

Sage response to BEIS Consultation: Creating a responsible payment culture

Introduction

Sage, the UK's largest technology company, is the global market leader for technology that helps businesses of all sizes manage everything from money to people – whether they're a start-up, scale-up or enterprise. Our purpose is to support the people that make businesses thrive.

We do this through Sage Business Cloud – the one business management solution that customers will ever need, comprising Accounting, Financials, Enterprise Management, People & Payroll and Payments & Banking. We are constantly innovating through our ecosystem to ensure Sage Business Cloud keeps businesses future proofed for growth, uncertainty or change.

We free our customers from the burden of admin, so they can spend more time doing what they love – and Sage does that every day for three million customers across 23 countries, through 13,000 colleagues and a network of accountants and partners.

At Sage, we are passionate about backing the UK's business builders.

Maintaining payments and cash flow is the fuel of growth for our customers in the UK and Ireland, over 600,000 small and medium businesses. It is crucial to their wellbeing. Without prompt payment, cash flow suffers, employees may not get paid and the livelihoods of many are put at risk.

Sage are signatories of the Prompt Payment Code and have had a 30-day payment procedure for more than 15 years. We provide significant free to use guides and toolkits¹ to businesses to help advise them on how to resolve cash flow issues and ensure they are paid promptly. We welcome recent Government initiatives to shine a light on poor payment practices, including the introduction of late payment reporting, the prompt payment code and the appointment of the Small Business Commissioner.

In December 2017 we launched a report, *The Domino Effect: the impact of late payments*, which looked at the causes of poor payment practices, exposing the true extent of the problem and the impact on the wider economy. Crucially the report highlighted prevention would be highly effective, given many SMBs worry about confronting late paying customers and find chasing payment difficult. SMBs in the UK said that protecting their client relationships was the biggest barrier to chasing late payment, with 40% citing this².

That is why we welcome this consultation's focus on the crucial role that technology plays in bringing resolution to issues of prompt payment.

Innovation in payments and open banking are both great enablers for small businesses to help speed up payments into their business, improving their cash flow and productivity. We firmly believe that greater digital adoption will hold the key to resolving issues of late payment.

More broadly, we fundamentally believe that advocating greater adoption of e-payment technology for SMBs is a huge positive for the small business community and the UK economy.

Using digital payments has proven to greatly improve efficiencies for business. It allows significantly faster payments for businesses, with seamless integration into their invoicing and admin tasks.

¹ Sage 2018, The Art of Being Paid, toolkit for businesses owners <https://www.sage.com/en-gb/blog/the-art-of-being-paid/>

² Sage & Plum Consulting, December 2017, the Domino Effect: the impact of late payments <https://www.sage.com/en-gb/blog/late-payments-get-paid-faster/>

Payments technology offers SMBs full security for payments they receive, removing the costly and time intensive complexities of handling cash.

New technologies and changes to regulation have led to a revolution in the way small business can receive payment. In recent years there has been a proliferation of non-card e-payments to help businesses receive payments quicker than ever, with real time settlement. This can resolve issues of delayed payment and provide SMBs access to real time information about their cash flow.

Sending this message of the benefits of payments technology is hugely important to ensuring the future success of our UK SMBs. Government and industry must work together to empower the UK small business community to take advantage of the new opportunities offered by this revolution and help businesses embrace these tools.

Executive Summary

In summary, Sage's contribution to this consultation makes the following key points:

- Sage research shows that 17% of all payments to SMBs are late, with the current value of pending invoices in the UK at £112bn. Bad debt written off by small businesses within this financial year was £60bn. This has a significant negative impact on the financial health of the UK's SMBs and is a major drain on productivity. Sage research shows the average SME spends 15 days a year chasing invoices³.
- Our research shows that SMBs view protecting the client relationship as the biggest barrier to chasing late payment (40%), followed by no dedicated resources to chase payment (35%), and not having enough staff to chase late payment (18%).
- Technology offers the solution to tackling these issues of late payments. Digitising the invoicing process allows payments to be made automatically, with SMBs receiving faster payments that are reconciled into their accounting ledger, giving them access to real time cash flow information.
- Sage has launched several innovative solutions in this area. Three years ago, Sage pioneered the use of "Pay Now" buttons in invoices to allow for instant payment, rather than subsequently having to manually chase payment. We have recently partnered with Stripe and Pay Pal to offer digital invoicing with integrated payments to even more businesses. Utilisation of this technology allows companies to get paid twice as quickly⁴. Sage are also working with GoCardless to ensure our Sage 50 cloud and Sage 200 cloud customers can automatically collect payment for any Sage invoice on the due date, whether recurring or ad hoc.
- These solutions form part of a revolution in the way that small business receive payment seen in recent years, with the proliferation of non-card e-payments allowing businesses to be paid faster than ever. When looking to improve the payments culture in the UK, the Government should look for ways to educate SMBs around digital tools and incentivise digital adoption – ensuring the opportunities offered by payments technology are communicated effectively to UK small businesses.
- This should be seen within the wider context of Government efforts to boost UK productivity. Payments technology is part of a wider ecosystem of digital tools that hold the key to unlocking

³ Sage & Plum Consulting, December 2017, the Domino Effect: the impact of late payments

<https://www.sage.com/en-gb/blog/late-payments-get-paid-faster/>

⁴ Sage, April 2018, <https://www.sage.com/en-gb/news/press-releases/2018/04/sage-launches-new-invoicing-functionality/>

small business productivity. SMBs who adopt digital tools save up 27.6 days a year due to reductions in admin burdens, with an average cost saving of £17,000 per annum⁵.

- The UK Government should look to incentivise SMBs towards adopting new, cloud-based technology. Measures could include looking at digital vouchers or enhanced capital allowances for adopting the latest technologies. Similarly, the Government could look to provide greater funding for programmes to boost digital skills and adoption, for example through the National Productivity Fund.

Existing payment practices and experiences

The issue of payments goes to the very heart of our business. We have developed technological solutions to speed up the payments process for small businesses – to improve their cash flow and to help them become more productive.

As well as technology solutions to automate payments processing and speed up receipt of payment – Sage has also undertaken significant research in this area to inform our product development and to enable us to provide the most useful advice to small businesses.

The effect of late payments and barriers to payment

Last year, we undertook independent research to inform a report into why invoices are delayed and how SMBs can get paid faster⁶. Our report, *The Domino Effect: the impact of late payments*, showed that in the UK, 17% of all payments to SMEs are late, a significant impact on cash flow that hinders SMB growth and investment. Perhaps even more strikingly, more than 50% of UK SMEs currently experience or expect to experience a negative impact on company investment, their ability to pay their suppliers and their ability to pay staff an annual bonus.

Additionally, late payments and subsequent payment chasing has a huge negative impact on the productivity of UK small business. On average, SMBs spend 15 days total a year chasing late payments, time that could otherwise be spent on revenue generating activities; devising strategies for growth or better serving customers.

We also wanted to understand why SMBs feel they were being subject to unfairly long payment practices. The biggest barriers to chasing late payments cited by UK SMBs are:

- That the SMB wants to protect the client relationship (40%).
- There are no dedicated resources to chase late payments (35%).
- There's not enough staff available to chase late payments (18%).

Technology is the solution to these problems

Adopting payments technology can virtually eliminate these obstacles to getting paid on time and we very much welcomed the consultation references to the power of technology to resolving problems of late payment.

⁵ Sage & Plum Consulting, September 2017, Sweating the small stuff - the impact of the bureaucracy burden, <http://plumconsulting.co.uk/sweating-small-stuff-impact-bureaucracy-burden/>

⁶ Sage & Plum Consulting, December 2017, the Domino Effect: the impact of late payments <https://www.sage.com/en-gb/blog/late-payments-get-paid-faster/>



Adopting instant payment technology removes the need for difficult conversations that may lead to strained client relationships. Three years ago, Sage pioneered the use of pay now buttons in invoices – allowing customers to be paid instantly from their invoice with the click of a button.

This makes it easier for their customers to pay on time and eliminates the need for difficult follow up conversation about payment. It ensures businesses can take payments directly from their invoices.

Payments and e-invoicing technology is a huge boost to productivity, reducing time spent manually generating invoices and chasing payment. It helps to give SMBs real-time information into the performance of their business. Automation of these processes removes the need for dedicated staff to give chase for payment.

Building on Sage’s innovation through Pay Now button features, Sage partnered with Stripe and Pay Pal to expand this offering to even more businesses, allowing them to fully digitise all invoicing.

Our Stripe partnership means that Sage Business Cloud Accounting customers can be paid through credit and debit cards in real-time, rather than spend time manually collecting and chasing down payments. This technology will help businesses get paid twice as quick⁷.

Our digital invoicing services powered by Stripe allow invoices to be sent electronically, which the customer can view on any device (hosted in Sage Business Cloud) and pay from anywhere, anytime.

We also launched an enhanced user experience where customers have the option to activate payment and invoice services in less than five minutes from within their software. From there they can take payment over the phone or online with a Pay Now button, as well as create personalised invoices on the go using the Sage mobile app.

We have seen that using simple “pay now” buttons for our customers to include in invoices has a powerful effect. It acts as a clear prompt for payment and make the process simple for customers to pay their suppliers, rather than the more complicated process of settling a manually generated invoice which becomes a task, which is often delayed.

Similarly, many SMBs are now automating their accounting from end to end by integrating a direct debit solution into their accounting software. This ensures that a customer’s invoice is sent from their accounting software, with the customer authorising the first and future payments only once, which can be done directly from the invoice. After that, your customer doesn’t have to take any further action.

Alternatively, payment methods can be set up at the point of engagement or contract prior to the invoice, with customer’s payments being automatically draft on the agreed date.

We have partnered with GoCardless to incorporate their technology into our Sage 50 cloud and Sage 200 cloud products to speed up payments for those using subscription-based cloud software. This partnership ensures businesses can automatically collect payment for any Sage invoice on the due date, whether recurring or ad hoc.

Using instant bank to bank transfers greatly speeds up payments to allow instant cash flow for small businesses, rather than using card payments which takes longer, such as 3-5 days, to clear.

⁷ Sage, April 2018, <https://www.sage.com/en-gb/news/press-releases/2018/04/sage-launches-new-invoicing-functionality/>

However, as well as getting paid faster, the benefits of adopting payments technology also needs to be seen in the wider context of the accounting, payments and financials ecosystem.

There is no longer the need to track transactions to see if they've cleared. E-invoice and direct debit amounts are automatically generated, processed and reconciled – eliminating human error and customer disputes.

Digital payments that are automatically reconciled into their accounting ledger also gives a business more visibility and control of their cash flow. Since those types of payments are more reliable, SMBs can better forecast what funds they will have available throughout the year, giving them the agility to adjust as needed.

The importance of digital adoption

Payments is just one aspect of the broader digitisation journey that UK SMBs need to undertake. According to independent research undertaken for Sage, just 50% of UK small businesses have adopted digital tools.⁸

Greater adoption would have a significant positive impact on the UK productivity. In addition to the payments related benefits outlined above, adopting digital tools has a significant number of wider benefits – including streamlining HR processes, access to real time information about your business, and better management and execution of new business opportunities.

Independent research shows that only 4% of small businesses have said that moving from excel / paper to digital methods of accounting did not save them time. Businesses who adopt digital accounting tools save on average 27.6 days a year by reducing their admin burden, with an average cost saving of £17,000 per annum⁹.

Therefore, when looking to create a responsible payments culture, supporting digital adoption among SMBs should be at the very heart of the Government's approach.

Existing measures to improve payment practices

Effectiveness of recently introduced measures to tackle late payment

Sage has had a 30-day payment procedure that pre-dates the Prompt Payment Code and we are also signatories and supporters of the code. We have actively encouraged FTSE companies to publicly commit to move towards 30-day payment terms for SMB suppliers.

Other measures, such as the duty to report payment practices and performance legislation, has given SMBs the opportunity to see which companies are committed to paying their suppliers on time and do business with them based on that repute.

Nevertheless, in the UK the late-payment culture is stifling productivity and growth. Research conducted for Sage, published in December 2017, showed the current value of pending invoices in the UK at £112bn. Bad debt written off by small businesses within the financial year was £60bn.

⁸ Sage & Plum Consulting, September 2017, Sweating the small stuff - the impact of the bureaucracy burden, <http://plumconsulting.co.uk/sweating-small-stuff-impact-bureaucracy-burden/>

⁹ Research conducted independently with 1398 UK small businesses for Sage & Plum analysis, <https://www.sage.com/en-gb/news/press-releases/2018/04/moving-to-digital-accounting-results-in-cost-savings/>

Existing measures are clearly not being effective and continue to have an adverse impact on SMBs in investment, paying their suppliers on time and even paying themselves.

The Small Business Commissioner has an important role in addressing this. We feel that the Commissioner would have more impact if he focused on helping small businesses to:

- Promote time saving strategies to boost efficiency during the 'payment pending' period.
- Provide specific advice on how businesses can cut the admin burden of chasing late payments.

What role could business representatives and sector bodies take in fostering a responsible payments culture?

Sage has sought to take a very proactive approach to establish a responsible payments culture and we seek to lead by example. We offer extensive free-to-use advice for all SMBs on how to get paid quicker and avoid late payment and have undertaken detailed research in this area.

The evidence we have collected indicates that late payments are driven by general business culture. When asked what the most common excuses are given by customers for payments being late, SMBs in the UK said:

- The payment has already been made and the transaction is still pending (44%)
- No reason is given (35%)
- The customer only pays invoices at certain times of the year (22%)¹⁰.

This suggests that the payer views it as unimportant if an invoice is paid late, which is a cultural issue that needs to be addressed. This is why Sage has called on FTSE companies to adopt better cultural practices, such as 30-day payment procedures, and has welcomed interventions such as the Prompt Payment Code.

On the side of the payee, as previously identified in this response, the biggest barrier to chasing late payments is a desire to protect the client relationship. We are working with SMBs to change this culture.

Firstly, the adoption of technology such as real time payment and e-invoicing helps remove the need to chase suppliers. Secondly, our extensive advice through free-to-access video tutorials, blogs and toolkits aims to empower businesses to manage cash flow¹¹; adopt the right payment terms at the outset of their client relationships and have effective processes to prompt suppliers for payment where needed.

¹⁰ Sage & Plum Consulting, December 2017, the Domino Effect: the impact of late payments <https://www.sage.com/en-gb/blog/late-payments-get-paid-faster/>

¹¹ Sage 2017, Manage your cash flow <https://www.sage.com/en-gb/blog/a-free-guide-to-managing-your-cash-flow/>

We would welcome support from the wider business and industry group community in enhancing education around responsible payment and improving the payments culture in the UK.

New measures to improve payment practices

The Government's consultation invites views on promoting innovative technologies that help speed up the payments process to be more accessible and understandable by SMEs. We would welcome further collaboration with Government in this area and believe this would have great impact in promoting a more responsible payments culture in the UK.

The adoption of digital tools to speed up payments should be seen in the wider context of improving UK productivity. The Government has recently taken several welcome steps to boost productivity, such as further funding for the National Productivity Fund in the 2018 Autumn Budget. We would recommend that funding for programmes to boost digital skills and adoption should form a greater part of the National Productivity Fund.

However, the Government's work on productivity still lacks a concerted effort to incentivise adoption of modern digital tools by SMBs. Government should consider looking at digital vouchers or enhanced capital allowances to incentivise SMEs with the uptake of this technology.

A local focus is important. Government should look to work with the private sector and industry groups to create heat maps of areas in the UK with the shortest and longest average payment times, so support can be targeted appropriately. Tailored communications such as letting businesses know the average payment time in their local area would also act to incentivise SMBs to adopt technology or seek remedies if they were receiving payment beyond their area average.

Government could also look to incorporate education of adopting payments technology within existing SMB support forums such as training programmes; Growth Hubs, local enterprise partnerships (LEPs) and local authorities.