



Late payment uncovered

A constant thorn in the side of small firms, late payment has exacerbated cash flow problems in the recession, but a survey conducted by Hilton-Baird Financial Solutions with *Credit Today* reveals what steps are being taken to manage an endemic problem

Recession or recovery, boom or bust; late payment will never go away as a component embedded into the fabric of running a small and medium-sized enterprise (SME).

While it will come as no surprise to owners of small businesses that large corporate firms remain the biggest culprits, exercising their leverage to the cost of near breaking point for many SMEs, the common mindset of those bosses in addressing the issue has remained something of a mystery – until now.

Results of a survey of SMEs conducted between business finance specialist Hilton-Baird Financial Solutions and *Credit Today* unveils not only the extent to which late payment is impacting small firms, but also what measures are being employed to alleviate cash flow pressures, the reasons behind certain tactics and why fear reigns supreme among many SMEs.

The survey shows that out of 582 firms who responded,

80 per cent had noticed an increase in the time taken by debtors to pay invoices. Large corporates were singled out by the largest proportion of respondents – 23 per cent – as the type of firm taking longer to pay.

So far, so familiar, but more revealing answers showed that 84 per cent of respondents did not add on late payment interest despite the fact that 86 per cent were aware of their entitlement to charge debtors for late payments.

And although 68 per cent of SMEs had changed their approach to collections during the recession, only 10 per cent said they had already or would consider outsourcing their credit control function.

However, of those who had considered outsourcing, 40 per cent said the purpose was to collect aged debt while 52 per cent said they would consider tying this into a funding solution such as invoice finance.

Risk exposure

A fairly substantial exposure

among companies to the financial wellbeing of their clients also emerged from the survey. A total of 84 per cent said they do not credit insure against any debtors, although of those who had taken out trade credit insurance policies, 38 per cent had seen limits reduced and 36 per cent had seen limits withdrawn.

While one would suspect that more resources among smaller companies would have converged on the collections function, 84 per cent of respondents said their collections team had remained the same – only 12 per cent had increased staff levels in this area.

Email and online channels remained the most popular option among respondents for chasing debts, with 21 per cent opting for this method of collection, closely followed by standard chasing letters at 17 per cent.

Overall, the results from *Credit Today* and Hilton-Baird's survey chime with several other reports which have detailed the extent of cash flow

pressures among small companies.

Last month a study from BACS, a trade body for the payments industry, revealed that SMEs are waiting 41 days longer for invoice payments than their agreed payment terms.

There was an increase of 9.5 days from June 2009 until the end of the year that SMEs had to wait for invoice payment.

Even this report emerged the same day that research from Natwest and Royal Bank of Scotland revealed that SMEs are struggling to reduce a £63bn mountain in unpaid bills. The banks estimate the collective value of invoices paid outside the agreed time has now reached £62.87bn.

But while these figures may not surprise those at the helm of a small business, the different approaches to cash flow pressures, as revealed in *Credit Today* and Hilton Baird's survey, were sporadic cases. They are unveiled on the following page. **CT**



EVETTE ORAMS, MANAGING DIRECTOR, HILTON-BAIRD FINANCIAL SOLUTIONS

While the recession may officially be over, our research study makes it clear its shockwaves are still being felt throughout the UK's SME community.

Of the vast majority of business owners questioned, 80 per cent witnessed an increase in late payment over the past six months. What's more, 37 per cent of businesses we sampled admitted to delaying payments to their own suppliers to keep cash flowing, with a further 28 per cent saying that they have employed this

practice on occasion as they struggle to survive.

In today's challenging trading conditions, starving businesses of cash can restrict their ability to grow their way out of recession and even lead to insolvency. There are ways for SMEs to mitigate this risk but, surprisingly, our research reveals that take up for this support is very low. Only 10

per cent of our sample said they would consider outsourcing their collections function to make it more efficient. Just 16 per cent of businesses credit insure any of their debtors and, while 86 per cent of respondents know they are entitled to charge interest on late payments, only 16 per cent actually do so.

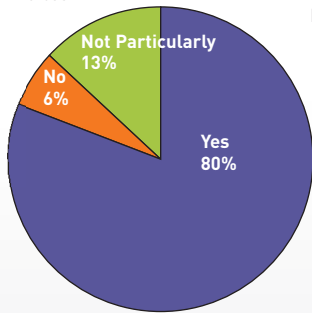
The picture emerging is of struggling businesses facing a catch 22 as they fear risking the loss of clients by calling in debts. However, one has to question how valuable clients who fail to pay on time really are.

Invoice finance can poten-

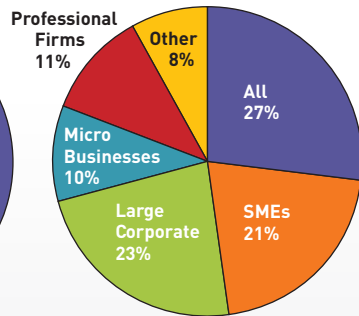
tially provide a solution by enabling businesses to release cash from sales immediately, alleviating cash flow issues. Non-recourse options can incorporate debtor protection to guard against debtor failure or protracted default, whilst factoring can incorporate a dedicated credit management function.

Not surprisingly 52 per cent of those respondents who said they would outsource their collections, stated that they would consider invoice finance as a solution – we expect many more businesses could benefit from this option.

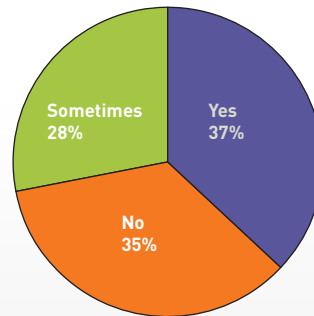
Have you noticed an increase in the time it takes your debtors to pay your invoices?



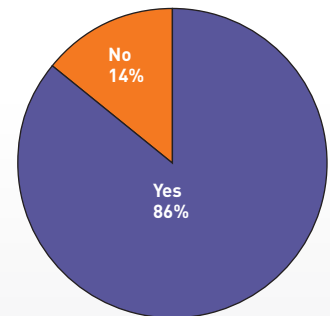
Which type of debtors are taking longer to pay?



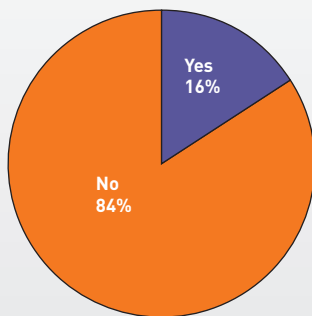
Do you delay paying your suppliers to maintain your own cash flow?



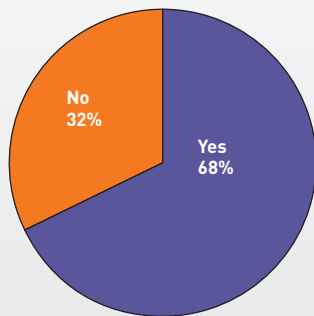
Are you aware that you are entitled to charge debtors for late payments?



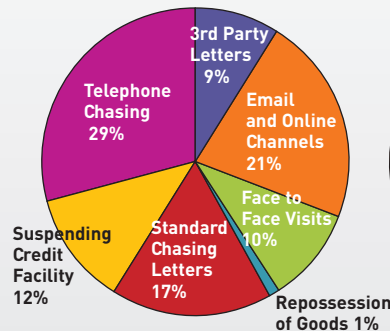
Do you add on late payment interest?



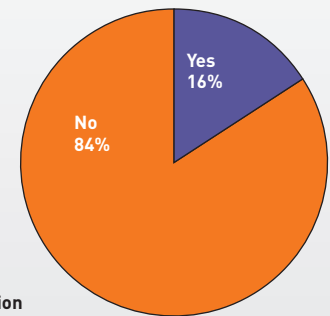
Have you had to change your approach to collections in light of the current climate?



What methods have you used more frequently in the last 12 months to collect debt?



Do you credit insure any of your debtors?



The fear factor

It's a sign of the impossible situation in which SMEs find themselves, but fear of jeopardising client relationships emerged from the survey as a huge disincentive against charging late payment interest.

Some 190 respondents (33 per cent) to the questions indicated that either fear of losing customers and their repeat business, or general anxiety over upsetting the client, was the reason behind not adding

on late payment interest.

This symptom was prevalent regardless of the industry in which respondents operate.

One respondent said: "As a self employed contractor (charging late payment interest) would be seen as a challenge to the client's authority. They know this and it is prevalent in the public sector, which is where most of my work is, particularly at this time of the year when their budgets are running low or indeed have

run out entirely. "I know of one case where a client of mine working for a local authority was owed over £250,000 because the authority ran out of funds in January, but still expected the contractor to continue to provide a service."

Another SME remarked: "It is very difficult in the construction industry as all aspects of the work are looked at and we would not get the repeat business. It's not worth the risk."

The ways in which respon-

dents had changed their collection strategies in the recession were extremely varied.

One respondent said: "The last interim payment is always the one they hold back the longest. This is not just because of the recession. There is the classic list of excuses including having to pay the tax man first. We therefore changed the percentage of stage payment due at the end of a contract down from 33.3 per cent to ten per cent."