



Late Payment

The scourge of late payment is both commercially and ethically wrong. 73 per cent of small businesses report that they have been paid late in the past year. Small businesses suffer cash flow problems not when they make less profit but when work is not paid for in the stipulated time frame.

While big businesses can absorb the occasional unpaid bill, late payers pose a bigger problem for small businesses. Much of the debate in the past few years has been tilted towards the public sector paying on time. The previous Government announced that all its departments would pay all bills from small and medium sized enterprises (SMEs) in 10 days or less. Many, but not all, local authorities then gave similar assurances. However, the message of payment within 10 days to SMEs did not carry over to all public sector organisations.

This was a mistake from the previous Government. The current Government should follow on the clear lead of departments and ask all public sector organisations to pay within 10 days. This will help small businesses up and down the country but also show leadership from all of the public sector.

Key findings from May 2011 FSB research shows that:

- The vast majority (73%) of small businesses have experienced late payment for their supplied goods and services within the last 12 months.
- Around four in 10 [or two in five] of those experiencing late payment claim that 31% or more of their invoices are paid late; a fifth claim over half are paid late. Around 70% state the incidence of late payment has increased over the last 12 months.
- A quarter of members experiencing late payment, spend three or more hours each week chasing late payment. Around half have outstanding invoices worth £5,000 or more; a fifth have more than £20,000 owing.
- 77% of members claim private sector organisations are most likely to make late payments.
- Over the past 12 months two thirds of members have written off invoices; a fifth has written off £5,000 or more. Over a quarter of members (28%) have charged interest or a fine for late payment; 16% within the last 12 months.
- Reduction in profitability and delayed payment of suppliers are the biggest business impacts of late payment.

Full top line results can be found in Annex One at the end of this paper.

18 per cent of small businesses report that they have been paid late by the public sector (including local authorities, education authorities and other government agencies such as the fire and health services), with the overwhelming majority – 77 per cent – saying that the problem resides in private sector.

FSB research shows that it is the private sector which is the worst at paying on time which is unsurprising as most private sector business is conducted with other private firms. However, there is scope for improvement in the public sector. Both the business services and manufacturing sectors report that roughly

one in 10 small firms have indicated that local authorities and government agencies are most likely to pay late.

What types of organisations are most likely to make late payments?	All	Business services	Retailing	Construction and building related activities	Manufacturing	Hotels, restaurants, bars and catering
Private sector	76.8%	76.7%	60.2%	83.7%	87.1%	73.3%
Local authorities	13.1%	11.0%	12.6%	15.7%	3.9%	16.3%
Educational establishments	7.6%	6.2%	15.2%	6.5%	3.2%	5.7%
None of these	7.5%	3.7%	14.7%	6.9%	5.8%	4.4%
Government agencies/Quangos	6.6%	10.2%	3.7%	4.8%	4.2%	5.9%
Unsure	6.5%	9.6%	11.0%	2.9%	3.8%	2.2%
Central/devolved government	5.4%	7.6%	4.6%	3.2%	3.4%	15.5%
NHS	4.7%	3.9%	4.6%	2.8%	5.3%	4.8%
EU institutions (those managing EU funding)	1.1%	2.4%	1.1%	0.5%	0.7%	-

Payment and Invoices

The FSB advocates having all work underpinned by a contract signed by both parties. This is the safest way to protect the work small firms do, but also chase payments if they are not paid in the stipulated period. It is vital that a contract states what the payment terms are and what the penalties will be if payment is late. This can range from a small fine or an added element of interest for all late paid invoices.

While the FSB wants to see all invoices paid on time we do not want to state a period of time for work done between private sector firms. This is because businesses will need different payment options in regards to the work carried out and the size of the business. For example, those businesses within the retailing and hospitality sectors prefer their payment terms to be either pre-payment or on delivery. This is markedly different to the construction and manufacturing sectors where payment terms are generally longer and occasionally split into sections of work.

What are your payment terms?	All	Business services	Retailing	Construction and building related activities	Manufacturing	Hotels, restaurants, bars and catering
Nett cash or pre-payment	31.3%	14.6%	65.0%	12.1%	14.3%	65.6%
14 days	12.6%	21.1%	5.3%	16.7%	4.5%	6.3%
30 days (or monthly account)	56.6%	61.2%	34.2%	67.3%	76.7%	27.2%
60 days	3.5%	3.4%	1.1%	4.2%	10.8%	1.1%
90 days	0.7%	0.7%	-	0.5%	2.4%	-
Other (please specify below)	7.0%	6.9%	7.9%	7.0%	5.6%	4.3%

It is also worth noting that small businesses with established commercial partners will set payment terms depending on relationships and long standing convention. While these relationships are based on mutual trust, it is still imperative that contracts are used and both sides know the payment terms and delivery of goods dates.



Even with agreed payment terms, late payment still often occurs. 73 per cent of small businesses have been paid late in the past 12 months (including 66 per cent of those who have 30 day payment terms) and 36 per cent of FSB members are waiting for between £5,000 and £29,999 in unpaid invoices. While a significant minority (43 per cent) are awaiting payment of invoices between £1 and £4,999, 11 per cent are waiting for more than £35,000.

Small businesses that are awaiting bills do not have large buffer zones as bigger businesses do and consequently spend time chasing payment. 53 per cent of small business owners spend between one and six hours per week chasing invoices, with one in 10 spending more than five hours. This is unproductive time where the small business owner is not growing the business, pitching for new business or spending time looking at marketing.

When small businesses start feeling the pressures of cash flow they usually turn to reduction of costs and accessing short term finance. One of the key components used by many small businesses is overdrafts, which tend to be expensive and hard to eliminate. Small businesses can use other facilities, such as factoring devices, which give them the confidence of knowing fixed payment terms will be adhered to and the use of overdrafts will not be needed to cover unpaid bills.

Write Offs

The natural conclusion to late payments is bad debt and lost money. 47 per cent of small businesses have written off between £1 and £4,999 in the past 12 months and 16 per cent have written off between £5,000 and £24,999. These figures directly hit the bottom line and reduce profitability. It is unacceptable that goods and services are ordered from small businesses but invoices not paid. There are circumstances when businesses fail and a reduced rate of full invoice value will be accepted.

As the table below shows, those small businesses within the retailing sector tend to write off lower value debt more than those in other sectors. Unsurprisingly, firms in manufacturing and construction write off higher value debt in a larger proportion than those in other main sectors.

In the past 12 months, what value of invoices that you have written-off?	All	Business services	Retailing	Construction and building related activities	Manufacturing	Hotels, restaurants, bars and catering
£0 - none	33.0%	37.0%	33.5%	24.3%	32.0%	53.6%
£1 - £4,999	47.4%	44.6%	60.1%	39.8%	48.8%	44.2%
£5,000 - £9,999	9.4%	11.7%	3.0%	12.0%	7.8%	-
£10,000 - £14,999	3.3%	5.1%	1.9%	6.6%	1.9%	-
£15,000 - £19,999	2.4%	1.3%	-	4.1%	2.4%	2.2%
£20,000 - £24,999	1.5%	-	0.5%	4.1%	3.4%	-
£25,000 - £29,999	-	-	-	-	-	-
£30,000 - £34,999	0.7%	-	-	2.0%	1.4%	-
£35,000 or over	1.7%	0.4%	1.0%	6.4%	2.1%	-
Unsure	0.7%	-	-	0.6%	0.3%	-

Impact of Late Payment

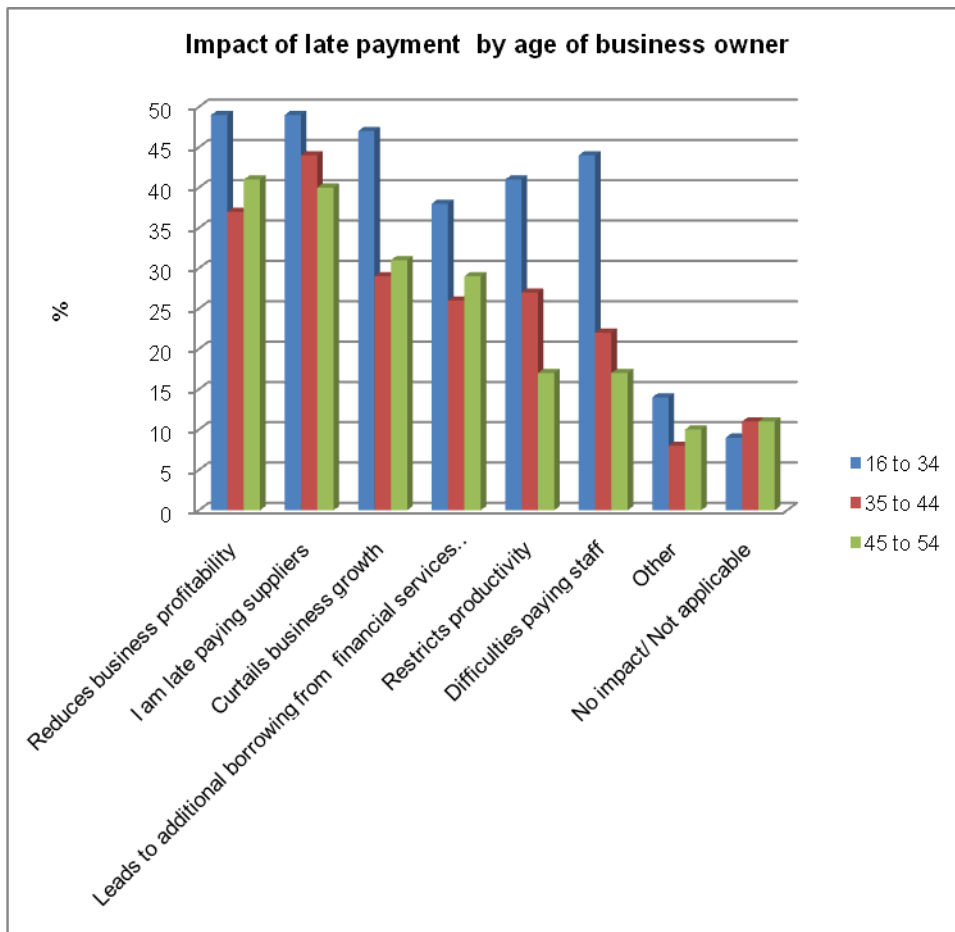
The impact of late payment on a small business can be disastrous. The Government estimates that in 2008, 4,000 businesses failed as a direct result of late payment and it costs UK businesses £180 million in debt interest charges. The problem of late payment is not just a commercial one, but it is also ethically wrong. When large businesses or the public sector pay late, it can put small firms out of business.

Late payment also creates a negative cycle where late payment runs through supply chains or throughout suppliers. Nearly four in 10 small businesses said that one of the impacts of unpaid invoices is that they are late paying their suppliers which places strain on business relationships.

This problem is greater for young business owners compared to more experienced business owners, particularly in four areas:

1. Dampening business growth
2. Leading to additional borrowing
3. Restricting productivity
4. Difficulties in paying staff

For young entrepreneurs, having these difficulties will be demoralising and put a strain on their commitment to running their own businesses. When something as simple as being paid for the goods or services sold places strain on young business people for instance when it comes to paying staff or missing out on growth opportunities, it will lead to businesses closing.



As already mentioned, a large proportion of businesses look to short term fixes when late payment becomes a problem. One of the quick fix for firms experiencing this problem is to take out, or look to extend overdrafts. However, with the problems small businesses are facing with the banks at present this can be either a costly or a time wasting experience, which further reduces profits and productivity.



Solutions and Recommendations

Central government departments are doing well when it comes to paying SMEs quickly and efficiently. While the FSB does not recommend placing anymore legislation into this area there is a clear leadership role that all government agencies have.

Recommendations to Government:

1. The Government must make all public agencies follow the clear lead of central government departments and pay all SME invoices within 10 days (or 30 days for smaller or specialised agencies).
2. All contractors that the public sector uses should pay all sub-contractors within the same period as the main contractor. This will help feed the prompt payment action down the supply chain and once again shows good leadership.
3. All private sector companies used by the public sector should sign up to the Prompt Payment Code.

The commercial world, including all small businesses, should also be proactive in setting up basic systems which will help prevent late payment but also help when small business owners face late payers.

Proactive small business actions and recommendations:

1. All transactions should be underpinned by a contract. This helps in confirming payment terms and penalties if payments are late. This can help in professionalising the business and can be adapted to each transaction. Further help on contracts can be found the [Prompt Payment Code](#) website.
2. Let the purchaser know that interest will be charged on all late payment of invoices which go over the stipulated contractual period at the start of the business activity.
3. Depending on the relationship small businesses have with purchasers offer discounts for prompt payment. This both rewards the prompt payment but also saves small businesses chasing payment and keeps owners focused on being productive.
4. Depending on the business and the transaction, the use up-front or down payments which can help protect a business from late payment. This can be varied on each transaction and can work mixing the ratios of payment between up-front payment and end use payment.
5. Small business owners may want to speak to purchases before the shipment to make sure all sides know payment terms and can also be used to offer a prompt payment discount.
6. If payment is not prompt or within the stipulated payment period, small business owners may find it useful negotiating a compromise that you can both accept. Strict boundaries should be set, but offer to lower your prices if it means maintaining business with desirable clients.



ANNEX ONE

**FSB Voice of Small Business
Panel: May 2011 Survey Top
line Results**

- Results are based on an online survey carried out by 1,772 members of the FSB 'Voice of Small Business' Survey Panel. This represents a response rate of 41%.
- Surveys were completed between 11 and 24 May 2011.
- The national data has been weighted to the membership profile.
- Where results do not sum to 100%, this may be due to multiple responses or rounding.
- Results are based on all respondents (1,772) unless otherwise stated.
- Study undertaken by Research by Design on behalf of the Federation of Small Businesses.

Section 1- Payment

Q1. What are your payment terms?

Base: 1759

30 days (or monthly account)	57%
Nett cash or pre-payment	31%
14 days	13%
60 days	4%
90 days	1%
Other	7%

Q2. Within the last 12 months, have you experienced any late payment for your supplied goods and services (beyond the stipulated payment period)?

Base: 1765

Yes	73%
No	19%
Not applicable	8%

Section 2- Late Payments

Q3. Typically, what proportion of your invoices are paid late, that is beyond the stipulated payment period?

Base: 1292

1-10%	32%
11-20%	17%
21-30%	13%
31-40%	7%
41-50%	10%
51-60%	7%
61-70%	6%
71% or more	7%

Q4. How has the incidence of late payment for your goods and services changed over the last 12 months?

Base: 1290

Increased significantly	23%
Increased slightly	45%
No change	29%
Decreased slightly	3%
Decreased significantly	1%

Q5. In an average week how many hours does your business spend chasing late payments for supplied goods and services?

Base: 1287

Less than 1 hour	42%
1-2 hours	32%
3-4 hours	16%
5-6 hours	5%
More than 6 hours	5%



Q6. What invoice value is currently outstanding in late payments?

Base: 1290

£0 - none	6%
£1 - £4,999	43%
£5,000 - £9,999	14%
£10,000 - £14,999	9%
£15,000 - £19,999	6%
£20,000 - £24,999	4%
£25,000 - £29,999	3%
£30,000 - £34,999	3%
£35,000 or over	11%
Unsure	2%

Q7. In your experience, what types of organisations are most likely to make late payments?

Base: 1287

Private sector	77%
Local authorities	13%
Educational establishments	8%
None of these	8%
Government agencies/Quangos	7%
Central/devolved government	5%
NHS	5%
EU institutions	1%
Police/fire service	1%
Olympics	-
Unsure	7%

Q8. Over the past 12 months, what is the value of invoices/bad debts that you have written-off due to non-payment?

Base: 1293

£0 - none	33%
£1 - £4,999	47%
£5,000 - £9,999	9%
£10,000 - £14,999	3%
£15,000 - £19,999	2%
£20,000 - £24,999	2%
£25,000 - £29,999	-
£30,000 - £34,999	1%
£35,000 or over	2%
Unsure	1%

Q9. Have you ever charged interest or a fine for a late payment for supplied goods or services?

Base: 1292

Yes, within the last 12 months	16%
Yes, within the last 5 years	10%
Yes, more than 5 years ago	2%
No	72%
Don't know	-

Q10. What is the impact of late payment on your business?

Base: 1291

It reduces business profitability	43%
I am late paying suppliers	38%
It curtails business growth	30%
It leads to additional borrowing	29%
It restricts productivity	19%
I have difficulties paying staff	17%
Other	9%
No impact/ Not applicable	11%

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