losing their customer," she said.

Karen is leading a national FSB project to highlight the problem and persuade Government and public bodies to blacklist companies with a record of paying late.

"Steve was a tier two supplier. There is nothing that we can do about contracts between private companies. That's a matter for civil law, but in Steve's case, the end customer was a local authority in the West

Midlands. We want Government or local authorities to say to companies 'we will not allow you to bid for and win work unless you pay your suppliers on time'.

"There is no justice in one company winning business from Government, while putting its suppliers out of business by withholding payment," added Karen. "A number of companies use an aggressive tactic of 'offering' to pay on time – not early – provided you, as the sub-contractor, agree to a large percentage off the bill, knowing that you're desperate and that cash-flow is critical."

As well as asking Government to exclude consistent late payers from bidding for further contracts, the FSB would like to see a form of legislation requiring companies bidding for Government work to declare their payment terms, and recording in their

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The truth about late payment

The automated bank payment scheme, Bacs, estimates that the number of UK SMEs facing late payment is now over a million with a total collective debt of more than £36 billion.

The average amount owed is £36,000. Over a third of SMEs responding to a Bacs survey said that late payment debts of £20,000

would be enough to put them out of business.

Among those companies experiencing late payment, the average wait beyond payment terms for their supplier to settle is 43.4 days.

One consequence is that businesses are forced to spend almost 14 days a year chasing overdue bills.



STEVE PAUL
SDP, CANNOCK, STAFFORDSHIRE

'Are we wasting our money paying you?'

There are companies operating profitably in the construction industry whose practices border on criminal, says Steve, whose business of 25 years was driven into administration last summer.

The plastering firm he set up in the 1980s had been badly hit by the first dip in the recession in 2008-09, after a number of his clients went into receivership owing him hundreds of thousands of pounds.

SDP survived and was picking up again strongly with a streamlined operation. Ironically, Steve's strategy was to go after business with larger companies rather than risk further losses with smaller outfits. It was one of these big 'blue chips' that pushed his business over the edge.

He is now in a legal battle with the company to recover the £450,000 he is owed. "They got a job done to a very good standard," Steve told *First Voice*. "And they haven't paid for half of it."

From the outset, the company delayed payments, often by weeks, and even then often only making a partial payment on account with no reason given.

As the tier one contractor, they had signed a fair payment code with their customer – a public organisation – and were getting money up front and on time, said Steve.

"But the money wasn't being passed down the chain. They had run into difficulties. The project was weeks behind schedule and facing financial penalties. So they stopped paying.

"It's become the culture in the industry. If the main contractors run into problems on site, they protect themselves by making the sub contractors suffer.

"We had suppliers to pay every 30 days and a wage bill to meet every fortnight. At one point, when I told them that I needed cash coming through, they said, 'Are we wasting our money paying you? Are you still going to be around to finish the job?' It's verging on criminal. They are killing small and medium-sized businesses."

Steve added: "And when they found out that we had gone into administration, they suddenly submitted an account to the administrators saying we owed them £71,000, with no reason given, just to try and fend off our claim against them.

"I was at breaking point. The stress was immense because of the responsibility I had for the people working for me. There were times when it reduced me to tears."

Facing large tax and VAT demands, and with the building company stalling, Steve finally had no choice to put SDP into administration. He is still trading through SDP Screeding, a separate company he set up seven years ago.

"There was a time when a handshake was good enough," he said. "It doesn't mean a thing in this industry now."

"If the main contractors run into problems on site, they make the sub contractors suffer."

annual accounts whether they have met those terms.

The FSB is working closely with the Labour MP for Oldham East and Saddleworth, Debbie Abrahams, who is spearheading a campaign to end the endemic late payment culture among Britain's biggest companies, which she describes as 'repulsive'.

The majority of FTSE 100 companies have yet to sign up to the voluntary Prompt Payment Code. Business Minister, Michael Fallon, has written to all FTSE 100 and FTSE 250 companies threatening to name them publicly if they decline to sign up.

"Late payment causes real cash-flow problems for entrepreneurs," he said. "It stops them from growing their business – we need to change the culture. My message is clear - make prompt payment a priority or face the consequences of being named."

Meanwhile, Karen continues to gather support for her battle to change the culture in the construction industry by trying to form a coalition with other membership organisations like the Federation of Master Builders and Federation of Plastering and Drywall Contractors.

"We're not going to give up. It's a huge issue for all businesses, but it is particularly acute in the construction industry. Any success we achieve will almost certainly filter through to other sectors."

Top tips to ward against late payment

Start with a 'business detox' to lessen the risk of late payment, says Karen Woolley.

- 1 Re-visit your trading terms and conditions to ensure they are still fit for purpose and aligned with the type of companies you now do business with.
- 2 Do a due diligence test of your trading practices. Look at your recent trading history and assess the risk of entering into other contracts of a similar nature.
- 3 Carry out a credit check on your customer before doing business with them, get a bank reference, take up trade references, and get their full address.
- 4 Consider setting a maximum credit limit for your customer.
- 5 If the customer is a limited company or a limited liability partnership, consider asking for the directors/partners to give personal guarantees.
- 6 Always provide written terms and conditions and make sure these are agreed by the customer before any goods and or services are provided.
- 7 Set out what you're doing, and when payment is due. Simply putting terms and conditions on the back of your invoice will be too little and too late.
- 8 When goods and or services are supplied, ask the customer to sign an acceptance form to minimise the possibility of a dispute arising later.
- 9 Ensure the invoice goes on time, to the right person and sets out clearly what you've done, the amount owed and when it's due.
- 10 If the customer is late paying, find out why and, if necessary, send a reminder with a timeframe.

CASE STUDY GLASS TECH RECYCLING, LLANDARCY



'You have to make a stand': Karen John of Glass Tech.

'We took on the big boys... and won'

'Do you know who we are?'

That was the response Member, Karen John, got when she challenged one of her biggest customers over an unpaid bill.

"The implication was unmistakable," said Karen, who runs Llandarcy-based Glass Tech Recycling Ltd, which cleans and crushes glass before it goes for re-use. "Their view was, *'We're in control; we'll pay when we're ready. You just put up with it.'* They felt they could just walk all over us."

Despite setting out her terms, some of Karen's customers – mainly large waste management companies – simply ignored her and insisted on their terms, which meant she often waited more than three months for a bill to be settled.

"These companies collect waste for local authorities, who pay them promptly. They have access to major cash-flow, so it isn't right that we should wait so long to be paid for a job we do on the day their skip is delivered."

Glass Tech took a stand,

telling the customer they'd no longer do business with them until they paid their bills within 30 days from date of invoice.

"They didn't take us seriously... until we turned their lorries away at the gate," said Karen. "I'd rather find another customer who pays on time."

"We took them on, and we won. They now pay us in 30 days. This is something I feel very strongly about. We pay our bills on time and expect everyone to do the same."

Keeping a really firm grip on cash-flow is an absolute priority for GlassTech. Karen makes it her business to know her customers' payment processes and cut-off dates, and remains in constant contact to forestall any possible query that could delay a payment.

"You have to be proactive," she said. "Everybody gets a cash-flow pinch. You can survive the odd one, but when your cash-flow is constantly threatened by customers' payment policy, you have to make a stand."