

Late payments can be devastating for SMEs - Business Partners

Late and protracted payments by large corporations and state agencies is putting an increasing number of South Africa's small and medium enterprises (SMEs) under unnecessary pressure and, in many instances, is leading to the failure of otherwise sound companies.

According to Gerrie van Biljon, executive director at Business Partners, a specialist risk finance company for SMEs, this trend is extremely worrying as it is estimated that small and medium-size enterprises generate half of gross domestic product (GDP) and 60% of employment locally.

He says that larger corporations and government might not realise the negative effects that late payments can have on SMEs. "While payment delays can be easily absorbed by larger companies with access to credit, late payments could have potentially devastating consequences for small firms, which struggle with cash flows and cannot easily secure overdrafts or bridging finance."

Negotiate payment terms

While it is important for large companies and government to address these issues, there are steps that SME's can follow to protect themselves from this type of situation. Many small businesses are afraid to negotiate stringent payment terms upfront, for fear of losing a potentially large customer. Many large organisations know this and put pressure on suppliers to accept their often lengthy payment terms.

"While it is not always easy to stand firm in these situations, failing to do so could result in massive dangers down the line. Make it clear to the customer what the credit terms are. If there is a difference between the two parties' payment terms, don't ignore the issue - discuss it and come to an agreement, otherwise it will arise later when it has become more critical to cashflow," says Van Biljon.

Invoicing must be correct

Before accepting an order or brief, the supplier should fully understand the meaning of all payment terms. This includes particular requirements regarding invoicing, what references or order numbers should be quoted, what the procedures are for making payment, as well as whether the customer only accepts electronic invoicing. It is highly unlikely that the customer will pay before their standard terms, but it is advisable to discuss payment before in order to find out what flexibility they have.

He says that many small businesses shy away from pressing large clients for payment as they fear it could damage the relationship they have with their client contact. "One option is to outsource invoicing and collections to an outside supplier, who is able to chase late payment on the supplier's behalf."

Van Biljon says that SMEs experiencing late payments of more than 30 days after doing business with the government can now call a hotline on 0860 766 3729 for assistance. "The hotline will provide SMEs and suppliers with a single point of contact to facilitate the speedy payment for services or products provided to the government."

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