Tackling Payment Culture

GOOD BUSINESS PAYS

BTA | BUSINESS TRAVEL ASSOCIATION

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02 Welcome from Clive

Dear Reader,

In recent years, the dynamics of payment culture within business-to-business (B2B) companies has undergone a worrying trend. While some B2B companies uphold strong payment practices and ensure timely disbursements to clients, several common challenges have risen to the forefront, especially when payments to small and medium-sized enterprises (SMEs) are delayed or occur perilously close to the deadline.

Late payments have a disproportionate impact on SMEs, painting an unclear portrait of their financial stability. Due to their smaller size, these businesses often struggle to bridge financial gaps created by delayed payments, facing challenges in securing temporary financing and grappling with less robust credit management systems. As a result, consistently late payments can obstruct a business's ability to invest in opportunities for growth. Over the past 12 months, BTA members have reported a rising surge in late client payments. Alarmingly, over 20% of debts have extended beyond 30 days from their due date, double pre-pandemic times. How do we effectively handle the issue of some corporations clearly employing late payments as a strategy to bolster their own working capital positions?

While the return of business travel post-pandemic is welcomed by the sector, the rapid return of travel has placed considerable pressure on Travel Management Companies (TMC's) and their working capital. I am therefore proud to introduce this report conducted by The Business Travel Association (BTA) in collaboration with Good Business Pays (GBP) and the former Small Business Commissioner (Philip King) - a detailed investigation into slow and late payments to SMEs within the UK.

This report will assess the extremely worrying problems which are affecting SMEs as a result of late payment practices, while also demonstrating the benefits of timely payments for both customer and client.

While the government announcement in October 2023 regarding tougher measures to tackle late payments to SMEs was welcomed by the industry, the current regime of late payment interest charges is not an effective remedy. Often our BTA members are reluctant to raise the issue of late payment interest charges with its clients. Equally, many TMC's do not have the technological solutions in place to automate the calculation of late payment interest charges and the subsequent invoicing of these charges.

This report tackles the key concerns of SMEs and our partners which continue to affect the travel sector. I extend my sincere thanks to Good Business Pays and Philip King for imparting their knowledge and passion to this report, with the goal of ensuring a brighter future for SMEs by alleviating their constraints imposed by late payments.

We have the power to champion an exemplary payment culture with the overall goal of ensuring timely payments are made to SMEs, thereby bolstering businesses nationwide. I welcome all feedback and knowledge on the topics addressed in this report.

Best wishes,
Clive Wratten
CEO of the Business Travel Association (BTA)

03 Introduction to payment culture

What are the problems with payment culture in B2B companies?

Payment culture in B2B companies can vary significantly from one organisation to another.

While not all B2B companies have issues with their payment culture and ensure all payments are made in good time, several common problems can arise in this area if payments are late or just before a deadline.

BTA members have reported over the last 12 months a worrying increase in late client payments, with over 20% of debt being over 30 days from the due date, double pre-pandemic times. It is clear some corporates are using late payment to bolster their own working capital positions.

The current regime of late payment interest charges is not an effective remedy. Often, our BTA members are reluctant to raise the issue of late payment interest charges with their clients. Equally, many TMCs do not have the technological solutions in place to automate the calculation of late payment interest charges and the subsequent invoicing.

Whilst the reporting of companies who repeatedly pay late exists, there is very little awareness or visibility of this.

What are the risks of small businesses getting paid late?

Late payment disproportionately impacts small and medium-sized businesses, often casting an uncertain shadow over their financial stability. Due to their smaller scale, these businesses can struggle to bridge financial gaps caused by late payments, encountering challenges securing temporary financing, and grappling with less robust credit management systems. Consequently, late payments can thwart a business's capacity to invest in opportunities to grow.

Late payments can take a huge toll on SMEs' ability to function, going beyond cash-flow issues, encompassing a wide range of detrimental effects:

Time Drain

SMEs may find themselves dedicating many hours each month chasing overdue payments, resulting in a huge number of wasted man-hours. This pursuit not only diverts valuable time, but also drains energy that would be better served in enhancing products, services, and operations.

Debts

Late payments frequently metamorphosise into bad debts, posing substantial threats to a business's stability. These debts can make it difficult to pay staff, disrupt accessibility to credit, and instigate cash-flow deficits that imperil the very survival of a company. A bad debt of £10,000 at a profit margin of 5% will require sales of £200,000 to recover the impact to the bottom line.

Growth Stagnation

The cycle of late payments compels businesses to fixate on immediate concerns such as credit control and paying salaries, diverting them from investing resources and effort into the company's long-term growth prospects. Prolonged payment delays can destroy confidence and are often proportional to investment levels into a business.

Staff Salary Difficulties

SMEs struggling to pay their own staff due to late payments can cause major problems within a business as employees expect to be paid on time. While SMEs may use credit to make essential payments, this is not sustainable in the long-term.

Increased Borrowing

With an uncertain cash flow hanging in the balance, SMEs may have to resort to costly short-term credit facilities like overdrafts and credit cards to secure the necessary working capital to pay their staff and function as a business.

Directorial Sacrifices

It is common for directors of SMEs to forego their salaries for extended periods when their companies grapple with financial turmoil caused by late payments, to ensure their staff are paid and other payments are met.

Mental Health of Business Owners

Worrying about unpaid invoices can cause sleepless nights and lead to more serious mental health issues having a detrimental impact on the business owner and their business.

What successes have small business seen when payment is fast?

SMEs often experience valuable positive outcomes when payments are processed quickly, such as:

Enhanced Liquidity:

Fast payments significantly improve the liquidity of small businesses. This liquidity enables investment in various aspects, such as upgrading technology, purchasing inventory, and allocating funds to develop and support staff.

It also allows for better management of day-to-day operations and overall business growth as investment opportunities become more viable, granting smaller businesses the opportunity of a competitive advantage.

Improved Health of the Business:

Swift payment processing also contributes to the overall health of a small business. It ensures smoother cash flow, which in turn facilitates the payment of bills, employee salaries, and other operational expenses.

Enhanced reputation:

Fast payments enhance the payment reputation of small businesses, increasing the likelihood of further credit facilities being made available, often at more competitive rates.

With healthy cash flow, the business can better plan for expansion, research, and development initiatives.

Fast payments ultimately create a positive domino effect on small businesses, allowing for increased financial stability, growth opportunities, and the ability to weather any unforeseen challenges that may arise.

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The View from your client/customer

Why do large companies want to (or not) work with small businesses?

Large companies might often desire to work with small businesses for a number of reasons such as:

More Bespoke Service

Small businesses can often provide a more personalised and customised service, tailored to the specific needs of a larger company. This can result in more attention to detail and flexibility in meeting unique requirements.

Feeling Part of the Organisation

Collaborating with a small business can foster a sense of partnership and involvement in the business's growth. Large companies might appreciate the closer relationship and shared goals that come from working with a smaller entity. However, large companies might decide not to engage with small businesses due to concerns about:

Strength and Depth of Organisation

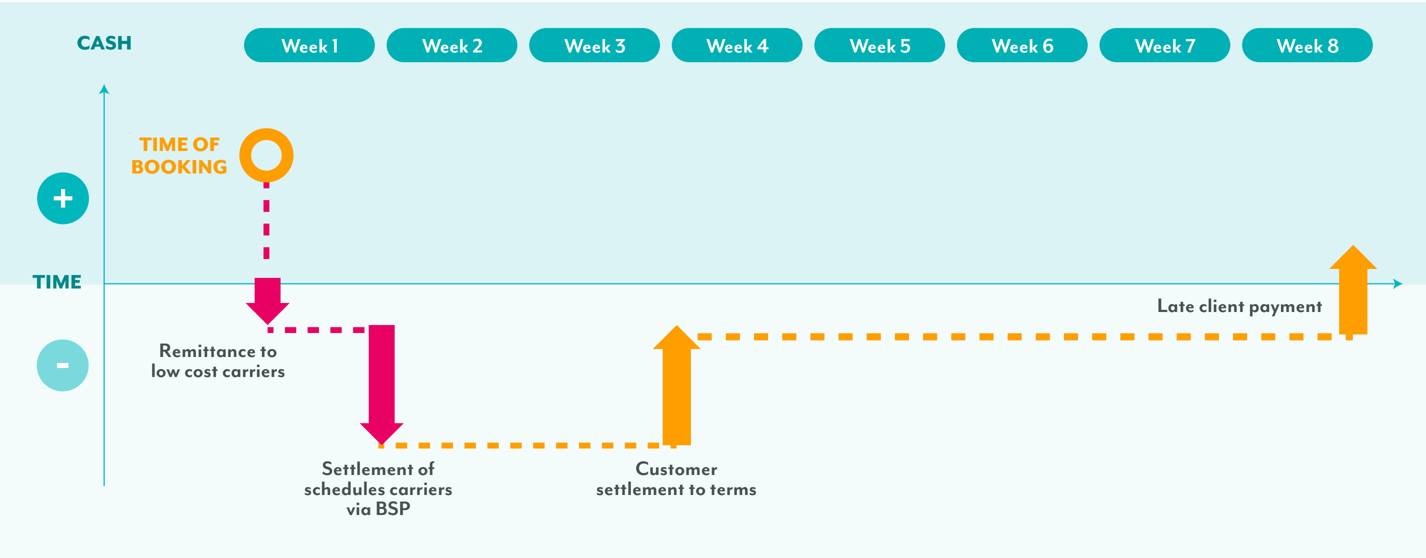
Worries about whether SMEs have the resources, expertise, or scalability to adequately service the demands of a larger company might dissuade them from wanting to work together.

Cash Flow Concerns:

Larger companies may also have conerns about the financial stability and reliability of a smaller business, especially if it could impact the larger company's operations or deliverables. This can influence their decision to engage in partnerships.

Ultimately, payments not being made on time can not only cause apprehension among SMEs but also extinguish potential business opportunities between larger and smaller companies. Large corporations may view cash flow issues arising from delayed payments as a deterrent to collaboration, meaning SMEs suffer further consequences.

TMC: Cash cycle



How does the payment process look like in your large client?

In order to remain competitive, TMCs often feel compelled to provide credit to their clients. Acting as intermediaries, TMCs shoulder the entire cost of travel while retaining only a small margin of typically around 5-10%. They're required to remit funds to travel suppliers, such as Airlines, Hotels, and Rail companies, before the client's departure, and receive payments from clients' months after the trip's completion. As a result, several elements define the financial dynamics of the payment process with our large client:

Imbalanced Cash Cycle and Obligations

The decision to offer credit terms to clients remains a commercial decision for TMCs. However, there exists an imbalance in the cash cycle. Airlines represent the most significant creditors for TMCs, binding them through agency agreements and IATA resolutions. TMCs are obliged to remit ticketed revenues to IATA (via BSP for distribution to airlines) on a weekly basis, with no negotiation room. There's growing pressure from airlines to further shorten this remittance cycle.

Influence of Procurement Departments

Procurement departments, representing large corporate clients, play a significant role in negotiating credit terms. These negotiations can exert substantial pressure on TMCs. Clients often demand extended credit terms (e.g., 45/60/90 days), and TMCs risk exclusion from Request for Proposal (RFP) processes if they don't agree to these terms at the outset.

Industry Standards and Cash Flow Challenges

The average credit terms across the UK Corporate Travel sector exceed 30 days. The disparity between remittance deadlines and the credit terms demanded from large corporate clients puts significant pressure on cash flow for TMCs. This pressure intensifies when corporates delay payments, meaning as a result, TMCs are often forced to resort to securing expensive loans or overdrafts to manage their working capital requirements due to this cash flow imbalance.

Overall, the payment process within our large client's domain is shaped by the need to compete, obligations to suppliers, industry standards, the influence of procurement negotiations, and the resultant cash flow pressures on TMCs.

How to avoid the obvious issues

As the former Small Business Commissioner, and with a 40-year career in credit management, Philip King developed a proven model (Philip King Five-Step Model – Business Survival by getting paid), to help SMEs avoid the issues related to late payments. Here he sets out a number of guidelines and recommendations which small businesses should consider adopting with regard to their approach to payments:

Clear Payment Terms

Ensure that payment terms are clearly defined in contracts or agreements with all clients. Clearly stipulate the payment due dates, late payment penalties, and any interest charges for overdue payments.

Prompt Invoicing

Issuing invoices promptly after providing goods or services is crucial. Timely invoicing plays a key role in establishing the anticipated payment schedule and kick-starting the payment process in a timely manner. Ensure the invoice prominently displays the due date and the bank account to which payments should be made.

Regular Follow-Ups

Implement a system for regular follow-ups on outstanding invoices. Establish a schedule for payment reminders via email, phone calls, or automated reminders to prompt clients about upcoming or overdue payments. Don't procrastinate; escalate internally and, if that doesn't work, utilise the services of a third party. Keep your invoices at the top of the list for payment. Always do what you said you were going to do when you said you were going to do it.

Flexible Payment Options

Provide multiple payment methods to make it convenient for each of your clients to pay. Offering online payment options or various modes of payment can expedite the payment process.

Engage in Relationship Building

Developing strong relationships with clients can significantly impact payment timelines. Although it shouldn't be a requirement for timely payments, fostering positive relationships often results in quicker transactions. Clear communication and a positive relationship can lead to better adherence to agreed - upon payment terms. Learn, and follow closely, the client's requirements for processing invoices, and make friends with people on the Accounts Payables team who will be processing payments.

Implement Late Payment Penalties

Enforcing late payment penalties for overdue invoices, as previously agreed in the initial contract, can act as a deterrent for clients who might otherwise delay payments. This measure not only encourages adherence to the agreed payment schedule but also serves as a mechanism to deter delays in settling invoices. Even if not included within the contract, late payment interest and penalties can be charged under the Late Payment of Commercial Debts Act.

Utilise Technology

Take advantage of accounting and invoicing software to automate the invoicing and payment tracking procedures. These tools offer a streamlined approach to invoicing and aid in tracking payments efficiently. Additionally, they can generate alerts for overdue payments, facilitating better management of outstanding invoices.

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Promote prompt payment for your own business

The advantages of promoting prompt payment to SMEs (customer/staff/suppliers)

Promoting on-time payments to SMEs offers several advantages not only to the SMEs themselves but also to their customers and staff. Here are some of the main benefits:

Improved Cash Flow Management

Prompt payments from customers ensure a steady and predictable cash flow, enabling SMEs to meet their own financial obligations, invest in growth, and reduce the need for costly borrowing or credit.

Timely payment practices consequently help larger businesses maintain control over their cash flow, ensuring they have the necessary funds to cover operational expenses, invest in opportunities, and manage their finances effectively.

These payments also ensure that all staff at small to medium sized businesses can be paid a consistent salary on time.

Stronger Client Relationships

Timely payments build trust and goodwill with clients, which can lead to better terms, flexibility, or priority treatment in the future. This can result in cost savings and improved supplier reliability.

Enhanced Reputation and Trust

B2B companies that consistently make prompt payments are seen as reliable and trustworthy partners, without any fines or legal disputes on their record. This reputation can attract new business relationships and collaborations with other SMEs.

Improved Budgeting and Financial Planning

Anticipating the timing of incoming payments enables SMEs to strategise and manage their budgets more effectively. This foresight allows for better financial planning, minimising the need for frequent adjustments, fostering stability and consistency in financial operations.

Positive Impact on Credit Rating

Consistently paying partners and other financial obligations promptly can positively impact a company's credit rating, potentially resulting in improved access to credit and better financing terms in the future.

Avoidance of Penalties and Interest

Timely settlement of bills is pivotal for businesses as it prevents incurring late payment penalties and additional interest charges. Avoiding these costs is essential to maintain a company's operational expenses at a manageable level over time.

Overall, promoting timely payments is an ethical business practice that fosters trust, financial stability, and efficiency within the B2B ecosystem. It benefits all parties involved, promoting a healthy payment culture amongst BTM companies, especially to SMEs which rely on consistent payments to operate, and contributes to the long-term success and sustainability of businesses.

08 Contact

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