

Rachel Reeves MP
Chair
Business, Energy & Industrial Strategy select committee

By email: BEIScom@Parliament.uk

13 July 2018

Dear Ms Reeves,

Thank you for your letter of 7 June regarding the committee's inquiry into small businesses and productivity, and the impact of payment practices on small businesses in supply chains. In support of this, and in reply to your questions, I am providing information on behalf of GSK.

GSK relies on our suppliers to enable us to do business, and we want our suppliers to know they can rely on us, too. To achieve this, we believe it is important for GSK to pay suppliers on time and according to agreed terms. GSK is committed to treating our suppliers fairly and is a signatory to the Prompt Payment Code.

GSK's approach to payment practices also recognises the pressures faced particularly by small business and SMEs, which I know are the focus of the committee's inquiry. We are committed to appropriately supporting our smaller suppliers and I set out below the ways in which we do this.

GSK's payment practices

In support of small business and SMEs, GSK offers preferential 30-day payment terms for SMEs. As part of this support, we wrote to all suppliers in 2016 about the availability of our 30-day terms for SMEs, and have recently improved our supplier website to make the information about the preferential terms clearer and more visible. Since then, GSK has continued efforts to convert SMEs to our preferential terms, and take up now stands at approximately one third. We had a constructive meeting with the Small Business Commissioner recently on this topic.

In regard to payment, GSK has always worked with the goal to pay all our suppliers on time and according to agreed terms. To do this, we have a number of systems in place:

- **e-Invoicing Platforms:** We have invested in e-invoicing to simplify administration for our suppliers and for GSK. In practice, this allows real-time online viewing of invoice status and auto-PO to invoice conversion which create efficiencies and helps with making payments on time.
- **Our Supplier website:** We include clear information about our payment policies and processes on our website, so suppliers know what to expect and how they can ensure their invoices are accepted first time, such as using the e-invoicing platform so that invoices reach the right person for approval and including the relevant PO number.
- **Customer Relationship Management (CRM) Systems:** We have invested in CRMs to ensure effective and independent follow up and support to our suppliers to address issues as they arise.
- **Dedicated Helpdesk:** Our helpdesk is available five days a week for suppliers to make enquiries or raise any issues or concerns with us. Our website, CRM and Helpdesk

channels also enable suppliers to raise complaints with us, which we receive on occasion and are swiftly resolved as a priority.

- **Performance monitoring:** We monitor our performance related to process and payment efficiency and customer experience through an established, standard set of monthly key performance indicators which are analysed for improvement intervention as and where required.

While we are pleased with the systems and processes we have put in place as described above, we do believe we can still do more. We have decided, therefore, to take further steps to support SMEs, which we have begun to implement:

- We are taking immediate steps to convert eligible suppliers to our 30-day payment terms for SMEs, reaching out to our suppliers with information to support them in this process.
- We are looking at options for potentially expanding the use of payment cards for settling small sums. This would provide our SME suppliers with an additional option for receiving payment more quickly.

While our current focus is on SMEs, where the issue of prompt payment is most acute, we will also continue to seek to improve our payment performance for all suppliers in line with the Prompt Payment Code. We will consider how we can best achieve this, in due course.

While the committee's interest is on payment practices towards SMEs, GSK is separately looking more broadly at our business relationship with small and minority or women-led suppliers in the future. We believe there is an opportunity to engage and help them do more business with us, and to grow. This work is at an early stage and we hope to have developed our plans by the end of the year.

Answers to the committee's questions

Finally, please see our replies to your specific questions below. For your information, we have recently written to the Office of the Small Business Commissioner in reply to the questions he has raised separately with us, and have shared this with the committee clerk for the committee's ease of reference.

1. Is your company a signatory to the Prompt Payment Code? If not, have you previously been a signatory?

Yes, GSK is a signatory to the Prompt Payment Code.

2. Have you ever been challenged by the Prompt Payment Code Compliance Board over your payment practices? If so, what was the result of this challenge?

In 2014, we were contacted by Philip King, Chief Executive of CICM, the administrators of the Code, following a supplier not being paid on time. We investigated and found technical and process issues that we sought to resolve to prevent a re-occurrence, and the invoice was paid in full. We responded to Mr King in approximately March 2014 to update him on our actions and assure him of our support for the Code.

3. What is the minimum, maximum and average total number of days it takes you to pay suppliers in full after receiving goods and services? What is the breakdown in terms of the number of days agreed in the original contract and the number of days payment was late (i.e. beyond the days specified in the contract)?

GSK's duty to report data is still being collated and analysed for the statutory deadline of 30 July and so at present we are unable to give data on length of time to pay; we will be happy to update the committee with our duty to report data in due course. GSK did not previously record this data and has invested to put new systems in place to enable us to meet the duty to report requirement. However, as our usual payment terms for larger suppliers are to pay in our next payment run after 60 days from receipt of a compliant invoice, we would expect our average payment days to exceed 60 days.

GSK has, however, measured our payment on time performance in accordance with the industry benchmark definition and I hope this information is useful. We pay invoices in the UK on time in 92% of cases for all suppliers and 91% for SME suppliers on our preferential terms. However, we are not complacent and continue to seek to improve on our payment on time (POT) performance.

Please note that the Government introduced a new definition of payment on time for the duty to report, such as additional days for clearance of payments, and as a result we expect our data will show a somewhat lower payment on time performance to that given here.

4. If you pay small suppliers within the number of days specified within a contract, do you deduct a discount for paying on time? If so, what percentage is this discount of the total of money owed and on average how many days did you agree to pay by?

No, we do not undertake this payment practice, and we do not think this is an acceptable payment practice. GSK is committed to paying our suppliers on time as per agreed terms. The amount due is not discounted by whether payment is made on time or not.

5. Do you outsource your invoicing and payment activities to a third party? If so, do you charge suppliers to use this service and what percentage of the total money owed do you deduct?

Invoice processing and payment activities have been outsourced to the same global supplier for over 10 years. All of these services are closely monitored, measured and managed by a dedicated team retained by GSK. Specifically related to e-invoicing, GSK has invested in a platform run by Tungsten. The system allows for real-time online viewing of invoice status, rather than suppliers making multiple enquiries to track their invoices, and also auto converts invoices from purchase orders, thereby reducing administrative burden for SMEs and other suppliers.

For SMEs, the first 52 invoices are free and thereafter at nominal charge of £1.50 for each block of 25 invoices. There are no other charges for using our invoice and payment services.

6. Do you operate a retention payment policy with your suppliers (i.e. withhold a percentage of owed money back)? If so, what percentage do you hold back, how is this money held and how is this agreed with your suppliers?

There is no retention policy except for certain types of expenditure where stage payments are contractually agreed in advance and are the industry norm (eg. construction of assets).

7. If you run special offers (e.g. 2-for-1 or a percentage reduction) do you consult with the supplier of these goods and services before you advertise and run them? Who bears the cost of the offers – you or the supplier?

No GSK does not do this.

8. If you collect analytics and data concerning the sale of goods and services from your supply chain do you share this with suppliers? If so, do you share this for free or do you charge them for it? If the latter, how much do you charge?

No GSK does not do this.

I trust these answers are helpful to the committee in its ongoing consideration of productivity challenges facing SMEs.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M. Heathcote', with a stylized flourish at the end.

Mark Heathcote
SVP, Finance Services

Cc: Chris Shaw, Clerk, Business, Energy & Industrial Strategy select committee