“DEAR BANK MANAGER, IS IT OK IF I PAY MY MORTGAGE IN FOUR MONTHS, WHEN I GET PAID?”

Is your business ready for the crackdown on poor payment practices?

WORDS REBECCA ELIYON TYLER
At last, it’s the last Friday of the month and today is pay day! Except that it isn’t, actually. You have not been paid. You have done the work, provided the service or supplied the goods, but you’re still waiting for the money to drop into your account. It’s already been a month, and now you have to wait for two, three or even four months to get your money.

Doesn’t exactly sound fair, does it? That’s the situation that faces thousands of businesses around the world every month. Some endure waits of more than 120 days to get what’s owing. Many smaller firms have, in fact, had to agree to unfavourable terms to win a contract or sign away rights to claim the approved interest from late-paying customers (in the UK that’s 8% over the Bank of England base rate). They often lack the resources to chase payments and are concerned about a possible backlash if they complain.

Meanwhile, larger companies know this. They impose protracted terms or delay payments beyond what’s agreed, and use the money to improve their own cash flow, bank-roll investments or inflate balance sheets at year-end. It’s a common practice. Some companies even pride themselves on how long they can delay settling bills, using internal KPIs to track performance. Extending payment times means access to cheap credit for working capital. So far, so normal. The trouble is, suppliers are often offered the same terms whether they’re large, small or have a roll call of one.

**WORKING CAPITAL**

Former procurement head (now an executive coach and strategic advisor) Sammy Rashed, has seen both sides of the payment debate – having worked at a large corporate and now as a small business owner himself. He says, while working capital is massively important to businesses, they must be careful not to apply an identical approach to all suppliers. “There needs to be some pragmatic application. It’s not necessarily bad, but it’s not one-size-fits-all. Sending a blanket letter to your top 50k vendors saying ‘as of tomorrow payment terms will be double’ is not best practice and it will come with a cost.”

Some suppliers will bite back, some will walk away, some will make up the money by charging you to claw back the cash, and others will simply collapse. It is estimated that in the UK alone around £13bn is owed to small businesses in overdue payments and up to 50,000 businesses are at risk of insolvency every year because they lack the reserves of larger organisations to cover such delays.

Across the globe, small businesses are seen as the engine of the economy, creating jobs, providing innovation and performing a vital role in providing diverse supply chains. The relationship between them and bigger businesses should be synergistic – with each providing the other with something they need. Seldom is that the case, however, and now official bodies are stepping in to support small companies and stop them being kicked around.

In July, the Australian government committed to paying suppliers of contracts up to $1m in 20 days and wants big business to follow its example. Late payments to Australian SMEs total around $115bn each year, presenting a ‘systemic problem’ for small businesses, a report by software provider Xero said.

Kate Carnell, Australian Small Business and Family Enterprise Ombudsman, has been reporting to the nation’s government on the problem, and sharing the names of those willing and unwilling to share their payment times.

In Hong Kong, research out in May said invoices to the tune of $1.7 billion were paid late to small businesses last year, preventing them from flourishing. This has led regulators to increase credit limits for small businesses by 20% to combat the immediate effects of US-China trade disputes. British firms face similar problems as volatility caused by an uncertain Brexit means the availability of credit is expected to go down, while the cost of credit goes up.

In Europe, trade organisations representing smaller businesses are liaising with each other to combat problems, and the Federation of Small Businesses (FSB), a UK membership organisation representing smaller firms, is starting to work with the World Trade Organisation to ensure small businesses are not adversely affected by bad practice.

But it is in the UK where the brightest light is currently being shone on poor payment practice, with measures introduced to curb pay delays in the public and private sectors.

New rules, first announced by the Cabinet Office in November 2018, came into force on 1 September 2019. They are designed to make sure large government suppliers pay their bills to their own suppliers on time. Big businesses – by which it means the majority that have £3m-plus yearly goods/services or works contracts with the government – must now pay 95% of their invoices in 60 days or run the risk being excluded from bidding for major government deals. And it is the responsibility of the department running the tender to ensure that suppliers’ payment performance is assessed.

Sam Rowbury, director of commercial policy at the Cabinet Office, says: “For the first time in government contracts, there will be a direct consequence for those suppliers not meeting the prompt payment standard. They will lose out on government business if they aren’t paying their supply chain on time.”

In terms of government’s own strategic suppliers, he adds, Crown Representatives will continue to hold them to account on payment data to ensure they are on track and improve where required.

The new measure for government is only one of a raft of tactics including legislation, policy, enforcement and transparency, intended to help bring about a culture change in payment practices.

**PAYMENT CULTURE**

The Prompt Payment Code (PPC) is now more than a decade old. It was created by the UK government in 2008 in response to a call from businesses for a change in payment culture. It established a set of principles for businesses when dealing with and paying their suppliers that commit them to paying on time and fairly. They will lose out on government business if they aren’t paying their supply chain on time.

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And that’s exactly what’s starting to happen. In July, code signatory British American Tobacco was one of 18 businesses kicked off the list after failing to pay vendors on time. The Chartered Institute of Credit Management (CICM), which administers the code on behalf of the UK government’s Department for Business, Energy & Industrial Strategy, also suspended BT Plc, Centrica, Screwfix, Prudential, and various businesses of BAE Systems, among others, for failing to honour their commitment to the code.
Greater transparency now means spies are everywhere, with more ways to whistleblow or means to complain, anonymously or otherwise. Public sector suppliers that are not being paid on time can raise concerns directly to the government through the Public Procurement Review Service, formerly called Mystery Shopper, which since 2011 has helped speed up payment of nearly £7.5m stemming from public sector deals. If a complaint concerns a small business operating on a private sector contract, it can be taken up with the Small Business Commissioner.
Under the Enterprise Act 2016, the commissioner has the power to publish reports naming and shaming perpetrators of poor practice. That office has already highlighted Zurich Insurance, Sambro International, Bupa Insurance Services, G4S, Holland & Barrett and Jordans & Ryvita for poor practice.
Trade bodies like the FSB also continue to fight for the rights of members. National chairman Mike Cherry says he’s accustomed to following up concerns with “robust conversations with company MDs”.
TRANSPARENCY FOR ALL
Under the Reporting on Payment Practices and Performance Regulations 2017, large suppliers are now required to publish their payment performance data online every six months, with false reports a criminal offence that could incur a fine. This means anyone can now check published company performance and challenge them if it falls below the standard. For example, a search of some of the biggest names on the FTSE100 showed latest reports from HSBC Holdings saying it pays 91% of invoices within 30 days, BP reporting it pays 72% of invoices within 30 days and GSK Services saying only 5% of invoices are paid within 30 days.
Paul Uppal told SM it’s too early to see a connection between the exposure of poor payment practices and a direct impact on profitability. But, he says: “The large businesses I have named and shamed for paying late have stated that adverse publicity about their poor payment practices causes immense reputational damage.”
He has also seen an increasing trend where small businesses are confidently using Payment Practice Reporting (PPR) data to determine who they supply to. These smaller companies tend to be more innovative, agile and flexible so it is in larger corporations’ best interests to pay them on time. Rob Tuckwell, director of partnerships and B2B at Barclaycard, says: “If small suppliers go out of business, or walk out on their large customers due to consistent late payment, large corporations not only face a short-term potential disruption to service but could also struggle with the future growth and innovation in their own companies.”
Tuckwell says any business that pays suppliers more than 60 days after receipt of invoice should review its policy in light of the long-term sustainability of their supply chains. “Typically, in times of economic uncertainty, businesses thinking short term push out their payment terms to improve cash flow. However, it’s important for businesses to look at all the options and to help them make payments on time. Ultimately, paying suppliers earlier than agreed helps build mutual trust in a long-term supplier relationship.”
Cherry, at the FSB, concurs: “There is always a benefit where a larger business values the relationship it has with smaller suppliers. If payment terms are enhanced, a supplier is more likely to hold prices or look at reducing them because that customer is a good payer.”
He says there’s a lot more procurement can do to ensure that when contracts are drawn up, terms are favourable and good payment practice adhered to: “Ideally paying within 30 days of properly submitted invoices, and passing that all the way through the supply chain, not just through first-tier contractors.”
Other practical measures include money being held in things like ‘project bank accounts’. These are used in construction to receive payment in five days or less from the due date. Elsewhere, some services can be sourced via online platforms that take payment on behalf of the individual or small business, or commercial bank cards can be employed to enable businesses to pay suppliers earlier than agreed terms, while still improving working capital.
In many cases, while protracted payment terms are often viewed by big business as a sign of success, they may be quite the reverse and signalling that weakness to the market. Think Carillion. The FSB wrote to the now-defunct construction giant in July 2017 after suppliers complained they were being made to wait 120 days to be paid. It’s since been recorded as one of half a dozen red flags that the business was in trouble. “No-one should take even 90 days to pay suppliers, that’s just outrageous,” says Cherry. “No-one would expect their salary to be paid three months later, neither would you go to a high street retailer and say: ‘I’ll pay you in three months’ time’, it’s just not on.”

TIME TO TAKE ACTION
The UK Cabinet Office outlines steps procurement professionals should take:

- Check the Prompt Payment Policy to understand what’s expected of you should your organisation wish to bid for large government contracts in future. www.gov.uk/guidance/promp-payment-policy
- Sign up to the Prompt Payment Code (PPC) to show commitment to suppliers.
- Ensure your company publishes its payment performance data every six months if it exceeds two of following thresholds: £36m turnover, £18m balance sheet, 250 employees. Check: https://publish-payment-practices.service.gov.uk/decide
- To compare your business’ performance to your competitors, take a look at the payment data. www.gov.uk/check-when-businesses-pay-invoices
Some trade organisations also publish payment performance league tables, such as Build UK. builduk.org/priorities/improving-business-performance/duty-to-report/table/