



Hilton–Baird’s Late Payment Survey

January 2013



Introduction

“THE PROBLEM of late payment remains a thorn in the sides of British businesses, tying up valuable cash and restricting their ability to kick start a recovery.

“As its profile continues to rise, business minister Michael Fallon has threatened to name and shame members of the FTSE 350 who refuse to sign up to the Prompt Payment Code and pledge their support to paying on time.

“The news arena is littered with regular reports that some of the country’s largest businesses are instead extending their credit terms, and imposing them on their smaller suppliers. More often than not, this is leaving them with little choice but to grit their teeth and accept them as they continue to struggle to secure new orders.

“In this context, our annual Late Payment Survey provides an opportunity to uncover the biggest impacts of late payment on businesses of all sizes. The research also looks at how the problem is developing over time, and what businesses are doing to manage this.

“In addition, we delve deeper into the worst offenders, and look at how much support the business minister has in his proposals to name and shame late payers.

“Once again the research has produced some interesting results for us to share, so thank you to all those who participated in the survey. Your input is greatly appreciated.”

Alex Hilton–Baird
Managing Director
Hilton–Baird Collection Services

Background to research

HILTON–BAIRD Collection Services' research was undertaken among 317 businesses across a range of sectors, regions and sizes in order to provide a representative sample of the UK's SMEs.

Conducted in January 2013, this latest study represents our third wave of research:

- Wave 1: July 2011
- Wave 2: January 2012
- Wave 3: January 2013

The results demonstrate how late payment continues to impact the performance of SMEs in the current climate and the steps businesses are taking to safeguard their cash flows from its effects.

Key findings

BRITISH businesses reported a four day increase in the time it took their customers to pay invoices during the 12 months to January 2013. On average, customers paid **21 days** beyond agreed credit terms, up from 17 days beyond agreed terms in 2011.

As a result, **38%** now classify more than 10% of their debtor book as more than 90 days old, which led to **63%** having to write off more than 1% of their turnover as bad debt during the past 12 months.

There was widespread support for business minister Michael Fallon's proposals to name and shame late payers, with **69%** backing him and only **16%** against the notion.

Privately owned/limited companies continue to take the longest to pay their invoices, as reported by **44%** of respondents.

As you would expect, the biggest impact of late payment was that **73%** had to spend more time chasing late payers. But there were encouraging falls in the proportion of businesses having to pay suppliers later (**48%**), increase borrowing (**29%**)

and pay HM Revenue & Customs later (**18%**) as a direct consequence.

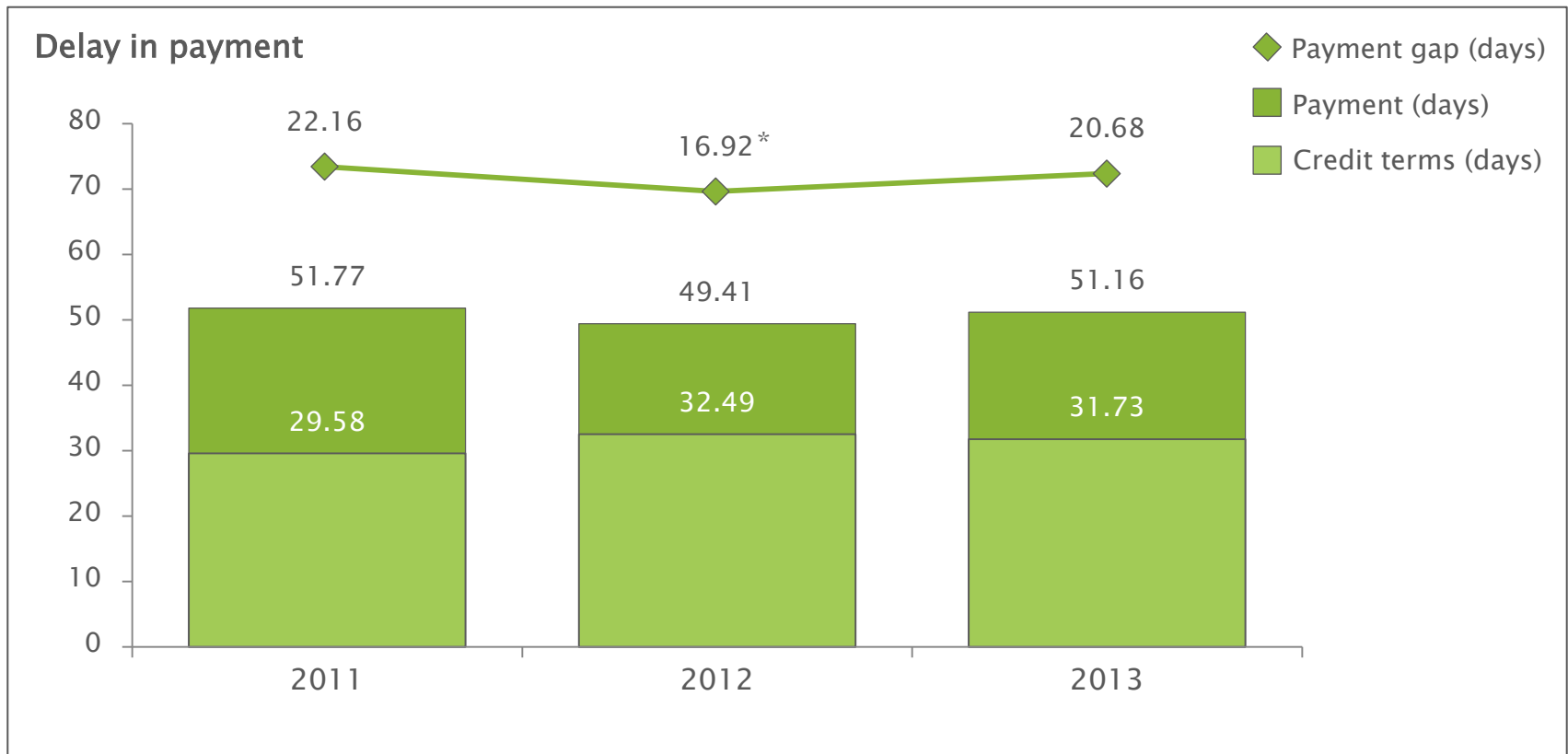
The most common excuse given by customers for late payment was that they were waiting for payment from their own customers, as reported by **30%**, followed by **23%** saying waiting for payment authorisation was most prevalent and **11%** arguing that their terms take precedent.

Respondents used an extensive range of credit management strategies to protect themselves against late payment. The suspension of work and services (**54%**) and customer credit facilities (**45%**), and the use of new customer credit checks (**48%**) and the Small Claims Court/CCJs (**31%**) all increased on an annual basis, while **14%** outsource all or part of their credit control function.

Of those that do, the facilitation of the collection of aged and overdue debts (**60%**) was overwhelmingly the primary benefit of outsourcing.

Delay in payment

The delay in payment beyond agreed credit terms reached a two-year high in 2013 as businesses reduced their average credit terms and customers took longer to pay their invoices in full.

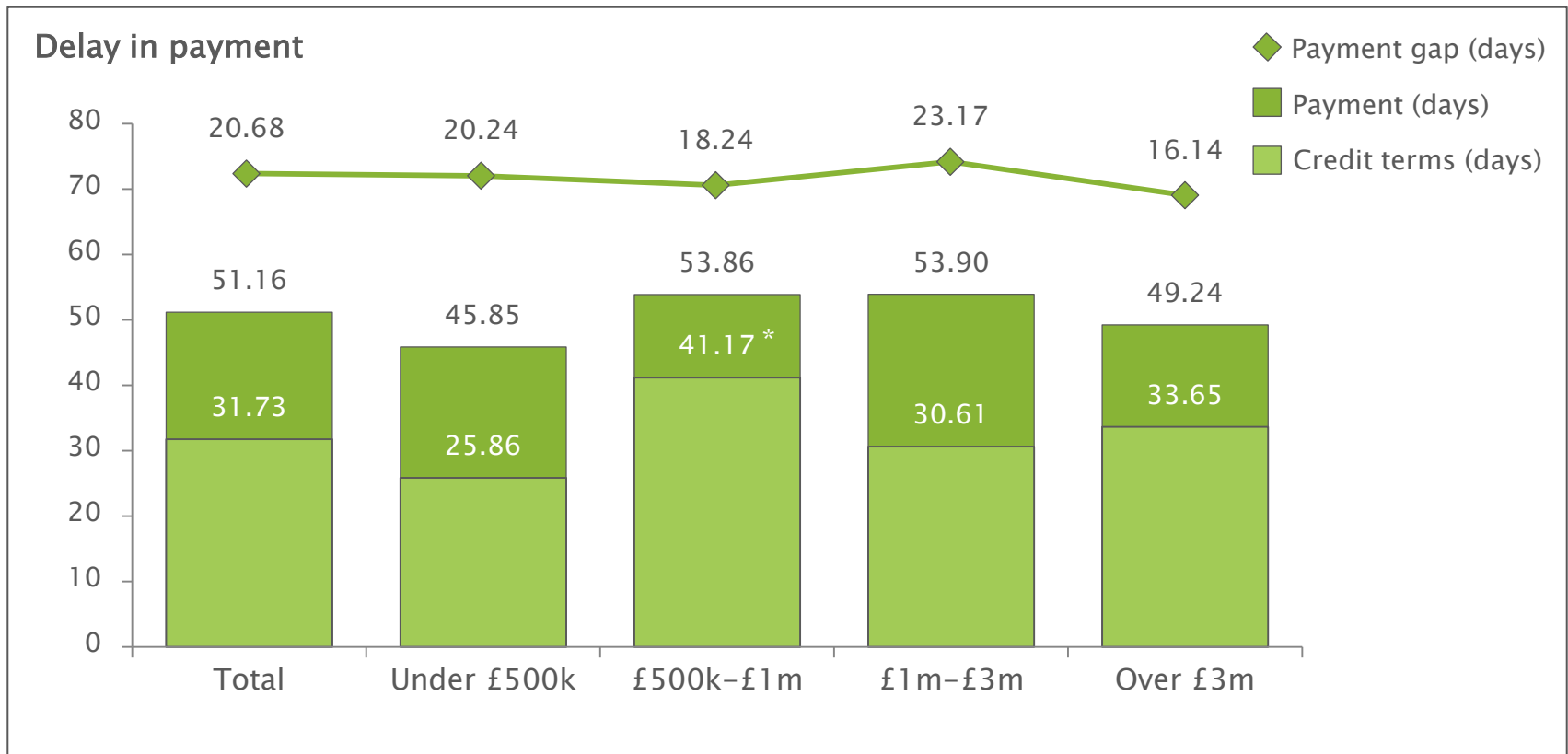


Base (Credit terms): 1,002 (all answering question 1)
Base (Payment): 846 (all answering question 2)
Base (Payment gap): 817 (all answering questions 1 & 2)

* Significantly different from the total score at 1% significance

Delay in payment by turnover

Businesses with a turnover of between £1m and £3m are suffering the longest delay in payment of 23 days. However the largest firms, those with a turnover in excess of £3m, are experiencing the shortest delay.



Base (Credit terms): 319 (all answering question 1)

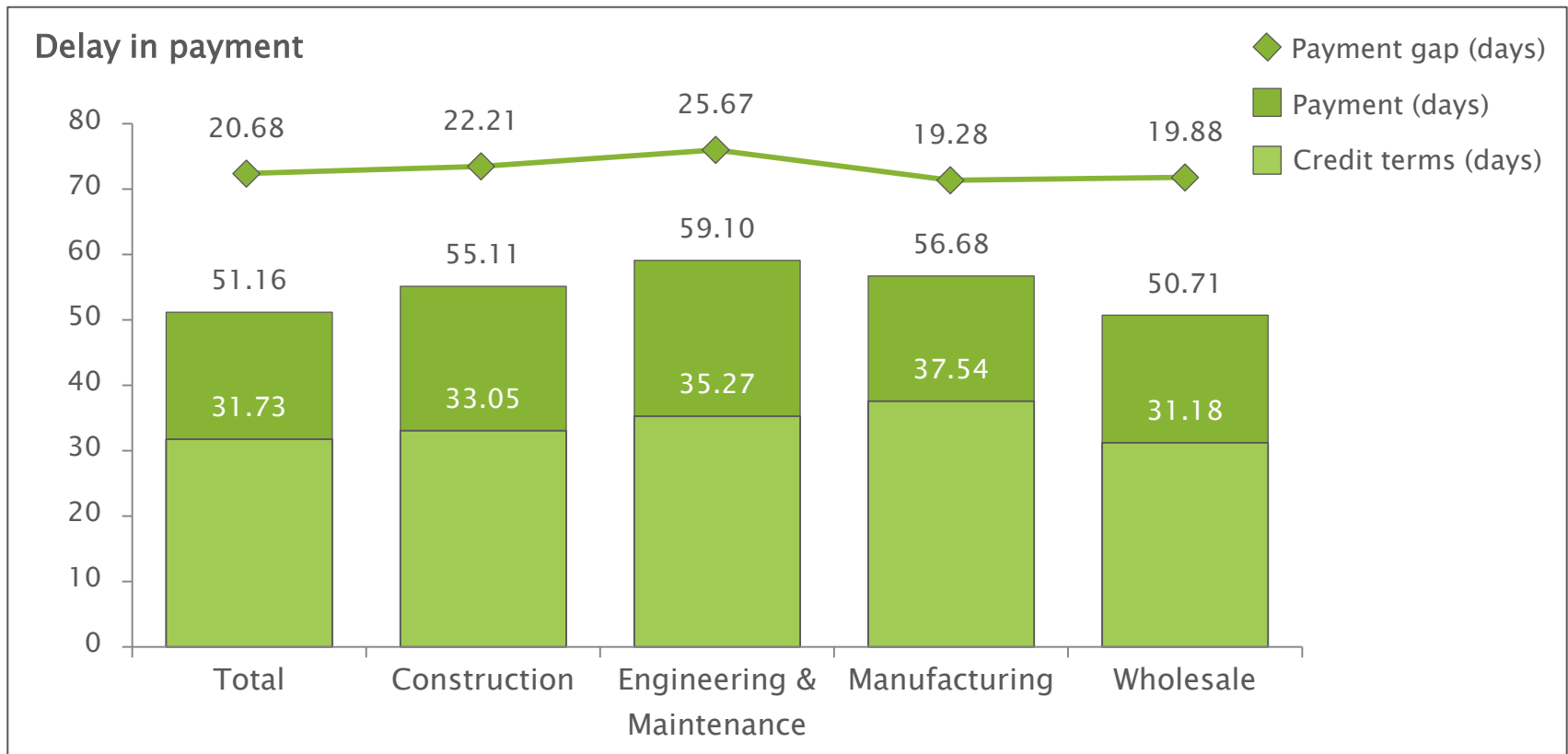
Base (Payment): 265 (all answering question 2)

Base (Payment gap): 249 (all answering questions 1 & 2)

* Significantly different from the total score at 1% significance

Delay in payment by sector

Businesses in the engineering and maintenance sector are suffering the longest payment delays of almost 26 days. Manufacturing firms benefit from the shortest payment delay, which still stands at a sizeable 19 days beyond agreed terms.



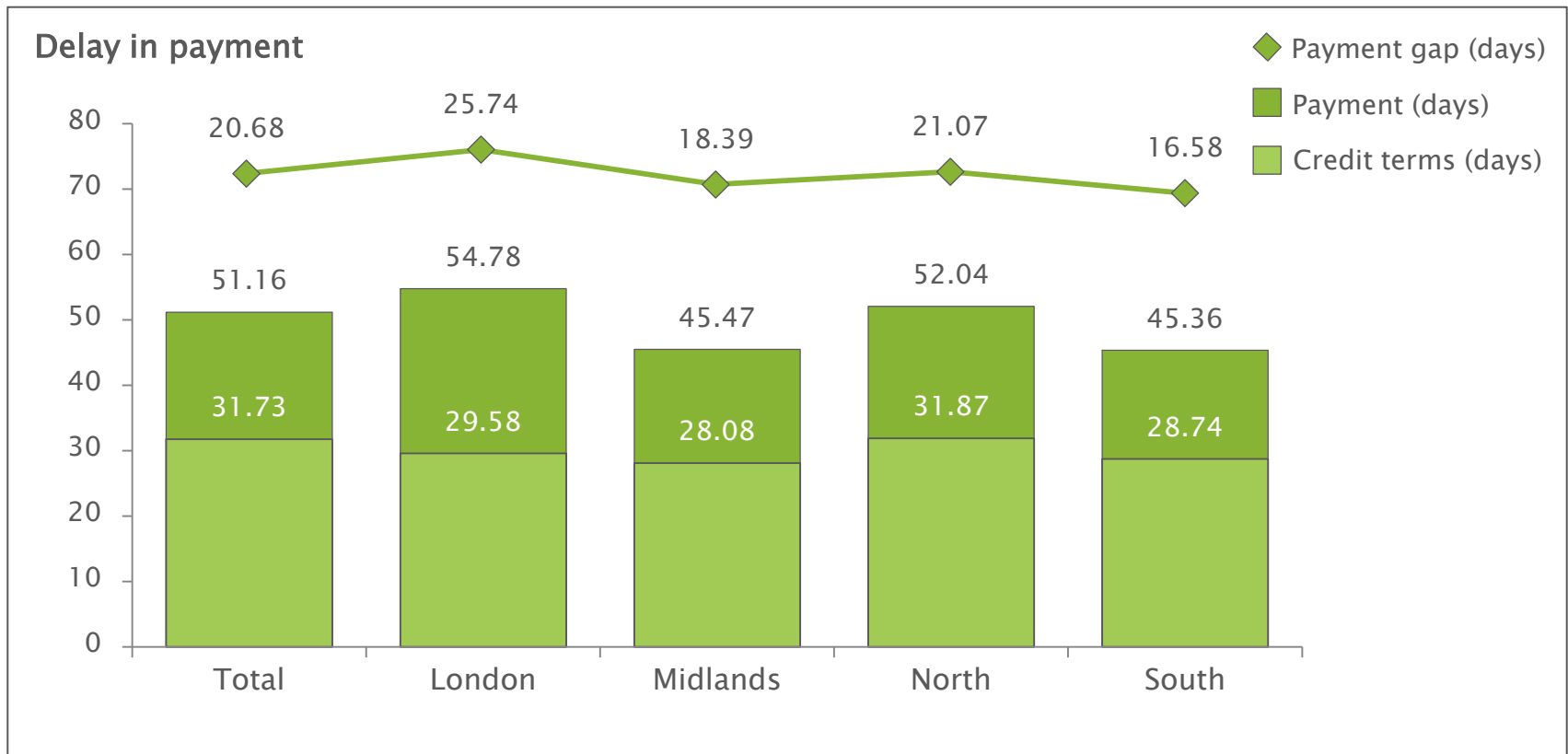
Base (Credit terms): 319 (all answering question 1)

Base (Payment): 265 (all answering question 2)

Base (Payment gap): 249 (all answering questions 1 & 2)

Delay in payment by region

Businesses based in London are experiencing the longest payment delays of almost 26 days beyond agreed terms. Firms in the south of England are being paid the soonest, at just over 45 days, and benefit from the shortest payment delay as a result.



Base (Credit terms): 319 (all answering question 1)

Base (Payment): 265 (all answering question 2)

Base (Payment gap): 249 (all answering questions 1 & 2)

Impact on the business

There was a significant annual fall in the proportion having to pay HM Revenue & Customs later as a consequence of late payment. There was also a significant rise in the proportion able to report that late payment had no effect on their business in the last 12 months.

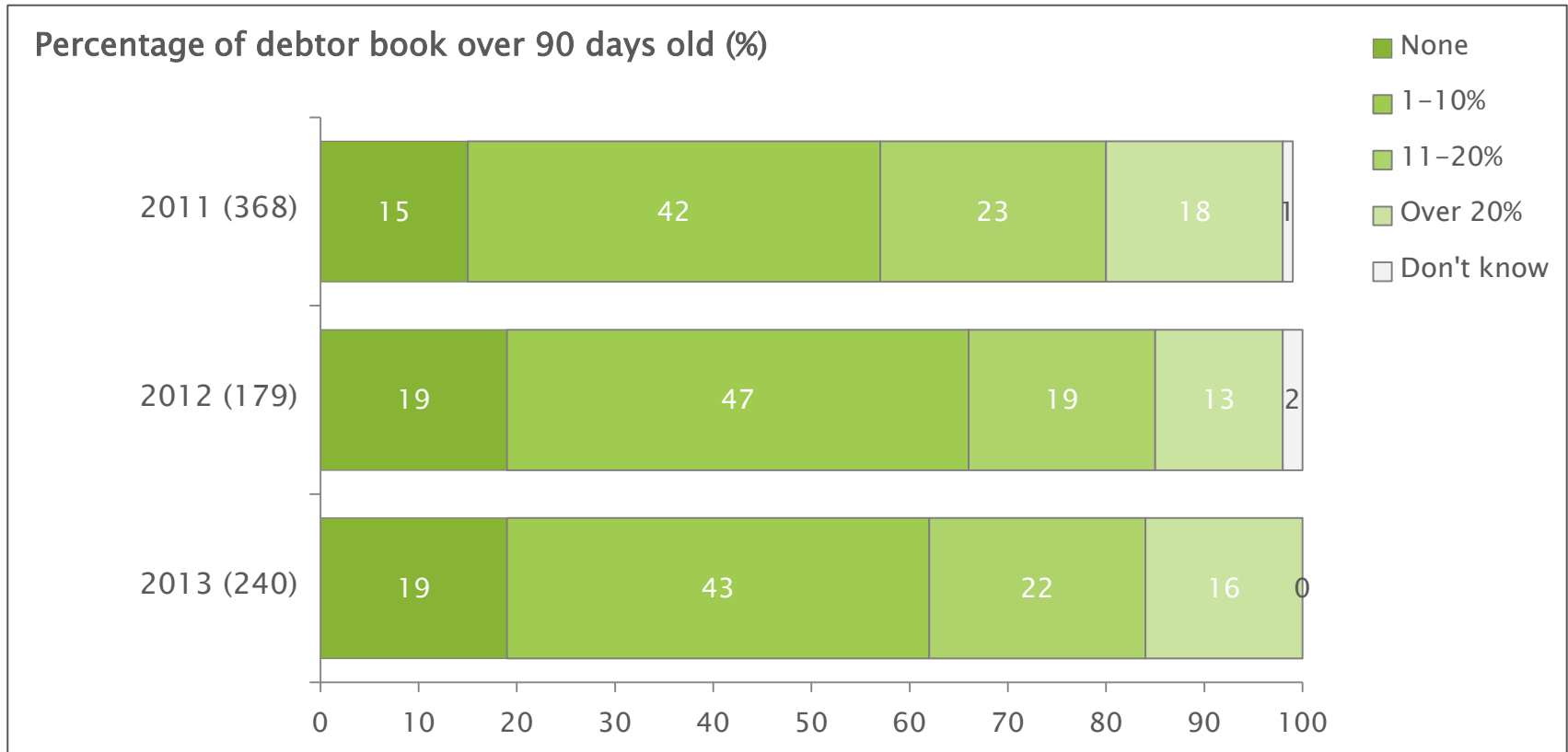
Biggest impact of late payment on the business (%)	2011 (246)	2012 (110)	2013 (244)	Difference
Spend more time chasing invoices	84	76	73	↓
Pay your suppliers later	63	59	48	↓
Increase borrowing (including credit cards)	39	38	29	↓
Pay HM Revenue & Customs later	34	36	18*	↓
Employ more credit control staff	6	6	8	↑
Turn away new business	11	12	7	↓
Make redundancies	–	–	6	★
Employ an external provider of credit control services	7	8	5	↓
Reduce staff working hours / shifts	–	–	5	★
No effect on the business	4	5	16*	↑
Our customers always pay on time	–	–	2	★

Base: 600 (all)

* Significantly different from the total score at 1% significance

Age of debtor book

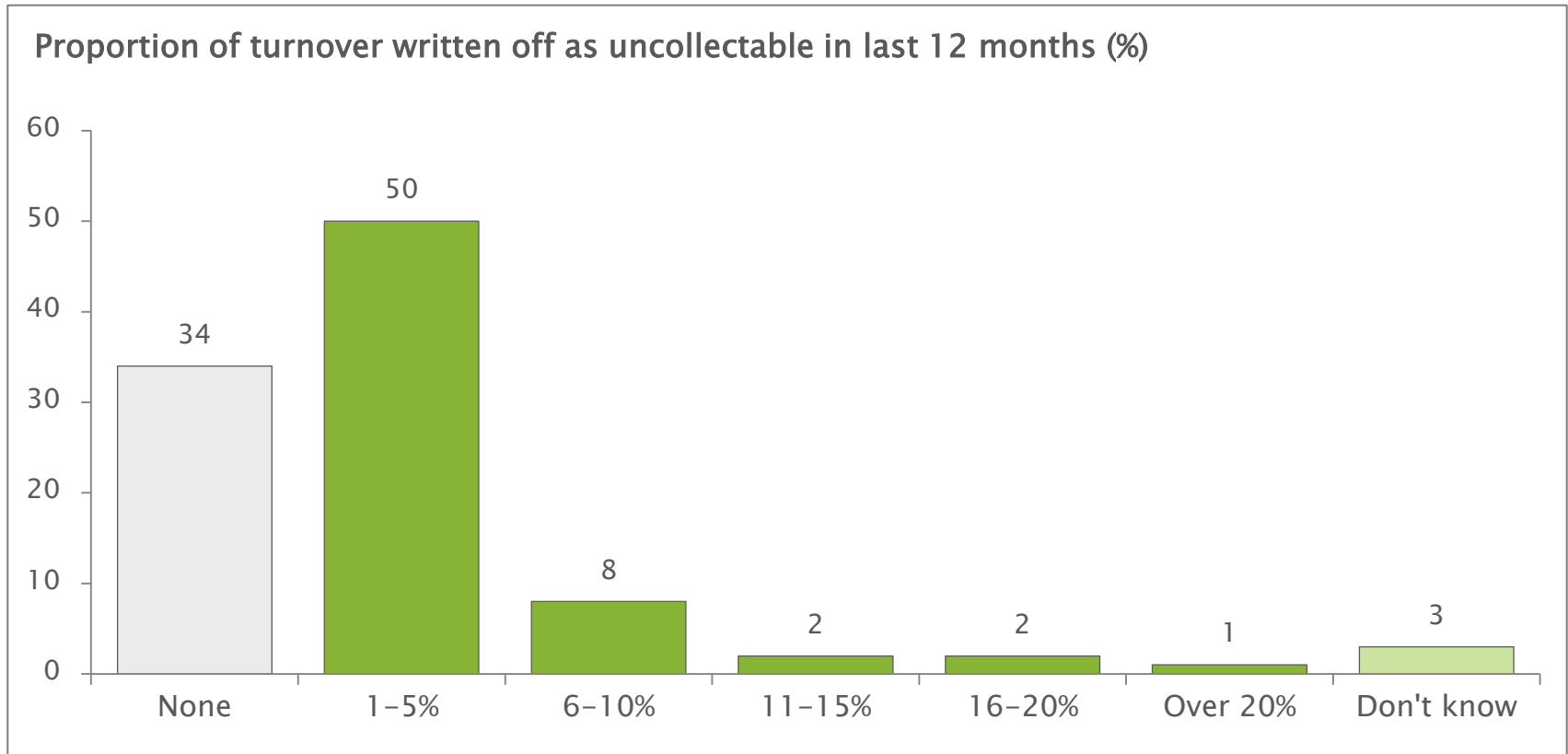
Almost two in five businesses classify over 10% of their debtor book as more than 90 days old, up from 32% just 12 months ago. Less than 20% classify none of their debtor book as more than 90 days old.



Base: 787 (all)

Uncollectable turnover

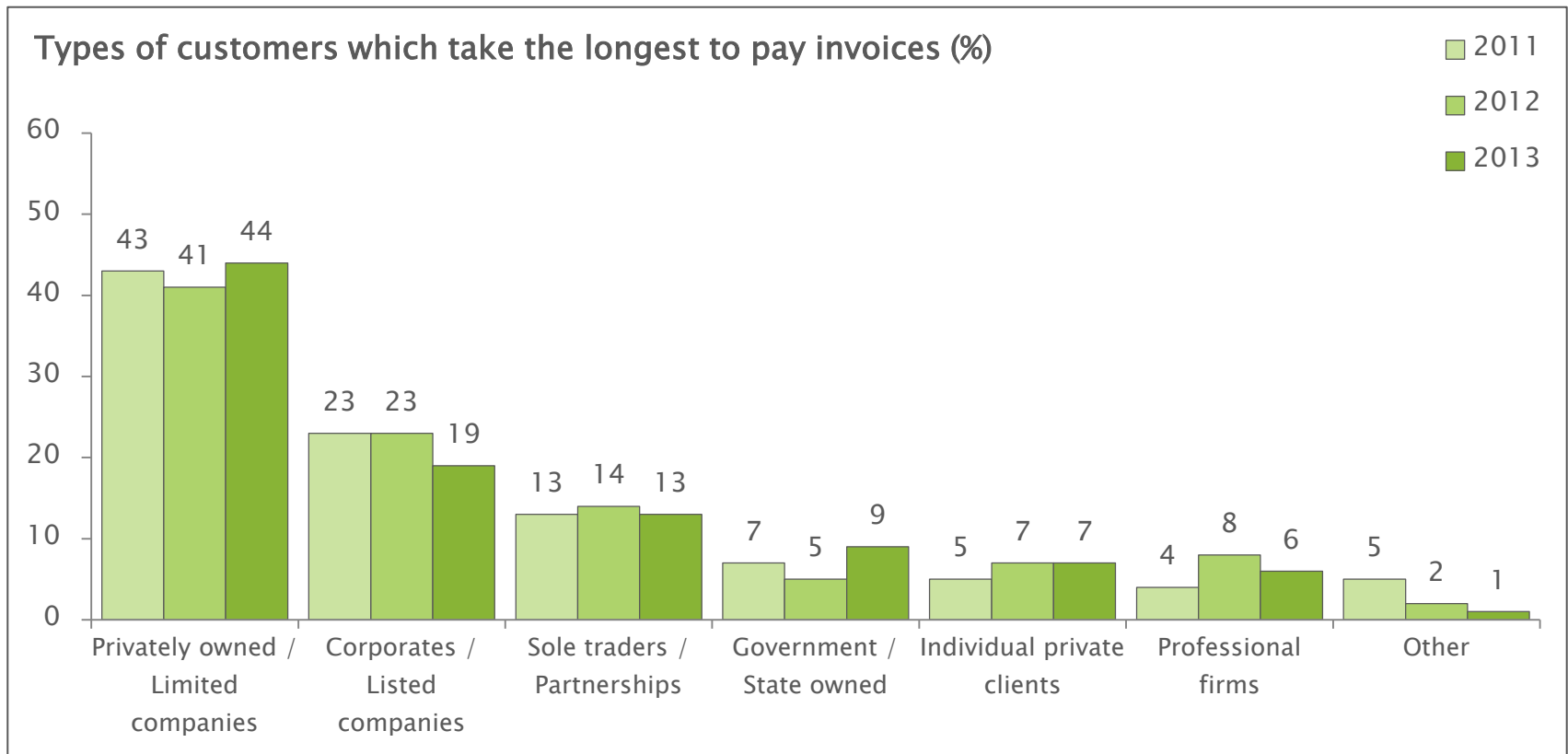
Only 34% didn't write off any of their turnover as uncollectable in the past 12 months. Exactly half wrote off between 1% and 5%, with 5% writing off more than 10% as uncollectable.



Base: 238 (all)

Worst offenders

Privately owned / limited companies continue to take the longest to pay their invoices, and got worse at doing so over the past 12 months. Corporates / listed companies improved their payment performance during the same period, according to respondents.



Base: 770 (all)

Most common excuses

Waiting for payment from customers remains the most common reason for late payment, while there were increases in the proportion being told that their customers' terms take precedent and that their customers are waiting for payment authorisation.

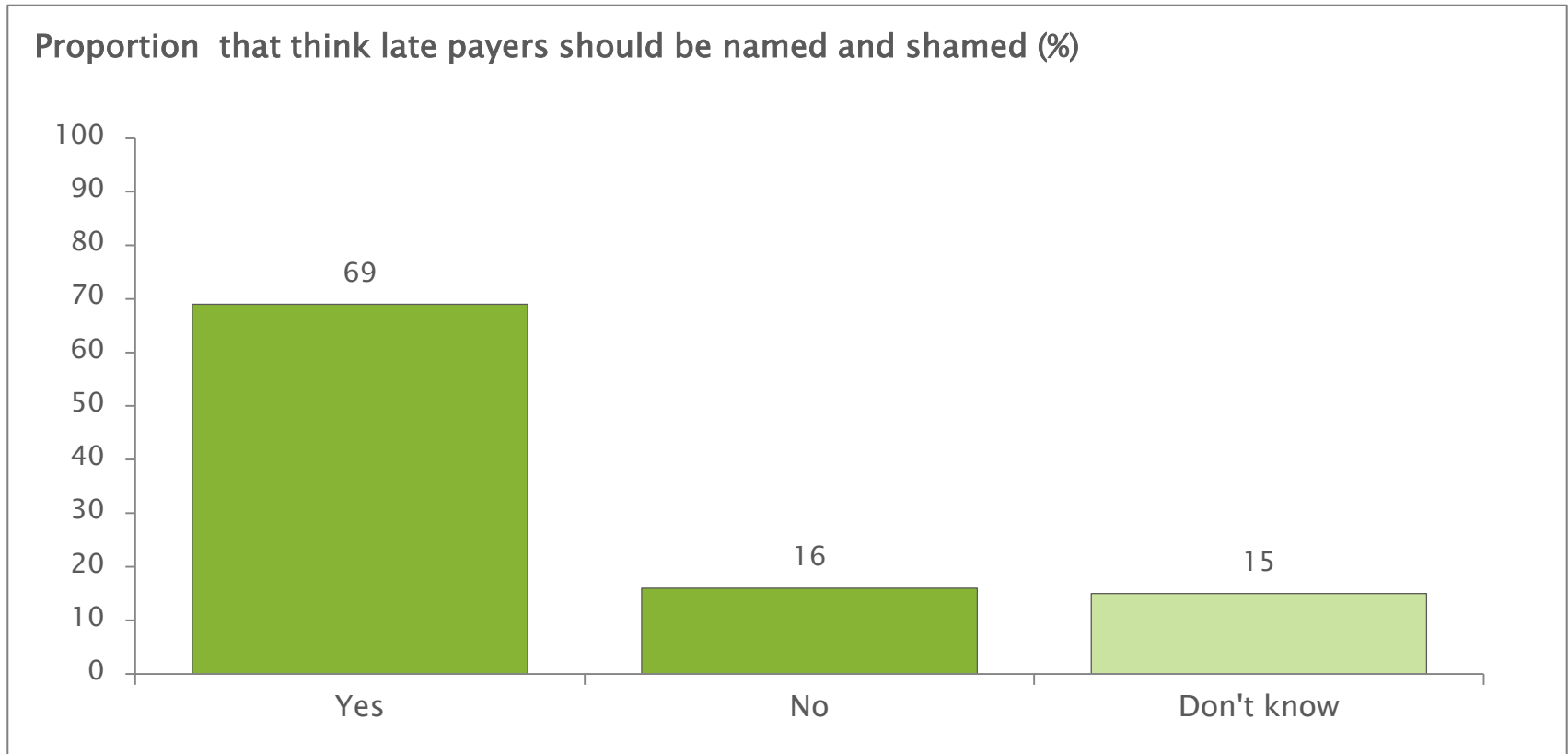
Single most common reason for late payment (%)	2011 (360)	2012 (173)	2013 (229)	Difference
Waiting for payment from their own customers	33	34	30	↓
Waiting for payment authorisation	29*	20	23	↑
Their terms take precedent	2*	10	11	↑
Can't afford to pay	7	13*	7	↓
Copy invoice required	11	8	6	↓
Forgot to pay	4	2	6	↑
Sales didn't notify accounts department of the invoice	3	2	4	↑
Cheque in the post	2	3	3	↔
Invoice disputed	4	4	2	↓
Other	3	2	6	↑
Our customers always pay on time	1	2	2	↔

Base: 762 (all)

* Significantly different from the total score at 1% significance

Naming and shaming

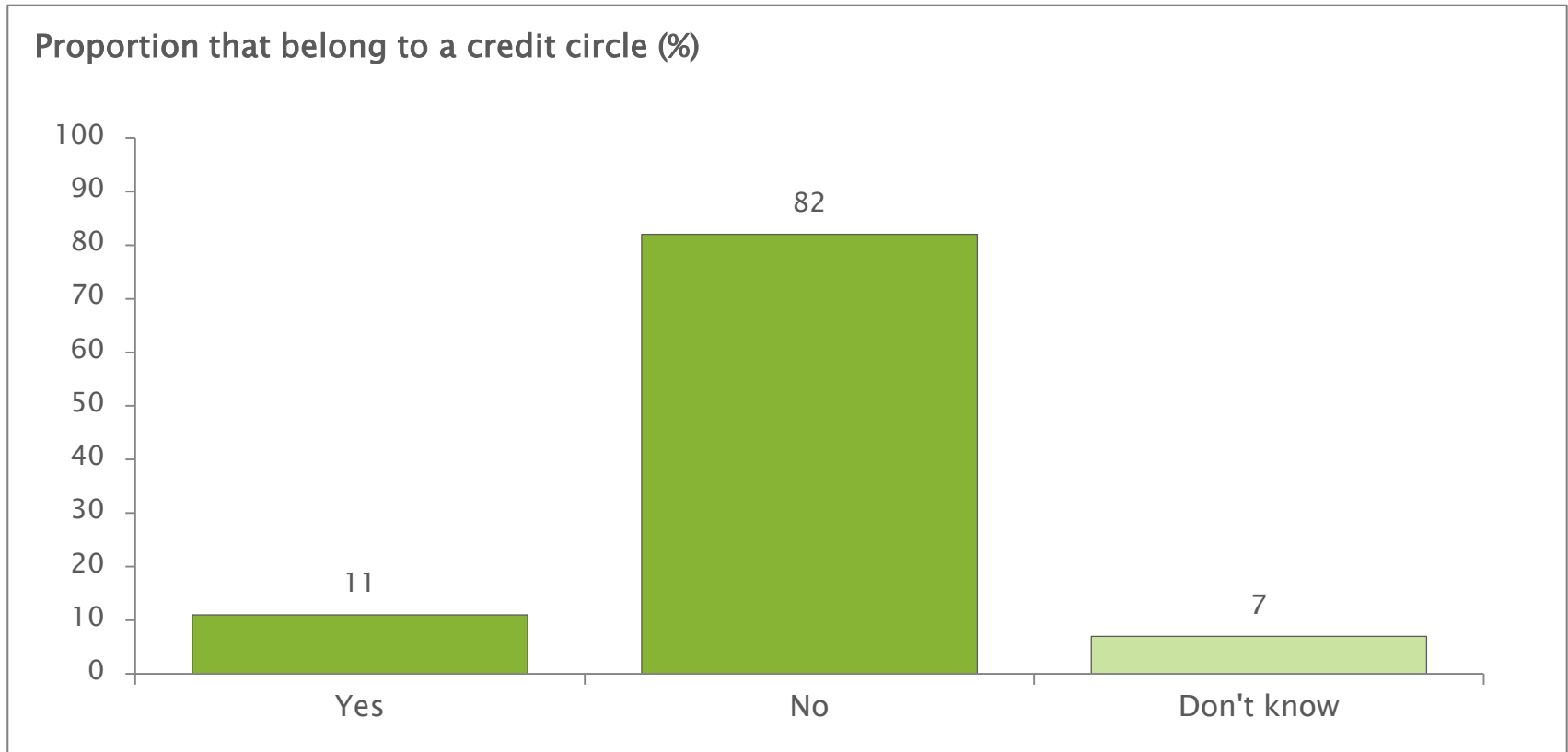
More than two-thirds of respondents believe that late payers should be named and shamed by the Government. Only 16% didn't think they should be, with 15% undecided on the matter.



Base: 229 (all)

Credit circles

Only 11% of businesses benefit from and share important credit information with other businesses through a credit circle.



Base: 229 (all)

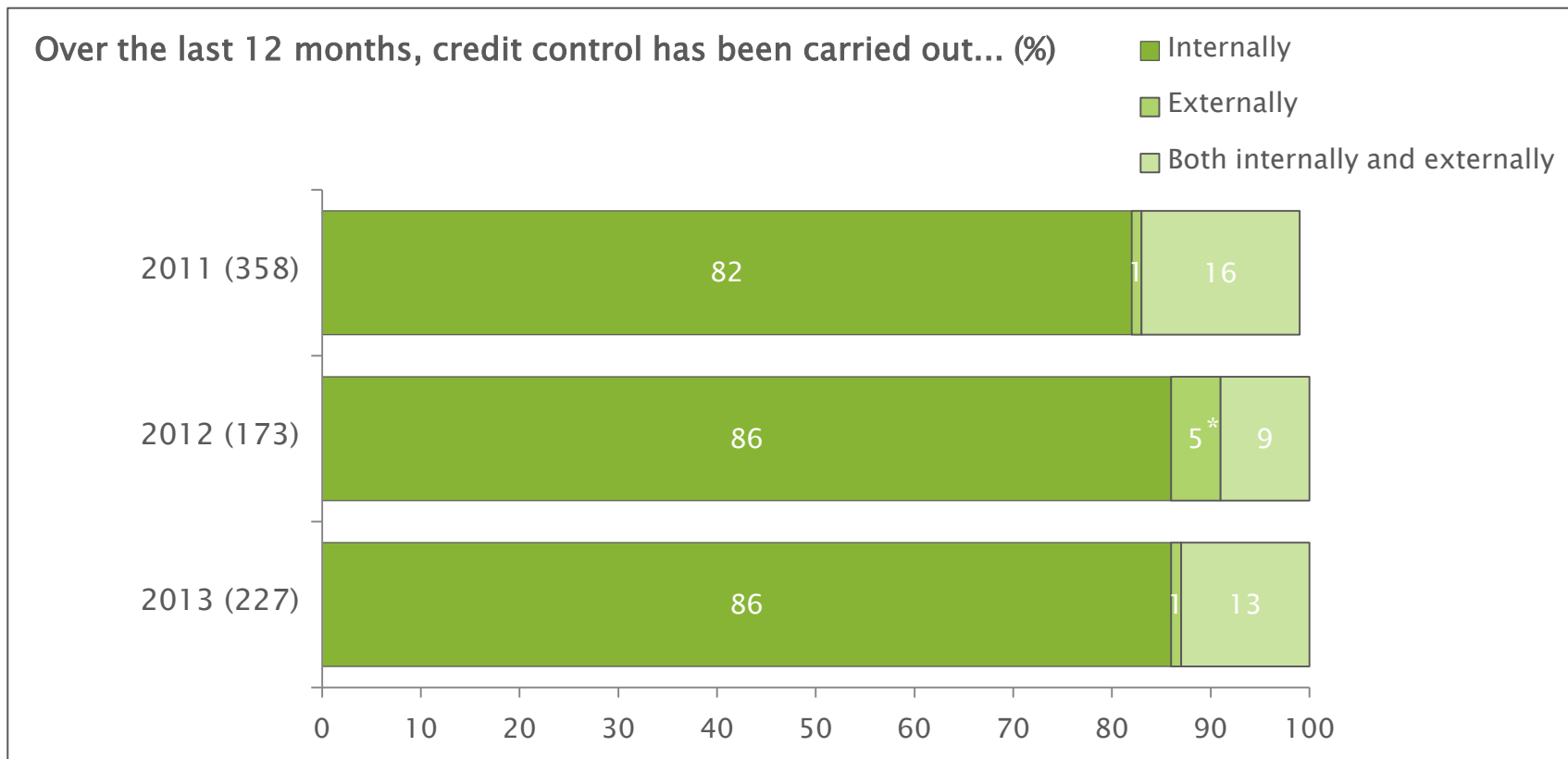
Credit management strategies

Key credit management strategies currently employed (%)	2011 (341)	2012 (163)	2013 (221)	Difference
Constant reminding (phone / email)	3*	69	68	↓
Suspending work / services	1*	47	54	↑
New customer credit checks	50	47	48	↑
Writing to debtors, including solicitor involvement	1*	45	47	↑
Suspending customer credit facilities	53	39	45	↑
Small Claims Court / County Court Judgments	41*	29	31	↑
Visiting debtors in person	32	26	30	↑
Regular existing customer credit checks	30	30	29	↓
Interest on late payment / Fixed late payment charges	27	21	25	↑
Written credit policy	23	21	16	↓
Factoring	* 13	10	16	↑
Inclusion of debt collection costs in T&Cs	-	-	15	★
Early settlement discounts	-	-	11	★
Credit protection insurance	6	15	9	↓
Goods repossession	10	7	8	↑
Inclusion of Personal Guarantees in T&Cs	-	-	5	★
Outsourcing	0*	5	4	↓

Base: 725 (all)

Credit control function

There has been no annual change in the proportion of businesses conducting their credit control function internally. There has also been a significant annual decrease in the proportion of businesses outsourcing their entire credit control function.

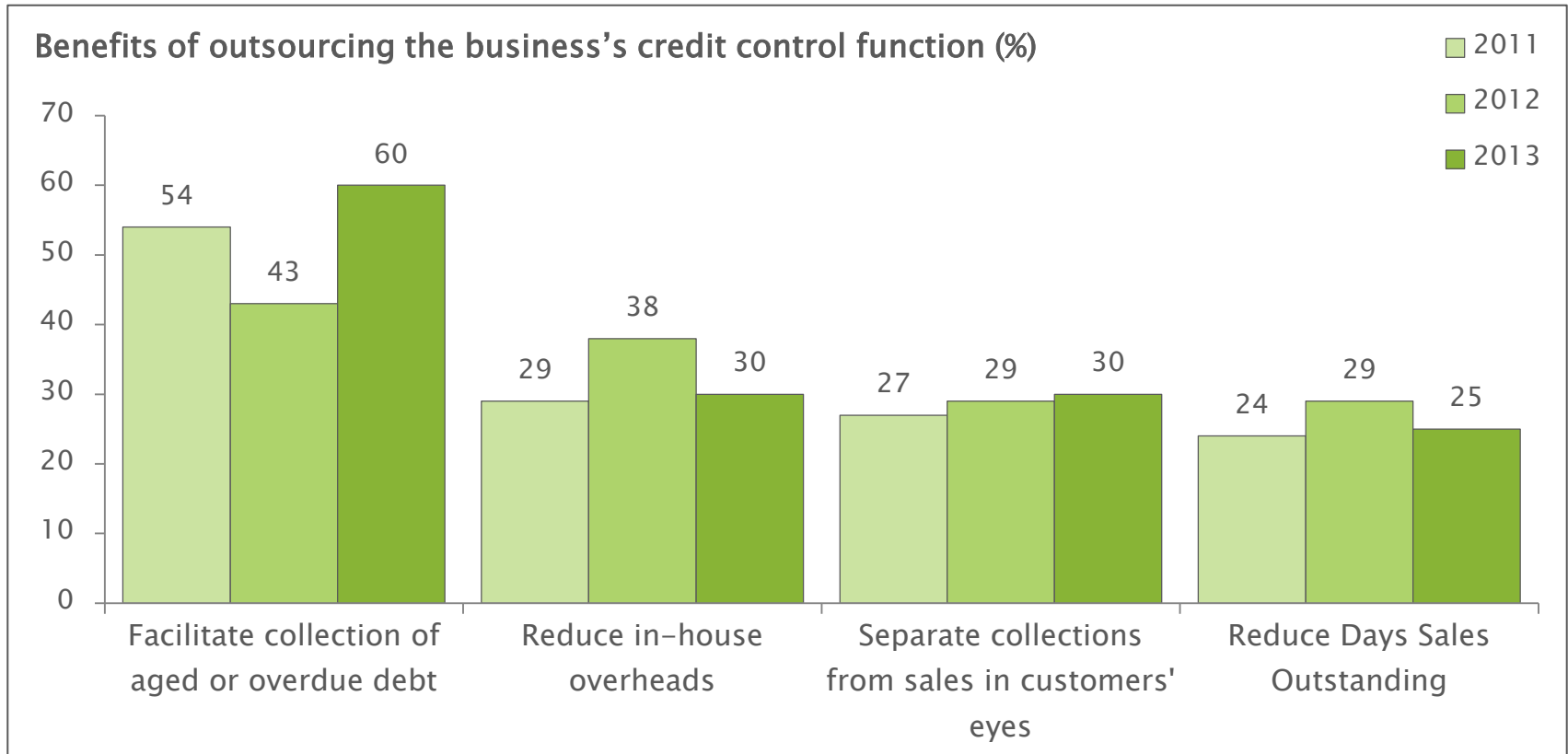


Base: 758 (all)

* Significantly different from the total score at 1% significance

Outsourcing benefits

The majority of respondents view the primary benefit of outsourcing all or part of their credit control function to be that it facilitates the collection of aged or overdue debt. Only one in four outsource this function due to its benefits of reducing Days Sales Outstanding.



Base: 100 (all answering 'Externally' or 'Both internally and externally' to Q11)

Future credit management strategies

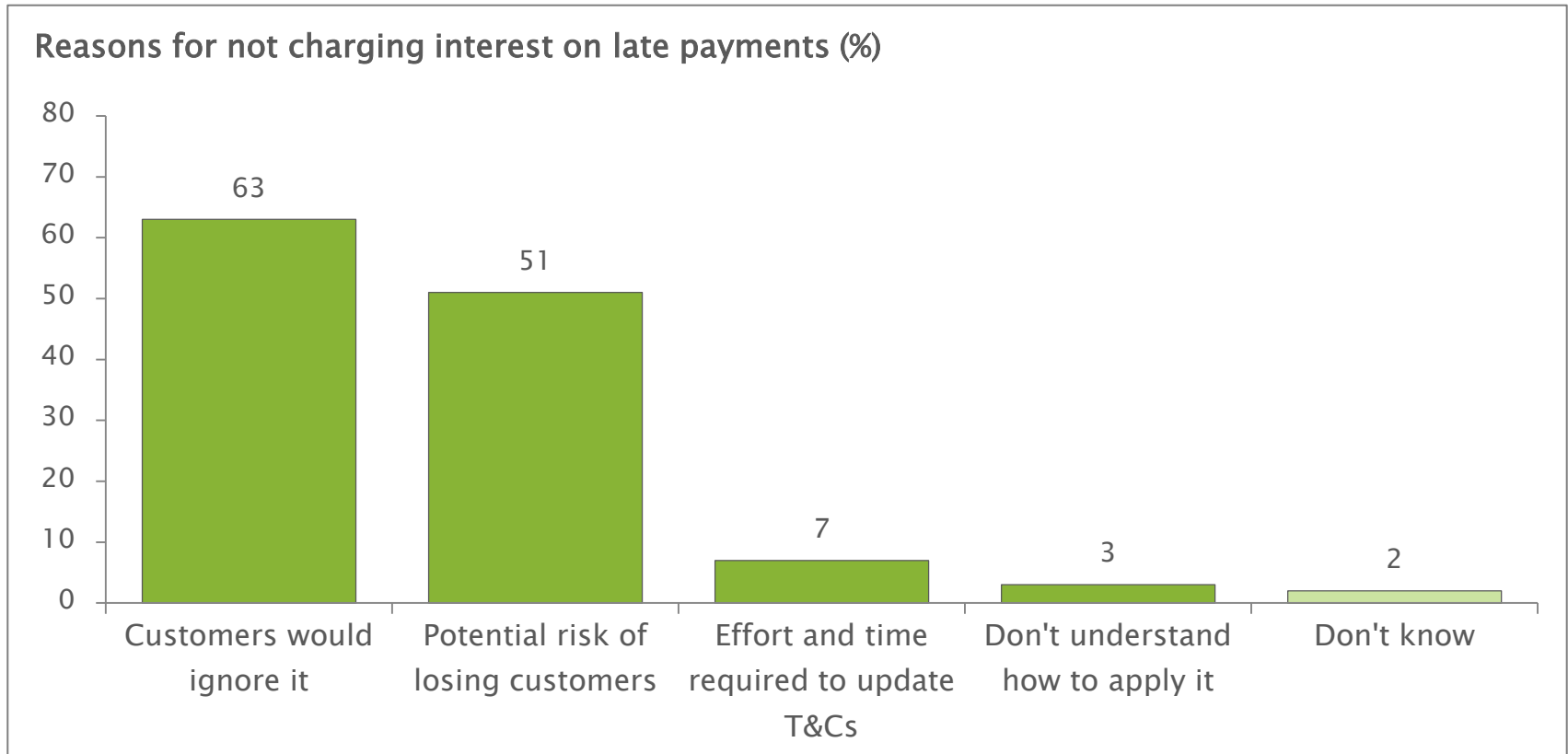
Credit management strategies to be considered (%)	2011 (333)	2012 (162)	2013 (221)	Difference
Interest on late payment / Fixed late payment charges	33	25	27	↑
Suspending customer credit facilities	15	16	19	↑
Small Claims Court / County Court Judgments	14	17	17	↔
Writing to debtors, including solicitor involvement	0*	13	17	↑
Inclusion of debt collection costs in T&Cs	-	-	16	★
Suspending work / services	1*	12	14	↑
Regular existing customer credit checks	14	9	14	↑
New customer credit checks	8	9	14	↑
Written credit policy	10	7	14	↑
Early settlement discounts	-	-	13	★
Visiting debtors in person	* 15	15	11	↓
Constant reminding (phone / email)	1*	10	10	↔
Credit protection insurance	7	7	8	↑
Inclusion of Personal Guarantees in T&Cs	-	-	8	★
Goods repossession	8	5	6	↑
Outsourcing	0	10*	4	↓
Factoring	4	9*	3	↓

Base: 716 (all)

* Significantly different from the total score at 1% significance

Late payment interest

Almost two-thirds of businesses who don't currently use or consider using late payment interest as a credit management strategy choose not to because they believe their customers would simply ignore it. Over half are also concerned about the risk of losing customers.



Base: 104 (all not currently using or considering using interest on late payments in the next 12 months)

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.

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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