R3 Business Distress Index (December 2015)

R3's latest research shows that more than 100,000 UK businesses were owed money by businesses or individuals entering an insolvency procedure during the last year. In total, 113,000 businesses, about 6% of all UK businesses, were creditors in an insolvency procedure in 2015. SMEs are more likely to be exposed to an insolvency than large businesses.

The research also shows that levels of business distress have reached a new record low, with only 17% of businesses experiencing any of the key signs of business distress tracked by R3. This is a considerable drop from the previous record low of 24% in April 2015; and down from 28% in the previous survey in September.

Indicators of business growth also reached a new record high, with 69% of businesses showing at least one indicator of growth. This is a marginal increase from the previous record high of 68% in April 2015 and only up 2% since the previous survey in September. The survey also showed that business confidence has fallen, with 39% of businesses expecting their activity to increase in December, compared to 46% in September.

Key findings

Businesses owed money by insolvent businesses or individuals

- In total, 113,000 businesses, about 6% of all UK businesses, were creditors in an insolvency procedure in 2015.
- Businesses employing 51-250 people (medium sized businesses) were most likely to have been exposed to another firm or individual's insolvency, with 14% of these businesses owed money by an insolvent individual or company.
- However, only 4% of large businesses (250+ employees) have been a creditor in the last year.
- By comparison, between 6-8% of businesses employing between 1 and 50 people were a creditor in an insolvency process last year.
- 4% of businesses employing between 2 and 5 people were a creditor in over five insolvencies last year (23,000 businesses) – the highest proportion of any business size in this situation. On average, all businesses should be a creditor in one insolvency procedure every five years.

Business distress

- Business distress reached a new record low, with only 17% of businesses experiencing any of the key signs of distress – including decreasing profits, sales volumes, or market shares, the regular use of maximum overdraft facilities, and new redundancies (previous record low: 24% in April 2015).
- Several of the individual indicators of distress also reached record lows: using maximum overdraft (6%), market share has fallen (5%) and level of decreased sales volume (10%).
- The percentage of businesses owed payment on invoices that are over 30 days past due has remained at the same level since the last survey (21%).

Business growth

- Indicators of business growth reached a new record high with 69% of businesses showing at least one indicator of growth – a marginal increase on the previous record high of 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.
- While those experiencing one or more indicator of growth is at a record high – individually all but one indicator is down (investing in new equipment) which suggests that fewer businesses are experiencing multiple indicators.

- Larger businesses continue to show more positive signs of growth compared to smaller firms. 87% of larger businesses (250+ employees) are experiencing one or more indicators of growth, compared to 60% of sole traders.

Late payment

- One-in-five (21%) businesses are owed payment on invoices that are over 30 days past due, the same level as the previous survey.
- Retail and Distribution (30%) had the highest rate of businesses that were owed late payments, followed by Services (17%), and Manufacturing (16%).

R3 commentary

"Growing businesses encounter two classic problems: going for growth by taking on new customers without properly checking their creditworthiness; and a lack of controls to monitor their exposure. This leaves growing businesses, particularly medium-sized ones, most at risk of being exposed to others' insolvencies."

"Although the UK insolvency regime is ranked as one of the best in the world, it is often the case that those owed money in insolvencies won't see all of their money back. This can have a serious impact on their own finances."

"The level of businesses in distress has plummeted since our survey began in 2012. This isn't surprising given the reasonable level of growth in recent years and record low interest rates which have facilitated high liquidity."

"Reductions in fuel prices may also have cross-subsidised cost increases in other areas and assisted in keeping the pressure on costs low. These factors, combined with low inflation, are easing the difficulties of businesses. It's particularly positive to see the drop in businesses experiencing decreased sales volumes and profits. Healthier profitability will help businesses stay on top of their cash flow and prevent over-reliance on credit."

"While it's positive to see the proportion of those experiencing at least one indicator is at an all-time high, the results suggest that fewer firms are seeing multiple signs of growth. Many businesses underwent a period of rapid growth in recent years, but now have started to reach a plateau."

"Indeed, the recent volatility in the stock market, driven by worries over China, could be a sign that businesses might be in for a bumpier 2016."

Phillip Sykes
R3 President

Method: BDRC Continental conducted 500 telephone interviews with small, medium and large business owners and Financial Directors between November and December 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*