



Business Distress Index: Wave 16

Late Payment



June 2015

Methodology

Research undertaken by BDRC Continental, an award-winning insight agency. Questions were put to 500 UK businesses via BDRC Continental's monthly Business Opinion Omnibus. Telephone-based interviews with a nationally representative sample of senior financial decision makers across the UK, weighted by size, region and sector. Fieldwork dates 7th to 17th April 2015.

Introduction by Phillip Sykes, R3 President

The survey marks the lowest level of business distress since the research began, and a return to record high signs of business growth. Not only is the overall level of distress at its lowest but so too is every individual indicator of distress tracked. It is particularly encouraging to see the greatest drop in signs of distress occurring for sole traders, who carried a heavy burden during the economic downturn.

Business growth is back at its record high, but the pace of growth is beginning to weaken. While many businesses are seeing at least one sign of growth, fewer are experiencing more than one: the individual indicators are falling.

The survey's findings on late payment show that half of the UK's businesses have been victims of the practice in the last six months.

The prevalence of late payments is a cause for concern. Late payment puts businesses under unnecessary pressure and increases their risk of insolvency. It can also have knock-on effects: one business paid late may end up paying its own suppliers late as a consequence. Addressing this culture of poor payment in the UK should be high up on the new Government's small business agenda.

Looking ahead, businesses face a mixed picture. Although the likely date of an interest rate rise continues to be moved further into the future, a rise must come eventually. The Bank of England's growth outlook remains solid but has been downgraded. And a referendum on British membership of the EU could cause uncertainty for business.



Phillip Sykes, R3 President

1. Business Distress

- Signs of business distress are at a record low: 24% of British businesses are showing at least one sign of distress, the lowest since the research began.
- The share of businesses showing at least one sign of distress has fallen by forty percentage points since March 2012, and is 11 percentage points lower than the last round in November 2014.
- Every indicator of distress tracked is at its lowest since the research began: these are businesses experiencing decreased profits (10%), sales volumes (11%), or market share (6%), and are regularly using their maximum overdraft (8%), or are making redundancies (3%).
- The proportion of businesses experiencing decreased profits halved since the last survey, falling from 20% to 10%.
- The Midlands has the highest proportion of companies (84%) showing no signs of business distress, followed by the North (77%) and the South (68%).
- The proportion of larger companies (250+ employees) experiencing one or more signs of business distress (15%) is lower than the proportion of sole traders in the same position (20%).
- However, sole traders recorded the greatest drop in distress. Only 20% of sole traders reported one or more sign of distress, compared to 50% in November 2014.

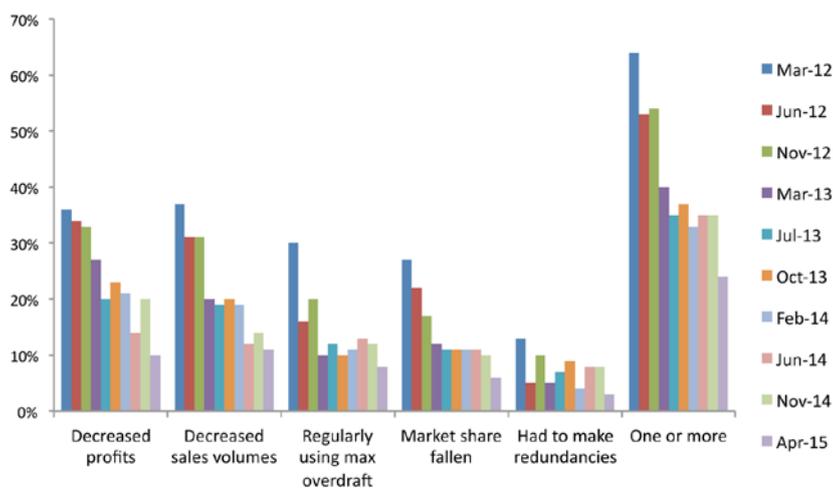


Table 1 - The proportion of businesses reporting signs of distress

2. Growth

- The proportion of businesses reporting one or more indicators of growth has returned to record highs (68%).
- 38% of businesses are reporting experiencing increasing sales volume, the most common sign of growth. This is followed by experiencing increased profits (31%), investing in new equipment (27%), growth in market share (22%) and business expansion (20%).
- Business growth around the regions is relatively level: with 70% of businesses in the Midlands reporting at least one indicator, 68% in the South and 66% in the North.
- The proportion of larger business (250+ employees) experiencing one or more indicators of growth (72%) continues to be higher than that of sole traders (59%).
- The pace of business growth is weakening slightly. A higher number of businesses are seeing at least one indicator of growth, but fewer are experiencing multiple growth signals.

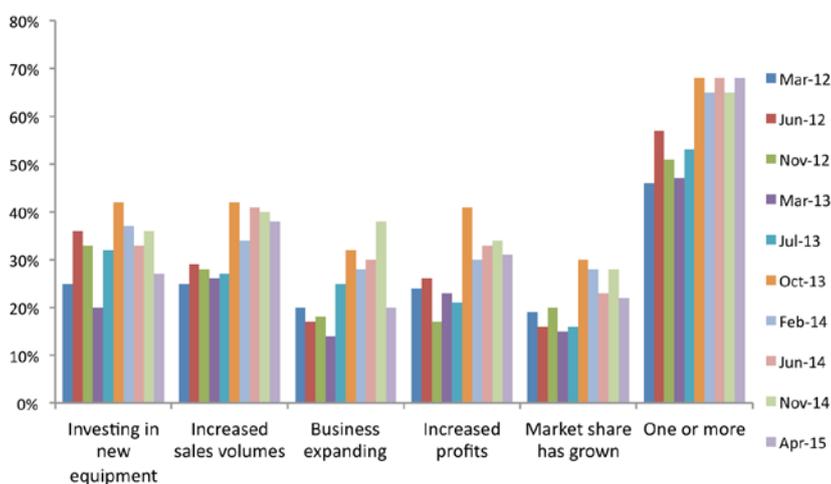


Table 2 - The proportion of business reporting signs of growth

3. Business Confidence and Economic Optimism

- 47% of businesses expect their business activity to increase in the next year, while 48% expect it to stay the same. This is the first time 'stay the same' has been higher than 'increase' since July 2013.
- There is a relatively small gap in business confidence between larger business (47%) and sole traders (43%).
- Businesses in the Midlands (58%) are far more likely to think their business activity will increase than those in the South (42%) or North (43%).
- Economic optimism is high, with 63% of businesses more optimistic about the economy generally than three months ago, compared to 12% that are more pessimistic.
- Sole traders (69%) are more optimistic than larger businesses (62%).

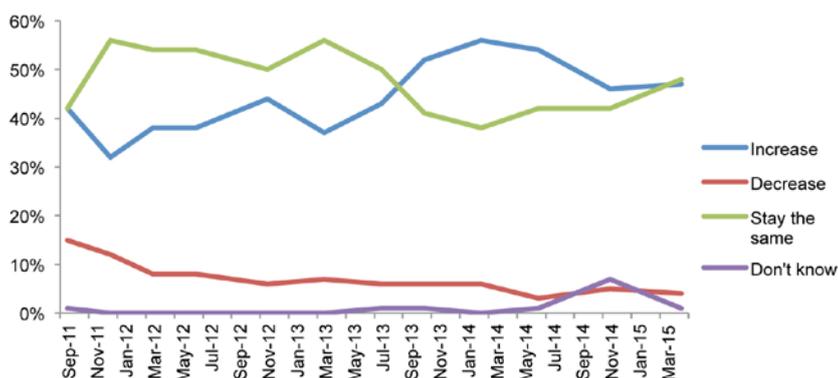


Table 3 - Expected prospects for business activity in the next year

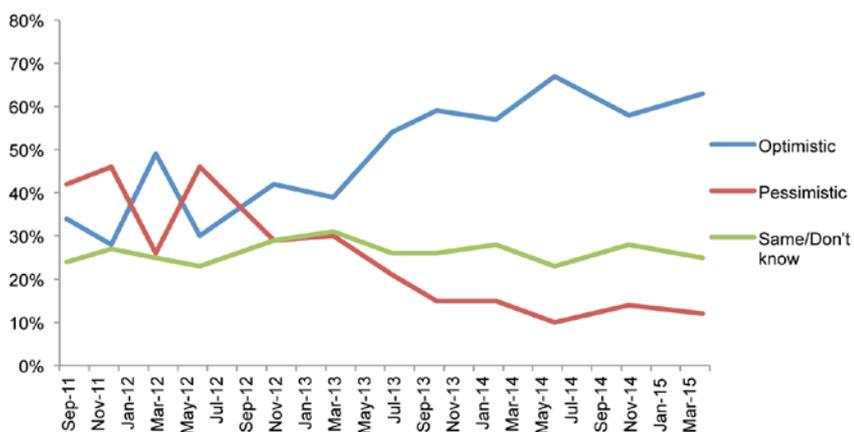


Table 4 - Outlook on the economy generally

4. Late Payment

- 49% of UK businesses had invoices paid late by customers in the last six months.
- Victims of late payment saw on average 15% of their invoices paid late.
- Sole trader victims of late payment saw an average of 17% of their invoices paid late over the last six months – compared with only 12% of invoices for firms employing over 250 people.
- 7% of sole traders said that between 41-50% of their invoices had been paid late, compared to just 1% of companies employing over 250 people.
- Businesses in the Greater London region were least likely to be victims of late payment, with an average of 7% of invoices being paid late, while those in Scotland and Northern Ireland were the most likely (19.9% paid late).

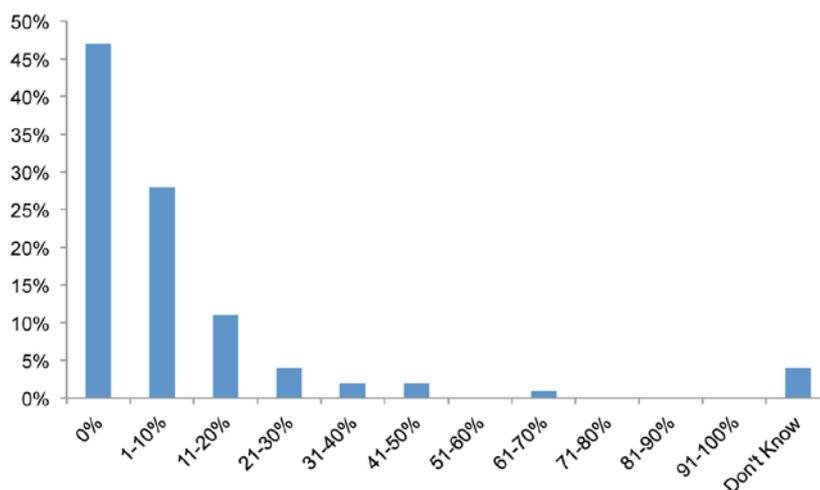


Table 5 - Proportion of UK businesses reporting late payment in last six months, by proportion of invoices paid late**

*47% report no late payments; 4% don't know.
**Total doesn't equal 100% due to rounding

Key indicators of business growth

- Increase in sales volume
- Business expansion (geographically, increasing staff numbers or new areas of business)
- Investing in new equipment
- Experiencing increased profits
- Growth in market share

Key indicators of business distress

- Decrease in sales volume
- Regularly using maximum overdraft facility
- Made redundancies
- Decreased profits
- Fall in market share



About R3:

R3 is the trade body for the UK insolvency profession. From senior partners at the 'Big Four' accountancy firms to practitioners who run their own small and micro-businesses, our members have extensive experience of helping businesses and individuals in financial distress. For more information please contact R3's Communications Officer, Orla Hennessy on **020 7566 4203** or **Orla.Hennessy@R3.org.uk**