

eBook

Understanding the impact of Late Payments on Buyers and Suppliers



A B2B world in crisis

“ We’ve all been there, waiting weeks or even months on end for your friend to transfer you the money they owe you. It is not just incredibly frustrating, but can limit the cash you have available to spend elsewhere. It might be critical to whether you holiday in the Maldives or Margate, which is in the UK for those unfamiliar.

Now imagine this experience but on a much (MUCH) larger scale.

B2B payments, unlike their consumer counterparts, are often worth hundreds of thousands, or even many millions. Unlike when a friend owes you money, late payments can mean entire supply chains, businesses and livelihoods are at stake.

In the European Union (EU) Payment Observatory’s first annual report, which presents a comprehensive analysis of behavioural payment trends in commercial transactions, analysis found that:

The share of enterprises that indicated they are facing issues because of late payments is **increasing**.

The average payment period in B2B transactions has **increased** from **49** to **55** days.

The **larger** a company is, the **less likely** it is to make payments **on time**. Governments typically pay **even later** than businesses.

Despite the effort of governments and industry bodies, the problem of late payment is currently larger than ever. In the current economic climate and amid widespread inflation, the issue is quickly moving from a hindrance to a crisis, threatening the sustainability of businesses around the globe.

The sad thing is that it is entirely avoidable.

After all, we’re not in an analogue world anymore; digital payments are rapidly becoming the norm. There simply is no excuse today for failing to abide by good, prompt payment practices.

In this eBook, we’ll look at how we ended up here, how technology and regulation are changing things, and explain how – no matter your role as buyer or supplier – you can halt late payment behaviours and establish the strong supply chain relationships that businesses need to flourish.

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Pat Bermingham, CEO and Head of Product, Adflex

How did we end up here?

As a consumer, buying products or services is usually familiar and simple. But in business payments, smooth user experiences are often secondary to lengthy, complex processes. A lack of investment in payment infrastructure means many businesses still employ outdated invoicing solutions.

This means that buyers must allocate extra resources to Accounts Payable (AP) just to make a purchase. Those receiving payments (Accounts Receivable) are often made to endure lengthy waits for invoices.

Legacy B2B payment practises have created an environment in which B2B payments are complex, manual and time-consuming. The primary, and most concerning, symptom of this is late payments.

Instead of addressing these complexities through innovative B2B payment solutions, legacy invoicing persists. The resulting system is one that is hugely detrimental to the vital cashflow that keeps businesses functioning.



Under the microscope:

Did the UK sleepwalk into the current crisis?

The UK provides an ideal example of how deeply engrained poor payment practices have become, and how severe the effects can be for individuals, businesses and national economies. All attempts by the UK government to address poor payment practises to date have proven largely ineffective.

At the end of 2023, [research from Natwest](#) found that:

- 1 27% of UK SMEs were owed between £5,000 and £20,000 in unpaid invoices.
- 2 Over half (55%) of SMEs said that late payments have increased over the course of 2023.
- 3 31% of businesses admitted to spending between 21-30 hours per month chasing customers.

More recently, according to [2024 research](#), payments to small businesses in the UK were made 7.3 days late, on average, during the second quarter of the year. This was an increase of 1.8 days compared to Q1, and represents the largest quarterly increase for four years. Things are moving in the wrong direction, and it needs to be arrested.

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The UK is almost unique in being a place where it is acceptable to pay small businesses late, and that will remain the case without further action.

Tina McKenzie, Policy and Advocacy Chair, FSB

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Under the microscope: Did the UK sleepwalk into the current crisis?

What are the effects of this?

Research from the **Federation of Small Businesses** (FSB) found that 50,000 businesses are closing each year in the UK as a direct result of payments not being made on time.

Business closures are obviously a bad thing and can affect more than just those employed by the company.

Take the example of Birmingham-based construction outsourcing giant, Carillion. In 2018, it collapsed under £7 billion worth of debt, in part due to poor payment practices. Prolonged delays in receiving payments exacerbated Carillion's already precarious financial situation, which led to cashflow shortages and increased dependency on borrowing. This was intensified by disputes over payment terms and contract variations with clients.

At the time of the collapse, Carillion was the second largest contractor in the UK, employing **43,000 people globally – 18,000 of whom were based in the UK**. It was involved in **450 public-sector contracts**, including with hospitals, schools and prisons. All of these projects were plunged into crisis.

The collapse was the largest corporate failure to ever be dealt with by the Official Receiver in the UK. Resulting taxation to address the crisis that emerged ended up costing UK taxpayers more than £150 million and it is **estimated** that the collapse of Carillion impacted 75,000 people globally.

Its story highlights how late payments have destroyed, and continue to impact, the businesses and livelihoods of hundreds of thousands of citizens in the UK alone.



What is the UK government doing to combat late payments?

Like many European countries, the UK has attempted (and continues to attempt) to address poor payment practises through regulation, legislation and voluntary initiatives:

1998 >

Late Payment of Commercial Debts (Interest) Act

The 1998 Act stated that if a purchaser in a B2B contract pays all, or part of, the contract price late, the supplier is entitled to interest on the debt. Parties may only contract out of this right to statutory interest if the contract otherwise gives the supplier a "substantial remedy" for late payment of the debt.

2008 >

Prompt Payment Code

The Prompt Payment Code (PPC) is a voluntary code of practice, administered by the Office of the Small Business Commissioner (OSBC), on behalf of Department for Business and Trade (DBT). It set standards for good payment practices between UK-based organisations and their suppliers.

The initial code outlined three core principles:

1. Buyers should pay suppliers on time, within agreed terms.
2. Buyers should give clear guidance to suppliers on terms, dispute resolution and prompt notification of late payment.
3. Buyers should support good practice throughout their supply chain by encouraging adoption of the Prompt Payment Code.

The code initially received a positive response from the market and despite remaining a voluntary initiative, over 4,000 UK businesses from a variety of industries are signed up today, including the likes of IBM, Microsoft and Virgin Media. This is good, but it's not enough.

2013 >

European Union Directive 2011/7

The EU Directive on commercial late payments (Directive 2011/7) provided updates to the 1998 UK government Act. All EU member states (UK included) were obliged to implement the Directive into national law. In summary, the Directive instructed that:

- B2B payment terms must not exceed 60 calendar days. Parties may, however, agree a different payment period, provided this is not "grossly unfair" to the supplier.
- For public sector payment terms, the payment period must not exceed 30 calendar days following receipt by the purchaser of the invoice.
- The maximum duration of a procedure of acceptance or verification must not exceed, as a general rule, 30 calendar days.

Despite leaving the EU, the UK maintained this Directive post-Brexit.

What is the UK government doing to combat late payments? (cont.)

2021 > Prompt Payment Code overhaul

Reforms to the Prompt Payment Code in 2021

introduced a new set of payment standards, the most important of which was “the 95% rule”. This required that:

- 1 95% of invoices must be paid within agreed terms.
- 2 95% of invoices must be paid within 60 days.
- 3 95% of invoices must be paid within 30 days for small businesses with less than 50 employees.

2021 > Procurement Policy Note 08/21

Later in 2021, the **Procurement Policy Note 08/21** specifically addressed payment practices for government contracts worth £5 million or more.

The policy note increased the prompt payment threshold for those bidding for government contracts. Previously, the threshold had stated that at least 85% of all supply chain invoices must be paid within 60 days. The new threshold increased the percentage to 95%.

The policy effectively made it more difficult for companies to bid for government contracts without a proven track record of paying promptly.

2023 > The Procurement Act

The Procurement Act 2023 aims to avoid unfairly penalising businesses that lack the resources of larger suppliers, making it easier for suppliers of all sizes to do business with the public sector. In simple terms, the Act aims to ensure that public sector contract payments of £30,000 or more are always made promptly.

More widely, the Procurement Act 2023 also removes five existing procurement procedures and replaces them with three simpler options: direct awards of contracts; single-stage competitive tendering processes, with no restrictions on who can submit for them; and other competitive tender processes that contracting authorities deem appropriate.

What is the UK government doing to combat late payments? (cont.)

2024 > Fair Payment Code

The Labour government, elected in summer 2024, announced plans to replace the Prompt Payment Code with the Fair Payment Code. The updated code aims to address the shortcomings of the PPC.

The new Code aims to reward businesses for adopting fair payment practices for suppliers of all sizes, but small suppliers in particular. It also includes a set of fair payment principles that companies are required to sign up to, as well as three award categories:

- 1 Gold – for companies paying 95% of their suppliers within 30 days
- 2 Silver – for companies paying 95% of their small business suppliers within 30 days and all other suppliers within 60 days.
- 3 Bronze – for companies paying 95% of suppliers within 60 days.

It's clear that UK governments have long recognised the scale of the problem, as seen by the numerous attempts to address the issue, most recently this year with the Fair Payment Code. While it is too early to assess the effectiveness of the government's latest attempt to combat late payments, it is clear the issue persists and remains a key concern for politicians, businesses and the public alike.

So why have attempts by various governments thus far failed to address the issue? Some argue this is because regulation needs to be stricter, scrapping voluntary for compulsory, with high levels of accountability.

What many businesses don't realise is that there are things they can do today to encourage and ensure prompt and fair payment practises as standard. These strategies not only help businesses to comply with current and upcoming regulations, but help them excel and grow trusted business relationships built on faster B2B payments.



Digital B2B payments might be simpler than you think

As we explored at the outset, the world of B2C payments has undergone rapid and all-encompassing change in the last 10-15 years. Designed with user experience and convenience front of mind, digital payment methods dominate the B2C landscape today, and many would agree that this change has been for the better.

B2B payments, on the other hand, were much slower to jump onto the digitisation bandwagon. But this is changing. The ecosystem has witnessed great innovation in recent years, which is now transforming how businesses can make payments.

The same principles that underpinned the digitisation of B2C payments are prevalent in the B2B world. Reducing complexities and enhancing convenience and speed are slowly but surely improving the B2B payment user experience, and reducing late payments as a result. This may seem simplistic, but a lot of investment and innovation is enabling new tools that facilitate these opportunities.

Virtual commercial cards

B2B commercial card technology has been around for years, as the B2B equivalent of the B2C credit card. Employers issue physical cards for employees to use when purchasing on behalf of their company.

Through using a commercial card, buyers can extend working capital through lines of credit, in many cases for up to 90- 120 days. This enables a buyer to pay their supplier faster, while enjoying extended terms with their bank.

These commercial cards have since been digitised with the introduction of virtual cards. A virtual card is a card number which is generated for a specific purpose, whether that's a one-time transaction, an allocation to a specific employee or department within a company, or to assign a limited budget or time period for its use.

While enjoying the same benefits offered by the commercial card, virtual cards also offer enhanced automation opportunities that can enable businesses reduce their costs. Mastercard estimates that businesses can save potentially between \$0.50 and \$14 per transaction through using virtual card technology.

It's no wonder that it is predicted the number of virtual card transactions will exceed 121 billion globally by 2027, representing growth of 340% from 2022.

Change the game with straight-through processing

Straight-through processing (STP) has changed the B2B payments game.

Five years ago, accounts payable (AP) teams would typically call the supplier, lodge a card or issue a virtual card by email, and the supplier would then process the transaction via their payment gateway. This wasn't efficient, and huge delays could be incurred by businesses using this approach.

STP has since flipped the B2B payments process on its head.

With STP, the buyer initiates the payment, not the supplier. The buyer simply sends the payment direct to the supplier via a payment processor, like Adflex. The instruction from the buyer can be file-driven and submitted via the payment platform, automated through API integration, or sent via email.

All three methods work in line with existing card programmes and various enterprise ERP systems such as SAP or NetSuite.

STP helps enable a more equitable balance between buyer and supplier, removing the need for additional processes on the supplier's side, which have long been a barrier to them accepting card payments.

Using STP, buyers can fully automate payments, gain greater control over cash flow, and improve supplier relationships through prompt payments. By using STP, accounts receivable (AR) teams can also automate reporting processes, saving time and resource that would usually be spent here. In addition, STP reduces PCI DSS scope by automating manual processes.

STP significantly enhances the ability to encourage and offer faster B2B payments. It does this while simultaneously improving the B2B payment experience, making it simpler to make payments.

If all businesses used STP, then late payments could be made a relic of the analogue age.



Why there is room for optimism

These technologies have helped B2B payments catch up with B2C counterparts. Such digital solutions offer improved working capital, enhanced speed and convenience, reduced complexities and lower costs for all stakeholders in the B2B payment process.

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“With the support of Adflex, we recently launched HSS ProService Marketplace – a single platform for hiring and buying equipment, building materials, fuels and more, with over 550 sellers and 50,000 products.

For this landmark project to work, it was critical that every aspect of the user experience worked seamlessly and without friction. Naturally, the payment experience was fundamental to this.

With many of our customers working in the construction industry, we’re very aware of the ongoing challenges many face with late payments. By incorporating Adflex’s commercial card offering into our platform, we can bring certainty, speed and convenience to business payments, revolutionising the way businesses buy and hire. Among other benefits, our payment offering has encouraged and enabled customers to pay faster, with minimum fuss.”

John Osborne, Chief Product Officer, HSS ProService, part of HSS Hire – the market leader in equipment hire in the UK

The problem of late payments is a collective one. Therefore, the solution requires collective action. Buyers and suppliers must work together to communicate and deliver the benefits of faster, digital reconciliation to their organisations to catalyse a shift in which digital becomes the new norm.

In a world where digital payments are becoming the norm, there really is no excuse for failing to pay promptly. In the end, those that do so will reap the benefits of closer relationships throughout the supply chain. Those that fail to do so risk partner relationships and brand reputation, as initiatives like the Good Business Pays **‘Late & Slow Watchlist’** seek to name and shame serial late payment offenders.

If this isn’t enough motivation to make the switch to digital, it’s hard to comprehend what would be.



Work with Adflex to future-proof your business

Adflex has been at the heart of the B2B fintech revolution from the beginning.

We are known for fostering innovation and helping companies harness the power of digital payments. Our technology and expertise bring together buyers and suppliers to make transactions fast, cost-effective and straightforward to manage. We take the pain out of the supply chain by delivering seamless and secure payment integration that adds value to both buyers and merchants.

Businesses, large and small, trust Adflex's efficient automated payment flows to manage and facilitate B2B transactions and grow their bottom line.

Adflex is the trusted B2B payment partner of some of the world's leading financial institutions, including Barclaycard, Bank of America, HSBC, Visa and Mastercard.

The Adflex commercial team are experts in issuing, acquiring and gateway solutions services for enterprise buyers and merchants. As a result, we can implement digital payment solutions / gateways in a matter of hours, not days or weeks.

Get in touch with one of our experts today to find out how you can be part of the late payment solution whilst simultaneously future proofing your business in the digital revolution.



The logo features the word "adflex" in a large, bold, lowercase sans-serif font. To the right of "adflex", the words "Digital Payments" are written in a smaller, uppercase sans-serif font.

Want to learn more?

Check out our [Content Hub](#) for regular blogs, podcasts, case studies and eBooks that help you understand how the B2B payment world is transforming, and how you can avoid missing out.

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