



CONSUMER FACT SHEET - COMMERCIAL COLLECTIONS

Whereas most of the media attention tends to focus on consumer collections, many agencies specialise in 'commercial' collections – often referred to as 'business-to-business' collections (i.e. one business collecting from another for the services/goods that have been delivered).

Financial trends/statistics

- In the last quarter (December 2008 – February 2009), the number of debts put out for collection increased by 38%.
- The age/profile of the debt has also changed. Whereas a typical debt would be c. six months old, at least 50% of the new debts put out for collection are more than three years old.
- The average single debt size has increased from £1000 to £2,500
- The number of Liquidation and Administration notices has risen by 150%

Business trends

All companies, whatever their size, are looking to maximise their cash income. This means that they are currently scrutinising their accounts, looking for credit notes that may be due, or disputed invoices, indeed anything that may even have been written off previously is being found and passed for collection.

Issues and challenges

The building sector in particular is an area of primary concern, and the failure rate of small building contractors/suppliers is increasing. Larger national building firms are still holding payments back to protect their own cash flow, and failure rates are slowing.

The retail sector is also being hit; clients of DCAs are often wholesale suppliers or importers/agents or even manufacturers dealing with the retail sector directly and anxious to recoup outstanding debts. Although retail sales have not fallen as much as envisaged, major retail failures such as Woolworths, and collapses in other sectors such as fashion, leisure etc. have had a devastating effect on clients, both by way of direct losses and also because they are having to reduce staffing as part of their own cost cutting and enforced restructuring.

There is also a knock-on effect on landlords of commercial properties, and with a reduction in staffing levels and jobs available, recruitment agencies are similarly struggling to survive.

Small businesses operating as limited companies are showing increasing disregard or ignorance of their director/shareholder obligations, and this is particularly noticeable within the fast food and catering sectors. Directors are failing to make Annual Returns and filing their accounts on time if at all. Whilst Companies House has recently announced higher penalties and fines for those who transgress, they are still not being applied sufficiently.

This is increasing the risk to other suppliers when extending credit as it becomes more difficult to take collection action. Whilst limited companies are protected by limited liability in any event, many 'rogue companies' are continuing to trade.

The net result is that litigation is likely to increase throughout 2009. Unless directors can prove that they are trading within the relevant Companies Acts, many agencies are now treating those companies as proprietorships or partnerships and holding the individuals personally liable for the debt. The challenge, however, is whether the Courts fully understand how the market is now evolving, and whether they have sufficient resource to cope.

A pending crisis

Agencies are working hard with their clients to recover overdue accounts. It is well documented, however, that many of the larger businesses are further extending their payment terms, delaying payments to suppliers in order to hang on to their own cash for longer.

All of the evidence to date also suggests that Local Authorities are definitely not adhering to the government's own 10-day payment policy' for small businesses, and this is making a difficult situation still worse.

Indeed the government generally, and BERR especially, has yet to realise the extent of the challenges that SMEs are facing day-to-day, an issue compounded by the failure of banks to lend. Indeed the government is failing to appreciate that it has its own late payment crisis.

FOR FURTHER INFORMATION PLEASE CONTACT THE CSA – 0191 286 5656

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