

E-book

Shedding light on late payments for UK small and micro businesses

A Data for Good collaboration by Sage and Smart Data Foundry

Sage

SMART
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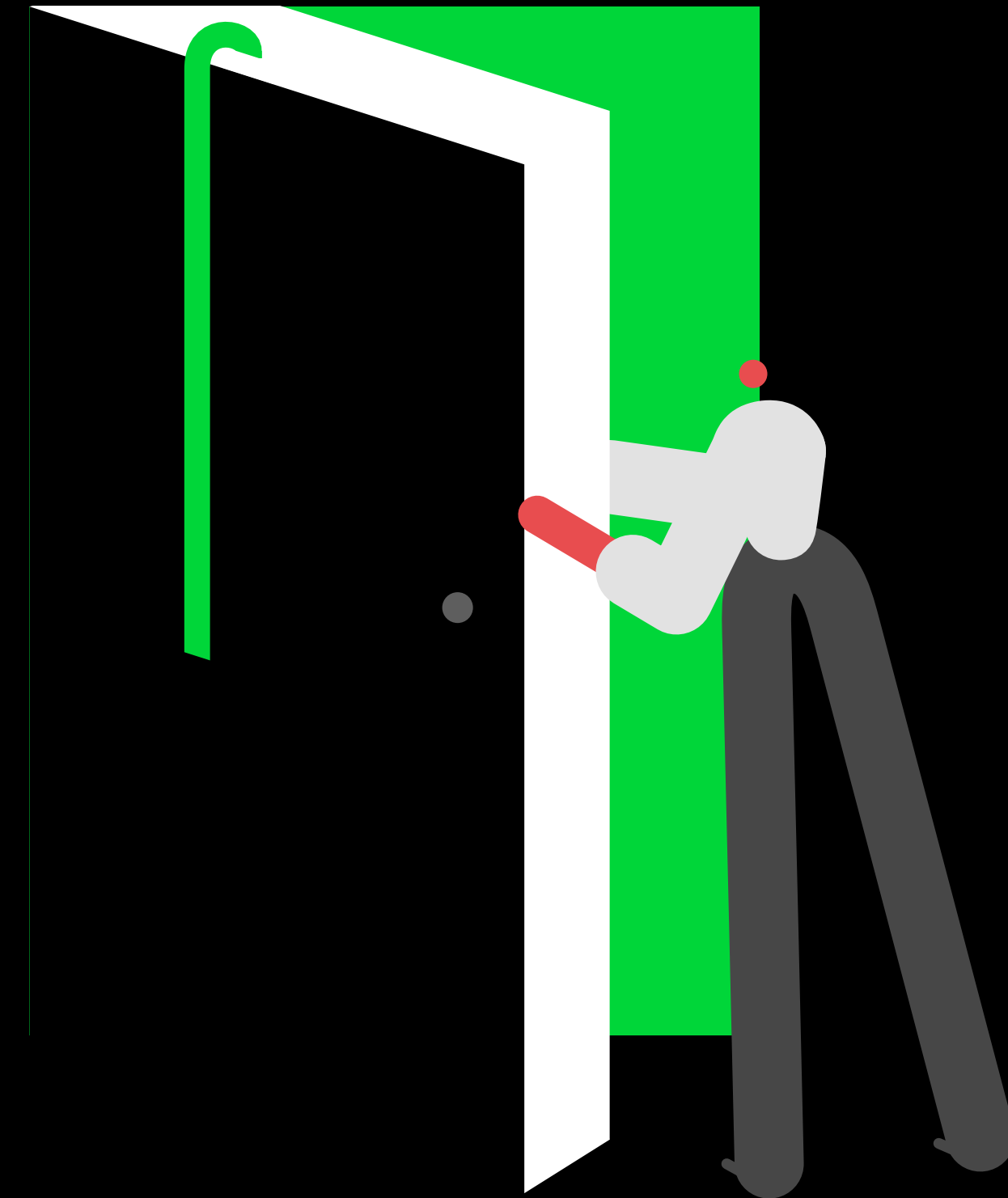
About this study

Small and Medium Businesses (SMBs) account for over 90% of all businesses and three-fifths of all employment in the UK. They are consistently paid late which in turn has a profound negative impact on the whole economy.

Sage's commitment to Data for Good led us to partner with **Smart Data Foundry** to understand the issue better. The SDF team analysed data from 58 million anonymised sales invoices from 110,000 SMBs over the period 2010 to 2021.

- Sage supplied data from products targeted at smaller UK businesses—a mix of sole traders and corporate entities (Limited companies, Partnerships, etc).
- SDF had sales invoices for 110,000 Sage customers over the period covered. The data provided is large enough to give robust statistics.

To protect rights and privacy, all the Sage data was de-identified and accessed and analysed by Smart Data Foundry in the security of the University of Edinburgh Financial Data Safe Haven, a controlled and secure service environment for undertaking data research.



Late payment trends over a decade

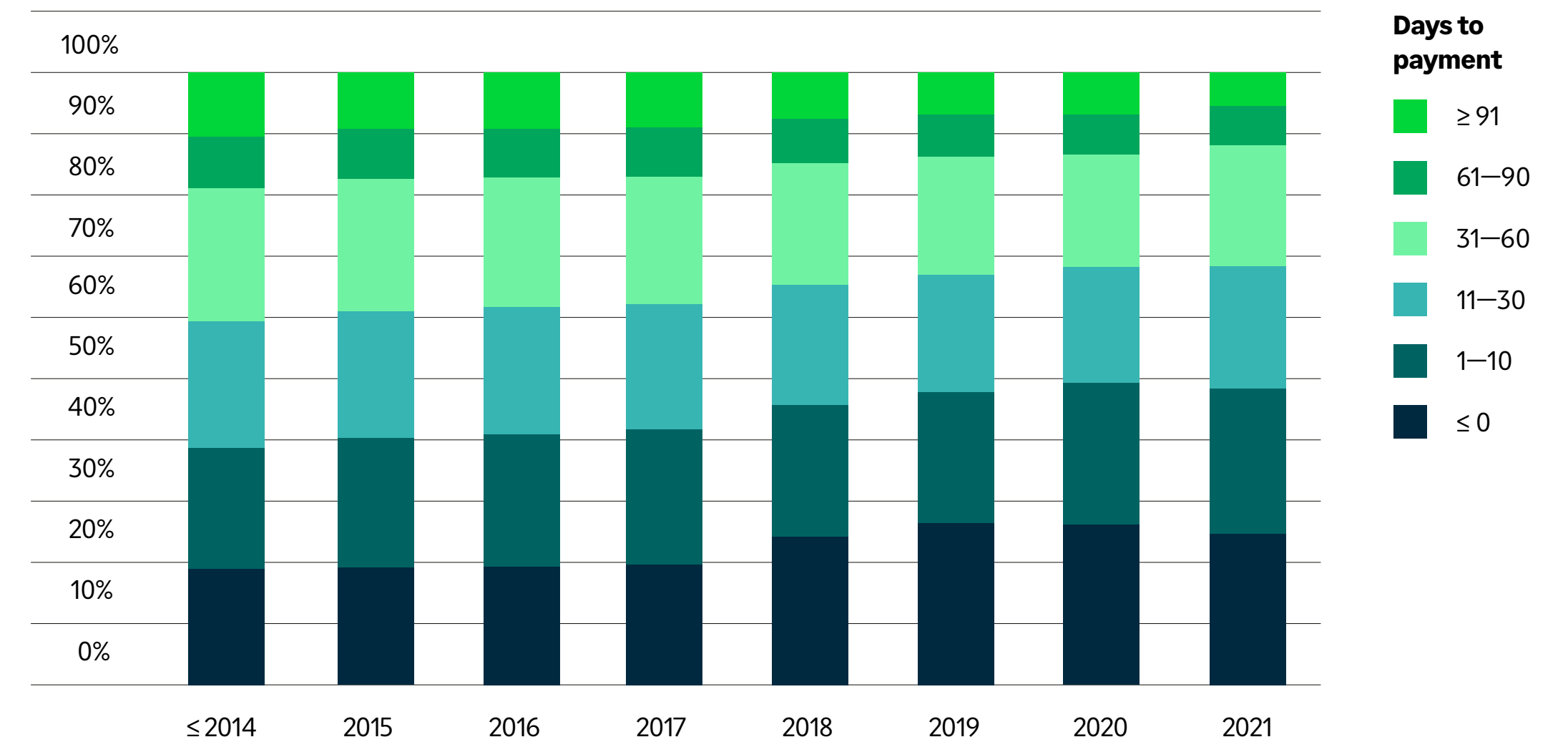
SMBs, including ‘micro’ companies, are critical to the UK economy. In 2021, they accounted for over 90% of all businesses, three-fifths of employment, and 52% of all private sector turnover. Cashflow is their lifblood. Yet SMBs have faced a long-standing problem: getting paid on time.

The research found digital advances have delivered a steady and very significant decline in payment times for SMBs over the last decade:

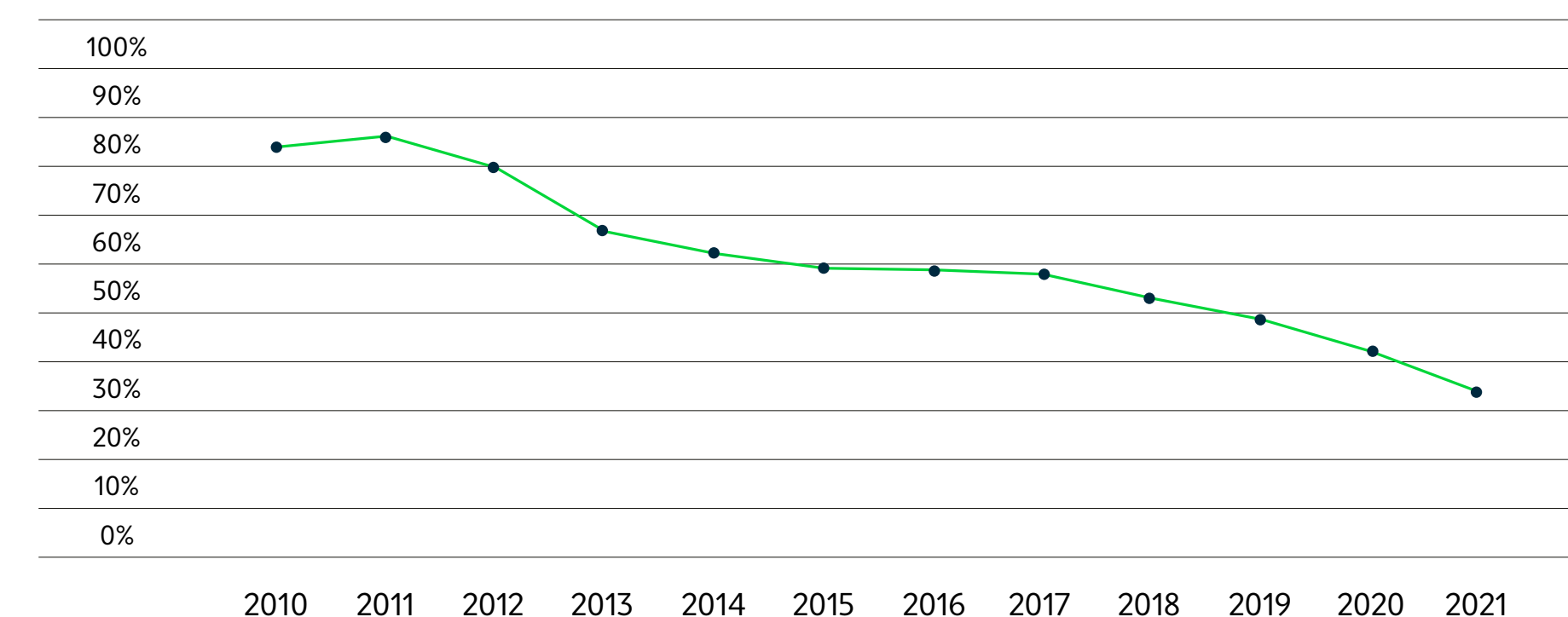
- Overall payment speed and on-time payment improved very significantly since 2010.
- The average time for an invoice to be paid reduced by 55% from 81 days in 2010 to c.36 days in 2020–2021. In almost all UK regions, the speed and timeliness of payments reduced, and the gap between the best and worst areas declined.
- Average lateness of overdue invoices (beyond SMB payment terms) steadily fell from over 100 days late in 2010-2013 to under 30 days in 2020-2021.
- The proportion of invoices paid after the due date also declined from c.47% in 2010-2013 to 40% in 2020–2021.



Payment speed proportions by year



Money-weighted average days to payment

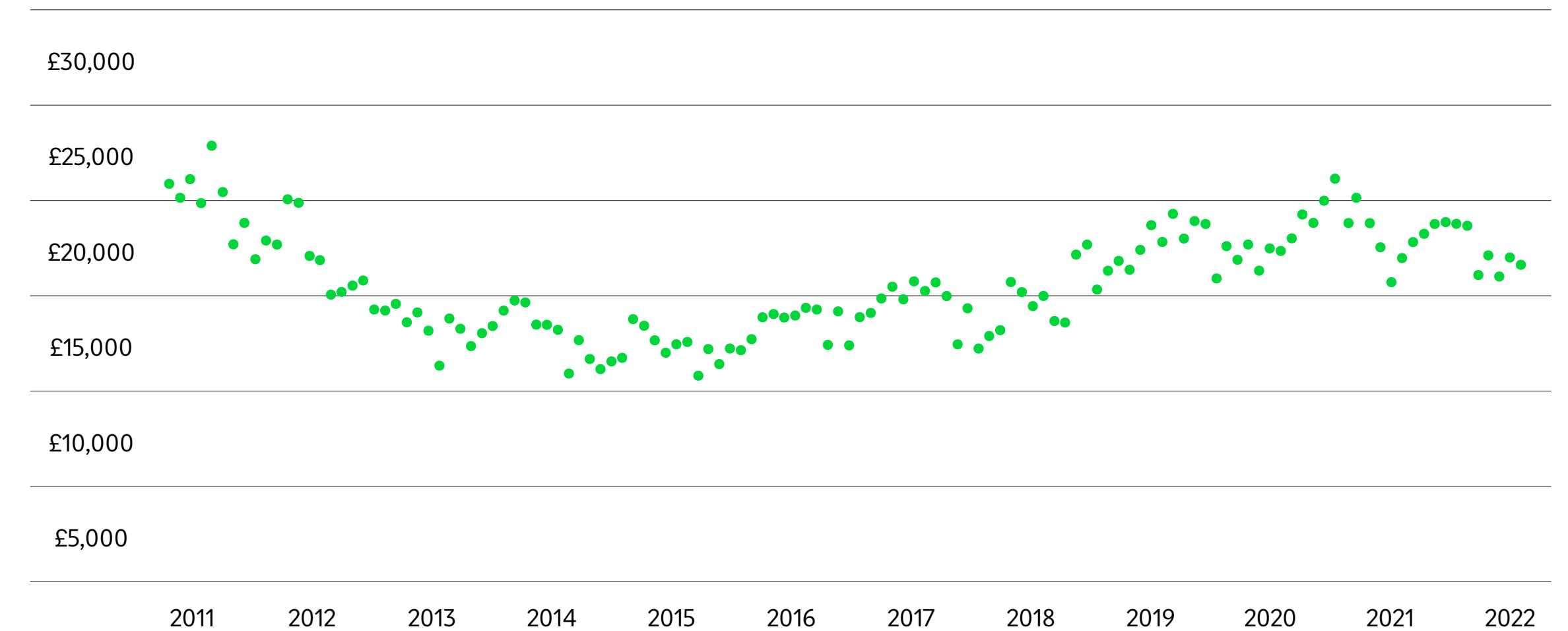


Late payment today

Despite these improvements, a significant number of invoices are still not paid according to terms set by SMBs. Further progress is essential to ensure they can thrive and continue to play their critical role in the UK economy.

- As of 2020 some 40% of credit invoices were still not paid on the agreed terms.
- In 2020–2021, the average business in our sample was owed **approximately £22,000 in late payments** at any point in time.
- Northern Ireland, historically the region with the slowest payment times in the UK, remains the slowest today (35 days versus between 22 and 26 days in other regions).
- Whilst payment speed and timeliness generally improved across most sectors, most recently, businesses in the public administration, transport and storage, and quarrying sectors have been paid the slowest.
- In 2020–2021, payment times, in terms of average days to payment, are fastest in the accommodation and food services, wholesale and retail, and arts, entertainment and recreation sectors.

Average amount overdue per company



Digitisation: helping companies get paid on time

Many tech solutions have emerged over the last decade that have reduced payment times. These are often cloud accounting products that SMBs can afford and easily implement. From automation and preventing errors to forecasting cash flow, targeting late payers, and speeding things up with 'click to pay' functionality, technology has helped SMBs get paid on time.



Automated invoicing solutions have become widely available and exist either as standalone applications or as an element of commercial or cloud accounting software. SMBs can now send invoices in real time via email or SMS as soon as a transaction is complete. With e-invoicing, invoices are sent from one accounting system to another as a digital exchange.



Software sending **automated emails and SMS messages** means SMB owners can avoid chasing late payments—historically a hurdle for those keen to protect client relationships.



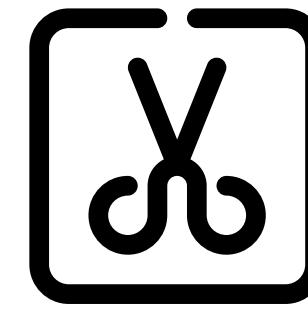
Digital commerce, online banking and mobile tech have drastically reduced payment times, whilst innovations such as Variable Recurring Payments (VRP) mean customers can authorise SMBs to take regular, varying amounts directly from their bank accounts.



SMBs have more options for **invoice insurance and factoring** (funding cash flow by selling invoices to a third party at a discount). Improvements in data accessibility and management mean individual rather than all invoices can be financed, insured, or factored at low cost.

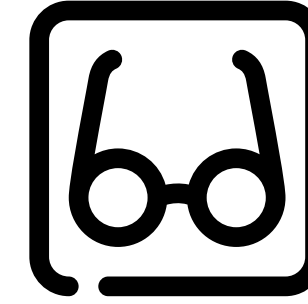
Tech trends: improving payment times in the future

Experts predict future innovation will go even further to help SMBs get paid faster. Just as tech has helped to improve payment speed and timeliness since 2010, experts predict further innovation could achieve even more. Governments can help to enable this by setting the right regulatory frameworks for digital innovation, standards and adoption.



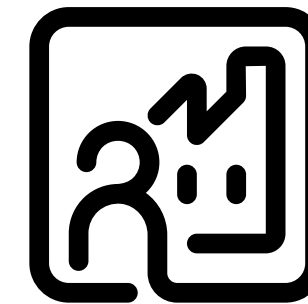
Reducing risk

Fintech innovation means SMBs can buy credit insights on-demand, making it easier to monitor existing customers and credit-check potential clients before providing goods and services.



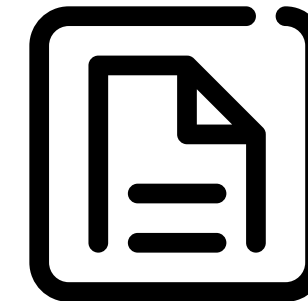
Leveraging machine learning

Artificial Intelligent systems drawing on big data could learn the optimal date and time to send out customer reminders, tailoring content, tone and tactics to prompt payment. Machine learning could also further advance fraud detection and aid invoice financing.



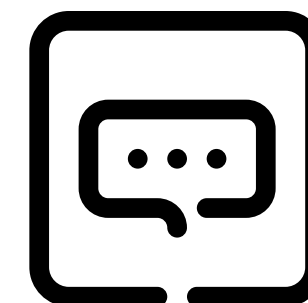
Adopting industry-specific software

Solutions for sectors with specialised functionality and applications are an emerging trend, such as Brightpearl by Sage for retail businesses.



Using smart contracts

Smart contracts can automate processes if predefined conditions are met. For example, a contract could automatically generate an invoice once a service is provided and extract payment when the invoice becomes due.



Resolving disputes

Almost 70% of SMBs have at least one commercial dispute and 72% of disagreements are about payment. Government-backed LawtechUK recently oversaw proof of concept design for an online dispute resolution platform for SMBs. Once built, the platform can be integrated into invoicing and accounting tools, enabling push button dispute resolution.

What SMBs can do today

Not all SMBs have adopted digital tools, with queries over return on investment and lack of awareness of the right solutions holding them back. To improve cashflow, a first step is to **digitise invoicing and payment processes**, which can now be done easily and cheaply.



About Sage and About Smart Data Foundry



About Smart Data Foundry

Smart Data Foundry is a data innovation organisation serving the public, private and third sectors. Its mission is to improve people's lives by safely unlocking the potential of financial data to enable research, innovation, and skills development in Financial Services and FinTech. Smart Data Foundry is a collaboration between the University of Edinburgh, the Financial Data and Technology Association (FDATA) and FinTech Scotland. Smart Data Foundry was one of the first major data-themed partnerships following the launch of the University's Data-Driven Innovation (DDI) initiative, part of the City Region Deal. Learn more about [Smart Data Foundry](#).



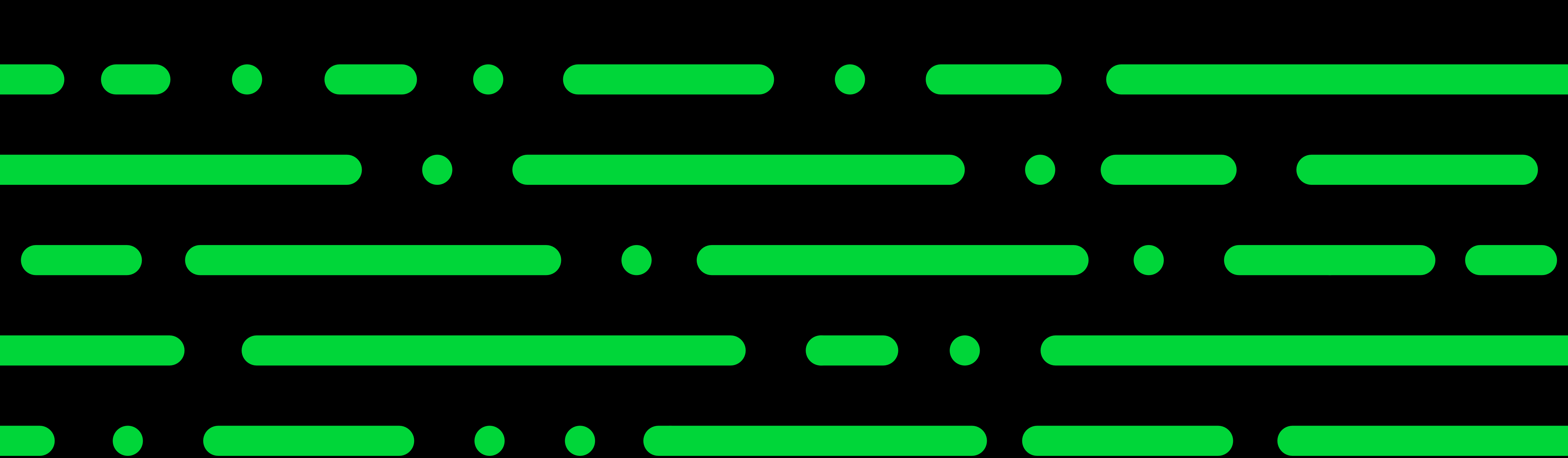
About Sage

Sage exists to knock down barriers so everyone can thrive, starting with the millions of small- and mid-sized businesses served by us, our partners and accountants. Customers trust our finance, HR and payroll software to make work and money flow. By digitising business processes and relationships with customers, suppliers, employees, banks and governments, our digital network connects SMBs, removing friction and delivering insights.

Knocking down barriers also means we use our time, technology, and experience to tackle digital inequality, economic inequality and the climate crisis. Learn more about [Sage](#).

We will always use customer data in an anonymised, responsible and transparent way, and we are committed to upholding high standards of privacy and data protection. More information is available from [The Sage Trust & Security Hub](#).





1. Based on total outstanding payments based on what is late and what is outstanding but not late. The ratio between the two tells us the amount of outstanding late payments owed.
2. Based on conversations with ten experts in the field from cloud accounting firms, FinTech CEOs and entrepreneurs
3. www.fsb.org.uk/resources-page/tied-up--unravelling-the-dispute-resolution-process-for-small-firms.html
4. www.sage.com/investors/investor-downloads/press-releases/2022/06/untapped-tech-adoption-could-boost-uk-economy-by-232-billion-annually/

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