



## Cash Flow Killer (July 2008)

In almost the time it takes to read this article another business somewhere in Britain will fold.

It is estimated that 750 UK firms go to the wall each day – almost 30 an hour – and many of them are small to medium sized companies crippled by cash flow problems.

“The average number of days that most SMEs have to wait for their invoices to be settled rose from 60 in 2004 to 75 in 2006 and the problem of late payment is getting worse,” said business consultant Gordon Mowat of Aspire Management Services.

It is estimated that small-to-medium sized enterprises in the UK are owed in the region of £18.6 billion because of late payments – an increase of £2.6 billion in the last year.

“Whilst we have already helped many businesses improve their cash flow, businesses generally have to start putting in place systems to stem the haemorrhaging of cash flow or more companies will be forced to fold if the predicted credit crunch really starts to bite,” he added.

“Standing orders, direct debits, advance invoicing are just some of the remedies available.

“They may not be suitable for every company but as the vast majority of SMEs fail to use the late payment legislation that allows them to charge interest something has to be done,” claims Mr. Mowat, a CA with many years' experience in helping companies of all sizes to improve sales and cash flow.

Over the years numerous surveys and academic research have identified cash flow as among the top three worries for small businesses with more than half believing their very survival is threatened by non-payments from customers.

It is estimated that four in five businesses suffer from the problem yet despite government legislation to try and solve the mounting debt crisis fewer than 10 per cent of SMEs use their legal rights to charge interest for fear of damaging commercial relationships with customers.

A change in the law introduced in 2002 allows firms to add eight per cent interest above base rates to invoices within agreed terms of business yet it has had very little impact on the late payment problem.

The vast majority of SMEs have admitted that despite having the law on their side they feel they are still in a lose-lose situation. If they take action and impose the eight per cent interest charge they risk damaging business relationships and losing out to a competitor. If they don't impose the charge then they risk waiting 90 days plus for payment of invoices.

It is estimated that of the 750 businesses or so which fail each day in the UK the vast majority are smaller firms.

“The story is sadly familiar across the whole of Scotland as businesses struggle with late payments which snowball into an avalanche of trouble, with many unscrupulous businesses happy to push to the limit” said Mr. Mowat.

“The stress involved in trying to chase overdue payments can be crippling to a business and many owners or managers get so involved they often fail to recognise many of some of the solutions which can help solve the problem. “You don't always have to use a sledgehammer to crack a nut, Sometimes a minor change in procedures can make a huge difference. Over the years at Aspire Management we have seen what works, and what doesn't, so we can help many firms reach their goals more quickly and economically than if they were left to learn by their own mistakes.”

According to the Credit Management Research Centre at least 20 per cent of business time is spent chasing overdue payments which amount to an average of around £22,000 per company or a total of £16m across all four million UK SMEs.

'Poor cash flow is undoubtedly one of the main reasons for business failures,' said Mr. Mowat,



# Aspire Management Services

Creating sustainable wealth for business owners throughout Scotland

"Without cash, it is impossible to purchase raw materials or new equipment and pay staff wages.

"The problem is that the smaller the business the less likely it is to have time to chase up debts."

Aspire Management Services is dedicated to encouraging sustainable wealth for businesses across Scotland by providing business coaching, mentoring, education and consultancy to Business Owners.

Aspire, which guarantees to return 100 per cent of its fees if businesses owners see no benefit within three months, is convinced that around 80 per cent of firms which fail each year could be saved if they had outside professional help and guidance.

"Getting cash flow sorted out is a no-brainer," said Mr. Mowat.

"The biggest problem any small or medium sized business faces is late payments. You can end up employing somebody on a full-time a salary just to chase up invoices and they nearly always get the same response – the cheque's in the post.

"Standing orders are a good idea if the amount being charged remains the same but if it needs to be changed at any time the client is the only person who can cancel a standing order. By the time it takes to get them to sign up to a new one payments can be weeks behind again.

According to the Federation of Small Businesses anything which helps solve the age old problem of late payment needs to be explored.

"Late payment is one of the biggest complaints we regularly get from our members," said a spokesman for the FSB.

"The government has tried to remedy the situation with legislation but many business owners are reluctant to use it because they fear it will risk damaging their existing commercial relationships with clients."

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