IACCM
International Association for
Contract & Commercial Management

# Payment Terms:
# Do Large Companies Abuse Their Power?

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Governments are increasingly focused on 'fair' contract terms, seeking especially to protect small businesses. Payment terms are of particular concern and regularly feature in the media.

## But to what extent is there a real problem?

This report – based on a survey conducted in April 2015 – confirms that payment terms are an area of significant focus in today's trading relationships, with over half the 600 respondents indicating that there is growing contention. This seems to be driven by the policies of a minority of large corporations, leading to not only longer payment periods, but more difficulty in getting paid.

## Executive Summary

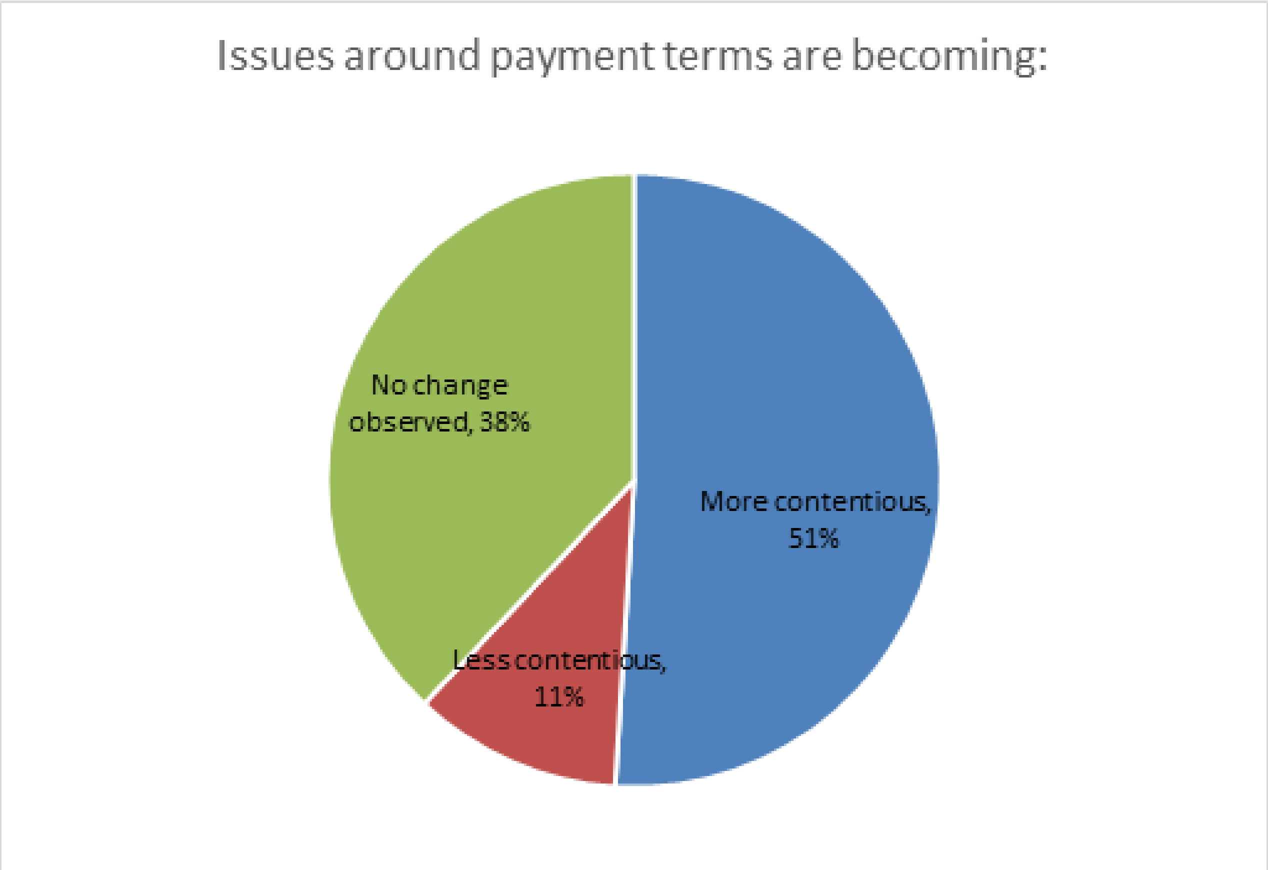
- 51% of survey respondents say negotiation of payment terms is becoming more contentious
- 70% of companies have adjusted their standard payment terms in the last 2 years
- 18% of major corporations now pay in 90+ days
- The 'norm' or target for suppliers remains 30 days
- Outsourced accounts payable centers often delay payment and damage the reputation of their principal
- European companies are the most likely to have outsourced their accounts payable
- There is an increased push by buyers for early payment discount
- Negotiation power is the biggest driver of variation in terms (not geography, market sector). Nature of relationship is also important
- Smaller companies have more difficulty in getting paid
- There are significant international variations in 'triggers' for invoicing and payment

## Trends and expectations

Survey respondents expect:

- Continued pressure to extend payment period
- Increased level of factoring / supply chain finance
- More discounts for early payment
- Continued standardization across business units

51% of contract managers say that payment terms have become a more contentious issue in their negotiations, with many smaller companies under pressure to accept longer payment periods.




Overall, 70% of companies say that they have adjusted their standard payment terms during the last 2 years.

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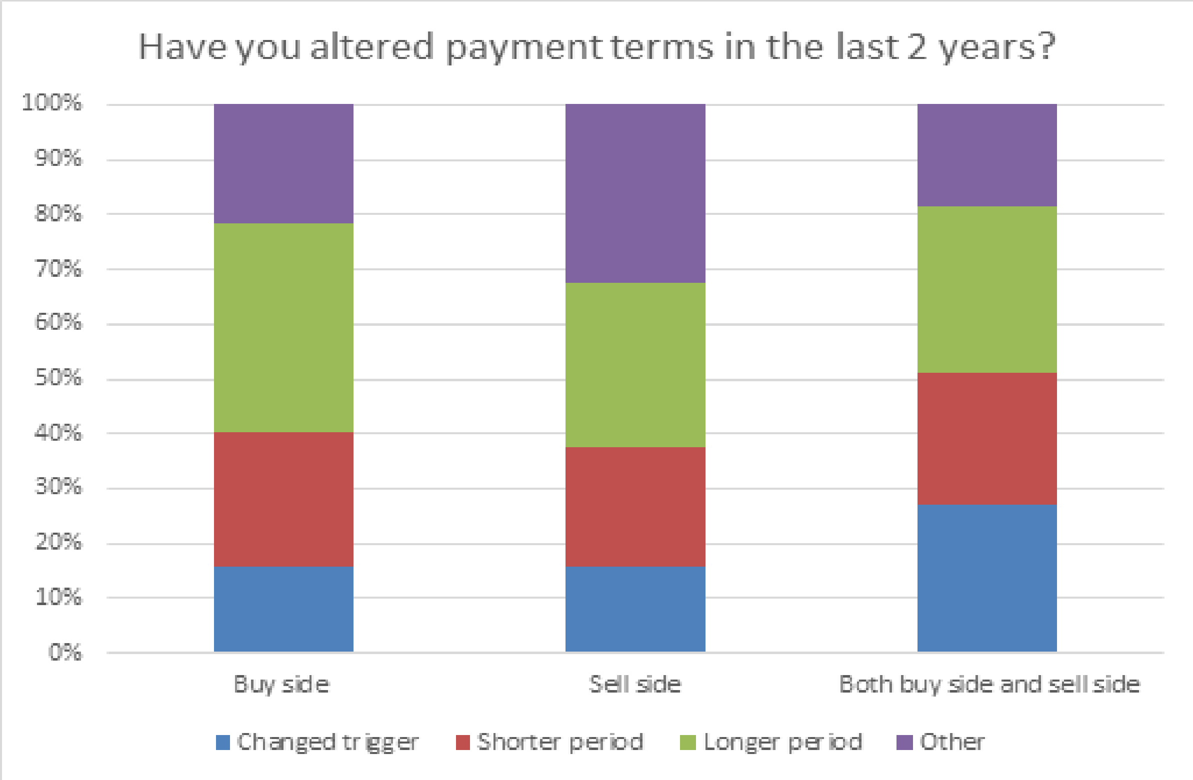
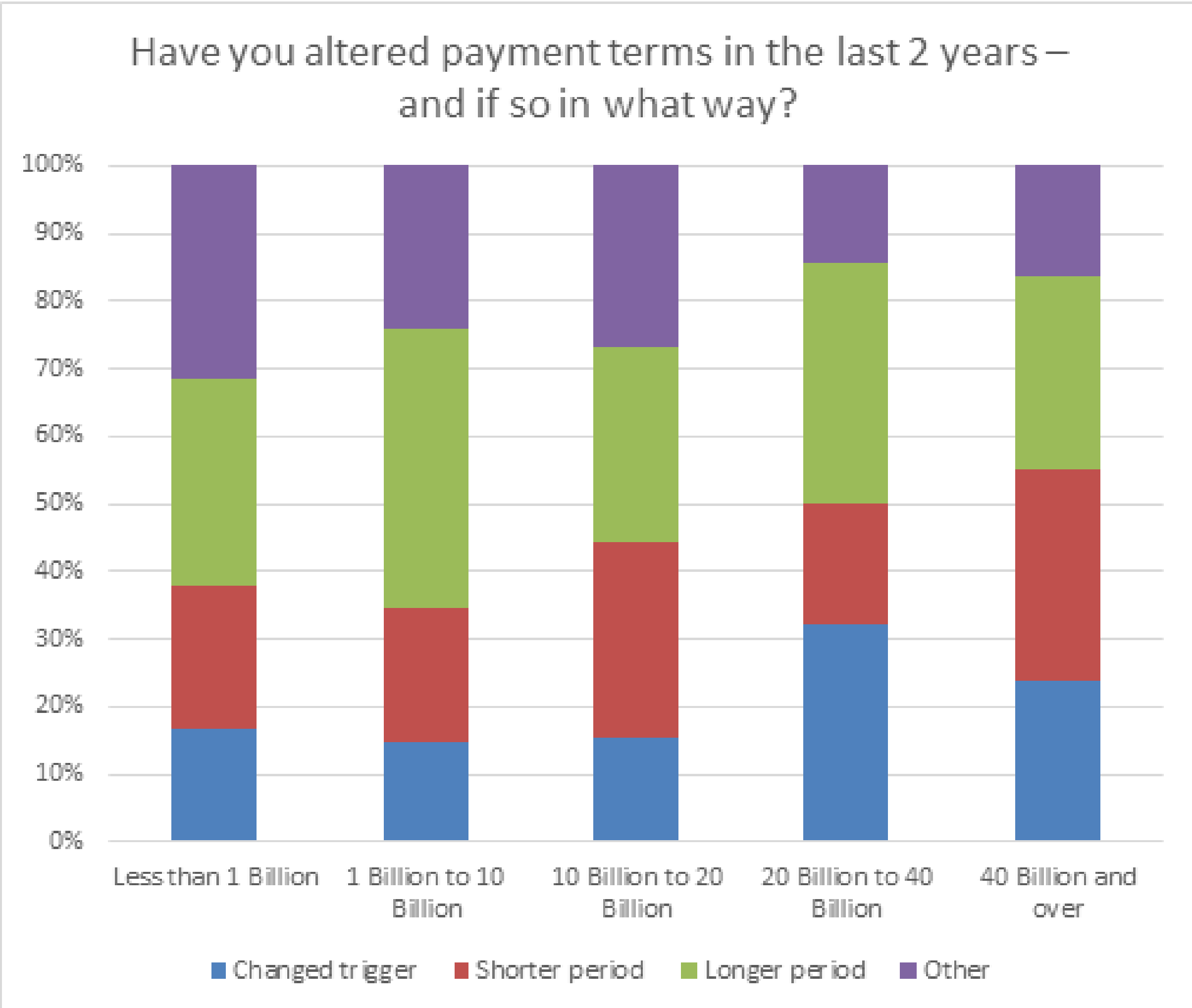

Have you altered payment terms in the last 2 years?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Buy side
Sell side
Both buy side and sell side
Changed trigger
Shorter period
Longer period
Other


Have you altered payment terms in the last 2 years – and if so in what way?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Less than 1 Billion
1 Billion to 10 Billion
10 Billion to 20 Billion
20 Billion to 40 Billion
40 Billion and over
Changed trigger
Shorter period
Longer period
Other

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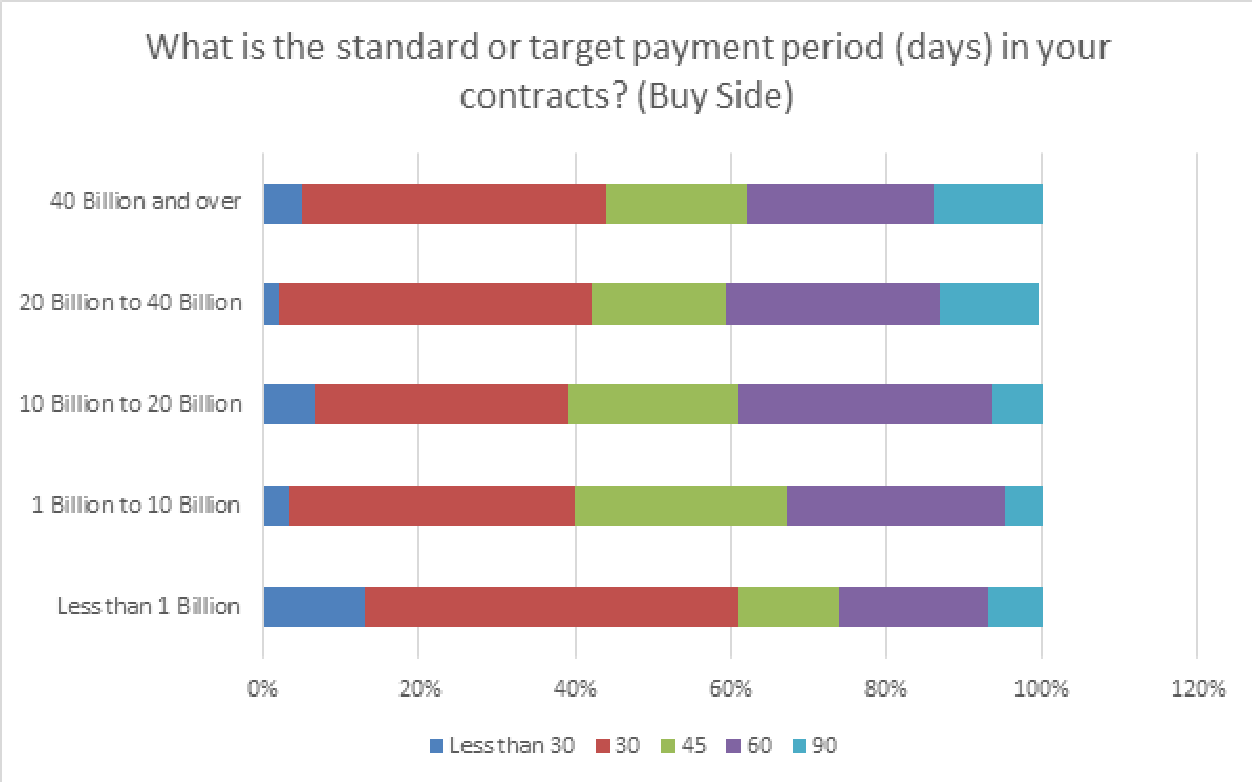
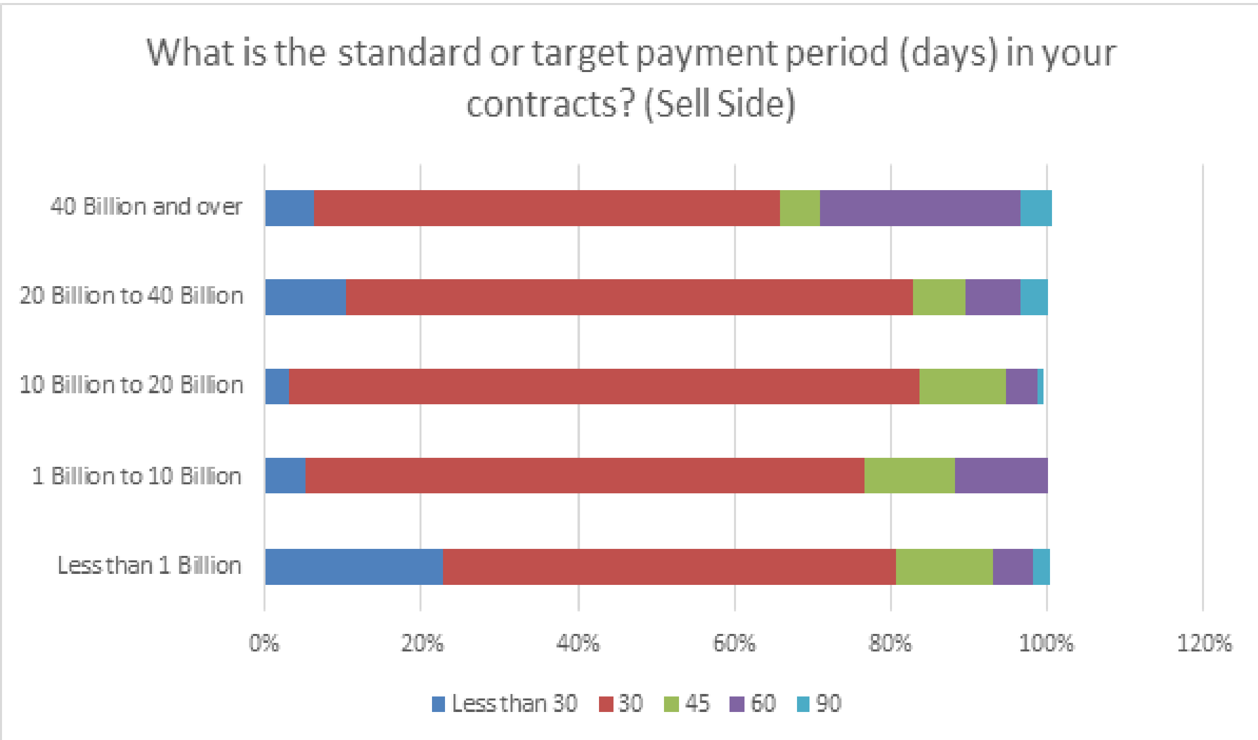
14% of major corporations (those with over $40bn annual revenue) acknowledge that they now pay suppliers on 90 day (or more) terms. This compares with just 6% of smaller companies (revenue up to $10bn). Larger corporations are also more likely to impose 'early payment discounts'.



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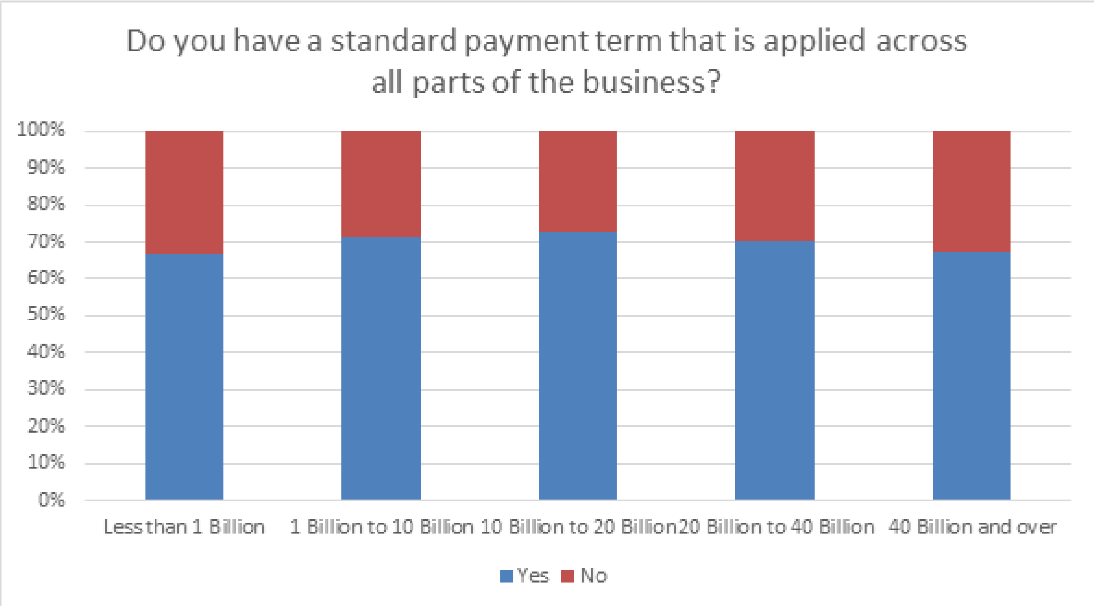
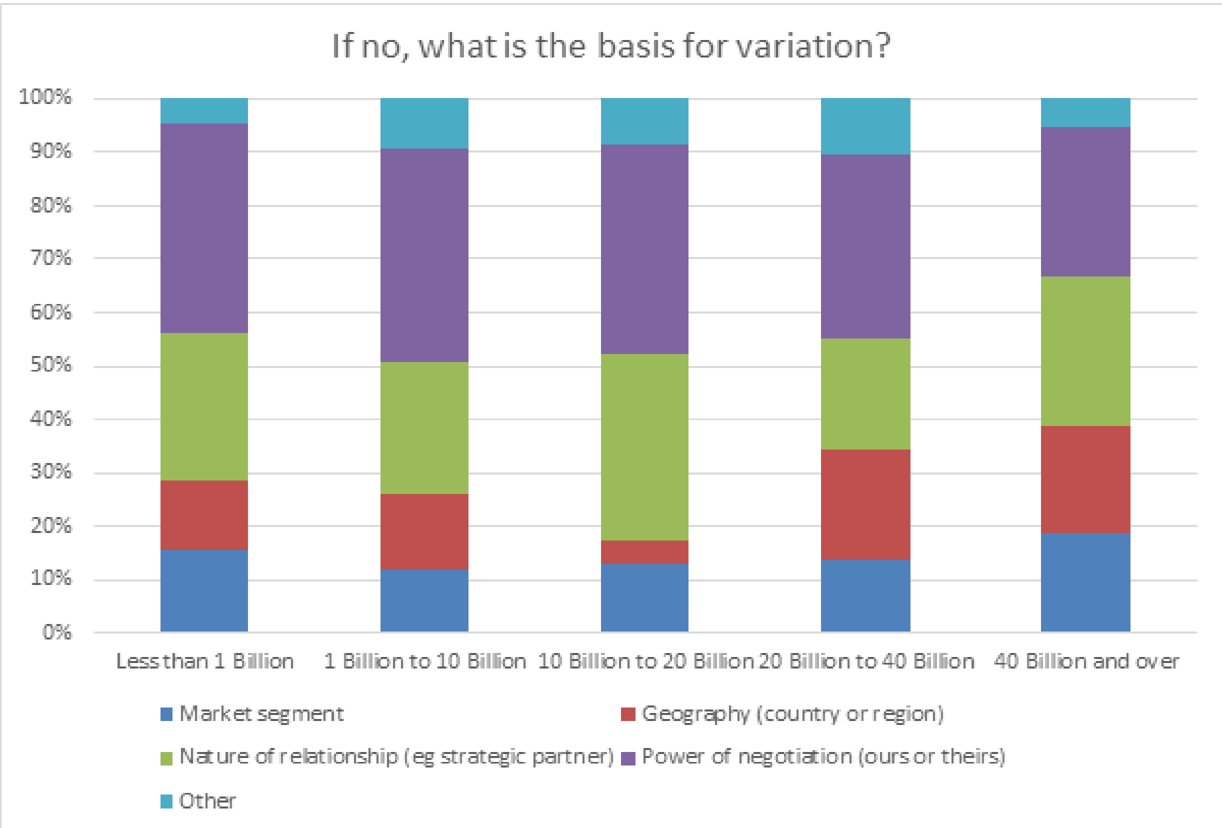
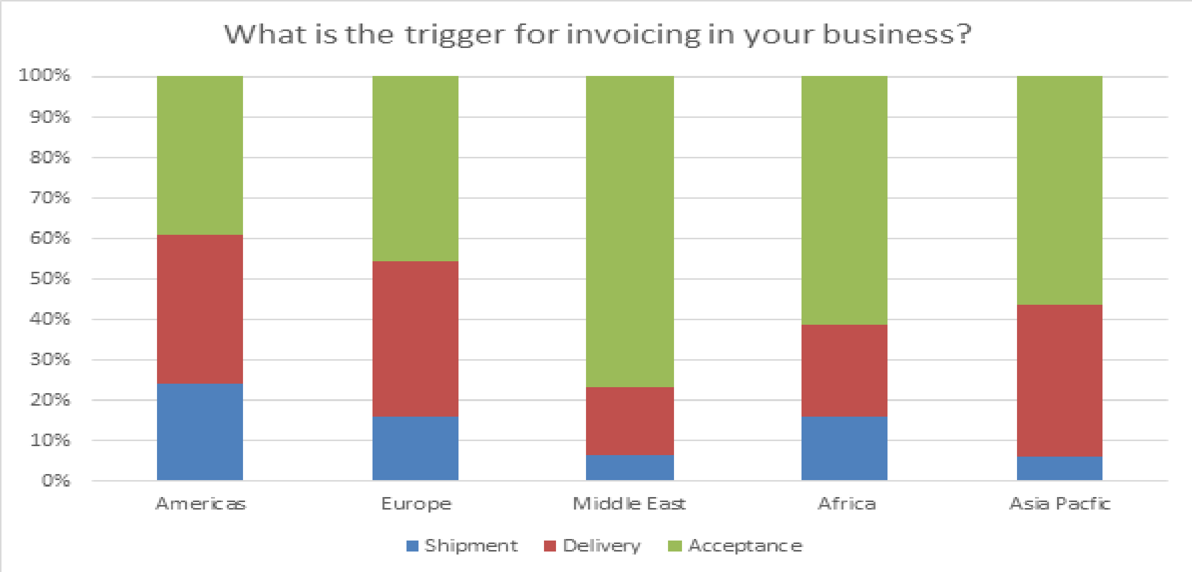
40% of smaller companies report that more onerous payment terms are being imposed on them by their customers. This compares with just 22% of large corporations facing the same pressure.

There is universal agreement that the main factor determining acceptance of these provisions is negotiating power (59%), followed by 'the nature of the relationship' (43%). Just 25% say that they vary terms based on geography or market segment – pointing to the trend towards universal consistency.

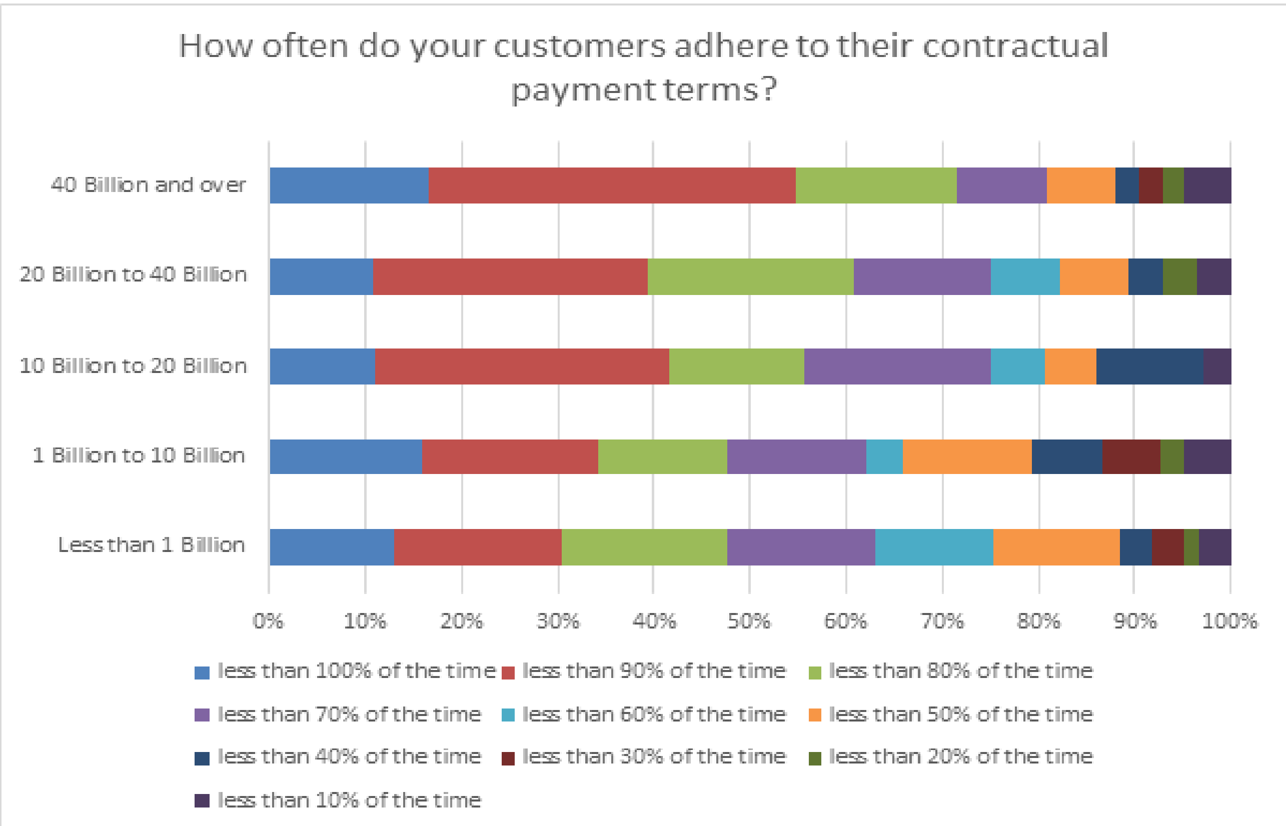


However, important regional variations remain in place. For example, in the US, the trigger for invoicing often remains 'shipment' – a concept rarely used elsewhere. In the Middle East, Africa and Asia, there is a greater tendency to invoice on acceptance and for the payment period to commence on receipt of invoice – but these more generous terms are accompanied by 30 days remaining the norm for the payment period.

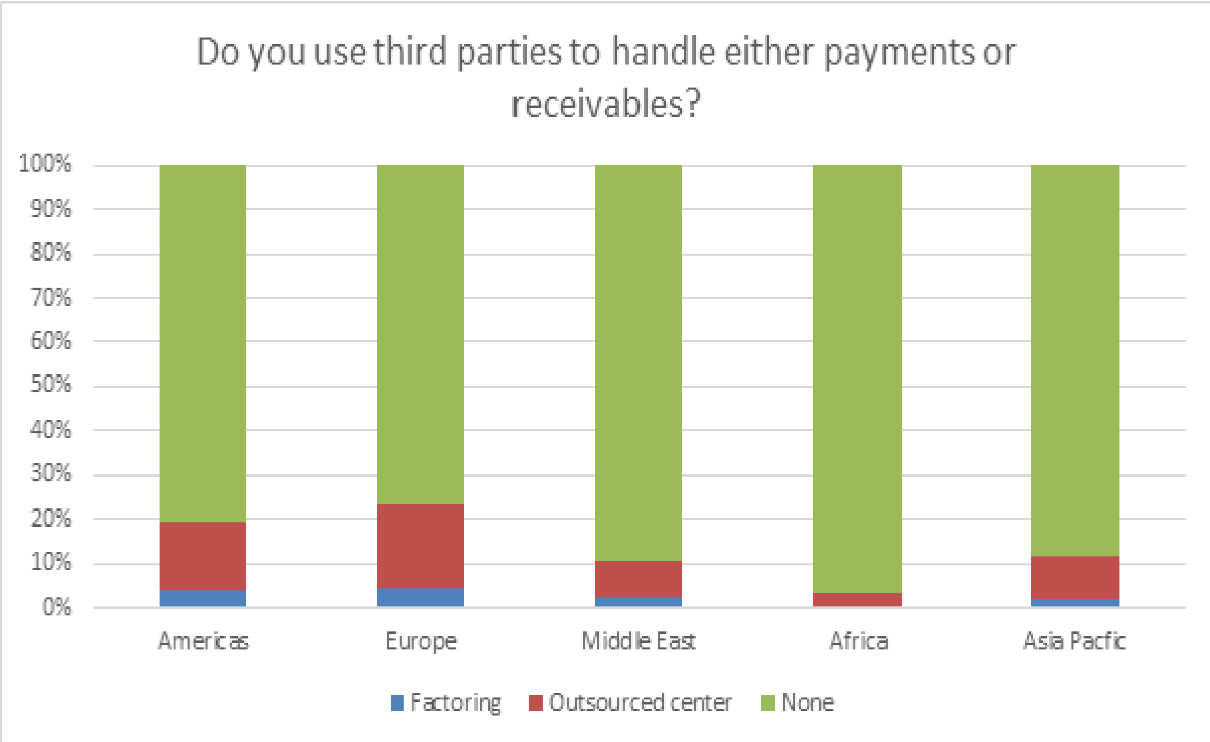



Smaller companies also experience greater difficulty in getting paid. 77% say that customers typically adhere to the payment terms, whereas this rises to 92% for large corporations.



The survey revealed that European companies are the most likely to use outsourced payment centers, with 19% making use of such services, versus 15% in the United States and just 9% in Asia.

Outsourced centers appear to add to the problems of getting paid, with a significant increase in the percentage of suppliers reporting delayed payment when an outsourced center is involved. These problems may make factoring, or supply chain finance, a more attractive option – although this is still relatively rare.




The reasons for extensive negotiation immediately become apparent when comparing the standard positions of buyers versus sellers. For example, 67% of suppliers still attempt to operate on 30 day terms.

Just 16% of suppliers include early payment discount in their contracts, whereas 40% of customers seek such discounts. When it comes to charges for late payment, the position is of course reversed – with 60% of suppliers seeking such terms and 29% of buyers accepting them.

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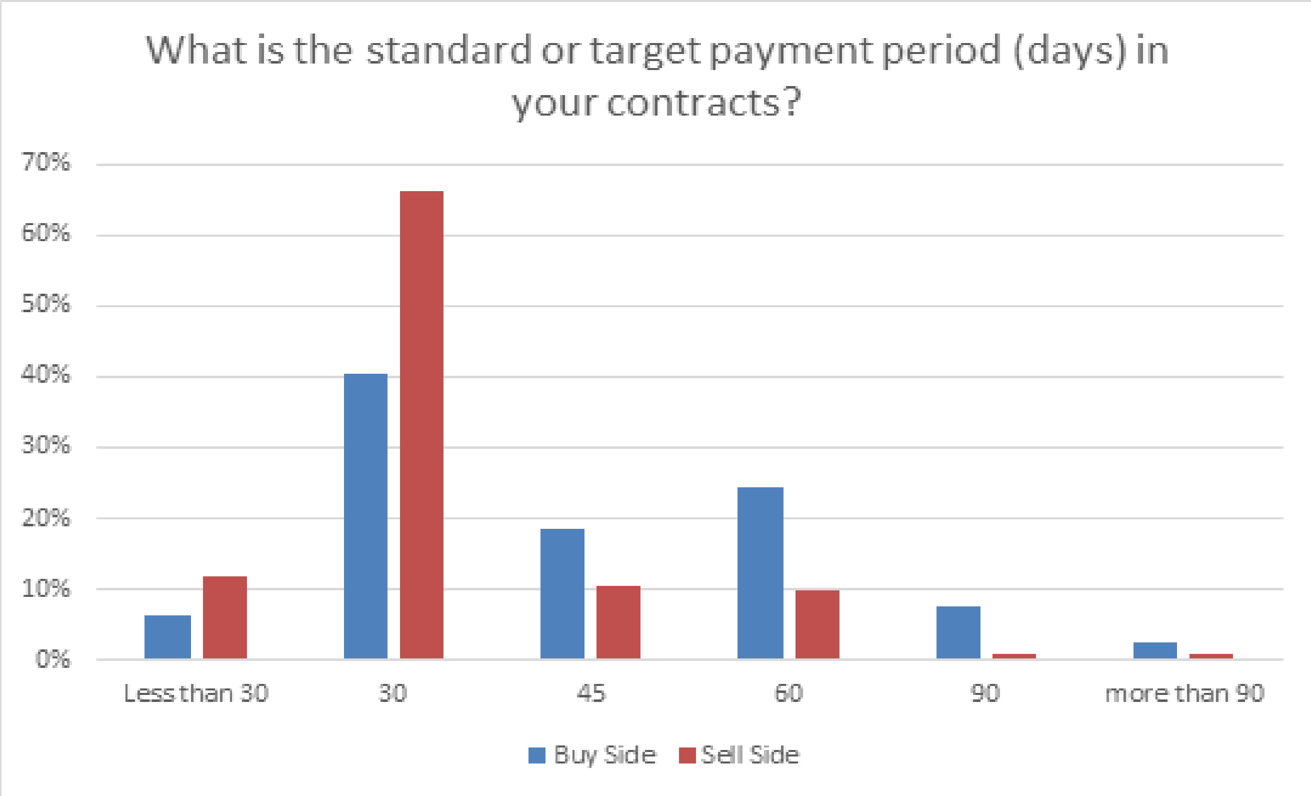
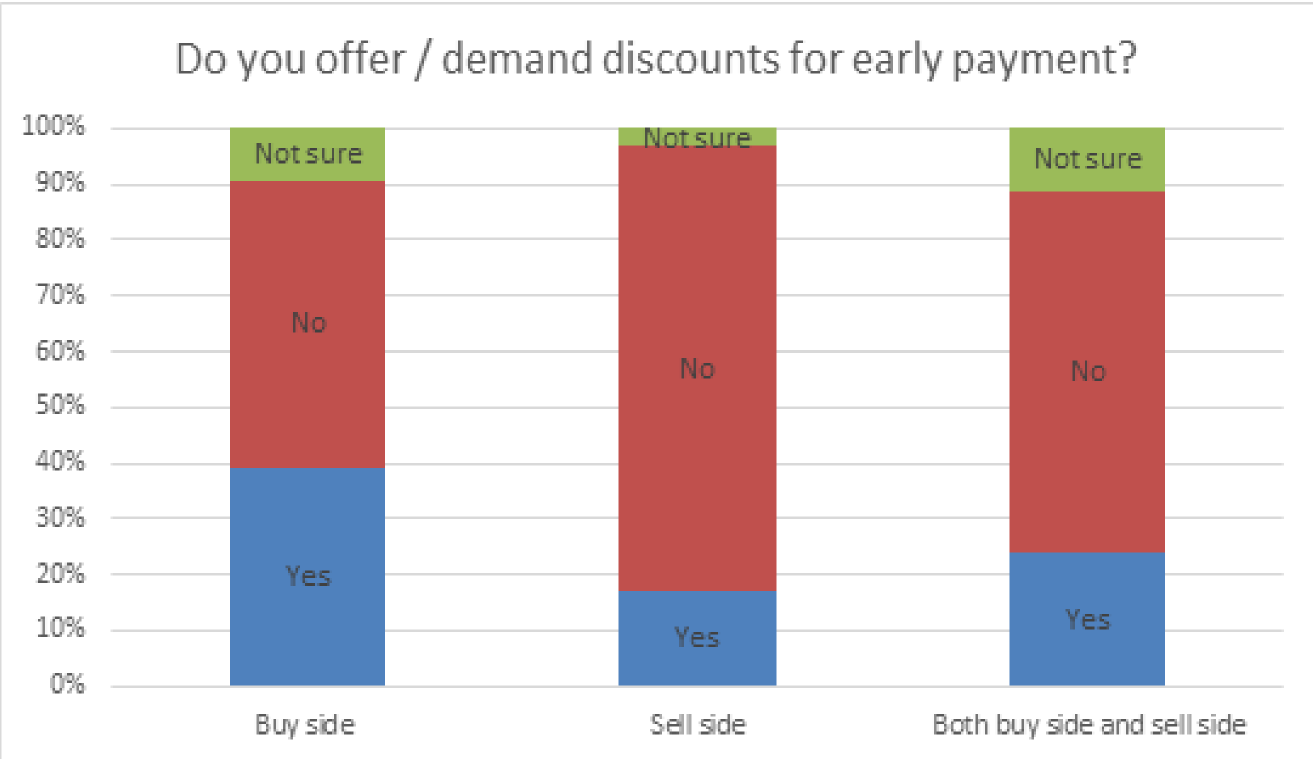

What is the standard or target payment period (days) in your contracts?
70%
60%
50%
40%
30%
20%
10%
0%
Less than 30
30
45
60
90
more than 90
Buy Side
Sell Side


Do you offer / demand discounts for early payment?
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
Not sure
No
Yes
Not sure
No
Yes
Not sure
No
Yes
Buy side
Sell side
Both buy side and sell side

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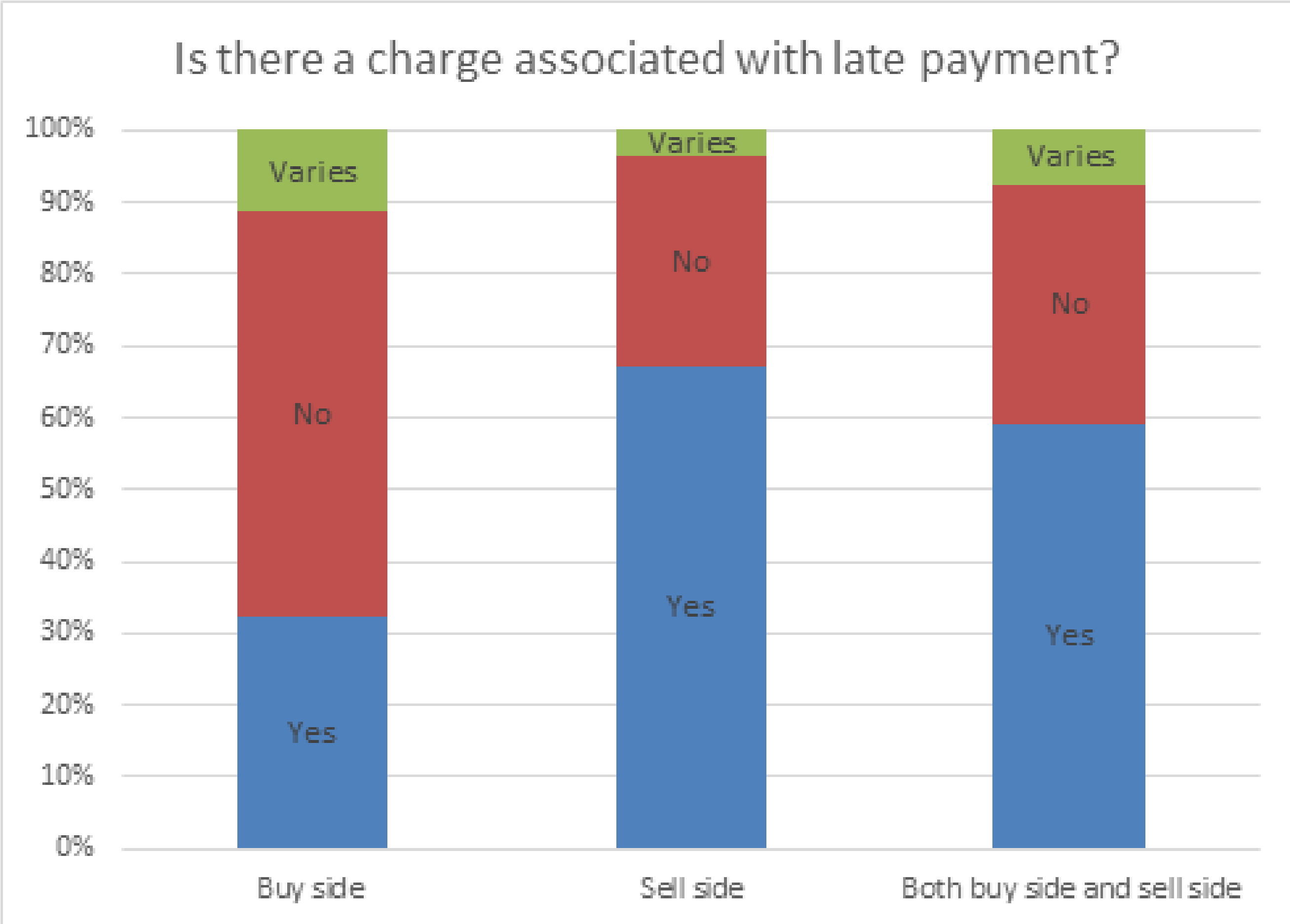


## Conclusion

Many of those surveyed do not expect any reduction in the pressure on payment term negotiations. They anticipate that businesses will continue to see extended payment as a mechanism to enhance cash flow; they also anticipate increased levels of factoring / supply chain finance; more discounts for early payment; and continuing standardization across business units.

A key catalyst for change – not apparently considered by survey participants – is the potential intervention by Governments. Payment terms are high on the list of the provisions that they consider unfair and damaging to small businesses. Therefore government authorities in the European Union and Australia are among the first to be taking action and introducing legislation. The effects of this are not yet evident in the survey data.