Department for Business & Trade

Late Payments Research

Understanding Variations in Payment Performance and Practices across Business Sectors and Sizes

September 2024

IFF Research

This is a report of research carried out by IFF Research, on behalf of the Department for Business and Trade.

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Foreword

For too long small businesses and the self-employed have suffered as a result of late payments, putting a significant strain on cash flows and limiting their ability to invest. In 2022, UK small businesses were owed on average an estimated £22,000 each.

The Department for Business and Trade is committed to taking action on late payments. In order to do so effectively, we need a detailed understanding of the problem by analysing the evidence and hearing directly from businesses affected.

This further research does just that. It looks to better understand how payment behaviour differs across businesses in different sectors and of different sizes, and helps shed further light on the underlying drivers of late and long payment.

I would like to thank the many businesses that have taken time to participate in this research and share their thoughts and experiences. I would also like to thank the organisations who form part of the wider research community, who continue to contribute invaluable insights in what is ultimately a collaborative undertaking.

GARETH THOMAS MP
Minister for Services, Small Business and Exports

Contents

Executive Summary

Introduction

The Department for Business and Trade (DBT) commissioned IFF Research to conduct research to better understand what drives sectoral differences in payment practices and performance.

A total of 300 telephone interviews were conducted using Computer Assisted Telephone Interviewing (CATI) between 3 and 31 January 2024. Interviews were conducted with micro to large businesses in the following sector groups:[1]

- goods
- construction
- pharmaceutical
- insurance
- services

The core objectives of the research were to understand:

- what the main drivers of long payment terms and late payment are, and how this varies across businesses in different industries
- how payment practices vary between businesses in different sectors, and of different sizes
- how standard payment terms are decided
- how suppliers approach negotiating payment terms on specific contracts
- what measures customers take in the same circumstances, and how larger businesses manage their supply chains in general
- what payment methods businesses use
- how businesses could improve their payment behaviours
- what support could be usefully offered by government to support this

Summary findings

What the main drivers of long payment terms and late payment are, and how this varies across businesses in different industries

Payments businesses receive from their business customers

Businesses' cash flow plays a significant role in late and long payment times. Surveyed businesses most commonly cited cash flow issues outside of their business customers' control, when thinking about the drivers of late payment. These included their business customers themselves being paid late (40%) or worsening economic conditions (29%). This highlights that late payment can have trickle-down effects through supply chains, where late payment higher up the chain leads to more late payment elsewhere;

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[1] See appendix for the sector breakdown included in each sector group.

and that late payments can signal financial distress among businesses as cash flow becomes strained in tighter economic conditions.

Administrative errors are prevalent. 24% of surveyed businesses attributed late payments they received from their business customers to administrative errors, including failing to log invoices or other invoicing errors. Large businesses were more likely to report administrative errors driving late payments (36%), which could reflect more complicated or stringent payment processes across larger businesses, for example ‘no purchase order, no pay’ policies.

Some businesses pay late on purpose. 18% of surveyed businesses suggested that late payments are driven by their business customers purposefully paying late, treating it as a form of ‘free finance’. This was more common for businesses in the Goods sector (30%) and micro businesses (24%), and suggests that these businesses could be more likely to experience (or at least perceive) poor payment behaviour across their business customers’ late payments.

There were no definitive and observable variations by size or sector. While the sample of surveyed businesses showed some differences across survey responses, there were no definitive trends. This could suggest either an absence of meaningful differences across sectors’ views, or limitations in the survey design, particularly sample size.

Payments businesses make to their suppliers

Businesses most often attributed paying late themselves to issues with their payment processes or technology, and disputes. 36% of surveyed businesses attributed paying their suppliers late to administrative errors; 31% to disputed invoices; and 23% to technical issues, including invoices getting lost or failing to deliver. Unsurprisingly, surveyed businesses did not cite poor payment behaviour, like paying late on purpose (1%), when talking about their own payment practices.

Micro businesses reported being more susceptible to cash flow issues. 32% of surveyed micro businesses said they paid their suppliers late owing to their business customers paying late, compared to 20% overall; and 12% of micro businesses said worsening economic conditions was a driver, compared to 5% overall. This could suggest financial vulnerability across micro businesses more generally, with cash flows often highly dependent on timely payments from their business customers.

How payment practices vary between businesses in different sectors, and of different sizes

Payments businesses receive from their business customers

30-day payment terms were most common. Micro businesses often offered shorter payment terms, while those in the Goods sector often offered longer terms. 54% of respondents with business customers offered payment terms of 30 days after the invoice date, as standard. 11% expected payment within 7 days of the invoice date, rising to 22% for micro businesses. Though still representing a small proportion, businesses in the Goods sector were more likely to offer contractual payment terms of 60 days after the invoice date (13% compared to 7% overall).

Businesses most commonly said their business customers paid 30 days after the invoice date, but the same differences by size and sector emerged.

Businesses said their business customers most commonly made payments 30 days after the invoice date (31%), followed by payment within 7 days of the invoice date (13%). Micro businesses were significantly more likely to report business customers paying within 7 days of the invoice date (29% compared to 13% overall). Payments 60 days after the invoice date were relatively uncommon (reported by 8% of those with business customers), though were more common in the Goods sector (17%).

Businesses that accepted credit and debit card payments from their business customers were less likely to say they received payments 60 days after the invoice date (both 5% vs 8% among businesses overall). Meanwhile, businesses that accepted cash were more likely to receive payment 10 days after the invoice date (3% vs 1% among businesses overall).

Businesses mostly received payments within contractual terms, but small businesses often had issues with late payments. When comparing the typical payment terms offered by businesses to the average time their customers take to pay their invoices, 52% said that their customers paid in line with contractual terms, 36% said their customers took longer to pay, and 12% said their customers paid more quickly. Small businesses were more likely to say it took business customers longer to make payment than the typical agreed terms (49% compared to 36%). There were no significant differences by sector.

The proportion of payments businesses received late was generally quite low, with no conclusive differences by size or sector. When asked for the proportion of invoices paid late, 52% of those with business customers said that, on average, less than 10% of payments were not received within the agreed timeframe. The mean percentage of payments that were late was 17%: ranging from an average of 11% in the Insurance sector, 16% in the Services sector, 18% in the Construction sector, 19% in the Pharmaceutical sector, to 21% in the Goods sector.

Large businesses and Goods sector businesses were more likely to formally pursue late payments. Micro businesses and Insurance sector businesses were less likely. 68% of businesses said that they tend to informally pursue late payments,[2] with a further 27% saying that they would pursue late payments formally.[3] Compared to businesses overall, micro businesses were less likely to pursue late payments formally (19%) while large businesses were more likely to do so (42%), suggesting a power imbalance across business relationships. Insurance companies were considerably more likely to pursue late payments through informal routes (82%), while those in the Goods sector were more likely to pursue them formally (38%).

The main reason for not formally pursuing late payments was to protect customer relationships. The most common reason provided by businesses for not formally pursuing late payments was they did not want to damage customer relationships (33%), rising to

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[2] For example, send follow-up invoices.
[3] For example, charging interest or debt recovery costs on outstanding payments.

44% among micro businesses. One micro business in the Pharmaceutical sector explained that formally pursuing late payments could prevent them receiving more work through their customers. A further 29% of businesses that did not formally pursue late payments said the lateness of payments was not significant enough to justify such measures.

Payments businesses make to their suppliers

Micro businesses were more likely to have to pay their suppliers more quickly, while those in the Construction sector were afforded more time. Businesses reported that the most common contractual payment time offered by their suppliers was 30 days (71%). Micro businesses were more likely to be required to pay within 7 days of the invoice date (10% vs 4% among businesses overall). Businesses in the Construction sector were more likely to be required to pay within 60 days (14% vs 6% among businesses overall).

Micro businesses and those in the Services sector were most likely to pay their suppliers within 7 days. Irrespective of payment terms, 49% of surveyed businesses said they paid their suppliers 30 days after the invoice date, and 11% reported paying within 7 days of the invoice date. Micro businesses were more likely to pay within 7 days of the invoice date (23%), while medium and large businesses were less likely (4% and 0% respectively). Businesses in the Services sector were also more likely than businesses overall to pay within 7 days (17% vs 11% overall), as were those who primarily paid their suppliers via debit card (25%).

Most businesses met their suppliers' contractual payment times, but there were better and worse performers in terms of size and sector.

Where businesses stated the contractual time typically offered by suppliers and the typical time they take to pay, most met the contractual payment terms (72%). 10% took longer to pay than the typical contractual payment time, while 18% paid early.

Micro businesses and those in the Services sector were more likely to report paying early (both 27%), while small businesses were more likely to report taking longer to pay than the contractual time offered (19%). This could be in part due to small businesses being more likely to report their business customers taking longer to pay than the agreed contractual payment time, creating a knock-on effect.

Businesses in the Services sector were more likely than those in the Goods sector to report paying early (27% vs 9%). Meanwhile, businesses in the Pharmaceutical sector were more likely than those in the Insurance sector to take longer to pay than the contractual time offered (12% vs 0%).

Most supplier invoices were paid on time, but late payments were more pronounced among medium-sized businesses and those in the Goods sector.

Most businesses (81%) said that, on average, less than 10% of supplier invoices are not paid within the agreed timeframe, with the mean average of supplier invoices paid late being 7%. The mean average proportion of supplier invoices paid late was higher in the Goods sector than the Services sector (10% vs 5%). It was also higher in the Pharmaceutical sector than the Insurance sector (7% vs 4%).

Micro businesses were more likely to report that less than 10% of supplier invoices are paid late (94%), while medium and large businesses were less likely to report that less than 10% of supplier invoices are paid late (73% and 63% respectively). Medium-sized businesses were more likely to say that 75% or more supplier invoices are paid late, as were those in the Goods sector (both 4%).

How standard payment terms are decided

The industry standard was the main consideration for businesses when deciding their standard payment terms. 41% of businesses said that the industry standard was a factor when deciding their standard payment terms that they offer to business customers. This was more common among businesses in the Services sector than those in the Goods sector (52% vs 32%). 22% mentioned that cash flow management was a consideration when deciding the standard terms of payment. The follow-up qualitative interviews provided evidence of this, with some saying it was no use to offer anything other than the industry standard, and others wished to ensure that their terms were competitive.

Micro businesses were more likely to consider customer requirements when deciding their standard payment terms. While relatively few businesses overall mentioned that the customer's requirements were a factor (7%), this rose to 12% among micro businesses. This implies micro businesses were more receptive to their customers' needs, providing greater flexibility in their payment terms.

How suppliers approach negotiating payment terms on specific contracts

Most businesses adapted the standard payment terms offered in particular circumstances. 70% of those with business customers said that they do adapt the payment terms that they offer to their business customers, compared to 27% who said that they did not. Medium-sized businesses were more likely to say that they adapt their standard payment terms (83%), however, there were no significant differences by sector.

Some businesses would adapt their payment terms to gain competitive advantage. Many businesses in the qualitative interviews mentioned that they adapted their payment terms in certain situations. In one case, a business recalled offering more lenient payment terms when arranging a relatively large and lucrative contract. This suggests that businesses can use their payment terms to try to gain a competitive advantage.

The size of customer had an impact on how businesses negotiated their payment terms.

Findings from the qualitative interviews indicated that the size of business customers could influence how contractual payment terms were decided. When dealing with smaller business customers, the relationship with the customer and their reputation in the industry were major factors when adapting payment terms.

When dealing with larger business customers, it was clear from the qualitative interviews that some felt that the power around the setting of contractual payment times was very much out of their hands. There were a few examples, particularly from the Pharmaceutical sector, where businesses felt that large customers used their size and influence in the industry to demand long and unfavourable payment terms of smaller suppliers.

What measures customers take to negotiate payment terms on specific contracts, and how larger businesses manage their supply chains in general

Most businesses are given a contractual payment time of 30 days to pay their suppliers, often led by the industry standard. Most businesses that took part in the qualitative interviews explained that they are typically given the contractual payment time of 30 days to pay their suppliers, with some explaining that this is the industry standard.

In some cases, the size of the supplier would impact the payment terms. Some said the payment time can vary by size of the supplier, with smaller suppliers requiring immediate payment or payment 7 days after the invoice date.

Established relationships with suppliers would often lead to greater flexibility. Some businesses explained that suppliers who they have a longstanding relationship with would typically allow some flexibility and would not immediately chase them after the payment date.

Large businesses said they did their best to pay their suppliers on time. The few large businesses that took part in the qualitative interviews said they do their best to adhere to the contractual payment time offered to them by their suppliers. One large business explained that they try to be aligned through the supply chain by striving to have a consistent approach regardless of the nature of the supplier. They felt that standardisation resulted in efficiencies rather than having varying terms. However, they said they offer flexibility in particular circumstances, to help the supply chain when they can.

What payment methods businesses use

The most common payment method businesses accepted from their business customers was bank transfer.

90% accepted bank transfer, 67% accepted cheques and 50% accepted debit or credit card payments. 29% accepted cash and 14% accepted payments through digital platforms such as PayPal.

Insurance companies were significantly more likely than businesses overall to accept nearly all of these payment methods, with 98% accepting bank transfers, 84% accepting cheques, 72% and 74% accepting debit and credit card payments respectively, and 50% accepting cash payments. Additionally, 20% of Insurance companies accepted payments on premium finance[4] (representing all except one business of the 4% of businesses in the survey that accepted this payment method). Micro businesses were less likely to accept credit or debit card payments (41% and 42% respectively), with the qualitative interviews suggesting high fees were an issue.

[4] Premium financing is the lending of funds to a person or company to cover the cost of an insurance premium.

Businesses were most likely to use bank transfer for paying their suppliers. For 97% of businesses surveyed, their primary payment method for paying suppliers was bank transfer. 34% paid via credit card and 23% paid via debit card. Compared to businesses overall, micro businesses were less likely to pay via bank transfer (91%), but more likely to pay via debit card payments (38%) and cash (7%). Medium-sized businesses were more likely to pay via credit card (44%), while businesses in the Services sector were more likely to pay via debit card (32%).

How businesses could improve their payment behaviours and what support could be usefully offered by government to support this

Government has previously legislated to address late payments. Most recently, the Reporting on Payment Practices and Performance Regulations 2017 (the reporting regulations) were introduced in April 2017 and require large business to report publicly on their payment policies, practices and performance. The reporting regulations were extended and expanded in April 2024 by DBT following a consultation period and the findings of the department's Payment and Cash Flow Review.[5]

Most businesses were unaware of the reporting regulations, and the level of understanding varied. Only 31% of all businesses surveyed said they were aware of the reporting regulations. As expected given the eligibility criteria, this rose to 42% for large businesses, but remains quite low – less than half businesses potentially in scope of the reporting regulations. More positively, the majority of businesses who were aware of the reporting regulations had a good understanding of their purpose (71%) and the types of organisations the reporting regulations apply to (62%) but only 35% of businesses reported understanding all aspects they were prompted with.

Some businesses did not feel government intervention to improve payment practices was necessary. When asked what the government could do to help improve payment practices and performance in their sector, some businesses said that they did not think this was a significant issue in their industry and so did not support the idea of any government intervention.

Some believed the introduction of maximum payment terms would be beneficial. Where businesses thought the government should act to help improve payment practices and performance in their sector, a common suggestion was the introduction of maximum payment terms. The length of these terms varied. For example, one businesses suggested a maximum payment term of 2 weeks while another said that 90-day payment terms should be banned.

Conclusion

The research findings add to the existing evidence base around late and long payment times. Although the research does not support definitive conclusions around what drives differences in payment practices and performance across sectors, it confirms existing

[5] https://www.gov.uk/government/publications/publication-of-the-prompt-payment-and-cash-flow-review

understanding and uncovers new and helpful insights. Further research, with larger sample sizes, could help better identify and understand sectoral differences.

Strengthening the existing evidence base

The department's Payment and Cash Flow Review discusses wilful and non-wilful late payment, and different factors that can influence businesses' behaviour – culture, incentives, technology and economic conditions. The research confirms that businesses' decisions around late and long payment times are complex, but shows that cash flow plays a significant role, with businesses often paying late after experiencing late payments from their own customers. Importantly, this suggests that tackling late payments at the 'top' of supply chains has the most significant impact, circumventing other late payments elsewhere.

The department's Payment and Cash Flow Review also outlines different actions to improve UK payment culture, including working with sector associations and industry bodies. The research finds that existing industry standards are the single biggest driver in how businesses set their payments terms and highlights that 'bottom-up' changes (where businesses act unilaterally) could be limited – some level of 'top-down' coordination is needed to effect an overall change.

Small businesses have long been the focus of government action to tackle late and long payment times – the reporting regulations look to benefit smaller businesses by increasing transparency around large businesses' payment times, and the Small Business Commissioner's Prompt Payment Code requires signatories to make special provisions for payments to small businesses.[6] The research suggests that micro and small businesses are more likely to deal with bad payment behaviour from their business customers, often have limited bargaining power when agreeing payments, and typically cannot take formal action against late payment without risking important customer relationships. All of this points to continued action which prioritises smaller businesses.

New insights

The reporting regulations require large businesses to report on their payment times and contractual terms, and are predominantly aimed at increasing transparency and stimulating competition – specifically, publicly available data incentivises large businesses to improve their payment terms to stay competitive. The research finds evidence of businesses competing on payment terms, however, suggests that this competition is sometimes in the 'wrong direction', and can therefore overall increase payment times.

In particular, businesses in the qualitative interviews reported offering longer payment terms when negotiating with their business customers to help win sizeable or important contracts. This shows that within current prompt payment legislation, economic incentives can pull performance in either direction – both better and worse, with smaller businesses likely losing out.

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[6] https://www.smallbusinesscommissioner.gov.uk/ppc/about-us/

Ahead of publishing the Payment and Cash Flow Review and extending and expanding the reporting regulations, the department consulted the public, inviting views and taking feedback. The consultation received 137 responses from individuals and organisations, which were overall in favour of the proposed renewal.

Although this suggests good understanding and approval among businesses and organisations familiar with the reporting regulations, the research finds overall low levels of awareness across surveyed businesses – even among businesses potentially in scope of the reporting regulations. Importantly, the department is already committed to improving awareness of the reporting regulations as part of the Payment and Cash Flow Review actions relating to increasing transparency, and more active and efficient delivery and enforcement.

Introduction

Background

The research

Late payments and long payment terms negatively impact a businesses' finances, which can result in cash flow problems and, in the worst cases, force businesses to shut down. The Department for Business and Trade (DBT) commissioned IFF Research to conduct research to better understand what drives sectoral differences in payment practices and performance.

The existing evidence base

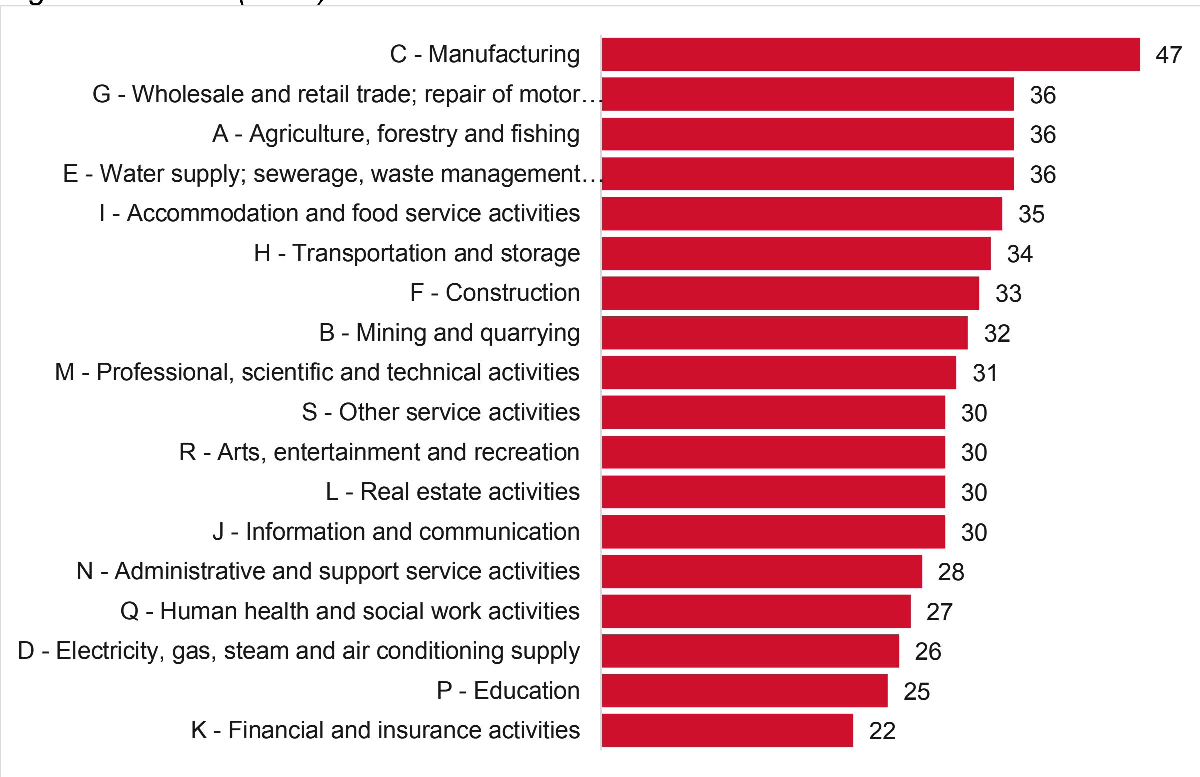
Late and long payment times have long been an issue for UK businesses, and although the evidence base has developed, there is still more to understand. Improved data collection has played a large role in developments to date, and important sources of data include the following:

- **The Reporting on Payment Practices and Performance Regulations 2017 (the reporting regulations).** The reporting regulations require large businesses to report on their payment practices and performance twice-yearly, and were extended and expanded in April 2024. The microdata is publicly available, and allows individuals and organisations to check businesses' payment times, and analyse performance across reporting businesses more widely.
- **Payment time and performance data collected by accounting firms.** This data uses real invoice information to measure 'days to pay' and the proportion of late invoices among their business customers. This data is anonymised and aggregated, and regularly published.
- **Long-running surveys which ask about payment times and terms across of sample of UK businesses, alongside other European countries.** The data shows how payment performance has changed over time, and how UK businesses compare to their European counterparts.

Importantly, this data describes *what* is happening with late and long payment times in the economy, but not *why* it is happening. This is particularly important when considering that the data highlights significant variation in payment performance across different sectors. The aim of this research is therefore to learn what certain sectors are doing well (and less well) in terms of their payment practices, and consider whether this learning can be shared across sectors to overall improve performance.

Figure 1.1 shows how sectors differ in terms of large businesses' payment performance. Sectors which focus more on the production of goods, like manufacturing, typically take longer to pay on average. In comparison, sectors which focus on the provision of services, like insurance activities, pay more quickly on average.

Figure 1.1 Median days to pay – Large businesses – DBT analysis of the reporting regulations data (2023)



Excludes: O - Public administration and defence; compulsory social security, T - Activities of households as employers; undifferentiated goods-and services-producing activities of households for own use, U - Activities of extraterritorial organisations and bodies. Number of reports = 10,109.

Research objectives

The core objectives of the research were to understand:

- what the main drivers of long payment terms and late payments are, and how this varies across businesses in different industries
- how payment practices vary between businesses in different sectors, and of difference sizes
- how standard payment terms are decided
- how suppliers go about negotiating payment terms on specific contracts
- what measures customers take in the same circumstances, and how larger businesses manage payments within their supply chains in general
- what payment methods businesses use
- how businesses could improve their payment behaviours
- what support could be usefully offered by government to support this

Methodology

A total of 300 telephone interviews were conducted using Computer Assisted Telephone Interviewing (CATI), which lasted an average of 15 minutes. Interviews were carried out between 3 and 31 January 2024. The interviewing team asked to speak to the person in charge of negotiating the business's payment terms. Participants interviewed tended to be a member of the senior management team or the finance department.

Sectors of interest and interview targets

This research sought to interview a total of 300 UK businesses, split among the 5 sector groupings as shown in Table 2.1. The sectors included those known by the Department for Business and Trade (DBT) to be poor performers in terms of payment practices (Pharmaceutical), as well as those considered strong performers (Insurance), and those that have shown improvement over time (Construction).[7] The sector breakdown included in each sector group is included in the Appendix.

Table 2.1 Interview targets

Grouping	Micro (0-9 employees)	Small (10-49 employees)	Med (50-249 employees)	Large (250+ employees)	Total
Goods	25	19	19	13	**75**
Construction	17	13	13	8	**50**
Pharmaceutical	17	13	13	8	**50**
Insurance	17	13	13	8	**50**
Services	25	19	19	13	**75**
Total	**100**	**75**	**75**	**50**	**300**

Achieved interviews and response rate

Sample

The sample for the survey was sourced from Market Location, a commercial database of UK businesses.

Profile of participating businesses

A total of 300 interviews were achieved, split by size and sector in Table 2.2.

[7] Based on DBT analysis of the reporting regulations. Importantly, this data considers large business only.

Table 2.2 Achieved interviews by size and sector group

Grouping	Micro (0-9 employees)	Small (10-49 employees)	Med (50-249 employees)	Large (250+ employees)	Total
Goods	24	19	19	13	**75**
Construction	16	13	13	8	**50**
Pharmaceutical	16	13	15	6	**50**
Insurance	16	13	13	8	**50**
Services	24	19	19	13	**75**
Total	**96**	**77**	**79**	**48**	**300**

Call outcomes and survey response rate

A call outcome is defined as a definite response to the survey invitation. Specifically, the interview either takes place, or a reason for non-completion is established. Among the 3,964 businesses called at least once, the response rate for the survey was 8% (shown in Table 2.3). This included businesses where no final outcome was reached, for example where the interviewing team were not able to get through to the right person, where an appointment had been made to call back at a later date, or where a or where the call went to answerphone. Among the 671 businesses where a definite call outcome was achieved, the response rate was 45% (shown in Table 2.4).

Table 2.3 Unadjusted response rate

Call outcome	Number	%
Total records called at least once	**3,964**	**100%**
Completed	300	8%
Respondent refusal	241	6%
Respondent unavailable during fieldwork	89	2%
Contact made – no definite outcome	981	25%
No direct contact made with respondent	1,805	46%
Over quota	41	1%
Unobtainable (for example, wrong contact number)	507	13%

Table 2.4 Adjusted response rate based on a definitive call outcome

Call outcome	Number	%
Definitive call outcome	**671**	**100%**
Completed	300	45%
Respondent refusal	241	36%
Respondent unavailable during fieldwork	89	13%
Over quota	41	6%

Data reduction and weighting

Large and medium-sized businesses are over-represented in this survey compared to the business population. This was a deliberate decision, as pursuing a representative sample would have returned very small numbers in these size bands. Weighting by size and sector was therefore considered. However, as the number of interviews is small, the weights were deemed too large to apply and would have had a considerable negative impact on the effective base size. Specifically, it would have meant that it would not be possible to report the findings of businesses of a particular size or sector. These survey results cannot therefore be considered representative of the business population, however, can still provide useful insight into the behaviour of businesses that took part.

Qualitative follow-up interviews

Following the quantitative survey, IFF Research carried out 20 in-depth interviews with a range of businesses. Qualitative fieldwork took place between 15 February and 14 March 2024, and interviews were carried out via Microsoft Teams or via telephone. Interviews lasted up to an hour. All participants had previously completed the survey and had consented to being contacted to take part in further qualitative research. Recruitment sought businesses of a range of sizes and sectors, as well as a mix in terms of the proportion of invoices they said they received late from their business customers during the survey. Additionally, the aim was to recruit at least 5 businesses who said they formally pursue late payments during the survey.

The main aims of the qualitative follow-up interviews were to build on businesses' answers to the survey in more detail and to get a clearer picture of what the main drivers of late payments are.

The profile of employers that took part in the follow-up qualitative interviews is shown in Table 2.5.

Table 2.5 Profile of qualitative interviews

Size	Number of interviews
Micro	6
Small	6
Medium	5
Large	3
Sector	**Number of interviews**
Construction	4
Goods	3
Insurance	4
Pharmaceutical	4
Services	5
% of invoices not received within the agreed time	**Number of interviews**
Less than 10%	10
11-49%	5
50%+	5
Business response to late payments	**Number of interviews**
Formally pursues the payment	9
Change in % of late payments from business customers	**Number of interviews**
Decreased	1
Increased	5
Stayed the same	14

Payments from business customers

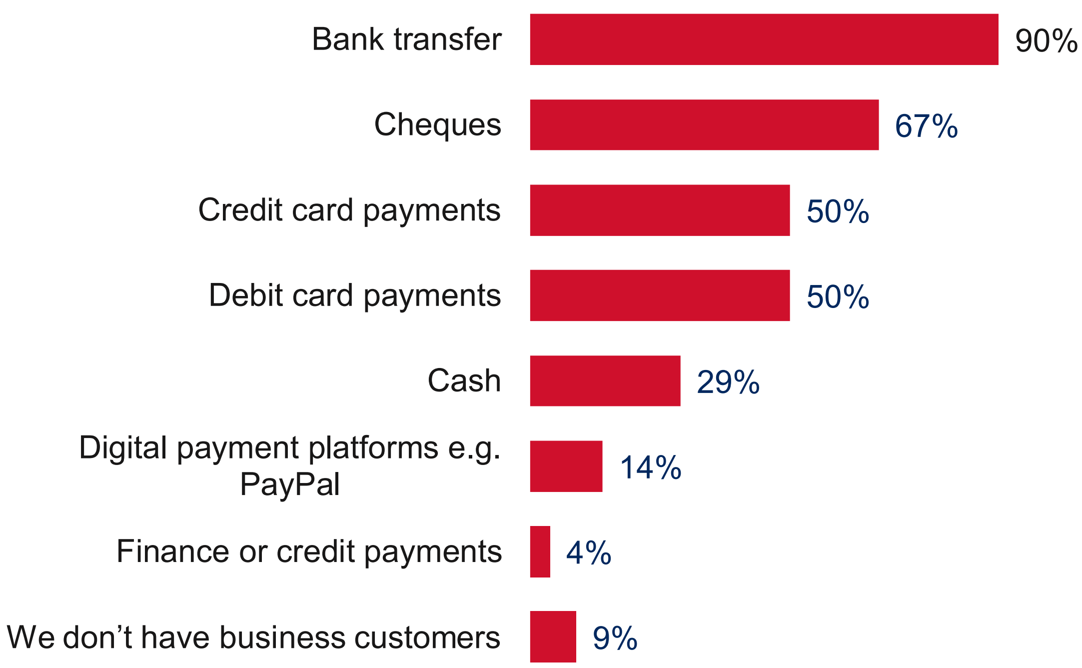
This chapter explores the payment processes that businesses have in place, the typical contractual payment time offered to business customers, the average time business customers take to pay, and the main drivers of late payments.

Background to payments

As shown in Figure 3.1, the most common payment method businesses accepted from their business customers was bank transfer (90%). Two-thirds (67%) accepted cheques and half (50%) accepted debit or credit card payments. Three in ten businesses accepted cash (29%) and 14% accepted payments through digital platforms such as PayPal.

Insurance companies were significantly more likely than businesses overall to accept nearly all of these payment methods, with 98% accepting bank transfers, 84% accepting cheques, 72% and 74% accepting debit and credit card payments respectively, and 50% accepting cash payments. Additionally, 20% of Insurance companies accepted payments on premium finance (representing all bar one business of the 4% of businesses in the survey in Figure 3.1), where a customer uses an external lender to cover the cost of an insurance premium over time. 9% of businesses in the survey did not deal with business customers.

Figure 3.1 Payment methods accepted from business customers



B1. Which payment methods do you accept from your business customers? Base: All (300)

Micro businesses were less likely to accept credit or debit card payments (41% and 42% respectively). One small business in the qualitative interviews expressed their reluctance to accept payments via credit card, with the fees representing a significant cost to the business:

"If customers really have to, they can pay by credit card… but we can't make any money out of credit cards or debit cards … I get charged £200 a month for my bank transactions and £2,000 a month for my credit card transaction, and my credit card transactions only make up about 5% of my business."

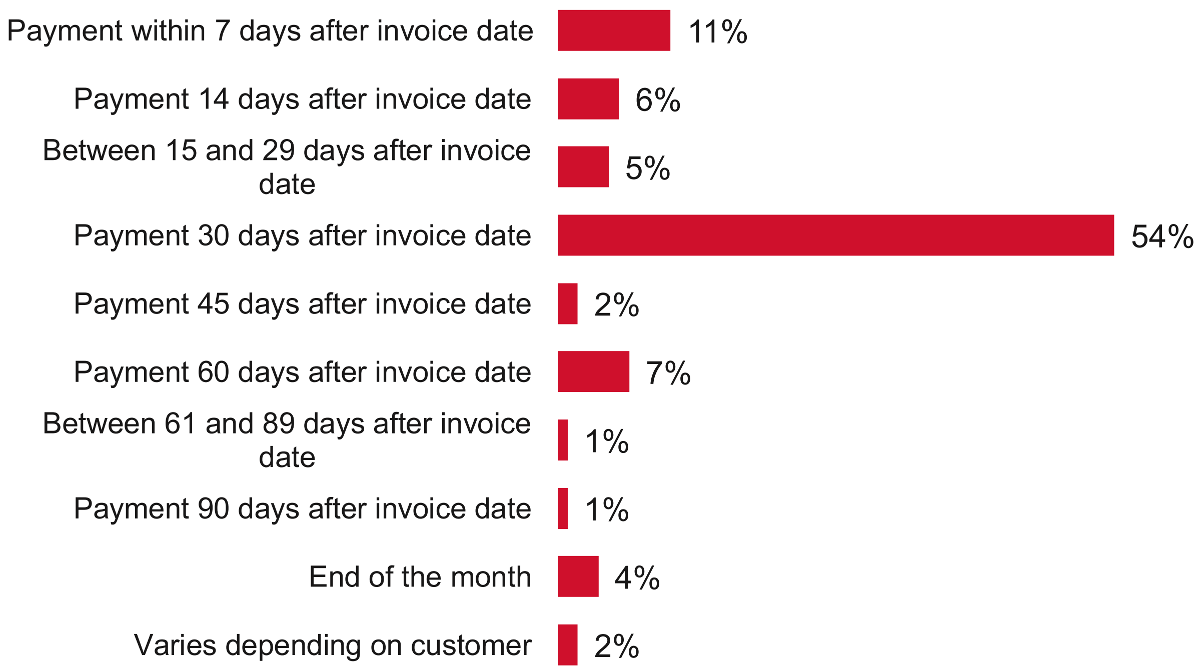
Small business, Insurance sector

Two-thirds of businesses with business customers used digital invoicing (67%), a practice more common among businesses in the Services sector (79%) and less common among Insurance companies (55%). A similar proportion of those with business customers had a dedicated employee who handles the payments (69%). As may be expected, micro businesses were considerably less likely to have a dedicated employee for this purpose (36%), likely as a result of the limited resource available.

Contractual payment times

Just over half (54%) of those with business customers typically offered payment terms of 30 days after the invoice date as standard. This is in line with default payment terms in the UK, where unless a payment date is agreed, payments must be made within 30 days of receiving an invoice or the goods or service. These terms were less common in the Insurance sector (35%), although it was still the most common terms of payment offered within the sector. One in ten (11%) expected payment within 7 days of the invoice date, with micro businesses more likely to issue these contractual terms (22%). Though still representing a small proportion, businesses in the Goods sector were more likely to offer contractual payment terms of 60 days after the invoice date (13% compared to 7% overall).

Figure 3.2 Contractual payment time typically offered to business customers



B4. What contractual payment time do you typically offer to your business customers? Base: All who have business customers (274)

It was relatively common among businesses surveyed to adapt the payment terms that they offer to their business customers. Seven in ten (70%) of those with business customers said that they do adapt their terms, compared to 27% who said that they did not.[8] Medium-sized businesses were more likely to say that they adapt their standard payment terms (83%), and those with a dedicated employee that handles payments were more likely to do so than those without an employee in this role (77% compared to 55%).

As shown in Figure 3.3, two-fifths (41%) of those with business customers said that the industry standard was a factor when deciding the contractual payment terms that they offer to business customers. This was more common among businesses in the Services sector than those in the Goods sector (52% vs 32%). The follow-up qualitative interviews provided evidence of this, with some saying it was no use to offer anything other than what was standard in the sector, and others wished to ensure that their terms were competitive.

"When we first set up, it became apparent that that's what people would pay you on; they weren't prepared to pay any sooner. So, there's little point in me putting thirty days on the contract when I know I'm not going to get the money."

Micro business, Construction sector

Figure 3.3 Factors influencing standard contractual payment terms

[8] The remainder said that they did not know if they ever adapt their standard payment terms for business customers.

B5. What factors did you consider when deciding these standard payment terms? Base: All who have business customers (274). Reponses <3% have not been included on the chart.

One fifth (22%) of those with business customers mentioned that cash flow management was a consideration when deciding the standard terms of payment. While relatively few mentioned that the customer's requirements were a factor (7%), this rose to 12% among micro businesses. A further 23% of respondents could not name any particular factors that they considered when deciding the terms that they offered, rising to 51% among large businesses.

Consistent with the findings in the survey, many businesses in the qualitative interviews mentioned that they adapted their payment terms in certain situations. In one case, a business recalled offering more lenient payment terms when arranging a relatively large and lucrative contract:

"Depending on how big the contract is we will be willing to stretch things. The longest I am aware of, is one for 90 days pay terms from a company. The contract wasn't necessarily great but the money coming from it was quite a chunky value. I think we thought it would be a good idea, but they're just not very good payers."

Large business, Services sector: Transport

Findings from the qualitative interviews indicated that the size of business customers had an influence on how contractual payment terms were decided. When dealing with smaller business customers, the relationship with the customer and their reputation in the industry were major factors when adapting payment terms. For example, when engaging a new customer, a business might initially offer more strict payment terms, to gauge the customer's payment behaviours. On the other hand, when doing business with longstanding or loyal customers, there was a higher degree of trust, and businesses were more willing to accommodate more generous payment terms.

"If it's a new customer, for the first month, until I get decent references I will have them pay cash on delivery, if they stick to these terms I will put them onto a payment of 28 days."

Small business, Goods sector

When dealing with larger business customers, it was clear from the qualitative interviews that some felt that the power around the setting of contractual payment times was very much out of their hands. There were a few examples, particularly from the Pharmaceutical sector, where businesses felt that large customers used their size and influence in the industry to demand long and unfavourable payment terms of smaller suppliers:

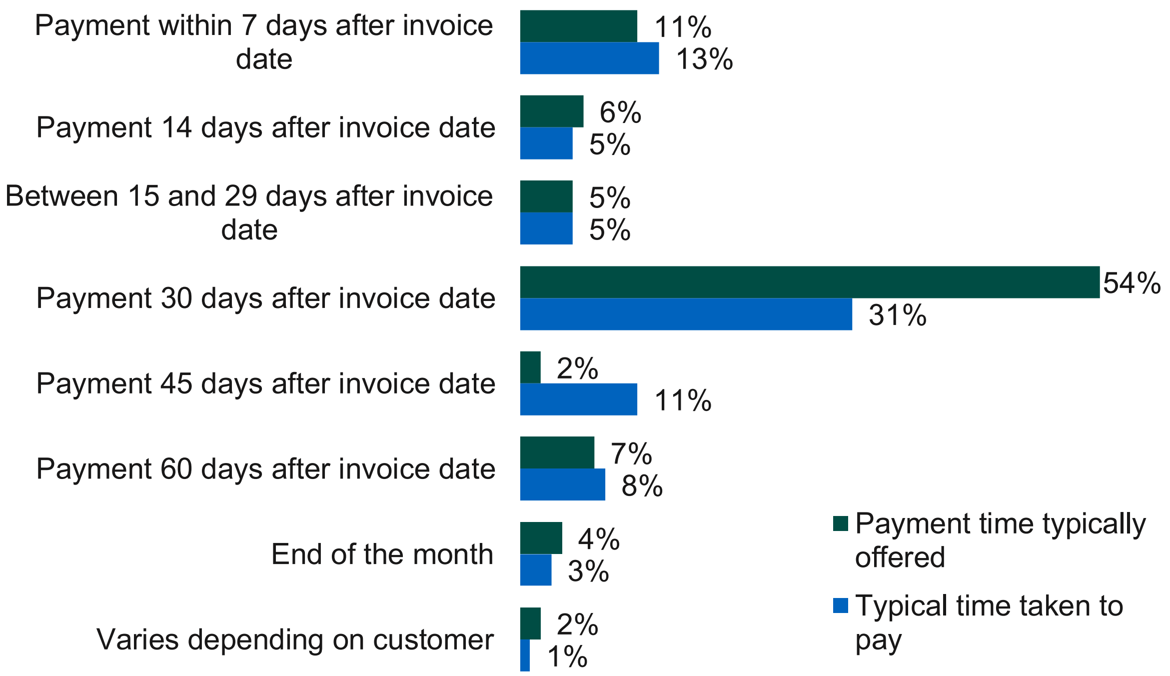
"[Large companies] can just withhold money without giving much of a reason, and that's pretty frustrating because that can have an effect on your cash flow, and it's a very sensitive business to deal with. So, you've got to really handle it with care, but it can be very challenging, and they'll have a big influence on our company."

Average payment time

Businesses said their business customers most commonly paid 30 days after the invoice date (31%), followed by payment within 7 days of the invoice date (13%) and payment 45 days after the invoice date (11%). Micro businesses were significantly more likely to report business customers paying within 7 days of the invoice date (29% compared to 13% overall). Payments 60 days after the invoice date were relatively uncommon (reported by 8% of those with business customers), though were more common in the Goods sector (17%). There were no significant differences here by size of business.

Businesses that accepted credit and debit card payments from their business customers were less likely to say they received payments 60 days after the invoice date (both 5% vs 8% among businesses overall). Meanwhile, businesses that accepted cash were more likely to receive payment 10 days after the invoice date (3% vs 1% among businesses overall).

Figure 3.4 Typical time taken for business customers to pay compared to contractual payment time typically offered



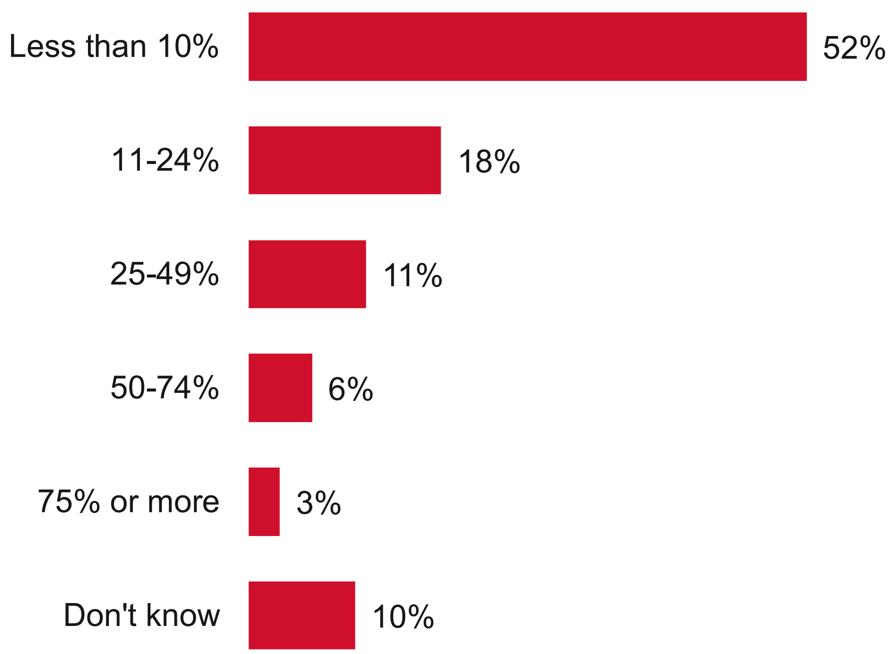
B4. What contractual payment time do you typically offer to your business customers? Base: All who have business customers (274). Responses <2% have not been included on the chart.
B7. On average, how long do your business customers take to pay invoices? Base: All who have business customers (274)

When comparing the typical payment terms offered by businesses to the average time their customers take to pay their invoices, around half (52%) said that the time they took to pay was typically in line with the agreed contractual payment time. Just over one third (36%) said that the time taken by business customers to pay was longer than the contractual payment time offered, and a minority (12%) said that it was shorter. Micro businesses were less likely to say that the time taken to pay was longer than the typical contractual payment time offered (26% compared to 36% overall), with a larger than average proportion saying their business customers paid in line with the typical contractual payment time (65% compared to 52% overall). Small businesses were more likely to say it took business customers longer to make payment than the typical agreed terms (49% compared to 36%). There were no significant differences by sector.

Businesses that used digital invoicing were also more likely to say that the time businesses took to pay was longer than the standard payment terms offered (44%), as were those who had a dedicated employee that handles payments (43%).
There was little evidence in the qualitative interviews of businesses offering incentives to encourage their business customers to pay on time. There was one instance of a 'prompt payment settlement' having been arranged for a specific product and customer, but this was the sole example. Some said that they did not offer incentives due to reporting regulations around influencing payments, and others saw no reason to do so.

Just over half (52%) of those with business customers said that, on average, less than 10% of payments were not received within the agreed timeframe. Just under one in five (18%) said that 11-24% of payments were not received on time, 11% said it was between 25-49% of payments that were late, and 9% said it was more than 50% of payments. The mean percentage of payments that were late was 17%: ranging from an average of 11% in the Insurance sector, 16% in the Services sector, 18% in the Construction sector, 19% in the Pharmaceutical sector, to 21% in the Goods sector.

Figure 3.5 Proportion of payments from business customers not received within the agreed timeframe



B8/B9. On average, what proportion of payments from your business customers are not received within the agreed timeframe? Base: All who have business customers (274)

In the qualitative interviews, businesses were asked to identify the types of business customers that pay late. Though many were not able to identify a particular pattern among late payers, one business said that it correlated with the impact of wider economic conditions on certain industries, and a few mentioned that larger businesses were more often guilty of late payments, or customers involved in larger contracts.

"There are some customers who take it upon themselves to not pay within 30 days and those are the ones we frown on...It tends to be clients who place orders of a higher value. They tend to expect to be able to pay later for some reason. Generally, the bigger they are, the worse they are."

Micro business, Construction sector

There was some evidence of repeat late payers in the qualitative interviews, though once again the types of businesses varied. There were a few smaller businesses that had experience of regular late payers who said that they would either move them to stricter contractual payment times, or that eventually they would encourage them to go elsewhere:

"Usually if we have a repeat late payer, we ask the client to go elsewhere. Usually, it's a polite request to leave, so we won't offer them a renewal quote."

Small business, Insurance sector

Others had longstanding customers who were regular late payers, but were comfortable with this relationship as they knew that they would eventually pay up, and it did not have a huge impact on cash flow:

"It would be ones that I'd be shocked if they paid on time. We know he'll pay, but he's always late. It doesn't have a massive impact."

Small business, Insurance sector

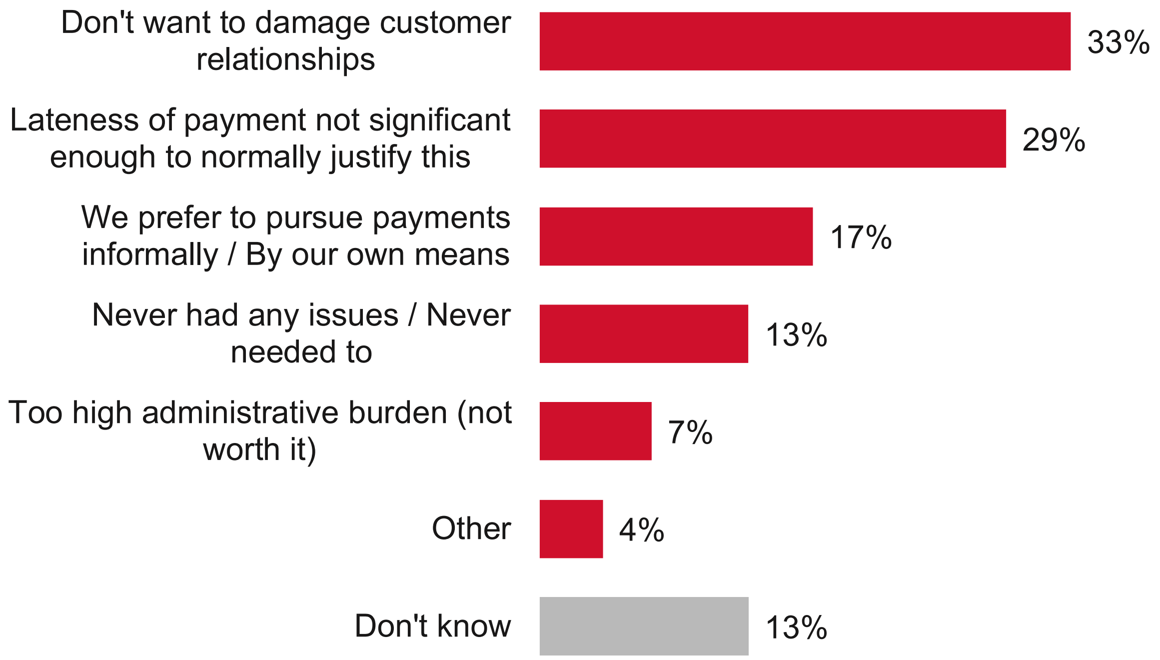
Response to late payments

Two-thirds of businesses said that they tend to informally pursue late payments (68%),[9] with a further 27% saying that they would pursue late payments formally.[10] Micro businesses were less likely to pursue late payments formally (19%) while large businesses were more likely to do so (42%). Insurance companies were considerably more likely to report pursuing late payments through informal routes (82%), while those in the Goods sector were more likely to report pursuing them formally (38%).

Of those that reported not pursuing late payments formally, one third said it was because they did not want to damage customer relationships (33%). A further 29% said that it was because the lateness of payments was not significant enough to justify such measures.

[9] For example, send follow-up invoices.
[10] For example, charging interest or debt recovery costs on outstanding payments.

Figure 3.6 Reasons for not formally pursuing late payments



B11. Why does your business not formally pursue late payments from business customers? Base: Those who do not formally pursue late payments from business customers (200)

Micro businesses that do not formally pursue late payments were more likely to cite concerns about negative effects to customer relationships (44%). This was reiterated in the qualitative interviews by a micro business in the Pharmaceutical sector:

> *"These people aren't contactable for me. If I decided to take a small claims action against [large companies], what is likely to happen? The first thing that is likely to happen is they will strike me off the business...and we only have about 50 customers."*

Micro business, Pharmaceutical sector

17% reported preferring to pursue late payments informally, and 13% said that they had not had any issues surrounding late payments. Just 7% said that the administrative burden of formally pursuing late payments was too high, rising to 16% among businesses in the Services sector.

In the qualitative interviews, many of those who did not formally pursue late payments said that in most cases it simply was not worthwhile doing, and that the outstanding balance often was not large enough to warrant such action.

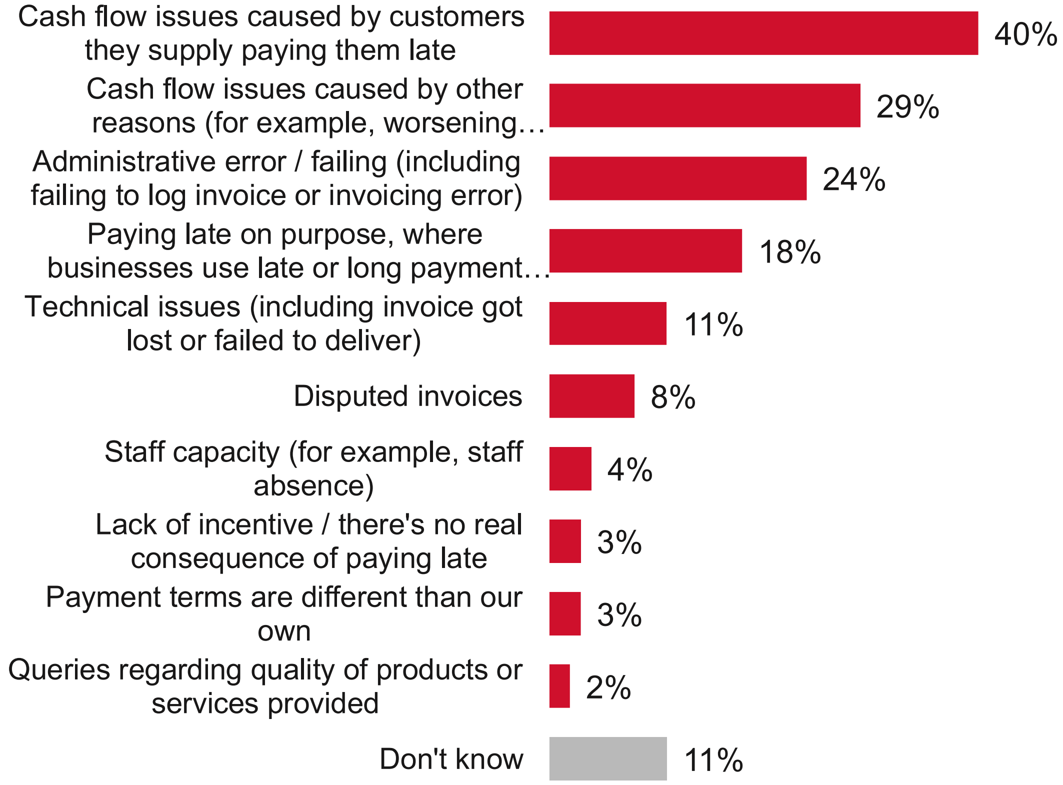
> *"It's just part of the cost of doing business. If it was £1,000 we would go to a small claims court, mostly it's very low figures and it's not worth chasing."*

Small business, Insurance sector

Drivers of late payments

Those with business customers most commonly cited cash flow issues as the driver of late payments or long payment times from business customers in their sector, either as a result of customers they supply paying them late (40%) or for other reasons, such as worsening economic conditions (29%).

Figure 3.7 Drivers of late payments from business customers



B12. What do you think are the main drivers of late payments and / or long payment times in your sector? Base: All who have business customers (274). Responses <2% have not been included on the chart.

A quarter of those with business customers (24%) blamed administrative errors or failings (including failing to log invoices or invoicing errors). This was more likely to be reported by large businesses (36%). In the qualitative interviews, while cash flow issues was a main theme, some indicated that it was often poor cash flow management in particular that drove some of their business customers to pay late.

"Often it's [a result of] poorly managed businesses, people push it and don't bother paying."

Small business, Goods sector

18% of those with business customers said that some businesses pay late on purpose as a form of free finance. Businesses in the Goods sector and micro businesses were more likely to mention this as a reason for late payments in their sector (30% and 24% respectively). One small business in the Goods sector mentioned in the qualitative interviews that they had experienced problems with this in the past.

"Some people will treat you like a bank that you just borrow money off. In the past I have had that – people who simply did not pay and went out of business, then you're left with a debt you can do nothing about."

Small business, Goods sector

When asked whether the proportion of their business customers paying late had increased or decreased over the last 3 years, just over half said that the level of late payments had not changed (53%). One quarter (27%) felt that it had increased, and a minority said that the level had decreased (8%). A further 12% were unsure as to whether it had changed. There were no observable differences by size or sector.

Of those who mentioned that the proportion of businesses paying late had changed, many in the qualitative interviews referred to changes in external economic conditions as the cause, referencing the rising cost of living, the Covid pandemic and supply chain issues.

"Over the last maybe 4 years say, and I think Covid's contributed to this, there does seem to be more companies suffering from what appears to be cash flow issues, trying to extend pay terms a bit more or trying to slow things down. Companies that I would have considered very reliable, even they're wobbling at times."

Large business, Services sector: Transport

Case study

Ethan[11] is the Managing Director of a business that operates in the life science industry, manufacturing clean air containment devices for the Pharmaceutical sector. Ethan has been working in the industry since the 1990s, going on to start the business in question in the UK in 2008. They currently operate with 4 staff and have a turnover of around £1.5 million per year.

The business deals almost exclusively with large businesses and multinational customers. When asked about the typical payment terms that the business offers, he explained that in most cases they have little to no control over this decision:

"We don't [offer payment terms]. They dictate to us. It's quite simple, if we don't accept their terms then they'll bin us. It's standard for the industry. For all SME's...we've got no power. All our quotations say 30 days but they're ignored. Every purchase order comes in with 45 days, or more usually 60 or 90 days. If we don't like it that's fine - they'll get somebody else."

[11] This is a fictional name to ensure the respondent remains anonymous.

When asked if they offer any incentives to encourage customers to pay earlier, Ethan said it would have little effect, noting that in some cases the opposite occurs, where large companies offer early payment in exchange for a discount on the invoice.

> *"On the [Company] portal there is a check-box: If you want to be paid early, that is in 45 days, they'll take 5 or 10% off the invoice. You could be talking a £300k invoice. You're not going to take a 10% hit just to get it 15 days earlier."*

Generally, he did not feel that there was a particular pattern among those who pay late, explaining that the same company may pay on time on one occasion, and extremely late the next. While Ethan had plenty of experience of late payments, they never had concerns that these large companies would not pay and said that it was not having a significant impact on their business.

> *"We're quite lucky. We're not stuck for cash. Does it have an effect? Of course - even if it is that I can't put it in the bank and earn interest on it. Is it having an effect on us day to day in paying our suppliers? No."*

Paying suppliers

This chapter explores the typical contractual payment time businesses are offered by their suppliers, the average time businesses take to pay their suppliers, and the main drivers of late payments.

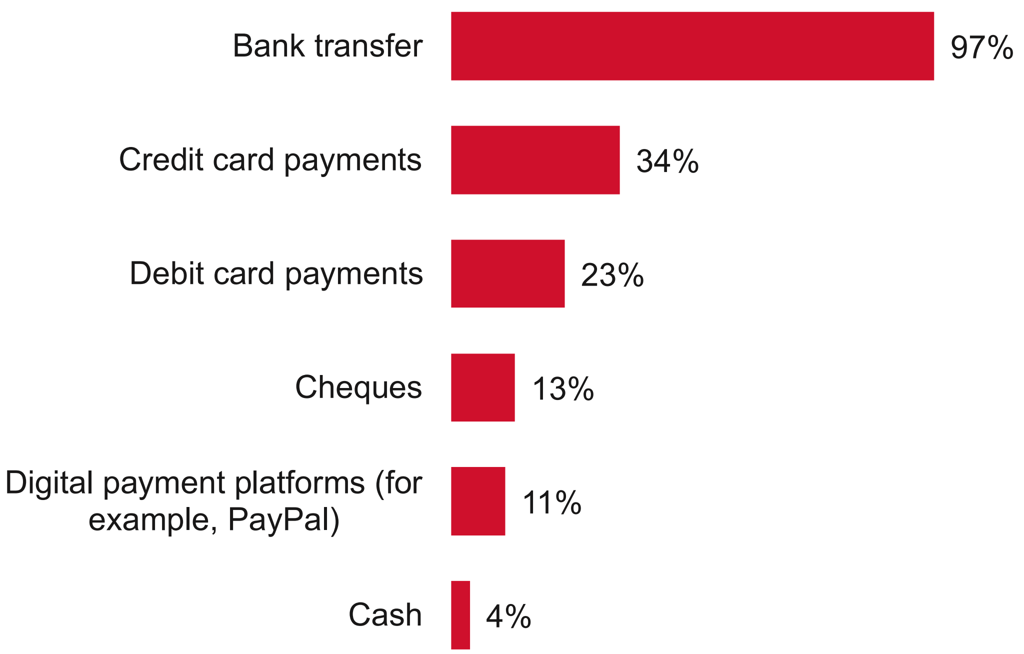
Contractual payment times

For most businesses, their primary payment method for paying suppliers was bank transfer (97%). Around a third of businesses paid via credit card (34%) and around a quarter paid via debit card (23%).

Compared to businesses overall, micro businesses were less likely to pay via bank transfer (91%), but more likely to pay via debit card payments (38%) and cash (7%). Medium-sized businesses were more likely to pay via credit card (44%), while businesses in the services sector were more likely to pay via debit card (32%).

Businesses that had dedicated employees to handle payments were more likely to pay via bank transfer (99% vs 90% among those without). Meanwhile, those without dedicated employees to handle payments were more likely to pay by debit card (36% vs 15% among those with dedicated staff to handle payments).

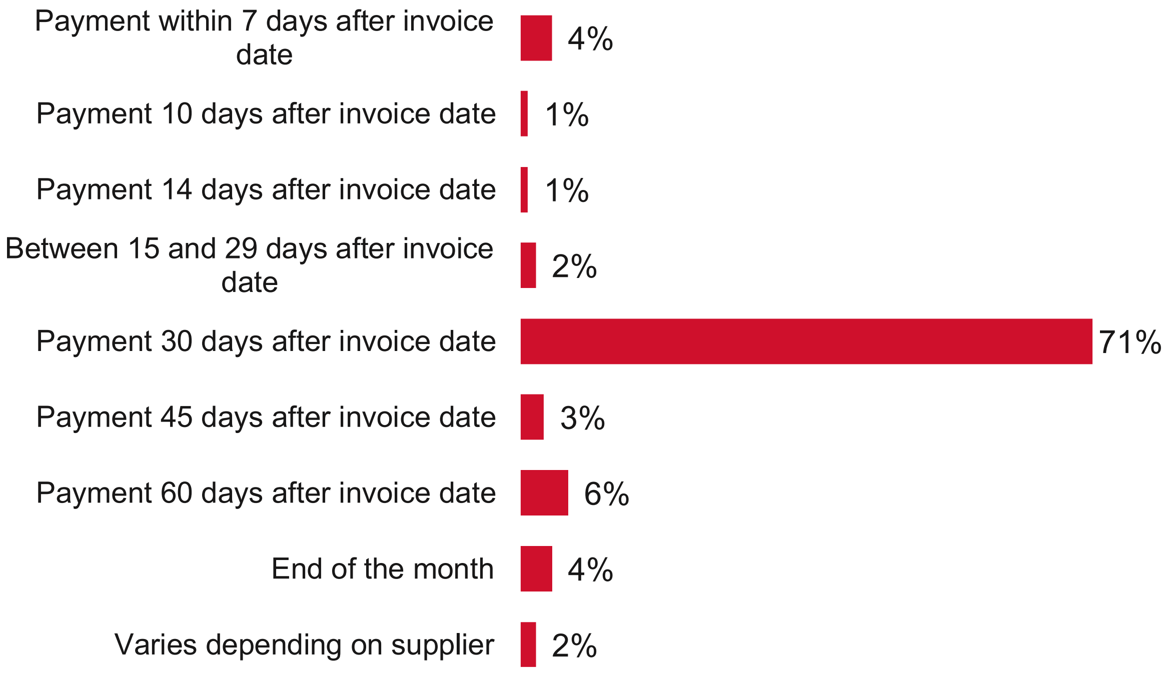
Figure 4.1 Primary payment method for paying suppliers



C1. What are the primary payment methods you use for paying suppliers? Base: All (300)

As shown in Figure 4.2, businesses said the most common contractual payment time offered by their suppliers was 30 days (71%). Micro businesses were more likely to be required to pay within 7 days of the invoice date (10% vs 4% among businesses overall). Businesses in the Construction sector were more likely to be required to pay 60 days after the invoice date (14% vs 6% among businesses overall).

Figure 4.2 Contractual payment time typically offered by suppliers



C2. What contractual payment time do your suppliers typically offer you? Base: All (300)

Most businesses that took part in the qualitative interviews explained that they are typically given the contractual payment time of 30 days to pay their suppliers, with some explaining that this is the industry standard. Some said the payment time can vary by size of the supplier, with smaller suppliers requiring immediate payment or payment 7 days after the invoice date.

"The biggest dental suppliers have the biggest wallets and tend to be more generous. You might get 60 days out of them before they pick up the phone and say 'where's the money?' Whereas the small boys will pick up the phone and say 'where's the money?'"

Micro business, Services sector: Dentistry

Some businesses explained that suppliers who they have a longstanding relationship with would typically allow some flexibility and would not immediately chase them after the payment date.

"I would think that our main suppliers who we have dealt with for many years are semi flexible in so much as they wouldn't be chasing us if we went over our allotted 30 days, but if we got up to 2 months they would send reminders."

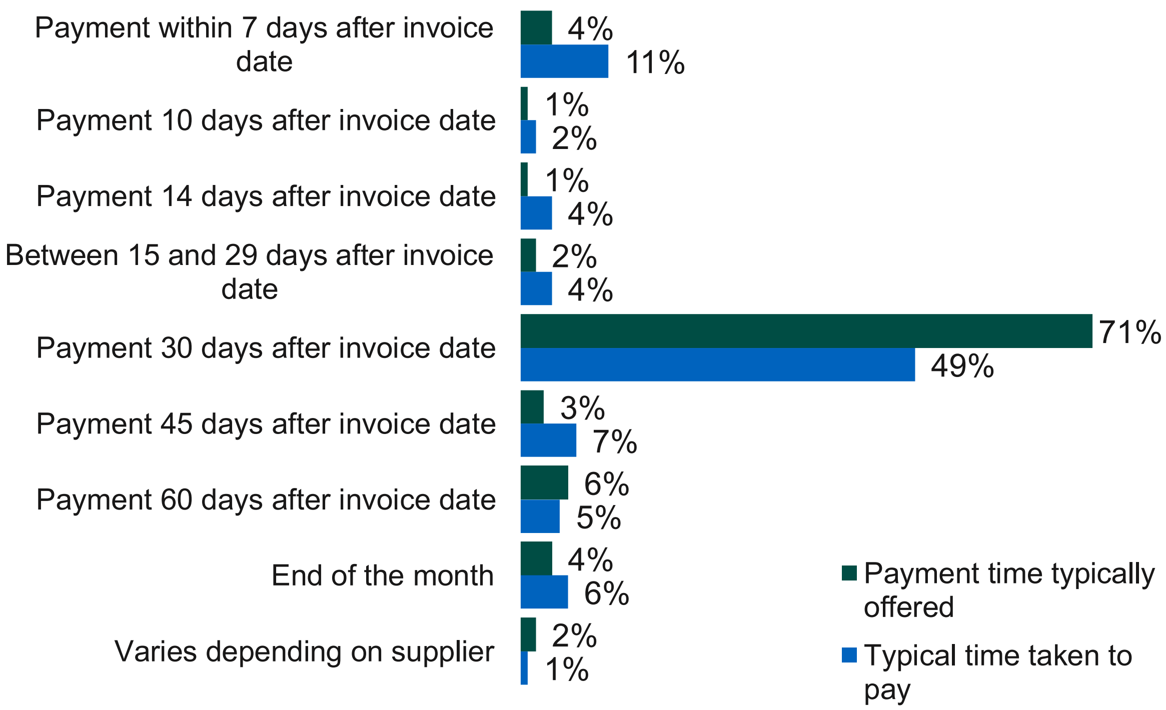
Micro business, Construction sector

Average payment time

As shown in Figure 4.3, around half of businesses (49%) said they paid their suppliers 30 days after the invoice date. Around one in ten (11%) reported paying within 7 days of the invoice date. Micro businesses were more likely to report paying within 7 days of the invoice date (23%), while medium and large businesses were less likely (4% and 0% respectively). Businesses that primarily paid their suppliers via debit card were more likely to pay within 7 days (25% vs 11% among businesses overall). Businesses in the Services sector were also more likely than businesses overall to report paying their suppliers within 7 days (17% vs 11% overall). However, those in the Services sector were not more likely to report typically receiving payment within 7 days from their business customers.

Where businesses stated the contractual time typically offered by suppliers and the typical time they take to pay, most met the contractual payment terms (72%). One in ten (10%) took longer to pay than the typical contractual payment time, while 18% paid early. Micro businesses and those in the Services sector were more likely to pay early compared to businesses overall (both 27%), while small businesses were more likely to take longer to pay than the contractual time offered (19%). This could be in part due to the fact that small businesses were more likely to report their business customers taking longer to pay than the agreed contractual payment time, creating a knock-on effect. Businesses in the Services sector were more likely than those in the Goods sector to report paying early (27% vs 9%). Meanwhile, businesses in the Pharmaceutical sector were more likely than those in Insurance to take longer to pay than the contractual time offered (12% vs 0%).

Figure 4.3 Typical time taken to pay suppliers compared to contractual payment time typically offered

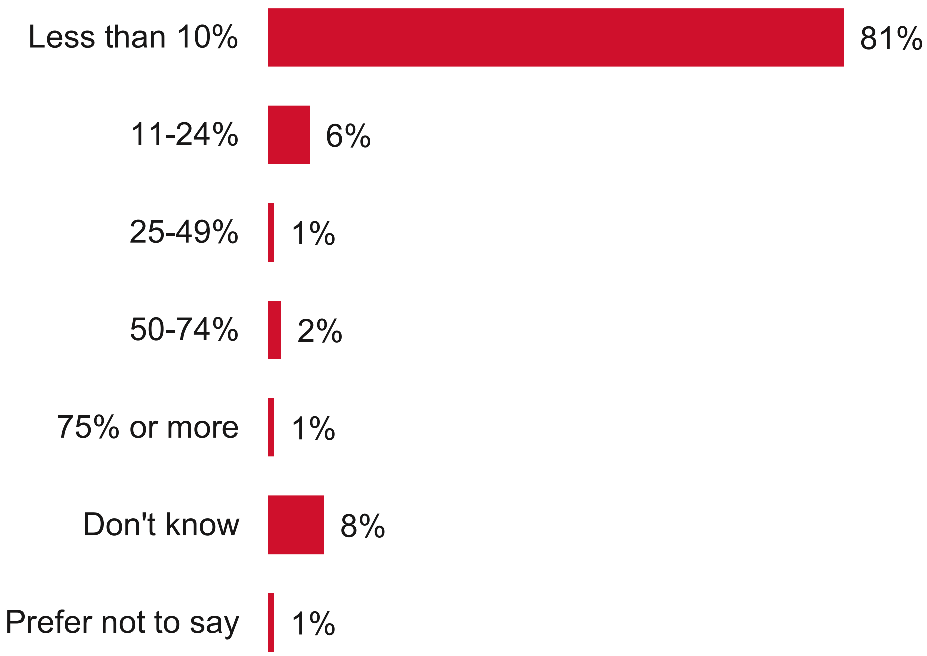


C2. What contractual payment time do your suppliers typically offer you? Base: All (300)
C3. Typically, how long do you take to pay your suppliers? Base: All (300). Reponses <3% have not been included on the chart.

Most businesses (81%) said that, on average, less than 10% of supplier invoices are not paid within the agreed timeframe, with the mean average being 7%. The mean average proportion of supplier invoices paid late was higher in the Goods sector than the Services sector (10% vs 5%). It was also higher in the Pharmaceutical sector than the Insurance sector (7% vs 4%).

Micro businesses were more likely to report that less than 10% of supplier invoices are paid late (94%), while medium and large businesses were less likely to report that less than 10% of supplier invoices are paid late (73% and 63% respectively). Medium-sized businesses were more likely to say that 75% or more supplier invoices are paid late, as were those in the Goods sector (both 4%, compared to 1% overall).

Figure 4.4 Average proportion of supplier invoices not paid within the agreed timeframe



C4/C5. On average, what proportion of supplier invoices are not paid within the agreed timeframe? (Banded). Base: All (300)

Comparing survey results to the reporting regulations data

As part of expanded the Reporting on Payment Practices and Performance Regulations 2017 (the reporting regulations), large businesses are required to report the average time they take to pay their suppliers. Under the reporting regulations, large businesses are defined as those that meet 2 of 3 of the following criteria in their last 2 company accounts: £36 million annual turnover; £18 million balance sheet total; 250+ employees. Businesses could be prosecuted if they do not comply, or if they provide false information.

Of the 48 large businesses that completed the survey, 14 of them had information on the average time taken to pay suppliers recorded on GOV.UK.

Comparing the information recorded with their survey response, 7 of them had an average recorded time that was within the time reported in the survey. 5 of them had an average recorded time that was longer than the time they reported in the survey and the remaining 2 businesses responded ‘don’t know’ in survey meaning a comparison was not possible.

Although based on a very limited sample, the exercise suggests that some businesses underestimated their payment times as part of their survey responses.

Drivers of late payments

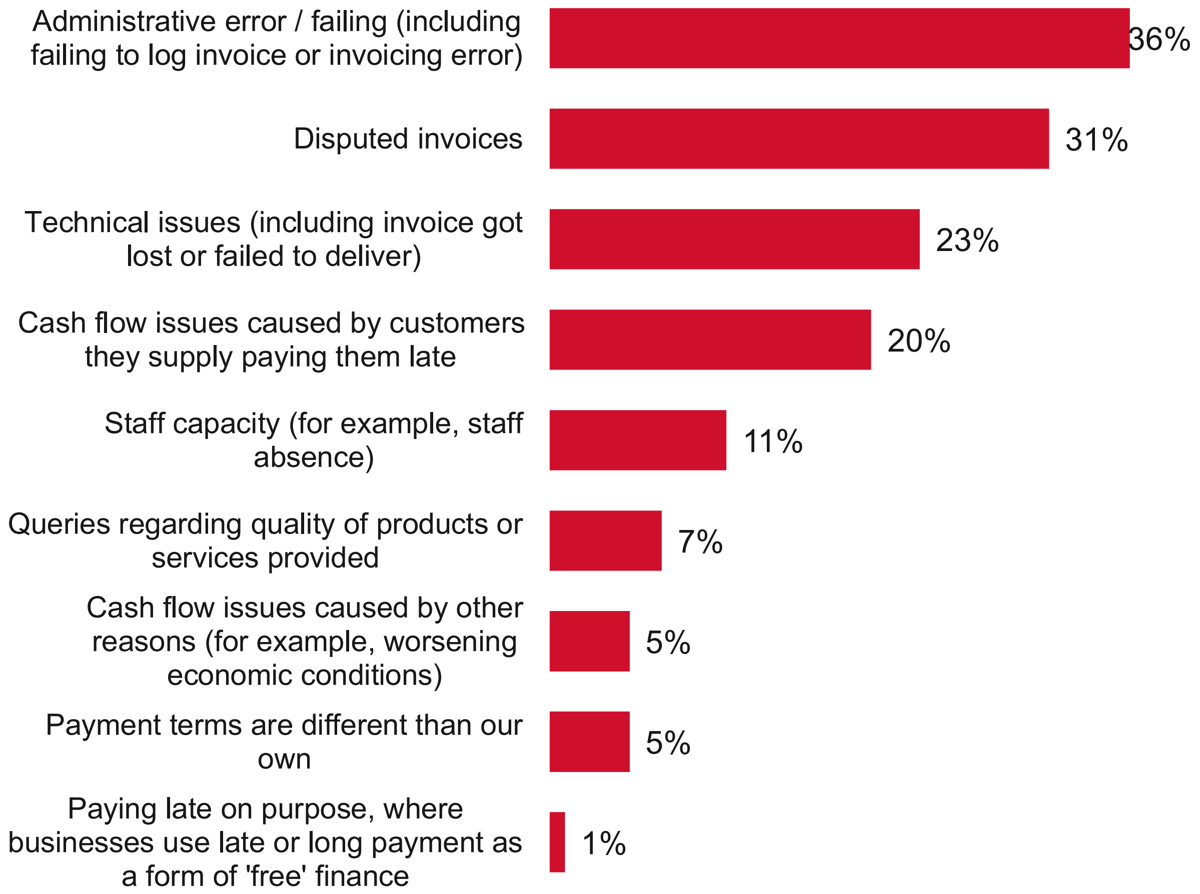
Among businesses that specified the proportion of supplier invoices that are paid late, the most common reason provided was an administrative error or failing (36%). Some businesses that took part in the qualitative interviews explained that administrative errors include products being incorrectly coded on the invoice, payment runs being missed, and invoices not getting logged, for example because the invoice gets sent to somebody outside of the Finance department. One business explained that the invoice needed to match the purchase order for it to get paid, and they were in the process of training staff to understand how the payment process works, as a result of some administrative errors made by staff.

> *“We're doing a series of workshops at the moment, showing people how and having monthly meetings with budget holders to show them how to raise the purchase orders and match them off to the invoices when they come in.”*

Medium-sized business, Construction sector

Around three in ten businesses (31%) said they paid supplier invoices late due to disputed invoices and 23% put it down to technical issues, including invoices getting lost or failing to deliver. One in five businesses (20%) reported paying supplier invoices late due to cash flow issues caused by customers they supply paying them late. This is lower than the 40% of those with business customers who suspected this as the main driver of late payments in their sector. Micro businesses were more likely to report paying supplier invoices late due to cash flow issues caused by customers they supply paying them late (32%). Micro businesses were also more likely to report paying invoices late due to cash flow issues caused by other reasons, for example worsening economic conditions (12% vs 5% overall). Those in the Pharmaceutical sector were more likely to report staff capacity as a reason why supplier invoices are paid late (21% vs 11% overall).

Figure 4.5 Main reasons why payments to suppliers are made late



C6. What are the main reasons why payments are made late? Base: All who specified the proportion of supplier invoices paid late (138)

Most businesses that took part in the qualitative interviews said the proportion of supplier invoices not paid within the agreed timeframe has remained consistent over the last few years. However, some said the proportion of late payments had decreased, either due to system improvements or logistical issues during the Covid pandemic that were no longer present.

> *"I think our payment systems are better, so we probably are paying people a bit quicker than we were."*
>
> **Medium-sized business, Services sector: Real Estate**

> *"A couple of the insurers over lockdown, Covid kind of lost control of their billing, so they didn't bill us for stuff that they should have billed us for, and we were chasing them saying 'please bill us for this'."*
>
> **Small business, Insurance sector**

Case study

Tom[12] works in the contract management department of a large aerospace company that produces military products for both the domestic and international market. Tom works in the helicopter division which has a whole variety of suppliers, some being very large and others being local SMEs. They generally build and maintain relationships with suppliers, however, they are some elements of the supply chain that regularly compete.

Tom said that their suppliers typically offer them a contractual payment time of 30 days, which he thinks is fair and aligns with what they generally offer their business customers. He explained that as a business they try to be aligned through the supply chain, something he believed resulted in greater efficiency.

> *"We are striving to have a regular and consistent approach to the supply chain regardless of the nature of the supplier, because standardisation gives us savings and efficiencies rather than having varying terms."*

There might be circumstances where suppliers offer flexibility. There are particular times of the year, for example year end, where they would want to have discussions.

> *"We always try to maintain a flexibility to help out the supply chain when we can but also for the supply chain to help us out when they can. It's the investment in that relationship that enables us to do that."*

Tom said that around 25% of supplier invoices are not paid within the agreed timeframe. This is usually down to 2 reasons; the first being internal administrative errors in processing, for example an invoice is not logged correctly which causes a delay. The second reason is if they have a dispute from a customer about whether the work has been delivered, for example they are not satisfied the work has been achieved in accordance with the contract which subsequently has a bearing on the timeliness of payment.

Tom said they have got better at paying suppliers over the last few years. As they have become more aware of the reporting regulations and reasons for some of the challenges, they have managed to improve.

[12] This is a fictional name to ensure the respondent remains anonymous.

Government intervention

This chapter begins by covering awareness and understanding of expanded the Reporting on Payment Practices and Performance Regulations 2017 (the reporting regulations) among surveyed businesses. It then moves on to cover the reported use of payment practice data submitted by large businesses under the reporting regulations and the perceived usefulness of this data, before concluding with business views on further support the government could provide to improve payment practices.

Awareness of the Reporting on Payment Practices and Performance Regulations 2017

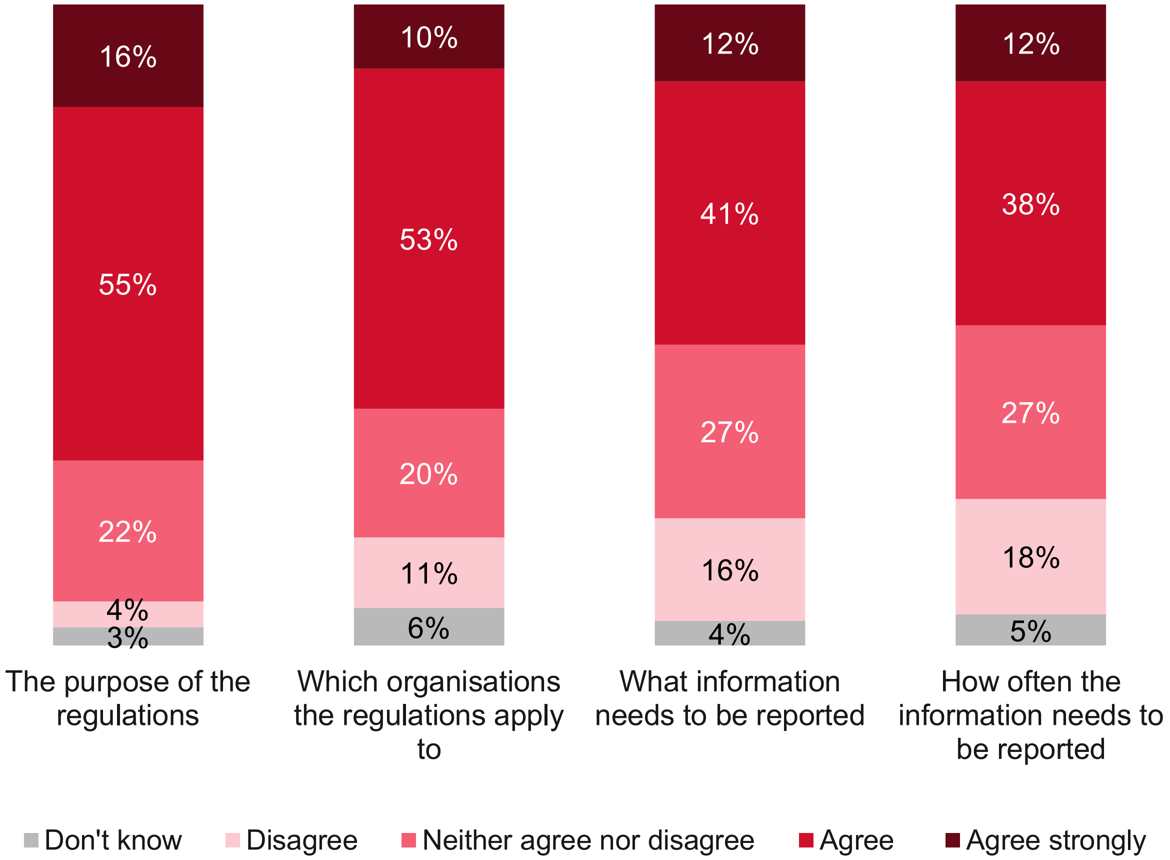
The reporting regulations were introduced in April 2017 and require large business to report publicly on their payment policies, practices and performance twice-yearly. Under the reporting regulations, large businesses are defined as those that meet 2 of 3 of the following criteria in their last 2 company accounts:

- £36 million annual turnover
- £18 million balance sheet total
- 250 employees or more

Three in ten of all businesses surveyed (31%) reported being aware of the reporting regulations, with around two-thirds (65%) unaware and a small proportion (4%) unsure. As to be expected given the eligibility criteria, large businesses were more likely than micro businesses to be aware of the reporting regulations (42% vs 25%). However, it is noteworthy that, even among this audience, fewer than half were aware.

As presented in Figure 5.1, among those aware of the reporting regulations, the majority had a good understanding of their purpose (71%) and the types of organisations the reporting regulations apply to (62%). Around half reported a good understanding of the reporting requirements; 53% understood what information needs to be reported and 49% understood how often information needs to be reported. Overall, around a third (35%) of businesses aware of the reporting regulations reported understanding all aspects they were prompted with.

Figure 5.1 Understanding of the reporting regulations



D2. Do you understand the following aspects of the reporting regulations? Base: Businesses aware of the reporting regulations (93)

During the qualitative interviews, many businesses supported the concept of large businesses being mandated to report on their payment policies and practices under the reporting regulations. This was often because they felt it would incentivise large businesses to pay invoices within their agreed payment terms, which would benefit their suppliers in terms of cash flow. A few emphasised that the timely payment of invoices was critical to the survival of SMEs.

> *"It can only be a good thing in that sense and an incentive for them to be good payers because they're having to report it publicly."*

Medium-sized business, Construction sector

> *"From previous experience of dealing with large companies, I know they can take a long time to pay invoices… having to report that information does inspire companies to pay quicker."*

Medium-sized business, Services sector: Real Estate

Some smaller businesses commented that they felt it was appropriate for the reporting regulations to be in place for large businesses only as businesses of this size would be able to manage the administrative burden associated with the additional reporting requirements with little knock-on effect. They felt that smaller businesses would be unable to take on this additional burden.

"I think the threshold is appropriate. Companies would end up spending a lot of time gathering the data for no useful purpose."

Micro business, Insurance sector

A few businesses questioned the efficacy of the reporting regulations. One business was sceptical about the accuracy of the data reported by large businesses, suggesting that 'clever accounting' could be used to manipulate the statistics. Another said that information about payment practices and performance has little impact on their businesses as they are not in a position where they are able to avoid clients that perform badly.

Use of Payment Practices and Performance Reporting data

Reports on payment practices submitted by large businesses under the reporting regulations are published on GOV.UK. These reports contain information on business payment terms and statistics on the average time taken to pay invoices, and the proportion of invoices not paid within the agreed terms. In addition, there are independent league tables available online which show how the payment practices of large businesses compare with others in the same sector.

Combined, 6% of all businesses that participated in the survey had accessed information about the payment practices of large businesses, either through GOV.UK or online league tables such as Good Business Pays[13] and Build UK.[14] One in twenty (5%) had accessed information about the payment practices through GOV.UK, 2% had used online league tables and 1% had used both.

Of the 19 businesses that had accessed information about the payment practices of large businesses, many (12) reported finding the information useful. Of the remainder, a few (4) said the information was not useful and a few (3) were unable to comment.

During the qualitative interviews most businesses that had previously accessed information about the payment practices of large businesses through GOV.UK or online league tables explained that they were not routine users of these services. They typically only accessed this information when faced with a client that had not paid them on time as a means to contextualise the situation. One business mentioned occasionally using the data as part of their decision-making process about whether to work with a new organisation.

"This information is important as a business tool to make decisions… probably more useful than company accounts, certainly

[13] https://goodbusinesspays.com/how-businesses-perform/sector-analysis/
[14] https://builduk.org/priorities/improving-business-performance/duty-to-report/

for larger businesses. Sometimes you look at accounts for a large business which in essence is great, but maybe a group of companies can be quite complex, trying to find out who is paying what bills and whether or not they're actually a good customer."

Large business, Pharmaceutical sector

Among those that had not engaged with payment practice data before there was a mixed picture in terms of the appetite to engage with it in the future. Some were keen to use the service as a means to inform decision-making about whether to do business with an organisation and how to manage that relationship. Others were interested in using the service in order understand how their payment practices and performance compares to their peers and competitors.

"I would probably use this as an additional information source to help assess a customer's ability to pay."

Large business, Pharmaceutical sector

"Yes [we would be interested in accessing it], because we could see what companies to avoid or which ones we should apply pressure on right at the beginning of trade to pay on time."

Micro business, Construction sector

"That would be useful in terms of benchmarking, so we can see how companies in our supply chain are performing."

Large business, Goods sector

Businesses that said they would be unlikely to access payment practice data typically attributed this to a lack of relevance. For some, this was because they do not typically work with large organisations. For others, the service was not considered relevant because they had longstanding relationships with client organisations and were confident they would pay on time.

"No, because I don't think we would have anyone that would come in on that and be classed as a large business."

Medium-sized business, Services sector: Horse Training

Government support to improve payment practices

When asked what the government could do to help improve payment practices and performance in their sector, some businesses said that they did not think this was a significant issue in their industry and so did not support the idea of any government intervention.

"You might be made to sweat for a week or a month or 2, but you know you're going to get paid so it's not too bad. There are bigger problems."

Micro business, Pharmaceutical sector

"I don't think there's any need for there to be any government intervention on payment. Practising in our sector, it's very well regulated already in terms of how we can operate and how we can deal with customers."

Small business, Insurance sector

Where businesses thought the government should act to help improve payment practices and performance in their sector, a common suggestion was the introduction of maximum payment terms. The length of these terms varied. For example, one businesses suggested a maximum payment term of 2 weeks while another said that 90-day payment terms should be banned.

"I'd make 90-day payment terms illegal. Why should anyone have 90 days to pay?"

Medium-sized business, Insurance sector

"Pressure should be applied to companies to pay sole traders within a 2-week window of the invoice being received."

Micro business, Construction sector

Others said that harsher penalties for late payments should be introduced and that these penalties should be enforced quicker and more effectively. Some gave accounts of being involved in court cases with suppliers that had not paid them on time, often describing the process as costly, time-consuming and ineffective.

"If you make the penalties heavy enough people would pay. If someone said to me 'if you don't pay, we're going to double the bill' I would pay today."

Micro business, Construction sector

Case study

Nikki[15] is the owner of a dental practice that also supplies products to other dental surgeries. Her suppliers are dental and medical companies, of varying size. She mostly sticks to the same suppliers but will sometimes shop around.

When dealing with customers, Nikki was aware of the reporting regulations and had accessed the reported data. She explained that she does not look at it often but accessed it due to issues receiving payment from a particular customer. She deemed the information available as somewhat useful. She said the information is important as it can help inform thoughts about how best to proceed, however, it ultimately would not impact her decision about whether or not to work with a new client.

> *"The information helped to calm me down…. I thought that if this is what the data is showing, perhaps I'm being a bit hard on people."*

When asked to consider what support the government could offer to help improve payment practices and performance in her sector, she suggested businesses reporting late payers to the Department for Business and Trade (DBT) and for them to write to the company saying that if they do not improve their payment practices they will be fined. She felt that quicker action and harsher consequences was needed in response to late payers.

> *"There should be government support to take action quicker and the consequences should be harsher. At present it is a 16 week wait to take someone to County Court, then they get a judgement which everyone ignores, and then further enforcement could be a 35-week process and the end result could still be non-payment."*

[15] This is a fictional name to ensure the respondent remains anonymous.

Appendix

Table 6.1 shows the sectors included in each sector group in the survey.

Table 6.1 Sectors included in each sector group

Grouping	Section code	Section description
Goods	Section A	Agriculture, Forestry and Fishing
	Section B	Mining and Quarrying
	Section C	Manufacturing
	Section D	Electricity, gas, steam and air conditioning supply
	Section E	Water supply, sewerage, waste management and remediation activities
	Section G	Wholesale and retail trade; repair of motor vehicles and motorcycles
	Section H	Transportation and storage
Construction	Section F	Construction
Pharmaceutical	Parts of Section C and Section G	Maps to SIC 21100 – Manufacture of basic pharmaceutical products, SIC 21200 – Manufacture of pharmaceutical preparations, and SIC 46460 – Wholesale of pharmaceutical goods.
Insurance	Parts of Section K	Maps to SIC 65110 – Life insurance, SIC 65120 – Non-life insurance, SIC 65201 – Life reinsurance, SIC 65202 – Non-life reinsurance, SIC 66220 – Activities of insurance agents and brokers, SIC 66290 – Other activities auxiliary to insurance and pension funding
Services	Section I	Accommodation and food service activities
	Section J	Information and communication
	Section K	Financial and insurance activities
	Section L	Real estate activities
	Section M	Professional, scientific and technical activities
	Section N	Administrative and support service activities
	Section P	Education
	Section Q	Human health and social work activities
	Section R	Arts, entertainment and recreation
	Section S	Other service activities

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