R3 Business Distress Index (October 2015)

R3's latest research shows that levels of business distress remain near record lows, with only 28% of businesses experiencing any of the key signs of business distress. Indicators of business growth also remain near record highs, with 67% of businesses showing at least one indicator of growth. There has also been a dramatic decrease in the number of businesses that are just paying the interest on their debts (a key characteristic of 'zombie businesses'): the number has decreased substantially from 154,000 in August 2014 to 69,000 in September 2015.

The research also shows that nearly one-in-five businesses (18%) would be put in financial difficulty by an interest rate rise of one percentage point or more in the next 18 months.

Key findings

Business distress

- Business distress remains near record lows, with only 28% of businesses experiencing any of the key signs of business distress – including decreasing profits, sales volumes, or market shares, the regular use of maximum overdraft facilities, and new redundancies (record low: 24% in April 2015).
- However, all of the key indicators of business distress increased over the last six months.
- Larger businesses (250+ employees) continue to experience fewer signs of distress (16%) compared to sole traders (26%).

Business growth

- Indicators of business growth remain near record highs with 67% of businesses showing at least one indicator of growth (record high: 68% in April 2015). These indicators include: increasing sales volumes, business expansion (geographically, increasing staff numbers or new areas of business), investing in new equipment, increasing profits or a growth in market share.
- A record high number of businesses are experiencing increased sales volumes (43%).
- Larger businesses continue to show more positive signs of growth compared to smaller firms. 83% of larger businesses (250+ employees) are experiencing one or more indicators of growth, compared to 58% of sole traders.

Impact of a rise in interest rates

- Nearly one-in-five businesses (18%) say they would be put in financial difficulty by an interest rate rise of one percentage point or more in the next 18 months. This is lower than the 22% of business who said they would struggle in 2014.
- The vast majority of businesses (72%) say they would be unaffected by an interest rate rise, compared to 70% in 2014.
- 4% of businesses expect to benefit from an interest rate rise, down from 7% in 2014. The share of businesses unsure how they will cope has increased from 1% to 5%.

'Zombie' businesses

- The number of businesses that are just paying the interest on their debts – a key characteristic of 'zombie businesses' - has decreased substantially from 154,000 in August 2014 to 69,000 in September 2015. This is the lowest number of businesses in this position since the survey began in June 2012, having peaked at 160,000 in November 2012.

- Around 97,000 businesses say they have to negotiate payment terms with creditors, down from 135,000 in August 2014.
- 77,000 businesses say they would be unable to repay debts if interest rates increase by one percentage point or more. The report also found that 55,000 businesses say they struggle to pay debts when they fall due, down from 64,000 in August last year.

Late payment

- One-in-five (21%) businesses are owed payment on invoices that are over 30 days past due.
- Manufacturing (27%) had the highest rate of businesses that were owed late payments, followed by Services (22%), and Retail and Distribution (13%).
- 17% of sole traders said that they are owed payment on invoices that are over 30 days past due, compared to 29% of firms employing over 250 people.

R3 commentary

"There has been a dramatic decrease in the number of 'zombie businesses' since we began our research. Encouragingly, the findings suggest that businesses are experiencing greater profitability. We are now seeing more companies able to afford to pay off the debt itself and not just the interest. The circumstances of this recovery have also given businesses the space and time needed to restructure themselves outside of the formal insolvency process. The current low levels of inflation, lack of pressure for wage increases and the strong pound helping importers, may also be assisting businesses at the moment."

"The economic climate has rewritten the rules of recovery as we knew it. When interest rates fell in 2009 it was never expected that they would remain at that level for so long but by doing so it alleviated some of the pressure on businesses and allowed them an opportunity to get their finances in order."

"Low interest rates have been a great aide to businesses but they won't last forever, and a rise is on the horizon. While the number of businesses that would be unable to repay debts has decreased by nearly a quarter since last year, it still represents a considerable number of companies who will be put in a very precarious position when a rise does come."

Phillip Sykes

R3 President

Method: BDRC Continental conducted 500 telephone interviews with small, medium and large business owners and Financial Directors in September 2015. Strict quotas are set by size, and softer ones for region and sector. The data is weighted to be representative of all UK businesses with an annual turnover above £50,000. The weights applied are based on the business population data from the Department for Business Innovation and Skills (BIS). The respondent in each case is a senior financial decision maker.

About R3: R3 is the trade body for the UK insolvency profession. From senior partners at global accountancy and law firms to practitioners who run their own small and micro-businesses, our members have extensive experience of the personal and corporate debt landscape. *For more information please contact James Jeffreys (Public Affairs and Policy Officer) on 020 7566 4220 or james.jeffreys@r3.org.uk [www.r3.org.uk.](http://www.r3.org.uk) Follow us @R3PressOffice*