

# Is there a Storm Brewing?



In the B2B space, trading on credit is not unusual. Many companies offer credit terms, but not everyone offers it out of choice, or chooses to trade that way. Many businesses would prefer that customers paid immediately, or at least to the payment terms that they agreed to pay on. But often customers don't.

For some businesses trade credit is a hugely important form for finance. For some it's the only way that they can survive and it's a constant challenge collect payments from their customers before they have to pay their suppliers. Despite the average payment terms in the UK being 28 days, the average payment days (prior to the pandemic) was 57\* days.

Paying late has always been an issue for UK businesses and in normal economic times it may not seem something to be extraordinarily concerned about, but we are not in normal economic times, we are in extraordinary times.....

Roger Barker, Director of Policy at the Institute of Directors, said: "Sadly, late payments are a perennial issue for SMEs, and the pandemic certainly hasn't helped things. With so much pressure on cashflow, many companies have been left in the lurch through no fault of their own."

We recognise that finances are now stretched for many businesses and as most were holding only 3 months working capital before the pandemic – 12 month later, it's not a surprise that many are experiencing difficulties. Some businesses have seen their revenues sliced, particularly those in hospitality. Pubs have experienced their fair share of challenges before. Remember the smoking ban?

It is 14 years in July since the smoking ban came into force and at the time it was considered to be a killer blow for pubs, but BBC research done in 2017 'ten years on' found that many pubs have thrived since the smoking ban, changing to focus more on high-quality food and trying to attract families - including those with young children - who would previously have avoided smoky atmospheres. Pubs had to adapt, investing in food and entertainment and they made a good job of it. But some pubs - the traditional street-corner boozier - simply haven't had the space to do that. They were the ones that suffered. They may be the ones that will suffer again.

During the pandemic we have seen a similar pattern of adaptation occur and in a much broader way. Some have adapted to provide take-away food, coffee and cakes and thankfully (for them), they have been able to furlough their staff so that their overheads are much smaller too. It's been a combination of adapting and support that has kept some businesses alive.

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Will the households sitting on the £180 billion saved in lockdown return to the hospitality with a much-needed cash injections?

Almost half of the UK's SME's have sought external financing \* with a reported £213 billion of outstanding debt to banks. This includes the million plus 'bounce back loans' have been issued since they first launched in May 2020. It's a huge amount of state-backed loans. With loan values ranging from £2K to £50K with no interest charged or repayments needed in the first 12 months it's a staggering £2bn to £50bn of debt.

So how many previously viable businesses are being 'propped up' by furlough and government loans? And how many of them will come through this? How many non-viable businesses or those deep in survival mode - cash managing and paying late, will fail as we go through 2021? With banking loans being up 30% in 2020 v2019 it's not surprising the Bank of England predict that £22 billion may never be repaid.

Which businesses will survive? Which will fail? How stable are the businesses you work with and what are the short, medium and long-term risks? So many questions and so little useful data and insight to answer them.

A fresh look at your credit risk and collection strategy is need. Much of the usual financial and publicly available data is out of date at the best of times, but in today's dynamic economic environment, insight and conditions can change daily. Relying on past performance, which has been the modus operandi, is not going to provide sufficient insight for decision making today. You are going to have to broaden your data gathering, research and explore creative options, one of which has to be, truly engaging with your customers and finding some mutually successful solutions.

If you haven't completed a detailed analysis of your portfolio, looking beyond sector, to other attributes as well as supply chain impacts, and if you are not looking at a blend of scenarios and outcomes for your forecasting and resourcing model – you need to be.

Contact the team today to talk about your debt management at [info@thinkinspireandcreate.com](mailto:info@thinkinspireandcreate.com)