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Policy Response

Addressing the Problem of Late Payment for Scottish Businesses

Submission to BEIS Responsible Payment Culture Investigation

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December 2018

About Scotianomics

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Gordon MacIntyre-Kemp

Director

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3. 42% of our respondents reported problems with late payment of invoices 'sometimes but not often' in 2016 compared with 43% of respondents who reported that up to a quarter of their customers tend to pay them late.

4. A large cohort of businesses in the survey (41%) report that late payment has had an impact on their plans for growth.

5. Our experimental research suggests Scottish businesses' opportunity cost from late payment would probably fall between £7.5 and £10.7 billion in lost potential revenue growth due to late payment.

6. The Scottish Government should legislate against late payment and impose a time limit for payments.

7. We believe that accentuating the powers of a Scottish Small Business Commissioner as well as raising awareness of its function is crucial to ameliorating the late payment problem.

8. A fully devolved Small Business Commissioner's office for Scotland should be created, with a wider remit than that of the UK Commissioner to offer greater support for SMEs in conflict resolution around payments and contracts.

9. Alternatively, the Scottish Government should seek to boost growth of small and medium sized enterprises through the appointment of a dedicated Scottish Minister for SME Growth, with powers to tackle late payment and increase SME participation in public sector procurement.

10. It should become a norm that supply contracts state referral to the SBC as the first step in conflict.

11. It should be ensured that the Commissioners determinations are legally binding.

12. Interest charges on late payments should be mandatory.

13. Companies should publicly declare their payment performance to increase transparency and address the problem of late payment.

Introduction

Included in this report is data collected from two surveys (one released in 2016 and the other in 2018) conducted in order to understand the extent of the late payment problem in Scotland and how it is affecting the business community in Scotland.

A range of evidence points to late payment as a significant problem for businesses all over Europe. However, the organisation responsible for the schemes behind the clearing and settlement of UK automated payment methods, Bacs, identify Scotland as having especially acute late payment issues with 67% of all businesses being affected. By their estimates, late payment debt in Scotland for SMEs equals £1.8 billion, an average of £32,185 per affected SME.[1] Our calculations, based upon the results of our survey and Scottish Government data, show that businesses perceive the issue as far more detrimental than this. We estimate that Scottish businesses could be losing between £7.5 and £10.7 billion in potential annual revenue growth due to late payment.

Late payments are damaging the Scottish economy, jobs and business confidence by limiting the ability of small businesses to invest and grow. Furthermore, they decrease the propensity to take risks, leading to lower rates of investment, diminishing productivity and underutilising the economy as a whole.

About the survey

The 2018 survey was sent out to businesspeople who answered our 2016 survey, so the combined sample should not be seen as unique. Nonetheless, many unique responses were collected between the two, thus offering an indication of the consistencies of the late payment problem, as well as how the issue may have changed over the past two years.

Moreover, our two surveys ask different questions, with the 2018 version being tailored to the questions of the Department for Business, Energy and Industrial Strategy in their call for evidence in November 2018. It must also be kept in mind that the sample size for the 2016 survey is much larger than the 2018 survey, meaning the former may yield results that are more statistically significant.

We obtained a total 150 responses to the 2018 survey and 308 responses to the 2016 survey. The questions asked across the two surveys can be found in the Appendix.

Note: The percentages have been rounded up.

1 Hopkins, P. and Richmond, K. (2017). The economic impacts of late payment. Fraser of Allander Institute [Online] Available from: https://www.strath.ac.uk/media/1newwebsite/departmentsubject/economics/fraser/vol41no3/The_economic_impacts_of_late_payment.pdf (Accessed: 22 November 2018).

The respondents

Respondent demographics

By far the largest group of respondents were micro-businesses (52%), with individual businesspeople the second largest group (27%), and small businesses the third largest group (15%). The smallest group of respondents were medium sized enterprises (3%), large businesses (2%), a single charity and social enterprise (1%) as well as a single GP practice (1%).

Respondent geography

Most of our respondents are based in Scotland, with the top three regions being the Central Belt (60%), the North East (12%) and the Highlands (11%).

Table 1. Respondent by region of business operations

Region	% of total	No. of responses
Central Belt	59%	88
North East	12%	18
Highlands	11%	16
South West	5%	8
Islands	3%	4
International	3%	4
Borders	2%	3
Scotland-Wide	2%	3
Perhshire	1%	2
UK-Wide	1%	2
Total		**148**

Extent of the late payment problem

Frequency of late payments

Both our 2016 and 2018 surveys ask about the frequency of late payments, allowing for comparison over time. The 2016 survey asks whether sellers have issues with customers paying them late for goods and services whilst the 2018 survey asks what percentage of the payments from businesses that sellers supply to are late.

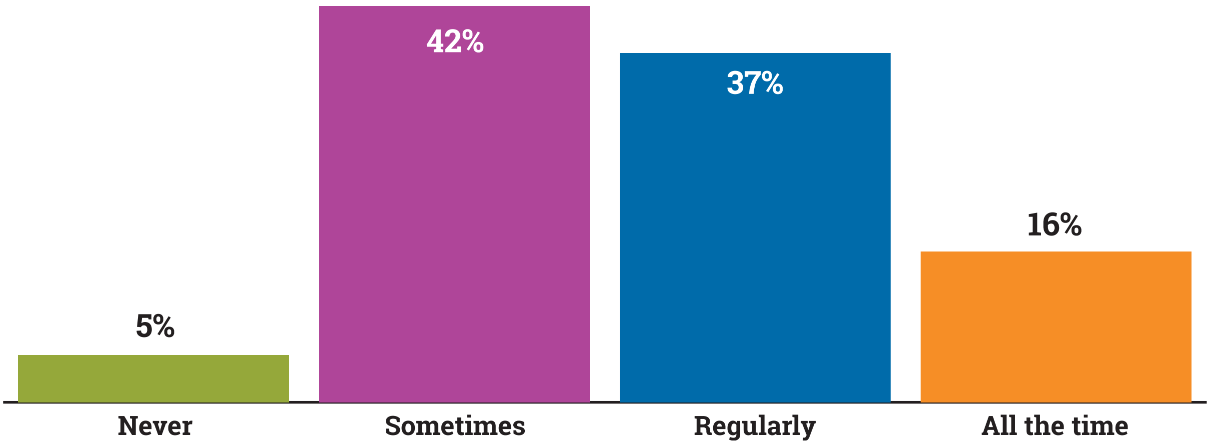
Both yielded broadly consistent results: 42% of respondents reported problems with late payment of invoices 'sometimes but not often' in 2016 compared with 43% of respondents who reported that up to a quarter of their customers tend to pay them late. Similarly, our surveys demonstrate similar experiences of regular late payment. In 2016, 37% of respondents reported they were paid later than agreed 'regularly' while 37% of respondents reported that between 26-75% of their customers paid them late in 2018.

Our results differ in the lowest and highest brackets, however. 5% of respondents in 2016 reported to 'never' have had a late payment problem, while in 2018 12% of respondents reported that none of their customers have been late in paying.

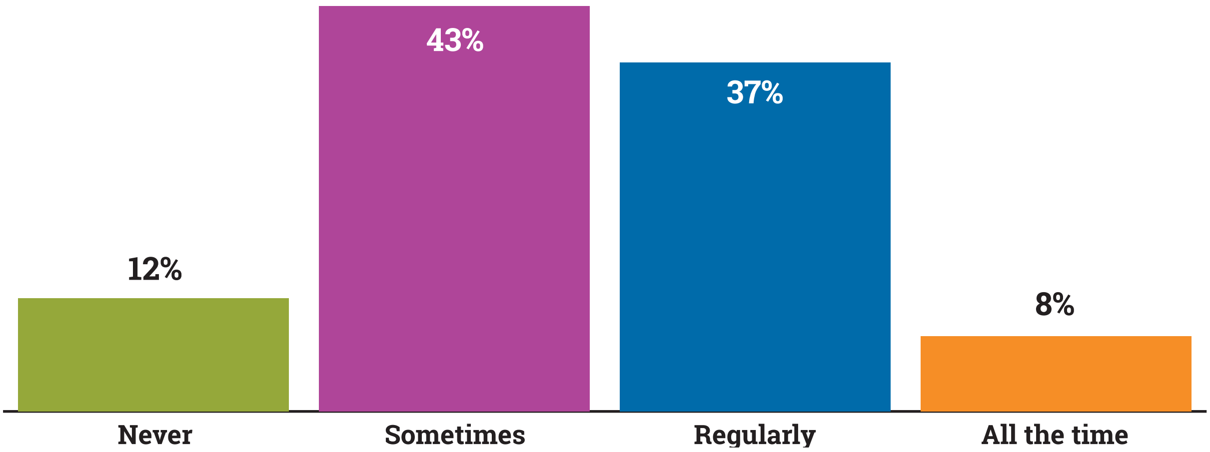
Moreover, 16% of respondents reported to experience late payments 'all the time' in 2016 compared to 2018, while 8% reported that between 76-100% of their customers have been late in paying. This suggests the late payment issue is improving.

Figures 1 and 2. Extent of late payment problem

Do you have problems with customers paying you late for goods and services? 2016 survey



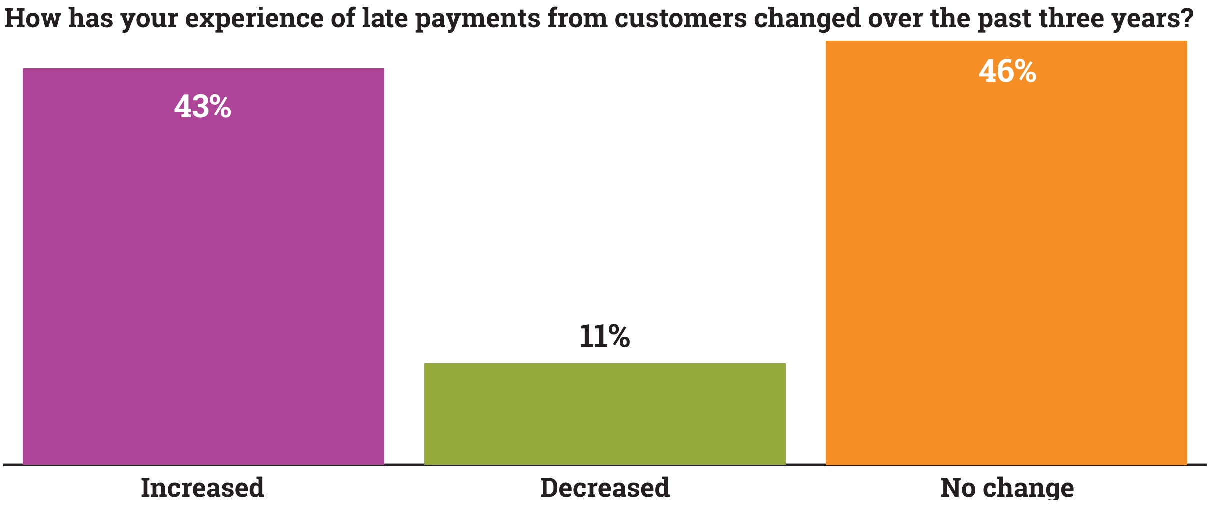
What percentage of payments from businesses that you supply to tend to be late? 2018 survey



Experience over time

We also asked business owners how their experience of late payment had changed over time. In 2016, most respondents (66%) reported that late payment had become more of a problem in the 12 months prior to answering the survey. As for the 2018 survey, which asked whether the problem has increased over the past three years, 43% reported an increase in the problem, with just 11% reporting a decrease and 46% reporting no change at all. This suggests that a very large contingent of businesses have experienced late payment as a progressively more frequent problem.

Figure 3. Late payment experience over time

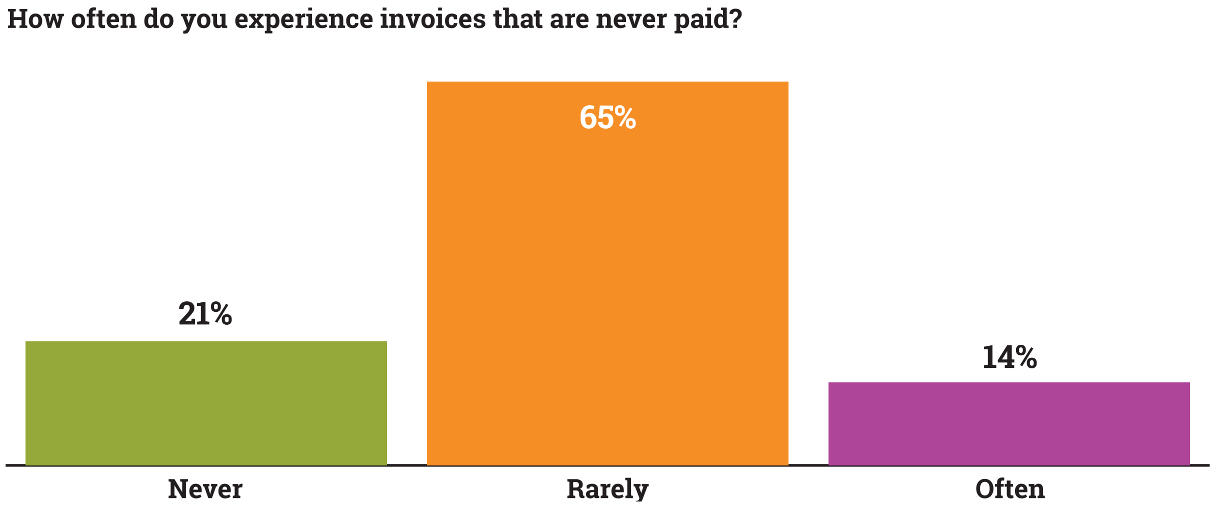


Our findings are in line with recent research on this issue. Business finance firm MarketInvoice have also found that 62% of invoices issued by UK SMEs 2017 (worth over £21 billion) were paid late, up from 60% in 2016. Likewise, research from Lloyds Bank indicates that UK SMEs are owed more than £500 billion by customers – a figure up 70% from two years previous. Lloyds also report that one-third of firms expect the problem of late or slow payments to get worse.

Procurement Leaders raise concerns that this increasing problem of late payment may not be coincidental, but due to the political uncertainties of Brexit: businesses may be using late payment as a means to protect themselves by storing cash for harder times. Indeed, Lloyds again report that business confidence in the UK is low compared to what it was prior to the Brexit referendum; dropping 53% in 2014 to 12% by 2016, before steadying out to 25% in 2018.

Frequency of altogether unpaid invoices

Figure 4. Frequency of unpaid invoices



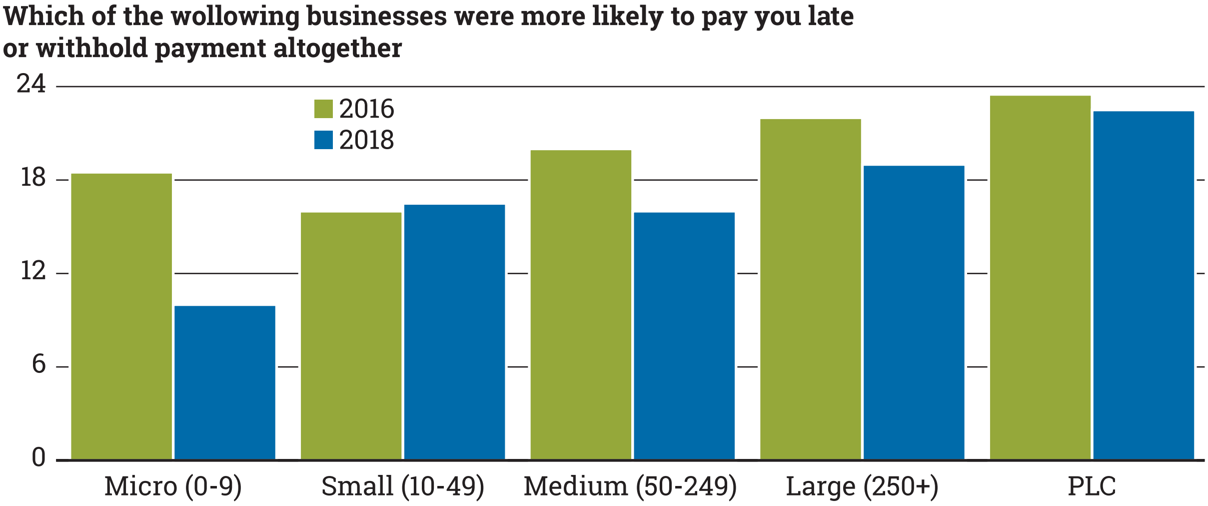
Aside from late payment, altogether unpaid invoices have at some time been an issue for the majority of businesses. In our survey 79% reported experiencing an invoice that had never been paid, with 14% reporting it happened 'often'.

Most common culprits

We also asked who the most common culprits for late payments were. Again, both the 2016 and 2018 surveys provide fairly consistent results. The graph below demonstrates that the problem appears to become more common the larger the customer is. In 2018, 41% of respondents identified large companies or PLCs as the biggest culprits for late payments. There also appears to have been a comparative decline in the number of micro businesses paying their customers late.

One important caveat is that the 2018 question included additional options for customer types such as public and third sector organisations, finding that 11% of respondents view public sector organisations as the most likely to pay late or withhold payment altogether. Although the Scottish Government itself has strict payment guidelines, public sector organisations such as the NHS and Local Councils are not bound in this way.

Figure 5. Late payment by business demography



Payment terms offered and not adhered to

Typical payment term offered

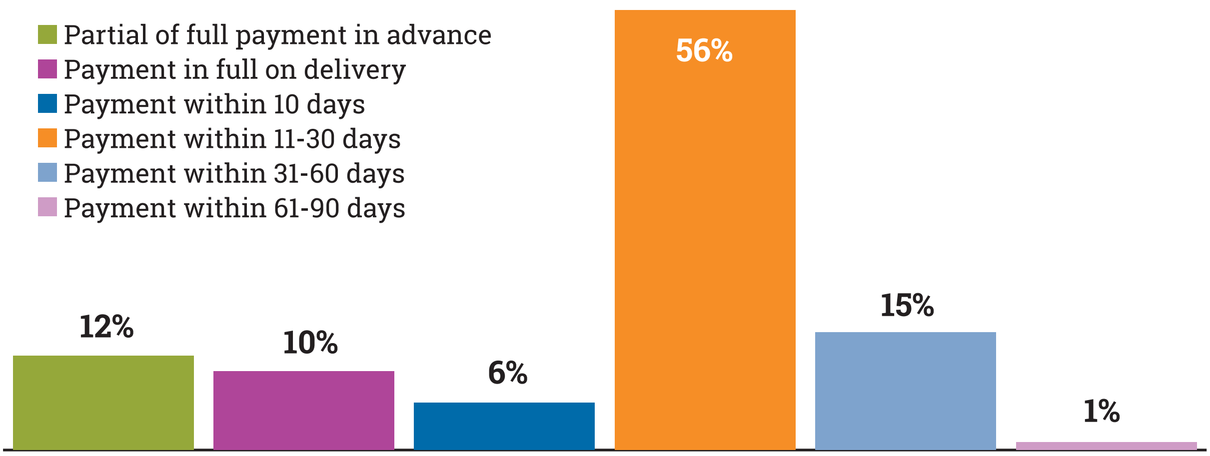
Both the 2016 and 2018 surveys highlight that respondents usually want to be paid within 30 days, with 53% in 2016 reporting a typical payment period of 21-30 days – similar to 2018, where 57% reported between 11-30 days.

The 2018 survey also asked about payment in advance or on delivery. As shown in the graph below, many businesses are choosing this option. In our sample 12% asked for payment in advance and 10% on delivery.

Furthermore, the 2016 survey asked additional questions relating to payment terms, such as how late customers have delayed payments beyond the agreed terms. 41% of respondents reported at some time experiencing overdue payment of over 90 days. This suggests that, while our research indicates that late payment tends to be more of a rare problem than a common one, the culprits are not necessarily businesses who forget to pay or have administrative glitches but tend to withhold payments for extreme amounts of time. It is therefore possible that in many cases it is not an accident but deliberate.

Figure 6. Payment terms length

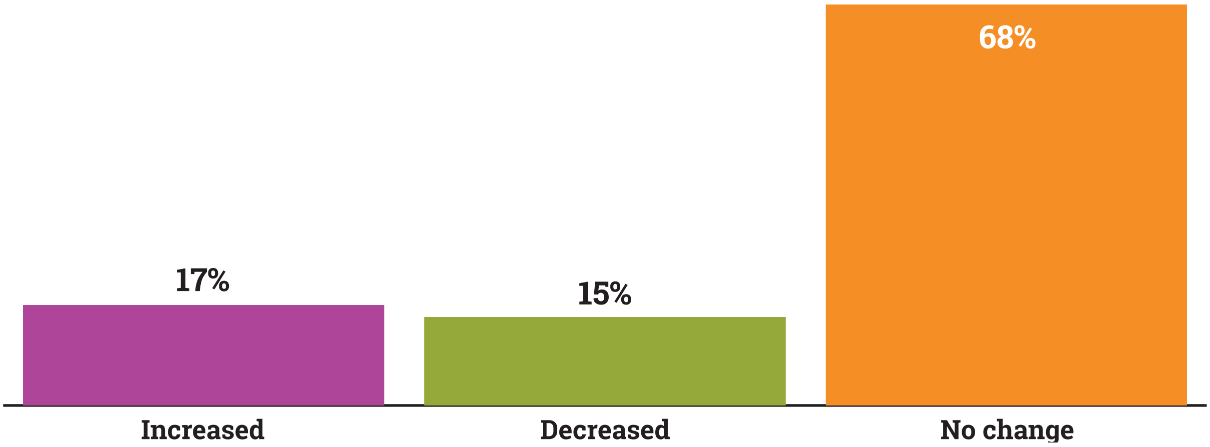
On average, what is the typical payment term you demand of businesses you supply to?



Changing length of payment terms over three years

Figure 7. Changing length of payment terms

How has the length of payment terms you offer changed over the past three years?



Regardless of whether this is a deliberate act, it has not had any significant effect upon the payment terms offered by businesses, with 68% respondents reporting that the payment terms they have offered over the past 3 years have not changed.

Effects of late payment

Late payment impact on business growth

The survey also asked respondents about the effect of late payments. A large cohort of businesses in the survey (41%) report that late payment has had an impact on their plans for growth. The most frequent theme that emerges in the specific barriers it raised to growth are; reduced cashflow (62%), with companies having to shift from a focus on growth to a focus on profitability and survival (18%) and an increased burden of administration (6%).

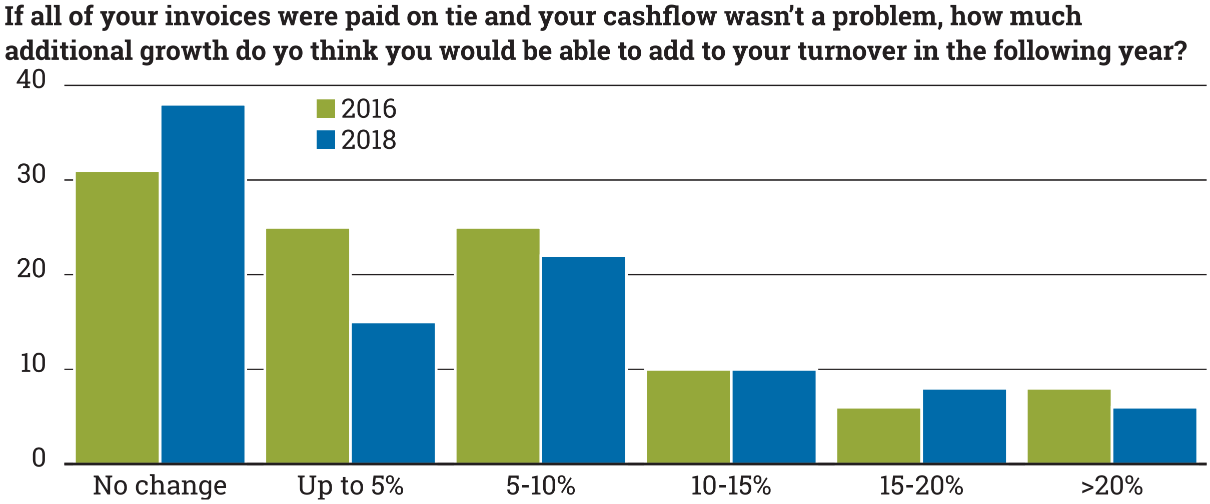
Table 2. Late payment impact on growth

*this is missing from the document I was sent –stewart *

Quantitative measures of growth

We also asked respondents to quantify this effect in terms of the specific levels of growth that businesses think they could achieve without late payment disrupting their cashflows. The results were broadly consistent between the 2016 and 2018 surveys. As seen in the graph below, the majority of businesses (61% in 2018) operating in the economy are experiencing significant restrictions on their growth as a result of late payment. Evidently, some respondents feel that their growth is being severely impacted by cashflow issues that result from late payment: in 2018 13% of our respondents believed their turnover would increase by over 15% the following year if this was not an issue.

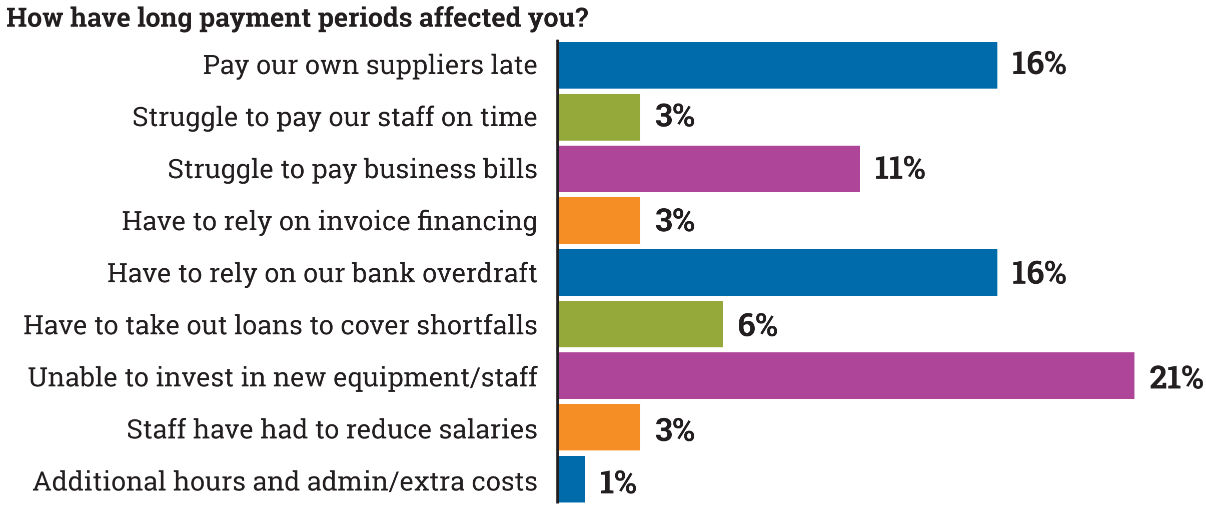
Figure 8. Forecasted growth in the absence of late payment



Everyday effects of late payment

As for the effects of late payment, the five most common responses report that 21% of respondents have been 'unable to invest in new equipment and/or staff, 16% have to turn to bank overdrafts, 16% have had to pay their own suppliers late (providing evidence for a domino effect of late payment), 16% 'struggle to pay business bills like energy, business rates and rent', and 8% report that they struggle to pay staff on time. 12% answered 'not applicable' or that they have experienced 'no adverse effects'.

Figure 9. Wider consequences of late payment

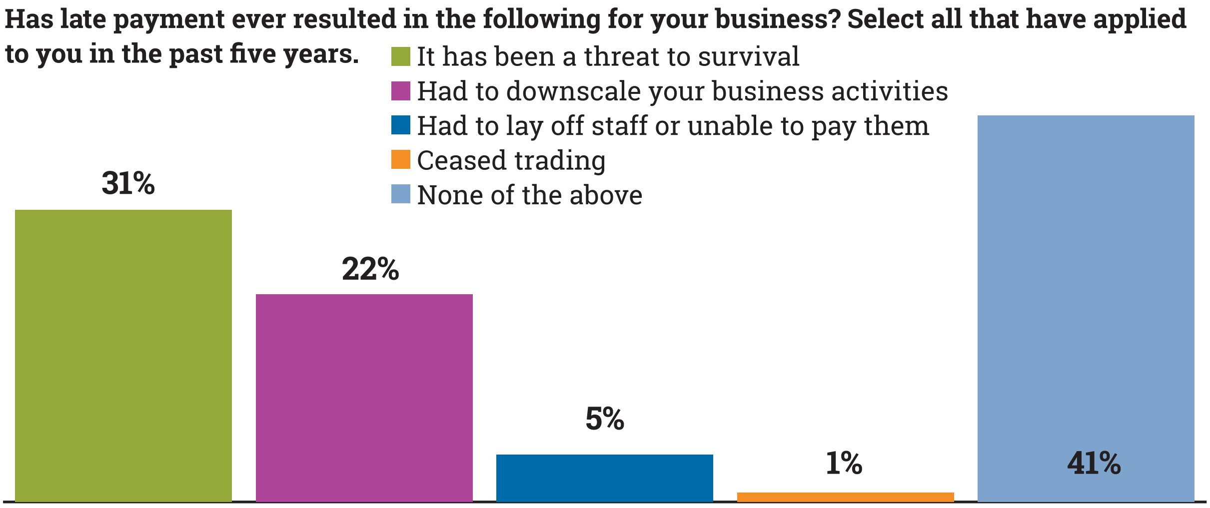


Extreme effects of late payment

In 2016 we asked whether late payments posed a threat to the continued existence of respondent's businesses: 46% responded 'yes'. In 2018 we offered a greater variety of choices relating to the more adverse effects of late payments. Again, a significant 31% of businesses reported that it had been a threat to their survival.

Moreover, 22% reported having to downscale their business activities and operations while 5% have had to lay off staff as a result of being unable to pay them, and 1% had to cease trading altogether. 42% in 2018 reported that they had experienced none of the latter extreme effects.

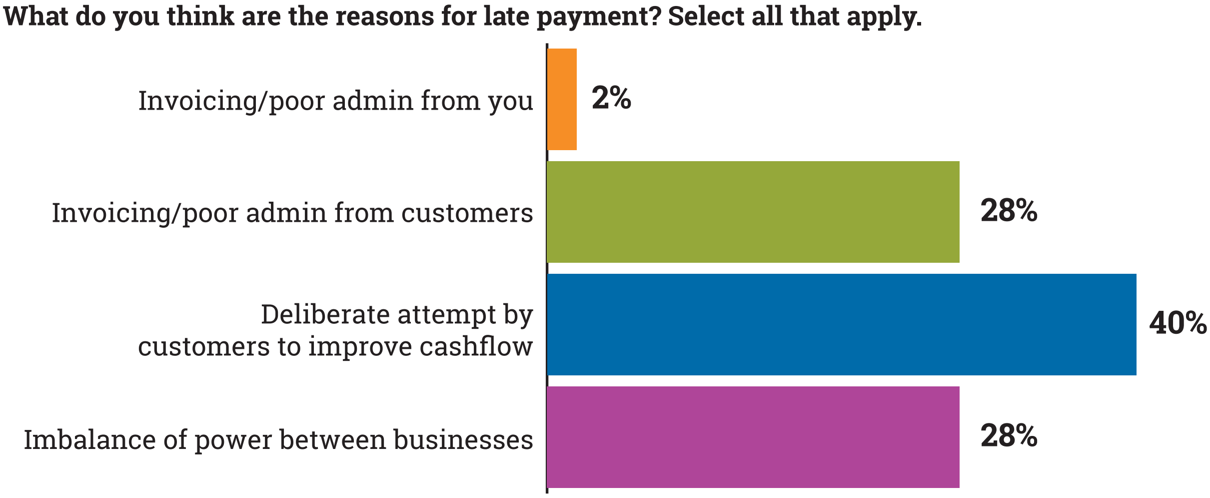
Figure 10. Consequences of late payment for businesses



Causes of, and solutions to, late payment

Our 2018 survey asked respondents what they felt were the reasons for the late payment problem. Respondents most frequently cited a deliberate strategy of customers to improve their cashflows (39%). The next two most frequently emerging responses were complex invoicing procedures and poor administration on their customers behalf (28%), and an imbalance of power between businesses (28%). This lends credibility to the assertion that late payment allows larger businesses to exploit the position of smaller businesses, which creates a domino effect.

Figure 11. Reasons for late payment



Technology and late payment

A large majority of respondents (62%) reported that they have taken up technological solutions to the late payment problem.

As for whether it has helped, respondents gave a mixture of written responses.

Barriers to tech take-up

Regarding the barriers to adopting technology to enhance the payments process, the 5 most common responses were: adoption and training costs (25% frequency), technological illiteracy and/or lack of confidence (12% frequency), customers paying late regardless of the technology used (8% frequency), and a 4% frequency respectively for poor internet connectivity, time constrains, and insufficient grants and tax breaks. Technological barriers are more likely to exist for smaller companies without the funds to make investments that will make payment processes more efficient.

Only five written responses were provided regarding what can be done to encourage a greater take up of technology by SMEs:

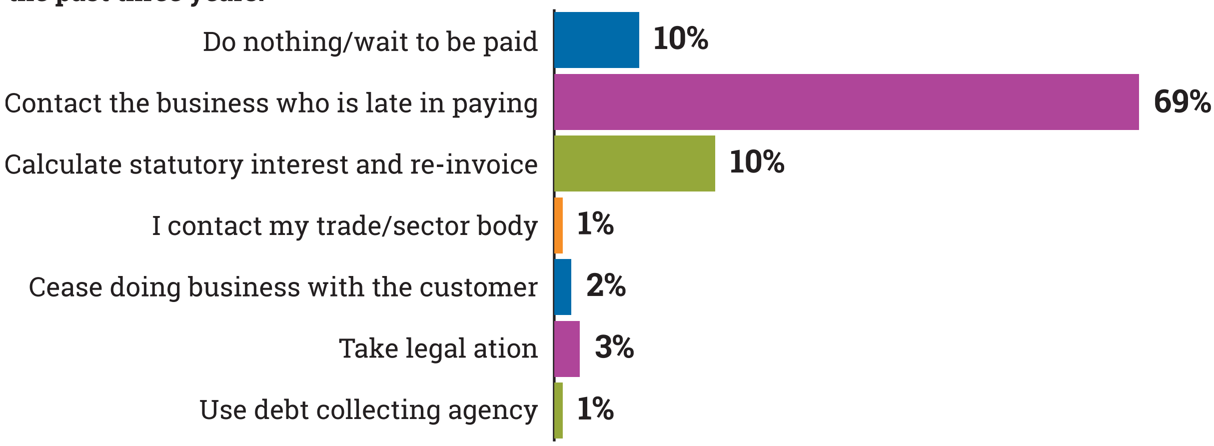
Actions taken against late payment

In 2016 we asked if respondents had ever charged interest on late payments to a client, as they are entitled to by EU law. Only 20% answered 'Yes' and an astounding 80% 'No'.

In the 2018 survey respondents were asked a more open question about the action they take if they are paid late, in order to gauge the range of options available to businesses. The three most common responses were: 'I contact the business who is late in paying' (69%), 'I calculate statutory interest and debt costs and re-invoice the late paying business' (11%), and 'I do nothing/wait to be paid' (10%). Interestingly none of the respondents said they contacted the Small Business Commissioner and only one said they withdrew the customer's credit facilities.

Figure 12. Business responses to late payment

What, if any, action do you take when you are paid late? Select all that have applied to you in the past three years.



Negotiation confidence

The survey also asked respondents about their confidence in negotiating and challenging terms. Most (63%) felt they were able to do so. Reasons citied for this confidence included that they withhold sales until payment, that they employ a specialised company to deal with late payments, and that they advise the late paying company that their business will no longer be accepted. Those less confident in challenging payment terms most commonly said that it depended on the size of the customer. Respondents were particularly anxious vis-à-vis large companies indicating that asymmetrical relationships exist between businesses. 3 respondents also cited a lack of confidence in being successful even if they tried and one that they did not want to lose customers. There was also the suggestion from one respondent that contractual arrangements tended to complicate the process.

Researching customers

There also appeared to be a lack of research into potential new clients, with 70% of respondents answering that they do not research the payment performance of their prospective clients before entering into an agreement with them. The following means of researching clients were the most commonly cited by respondents who do research of this kind: credit check is run on prospective buyers; check on Companies House or other online databases; ask for referrals; word of mouth. Those that do not research the performance of potential clients most commonly cited the following reasons: that they cannot refuse work even with the knowledge that late payment will be an issue anyway; insufficient time; that it is hard to find reliable information at a reasonable cost; that they conduct orders on pro-forma terms.

Policy problems

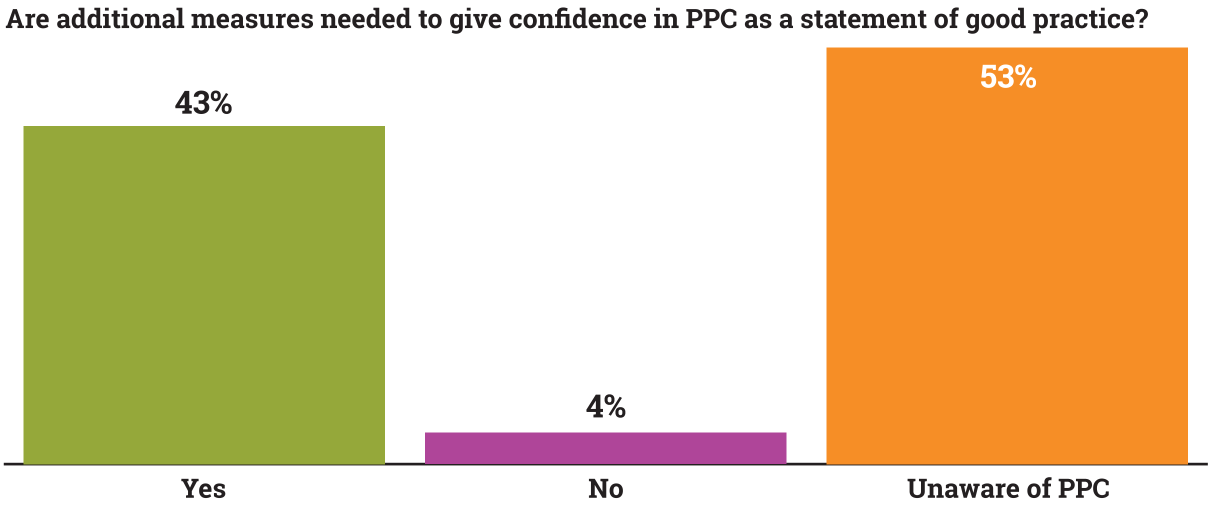
Effectiveness and awareness of public bodies and solutions

There have been steps towards tackling the late payment problem in recent years, with the establishing of the Small Business Commissioner (SBC) and the Prompt Payment Code (PPC). However, most respondents were not aware of these measures and, among those who were, many had negative experiences of them. 53% of respondents answered they were unaware of the PPC whilst 57% were unaware of the role of the SBC.

This suggests that businesses are more likely to possess very little or imperfect information about their rights and options as well as calling into question the effectiveness of these measures in reaching their targeted audience.

Of those who had heard of the PPC, most thought that additional measures were necessary to increase confidence in the PPC as a statement of good practice.

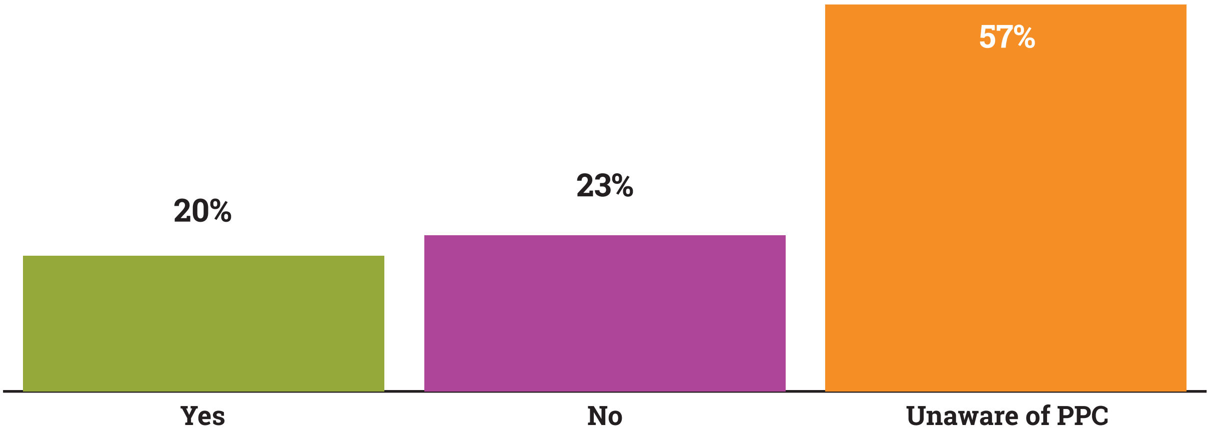
Figure 13. Business views on further late payment policy



In addition, most of those who had heard of the SBC thought it would make little difference to late payment culture, suggesting that the remit of the SBC does not go far enough.

Figure 14. Business views on new late payment policies

Do you think that newly introduced measures, namely the SBC and payment practices reporting, will affect the culture of payment practices?



Awareness of finance options

Respondents were also asked if they were aware of the finance options available to them to help manage long payment periods, the vast majority were unaware.

For those who were aware, they experienced the following barriers to attaining said finance: that banks are unwilling to lend or difficult to deal with; they are afraid of using banks (namely due to the RBS scandal and treatment of SMEs); banks demanding too many personal guarantees before lending support; the costs of increasing financing facilities; too much competition for finance; and that the credit rating of small businesses is too low to be suitable for finance.

Are you aware of the finance options available to help manage long payment periods? Have you faced any barriers to accessing appropriate finances?

Suggested measures against late payment

Our survey asked respondents to suggest measures that they think would be effective in tackling the late payment issue. The following 6 policy options were by far the most popular among respondents. In descending order of popularity:

1. Banning payment terms running over a particular timescale (typically 30 days)
2. Either make it illegal to pay late or introduce more forceful laws
3. That companies must publicly declare their payment performance
4. That statutory fines should be introduced against late payment
5. That systematic payment options must be made mainstream (i.e. advanced payment dates, online banking, streamlined payment systems)
6. That governments should legislate for automatic interest on invoices if late by a certain period of time over the agreed terms.

The economic impact of the late payment problem

The information collected in our two surveys has provided a snapshot of the problem in Scotland and more work needs to be done to identify fully the negative impact on the economy.

However, this experimental data has allowed us to estimate the economic impact of the late payment problem in Scotland. For this we used the Scottish Government's Business in Scotland (2018) data to estimate the value of what our respondents believed could be added to their turnover the following year if cashflows were uninterrupted by late payments. Our data should be taken as an indication of business opinion towards revenue loss as opposed to a steadfast estimate of turnover loss. Our experimental research suggests Scottish businesses' opportunity cost from late payment would probably fall between £7.5 and £10.7 billion in lost potential revenue growth due to late payment.

Table 2. Lost turnover: aggregates

Business type	Total turnover (m)	Lost turnover (m)	Lost revenue as a % of total turnover
Individual	13409	1496	11.16%
Up to 9	30252	5558	18.37%
10-49	29535	2129	7.21%
50-250	37920	883	2.17%
250	156829	683	0.44%
Total	267945	10689	3.99%

Table 3. Lost turnover by business unit

Business type	Turnover per unit	Lost turnover per unit	Lost revenue as a % of turnover per unit
Individual	56450.63	6297.35	0.00%
Up to 9	354259.62	65082.93	0.00%
10-49	1771214.39	127647.48	0.01%
50-250	9661146,50	209719.34	0.03%
250	65894537.82	287135.45	0.04%

This could also lead to a rise in direct Government revenues of between one and two billion pounds in a year. That estimate requires more detailed modelling and will be the subject of a future investigation. However, with added job growth, PAYE and NIC contributions and potentially increased productivity in the SME sector due to increasing investment in plant and machinery. In years to come we would expect our estimates to be highly conservative.

Most of the opportunity cost is experienced by smaller companies; despite contributing

41% of the total turnover in the Scottish economy, SMEs actually suffer 94% of the total turnover growth lost due to late payment.

While large companies are responsible for 59% of the total turnover generated, only 6% of the total turnover growth lost is attributable to them. This suggests a major power imbalance in the economy, reinforcing the results of our survey that large companies are the worst culprits for late payment.

Yet while large companies lose the least in aggregate terms, they actually lose the most in potential turnover growth if the focus is on individual units. Even so, since their turnover and resources dwarf that of SMEs, so it is likely that they can withstand the pressures of late payment to a much greater extent.

Conclusions

Our research has been clear about the effects of the late payment problem on Scotland's business environment. Moving forward it is crucial that we legislate to curb this problem. As such, we propose that:

1. The Scottish Government **legislate against late payment and impose a time limit for payments**. We think this would prevent larger companies taking advantage of small businesses and accelerate cash flow/investment in SMEs. This would also involve changing public sector procurement rules so that contract winners must pay subcontractors in 30 days or less and that Scottish-based SMEs share of government contracts doubles over the next five years.

2. Furthermore, we believe that accentuating the powers of a Scottish Small Business Commissioner as well as raising awareness of its function is crucial to ameliorating the late payment problem. Reflecting evidence we gave to the Department for Business, Energy and Industrial Strategy we call on the Scottish Government to demand that UK government:

3. Create a fully **devolved Small Business Commissioner's office for Scotland**, with a wider remit than that of the UK Commissioner to offer greater support for SMEs in conflict resolution around payments and contracts. Having highly devolved Commissioner offices is vital to ensure unbiased decision making. This has been accomplished successfully in Australia which has different Commissioners across the country representing the various regions - Western Australia, South Australia, New South Wales and Victoria.

4. Or alternatively the Scottish Government should seek to boost growth of small and medium sized enterprises through **the appointment of a dedicated Scottish Minister for SME Growth**, with powers to tackle late payment and increase SME participation in public sector procurement.

5. Make **filing a complaint to the Scottish Commissioner a low-cost pre-litigation process**. It should become a norm that supply contracts state referral to the SBC as the first step in conflict. This is to avoid complications between the supplier and their customer. The SBC should encourage and promote this form of referral in suppliers' contracts.

6. Ensure **the Commissioners determinations are legally binding**. If decisions are not binding large companies may use the SBC process to extend or defer payments. Large businesses may spend 6 months in mediation and then not pay. This would be considered wasteful for both small businesses and the SBC. In addition, it would also discourage small businesses to file a complaint to the SBC.

7. **Prioritise late payments**. Complaints, other than late payments, should be dealt with on a 'first come first basis'. Small businesses may be experiencing cashflow crisis when they complain about late payments, hence such complaints should be acknowledged and responded to as a priority.

8. **Make interest charges on late payments mandatory**. The government should seek the power to legislate for automatic interest on invoices if late by a certain period of time over the agreed terms. Its all very well introducing such a mesuareg as voluntary but the balance of power between large customers and SME's servicing large public sector contracts in particular means that business owners are afraid they will lose work or not be allowed to pitch for future contracts if they charge interest.

9. **Transparency**: Making it that that companies must publicly declare their payment performance would be a huge step forward and shine a light on who the late payers are. Making companies disclose such in their company accounts would be a reserved power but making it a condition of continued supply for all Government suppliers over a certain size limit is certainly within the powers of the Scottish Government.

Appendix

Survey methodology

The late payment survey was set up on Survey Monkey. The survey was sent out to businesses via email on the 14th of November receiving a total of 150 responses. Our 2016 survey was sent to businesses on the 27th of January received a total of 308 responses.

Late Payment Survey 2018

Please tick the box that best describes you, your company or organisation,

- Individual
- Micro business
- Small business
- Medium business
- Large business
- Charity or social enterprise
- Business representative organisation/trade body
- Trade union or staff association
- Central Government
- Local Government

Please tick the box that best describes the principal activity of your organisation.

- Accommodation, food and drink services
- Administrative and support service
- Agriculture, forestry and fishing
- Arts, entertainment and recreation
- Construction
- Electricity, gas, or water supplier
- Finance and insurance activities
- Human health and social work activities
- Information and communication
- Manufacturing

- Mining and quarrying
- Professional, scientific and technical activities
- Retail
- Transportation and storage
- Other

Please tick the box that best describes where in Scotland your organisation operates

- North East
- Highlands
- Islands
- Central Belt
- Borders
- South West
- Other

What percentage of payments from businesses and organisations that you supply to tend to be late?

- 0%
- Up to 25%
- 26-50%
- 51-75%
- 76%-99%
- 100%

How has your experience of late payments from customers changed over the past 3 years?

- Increased
- Decreased
- No change

How often do you experience invoices that are never paid?

- Never
- Rarely
- Often
- Very Often

On average, what is the typical payment term you demand of businesses you supply to?

- Partial or full payment in advance
- Payment in full on delivery
- Payment within 10 days
- Payment within 11-30 days
- Payment within 31-60 days
- Payment within 61-90 days
- Payment after 90 days
- Other, please specify

How has the length of the payment terms you offer your customers changed over the past 3 years?

- Increased
- Decreased
- No change

Have long payment periods impacted your investment plans for growth? If so, how?

- Yes
- No
- Please provide a short explanation

If all your invoices were paid on time and your cashflow wasn't a problem, how much additional growth do you think you would be able to add to your turnover in the following year?

- No change
- Up to 5% additional growth
- 5-10% additional growth
- 10-15% additional growth
- 15-20% additional growth
- More than 20% additional growth

What do you think are the reasons for long payment terms?

- Complex invoicing procedures / poor admin on your behalf
- Complex invoicing procedures / poor admin on customers behalf
- Deliberate attempt by customers to improve their cashflow
- Imbalance of power between business
- Other (please specify)

Which of the following businesses were more likely to pay you late or withhold payment altogether?

- Micro businesses
- Small companies
- Medium sized companies
- Larger companies
- Large PLC businesses
- Public sector organisations
- Charitable / not for profit bodies
- Other (please specify)

How have long payment periods affected you? Please select all that apply to the experience of your business in the last three years.

- We pay our own suppliers late
- We struggle to pay our staff on time
- We struggle to pay business bills like energy, business rates and rent
- We have to rely on invoice financing
- We have to rely on our bank overdraft
- We have to take out loans to cover shortfalls
- We have been unable to invest in new equipment/and or staff
- Our staff have had to reduce their salaries
- Other (please specify)

Has late payment ever resulted in the following for your business?

- It has been a threat to your survival
- You have had to downscale your business activities and operations
- You have had to lay off staff as a result of being unable to pay them
- None of the above
- Other (please specify)

Do you use technology to manage the payment process? How has it helped?

- Yes
- No

  Please expand briefly on your answer

What are the main barriers for your business in using technology to enhance the payments process? What could be done to encourage greater take up by SMEs?

- [Free text box]

Are additional measures needed to give confidence in the Prompt Payment Code as a statement of good practice?

- Yes
- No
- I am not aware of the terms of the Prompt Payment Code

Do you think that newly introduced measures, namely the Small Business Commissioner and payment practices reporting, will affect the culture of payment practices?

- Yes
- No
- I am not aware of the Small Business Commissioner's role

Are you aware of the finance options available to help manage long payment periods? Have you faced any barriers to accessing appropriate finance?

- Yes
- No

  Please expand briefly on your answer

What, if any, action do you take when you are paid late? (Select all that apply)

- I do nothing/wait to be paid
- I contact the business who is late in paying
- I calculate statutory interest and debt costs and re-invoice the late paying business
- I contact my trade/sector body
- I contact the Small Business Commissioner
- Other (Please expand)

Do you feel able to negotiate and/or challenge payment terms?

- Yes
- No

  Please expand on your answer

Do you research the payment performance of a business before entering in to an agreement with them? If yes, please detail how you research this. If no, please explain why.

- Yes
- No

  Please expand on your answer

What other measures may be effective in addressing lengthy payment terms?

- [Free text box]

Late Payment Survey 2016

Please take three minutes to complete this important survey all responses will be treated with the utmost confidentiality and we will not quote anyone in our research reports without prior permission. Please feel free to share this survey with other business contacts.

How many days are your standard payment terms?

- Less than 14 days
- 14-20 days
- 21-30 days
- 31-40 days
- 41-60 days
- 60+ days

Do you have problems with customers paying you late for goods and services?

- Never
- Sometimes but not often
- Regularly
- All the time

How late have customers delayed payment beyond its due date?

- 20-30 days late
- 31-50 days late
- 51-70 days late
- 71-90 days late
- 90 days or longer

What type of customer is most likely to pay you late?

- Micro businesses
- Small companies
- Medium sized companies
- Larger companies
- Large PLC businesses

In the last 12 months have late payments been more or less of a problem for your business?

- Less of a problem
- More of a problem

Has there ever been a time where late payments pose a threat to the continued existence of your business?

- Yes
- No

If all your invoices were paid on time and your cashflow wasn't a problem, how much additional growth do you think you would be able to add to your turnover in the following year?

- No change
- Up to 5% additional growth
- 5-10% additional growth
- 10-15% additional growth
- 15-20% additional growth
- More than 20% additional growth

Would you support a law that made on time payment and late payment charges mandatory for all customers with a turnover of more than £2m?

- Yes
- No

Any other comments you would like to make on this issue?

[Free text box]

Estimating revenue loss

To calculate the estimated revenue lost due to late payment, we take several steps:

1. We establish four potential bands of percentage growth unachieved due to late payment: 5%, 7.5%, 12.5%, 17.5%. Where we have asked respondents to provide an answer within a scale, for instance, if they feel they could have grown from between 5 to 10% if not for late payment, we have eliminated the variation by averaging this out at 7.5%. Moreover, despite asking firms whether they could have achieved more than 20% growth – which did draw some responses – we have decided to omit this. Thus, we have decided not to exceed a maximum range of 17.5% to avoid speculation and eliminate outliers.

2. We isolate five particular classes of firms: individual, up to 9 staff, 10-49 staff, 50-250, and over 250 staff. Following this, we use a Scottish Government dataset to identify the aggregate turnover generated within each class of firm. For example, firms with up to 9 staff generated £30.3 billion in total turnover for the Scottish economy. We then divide this aggregated turnover by the number of units operating within a particular class of firm to establish a disaggregated turnover figure. So, as there are 85,395 firms with up to 9 staff in the Scottish economy, we get a figure £354,260 of revenue generated per firm.

3. Having isolated a level of turnover per firm, we apply each of our percentage bands to this figure in order to establish the potential turnover value lost per firm due to late payment. For instance, a possible 5% growth on £354,260 (the turnover per firm of up to 9 employees) gives us a value of £17,713 in possible unachieved growth in revenue.

4. We then take the total number of units operating within a particular class of firm and estimate what proportion of them have experienced a particular level of unachieved growth. For example, if 41% of our respondents classed as companies with up to 9 employees believe they could have grown an additional 5% if not for late payment, we take 41% of 85,395 (the total number of firms with up to 9 employees), giving us a figure of 35,584.

5. Finally, to calculate the revenue lost, we simply multiply the potential value lost per firm by the total number of firms estimated to experience this loss in turnover growth. If 35,584 firms with up to 9 staff believe, therefore, that they could have grown 5%, we multiply this by 17,713 (5% of the revenue generated per firm of up to 9 employees), providing us a figure of £630 million in lost revenue growth.

We then repeat these steps for each percentage band, then calculate a sum of the values generated in order to establish how much revenue is lost by each class of firm. Having identified this, we are then able to compare how much is lost by distinct classes of firm, as well as the total aggregate of turnover lost by all classes of firms operating in the Scottish economy.