

PRESSURE ON CASH FLOW FORCING BUSINESSES TO GO LEGAL EARLY

Companies ignore additional costs and threat to future business

Pressure on cash flow is such that businesses chasing debts are going legal early, irrespective of the additional costs of pursuing customers through the courts and seemingly unconcerned about doing business with those customers in the future according to The Credit Services Association (CSA) – the body that represents the UK debt collection industry.

The CSA has detected a clear trend over the last 12 months of companies demanding Agencies to take legal action often within days of receiving an initial recovery instruction. Far from being a tactic of the last resort, businesses are now using litigation early as a means of recovering their cash more quickly – and are prepared to take the consequences, as Godfrey Lancashire of the CSA explains:

“Businesses want their cash, and see litigation as the fastest way of getting it. Whereas before, an Agency would have several weeks to achieve a result, now they are being instructed to go legal often within days and occasionally immediately.

“Whilst most of our Members are able to provide a litigation service, the majority of debts are recoverable without having to resort to the Courts, without the additional costs and without therefore jeopardising the future relationship with a customer.”

Whereas the emphasis historically has been on working with debtors to rehabilitate them as customers with a future ‘value’, this new trend suggests that businesses are no longer interested in the future, and are only concerned with today. It is a fact, however, that companies involved in legal action rarely if ever do business again, as Mr Lancashire continues:

“There are always circumstances when litigation is the only course of action open to an Agency, especially when a relationship has irretrievably broken down, but professional debt collection agencies succeed primarily because they achieve results without having to resort to the courts. Their methodology is one of engaging the debtor, not confronting them. It is this collaborative approach that reaps better results, and maintains the creditor/debtor relationship for the future.”

Research for the CSA in 2003/4 found the average value of commercial debt placed with a collection agent had risen to around £2,400 (from £1,500 in 2000/1) with a range of between £200 - £11,500. The largest single commercial debt reported was £3.3 million. Although no specific total figure was available, it is known that the amount of debt passed to debt collection agents now exceeds £5 billion per annum. Members of the CSA deal with more than 20 million cases per year, and the growth of the collections market is estimated to have risen by 70% since the survey was last undertaken.

The figure for both large firms and SMEs who consider bad debts a serious problem to their business has increased by 10% since 2001, whilst late payment is also of major concern (33% of large firms; 34% of SMEs). The figures are largely comparable across both domestic and international activities.

The result is that more businesses of all sizes are using debt collection agencies, with 41% of larger firms (up 18% on 2001) and 54% of SMEs (up 38%) thus engaged. The net result of this has been a rise in the number of agencies specialising in commercial debt (22%), with statistics showing a healthy growth in the market for debt collection.

The CSA findings follow another recent survey among UK companies by the Better Payment Practice Group (BPPG) to which the Association belongs that found that four out of five businesses have successfully issued a winding up order – a device to put a business into compulsory liquidation when it does not pay its debts.

The poll, which was held on the BPPG's website, www.payontime.co.uk, asked businesses if they had ever issued a winding up order and if so, if it was successful. Of the 370 respondents, 27% had issued an order and of those, 82% were successful.

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