



Hilton-Baird's Late Payment Survey

January 2012

in association with Credit Today



Introduction

“THE sustained uncertainty surrounding the health of the UK economy continued to adversely affect the health of the small and medium-sized enterprises at its heart during the second half of 2011.

“Though a limited access to credit and low consumer confidence have significantly impacted businesses’ growth potential, the issue of late payment remains a limiting factor that has proven a key factor behind the stagnated economic growth.

“Bacs Payment Schemes reported at the beginning of November that a record £33.6 billion was owed in late payments to SMEs, an unsustainable sum that has affected the majority of firms in one way or another.

“The purpose of this Late Payment Survey, an annual study in conjunction with Credit Today magazine, was therefore to ascertain just how many firms were having to contend with late paying customers in the second half of 2011, and to understand what measures they were taking to safeguard their business against it.

“We also take a look at what the primary impact of late payment has been, who the biggest offenders are and also the use of HM Revenue & Customs’ Time To Pay scheme, which is widely perceived to be in the process of being wound down.

“Thank you to all those who took the time to partake in this survey and I hope you find the results interesting and useful in the ongoing battle against one of the biggest challenges facing SMEs.”

Alex Hilton-Baird
Managing Director
Hilton-Baird Collection Services

Background to research

HILTON–BAIRD Collection Services' research was undertaken among 683 businesses across a range of sectors, regions and sizes in order to provide a representative sample of the UK's SMEs.

This latest study represents our second wave of research:

- Wave 1: July 2011
- Wave 2: January 2012

The results demonstrate the considerable pressures that business owners and finance directors are currently facing with regard to late payment.

Key findings

THE delay in the time it took customers to pay beyond agreed credit terms fell by five days over the six months to January 2012 to an average of **17 days**. This decrease was primarily aided by respondents offering longer credit terms in that period, an average of **32 days**.

The improvement was echoed by the 5% fall in the proportion of businesses reporting an increase in the time it took their businesses to pay their invoices over the same period, now **62%** of respondents.

As a result, the age of our respondents' debtor books also improved, with **66%** now classifying less than 10% of their sales ledger as bad debt – up from 57% in July 2011.

Fewer firms are now having to spend more time chasing invoices (**76%**), pay suppliers later (**59%**) and increase borrowing (**38%**) than six months ago, though there were rises in those turning away new business (**12%**) and paying HM Revenue & Customs later (**36%**).

This led to one in five applying to defer their Crown arrears under the Time To Pay scheme

(**20%**), though **19%** of applications were rejected in the past six months.

Privately owned / limited companies were by far the worst offenders in the second half of 2011 (**41%**), followed by corporates / listed companies (**23%**).

The most common excuse for late payment was that debtors were waiting for payment from their own customers (**34%**), while there were significant rises in those reporting they can't afford to pay (**13%**) and that their terms take precedent (**10%**).

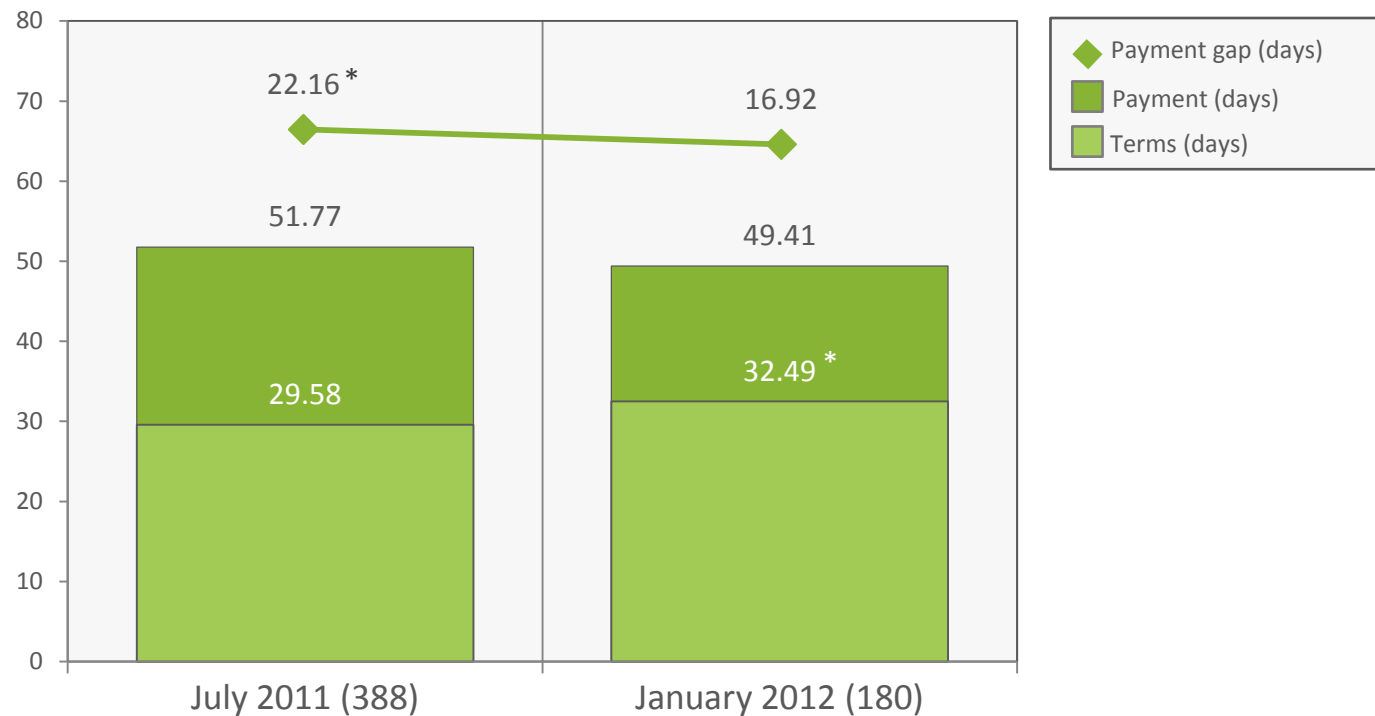
Constant reminding is now the most commonly used credit management strategy (**69%**), with new customer credit checks and suspending work / services both used by **47%** of respondents.

There was also a significant rise in the proportion of firms outsourcing their entire credit control function (**5%**), with the facilitation of the collection of overdue debts cited as the primary benefit (**43%**), closely followed by the reduction in in-house overheads (**38%**).

Delay in payment

THE delay in the time it took our respondents' customers to pay beyond agreed credit terms fell by five days in the six months to January 2012, demonstrating an overall improvement in SMEs' payment habits.

This was due in part to respondents extending their credit terms from 30 days in July 2011 to 32 days in January 2012, combined with customers improving the time it took them to pay from 52 days to 49 days over the same period.

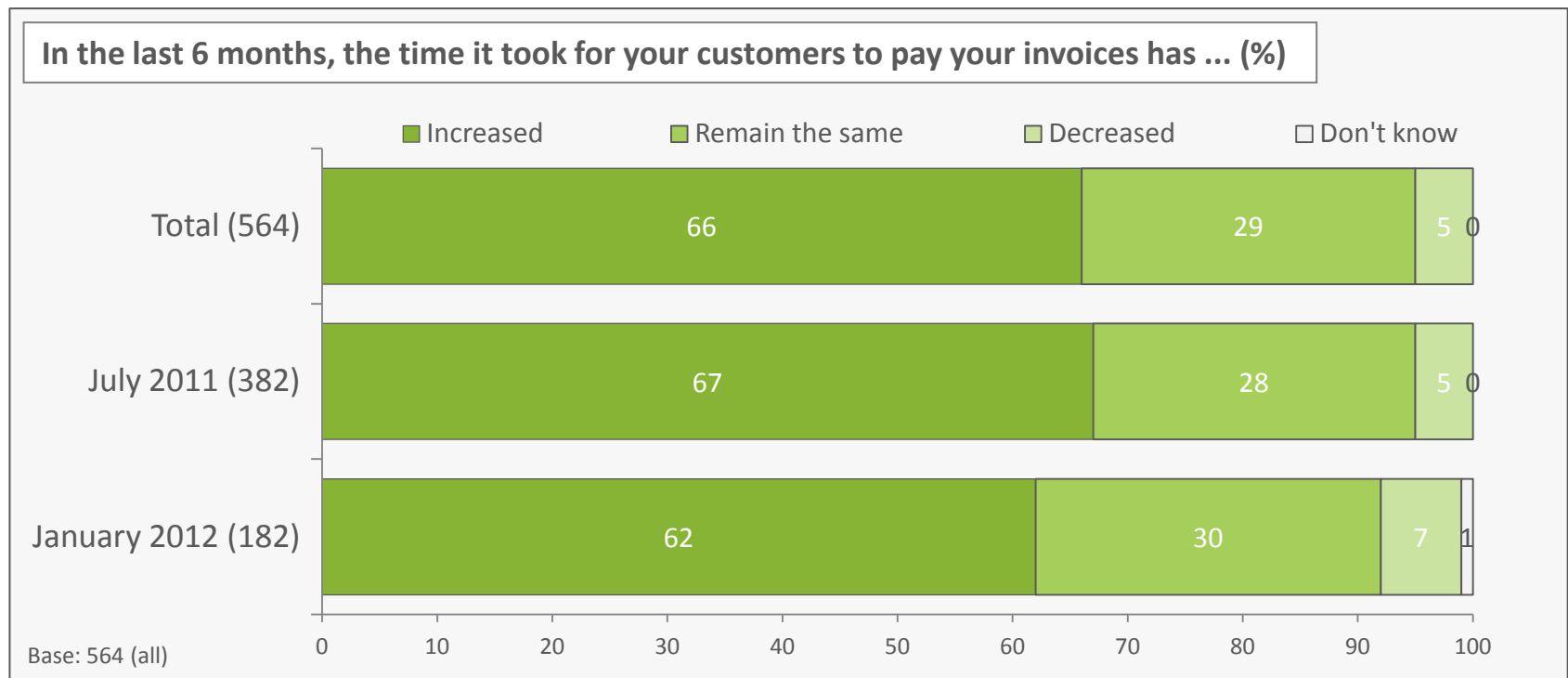


* Significantly different from the total score at 1% significance
Base: 568 (all answering questions 1 & 2)

Perceived payment punctuality

THERE was a fall in the proportion of businesses reporting an increase in the time it took their customers to pay in the second half of 2011, from 67% in July 2011 to 62% in January 2012.

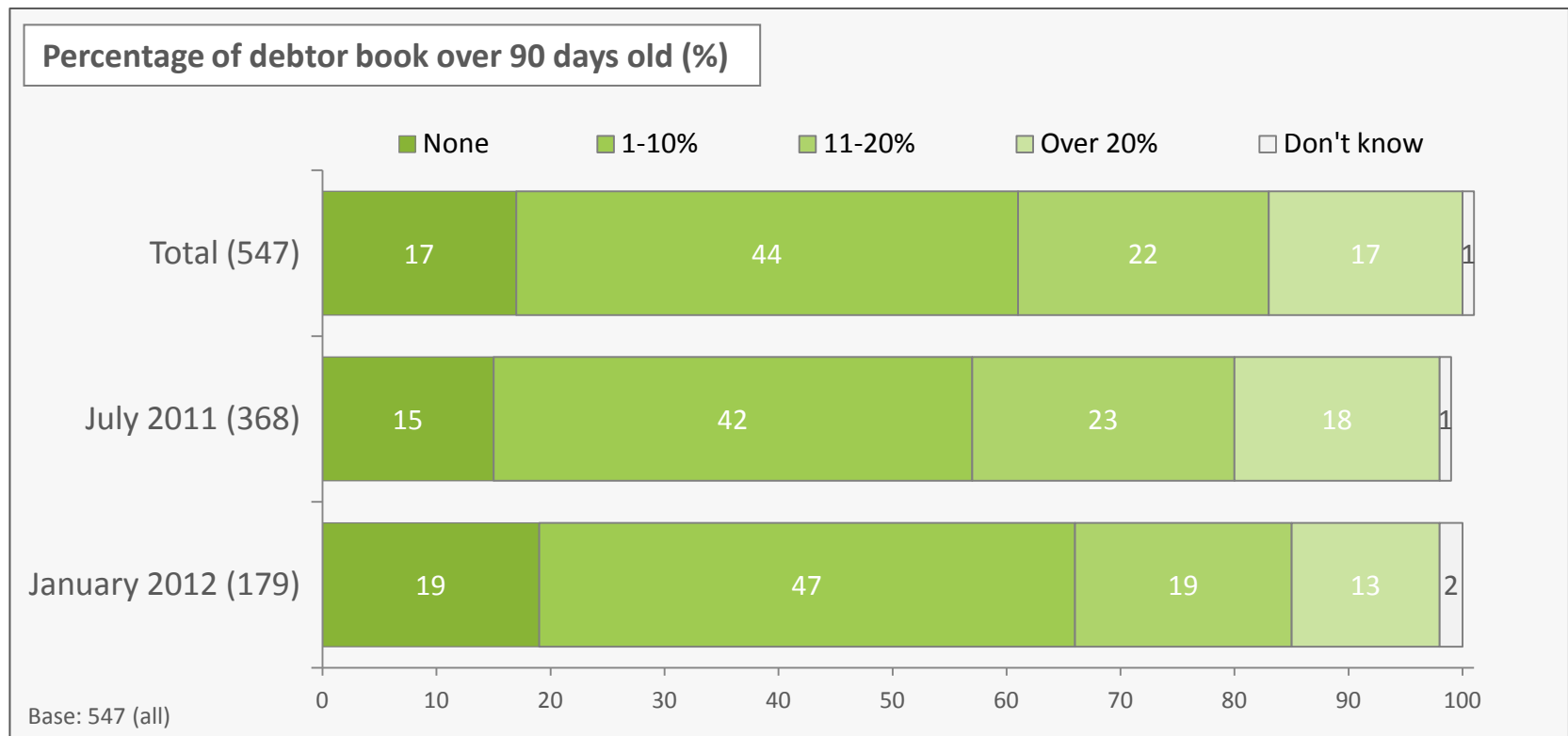
Similarly, the proportion of firms reporting a fall in the time it took them to pay increased by 2% to 7%, suggesting that payment punctuality improved in the second half of 2012.



Age of debtor book

THE age of respondents' debtor books improved during the six months to January 2012, with close to one in five now classifying none of their debtor book as over 90 days old (19%).

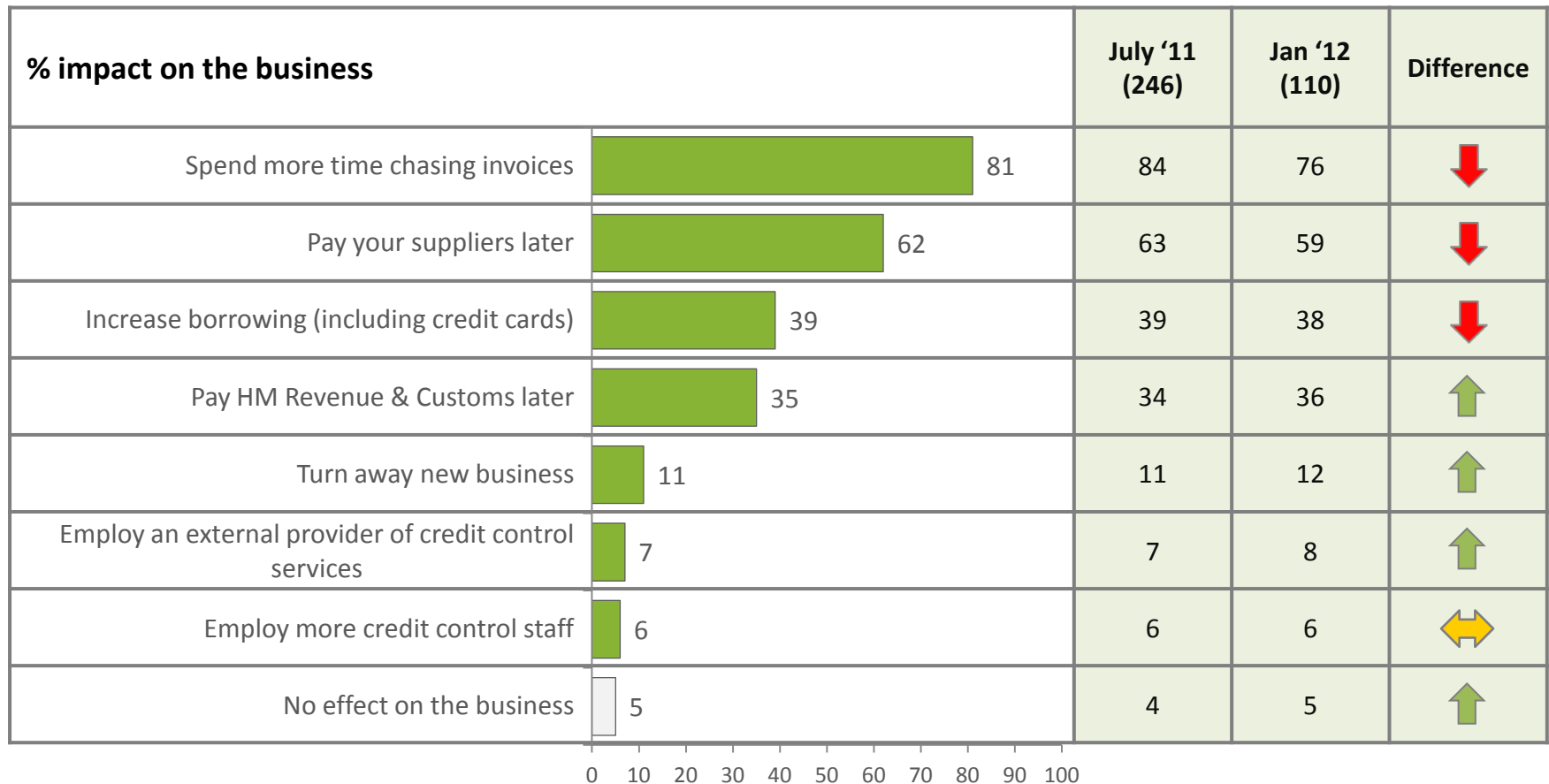
Additionally, 13% reported that more than 20% of their debtor book was over 90 days old, with 66% now classifying less than 10% of their debtor book as over 90 days old.



Impact on the business

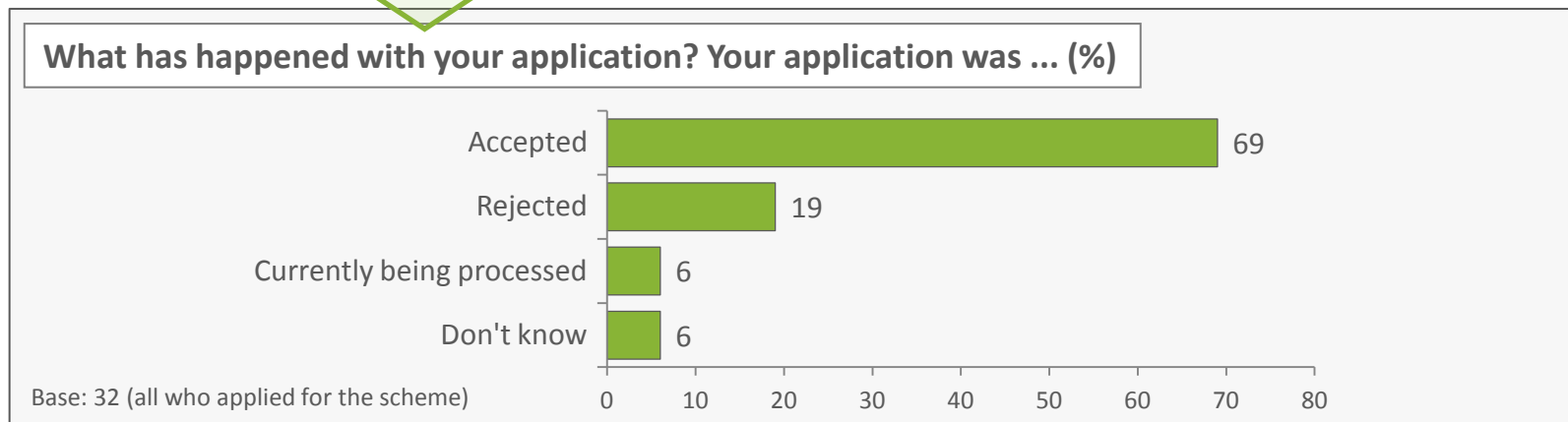
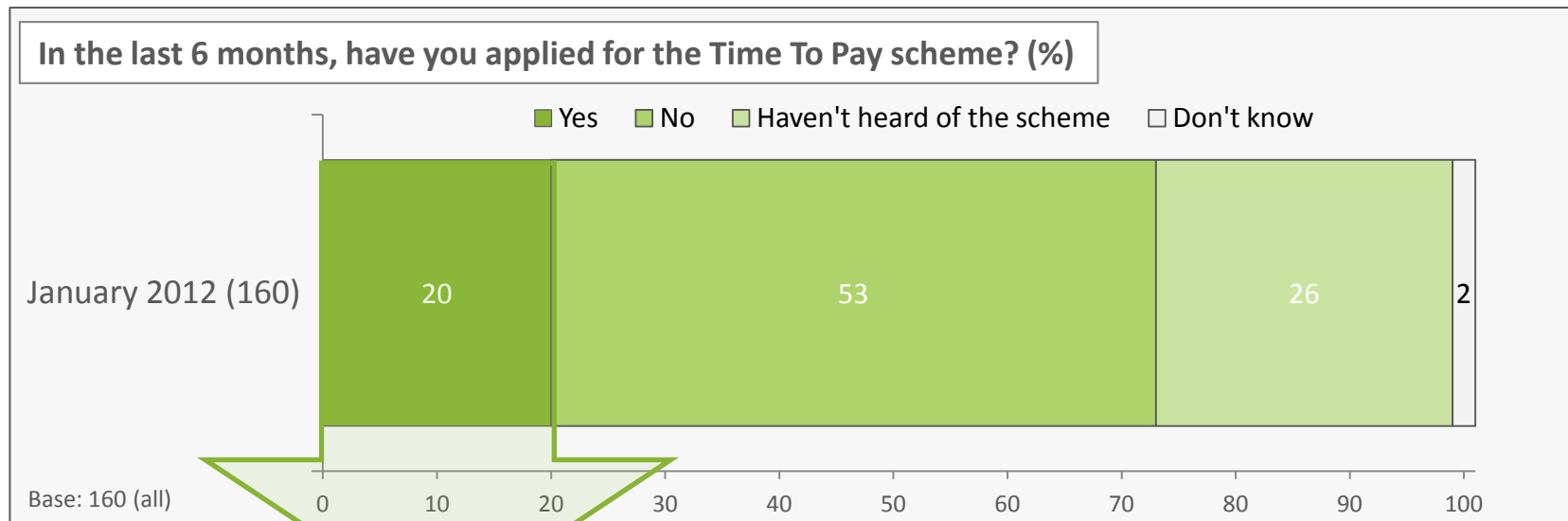
THERE was an encouraging fall in the proportion of businesses having to spend more time chasing invoices, paying suppliers later and increasing borrowing in the six months to January 2012.

However there were increases in the proportion of firms who had to pay HM Revenue & Customs later and even turn away new business as a result of late payment over the same period.



Base: 356 (all who had seen an increase in time it takes their customers to pay invoices)








Time To Pay scheme



Worst offenders

PRIVATELY owned / limited companies remain the type of customer that takes the longest to pay invoices, although their payment performance improved slightly in the six months to July.

Corporates / listed companies continue to be the tardiest payers for 23% of respondents, followed by sole traders / partnerships and professional firms.

% type of customer		July '11 (364)	Jan '12 (174)	Difference
Privately owned / Limited companies	 42	43	41	↓
Corporates / Listed companies	 23	23	23	↔
Sole traders / Partnerships	 13	13	14	↑
Government / State owned	 6	7	5	↓
Individual private clients	 6	5	7	↑
Professional firms	 5	4	8	↑
Not-for-profit organisations	0	0	0	↔
Other	 4	5	2	↓

0 10 20 30 40 50 60

Base: 538 (all)

Most common excuses

THE single most common excuse for late payment remains that debtors are waiting for payment from their own customers, followed by those waiting for payment authorisation.

There were significant rises in the proportion of businesses citing they couldn't afford to pay and that they believed their own terms took precedent in the six months to January 2012.

% single most common reason	July '11 (360)	Jan '12 (173)	Difference
Waiting for payment from their customers	33	34	↑
Waiting for payment authorisation	29*	20	↓
Copy invoice required	11	8	↓
Can't afford to pay	7	13*	↑
Their terms take precedent	2	10*	↑
Invoice disputed	4	4	↔
Forgot to pay	4	2	↓
Sales didn't notify accounts department of invoice	3	2	↓
Cheque in the post	2	3	↑
Other	3	2	↓
My customers always pay on time	1	2	↑

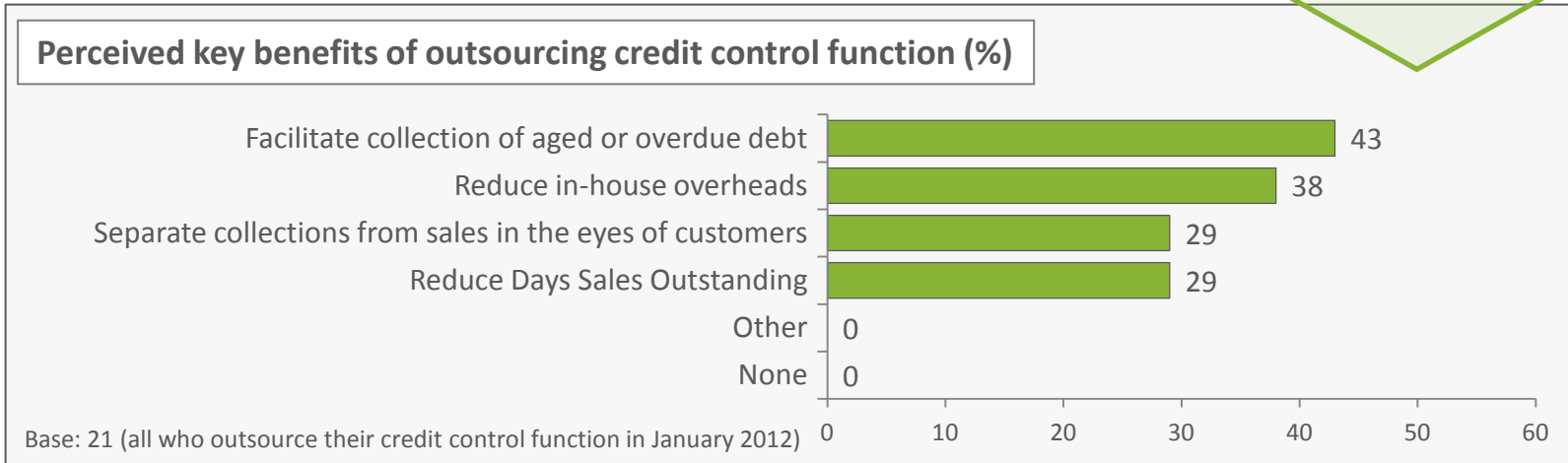
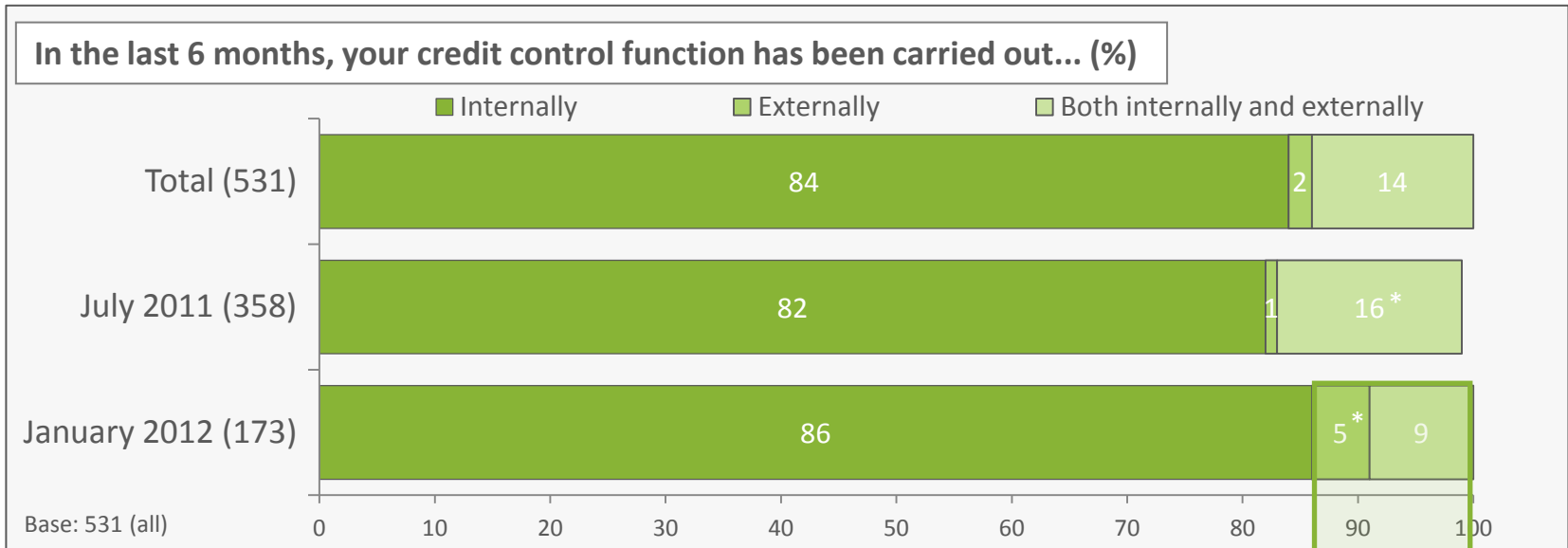
* Significantly different from the total score at 1% significance
Base: 533 (all)

Credit management strategies

% Credit management strategies used currently		July '11 (341)	Jan '12 (163)	Difference
New customer credit checks	49	50	47	↓
Suspending customer credit facilities	48	53*	39	↓
Small Claims Court / CCJs	37	41*	29	↓
Visiting debtors in person	30	32	26	↓
Regular existing customer credit checks	30	30	30	↔
Interest on late payment / Fixed late payment charges	25	27	21	↓
Constant reminding (phone / email)	24	3	69*	↑
Written credit policy	23	23	21	↓
Suspending work / services	16	1	47*	↑
Writing to debtors, including solicitor involvement	16	1	45*	↑
Factoring	12	13	10	↓
Goods repossession	9	10	7	↓
Credit protection insurance	9	6	15*	↑
Outsourcing	2	0	5*	↑
Other	3	2	4	↑
None	7	10*	2	↓

* Significantly different from the total score at 1% significance
Base: 504 (all)

Credit control function



* Significantly different from the total score at 1% significance

About Hilton–Baird

AS part of the Hilton–Baird Group, Hilton–Baird Collection Services is the UK’s leading commercial debt collection agency that serves the UK’s banks, independent lenders and SME and corporate markets.

Established in 2001, we pride ourselves on providing an efficient, professional and trustworthy resource that is ultimately successful, as demonstrated by our *success-only* pricing policy.

Our services to the SME and corporate marketplace range from one-off debt recovery to ongoing credit control support that’s tailored to each businesses’ individual requirements, working closely with both clients and their customers in order to bring the right conclusion to often difficult circumstances.

With an experienced, highly skilled and multilingual team, we can assist with our clients’ debt collection requirements no matter which country their debtors lie, working round the clock to ensure we can best surpass all expectations in all of our debt recovery activity.

Memberships and affiliations to the Credit Services Association and R3 (the Association of Business Recovery Professionals) ensures that we maintain the highest standards throughout the collections process and endeavour to provide a friendly and enterprising service at all times.

To find out more about Hilton–Baird Collection Services, visit www.hiltonbaird.co.uk/cs.

Alternatively, please call 02380 707392 or email collections@hiltonbaird.co.uk to speak to our team today.

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