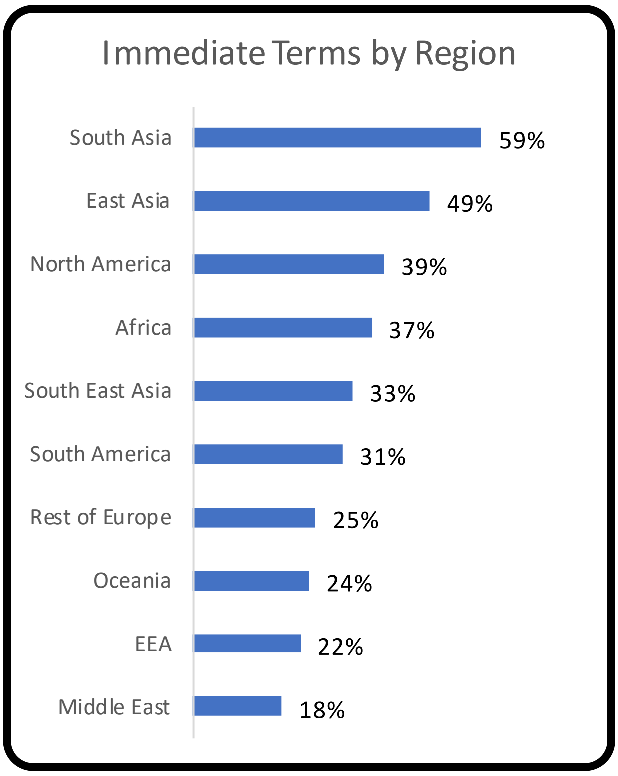
Informita

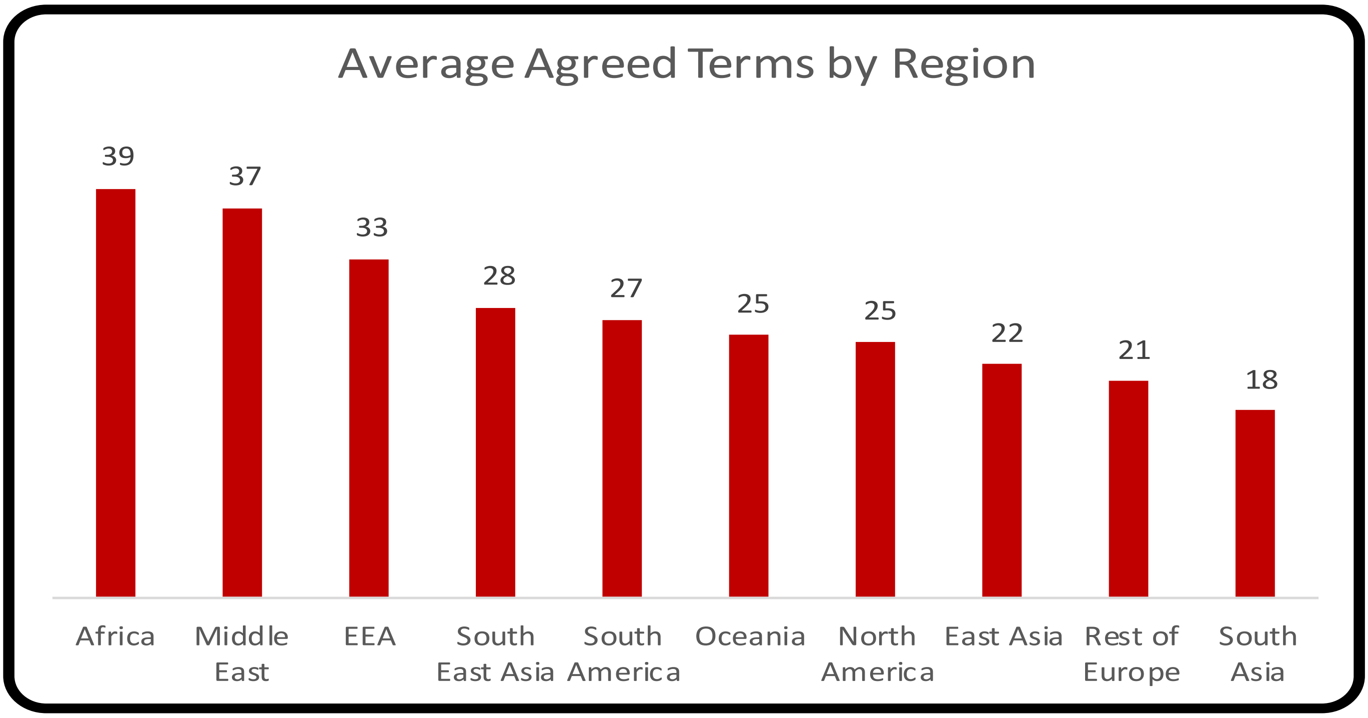
TERMSCHECK.COM

Global Payment Terms Analysis **March 2017**

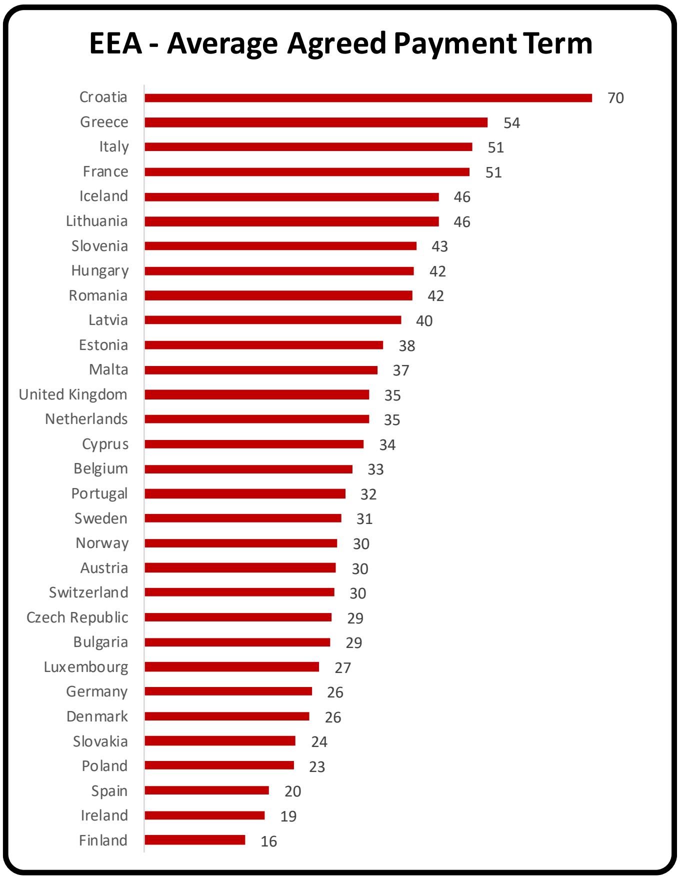
Agreed payment term averages heavily skewed by immediate payment terms

We have used our TermsCheck.com database to determine the payment terms that are on offer around the globe. We first looked at all the payment terms available by supplier region without discounts and it was apparent that while Africa and the Middle East had the longest agreed payment terms, South Asia was the shortest. This was a surprise to us since we have all heard stories about how long payment can take in this region. When we looked at the breakdown of agreed terms we found that 59% of South Asian terms were immediate. We first assumed that these were export type terms but when we looked at the detail this was not true. What we found across all regions is that many of us are in the habit of selecting an immediate payment term when we want something paid quickly or when we distrust our own payment process. The irony is that just because suppliers are given an immediate payment term does not mean they get paid immediately. In fact the average days to pay for these invoices averages between 18 and 22 days. So the big finding seems to be that not only do suppliers complain about late payment but many corporates do not trust their own payment process.

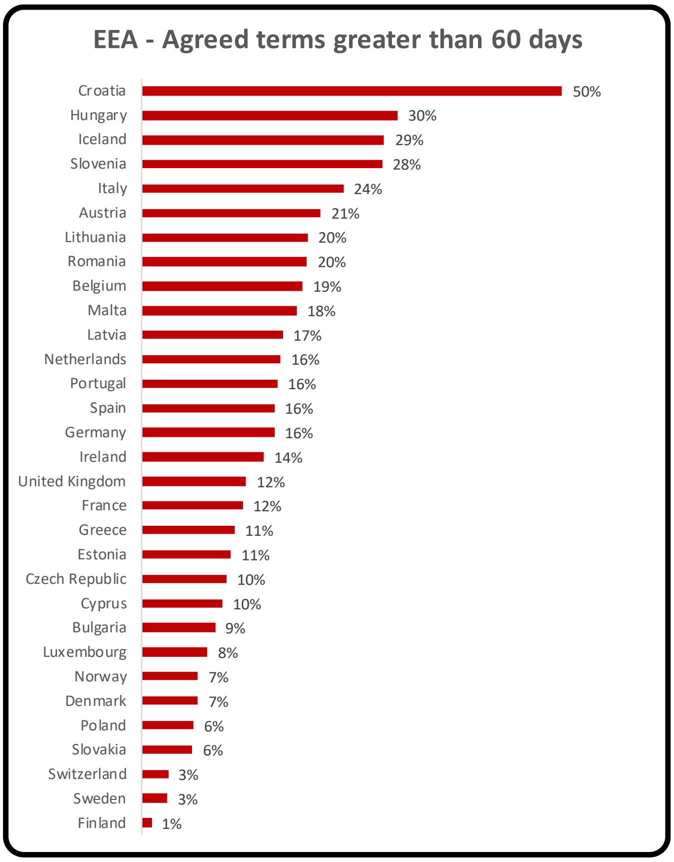




The Directive is not working!

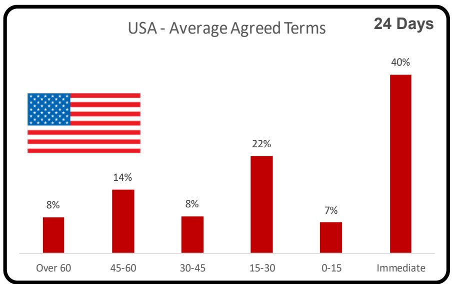


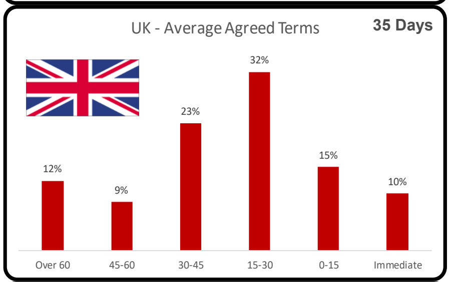
We have spent years listening to politicians empathise with small business suffering from late payment around the world and largely the result of any legislation enacted has been nil. In Europe the Directive on Late Payment (2011/7/EU) came into force in March 2013 and was broadly meant to stop business to business transaction with terms of more than 60 days. Our numbers show that 13% of agreed payment terms in the European Economic Area are still above the 60 day target. So you might say that the Directive has been as much use as a trap door on a lifeboat. If we look at the numbers Croatia is the highest on 70 days, but then Croatia is the newest member of the block and during the early 1990's there was a lot of barter going on there. So 70 days is probably way better than many might expect. The next two are Greece and Italy. No particular surprise there and more than 24% of Italian terms are over 60 days and 11% in Greece. The big surprise is France in fourth place. The French were the first to impose some serious laws on both payment terms and late payment back in 2008 and they made a big deal forcing large French companies to comply. But the reality is that average French payment are still higher than the European average and that 12% of agreed payment terms are still not compliant with French law. The main reason for this has been poor communication by government and confusion amongst suppliers and buyers. Back in 2008 there was a lot of very threatening communication from the government to large French companies to comply or face severe consequences. As you might expect these large French businesses did comply but if you speak to many smaller French businesses there are still many that are not aware of the legislation or who have misunderstood the legislation. But this is not purely a French problem. It is common to hear in Germany that as long as both parties agree the term in writing that they can agree anything they like. Not true. Many in the UK and Ireland remain blissfully unaware that legislation exists at all. In Southern European countries there seems to be an unsaid agreement that although legislation exists that it will never be enforced. This is tolerated by these governments since often it is government departments and agencies who are the biggest offenders. In Scandinavia, late payment or very long terms was never that much of a problem so that area of the world has not seen that much change. And the Directive was never meant to be retrospective. So if you have a contract that exists before the legislation came into force any term agreed in that contract is fully valid until that contract is renewed or updated. So a good reason for seeing lots of terms over 60 days is that they are older contracts that have not yet been updated. It is also clear that late payment is still highly prevalent in some European countries. For example average terms in Ireland are only 19 days. Irish companies would be delighted to be paid on such terms and are used to delayed payment. So thanks for the well meaning Directive, but it would be nice to see something effective instead.

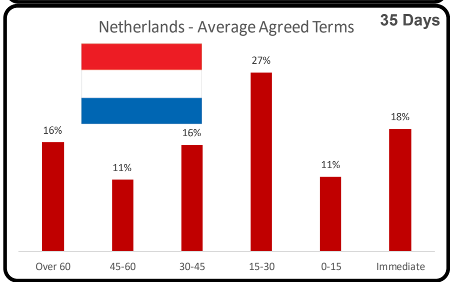


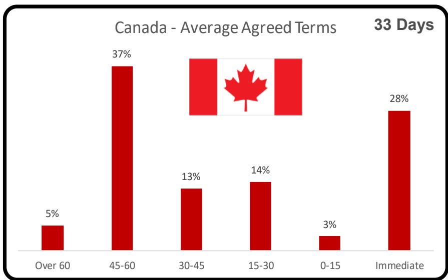
Results are not always what you expect

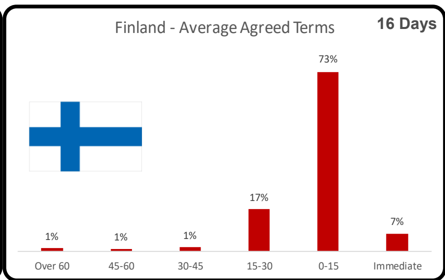
Our analysis covers 184 countries and territories covered by the TermsCheck.com database. While it is no surprise that payment terms in some countries are longer than others, one big surprise is the volume of suppliers that are being placed on immediate terms. In the Unites States our records would indicate that 40% of suppliers are on this term. Compared to most other countries this is very high. Part of this is justified by utility payments where there are penalties for late payment and for the payment of taxes and other duties to federal, state and municipal authorities. But even after subtracting these types of payments the vast majority is accounted for by regular supplier invoices that under ordinary circumstance you would expect to see on a regular supplier term. In Spain the percentage of immediate terms is even higher at 66%. All this shows is that many corporate employees have a fundamental distrust of their own companies ability to pay invoices on time. The other interesting point is the percentage of terms that are above 60 days. You would expect to see various levels of 60 day plus terms around the world, especially outside the EEA. But it turns out that the most favourable terms on offer to suppliers are in Australia and New Zealand. In New Zealand a very common term is 20 days end of month which is an average of 35 days and this shows up strongly in the numbers. Equally 30 days is extremely common in Australia and accounts for 82% of our data points in the “Lucky Country”. Most Europeans looking at these numbers would love to be in Finland. Terms are very low, even by Northern European standards and there is a strong cultural urge to be fair to suppliers. Unfortunately, Finland is the exception and countries like the Netherlands, Belgium, Germany and the United Kingdom are closer to the global average of behaviours.

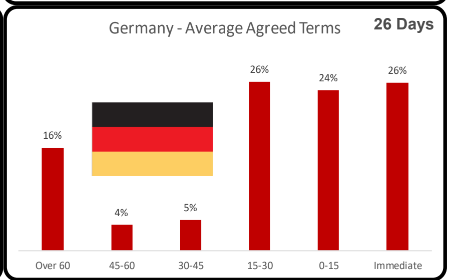


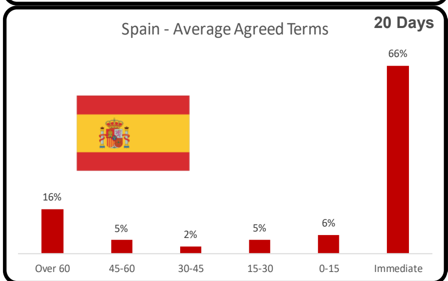


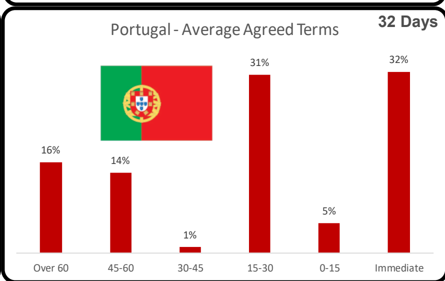


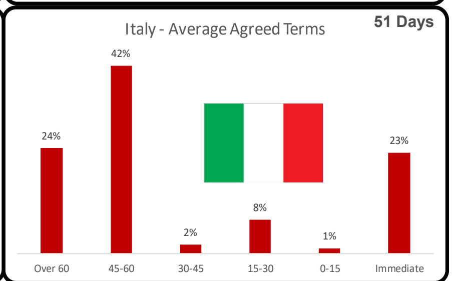


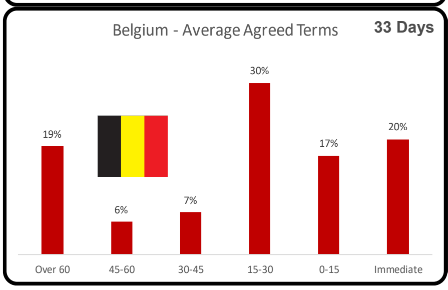


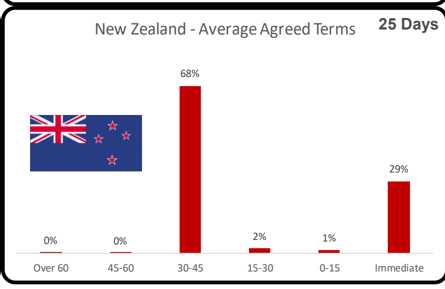


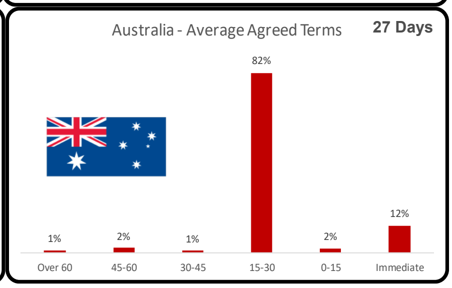












Conclusions

Poor payment processes and legislation

This survey establishes without a doubt that many of us do not trust our own companies payment processes. We set up suppliers on immediate terms thinking we can "fool the system". In actual fact we are putting enormous pressure on those systems to perform in a way they were not designed. Let's assume that the payment term is 30 days. That should be plenty of give to receive the invoice, make sure that the goods or services have been received and then authorise the invoice for payment. If the invoice is on an immediate term then payment is already late from the point that the invoice is received. We are now rushing to check the goods or service receipt has been completed and trying to fast track the authorisation and payment of the invoice. This places additional and artificial stress on those that are charged with processing the transaction and increases the odds that the process will be seen to fail. There will be additional calls both from suppliers and internal stakeholders who somehow think they are pushing things along when in reality the whole system can be driven into chaos. So have a thought for the folks in accounts payable who rarely get much thanks from suppliers or stakeholders for the stressful work they do and very often are taking the brunt of everyone's complaints. So we would urge people to select a proper and reasonable payment terms and to trust the process to do its job. Things will go wrong on occasion and that should be an opportunity to highlight the error and improve the process, not an excuse to try and bypass the process. The second point strongly highlighted in this survey is that if everyone paid to the agreed payment terms the vast majority of suppliers would be delighted. Although we hear many cases of extended payment terms in different countries these anecdotes are not backed up by the evidence. For example, in Italy the average agreed terms are 51 days but there is plenty of evidence to suggest that very few are paid on this average term. Terms are not the problem. Late payment is the problem and so far no piece of legislation has properly addressed this point. In Europe we are seeing more and more regulation about terms, charging interest for late payment and reporting payment performance. But very little of this legislation has been clearly thought out or properly enforced. It all points to the likelihood that governments are not going to solve this issue.

Methodology

Informita has compiled information from client companies in the last four years and that makes up the records that are held in the TermCheck.com database. In this survey all invoices that earn a discount have been excluded from the analysis. It should be noted that the TermCheck.com database only holds information on the payment term that has been agreed by both parties and is recorded in master data. The TermCheck.com database does not hold data on payment performance. The databases hold information on suppliers in 184 countries, containing approximately 900,000 records. This means that while TermsCheck.com is a very large database it only contains a fraction of the total number of supplier payment terms that exist around the world. So the numbers published should not be viewed as a statistically valid analysis against the total population of possible data points, but as a statistical analysis of the collected data points. Even with this limitation our clients find the database useful to benchmark their suppliers and customers terms with real data from real businesses across the world. The intention of such comparisons is not to give a magic bullet answer as to what payment terms are acceptable in a specific situation, but it is to show the range of possibilities that exist and could be your new reality.

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