



Hilton-Baird's Late Payment Survey

January 2015



Introduction

“THE ISSUE of late payment is one which refuses to go away. Rather it continues to intensify, placing a great amount of pressure on the resources of businesses, regardless of their size.

“In recent months it has come to a head, with the government launching a consultation to look into ways the problem can be addressed and possibly clamp down on the erroneous payment practices of some of the country’s largest firms.

“Our Late Payment Survey is an annual study which seeks to truly understand the full impact late payment has on businesses, monitor these effects over time and identify what measures these companies are putting in place in order to protect against it.

“With the help of almost 500 business owners, finance directors and credit managers from across the UK, we have been able to produce a report which I hope you will find as interesting as we do.

“From the average payment delay to the time each business spends on credit control, we leave no stone unturned in our bid to uncover the biggest challenges and potential areas for improvement, while giving businesses a voice in their say regarding what needs to be done to curb this critical issue.

“I would like to thank each of the respondents for their time and input, and wish you all the best in your continued fight against late payment.”

Alex Hilton-Baird
Managing Director
Hilton-Baird Collection Services

Background to research

HILTON-BAIRD Collection Services' Late Payment Survey questioned 489 business owners, credit managers and finance directors about a range of topics surrounding their ongoing experiences with getting paid on time.

The respondents came from businesses in a range of sectors, regions and sizes in order to provide a representative sample of the UK's SMEs.

Conducted in January 2015, this latest study represents our fifth wave of research:

- Wave 1: July 2011
- Wave 2: January 2012
- Wave 3: January 2013
- Wave 4: January 2014
- Wave 5: January 2015

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 are currently having to wait longer to be paid by their customers than at any point since our survey began in 2011. On average, invoices are now being paid 22.5 days beyond agreed terms, which represents an annual increase of 0.9 days.

As a direct consequence of late payment, businesses were commonly forced to invest more time into chasing invoices (79%), pay suppliers later (48%) and increase borrowing (30%) in 2014. One in ten had to turn away new business.

Surprisingly, 62% of businesses spend fewer than 10 hours a week on credit control, with 35% attributing more than a quarter of their time dedicated to credit control chasing overdue debts.

There was an annual increase in the proportion of businesses classifying more than 10% of their debtor books as over 90 days old – rising from 26% to 30% on an annual basis – although there was a small decrease in the proportion who were forced to write off more than 5% of their turnover as uncollectable.

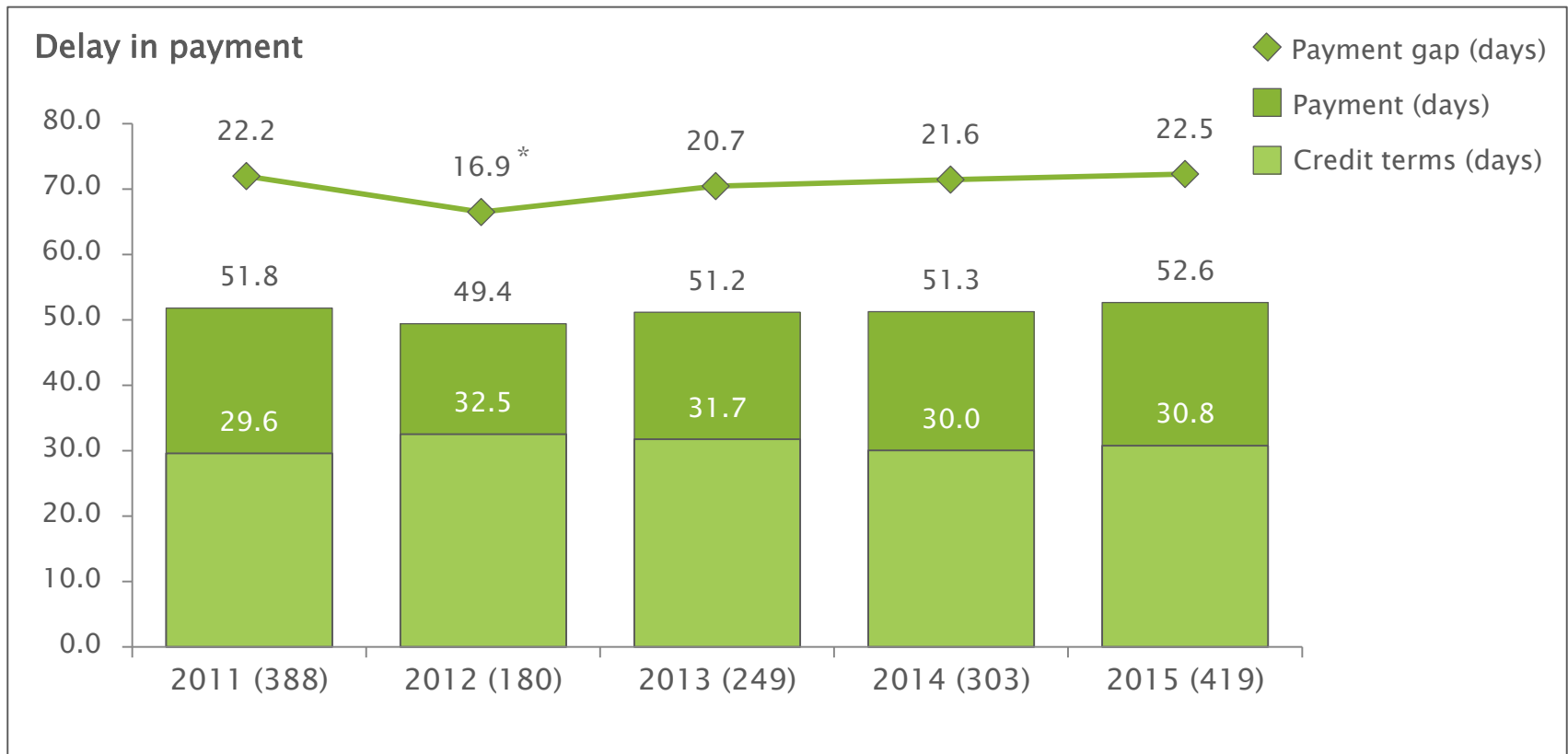
It was interesting to note that waiting for payment authorisation is now the single most common late payment excuse provided by customers to businesses (27%), while there was a significant annual fall in the proportion reporting it was that their customers were waiting to be paid themselves (19%).

Businesses continue to use a variety of credit management strategies to combat late payment, with the proportion suspending work and services (59%), using the Small Claims Courts or County Court Judgments (35%), visiting debtors in person (29%) and applying statutory interest (23%) all increasing annually.

There was also a small increase in the proportion of businesses which outsource all or part of their credit control function, up to 17%. Of those who continue to conduct their credit control internally, cost was reported to be the biggest barrier to outsourcing (57%), followed by concerns over the impact it might have on their customer relationships (47%).

Delay in payment

Businesses are having to wait longer to be paid by the customers than at any point since our survey began in 2011. The average invoice is now being paid 22.5 days beyond agreed credit terms, which marks the third successive annual increase.



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

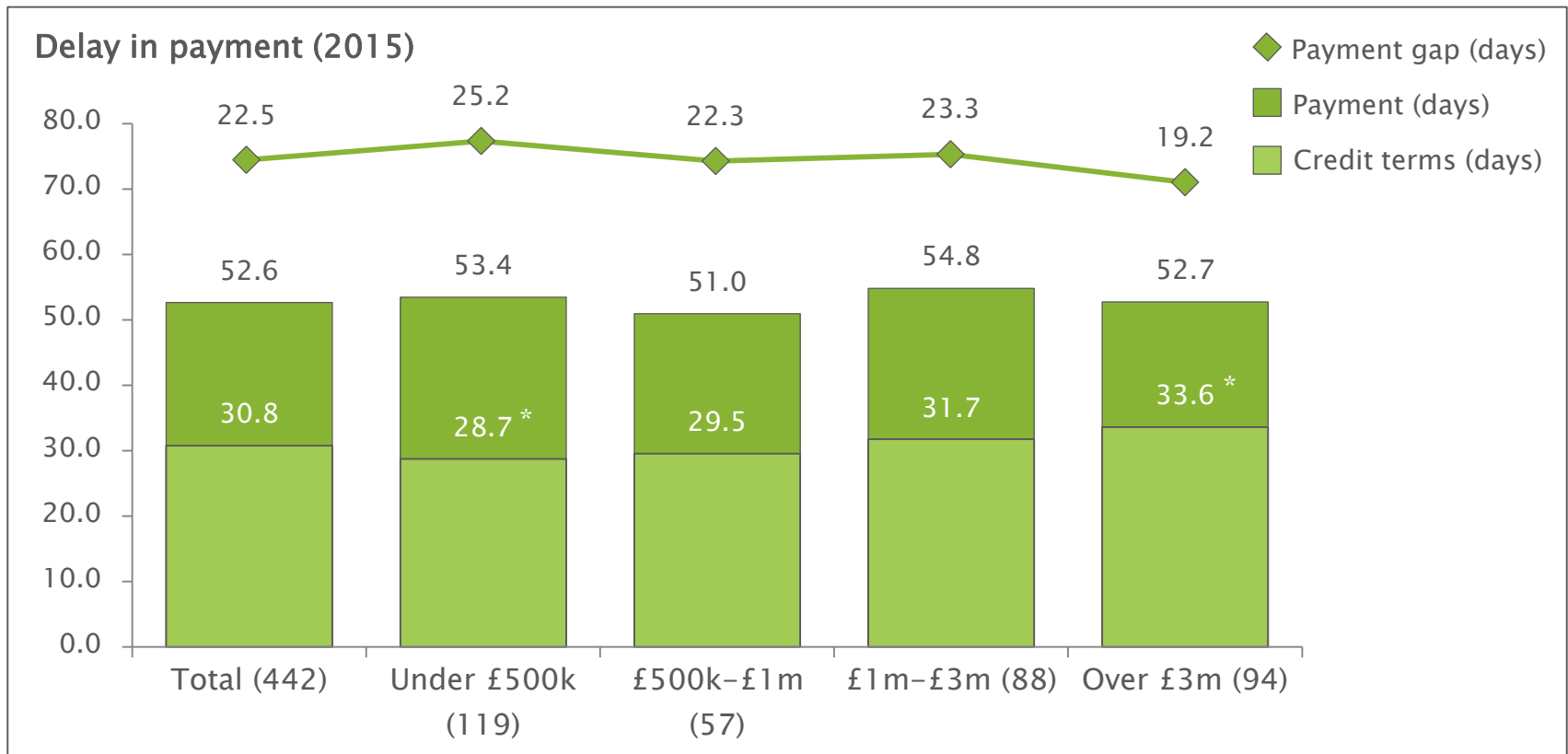
Base (Payment): (all answering question 2)

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

* Significantly different at 1% significance

Delay in payment by turnover

Businesses with a turnover of less than £500,000 are experiencing the longest delay in payment, with the average invoice being paid more than 25 days beyond agreed terms. Companies turning over more than £3 million are enjoying the shortest delay, and offer the longest credit terms.



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

Base (Payment): (all answering question 2)

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

* Significantly different from the total score at 1% significance

Impact on the business

There were annual increases in the proportion of businesses having to spend more time chasing invoices, turn away new business and employ an external provider of credit control services as a direct consequence of late payment.

Impact of late payment on the business (%)	Total (730)	2014 (307)	2015 (423)
Spend more time chasing invoices	77	75	79
Pay your suppliers later	48	49	48
Increase borrowing (including credit cards)	31	32	30
Pay HM Revenue & Customs later	19	19	19
Turn away new business	10	9	10
Employ an external provider of credit control services	8	6	9
Employ more credit control staff	6	7	6
Make redundancies	5	6	5
Reduce staff working hours / shifts	5	7	4
Switch from capital to interest-only repayments on lending	1	0	1
No effect on the business	11	12	11
Our customers always pay on time	3	3	2

Base: (all)

Impact on the business by turnover

There was a significantly higher proportion of businesses with a turnover of less than £500,000 who were reporting they have had to increase borrowing as a result of late payment, as well as having to pay HM Revenue & Customs later.

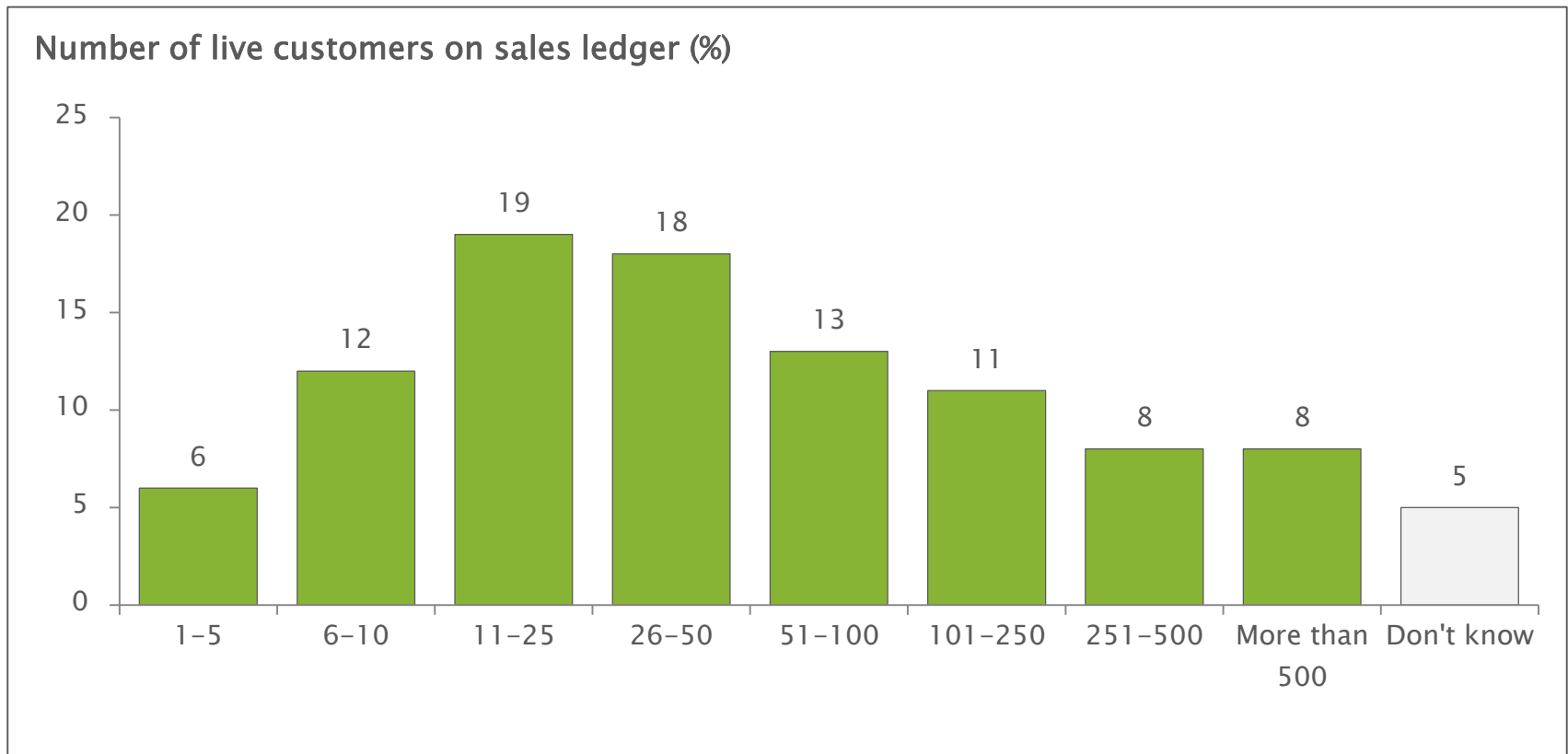
Impact of late payment on the business (%)	Total (423)	Under £500k (119)	£500k –£1m (57)	£1m– £3m (88)	Over £3m (93)
Spend more time chasing invoices	79	83	82	74	83
Pay your suppliers later	48	50	67*	50	34
Increase borrowing (including credit cards)	30	37*	28	30	25
Pay HM Revenue & Customs later	19	29*	32*	17	8
Turn away new business	10	8	18*	14	5
Employ an external provider of credit control services	9	8	23*	9	6
Employ more credit control staff	6	3*	4	7	12*
Make redundancies	5	6	9	9	1*
Reduce staff working hours / shifts	4	8	2	7	0*
Switch from capital to interest-only repayments on lending	1	1	2	2	0
No effect on the business	11	8	5	13	12
Our customers always pay on time	2	2	4	5	1

Base: (all, 2015)

* Significantly different from the total score at 1% significance

Number of live customers

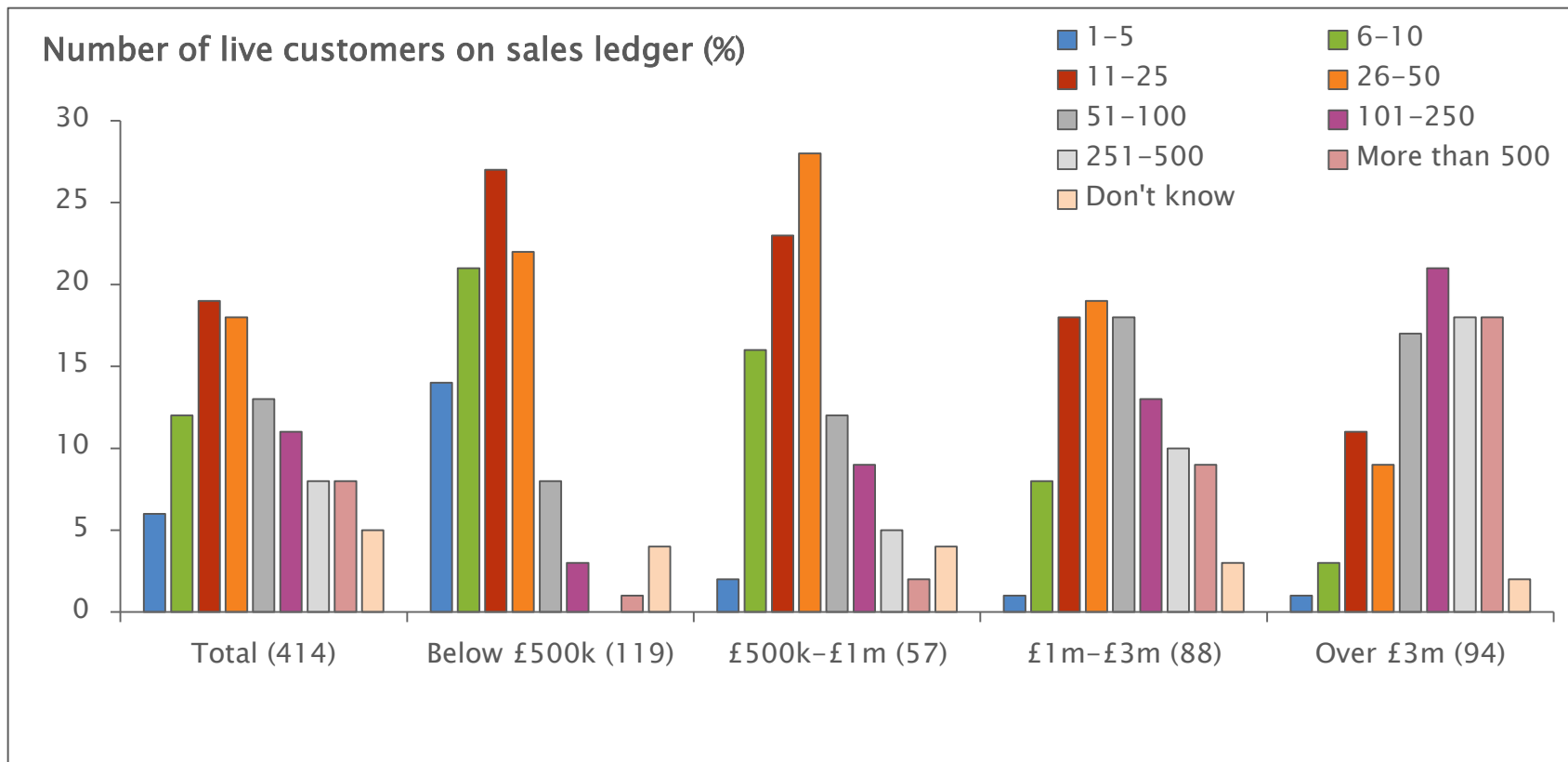
Just over half of businesses have fewer than 50 live customers on their sales ledger at any one time, while 16% have more than 250.



Base: 414 (all, 2015)

Number of live customers by turnover

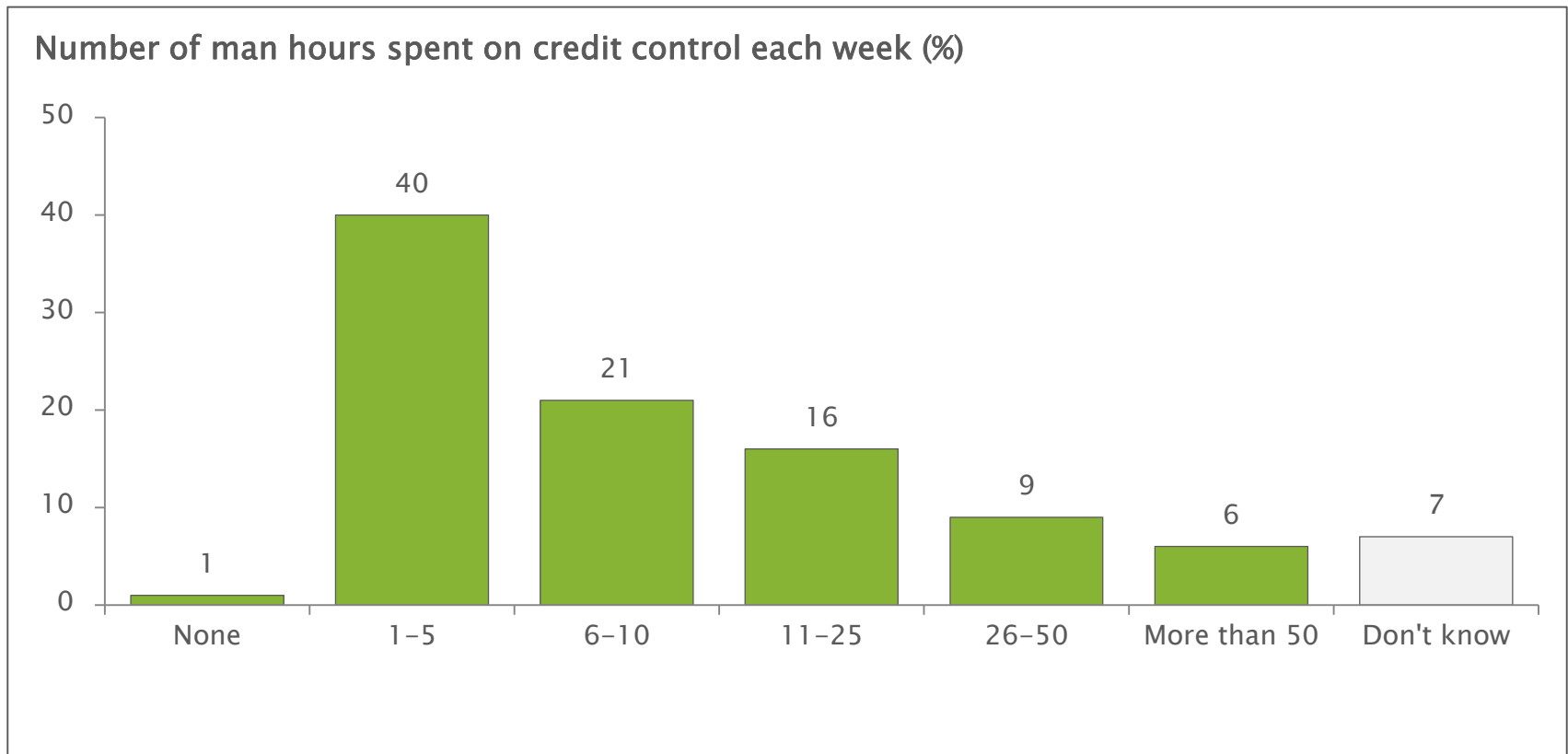
Eighty-four per cent of businesses with a turnover of less than £500,000 have fewer than 50 customers, which compares to just 24% of businesses turning over more than £3 million annually.



Base: (all, 2015)

Hours on credit control

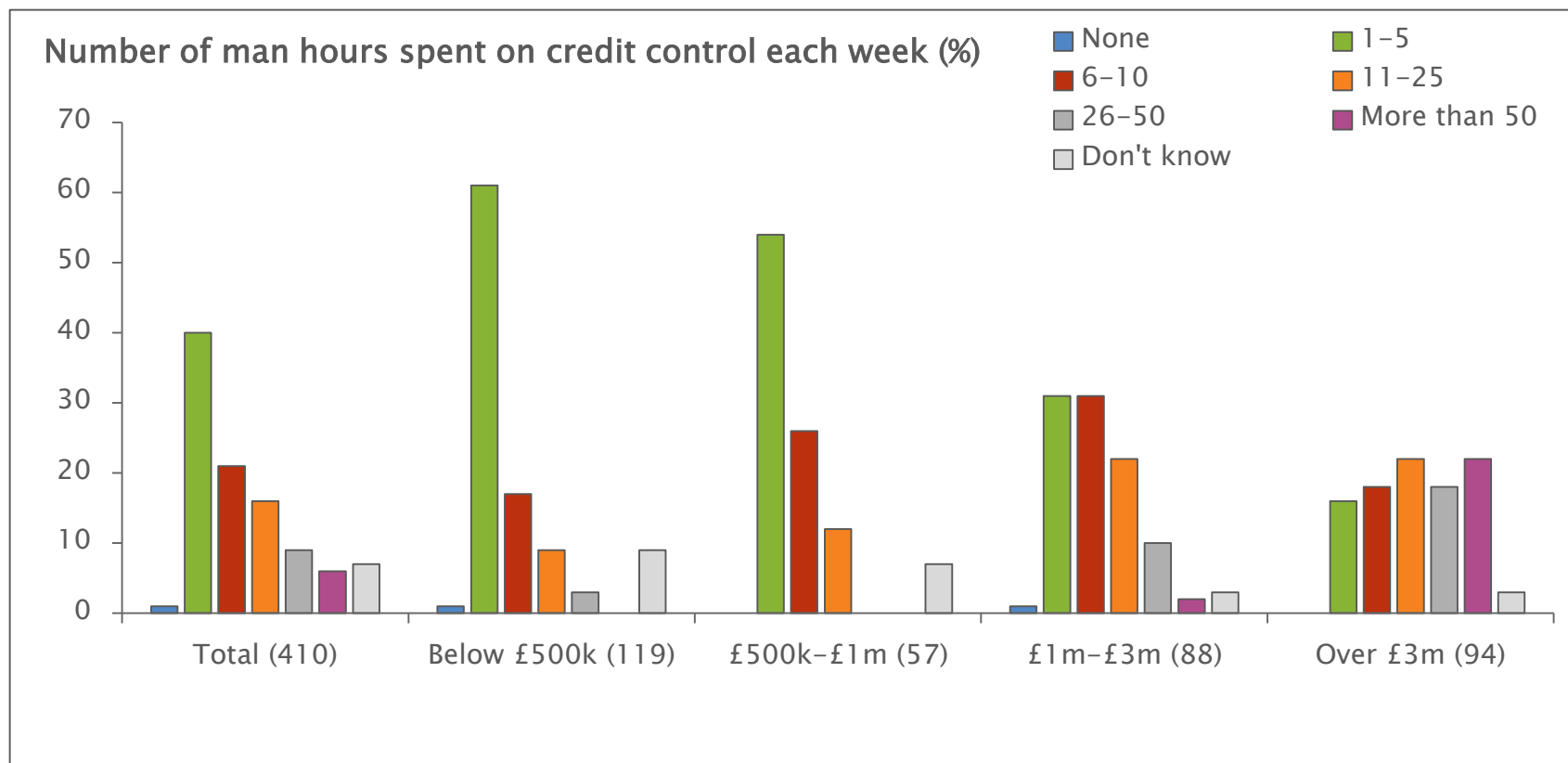
Sixty-two per cent of businesses spend fewer than 10 hours each week on credit control, while only 15% dedicate more than 25 hours a week.



Base: 410 (all, 2015)

Hours on credit control by turnover

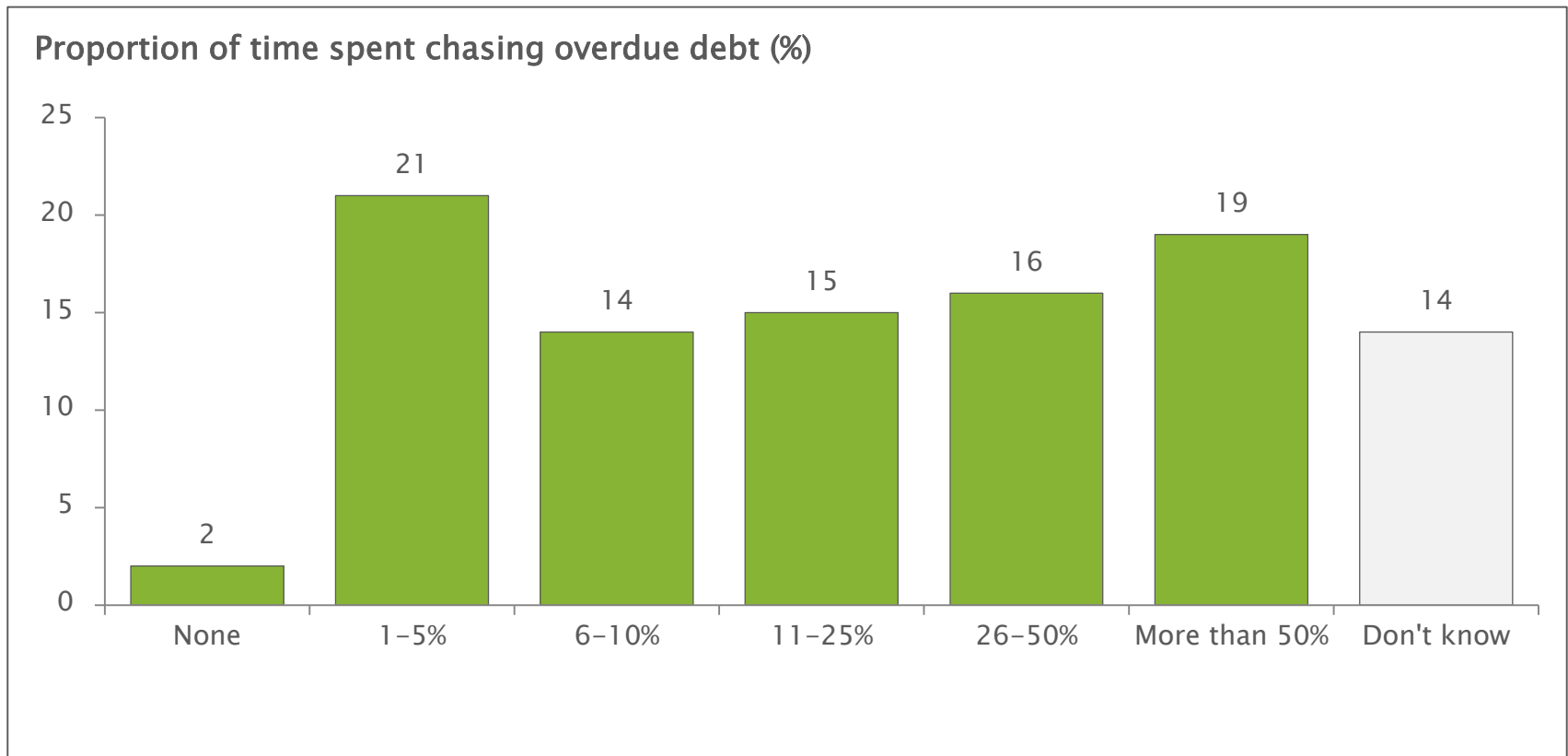
Seventy-eight per cent of businesses with a turnover of less than £500,000 spend less than 10 hours each week on credit control. This compares to just 34% of businesses which turn over more than £3 million.



Base: (all, 2015)

Resource spent on overdue debt

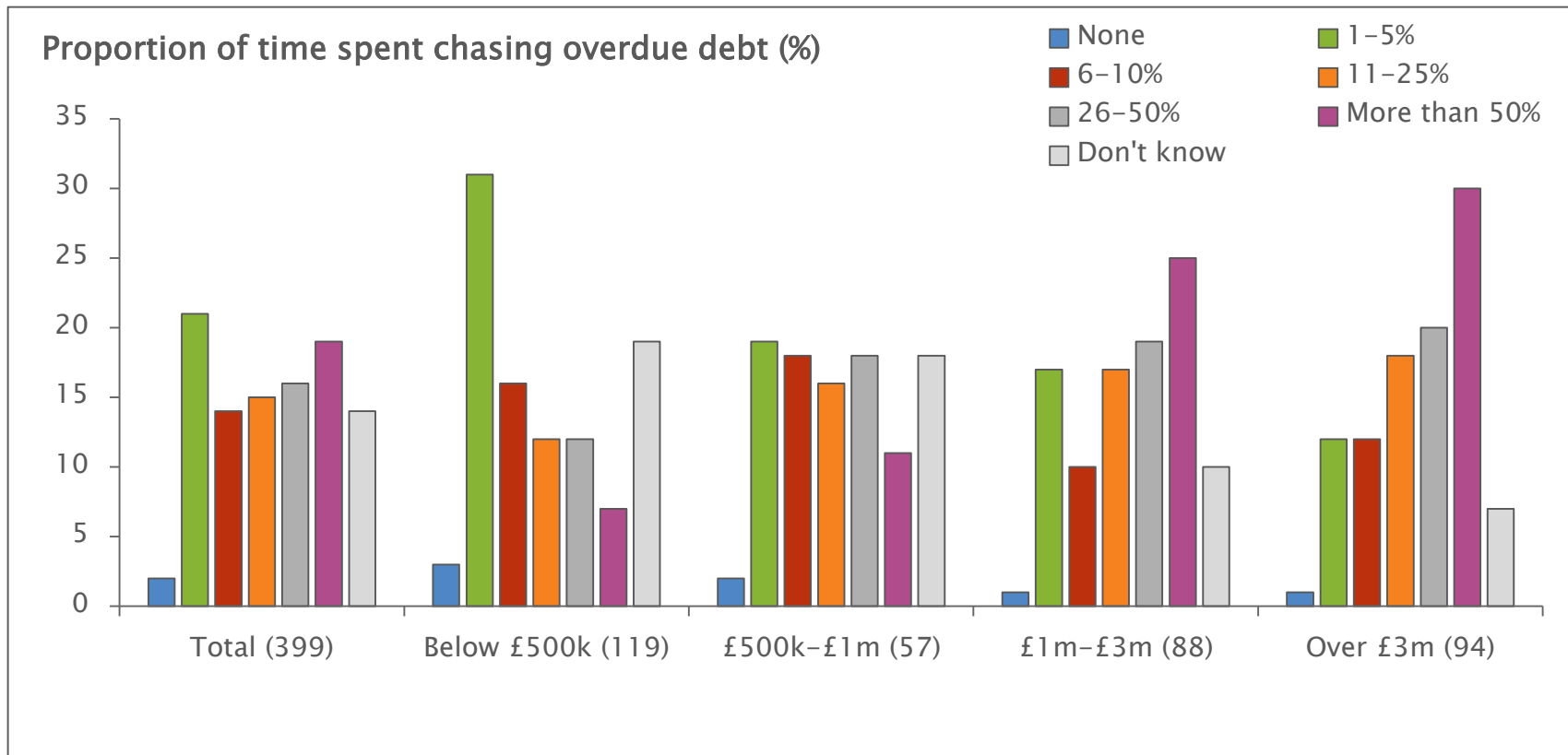
More than one in three businesses spend over 25% of their credit control resource chasing overdue debt. Only 23% spend less than 5% of their time on outstanding payments.



Base: 399 (all, 2015)

Resource spent on overdue debt by turnover

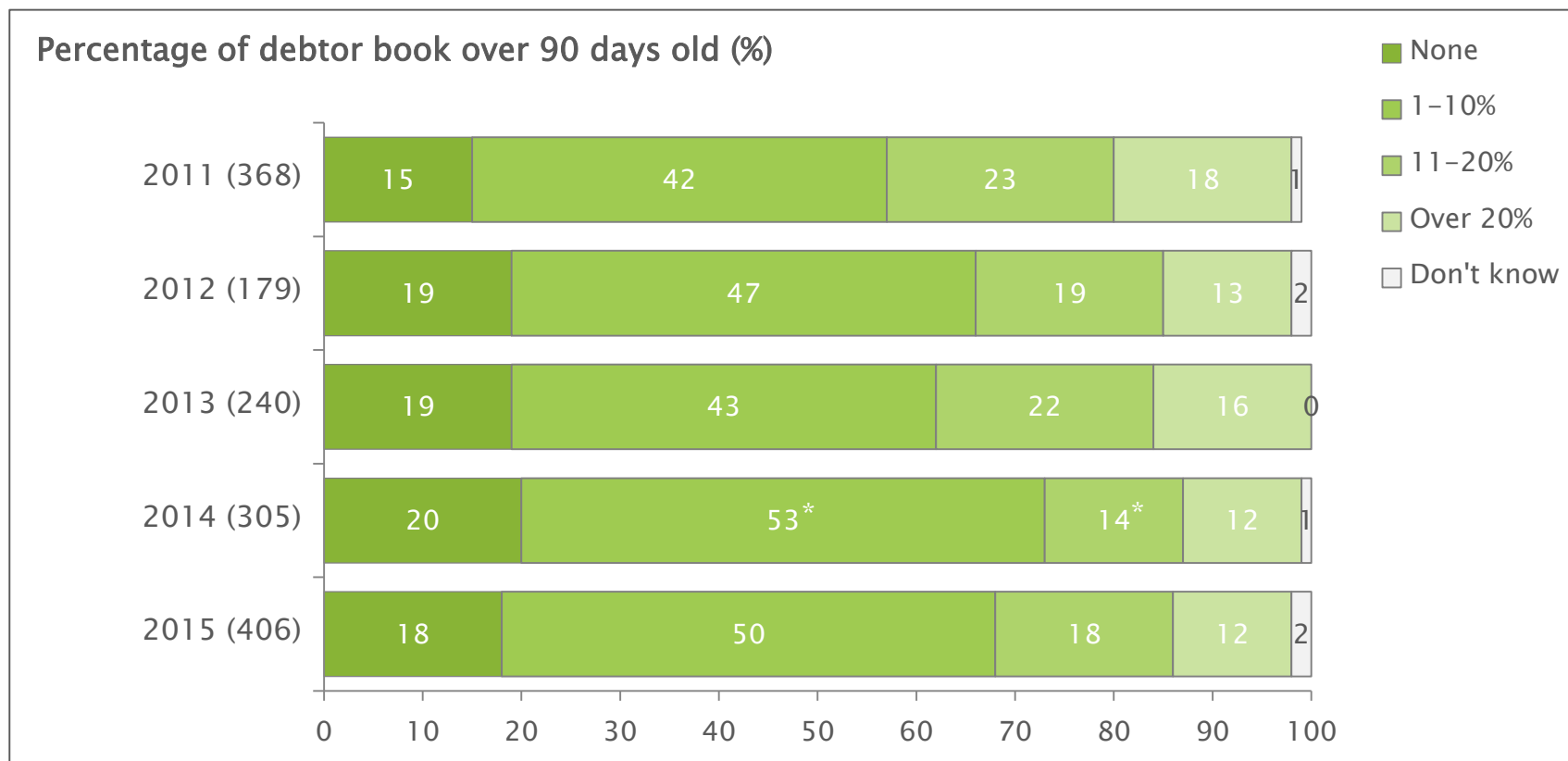
While 19% of businesses which turn over less than £500,000 spend over 25% of their credit control resource chasing overdue debt, this is as high as 50% amongst those businesses which turn over more than £3 million.



Base: (all, 2015)

Age of debtor book

There was an overall increase in the age of respondents' debtor books during the past 12 months, with 30% now classifying more than 10% of their debtor book as more than 90 days old. This represents an annual rise of 4%. Only 18% classify none of their debtor book as over 90 days old.

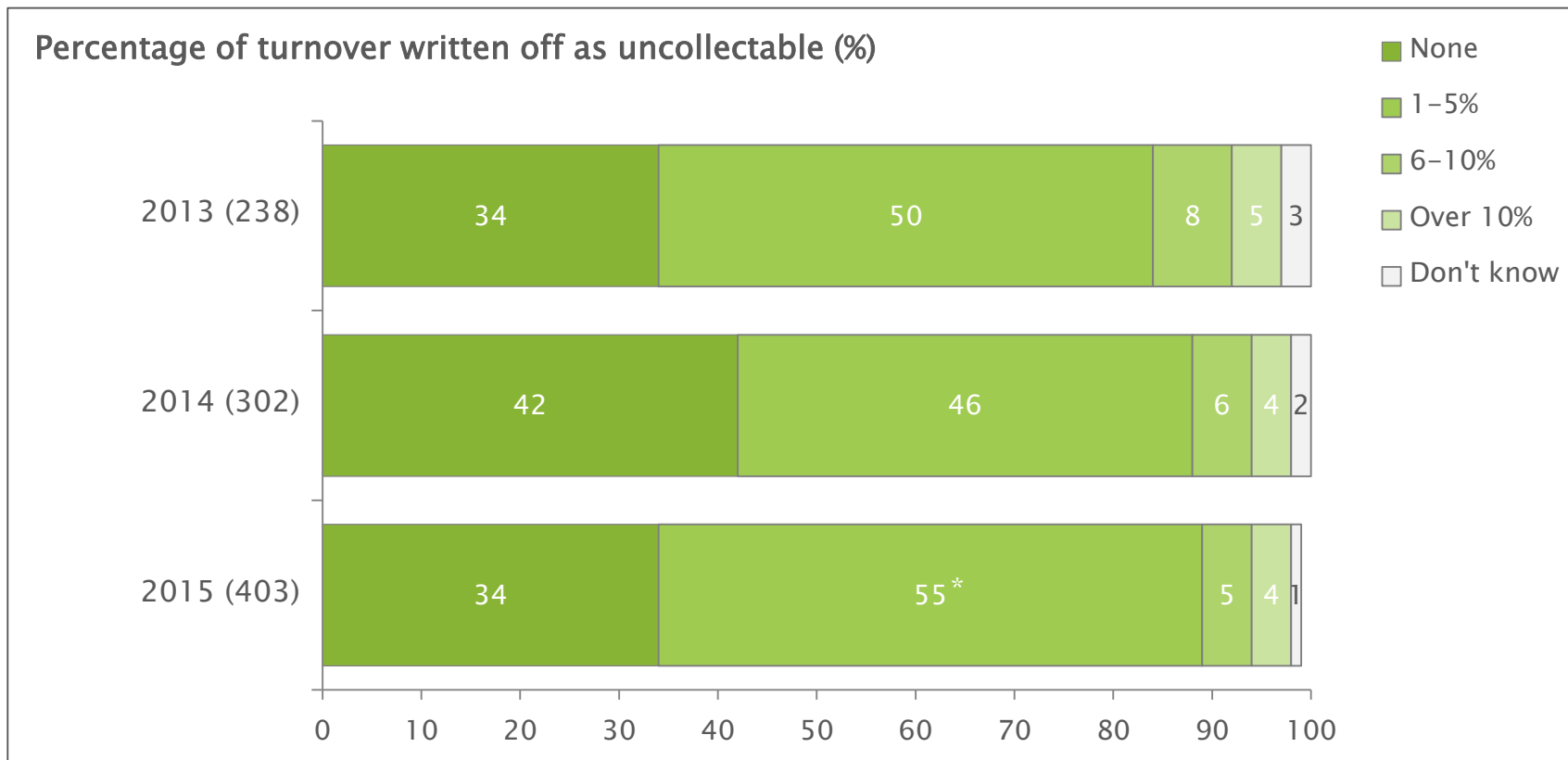


Base: (all)

* Significantly different at 1% significance

Uncollectable turnover

There was an annual fall in the proportion of businesses writing off more than 5% of their turnover as uncollectable during the past 12 months, down from 10% in 2014 to 9% in 2015. Just over one in three didn't write off any of their turnover.



Base: (all)

* Significantly different at 1% significance

Most common excuses

There was a significant fall in the proportion of businesses citing 'waiting for payment from their own customers' as the most common excuse they received over the past 12 months. Waiting for payment authorisation is now the most common excuse.

Single most common reason for late payment (%)	Total (700)	2014 (298)	2015 (402)
Waiting for payment authorisation	27	27	27
Waiting for payment from their own customers	22	27*	19
Copy invoice required	13	10	15
Their terms take precedent	12	10	13
Can't afford to pay	6	5	7
Forgot to pay	4	4	4
Invoice disputed	4	4	4
Sales didn't notify accounts department of the invoice	3	3	3
Cheque in the post	2	1	2
Other	3	3	4
Our customers always pay on time	3	5*	1

Base: (all)

* Significantly different from the total score at 1% significance

Most common excuses by turnover

Customers stating that they can't afford to pay is being reported as the most common excuse for late payment for a significantly higher proportion of businesses with a turnover of less than £500,000.

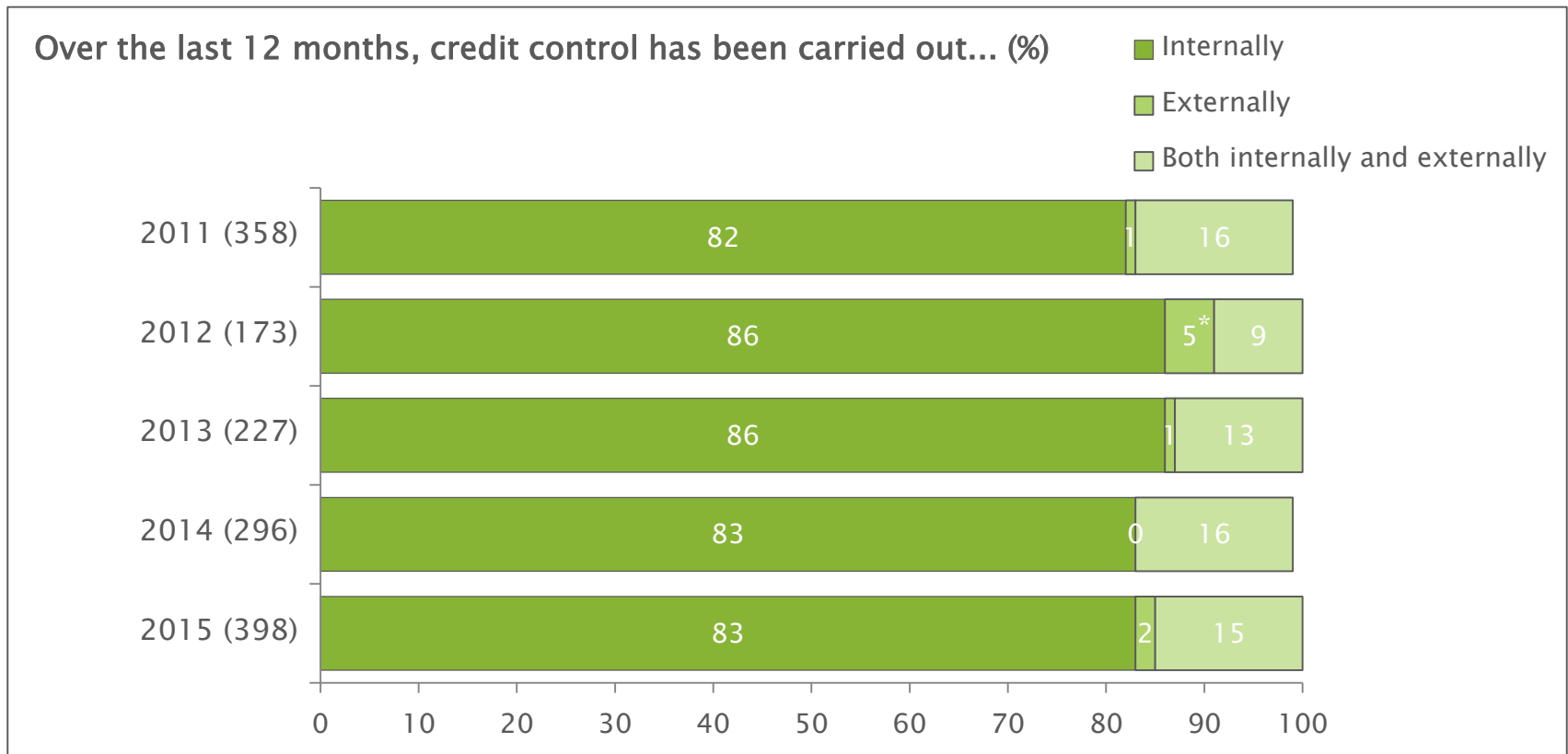
Single most common reason for late payment (%)	Total (402)	Under £500k (119)	£500k –£1m (57)	£1m–£3m (88)	Over £3m (94)
Waiting for payment authorisation	27	26	26	27	32
Waiting for payment from their own customers	19	13	26	22	17
Copy invoice required	15	12	16	16	20
Their terms take precedent	13	14	11	16	9
Can't afford to pay	7	12*	2	6	7
Forgot to pay	4	8*	0	1	1
Invoice disputed	4	1*	5	5	7
Sales didn't notify accounts department of the invoice	3	3	5	2	0
Cheque in the post	2	2	2	5	1
Other	4	6	5	1	3
Our customers always pay on time	1	3	2	0	2

Base: (all, 2015)

* Significantly different from the total score at 1% significance

Credit control function

The proportion of businesses outsourcing all or part of their credit control function is now at its highest level since our survey began. Although there was a 1% year-on-year decrease in the proportion conducting their credit control both internally and externally, 2% now outsource their entire function.

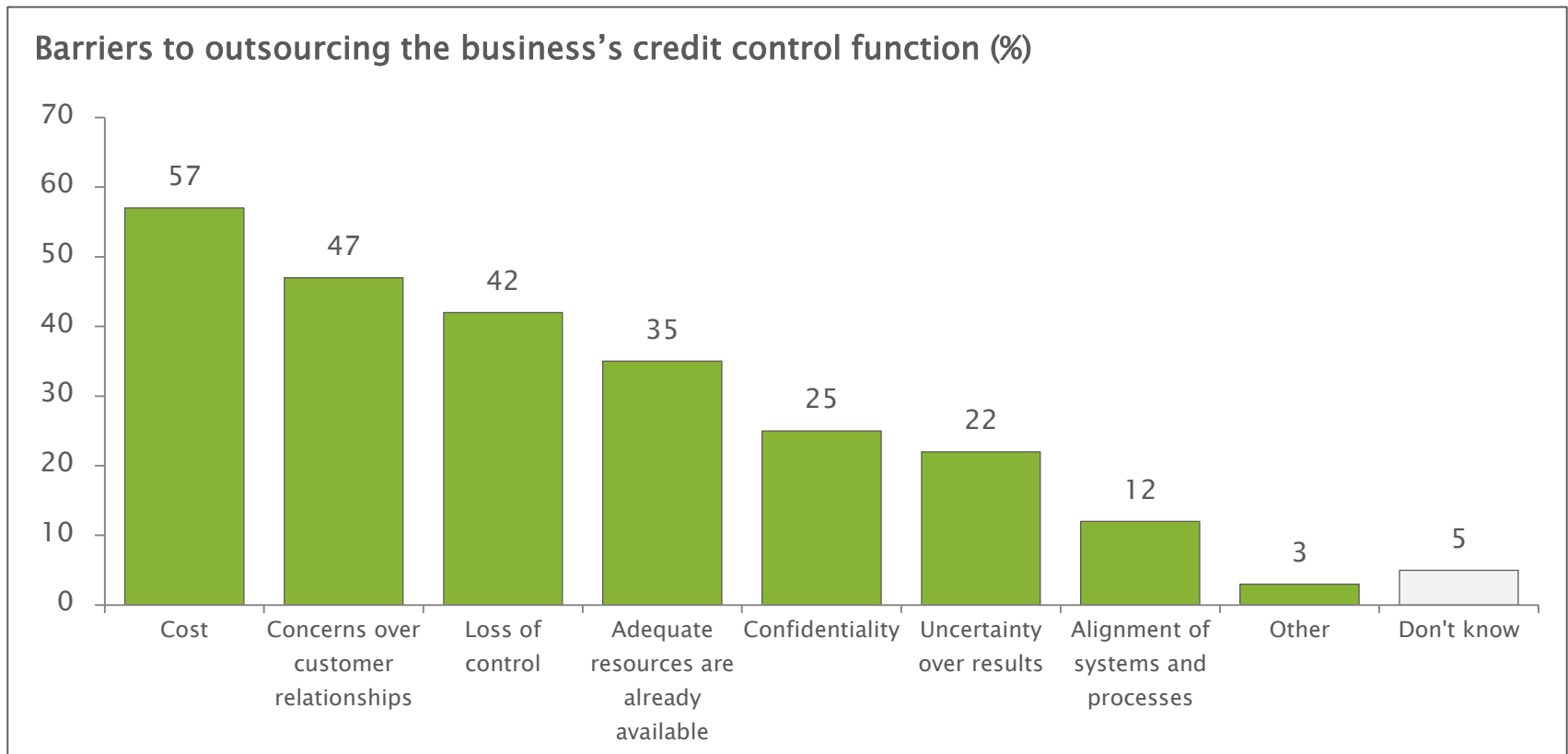


Base: (all)

* Significantly different at 1% significance

Barriers to outsourcing

Cost is seen as the greatest barrier to outsourcing credit control amongst businesses which currently conduct their credit control internally. Other key concerns included the impact outsourcing would have on customer relationships and losing control.



Base: 322 (all answering 'Internally' to Q11, 2015)

Credit management strategies

Credit management strategies currently employed (%)	Total (663)	2014 (284)	2015 (379)
Constant reminding (phone / email)	73	75	72
Suspending work / services	58	56	59
New customer credit checks	51	54	49
Suspending customer credit facilities	47	50	45
Writing to debtors, including solicitor involvement	44	44	44
Small Claims Court / County Court Judgments	34	33	35
Regular existing customer credit checks	29	29	28
Visiting debtors in person	28	27	29
Interest on late payment / Fixed late payment charges	21	18	23
Written credit policy	17	17	17
Inclusion of debt collection costs in T&Cs	16	15	16
Factoring	13	12	13
Early settlement discounts	13	16	11
Credit protection insurance	10	9	10
Goods repossession	6	5	7
Inclusion of Personal Guarantees in T&Cs	5	6	5
Outsourcing	4	3	5

Base: (all)

Credit management strategies by turnover

Credit management strategies currently employed (%)	Total (379)	Under £500k (119)	£500k –£1m (57)	£1m–£3m (88)	Over £3m (94)
Constant reminding (phone / email)	72	74	77	66	70
Suspending work / services	59	55	51	66	65
New customer credit checks	49	29*	42	64*	70*
Suspending customer credit facilities	45	40	39	41	62*
Writing to debtors, including solicitor involvement	44	34*	39	55*	55*
Small Claims Court / County Court Judgments	35	24*	30	40	45*
Visiting debtors in person	29	28	25	31	34
Regular existing customer credit checks	28	13*	26	31	48*
Interest on late payment / Fixed late payment charges	23	24	26	16	27
Written credit policy	17	15	5*	18	28*
Inclusion of debt collection costs in T&Cs	16	16	14	10	21
Factoring	13	8*	23*	15	15
Early settlement discounts	11	11	2*	17	12
Credit protection insurance	10	1*	7	11	26*
Goods repossession	7	7	4	6	9
Inclusion of Personal Guarantees in T&Cs	5	3	2	3	10*
Outsourcing	5	6	9	7	2

Base: (all, 2015)

* Significantly different from the total score at 1% significance

Future credit management strategies

Credit management strategies to be considered (%)	Total (650)	2014 (277)	2015 (373)
Interest on late payment / Fixed late payment charges	25	26	25
Inclusion of debt collection costs in T&Cs	16	18	14
Suspending customer credit facilities	15	13	16
Writing to debtors, including solicitor involvement	15	14	15
Suspending work / services	14	14	14
Small Claims Court / County Court Judgments	13	12	14
Regular existing customer credit checks	13	12	13
Written credit policy	10	8	12
Constant reminding (phone / email)	10	10	10
New customer credit checks	9	8	10
Early settlement discounts	9	6	10
Visiting debtors in person	8	9	8
Inclusion of Personal Guarantees in T&Cs	8	8	8
Goods repossession	7	7	6
Credit protection insurance	6	6	5
Factoring	5	4	5
Outsourcing	3	4	3

Base: (all)

Future credit management strategies by turnover

Credit management strategies to be considered (%)	Total (373)	Under £500k (119)	£500k –£1m (56)	£1m–£3m (87)	Over £3m (93)
Interest on late payment / Fixed late payment charges	25	28	25	26	17
Suspending customer credit facilities	16	18	16	15	14
Writing to debtors, including solicitor involvement	15	19	21	10	10
Inclusion of debt collection costs in T&Cs	14	18	18	15	5
Suspending work / services	14	15	21	10	12
Small Claims Court / County Court Judgments	14	18	27*	13	4
Regular existing customer credit checks	13	10	9	17	18
Written credit policy	12	16	16	9	8
Constant reminding (phone / email)	10	9	4	17*	8
New customer credit checks	10	15*	14	5*	8
Early settlement discounts	10	14	11	8	9
Visiting debtors in person	8	7	5	6	13
Inclusion of Personal Guarantees in T&Cs	8	8	9	8	6
Goods repossession	6	8	4	2	9
Credit protection insurance	5	7	5	5	5
Factoring	5	9	4	5	3
Outsourcing	3	3	4	1	4

Base: (all, 2015)

* Significantly different from the total score at 1% significance

What should the government do?

We asked respondents what they believed the government should, or even could, do in order to lessen the impact of late payment on British businesses. Here are 20 common themes from what they had to say, with some of the best comments featured overleaf:

1. Enforce maximum payment terms
2. Make late payment interest mandatory
3. Increase late payment interest
4. Name and shame late payers
5. Fine late payers
6. Force businesses to report on their payment practices
7. Ensure the supplier's T&Cs are binding
8. Ban customer-imposed early settlement discounts
9. Encourage invoice finance
10. Create national trading rules for T&Cs to link to
11. Improve the legislative process
12. Clamp down on businesses going insolvent / phoenixing
13. Make company directors personally liable
14. Get its own house in order
15. Stop supplying government contracts to late payers
16. Pay CCJs to businesses
17. Launch a 'Pay Fair' campaign
18. Strengthen Prompt Payment Code
19. Make late payment a criminal offence
20. There's nothing they can do

What should the government do?

"Implement law to enforce payments at a maximum 60 days, irrespective of T&Cs, and none amendable within all written contracts."

"Stop companies from insisting on mandatory prompt payment discounts. Why should I offer a discount to a big company who is supposed to pay me on time?"

"All businesses to pay in 30 days or late payment charge automatic with interest. No exceptions."

"Make trading rules for payments clear, with little option for interpretation, and then published on a government website that could be linked to company terms and conditions."

"Publicly accessible government database highlighting persistent late payers."

"Reduce cost and time delay in court processes – and drastically simplify processes."

"Encourage invoice discounting / factoring."

"Create legislation to protect small businesses from large organisations imposing their payment terms."

"Tighten up on the local councils and government departments to ensure that companies are paid within a timely manner."

"Make it clear that late payment is a disease infecting British business and not acceptable. A campaign to make it shameful – make it as unpopular as drink driving or smoking has become."

"Stop making going insolvent so easy as a way of walking away from debt."

What should the government do?

"Make it a legal requirement for limited company directors/shareholders as well as sole traders to be responsible for a company's debt if not paid within terms. Personal guarantees are worthless."

"I would like to see the government own the CCJ process. If a CCJ is issued, the government would pay the claimant and recover the debt. They would have greater reserves and systems to enforce those who still refused to pay, whereas an SME does not."

"None, because it's not a government issue. The responsibility lies with the supplier to ensure payment."

"Set a good example, ensure all levels of government pay on time."

"Ban retentions and allow easier enforcement of late penalty charges."

"Exclusion from public procurement process for those who either fail to disclose, or exceed contract terms."

"I would like to see government policy explicitly advertised showing the destabilising nature of late payment and how it disrupts small businesses, especially when it comes to being able to invest in new products and services."

"Unfortunately late payment is sometimes a necessary evil to ensure lines of credit within the economy are not all suspended and called in. I believe there are enough laws governing the offer of credit and ability to retrieve late payment, this can be done via credit control and the current legal lines are entirely satisfactory."

"No company should be able to display the Prompt Payment Code unless they pay 30 days from date of invoice, otherwise it is a complete farce. Pressure has to be put onto large corporations that impose stringent payment terms on their suppliers, many of them small businesses."

About Hilton–Baird

AS PART of the Hilton–Baird Group, Hilton–Baird Collection Services is the UK's leading commercial debt collection agency that provides a range of services to 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 confidential credit control support that's tailored to each business's individual requirements. We work 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 around the clock to ensure we can best surpass all expectations in 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.

Contact details



Hilton-Baird Collection Services
Ashwood House
Ashwood Gardens
Southampton
SO16 7LF

+44 (0)2380 707392
+44 (0)2380 707393

collections@hiltonbaird.co.uk
www.hiltonbaird.co.uk/cs

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