

Late payments debt high enough to put UK SMEs out of business

Submitted by: Kiss Communications

Friday, 28 September 2012

As the number of UK small and medium-sized businesses facing late payments reaches more than a million – with a total collective debt of almost £36.4 billion – research shows that many SMEs are in danger of going under.

Nationally, the average amount owed to one of the country's SMEs is £36,000 – yet 35 per cent of SMEs reported that late payment debts of up to just £20,000 would be enough to put them out of business, in a survey by Bacs Payment Schemes Ltd, the company behind Direct Debit and Bacs Direct Credit.

In the South of the country, the average amount owed in overdue payments to the region's smaller companies stands at £53,000, yet almost half (49 per cent) of those surveyed said that it would take less than that – up to £50,000 – to put them out of business.

Midlands SMEs face similar problems; while the average outstanding amount is much lower, at £22,000, 37 per cent of companies said unpaid invoices of up to £20,000 could cause their business to fail. In the North, where the average debt is £27,000, more than a quarter (27 per cent) said the same.

The new research, carried out in July, showed that around six out of ten UK SMEs (59 per cent) experience late payments. In the South, the proportion of smaller businesses facing overdue settlement echoes the national average, ahead of northern companies at 55 per cent but behind Midlands businesses (63 per cent).

The average UK SME experiencing late payment now has to wait a staggering 43.4 days beyond payment terms for their invoices to be paid – northern businesses are waiting even longer, with an average delay of 46.8 days before bills are settled.

One consequence of the late payments culture is that hard-pressed businesses are being forced to invest an average of almost 14 days every year – or almost three working weeks – just in chasing overdue bills. Even based on minimum wage rates, that means delayed invoice settlement will cost smaller UK businesses just short of £700 million in 2012 alone*.

Nationwide, the majority (37 per cent) say the worst offenders are large companies, although 25 per cent of companies surveyed claimed fellow SMEs were also guilty of paying late. Government and not-for-profits were right at the bottom of the offenders' list, with just six per cent of SMEs experiencing late payments at their hands.

The most common excuse SMEs hear is that the delay is down to cash flow problems within the company being invoiced, with 47 per cent saying this is the reason they're given.

The research also shows that it isn't only the businesses which are suffering – the people responsible for the finances pay an emotional price, too. Of those surveyed across the UK, 18 per cent said that they were anxious about the consequences of late payments on their business while a further eight per cent said overdue invoices left them very worried, constantly checking for payments because of the potential

impact on the viability of their business and could affect jobs.

Mike Hutchinson from Bacs said: "Our newest research demonstrates that even more SMEs are facing difficulties with late payments, with potentially serious implications for their businesses.

"Cash flow remains key for companies to stay afloat during challenging economic times, yet there does seem to be a growing culture of delaying invoice settlement until long past the due date.

"As our research shows, this issue not only hits the business but owners are reporting how it puts them under great strain personally, which has further negative repercussions.

"We urge SMEs to look at taking control over their cash flow wherever they can by automating payments where possible to save valuable time and administration costs, and hopefully alleviate a little of the pressure on the business and its owner."

--Ends--

* Calculation:

National average time spent a week chasing late payments = 2.1 hours

Multiply by 52 = 109.2 hours or 13.65 days per year (based on an 8 hour day)

Multiply by number of small businesses experiencing late payments (109.2 x 1,011,000) = 110,401,200 hours

Multiply by national minimum wage so 110,401,000 x £6.19 = £683,338,342

Editor's Notes

Media Enquiries:

For all media enquiries, please contact Kerris Macauley on 07974 326373 or email k.macauley@bacsservices.co.uk

About the research

The research was carried out on behalf of Bacs by a leading international market research agency, among 478 SMEs in UK, during July 2012. SMEs are companies with up to 250 employees and each respondent was a senior financial decision maker. The sample is representative of UK SMEs.

About Bacs:

Founded in 1968, Bacs, the not-for-profit, membership-based industry body is owned by 16 of the leading banks and building societies in the UK, Europe and the US.

Responsible for the schemes behind the clearing and settlement of automated payments in the UK including Direct Debit and Bacs Direct Credit, Bacs has been maintaining the integrity of payment related services for over 40 years.

The Government acknowledges that the Bacs payment system is of critical importance to the UK financial system and has confirmed that it meets the recognition criteria set out in the Banking Act 2009.

Since its inception, more than 90.75 billion transactions have been debited or credited to British bank accounts via Bacs. And in 2011 5.6 billion UK payments were made this way with a total value of £4.3 trillion. A new record was also set in 2011, with a total of 91.92 million items processed in a single day.

For further information please go to www.bacs.co.uk (<http://www.bacs.co.uk/Bacs/Corporate/Pages/default.aspx>) or go to www.thesmartwaytopay.co.uk (<http://www.thesmartwaytopay.co.uk/Pages/Home.aspx>), the home of The Smarts, an animated family who use automated payments to help improve financial management and control.

More about Direct Debit:

A Direct Debit is an instruction from a customer to their bank or building society authorising an organisation to collect varying amounts from their account. This can be used to ensure regular, safe and efficient payments of anything from household bills to charitable donations. Over three billion Direct Debit payments are processed by Bacs a year and nearly three quarters of UK adults now have at least one Direct Debit commitment.

To learn more about setting up a Direct Debit to help keep your bank account in order, please contact your bank or building society.

More about Bacs Direct Credit:

Bacs Direct Credit is mainly used for paying wages and salaries - in fact over 90 per cent of the UK workforce is paid via Bacs Direct Credit. In total, Bacs Direct Credit is used to pay the salaries and wages of 28 million people. In 2011, almost two and a quarter billion payments were processed using Bacs Direct Credit.