June 2023

GOOD BUSINESS PAYS

Who Cares?

Can late payment culture be an alarm signal of wider problems in a business?

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Foreword

By Jon Geldart, Director-General, The Institute of Directors

The time taken to pay an invoice matters. Not only does it have implications for the cashflow of the company that is supplying the goods or services, but also - as this excellent piece of analysis from Good Business Pays lays out - it can also serve as an early warning indicator of the financial health of the paying company itself. Increasingly, the way a firm treats their suppliers also matters to its retail customers, who use it to make judgements about the internal values and culture of the paying organisation.

For all these reasons the government was right to introduce a mechanism in 2017 to put the payment practices of larger firms into the public domain. This visibility is essential, not just for suppliers but for a firm's wider stakeholders including investors and customers. But regrettably the system is not yet providing the impetus for change in the way that was anticipated.

To start with, the service has low traction: less than ten per cent of SMEs have used it according to our own polling. But for those who are aware of it, there are then additional barriers: it is cumbersome to extract meaningful data, many suppliers do not want to be the ones confronting their clients about their payment record, and unfortunately the government has not invested in enforcement activity to ensure the list is complete.

The Institute of Directors has an interest in making this system work. Our membership is predominantly made up of leaders running small and medium-sized organisations who stand to benefit if their larger customers adopt prompt payment policies. When asked, our members overwhelmingly agree the existence of the service is a good idea and should be continued.

To address the weaknesses in the current system, the Institute of Directors has therefore put forward a ten-point plan designed to improve the accessibility and quality of payments reporting data. Crucially, we also want to increase the incentive for businesses to pay faster, not just because they want to do the right thing by their suppliers but also because of the impact it has on their wider corporate reputation.

Key to this is our proposal that government should publish twice-yearly rankings, by organisation, of the average time taken to pay invoices, and these lists should be instantly visible on the gov.uk website, without requiring any downloading, filtering or analysis. They should also be actively released to the media to raise awareness of the service and spur change by slower payers. And public sector organisations should be within scope of the regulations too: government should lead by example and be seen to do so.

Until this happens, we continue to rely on the work of Good Business Pays to interpret the data for us. This report is a commendable example of how that can be done.

IoD

Jon Geldart
Director-General
The Institute of Directors

Foreword

by Craig Beaumont, Chief of External Affairs, Federation of Small Business

Having stabilised the economy after COVID and the energy crisis, we are all on the hunt for measures that will achieve economic growth.

Some call for bringing back an Industrial Strategy document as the answer; but the only growth in the last one was in its length – it became an unwieldy 256-page, 61,000-word tome of existing policy statements – but one that didn't even include the term 'late payments'.

We should not make the same mistake, again. The time for proper late payments reform should come, this year, with the Government consulting and the Opposition already adopting late payment policies with an eye on the 2024 General Election – this is the single easiest measure for the current or next Government to make the economy more efficient, improve productivity and put rockets on growth. FSB research demonstrates that late payments hold back huge swathes of the UK small business community. In any given quarter of 2022, over half of small businesses were affected by late payments; 37% applied for credit because of cashflow disruption caused by late payment. Achieving similar payment terms to competitor economies around the world would save 50,000 UK small businesses from shutting down each year and at a stroke add £2.5bn to the economy.

In amongst an endemic poor payment culture, we have always suspected that worsening payment performance was an indicator of a large company in trouble - trying to hold onto money and effectively enjoying free credit from small business suppliers to help its balance sheet. In July 2017, we wrote to the British construction and facilities multinational Carillion, to express concern that our members were reporting delays in payments of nearly 130 days – from one of the Government's Strategic Suppliers who were getting paid by Departments in just 5 days. Despite denials, in January 2018 the company famously collapsed through compulsory liquidation – the most drastic insolvency procedure in UK law – as its cash position became untenable. In the Parliamentary inquiry that followed, poor payments were confirmed as many small firms remained unpaid.

As the founder member of Good Business Pays, FSB is therefore really pleased to see this report. It uses data unavailable at the time of Carillion to explore this idea properly for the first time. This is an important light to cast; if by tracking payments data Good Business Pays can then spot major companies likely to be in serious trouble, this can lead to extra vital information that empowers different groups:

1) For Non-Executive Directors and the Audit Committee to probe their company at Board level – removing sole sight of payment practices from a Financial Director or CFO trying to shore up the firm's balance sheet without thought for small suppliers;
2) For investors in that company to start asking questions of the Board and Executive Team;
3) For the company's existing small business suppliers to make sure they get paid before it's too late, and to take a view on future work;
4) For potential small business suppliers to be aware, before signing new contracts and work; and
5) For stakeholders – Government, Parliament, regulators, and organisations such as FSB to see the alarm raised and help push the company back towards acceptable payment terms and ultimately survival.

This type of new thinking on late payments sits well alongside FSB's proposed reforms to strengthen Audit Committees, changing our payment culture and turbo-charging the economic growth we all want to see.

fsb

Craig Beaumont
Chief of External Affairs
Federation of Small Businesses

Why should Investors & Directors care about late payment?

In this report, we make the case for more transparency and better reporting of the payment performance amongst UK companies.

In January 2023, the UK Government commenced an open consultation on the 2017 Payment Practices and Performance Regulations. This followed the Government's statutory review of the Regulations, which concluded that "While the Regulations have brought greater transparency to the payment practices and performance of large businesses, the policy remains relevant and there is an ongoing need to ensure greater compliance in terms of prompt payment and to increase awareness of the performance of large businesses in this area."

This consultation provides an opportunity to consult on other potential amendments and improvements to the regulations, including on whether referencing payment performance should be formally included in a company's directors' report. In this report, Good Business Pays makes the case that the current approach to payment practices reporting is not providing enough accuracy or transparency to those that govern and invest in companies. Whether the regulations change or not, the evidence presented here suggests that the Board, Non-Executive Directors and Investors should have more visibility over their company's payment performance. We believe the figures provide a warning light on the dashboard of the financial health of a company and the way it is being run. But in most cases, continuing the analogy, the warning light is not on the dashboard, or it's faulty.

"THIS ALARMING STATISTIC PROVIDES THE FIRST REASON WHICH NEDs AND INVESTORS SHOULD CARE ABOUT PAYMENT PERFORMANCE."

Good Business Pays was formed as a Community Interest Company, with the aim to bring an end to slow and late payment of invoices to small businesses. We have been tracking the payment performance data reported by over 5000 large UK businesses for the past three years and it is our belief that there is growing evidence of a link between the time companies take to pay their suppliers, and the financial health of the companies paying the bill.

Of course, it would be expected that a campaign organisation like Good Business Pays would call for more visibility around payment reporting. We care about ensuring a strong, sustainable supply chain throughout businesses of all sizes. But using the evidence we set out in this report, we will alert others to care as well, in particular: Investors; Pension & Investment Fund Managers; Non-Executive Directors; Accountants; suppliers of products or services; and of course, CEOs and Board Executives who are ultimately responsible for running their organisation.

We are all familiar with the usual measures of corporate financial health like EBITDA, margins, profit, ROI, cash in the bank, etc. However, supplier payment performance isn't currently viewed by investors and executives to interrogate the working capital within a company cashflow. We think it should be. As you will see from our analysis of companies in multiple industry sectors, there is a growing body of evidence to show linkage between long payment terms and financial health. Payment terms are of course not a direct sign that a company is in financial trouble but seen in terms of a warning light on the dashboard, alongside other measures, payment performance can provide an early indication of problems within the organisation.

For most companies, that warning light is missing. Since 2017, large companies* have had a statutory duty to report their payment performance to the UK Government's Department for Business, Energy & Industrial Strategy (BEIS). In 2022, roughly 5,000 companies complied and reported, but that represents less than half the number of UK companies that should be reporting, with estimates ranging between 10,000 (BEIS) and 13,000 (BDO). **This alarming statistic provides the first reason which NEDs and investors should care about payment performance.** Many UK companies are therefore breaking the law, by not reporting their payment performance as part of the Duty to Report Regulations[2]. It is a criminal offence by the companies that do not comply, and every director of the company or designated member of an LLP is liable, if the business fails to publish a report containing the necessary information within the specified filing period of 30 days.

For those companies who do report, figures are self-reported, with no requirement for any formal check and balance of reported figures to be included in the internal or external audit process. We believe that investors and NEDs are entitled to have visibility of payment performance and that the figures presented by companies should be reliable. **Given our findings, this provides the second reason why NEDs, Investors and CEOs should care about payment performance**. We believe payment performance figures should be included in the audit process and reviewed by the Audit Committee of the Board on a six-monthly basis. Along with the Federation of Small Businesses, we at Good Business Pays have recommended this change to BEIS as part of the review of Payment Reporting Regulations carried out in January 2023[3].

Terry Corby
Founding CEO
Good Business Pays CIC

2 Duty to report on payment practices and performance: guidance to reporting on payment practices and performance (publishing.service.gov.uk)
3 Payment Services Regulations Review and Call for Evidence - GOV.UK (www.gov.uk)

Why Now?

Early in 2023, the business world was rocked by the downfall of Silicon Valley Bank and Credit Suisse. The assumption being that banks are a safe bet, but when that proves not to be the case, things go wrong very quickly. At Good Business Pays, the problems that brought an end to these big banks in a matter of days reignited discussions about the payment culture of large companies and if there is anything we can learn about the financial health of companies from the length of time they take to pay their bills. It might be too easy to assume that a company in financial trouble would hang onto cash for longer than they should, so we decided to see if there was any correlation between companies that are in trouble and their payment performance in the period leading up to their downfall.

We found there was.

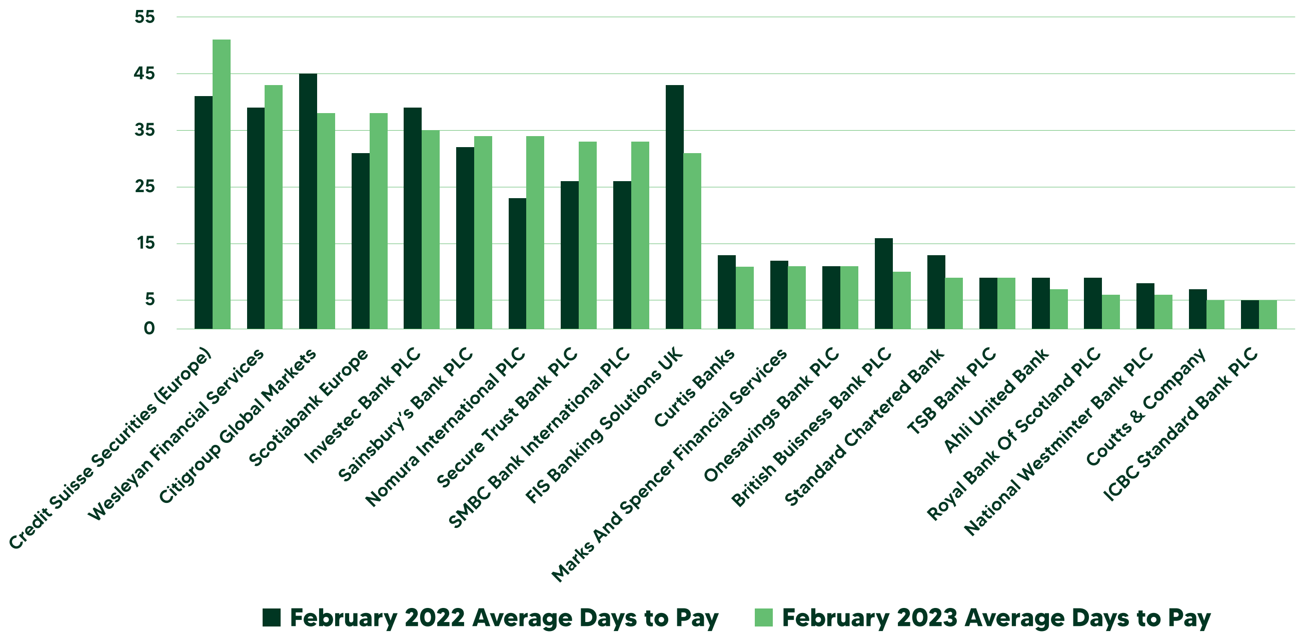
We then decided to look at other high-profile business failures to see if there is anything we could learn from their payment culture and how that may or may not have provided warning signs to the many stakeholders and shareholders that lost out because of their collapse. We present our findings here in several case studies. Taken together, we believe they provide compelling evidence in support of more transparency around payment culture.

Credit Suisse

In March 2023 Good Business Pays had just finished the annual analysis of the fastest and slowest paying companies in each sector. In the chart below (Fig 1) is the analysis of the UK banking sector, showing the ten slowest and ten fastest paying companies. It is interesting to note that Credit Suisse was, by some measure, the slowest paying bank in the sector, reporting taking an average of 51 days to pay their suppliers. This figure stands out in a sector which is generally known for fast payment. The ten fastest payers all pay their suppliers between 5-11 days.

fig. 1

UK Banking Sector
2022/23 Best & Worst Payers



Source: BEIS Payment Practices Reports: https://www.gov.uk/check-when-businesses-pay-invoices

"Government has been proactive in attempting to stamp out the worst kind of poor payment practices within the business community.

The Payment Practices Reporting duty aims to increase transparency in payment behaviour to drive improvements in payment practices"

Kevin Hollinrake MP
Minister for Enterprise, Markets and Small Business

Looking more closely at Credit Suisse's payment record over the past five years, the records show an interesting pattern of slow and late payment. In 2018, Credit Suisse average payment speed was 50-60 days (Fig 2) and we see a huge spike in payment times in the second half of 2019 and all of 2020. There is a similar shape to the graph tracking invoices paid late (Fig 3), which shows between one-third and almost half of their invoices being paid late over the period 2018-2022.

fig. 2

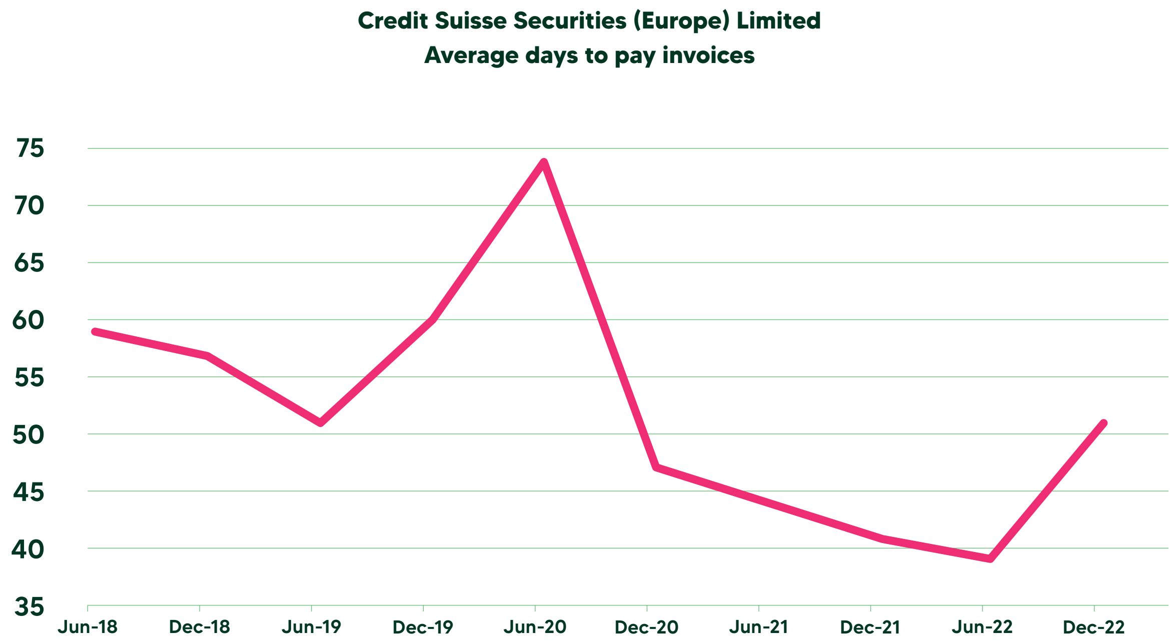
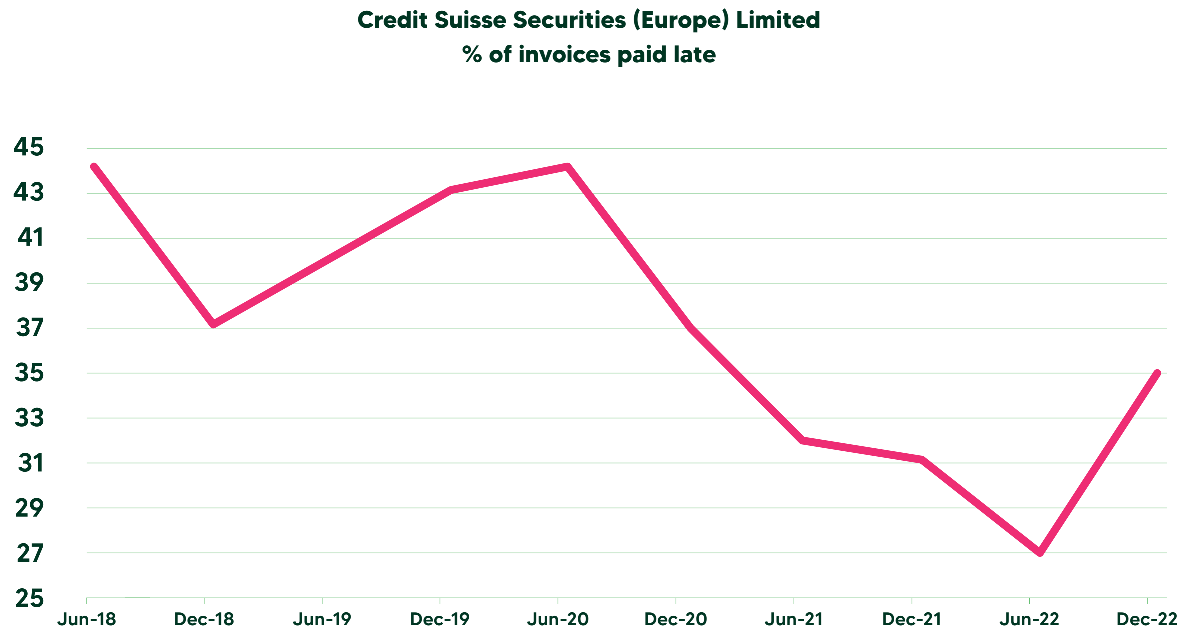


fig. 3



Source: BEIS Payment Practices Reports: https://www.gov.uk/check-when-businesses-pay-invoices

Looking back at their history, it's interesting to look at what was going on in their broader business in the same time-frame.

The Guardian reported that Credit Suisse faced several challenges and controversies between 2017 and 2022 that impacted its financial performance and reputation[4]. But 2018 and 2019 - when payment terms began to wildly spike upwards - were particularly eventful, with multiple questions about the bank's compliance responsibilities.

2018 was a year of major scandals and events covered widely in the media and, with the Swiss regulator ordering Credit Suisse to improve its anti-money-laundering controls after identifying shortfalls in its dealings with Fifa, the Brazilian oil corporation Petrobras and Venezuelan state oil company, PDVSA. The bank said it took its compliance responsibilities seriously.

The same year, reports showed two more scandals rocked the bank. A former Credit Suisse banker, Patrice Lescaudron, was sentenced to five years in prison after admitting to forging client signatures to divert money and make stock bets without their knowledge, causing more than $150m in losses. This was followed by reports of another scandal in Hong Kong, where Credit Suisse agreed to pay $47m to US authorities over a jobs-for-business "corruption scheme" in which it tried to win business by offering jobs to family and friends of Chinese officials between 2007 and 2013. A spokesperson for the bank said it had improved its compliance processes.

Then in 2019, when payment terms were at their worst ever for the bank, Credit Suisse was caught in a corporate espionage scandal, and eventually admitted to hiring private detectives to track two outgoing executives. It triggered a regulatory investigation and culminated in the departure of its chief executive, Tidjane Thiam, in 2020. Despite the controversial nature of his departure from Credit Suisse, his tenure was mostly seen as a success. Indeed, business magazine Euromoney named him banker of the year 2018, citing his reinvention of the company.

We can see a less eventful period in 2020 and payment performance starts to track downwards to the 40-50-day payment time. But in 2021 problems are about to return for Credit Suisse again, who recorded a $5.5bn loss due to its risky exposure to the US hedge fund Archegos Capital Management, which collapsed in early 2021. Credit Suisse said it took action against 23 staff and fired nine, and subsequently promised to put risk management "at the heart" of its decision-making. This was followed by the Greensill Scandal, when Credit Suisse was forced to suspend $10bn of investor funds after the collapse of the supply-chain lender Greensill Capital, whose loans were packaged and sold to Credit Suisse clients.

To add to its woes, the regulators then fined Credit Suisse £350m to settle the bank's role in the long-running Mozambique "tuna bonds" loan bribery scandal that pushed the country into financial crisis from 2016. Credit Suisse was implicated in $50m-worth of kickbacks that a government contractor handed to its bankers in exchange for better terms on nearly $1.3bn-worth of loans arranged for the People's Republic of Mozambique between 2012 and 2016. The bank said it "condemns any unjustified observations and has already taken decisive steps to strengthen its relevant governance and processes".

Conclusion

Looking at the changing fortunes of Credit Suisse over the period between 2017 to the time of its demise in March 2023, it would be hard to believe that there wasn't any connection between its changing business fortunes and payment performance, where we see turbulent business periods quickly followed by a period of hanging onto cash and slowing down supplier payment times.

An easy rear-view mirror observation of Credit Suisse's payment performance would be to say "of course they were paying slowly, they had problems elsewhere in their business." Our response to that is to ask why was payment performance was not seen as a 'canary in the mine' for other potential problems in the business? And who is asking about other companies that are currently taking a long time to pay suppliers? Are there any future Credit Suisse examples now signalling to us through their payment culture and how long they are holding cash that is owed to others? These are the warning lights we believe Investors and Directors are not exposed to. They should be.

(4 Crooks, kleptocrats and crises: a timeline of Credit Suisse scandals | Credit Suisse | The Guardian)

"LATE PAYMENT MAY BE A GOOD INDICATOR OF A FINANCIAL PROBLEM WHERE YOU ARE LOOKING FOR FINANCING BY PAYING YOUR SUPPLIERS LATE. AS A NON-EXECUTIVE-DIRECTOR, YOU WANT TO KNOW"

Elise Perraud
NEDonBoard, Institute of Board Members

Arcadia Group

Arcadia Group was a UK-based retail company owned by Sir Philip Green, that faced financial difficulties for several years before collapsing in late 2020. There were several factors that contributed to its decline. One of the main reasons was the changing retail landscape, as online shopping became increasingly popular, and traditional brick-and-mortar stores struggled to compete. Arcadia Group's brands, including Topshop, Topman, Miss Selfridge, and Dorothy Perkins, were all affected by this trend.

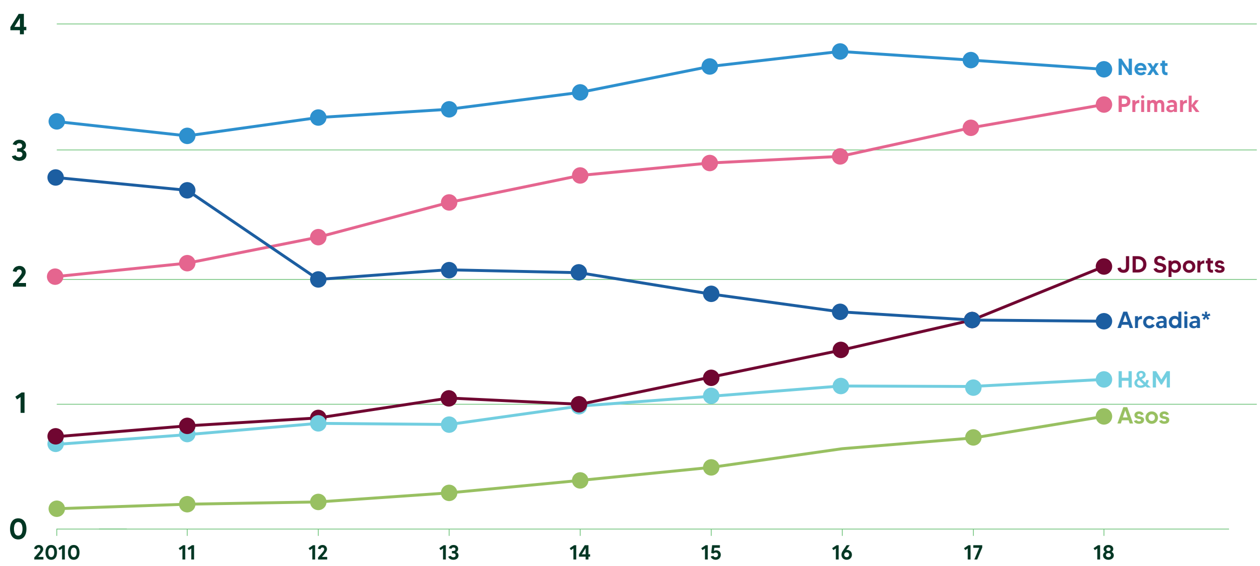
Another factor was the company's high levels of debt. In 2019, Arcadia Group had a debt of over £500 million, and struggled to make interest payments on this debt. This made it difficult for the company to invest in its stores and products, and to keep up with its competitors. Ultimately, Arcadia Group filed for administration in November 2020, and was subsequently sold to online fashion retailer ASOS.

The collapse of Arcadia Group into administration in November 2020 brought down the curtain on three decades of leadership by Sir Philip Green, who was well known for his combative approach to business. Retail commentators at the time said there was little investment in Arcadia Group's main brands of Topshop, Burton and Wallis, whose market share had declined since their heyday in the early 2000s. Sir Philip was put off ecommerce by the heavy investment required, allowing rivals such as Asos and Boohoo to win market share among younger consumers. This can clearly be seen (Fig 4) in the growth of brands like Primark, JD Sports and Asos between 2012-2018.

Then came the global economic downturn in the wake of the COVID-19 pandemic that further impacted performance. Arcadia Group struggled to maintain its revenue streams amid reduced footfall in its physical stores and increased competition online.

fig. 4

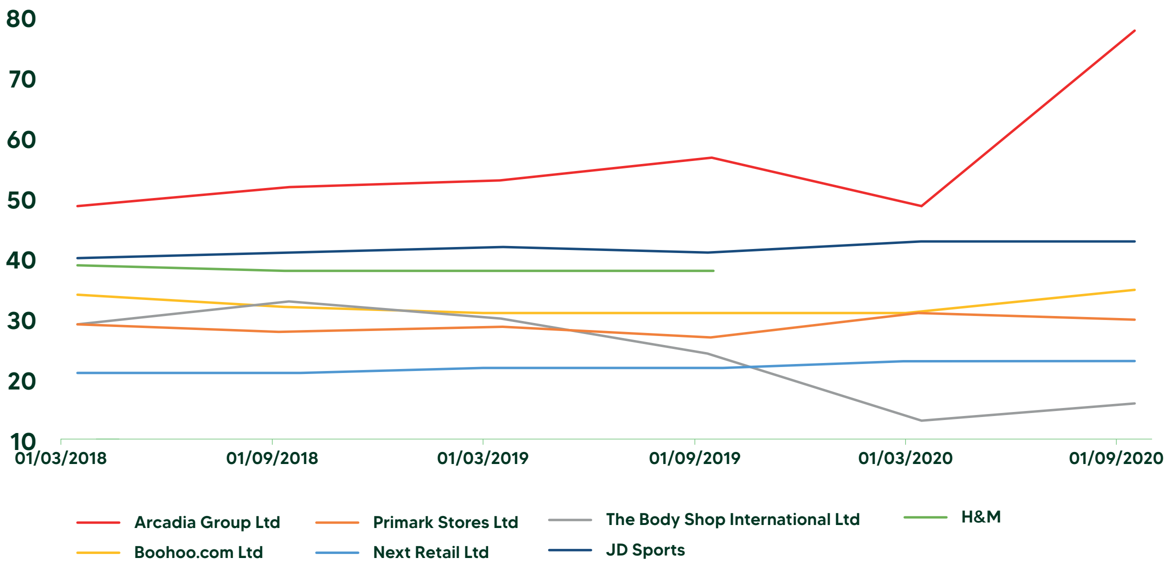
Annual UK revenues (£bn)



*Arcadia did not break out UK sales prior to 2015, but international sales only totalled about £280m a year in the 2015-18 period.
Sources: Companies House; Capital IQ

fig. 5

Arcadia Group Ltd vs Competitors 2018 - 2020
Average invoice payment times (days)



Source: BEIS Payment Practices Reports: https://www.gov.uk/check-when-businesses-pay-invoices

Arcadia Group was clearly out of step in terms of changing consumer preferences. But was also set apart by its payment culture, which was clear to see when compared to its competitors (Fig 5). Here we look at the Group comparison as well as the individual companies within the group, that all set themselves apart in terms of payment culture.

Arcadia Group's slow payment culture wasn't just apparent at the Group level. When looking at the major Arcadia brands compared to their High Street competitors, there is a clear and slow payment culture that spikes in each case as the company struggles more.

Arcadia: Dorothy Perkins

Dorothy Perkins was a UK-based fashion retailer that had been in business for over 100 years, but the company faced several challenges that led to its downfall.

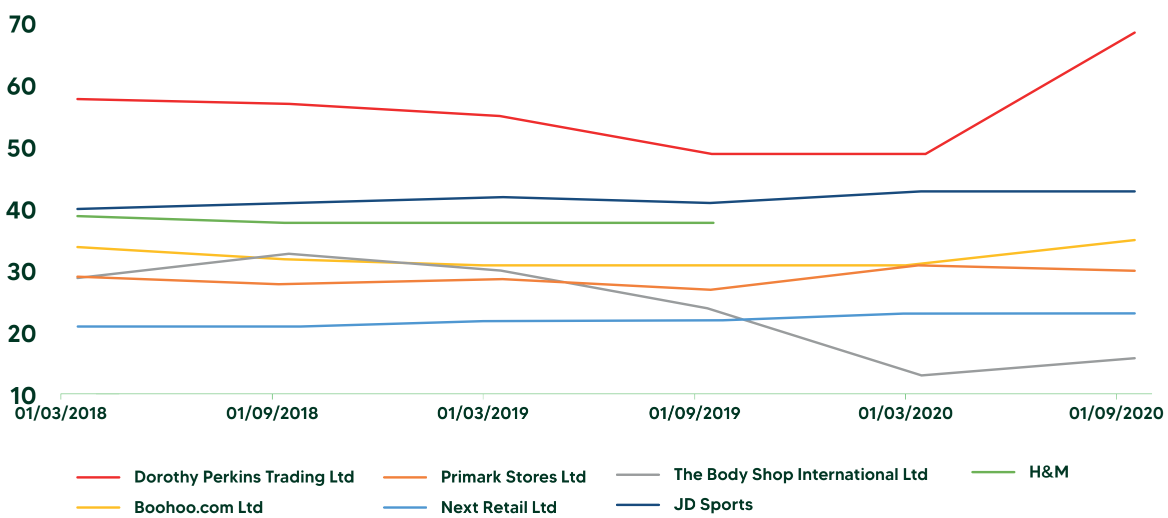
One of the primary issues that contributed to Dorothy Perkins' decline was the rise of online shopping. As more consumers began to shop online, foot traffic in brick-and-mortar stores declined, leading to decreased sales for the company. Additionally, Dorothy Perkins struggled to keep up with the fast-paced nature of the fashion industry, failing to adapt quickly enough to changing consumer trends and preferences.

Another significant factor that contributed to the company's downfall was increased competition from other fashion retailers, both in-store and online. Many of these competitors were able to offer more competitive prices, more diverse product ranges, and a better overall shopping experience than Dorothy Perkins. Furthermore, the company faced financial difficulties due to its high rent costs, which were often associated with its prime retail locations. As sales declined, it became increasingly difficult for the company to justify these high costs, leading to further financial strain.

The company ultimately went into administration in 2020 and closed all its physical stores. Looking at Dorothy Perkins' payment culture (Fig 6), you can see the sharp slowing of payment times as the chain reached its terminal decline in 2020. But going back as far as 2018, when compared to other similar High Street fashion stores, you can see a clear difference in payment culture, with payment times hovering around 60 days, around double that of names like Next and Primark.

fig. 6

Dorothy Perkins vs Competitors 2018 - 2020
Average invoice payment times (days)



Source: BEIS Payment Practices Reports: https://www.gov.uk/check-when-businesses-pay-invoices

Arcadia: Top Shop/Top Man

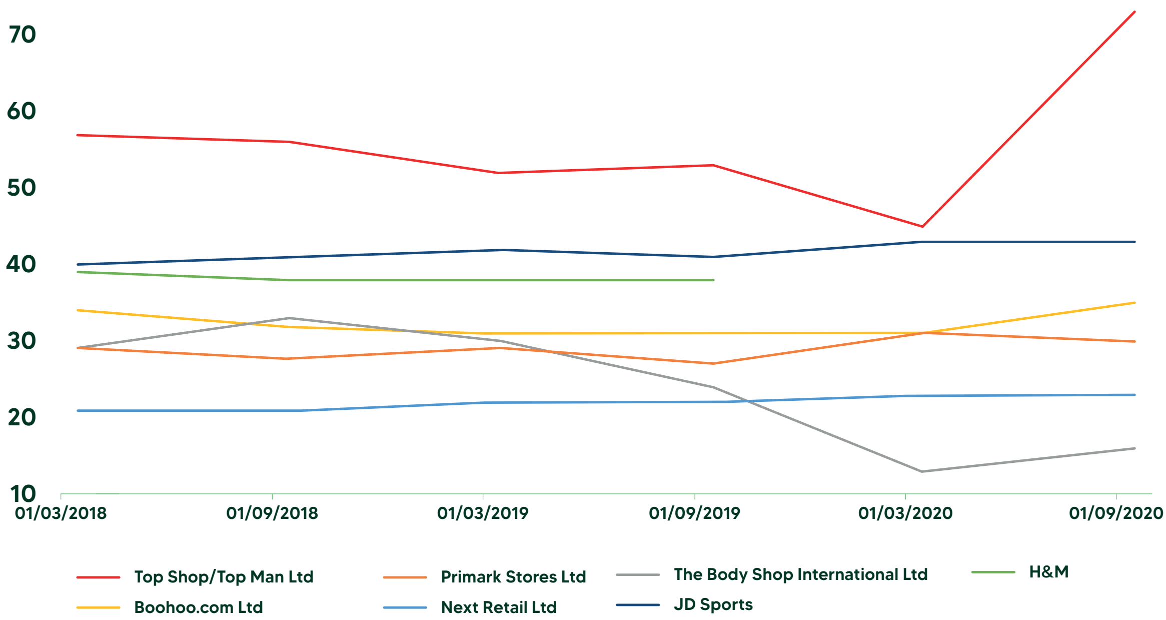
Topshop/TopMan was once the jewel in the crown of Arcadia Group brands and a popular British fashion brand, but it has struggled in recent years, culminating in its collapse and sale to ASOS in 2021.

Ironically, Topshop's unique selling point as "the closest a high street shopper got to catwalk fashion" was its demise. The more fashion lines the retailer gave to its consumers, the more demanding they became. The competition was also becoming fierce as the high street exploded with world-class international retailers, including online players like Boohoo and Asos who combined low prices and savvy digital marketing techniques, as well as other fashion brands like Primark, Zara and H&M which offered similar styles at lower prices.

It's easy to see a steep increase in payment times at TopShop/TopMan (Fig 7) as it struggled towards decline. Although it was always a slow payer compared to its close competitors of Primark, Boohoo, etc., after the failure of its partnership in 2018 with Beyoncé that didn't generate the expected sales, you can start to see the decline in fortunes as payment times increase. Then in 2020, like many retailers, Topshop was hit hard by the COVID-19 pandemic, which forced the closure of its physical stores and led to a decline in sales, and we see the number of days to pay shoot up from 45 to more than 70 days. Shortly after, TopShop collapsed and was sold to its competitor ASOS.

fig. 7

Top Shop/Top Man vs Competitors 2018 - 2020
Average invoice payment times (days)



Source: BEIS Payment Practices Reports: https://www.gov.uk/check-when-businesses-pay-invoices

Arcadia: Miss Selfridge

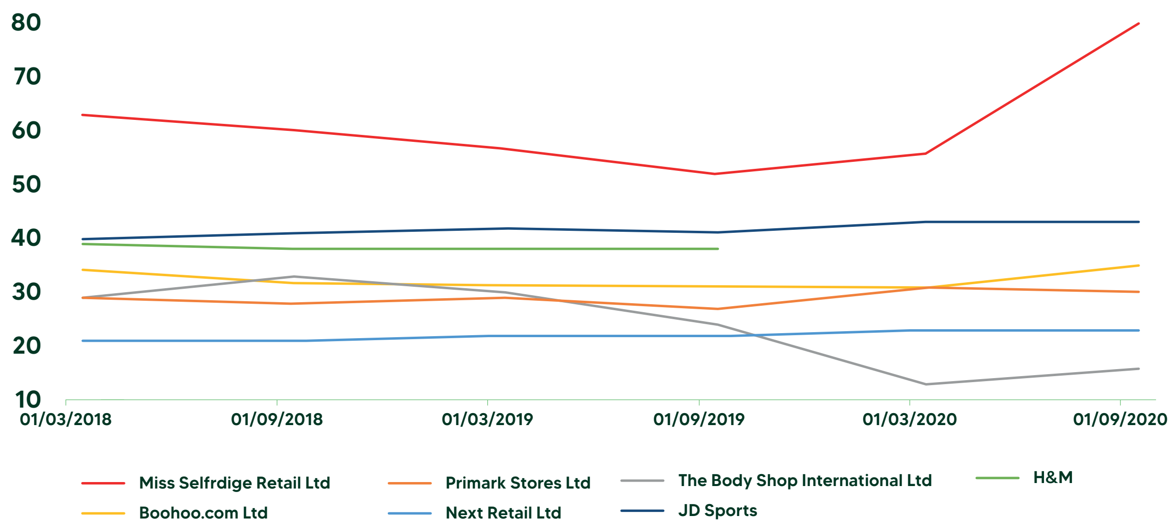
Miss Selfridge was a British high street fashion retailer that was originally launched as a teenage fashion brand in 1966. The company was once one of the most popular and successful fashion brands in the UK, but it faced several challenges between 2010 and 2020 that led to a decline in its business.

Miss Selfridge faced increasing competition from other high street fashion retailers like Primark, H&M and others. This led to pressure on prices and margins and made it harder for Miss Selfridge to differentiate itself from its competitors. The chain may also have relied too heavily on discounts and promotions to drive sales, which can erode margins and damage the brand's image over time. Consumer preferences and shopping habits also shifted, with many shoppers preferring to shop online rather than in physical stores. Miss Selfridge was slow to adapt to this trend, which could have affected its sales and revenue.

Overall, a combination of these factors may have contributed to the decline of Miss Selfridge. In 2020, the company went into administration and was acquired on 1st February 2021 by ASOS. The slow payment culture was embedded even back in 2018 (Fig 8), with Miss Selfridge taking roughly double the amount of time to pay its suppliers compared to its close competitors. There was a gradual improvement in 2019 although payment terms never reached close to other similar fashion brands. The arrival of Covid-19 seemed to accelerate the decline of Miss Selfridge, and we can see that reflected in their payment behaviour which shows a gradual then sharp increase in payment times leading up to their collapse.

fig. 8

Miss Selfridge vs Competitors 2018 - 2020
Average invoice payment times (days)



Source: BEIS Payment Practices Reports: https://www.gov.uk/check-when-businesses-pay-invoices

Arcadia: Wallis

Today Wallis is an online British women's clothing brand. Previously, Wallis was a major name on the high street, who operated from 134 stores and 126 concessions across the UK and Republic of Ireland with fashion aimed at women in their 30s and 40s.

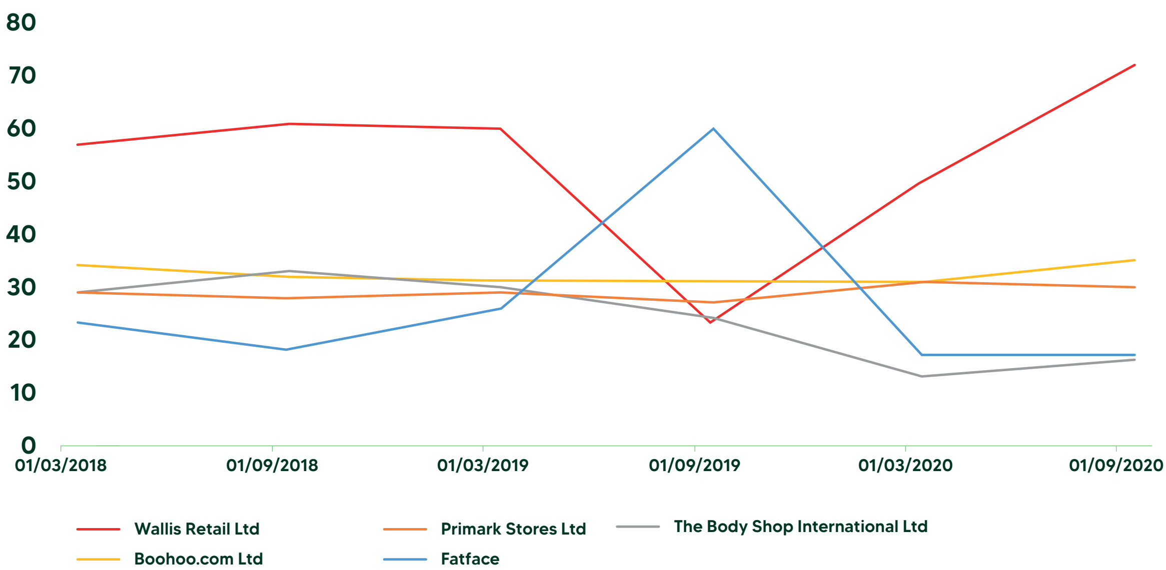
In their last few years as a high street retailer, Wallis faced several challenges, including declining sales and profitability, increased competition from online retailers, and changes in consumer behaviour and preferences. One of the main factors contributing to Wallis' difficulties was the shift in consumer behaviour away from brick-and-mortar stores to online shopping. This put pressure on traditional retailers like Wallis to adapt to new technologies and meet the changing needs and expectations of customers.

In addition to these broader trends, Wallis also faced some company-specific issues. For example, the retailer struggled with inventory management, leading to excess stock and markdowns that eroded profitability. Wallis also faced criticism for not keeping up with fashion trends and failing to attract younger shoppers.

Overall, the challenges faced by Wallis were not unique to the company, but rather reflect broader trends affecting the retail industry, but looking at a range of competitors (Fig 9), it's clear that Wallis's payment terms were not only much slower, but changed a lot from year to year, which may have been linked to their problems with inventory management.

fig. 9

Wallis vs Competitors 2018 - 2020
Average invoice payment times (days)



Source: BEIS Payment Practices Reports: https://www.gov.uk/check-when-businesses-pay-invoices

Arcadia: Evans Retail

Evans was a UK-based fashion retailer that focused primarily on plus-size fashions. Like many other retailers, Evans struggled to adapt to changing consumer preferences, including the shift towards online shopping. As consumers increasingly turned to e-commerce for convenience and a wider range of options, Evans faced competition from online retailers that offered similar products with greater convenience and often at lower prices.

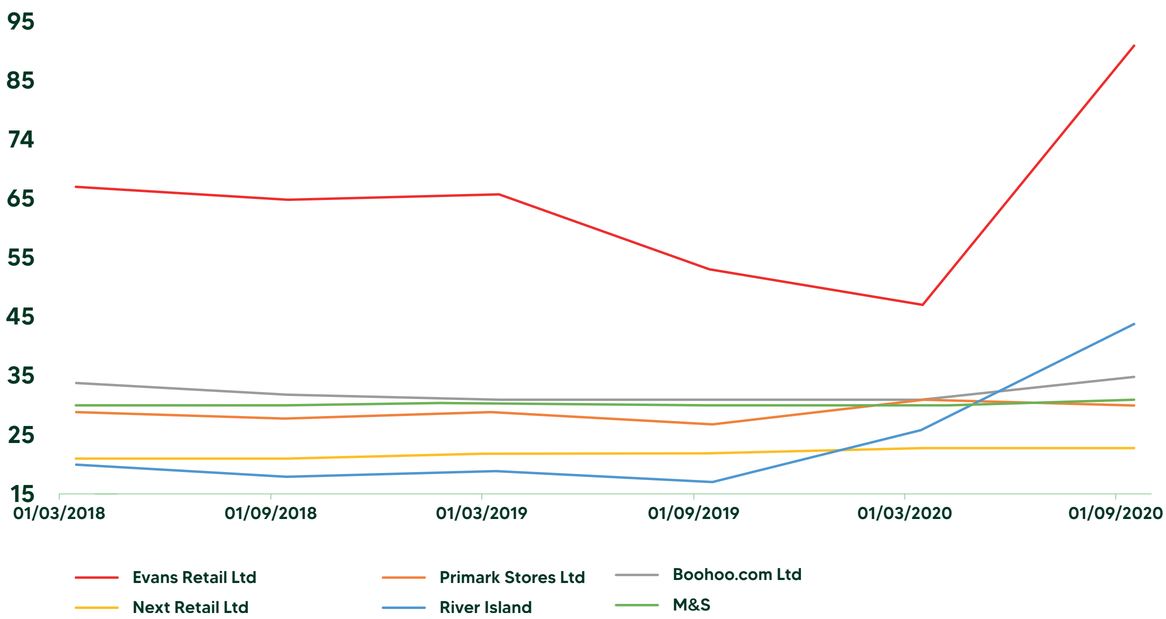
Evans also struggled to connect with younger customers who may have different preferences and shopping habits. This failure to appeal to younger customers, who represent a significant consumer segment, may have contributed to Evans' decline. In addition, they faced challenges with inventory management, including over-stocking and slow inventory turnover. This resulted in increased costs and markdowns, which negatively impacted the company.

Evans had a long period of slow payment to suppliers (Fig 10), taking almost double the amount of time to pay, compared to Evans' competitors like M&S, Next and River Island. As Covid-19 affected Evans and it started the final decline, you can see payment terms spike up over a six-month period from an average of 45 days to over 90 days.

Evans' parent company Arcadia entered administration in November 2020. The following month, Australian fashion retailer City Chic Collective reached an agreement with Arcadia's administrators to purchase the Evans brand, website, and wholesale business for £23 million. The deal did not include the retailer's stores.

fig. 10

Evans Retail vs Competitors 2018 - 2020
Average invoice payment times (days)



Source: BEIS Payment Practices Reports: https://www.gov.uk/check-when-businesses-pay-invoices

Arcadia: Burton Trading

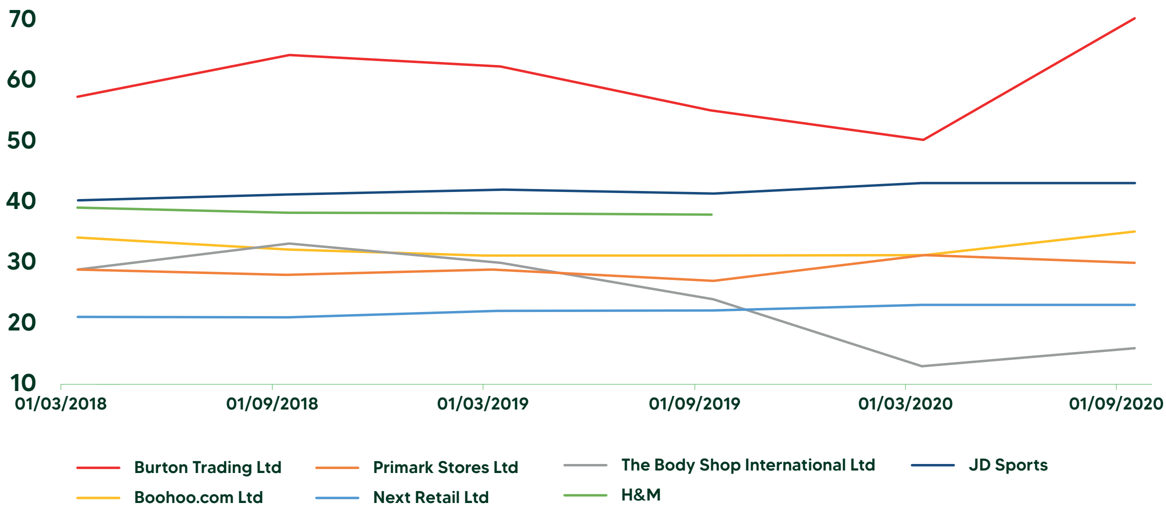
Today, Burton is an online clothing retailer owned by Boohoo.com. But Burton Menswear is a company with a long history, being founded by Sir Montague Maurice Burton in Chesterfield in 1903 under the name of The Cross-Tailoring Company. It was first listed on the London Stock Exchange in 1929 by which time it had 400 stores, factories and mills.

Over 100 years later, in July 2020, Burton still had around 400 stores, and was owned by Arcadia Group, which comprised several brands including Burton. It had been hit hard by the COVID-19 lockdown and planned hundreds of job cuts to minimise costs. As financial difficulties worsened, Arcadia entered administration on 30 November 2020. In February 2021, Boohoo.com announced it was buying the Burton brand from Arcadia (along with the Wallis and Dorothy Perkins brands) for £25.2 million, with the loss of around 2,450 jobs.

Looking at payment culture at Burton (Fig 11), just like the other Arcadia brands, there was a slower payment culture at Burton compared to their competitors. Payment times of over 60 days was the norm as far back as 2018, which was double that of shops like Next or their new owners Boohoo.com. As Burton and their owner started to head towards their final destination in 2020, a spike upwards in payment times again can be clearly seen, signalling financial problems rising.

fig. 11

Burton Trading vs Competitors 2018 - 2020
Average invoice payment times (days)



Source: BEIS Payment Practices Reports: https://www.gov.uk/check-when-businesses-pay-invoices

IMPACT OF PAYING SMALL BUSINESSES ON TIME* £2.5 BILLION ANNUAL BOOST FOR THE UK ECONOMY

Federation of Small Business (*based on 2014 figures if there had been no late payments)

Debenhams

In December 2020, Debenhams announced the closure of all its 124 stores after last-ditch efforts to rescue the department store chain failed. It was the end for the 242-year-old business.

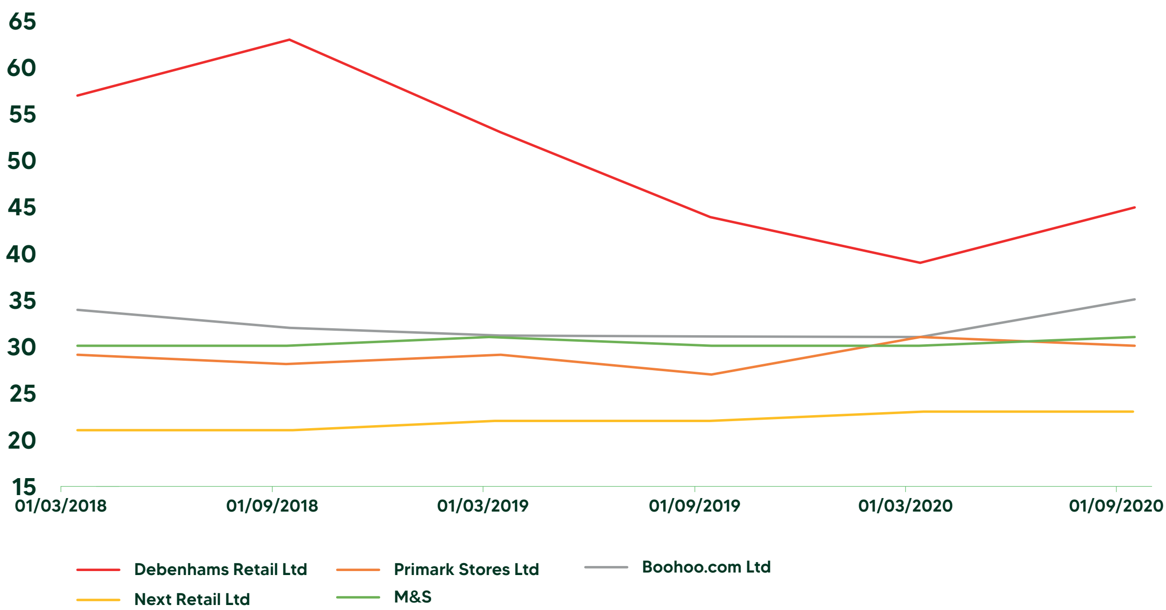
Debenhams had fallen behind with fashion trends over the previous ten years, a problem familiar to other mid-market High Street retailers such as M&S. Experts said it lacked products that differentiated it, which left it exposed when dynamic new brands, many of them operating purely online, started breaking through, saying "They filled their stores with concessions that weren't anything you couldn't buy anywhere else on the High Street." It made it very hard to compete against newer fashion retailers such as Primark, Boohoo and Asos, which also branched into other areas that Debenhams did well, such as beauty.

At the same time, shopping habits shifted, and consumer spending was squeezed - firstly because of Brexit uncertainty, and then by the pandemic. Debenhams was left with many under performing shops which came with high costs, including rising rents, business rates, wages, and maintenance. Those liabilities got harder to cover, as revenue began to fall, and the retailer booked a record £491.5m loss in 2018. As a by-product of its expansion, Debenhams also ended up shouldering unsustainable debts - something some experts blame on poor financial decisions. Back in 2005, the retailer sold 23 shop freeholds to property investment company British Land for £495m and then leased them back. This locked the chain into costly leases of up to 35 years, with average annual rent rises guaranteed at 2.5%. The short-term cash benefit was soon outweighed by the costs, and by March 2020 the business was shouldering £720m of debt.

In a desperate bid to restructure its finances, Debenhams was put into administration in 2019, wiping out its share-holders. It then secured a so-called company voluntary arrangement (CVA) with its landlords, enabling it to cut its rent bill and embark on plans to close 50 of its 166 stores. But the damage was already done and it was placed back in administration in April 2020. The long final decline can be seen in the payment culture, where in 2018 Debenhams were paying almost twice as slow as M&S and other competitors. There seems to have been some effort in 2019 to improve things before the inevita-bility of failure became apparent in 2020, where we see the usual upward sharp spike in payment times. by which time it had 400 stores, factories and mills.

fig. 12

Debenhams Retail Ltd vs Competitors 2018 - 2020
Average invoice payment times (days)



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McColl's Retail Group

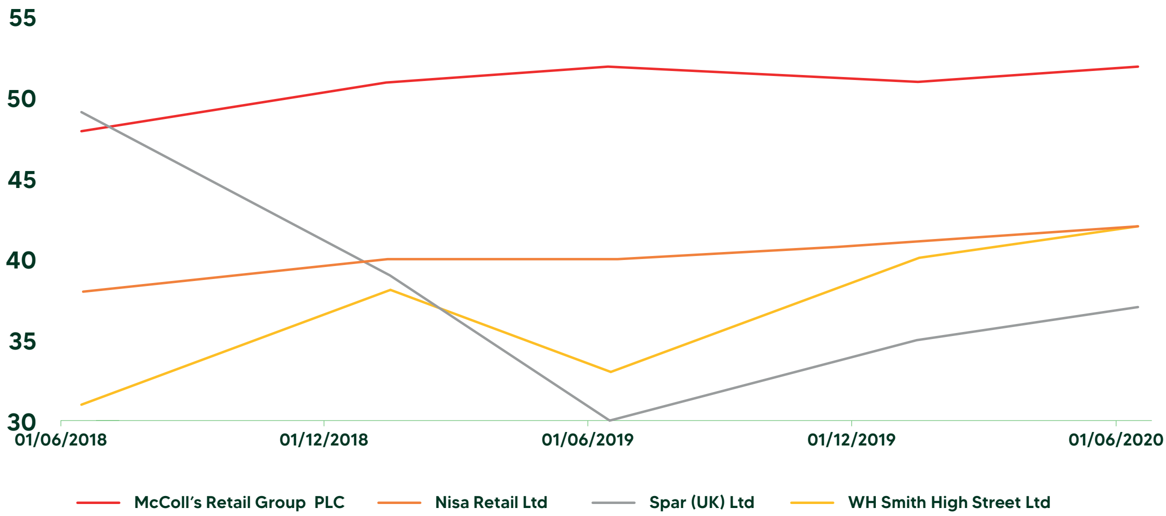
According to the Grocery Gazette, when McColl's finally called in the administrators in Spring 2022 it was of little surprise to many. The cards had been on the table for the convenience group for some time, with both profits and shares plunging over the previous few months. Arguably, the retail group had been in difficulties for years, with no clear direction regarding either its pricing or its ranging – and customers frequently registering their dissatisfaction with both. In the end, Morrisons stepped in to rescue the chain following a nail-biting battle with Asda owner EG Group. At the time, it was reported that McColl's was said to be Morrisons' most important wholesale client and it was a major creditor. So, the choice of Morrisons appears to be the sensible option for the smoothest ongoing activities for McColl's increased competition.

The convenience store market in the UK is highly competitive, with many players vying for market share. Increased competition from other convenience store operators, supermarkets, discounters, and online retailers could have put pressure on McColl's to attract customers and maintain profitability.

McColl's payment culture (Fig 13), which was already slow in 2018, got gradually worse over the next two years, even as their close convenience store competition improved. Spar UK improved from 50 days to pay to 30-35 while McColl's increased to over 50 days.

fig. 13

McColl's vs Competitors 2018 - 2020
Average invoice payment times (days)



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Joules

Joules was purchased by Next for £34 million in December 2022 after the lifestyle retailer ended up in administration. Here we look at the timeline running up to its collapse and how payment culture got gradually worse in the lead-up to failure.

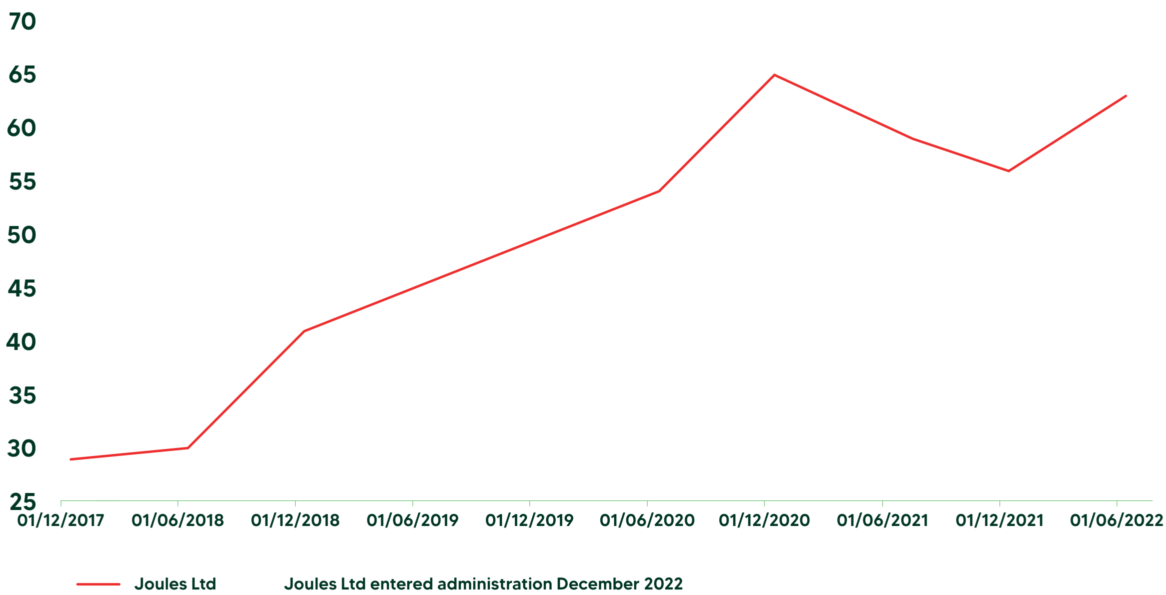
The downfall of Joules, one of the stars of the retail sector, was rapid. As recently as a year before it went into administration, Joules - a favourite brand - was upgrading profit forecasts. However, a myriad of reasons has brought the retailer to its knees.

The problems first surfaced in Christmas 2021 when just two weeks before the big day it sounded a profit warning as it was blighted with supply issues. Like many in the industry, rising freight costs, stock delays and labour shortages hit both trading and profits. Not only did this blight the all-important Christmas period, it also had a knock-on effect as the delayed arrival of new stock led to more discounting into the new year. 2022 brought the cost-of-living crisis, which proved difficult for Joules as even its affluent customers started to question Joules' prices. Trading was therefore soft, which in turn led to more discounting, which hit not just margin but brand reputation, according to industry experts.

Tracking payment culture between 2018 to the point of failure, (Fig 14), we can see a gradual rise in payment times that went from 30 days in 2017 to over 60 days in the last year of trading. Looking at this trend over time, it seems obvious that there were likely problems in the supply chain and more broadly with the finances of Joules.

fig. 14

Joules Ltd 2017 - 2022
Average invoice payment times (days)



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Midas Construction

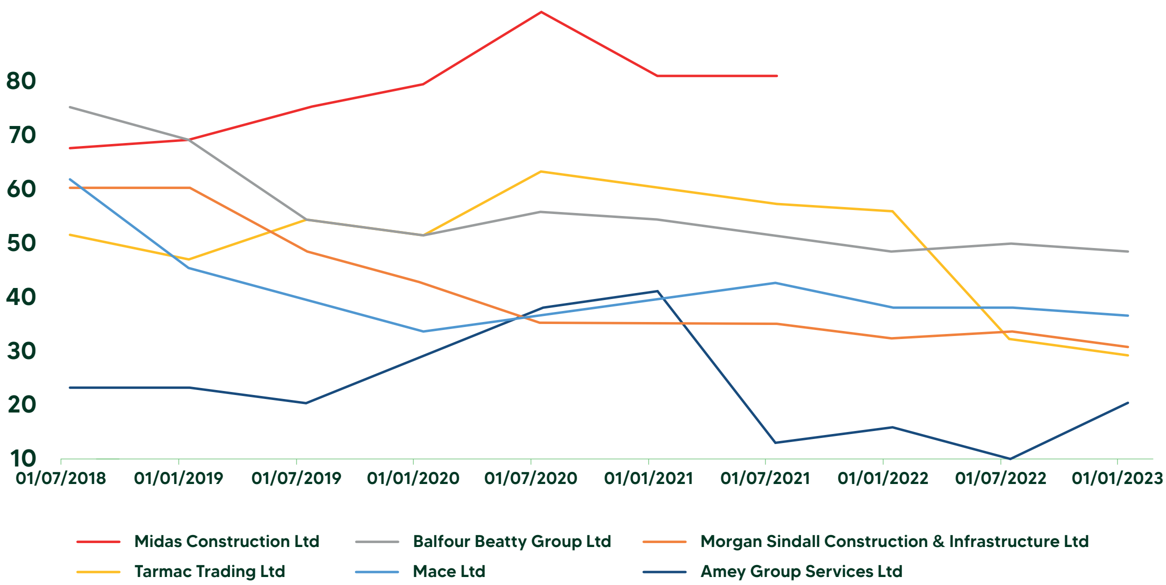
The Construction industry has long been one of the worst sectors for slow and late payment. The problems caused by payment culture came into focus in April 2022, when Midas Construction collapsed owing over £60m in debt. According to their administrators, this included £4.5m owed to former employees. Suppliers to Midas Construction claimed £51,274,938 in debts, with Midas Group assessed to owe suppliers £7,245,949.

More than 1,500 firms across the supply chain were owed hundreds of smaller debts, including Contour Civil Engineering Ltd (£31,000), Certus Construction (£49,475), Bristol-based Churngold Construction (£75,704) and Balgores Roofing (£32,207).

Much work has been done across the Construction industry over the past few years to improve payment culture and there is still much to do. But the general trend (Fig 15) amongst the largest and best performing construction companies is reducing payment times. But if you include Midas payment culture alongside the best performing companies in the sector, the difference is clear. As the industry is improving, Midas was getting worse with average payment times peaking at over 60 days until the company stopped reporting payment terms in late 2021.

fig. 15

Payment trends in the top performing construction companies (2018-2023)



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Flybe

Flybe, a British regional airline, went into bankruptcy in March 2020, citing various factors for its failure. Flybe's finances were already in trouble before the COVID-19 pandemic hit, primarily due to high costs, low margins, and declining demand. The company had accumulated substantial debt, and its shareholders were unwilling to invest further. As a result, the airline was unable to secure additional financing to keep its operations running.

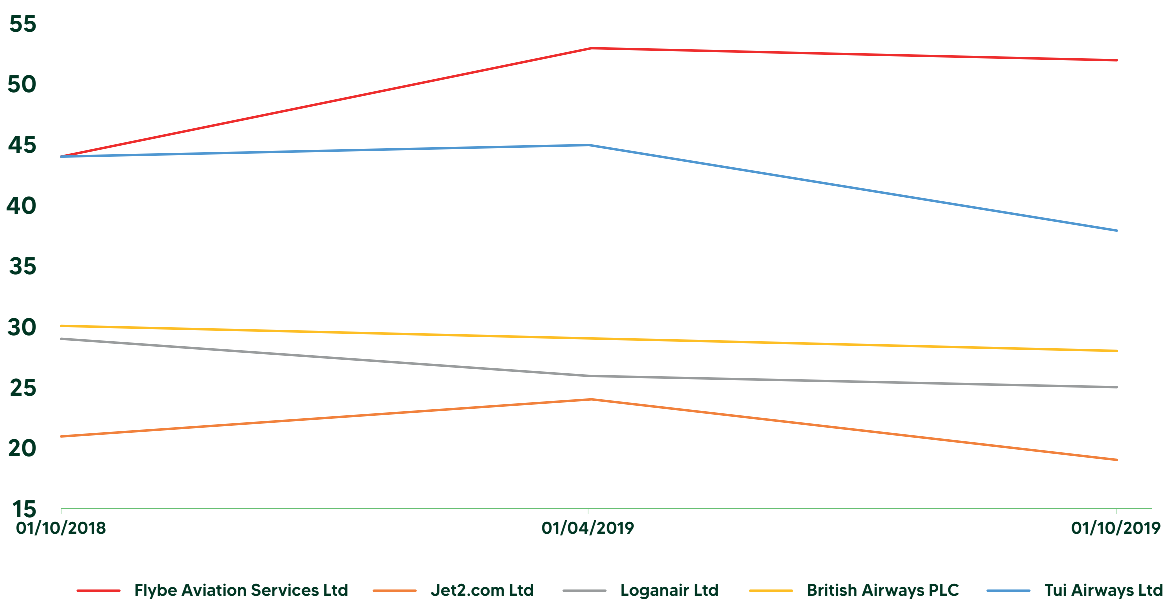
The COVID-19 pandemic dealt a severe blow to the airline industry, and Flybe was no exception. The airline's operations were hit hard by travel restrictions and reduced demand, which led to a significant drop in revenue. The company was forced to ground most of its planes, resulting in a severe cash crunch. Flybe also faced stiff competition from other regional airlines, low-cost carriers, and rail operators in the UK. The company struggled to compete with rivals that had more extensive route networks, lower costs, and stronger brands.

Another factor was Flybe's heavy reliance on the UK market, where it operated almost all of its routes. The airline had limited exposure to international markets, which made it more vulnerable to changes in the domestic market.

All of these factors contributed to the airline's failure, and it ultimately went bankrupt in January 2023, leaving thousands of employees and passengers stranded.
Compared to Jet2, Loganair and British Airways, Flybe was consistently much slower at paying their suppliers over 2018-2019 (Fig 12). Tui Airways was also a slow payer but improved terms during the same period as Flybe got worse. Ryanair figures are not reported.

fig. 16

Flybe Aviation vs competitors 2018-2019
Average invoice payment times (days)



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SLOW PAYMENTS ARE GETTING OLD, FAST"

GOOD
BUSINESS
PAYS

Conclusion

Across all these high-profile business failures, we see a pattern.

- Payment times at failing companies are slower and later than their better performing competitors.
- At failing companies, slow payment is part of their culture and is consistent over a long period of time.
- We can see an increase (slowing down) of payment times that can be tracked to changes in a business, whether that be leadership, ownership, events and business decisions

For these reasons, we believe that payment performance should be more visible and accurate than it is today, for the benefit of investors, customers, suppliers, and employees. We also believe the Non-Executive Directors should be adding payment performance to the list of risks they consider as part of their Audit Committee work. At present, payment performance reporting is not providing this level of transparency:

- Results are self-reported and not part of any official audit and are open to misreporting either intentionally unintentionally.
- Since 2017, there has been a 25% drop in companies reporting their payment performance data to BEIS, which is a statutory duty. This leaves companies and the individual Directors and NEDs open to prosecution.
- There is no single definition of when an invoice becomes 'late', so companies can manipulate the figures to artificially reduce the reported payment times. This practice would provide misleading data to those who govern the company and increase risk.

Slow and late payment creates not only reputational risk, but risk to the integrity and sustainability of the supply chain. Directors and investors should be aware of the potential risk to their supply chain and company reputation that bad payment culture creates.

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