MEDIA RELEASE

Xero reports cost of late payments for small business has impact on the economy

Late payments made by big to small businesses are worth $115 billion a year

EMBARGOED UNTIL 12AM (AEST) 24 JUNE 2019, MELBOURNE - A new report from Xero, the global small business platform, reveals for the first time the magnitude and impact of late payments to Australian small businesses, putting the value of outstanding, late payments at $115 billion a year. The research finds that half of all trade credit invoices are paid late and that solving the problem would see small and medium businesses (SMBs) benefit by $4.38 billion over 10 years.

The report, “Paying the Price: the economic impact of big businesses paying Australian small businesses late”, is based on data from Xero Small Business Insights (Xero SBI). Prepared by AlphaBeta Advisors, it analyses more than 10 million invoices issued by more than 150,000 SMBs.

“Late payments are the scourge of small business, and being able to name the staggering figure of $115 billion for the first time gives fresh urgency to solving the problem. We call on big business and government to prioritise this issue. Our research finds that addressing the fundamental inequality of small business carrying $115 billion worth of debt on behalf of big business will deliver a significant benefit of $4.38 billion to SMBs over a decade,” said Trent Innes, Xero Managing Director, Australia and Asia.

The report finds that over half of all trade credit invoices to SMBs (53 percent) are paid late, being settled an average 23 days after they are due. With small business issuing $216 billion in invoices each year, this equates to $115 billion in late payments.

If these invoices are paid on time, it will be equivalent to transferring $7 billion in working capital from large businesses to SMBs. The returned $7 billion can be used by SMBs to reduce debt or increase investment and output. The combined effect of lower financing costs and
increased investment opportunities is estimated to deliver a benefit of $4.38 billion over 10 years to the small business sector.

Allowing for extra costs for large businesses, this will still deliver a net economic benefit to the Australia economy of $2.54 billion over 10 years.

Having identified the impact of late payments, the report also finds for the first time a direct link between payment time length and slower growth for small business. The study finds that SMBs which are paid more slowly than average have about a third lower revenue growth than those paid more quickly. Long payment times also have a domino effect across the economy, as SMBs that are paid slower than average pay their own suppliers 8 days later than those paid faster than average.

“We can no longer accept it as the status quo that Australian small business carries billions of dollars of debt for big business. The $115 billion of late payments identified in the report equates to around $52,000 owed to each small business in Australia. That’s the value of giving every small business owner a Toyota Hilux 4x4. It’s the value of 2 NBNs, or twenty three Snowy Hydro 2.0s,” added Innes.

“Unlocking this capital for small business to use will give a significant stimulus to the economy. Faster, predictable payments will generate greater stability and confidence amongst the small business sector. Small businesses will grow faster, have better cash flow, employ more people and take on more business risk.”

“In a period of soft economic growth, encouraging large businesses to pay on time should be a priority for the 46th Parliament,” said Angus Capel, Small Business Advocate, Xero.

“Government and industry are to be commended for the substantial steps taken to address small business late payments. However, the newly found scale of interest-free loans, in the form of late payments that big business continues to force upon small business warrants further attention.”

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About Xero

Born in the cloud, Xero is a beautiful, easy-to-use platform for small businesses and their advisors. Xero provides its 1.8 million subscribers with connections to a thriving ecosystem of 700+ third party apps and 200+ connections to banks and financial service providers. On the inaugural 2018 Financial Times FT1000 High-Growth Companies Asia Pacific list, Xero was the fastest growing tech company in the $200 million+ segment. Xero won ‘Bookkeeping software of the year’ from the Institute of Certified Bookkeepers UK in 2018, and was rated by Canstar Blue as Australia’s best accounting software over four consecutive years, 2015-2018.

About Xero Small Business Insights

Xero Small Business Insights is a snapshot of the sector’s health, updated monthly. Its metrics are based on anonymised, aggregated data drawn from hundreds of thousands of our subscribers. The result is a picture of business conditions that’s more accurate than most private surveys (which have a far smaller sample size) and is more frequently updated than most ABS data on small business. To learn more, visit Xero Small Business Insights.

About AlphaBeta Advisors

AlphaBeta is a strategic economics advisory working with clients across Australia and Asia from offices in Sydney, Canberra, Melbourne and Singapore. Their team of advisors are experts in both strategy and economics who partner with clients from the private, public, and not-for-profit sectors to identify the forces shaping their markets and develop practical plans to create prosperity and well-being. To learn more, visit www.alphabeta.com.