

# Mercian Law

*Commercial Debt Recovery Specialists*

## **SMEs could do more to tackle crippling late payments, says Mercian Law Limited**

Small and medium sized enterprises (SMEs) in the UK are overlooking ways to protect against potentially crippling cash-flow problems, warns Mercian Law Limited.

SMEs have to wait an average of 41 days longer than the time scale for payment agreed with their customers before receiving payments, while £24billion is owed to SMEs at any one time. Recent research shows that that 37 per cent of late payers take between one and three months to pay invoices.\*

With the increase in VAT to 20 per cent expected to worsen the SME cash flow problem, Mercian Law Limited is urging small businesses to guard against late payment.

Mercian Law Limited says that not enough businesses are aware of the protections available to them which safeguard against cash flow blockages. Solicitors will be able to help SMEs take advantage of these.

Mercian Law spokeswoman Verity Grigg says:

"Average commercial debts caused by late payments are high in the UK, and for SMEs a lack of cash flow can be crippling. With credit less available to those businesses from banks, late payments have a far more serious consequence for SMEs."

"Considering the amount of red tape SMEs and start-ups are faced with, it is no surprise that seeking protection against late payment from customers does not come top of the to-do list. However, it could be the difference between the business surviving or not, especially in the uncertain economic climate."

"A carefully worded contract drawn up by a solicitor between a business and their commercial customers can include clear terms on late payments, including penalty clauses and strict time frames for payment. Such terms can act as an effective deterrent for late payment and encourage timely payment for services, thus avoiding these terms coming into play."

Mercian Law Limited says that contracts between businesses which include late payment clauses need to become a common feature of the SME market. The European Union is currently looking at updating a directive aimed at tackling late payments such is the impact on the SME sector across Europe as a whole.

Verity Grigg adds: "Many smaller businesses perhaps felt the recent budget did not do enough to tackle cash flow problems head on, and although the EU is looking at it,

the safest bet is to protect against cash flow blockage between the customer and the business with a solid, solicitor-drafted contract."

### **Avoiding court**

The Law Society and Mercian Law says that should SMEs and start-ups hit problems with customers failing to meet payment deadlines, court is not the only next-step option. Alternative Dispute Resolution and mediation are alternatives for SMEs.

Verity Grigg says: "There is a presumption that going to court is the only course of action when late payments cannot be resolved. However, Mercian Law specialises in ADR and mediation, which can prove an effective way of solving the problems for SMEs and other businesses. ADR and well-drafted contracts can be effective in avoiding the last option, going to court."

Mercian Law can assist with Late Payment Interest Notices under the Late Payment of Commercial Debts (Interest) Act 1998 for a cost effective fee of £10 + VAT.

### *Notes to editors:*

Figures sourced from Bacs [www.bacs.co.uk](http://www.bacs.co.uk) research (December 2009) and the Forum for Private Business [www.fpb.org.uk](http://www.fpb.org.uk)

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