



THE IMPACT OF LATE PAYMENTS ON UK SMES

80% OF UK SMES ARE AFFECTED BY
POOR PAYMENT PRACTICE



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This white paper looks at the key trends around the late payment culture currently affecting UK SMEs. It explores some of the key statistics, how SMEs are affected, and how they can combat poor cash-flow as a result.

The three key areas covered are:

- 1. Why is there a growing culture for late payments in the UK?**
- 2. The day-to-day effects of late payments on SMEs**
- 3. Automation – a focus on technology**

In recent years the UK has seen a significant change in the way businesses pay their invoices with late payments of often 60 days and beyond becoming the norm. This has largely been driven by the economy, changes in technology, people's attitudes and businesses' behaviours. Late payments are having a severe impact on SMEs and the UK economy as a whole, to the point where 50% of SMEs that go out of business within their first five years, cite late payments and bad cash flow as one of the main reasons. ¹

This problem has now been raised at national level with the government introducing new measures to end late payments to small businesses, especially when it comes to larger firms paying their supply chains properly.

In 2018, research by Bacs Payment Schemes Limited (Bacs) showed the UK's smallest businesses faced a staggering bill of £6.7 billion, just to collect money they're already owed from their customers. This was an increase of £4.1 billion from 2017. Findings also revealed that more than three quarters of SMEs owed

money are being forced to wait one month or more beyond their agreed payment terms. ²

The late payment culture is now so widespread across the UK that many businesses are spending money on chasing debts from a very early stage in their business life cycle. To demonstrate the true cost of this to UK SMEs, BACS believes that 43% spend around £4.4 billion each year alone, on admin costs to chase overdue invoices. With small businesses owed on average at least £6,400, the majority of debtors are larger firms not paying for their goods and services on time. ² For more than 10 years, the Federation of Small Businesses (FSB) has been highlighting the impact of late payments. Based on their research, they have seen 37% of all small business run into cashflow difficulties, with 30% being forced to use overdraft facilities to bridge the gap. All of this leads to the death of more than 50,000 businesses every year, losing the UK economy approximately £2.5 billion. ³

"80% of the UK's small business community is affected by poor payment practice. Because of this, 50,000 small firms a year are forced to close their doors." ⁴

- 1. Telegraph, 2014, Business Club, Elizabeth Anderson,** Half of UK start ups fail within five years.
- 2. Bacs Payment Schemes Limited (Bacs), 2018,** Cost Of Collecting Late Payments Rockets.
- 3. Federation of Small Businesses, 2016,** Stop late payments save 50,000 small businesses.
- 4. Federation of Small Businesses, 2019,** Small businesses call crunch time for late payments package.

TOO DEPENDANT ON ONE LARGE CUSTOMER OR SUPPLY CHAIN?

It is not just SMEs that feel the impact of bad debts. One recent case was Carillion, the UK construction and facilities management giant that went into compulsory liquidation in January 2018. With liabilities of almost £7 billion, Carillion's collapse was the most drastic procedure in UK insolvency law.⁵

Carillion's collapse showed the problems that can arise when a single large supplier enforces 120-day payment terms on the SMEs within its supply chain.



CASE STUDY

30,000 SMEs Affected by Carillion's Collapse

A global company, Carillion were notoriously late payers. Reports highlighted that on average, Carillion were paying their suppliers up to 90 days over their payment terms, with some businesses waiting 4 months for the cash that was rightfully theirs.

The bill they left behind wasn't a small one. It is believed that at the point Carillion went into liquidation, it owed £2 billion to over 30,000 suppliers, sub-contractors and other short-term creditors, some of which was unpaid money due to such unfavourable payment terms.⁶

5. <https://en.wikipedia.org/wiki/Carillion>

6. www.parliament.uk, 2018, Late Payments, Retentions and Government Procurement.



SMES HAVING TO COVER SHORTFALLS CAUSED BY LATE PAYMENTS

To bridge the gap in their finances caused by late payments many SMEs are forced to secure bank loans or overdrafts.

Using an overdraft facility can be costly for the business with arrangement fees and additional interest charges averaging 11%. Loans are another option but can be a lengthy process, from researching the best rates, submitting a loan application, then awaiting approval before the funds can finally be credited to your account. These delays can cause a business further problems as they may need a more rapid injection of funds to survive. This does inevitably raise the question, why should businesses have to cover the cost of goods and services they have already sold just because a supplier doesn't want to pay on time?

Unfortunately, this is becoming an all too common scenario in today's business climate.

So, how can businesses get access to funds more efficiently?

Well, the culture of late payments has given fintech start-ups the opportunity to enter the market. Often referred to as invoice financing/factoring, these fintech companies offer financing on invoices so you can receive the capital within the agreed payment terms. There is usually a fee charged for this service, but they can deliver funds within just 24 hours.





RE-ACTIVE VS PRO-ACTIVE CREDIT CONTROL

Chasing outstanding payments can be quite a stressful ordeal for many businesses, and normally leads to a very reactive credit control cycle. What many businesses do is treat all their customers the same, and only start chasing customers once the payment terms have elapsed. They then concentrate their efforts on the biggest debts, often remaining focussed on these debts until they are paid. They then start the cycle all over again as soon as the next big invoice goes unpaid.

Now if you worked in marketing, you wouldn't talk to all your customers the same, you would tailor your communication channels and content to suit the different types of customers you are dealing with.

This concept works exactly the same when it comes to obtaining payment. You need to understand how your different customers pay, and then by using this knowledge, develop effective credit control processes. You can then build on this further by introducing elements such as pre-emptive chasing. This will turn your reactive credit control process into a much more pro-active one.



ARE OUTDATED PROCESSES DAMAGING YOUR BUSINESS?

Outdated systems and processes can inhibit effective credit control. A good place to start is by reviewing your current credit control practices. How quickly does your business issue invoices?

How are your invoices sent out? Do you have a central system that allows your employees and even customers to access their invoices and statements easily? How do you allow your customers to pay for your goods and services? Can you set them up on a direct debit? Can you add 'Pay Now' functionality to your documents? Understanding which processes you can improve can have a dramatic impact on improving cashflow and reducing your debtor days.

Software can help improve your business

As technology is forever changing, more and more businesses are creating solutions for tackling some of the biggest business problems we have in the UK. Selecting the right software can make substantial savings for businesses every year, improving cash flow management and having a dramatic impact on how well an SME can perform and grow. One of the key areas where technology can deliver is 'automation'. By automating the credit control process, you can immediately make the process more efficient,

helping businesses to stop spending a lot of time on unnecessary administration and concentrate on debt recovery. **By simply speeding up the debt recovery process you can deliver a strong ROI in a very short time frame.**

A good example of a product that does this well, is Credit Hound. Developed by Draycir, Credit Hound seamlessly integrates and extends your ERP solution. It analyses, automates and reports on a business's credit control processes allowing you to get on top of your cash-flow.

GET PAID FASTER

Software such as Credit Hound can transform how your business chases late payments to help you get paid faster.

As the AM2PM testimonial shows below, it can significantly reduce debtor days, improve cash flow and deliver a better customer experience, by giving you the opportunity to treat your customers in a more consistent manner.

Automated processes free up your time. This enables you to strengthen relationships with your customers' accounts departments and understand their payment processes in more detail. It also gives you a centralised system to track, record and report on any late payers and disputes.



**Credit
Hound**

A **DRAYCIR** product

AM2PM TESTIMONIAL

"Our previous software had limited functionality, was reliant upon manual processes, prone to error and unnecessarily time consuming. We really needed a complete overhaul to improve our results.

Since installing Credit Hound our company has immediately benefitted from using it's excellent "chase" process.

This automatically performs 4 of our normal tasks in 1 simple step by logging calls, generating chase letters, sending emails and setting diary tasks. By improving our Credit Control processes, it has helped to make our business more efficient and increased our productivity."

- ✓ Credit Hound has saved 20 hours per week preventing the need for an additional head.
- ✓ Improved cash flow by reducing 90+ debtor days by 75%.
- ✓ Improved tracking of disputed invoices and promised cash.
- ✓ Improved department efficiency and provided greater focus for staff.
- ✓ Now able to treat customers in a more consistent manner.
- ✓ Glenn Naraine
Systems and Administration Director



Visit <https://draycir.com/calculator/credithound/> to calculate how much money Credit Hound can save your business

The benefits to your business are often immediate and quantifiable with a reduction in debtor days, increase in working capital and a healthier cash-flow. These are all vital ingredients for the continued success and growth of your business.

To book a demo or for more details please contact Advantage today:

hello@advantage.co.uk or **020 3004 4600**

Feeling Inspired?

Contact us today to see how Advantage
can transform the way you work



Advantage Business Systems

150 Minories, London EC3N 1LS
United Kingdom

+44 (0) 20 3004 4600

hello@advantage.co.uk

ADVANTAGE.CO.UK

Draycir Ltd

Regent House, 80 Regent Road Leicester LE1 7HE
United Kingdom

+44 (0) 116 255 3010

sales@draycir.com

DRAYCIR.COM