



## Accelerating payments to UK SMEs Meeting the 10 day payment commitment



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# Background : the late payment problem

## Introduction

- The current turmoil in the global economy creates challenges for businesses and Government.
- Latest UK figures show that Small and Medium-Sized Enterprises (SMEs) constitute 99.9% of businesses, employing 59% of the private sector workforce and making up 52% of business turnover.
- A critical issue for SMEs is cash-flow and liquidity. SMEs across the UK now face an £18.6 Billion late payment problem – an increase of £2.6 Billion from 2007<sup>1</sup>.

## The Late Payment Landscape

The administrative costs associated with expediting late payments for SMEs are high :

- An average SME in the UK spends 2.5 hours a week chasing late payment
- SMEs across the UK, on average, lose 17 working days a year to this onerous task
- UK SMEs are owed an average of £30,000

The UK late payment map highlights regional differences. Greater London fares far worse than counterparts in other areas spending on average 38 days a year chasing up late payments

The scale of the problem is still growing

## The picture today

UK businesses are increasingly having to go to banks to buy their invoices at significant discounts in order to improve short-term cash-flow. Figures from the Asset Based Financial Association show that advances made to businesses by banks in return for invoices for the four months to the end of September 2008 totalled £17.6 Billion, a 15% increase compared with the same time last year.



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The Federation of Small Business (FSB) and the Confederation of British Industry (CBI) have firm views on the prevailing economic conditions and prompt payment. John Wright the National Chairman of the Federation of Small Business reported in First Voice, January 2009:

*“Nearly half of FSB members said they have seen an increase in payment times from invoicing to full payment over the past two months, while a further one in three has seen a hike in costs of existing and new finance”.*

The CBI fully endorse the UK Government’s new commitment to ensure that all public agencies pay suppliers within 10 days, and ask that a similar commitment is forthcoming from publicly funded bodies and local authorities. This builds on the principles which underpin the widely adopted “CBI Prompt Payment Code”.

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## Invapay is the solution of choice to accelerate prompt payment, cash-flow and liquidity for UK SMEs

Liquidity is a major issue. The major reason for the failures of UK SMEs is cash-flow. Invapay acts as an “Aggregator Merchant” on behalf of Invapay vendors and settles to merchants via BACS / Wire / ACH.

Invapay:

- provide a simple way to order from and pay suppliers on time
- improves cash-flow and liquidity and reduces the administrative costs of chasing late payments.
- addresses One-Time Only Vendors in a frictionless with instant, real-time vendor set up.
- provides level 3 line item and VAT detail for all transactions
- drives PO compliance
- removes paper
- reduces the administrative burden on buyers and suppliers



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## The UK Public Sector: major drivers / enablers.

On 8 October 2008, The Prime Minister, Gordon Brown said:

*“The Government can ease the situation, and we will help cash-flow through prompt payment. In the current climate, we need to go further, with a harder target. We will aim to make payments in 10 days.”*

On 17 December 2008, The Secretary of State for Business, Peter Mandelson, stated:

*“Businesses tell us they need cash flow. That’s why central government has committed to pay businesses within 10 days – and we’re urgently speaking to the larger public sector to extend this commitment. We want everyone in the supply chain to pay their bills more quickly”*

In response to the funding crisis, the Minister for Competitiveness and Small Business, Baroness Shriti Vadera, pledged to help to restore lending to small firms and to make government departments, local authorities and the NHS pay small suppliers promptly. Vadera commented, 23 October 2008,

*“For small firms the most important things are credit and cash flow. That’s why we are trying to improve prompt payment and we are in discussions with local authorities and NHS to see that they do that too.”*

In Transforming Government Procurement, January 2007, John Healey, MP Financial Secretary to the Treasury wrote:

*“Procurement Cards provide an efficient means to conduct low value transactions quickly and consolidate large numbers of invoices into a single, monthly invoice, removing process costs”*



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## A “WIN-WIN” Scenario though applying Invapay’s innovative solutions to the UK Public Sector

- Invapay can assist the UK Public Sector to become more innovative and pay SMEs in 3 to 4 days reducing significant administrative costs, process costs and improve cash-flow.
- Vendor ‘onboarding’ or supplier adoption is handled in a fraction of the time of normal merchant acquisition.
- Control and compliance can be assured through Invapay.
- The significant high costs of setting suppliers up on ERPs for a one-time only purchase are eliminated.
- With payment being the fuel of the UK economy, Invapay is an engine which will assist and accelerate economic growth.

<sup>1</sup> Independent research conducted by Continental Research



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