



Beautiful business

The State of Late Payments

The effects on businesses and their owners in 2019



Foreword



*Foreword by Gary Turner,
Co-founder and Managing Director, Xero UK*

Britain has 5.7 million small businesses. They employ thousands of workers, they pay billions in tax and, together, they form the backbone of our economy.

But they face a number of persistent challenges. As Xero and PayPal's research has found – late payment is among the most severe.

The cash flow of a small business is a delicate thing: it often relies on incomings arriving at the right time, so the company has enough to cover its outgoings. It's a balance that's often upended if clients don't pay when they're supposed to pay. If an entrepreneur can't cover financial shortfalls, running a business can become too expensive to sustain.

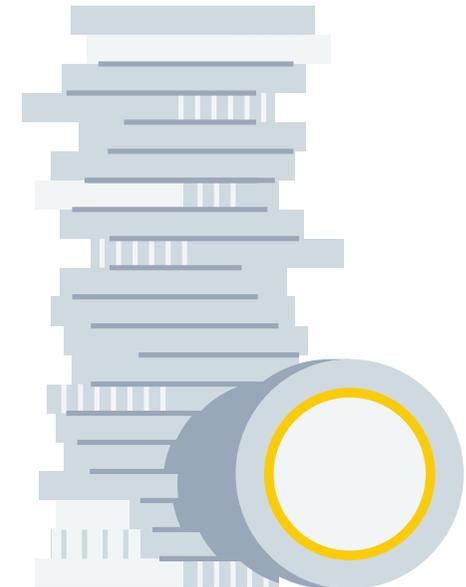
Late payments have forced many small business owners to turn to the bank of family

and friends. The compounded financial impact creates unnecessary stress and worry, affecting the wellbeing of the small business owner.

On top of that, they stop businesses from growing as they should. That's a problem for entrepreneurs, but it's also a problem for the wider UK economy.

Collaborating with PayPal on this research has been a unique opportunity to examine this problem in detail. Before we can do anything about it, we need to understand it.

And it's worth doing something about it. The UK is a great place to run a small business – and if we sort out the issue of late payments once and for all, it'll be even better. Entrepreneurs deserve nothing less.



Introduction

When talking about ‘small’ businesses, we’re really referring to ‘most’ businesses. In 2018, small businesses (SMBs) amounted for 99.3% of all private sector companies – with a combined turnover of £2.0 trillion. They employ 60% of all private sector workers in the UK.¹ When SMBs thrive, the UK economy thrives. When they struggle, we all struggle.

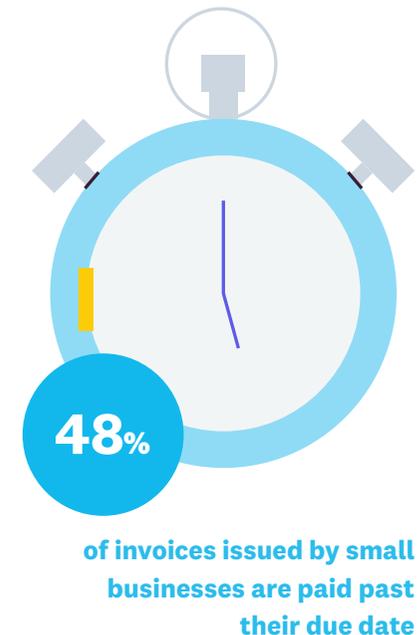
If you’re running an SMB, you’ll know that one of the greatest challenges you can face is the culture of late payments – where customers don’t meet the agreed payment terms of their contract. There’s a knock-on negative impact on a small business’ finances when payments are made late, including its ability to pay staff and bills. When invoices aren’t paid on time, it’s not just an inconvenience, but a threat to an SMB’s survival.

Late payments are not a new phenomenon. The UK government has already taken certain measures to try and tackle the problem. The Small Business Commissioner’s intention to launch a ‘traffic light’ warning system and call for evidence into the issue has been a welcome development but, ultimately, the issue still remains.

To get a better understanding of the extent of this issue, we spoke to a number of small businesses in the UK.² Through our research,³ we found that:

- In an average month 48% of invoices issued by small businesses are paid past their due date
- On average these overdue invoices are paid 14 days late

This means that on any given day in February 2019, the average UK small business was owed £23,360 in late payments, a 17% increase from the same calculations made in February 2018.



¹Source: <https://www.fsb.org.uk/media-centre/small-business-statistics>.

²Small Businesses defined for the purposes of this research as a UK business that has less than 50 employees. All small businesses that responded to this survey invoice at least 50% of their payments online.

³Unless otherwise specified, all research comes from late payments research conducted in partnership with Loudhouse and Xero Small Business Insights data.



44%
 said that late payments were having a negative effect on their mental health

This means that:

- **SMB owners or managers are spending two working weeks a year chasing late payments.** That's a loss of valuable time that could be spent winning new customers, adopting the latest technology or, importantly, spending time with family and friends.
- **The SMB economy could be hit with an average deficit of £131 billion.⁴** This equates to each SMB being owed £23,360 at any one time as a result of late payments – money that could fund a new website design with a year's worth of web support, the salary of a new employee, or a new company car.
- **Entrepreneurs are struggling with their personal wellbeing.** Some 44% said that late payments were having a negative effect on their mental health, while a further 43% have been awake at night worrying about their business' cash flow.

When you're not paid what you're owed, you lose the ability to choose how you spend your revenue. And it goes beyond your individual business. When you're paid late, it can cause a domino effect: if you don't get the money you're entitled to, you often won't be able to pay business partners or suppliers in turn. This damages relationships, incurs late fees, and creates a knock-on impact that can disrupt an entire supply chain.

At Xero and PayPal, we want to help small businesses succeed. This is why, together, we've developed the PayPal-powered 'Pay Now' button on Xero invoices to help small businesses like yours get paid on time.

Xero and PayPal spoke to 500 SMBs about the impact of late payments, and took an in-depth look at insights from the hundreds of thousands of companies just like yours. The results are illustrated below, along with guidance on how those running small businesses can continue to reduce the impact of late payments.

⁴ Calculated by multiplying the average amount a small business was owed in late payments on any one day on February 2019 (£23,360) by 5.6 million, that most recent figure for the number of SMBs in the UK according to the Federation of Small Businesses.

Section One: How late payments impact the bottom line

Not getting paid on time has a major impact on business output. One unpaid invoice might seem like an inconvenience, but when a number of unpaid invoices are added up, they can have a devastating impact on your business' productivity. If your invoices are processed manually, and therefore chased manually, it's even worse.

Here are just a few of the major challenges businesses like yours face when confronted with late payments:

Maintaining Cash Flow

Businesses often struggle to keep on top of cash flow. Late payments can compound the difficulty of controlling incomings and outgoings. From our research we know that 50,000 businesses fail each year due to cash flow issues. And almost a third (28%) of Britain's SMBs consider cash flow a key challenge. Statistics from Xero's Small Business Insights platform also show that only half (49%) of SMBs were cash flow positive in any given month in 2018.

Stifled Ambitions

If you can't access the money you're owed, you can't invest in growing your company – but, if you're empowered to develop, you – and the whole economy – will benefit.

We asked SMB owners to imagine a world where everyone gets paid on time to demonstrate how late payments hold prosperity back. We found that:

- **More than a quarter (27%) of business owners said they'd be in a better position to grow.** It's much easier to plan for expansion when you know you'll have the money to pay for it.
- **28% said they would feel more confident in their decisions.** It's hard to take a risk or make a leap when you don't have a safety net.
- **Almost a third (29%) said they would be more productive if they weren't worried about cash flow.** Worrying about money can have serious effects on your motivation and focus.



For small businesses looking to grow, time and money are paramount. Late payments sap both and prevent a business owner from investing in the technology, staff or stock needed to sustain their business. That's why we have been working closely with Xero to try and find solutions to help businesses get paid faster."



Nicola Longfield
Director of Small and
Medium Business | PayPal UK

The Ripple Effect

A single unpaid invoice can set off a chain reaction that leads to delays, instability, and negative financial consequences for entire supply chains and the wider economy. The Federation of Small Businesses (FSB) suggests that tackling late payments could add a potential £2.5 billion to the national economy.⁵

Almost half (48%) of small business invoices are paid late, meaning over a quarter (26%) of businesses struggle to pay their own suppliers as a result.

According to statistics from Xero's Small Business Insights, over a quarter (26%) of small businesses pay their suppliers late in any given month and, on average, they pay supplier invoices six days late. The data shows that small businesses owed their suppliers an average of £8,811 in overdue bills in December 2018,⁶ a debt of over £50 billion across the small business economy.

There have been steps in the right direction, but more needs to be done if we are to effect real change for small businesses like yours. The Small Business Commissioner launched a [calculator](#) to work out how much interest to

charge on an unpaid invoice. Entering figures from our research indicates that, on average, SMBs are owed as much as £1,214.95 each in interest.

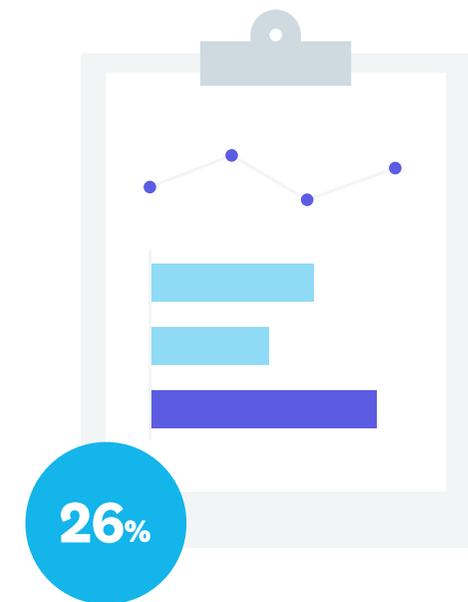
Vicky Pryce, Economist, comments: "Much of the economy's productivity and growth depends on small businesses functioning in a healthy finance environment – after all, they account for more than half of the UK's private sector employment.

"Unfortunately, the current climate of continued uncertainty, tighter margins and a shaking out of supply chains means late payments add to the burden of costs incurred by small firms.

"Overall, late payments tend to shift the balance in favour of larger firms, either because they benefit from paying late or can better withstand the working capital pressures if they are paid late. Small businesses rarely, if ever, have that luxury."

⁵ Source: <https://www.fsb.org.uk/standing-up-for-you/policy-issues/finance-and-the-economy/late-payment>

⁶ Data drawn from the hundreds of thousands of businesses using the Xero platform in December 2018



26%
of small businesses pay their suppliers late in any given month



For more tips on getting paid on time, take a look at Xero's [guide](#) on securing invoice payment terms.

On the evidence, negative cash flow and late payments are holding businesses like yours back. But, with the right strategies, support and technologies, we can move towards a world in which late payments are a thing of the past.

Solutions

Here are the actions needed to make sure you get paid on time:

- **Negotiate shorter payment terms.** With a long payment window, there's more chance that an invoice will get lost. It's best to have these discussions and confirm payment terms as part of the initial agreement. Build a good relationship with customers and suppliers, be vigilant in chasing payments and make it easy for people to pay.
- **Overcome politeness.** Asking for money is awkward at the best of times. Don't be afraid to ask for what you're owed. When an invoice is overdue, send a reminder or make a phone call straight away. An accountant can often help you with these uncomfortable conversations.
- **Adopt the right technology.** If you're really uncomfortable asking for what you're owed, let technology help. Xero automates the process of chasing invoices, so you can track cash flow and invoice payments in real time.
- **Take advantage of PayPal's 'Pay Now' functionality.** When using Xero and PayPal, you can use the 'Pay Now' button to get paid up to 21 days sooner.

Section Two: The impact on wellbeing

Late payments don't just affect the financial health of a business – they can have a harmful effect on your personal wellbeing as a small business owner.

The Human Cost of Late Payments

Personal wellbeing is as essential to running a business as managing cash flow. Theresa May's *Thriving at Work Review* revealed that poor mental health costs the economy up to £99 billion every year. Our own research indicates that:

- **52% of small business owners have used their own money – or that of their friends and family – to keep their business going.** Late payments don't just damage your business finances; they can compromise your personal finances and relationships.

- **More than two fifths (44%) say that late payments have affected their mental health.** Worrying about late payments isn't just worrying about money troubles. As previously mentioned, 45% of business owners feel they've failed their company when they're cash flow negative.
- **43% say they have had sleepless nights worrying about their business' cash flow.** You have strategies to develop and employees to motivate. It's hard to do that when you're also suffering from sleep deprivation.

The consequences of poor wellbeing are very real: 37% of entrepreneurs have considered giving up their businesses entirely because of cash flow issues over the last 12 months. Losing this percentage of SMBs would have a devastating effect on the UK economy.

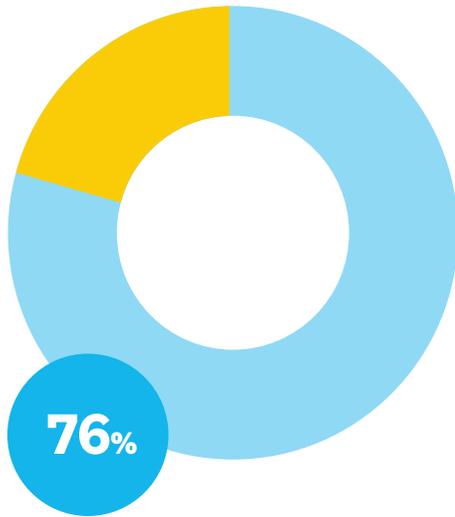
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Small business owners are brave enough running their own businesses and shouldn't be subjected to feelings of failure or sleepless nights as a result of not being paid on time.”



Donna Torres

Director of SMB & Commercial Operations, UK & EMEA | Xero



of entrepreneurs agree that having a business would feel more 'worth it' if cash flow wasn't an issue

Payments as a pillar of wellbeing

Getting paid on time can have a dramatic effect on your happiness.

When asked how they would feel if cash flow was no longer an issue, business owners revealed that:

- More than three quarters (76%) of entrepreneurs agree that having a business would feel more 'worth it'
- Almost as many (73%) would feel more optimistic about their business
- 26% say they would enjoy better physical health
- More than one fifth (21%) would spend more time on their interests and hobbies

Tackling late payments isn't just about making sure you get your money on time. It's about making sure your operations and personnel function as they should.

It's often assumed that you should pour all of yourself into your business. But, when doing so comes at the expense of your wellbeing, you can suffer negative consequences. In fact, 44% of

SMB owners said that their mental health had been impacted as a result of late payments.

Platforms like **Unmind**, a proactive mental wellbeing app, are doing a great deal to promote workplace wellbeing and tackle the stigma surrounding mental health in the workplace.



The brain is the most complex part of the body, yet we often don't give it the full care and attention it deserves. There's a stigma around how we discuss mental health. But mental health is a spectrum. Most small business owners will find themselves at different points along that spectrum at different times in their lives, depending on various factors such as stress, genetic predisposition and diet. This is why nourishing our brains is so important."



Dr Nick Taylor

CEO at Unmind, who designed his platform to encourage health and happiness in the workplace.

Conclusion

Just because late payments are currently commonplace doesn't mean they're acceptable.

It's everyone's responsibility to ensure that invoices are paid promptly and in full. The government must continue its work to provide appropriate incentives to pay on time – and disincentives to pay late. Clients and customers must examine their internal processes to identify the causes of late payments.

But, if you're a small business owner, you also need to make sure you've got the right processes in place.

By adopting the right systems and technologies you can reduce your payment backlog, then work towards ensuring that you're paid on time in the future. By using accounting software such as Xero, bolstered by PayPal's 'Pay Now' functionality, you can more easily manage any invoices due and get paid faster.



Background

About the research:

Research carried out by Loudhouse in 2019, based on the responses of 532 online interviews with owners and managers of small businesses who invoice at least 50% of their payments online.

About Xero:

Born in the cloud, Xero is a beautiful, easy-to-use platform for small businesses and their advisors. The company has 1.6 million subscribers in over 180 countries and a thriving ecosystem seamlessly integrating with 700+ apps. On the inaugural 2018 Financial Times FT1000 High-Growth Companies Asia Pacific list, Xero was the fastest growing tech company in the \$200 million+ segment. Xero won two categories at the 2018 Small Business Awards in South Africa, including the Top 20 Award and the National Innovation Award.

About Xero Small Business Insights:

Xero Small Business Insights is a snapshot of the health of Xero's UK small businesses, updated monthly. Its metrics are based on anonymised,

aggregated data selected from hundreds of thousands of UK subscribers using Xero across five key pillars — cash flow, hiring people, getting paid, trading overseas and cloud adoption. The result is a picture of business conditions that's more comprehensive than surveys and more timely than key government data, to help industry bodies, governments – and small businesses themselves – make better decisions.

About PayPal:

Fuelled by a fundamental belief that having access to financial services creates opportunity, PayPal is committed to democratising financial services and empowering people and businesses to join and thrive in the global economy. Our open digital payments platform gives PayPal's 277 million active account holders the confidence to connect and transact in new and powerful ways – whether they are online, on a mobile device, in an app, or in person. Through a combination of technological innovation and strategic partnerships, PayPal creates better ways to manage and move money, and offers choice and flexibility when sending payments or getting paid. Available in more than

200 markets around the world, the PayPal platform, including Braintree, Venmo, Xoom and iZettle, enables consumers and merchants to receive money in more than 100 currencies, withdraw funds in 56 currencies and hold balances in their PayPal accounts in 25 currencies.

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