PRESS RELEASE

Atradius: Economic uncertainty takes its toll on UK business payment practices

- 45% jump in sales on credit: 56% of B2B sales by value transacted on credit, up from 39% last year
- Stricter payment terms: Average payments requested within 20 days
- Rise in uncollectable debt: Write-offs rise to 2.5% of all invoices by value
- Supply chain impacts: 45% delay payment to their own suppliers when hit by late payment
- Atradius advice: Seek protection in climate of economic uncertainty and rising insolvencies

Sales on credit are on the up despite the prevailing economic challenges as UK businesses strive to appear more attractive to potential customers, reveals the latest economic report by trade credit insurer Atradius.

The Western Europe Payment Practices Barometer research report by Atradius found offering credit was being used by UK firms as a tool to increase and retain sales and to provide customers with short-term financing during a period of liquidity restraints; more than half (56%) of the total value of B2B sales was transacted on credit this year, up from 39% last year which is an increase of 45%. The sharp increase in the use of trade credit is primarily a reflection of the current economic climate with a forecast rise in insolvencies of 10% this year and a further 5% rise in 2020, assuming an "orderly" Brexit.

When it comes to getting paid, UK firms are being increasingly stringent, requesting payment an average of just 20 days from invoicing, down from 24 days last year and considerably lower than the Western European average of 34 days.

Late payments and potential non-payments are a major risk to UK businesses. More than a third (35%) of the total value of B2B invoices over the past year remained outstanding at the due date. More positively, there was a small increase in the percentage of invoices paid on time; 61% compared to 54% last year. Moreover, UK business are turning overdue invoices into cash earlier than they did a year ago, on average within 44 days from invoicing compared to 54 days in 2018.

According to the report, the proportion of write-offs has increased with 2.5% of invoices marked as uncollectable, up from 1.5% year on year. For UK large enterprises, this figure rises to 3.5% of the total value of invoices written off as uncollectable, up from 1.9% last year.

Atradius highlights that UK businesses focus on managing receivables through a balanced mix of credit management techniques, including trade credit insurance. This is consistent with the increased use of customer credit along with tighter payment terms, signalling a stronger perception of credit risk in a challenging trade environment.

Despite their sharp focus on receivables management, UK businesses are much more likely to feel the impact from late payments than their counterparts across Western Europe. Just one quarter (26%) of UK businesses reported no significant impact on business arising from late payments from customers, compared to 42% across Western Europe. They were also more likely to need to delay payments to their own suppliers due to late payments; 45% of UK businesses saying this was the case in order to make up for liquidity constraints arising from untimely settlement of invoices. By comparison, the Western European average is just 26%.

Looking forward, UK businesses are more pessimistic than their Western European peers about future payment trends. A third (32%) expect customers' payment practices to worsen over the coming months. More than half (53%) expect a significant increase in late payments, particularly in long-term outstanding invoices. This can adversely affect days sales outstanding (DSO) and result in an increase in write-offs of uncollectable receivables. To safeguard cash flow, protect liquidity and minimise financing costs arising from selling on credit, nearly half (42%) of UK businesses will consider offering discounts for early invoice settlement with a third (36%) planning on undertaking dunning activities – such as payment reminders – on a more regular basis. More than a third (38%) say they anticipate potentially tighter financing conditions which could cause them to reduce the workforce through lay-offs or hire freezes.

Alun Sweeney- UK & Ireland Regional Director, of Atradius said:

"The Payment Practices Barometer points to a business environment continuing to face many challenges, most notably an expected increase in insolvencies over the coming months, which is forecast to be significant and adversely impact business investments.

"Looking ahead, the terms of future relations between the UK and the EU remain uncertain and UK suppliers anticipate a further deterioration of the risk climate. It is not sufficient to approach trade credit with prudence, it is critical to manage trade credit strategically to grow business safely and most importantly in a profitable manner. By managing cash flow successfully, businesses can reduce the risk of a devastating financial loss caused by an insolvent buyer."

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About Atradius

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