

**Late Payments: The Cost to Business and our Health**  
**October 2019**



# Foreword

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**R. Gordon**  
Chief  
Executive  
Officer

We have undertaken a study which confirms how a late payment culture is significantly impacting the financial performance of SMEs and freelance businesses in the UK. We're also seeing major consequences for the mental health of individuals within these businesses, putting increasing pressure on our health service.

Despite the welcome introduction of a Small Business Commissioner in December 2017 and a number of Government consultations and proposals, a lack of decisive action against late payments is causing a critically damaging culture to proliferate.

Hitachi Capital (UK) PLC is one of the UK's leading financial services companies, providing innovative finance solutions to enable consumers and businesses to grow and prosper. We see first-hand how SMEs face challenges to maintain cash flow within a business environment that is challenging on a social, technological and political level.

With a significant number of businesses experiencing these pressures at a time of wider economic uncertainty, we have commissioned important research to better understand the extent of this issue and share recommendations on how SMEs can alleviate the financial and mental wellbeing pressures of late payments.

The research we have conducted for this report asked 1,000 SME decision makers for their experiences and opinions on late payments. The results have exposed that there still remains an imbalance between larger business and their suppliers. More concerning is that, on top of the economic impact, it is estimated that late payments are damaging the health of individuals working in UK SMEs alongside freelance business. When you consider the size of this community, over 5 million SMEs and 2 million freelance businesses, and their role in the country's economy, the wider impact is significant.

In this report, we will explore the key research findings and what they mean for the wider business landscape. With expert support from Mental Health First Aid (MHFA) England, we're also pleased to provide those SMEs with practical advice on how to alleviate the emotional burden often associated with chasing late payments.

For positive progress to be made, collaboration and persistence is key. Let's tackle the scourge of late payments together.

**Robert Gordon**  
Chief Executive Officer  
Hitachi Capital (UK) PLC

“On top of the economic impact, late payments are damaging the health of individuals within SMEs and freelance businesses”

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# Late payments are...

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1

## **A huge drain on business liquidity**

Hitachi Capital (UK) PLC research found that almost a third of SMEs (31%) have experienced late payments costing their business at least £10,000 in the last 12 months. When taking in the entirety of the UK landscape, the combined drain on SMEs is almost £51.5 billion each year. This detracts from funds which can otherwise go into investment, growth, recruitment and retention or R&D. Ultimately, this research underlines how late payments are a drain on SMEs' productivity.

2

## **Holding SMEs to ransom**

There is an imbalance of power between clients and suppliers, often driven by larger players abusing their position, leading to a widespread late payment culture that is damaging SMEs. Nearly three quarters of SMEs (74%) have had a customer fail to pay during their agreed terms at least once during the last 12 months, and 34% of SMEs report customers using their own negotiating position to delay or reduce payment.

3

## **Causing critical cash flow problems**

Over a quarter of SMEs (27%) have experienced a profit squeeze because of late payments, and 12% have needed to defer staff pay. Hitachi Capital (UK) PLC's findings suggest an estimated 1.95 million UK employees have been left empty handed on payday. Around 40% of respondents to this research said that they have been forced into their own pockets to address cash flow gaps in their business.

4

## **Costing valuable time and reducing productivity**

More than half (57%) of SMEs involved in Hitachi Capital (UK) PLCs research spend at least an hour a day chasing late payments at an average of 84 minutes. Even operating on the conservative assumption that businesses work a 7.5-hour day, this figure means that SME decision makers and freelancers are spending almost a fifth of their time at work (17%) simply chasing money.

5

## **Damaging mental health**

Perhaps more worryingly than any of the economic reasons above, more than three quarters (76%) of freelancers who responded to Hitachi Capital (UK) PLC's survey say that being paid late has had a detrimental impact on their mental health. Anxiety, stress, insomnia and depression have all been identified as the most prevalent clinical conditions affecting freelancers. The knock-on effects can be huge – the Organisation for Economic Co-Operation and Development (OECD) estimated the costs of mental health treatment, social support and losses to the economy from people unable to work, at a **staggering £94bn per year**. Hitachi Capital (UK) PLC's research has identified late payments as just one of the contributors in a complicated array of social issues.

# The business cost

According to Hitachi Capital (UK) PLC's research, late payments are much more than just a nuisance. When customers miss agreed payment terms, their suppliers are put under huge pressure to maintain liquidity.

Former Chancellor Philip Hammond MP spoke of the need to tackle the "scourge of late payments", but the survey commissioned has identified that the problem remains a significant issue affecting SMEs of all sizes.

The research also highlights the potential solutions for businesses to tackle the scourge of late payments. Incidentally, many of the respondents were unaware of the steps that can be taken against late payments, such as taking clients to the Small Claims Court to resolve an issue.

## Late payment in numbers:



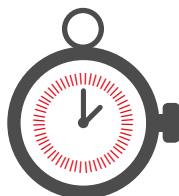
2.56

Average number of contracts turned down each year due to late payments



£51.5 billion

The estimated amount that is paid late to businesses each year



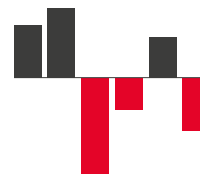
84 minutes

The amount of time per day spent chasing payment (77 minutes for freelancers)



5.39

Average number of times an SME has experienced late payment



£13.4k

The average financial cost per business as a result of late payment (last 12 months)



65%

of freelancers have experienced at least one instance where a client has failed to pay within the agreed payment period in the last 12 months

### KEY TREND: 63% of SMEs have turned down contracts solely due to unfair payments terms

Our research indicates there are a variety of reasons why SMEs turn down contracts. It is important to note that, whilst in some cases businesses may be operating at full capacity and will therefore have to turn down contracts for operational reasons, many SMEs are turning down work due to concerns around unfavourable payment terms.

Almost two thirds (63%) of SMEs have turned down contracts solely due to unfair payment terms in the last twelve months, with a further 38% refusing contracts due to this reason on more than one occasion.

### KEY TREND: 33% of SMEs say the issue of being forced to turn down work has increased over last 12 months

The resource challenges that many SMEs face in growing their business is clearly highlighted in our findings, with lack of management time, skilled workers and equipment all contributing towards turned down contracts. Late payments are further exacerbating these issues as management spend a significant amount of time chasing suppliers or customers, which in turn reduces the productivity of the business as a whole.

More than a fifth (21%) of SMEs from Hitachi Capital (UK) PLC's research have turned down a contract because a customer was known to be a late payer or was offering unfair payment terms. This makes the use of external funding options an increasing necessity for SMEs to provide a safety net that maintains cash flow – particularly when business is stalling.

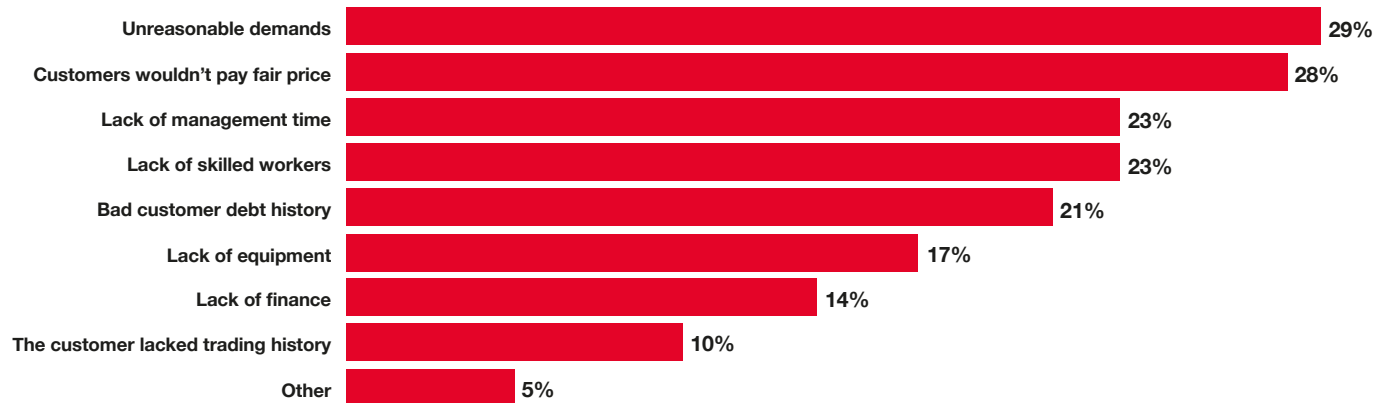
## < The business cost (cont.)

### Have you ever turned down a contract solely due to unfair payment terms?



This is not a problem that will simply go away on its own over time, either. Of those businesses who have turned down work, a third (33%) said that the problem of turning down contracts has got worse in the last 12 months.

### If you turned down a contract in the past year, what was the reason?

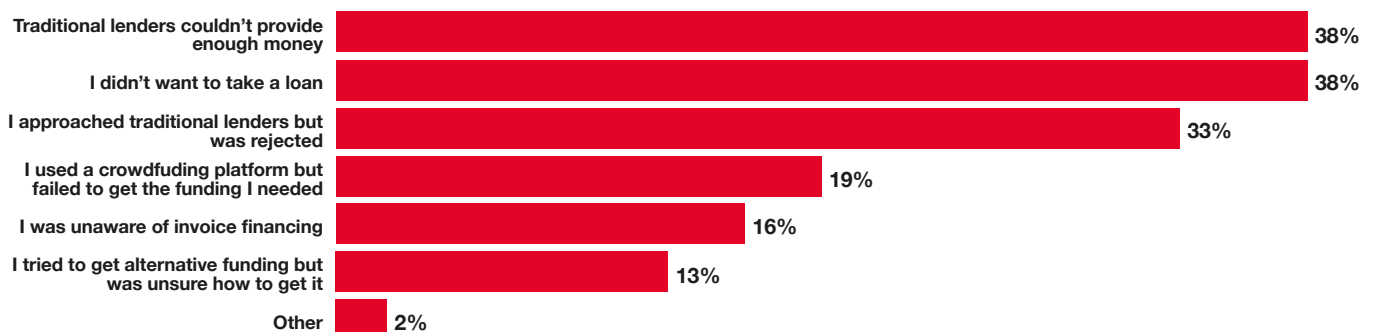


### Risk and lack of access to finance is slowing growth for SMEs

Having access to financial support is especially important for SMEs to achieve their growth ambitions. Whether it be to invest in resources to fulfil new contracts, expand the scope of their work or maintain cash flow whilst awaiting payment from customers.

However, as we look deeper into the reasons why SMEs are turning down contracts, our research suggests that many of these businesses are not getting the required levels of support that they need. We have found that over a third (38%) of SMEs are reluctant to take out a loan in order to secure new work, with an additional third (33%) of businesses also being refused finance from traditional lenders such as banks.

### If you turned down a contract due to lack of finance, why was this?



Invoice financing is one method that can mitigate against the cash flows risks to businesses owed money from customers. Interestingly, the research carried out for this report shows as many as 16% of respondents were unaware of this solution, demonstrating the need for greater education on the financial mechanisms available outside of typical lending methods for SMEs.

When it comes to seeking alternative financing situations, 13% of SMEs turned down contracts due to a lack of awareness on how to go about sourcing alternative funding. Greater education around alternative finance methods and how to source them is therefore essential to ensure that SMEs can access the required levels of funding to grow their business.



## < The business cost (cont.)



### Direct detrimental business impact from late payments

Late payments affect business in different ways. However, when compared with larger companies, SMEs face unique challenges as they have fewer resources at their disposal to chase late payments, whilst any gaps in cash flow are likely to have a greater impact on the business. As well as these circumstances, SMEs simply do not have the same bargaining power that established organisations might have, meaning that in many cases they will settle for unfair payment terms to avoid a loss of business.

#### KEY TREND: 27% of SMEs report profits being affected by late payments

Hitachi Capital (UK) PLC's research indicates that 60% of SMEs reported a detrimental impact on their business due to late payments. The financial implications were clearly illustrated, with damage to profits (27%) and the use of overdrafts (20%) amongst the most common impacts.

More than a fifth (21%) of respondents reported that late payments resulted in their business having to pay their own suppliers late. Late payments are therefore contributing towards a snowball effect as businesses absorb these costs at each layer of the supply chain.

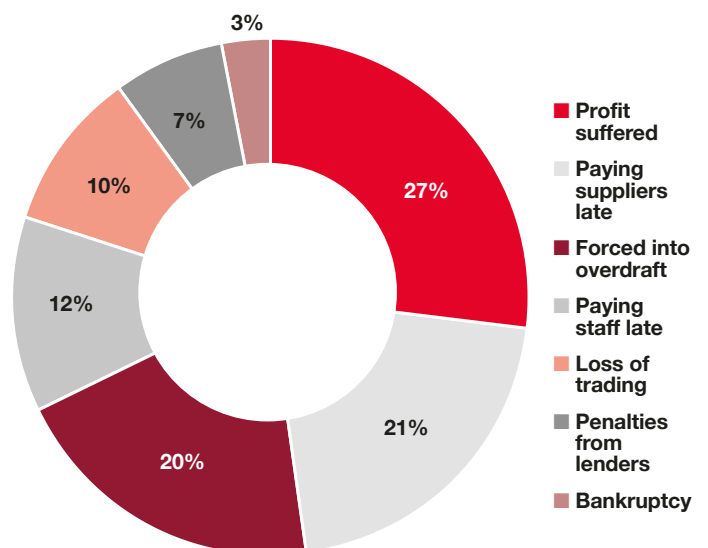
### SMEs seek decisive Government action

From the research, the risk that late payments present to the survival of SMEs is clear to see. And now SMEs are calling for concerted action, with 68% of SMEs in support for legislation which would make late payments illegal. Whilst UK Government had mooted tougher sanctions to address late payments, such as greater powers for the Small Business Commissioner to enforce best practice and enforce the Prompt Payment Code, these remain on hold.

#### KEY TREND: 57% of SMEs spend nearly one day a week chasing late payments

With the research indicating that over half (57%) of respondents are spending nearly a day each week chasing late payments, the findings are evidence that the business community simply does not have time to wait for concerted action from Government. >

#### Have you experienced any of these difficulties specifically due to late payments?



## < The business cost (cont.)

### SMEs unaware of the solutions to tackle late payments

Awareness is critically low among freelancers of the options available to cope with issues caused by late payments. Hitachi Capital (UK) PLC's research discovered that more than a third (35%) of SMEs didn't realise they could claim interest from clients on late payments, with only 15% of freelancers aware that they could take clients to a Small Claims Court if they don't receive payment on time.

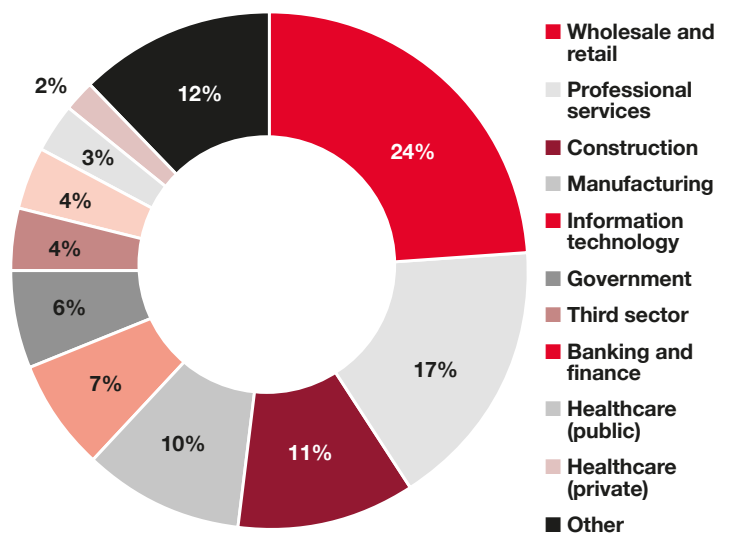
The findings therefore point towards a need for greater education amongst businesses to the steps that they can take both to prevent late payments in the first instance and make a claim on any overdue fees from their clients.

### Wholesale and retail the worst offenders when it comes to late payments

Hitachi Capital (UK) PLC asked SMEs which industries and sectors they experience late payments with the most. Almost a quarter of those questioned (24%) cited wholesale and retail customers as the worst culprits for contributing to cash flow pressures faced.

Interestingly, the heavily stretched healthcare industry, despite high profile criticism for late payments from **major brands such as Bupa**, fared well in the research, with just 2% of private and 3% of public healthcare customers paying respondents late.

### What sectors do you experience the most late payment issues with?





# Case study: Jolanka

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Jolanka, a clothing manufacturer and distributor operating in the UK and Sri Lanka and Hitachi Capital Invoice Finance client, has seen first-hand the problems that late payment can cause. In instances when their 60-day payment terms were not previously met, the fashion apparel business faced challenges to meet its import duty and VAT cost obligations.

“Maintaining the right level of working capital is essential to the smooth day-to-day running of any small business. Chasing late payments is not only extremely stressful in itself, but can also have a huge detrimental effect on our liquidity.

The potential for SMEs to thrive can be severely hampered when cash flow is compromised by suppliers who don't adhere to the agreed payments terms. Whilst a shift in attitudes lies at the heart of the problem, based on our own experience, many business owners are unaware of the steps they can take now, such as claiming interest or applying to the Small Claims Court.”

**Joseph Amirthalingam,**  
Managing Director,  
Jolanka



**Andy Dodd,**  
Managing  
Director,  
Hitachi  
Capital  
Invoice  
Finance

“There are a number of solutions available to small businesses to cope with late payments. Firstly, invoice finance, which provides an immediate advance, normally of up to 85% of an invoice value, to provide an instantaneous cash flow injection. Secondly, use a good credit control provider, perhaps aligned to invoice finance – it's an area that is frequently neglected, but should be front-of-mind amongst SMEs”

		Unit Price	Total
0	no	64.00	64.00
0	no	158.00	158.00
0	no	256.00	256.00
0	no	458.00	458.00
0	no	125.00	125.00
		256.00	125.00
		Subtotal	256.00
		Tax	1317.00
		Shipping	0
		Miscellaneous	125.00
			0
		Balance Due	1442.00

**PAST DUE**  
PLEASE SEND PAYMENT  
**FINAL NOTICE**

## Hitachi Capital UK: Hints and tips for coping with the financial impact of late payments

- Undertake your own due diligence**

Know your customers. Before entering into contractual terms with a prospective customer, use resources such as [Companies House](#) to ascertain the legitimacy of their business. Aim to establish if they have a reputation as a late payer or track record for unfair payment term practices.
- Issue invoices promptly and correctly**

Generate invoices as soon as a product or service has been delivered to a customer ensuring the price and purchase order details are correct. Electronic invoicing and payment tools can also speed up the payment process considerably.
- Unlock cash flow by using an invoice factoring provider**

Release cash from unpaid invoices by using a reputable invoice factoring company who can also collect the payment on your behalf thus freeing up valuable time so you can concentrate on other aspects of your business. Cash flow finance providers such as [Hitachi Capital Invoice Finance](#) release up to 90% of the invoice amount within 24 hours to relieve shortfalls from funds tied up in your invoices, with the remainder paid once the invoice is settled.
- Knowledge is power**

Know what your rights are for dealing with late payments. For example, undertake some research into whether you can claim interest on late payments and the options you have for taking clients to the Small Claims Court.

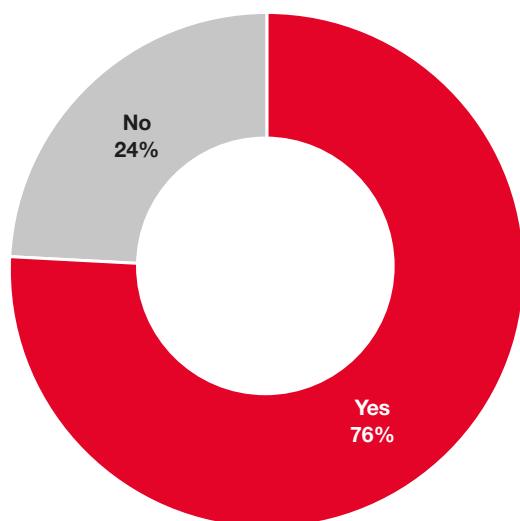
# The health impact

Mental health is a major social issue in today's fast-paced, highly stressful world. **Research commissioned by Mind** indicates approximately 1 in 4 people in the UK will experience a mental health problem each year. The charity links money and jobs as two of the key causes of mental health issues.

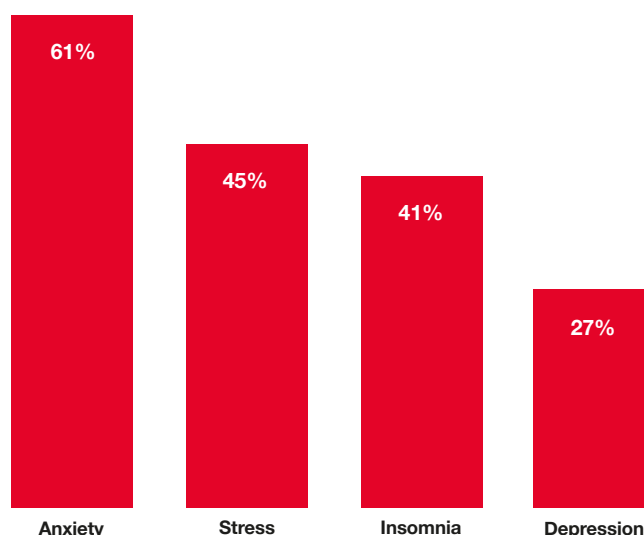
It's clear that the cash-flow and business management issues caused by late payments can be a huge factor in the strain on mental health. Through this research, Hitachi Capital (UK) PLC report findings quantified the impact – both emotionally and financially, of this problem.

**KEY TREND: 3 in 4 (76%) of freelancers say that late payments have had a detrimental impact on mental health**

**As a freelancer, do you believe being paid late or not at all has had an impact on your mental health?**



**Which mental health conditions have you suffered from due to late payments?**



**KEY TREND: 11% of freelancers diagnosed with a mental health condition caused by late payments**

Hitachi Capital (UK) PLC's research has found that late payments are creating a higher level of clinical stress and anxiety for freelancers, versus the general population.

Further to financial implications of late payments which have been discussed throughout this report, more than 1 in 10 freelancers\* who responded to the survey (11%) have been diagnosed with a clinical condition directly related to the issues caused by late payments.

Of this number, the most prevalent issue is anxiety (61%), followed by stress (45%), insomnia (41%) and depression (27%).

Research from **Mental Health First Aid (MHFA) England**, states that mental health issues are responsible for 72 million working days lost and costs UK businesses up to £42 billion each year. In addition, people with a long-term mental health condition lose their jobs every year at around double the rate of those without a mental health condition. This equates to 300,000 people – the equivalent of the population of Newcastle or Belfast. Just as with late payments in general, Hitachi Capital (UK) PLC's research indicates that poor mental health is an issue that needs to be urgently tackled on a societal and an economic level.

## MHFA: Hints and tips for coping with the emotional impact of late payments

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- **Research what assistance is available to you**

There are a number of organisations that can give you free advice on how to deal with financial stress. Examples include **Citizen's Advice**, **Money Advice Service** and the **NHS**.

- **Access professional support for your mental health if you need it**

When experiencing mental ill health, your GP should be your first port of call. However, if you cannot wait to see your GP or are in crisis, you should call emergency services or contact helplines such as **Samaritans** and **SANEline**.

- **Address your stress**

It's important to understand how late payments affect your wellbeing. The MHFA **stress container** is a useful tool to understanding how you experience stress and how to address your stress levels.

- **Talk to someone**

If the stress of late payments is taking its toll, it can really help to talk to a family member, friend or trusted work colleague. Don't suffer in silence. Bottling things up can make problems worse. Talking to someone you trust can provide emotional support.



### Research methodology

Quantitative research was conducted between 9 July and 22 July by Censuswide, to a pool of 1,000 SME business owners, leaders, decision makers and freelancers in the UK. An SME is defined as a business consisting of 250 people or below. Censuswide.com complies with the MRS Code of Conduct (2010) which is based upon the ESOMAR principles (for more information visit [www.esomar.org](http://www.esomar.org)).

**Hitachi Capital (UK) PLC (the Group)  
offers the following finance solutions  
from the locations shown below.**

**Consumer Finance**

2 Apex View, and Interchange House,  
Leeds, West Yorkshire, LS11 9BH  
Tel: 0344 375 5500

**Business Finance**

Pinetrees, Thorpe Road,  
Staines-upon-Thames, TW18 3HR  
Tel: 01784 227 322

**Invoice Finance**

5 Hollinswood Court,  
Stafford Park 1, Telford,  
Shropshire, TF3 3DE  
Tel: 01952 213 300

**Vehicle Solutions**

Kiln House, Kiln Road, Newbury,  
Berkshire, RG14 2NU  
Tel: 0344 463 2900

Hakuba House, White Horse Business  
Park, Trowbridge, Wiltshire, BA14 0FL  
Tel: 01225 777 710

**European Vendor Solutions**

UK - Hitachi Capital House, Thorpe Road,  
Staines-upon-Thames, TW18 3HP  
Tel: 01784 227 322

The Netherlands - WTC Amsterdam H  
Toren 4de verdieping, Zuidplein 36, 1077  
XV Amsterdam,  
Tel.: 0031 (0)207 997 601

