



Monthly commentary Vanessa Bamford

Don't get stuck in the post-Christmas cash flow void



Xero's recently launched Small Business Insights harnesses data from hundreds of thousands of businesses so Australian business owners can better understand their own business.

One terrific visual on getting paid shows the average number of days it takes for an invoice with 30-day terms to be settled. Business owners know the strain of managing cash flow but often miss the impact that collecting debtor invoices has. In our experience, the top driver of cash flow shortages among clients is overdue invoices.

The picture it gives is of a reasonably stable length of time, 35 days, for invoices to be paid. Except that it takes longer in January (38.67 days) and February (37.22 days). These three or four extra days waiting for the money to come in can be surprisingly tough on business cash flow,



especially when you add to it the impact of Christmas holiday closures, with less work and less invoicing being done.

So what can a small business do to avoid the Christmas cash-flow void?

Start chasing debtors now! As Christmas draws closer, the longer you wait to follow up with your debtors, the likelier you are to be put off, given empty promises of payment, and pushed out past Christmas. Get on to it earlier this year, for a less stressful and more relaxing Christmas.

Here are five tips for a better Christmas cash flow:

Go cloud-based:

Online products like Xero let you send sales invoices, anytime, anywhere, on any device. We've heard many stories from people who've recently changed to Xero from paper or desktop accounting products telling us how much quicker doing their invoicing is, how much time they're saving, and how much faster they're getting paid.

Make sending out your invoices a priority:

Set a routine of getting your invoices out regularly and promptly. The longer you take to send them, the longer it'll take to get the money in the bank.

Set a clear process for collecting money:

Make sure you have clear payment terms on your invoices and you offer simple ways for your customers to pay. The clearer your terms and your payment process, the easier it is for you, your accounts team and your customers to be on the same page.

Use automatic reminders:

Set Xero to automatically email reminders about invoices – it can be before or after the due date. It takes minutes to set up, saves you time, and gets money into your bank account sooner.



Communicate positively with an aim to save time:

Speaking to your customers positively when requesting money is essential if you want the best outcome. When you contact your customers, focus on the best way to resolve any payment problems. You could asking customers to confirm a payment date so you don't bother them before that date, or offer payment plans for those that aren't able to commit to a payment date.

Paul Meissner, a Xero partner, accountant and business advisor, adds a final tip. "When businesses make a real effort to complete work prior to the Christmas break, it can really assist with cash flow. Delivered work often means it can be billed. So not leaving work incomplete and unbilled over the Christmas break shortens the gap before you get paid."

Vanessa Bamford is a Xero partner and the director of Vision Beyond Business, an accounting, bookkeeping and advisory firm in the Adelaide area.



Demian McLean

01 These industries pay late. Here's what you can do about it.

13.11.2017



The newest Xero data on small businesses suggests September was a good month: owners enjoyed relatively quick payments and the best cash flow in three years. But it wasn't smooth sailing for all sectors. A closer look reveals that some industries are chronically paid late while others manage to get paid early.

What causes the disparities, and what can be done to encourage speedier payments? We looked for clues by examining hundreds of thousands of anonymised Xero invoices with 30-day payment terms.

On average, small businesses invoices were paid in 34.3 days in September, or just over four days late.. And it's a steady improvement from September last year (35 days) and September 2015 (36 days).



But for small businesses in manufacturing the wait is often longer than average. Manufacturers' invoices took 40 days to be settled in September – or 10 days past when they were due. In fact, on average some 60 percent of their invoices were paid late. A look at prior years' data reveals a similar pattern for small business manufacturers, as defined by ANZSIC codes.

A related industry – transport, postal and warehousing – waited nearly as long. These small businesses saw their invoices languish for an average 39.6 days in September. And over half of their invoices were paid late. It seems to be a recurring theme for the sector in past months.

At the other end of the spectrum was the retail trade. Retailers saw relatively quick payments for September. Thirty-day invoices were paid in an average 24.7 days in September – more than five days early. And less than one-third of their invoices were paid late. That figure excludes on-the-spot payments made at the cash register or at an online storefront.

What causes these disparities in payment times? Experts in credit reporting suggest two factors may partly explain the differences.

When dealing with larger customers, some retailers offer rebates if payment is received early. These retail agreements can speed payment times in some cases, says Patrick Coghlan, managing director at CreditorWatch. The credit reporting bureau serves over 50,000 customers, including many small and medium-size businesses.

In industries such as transport and manufacturing, larger businesses dominate. They tend to have credit departments to chase late payments and legal departments to take court action. Many little players lack these advantages.

“Smaller businesses are often are run off their feet,” says Coghlan. And in an industry where chasing payments is the norm, those who lack the resources to do so may be paid last. In such cases, it may make sense for small businesses to use virtual payment assistants like CreditorWatch, a service which integrates with Xero. It identifies new debtors who are likely to be late payers, and alerts businesses when reliable payers subtly start to drag out payment times.

Small businesses can take some simple steps within Xero to get paid sooner, such as using e-invoices. These can include a “Pay Now” button at the top of the invoice, which is linked to a payment provider like Visa or PayPal and encourages prompt settlement.

In addition, Xero can send automated invoice reminders to customers. All a business has to decide is when and how often the reminders are sent out.



November

Reporting period: Sep 1, 2016 - Sep 30, 2017

Page 6 of 8

Businesses can also see whether a customer has seen an invoice and check whether it's been paid.

An analysis of hundreds of thousands of Xero Australia invoices, over a one-year period, found that e-invoices are paid an average of 33% faster than traditional invoices. And where time is money, getting paid one-third faster can make all the difference.

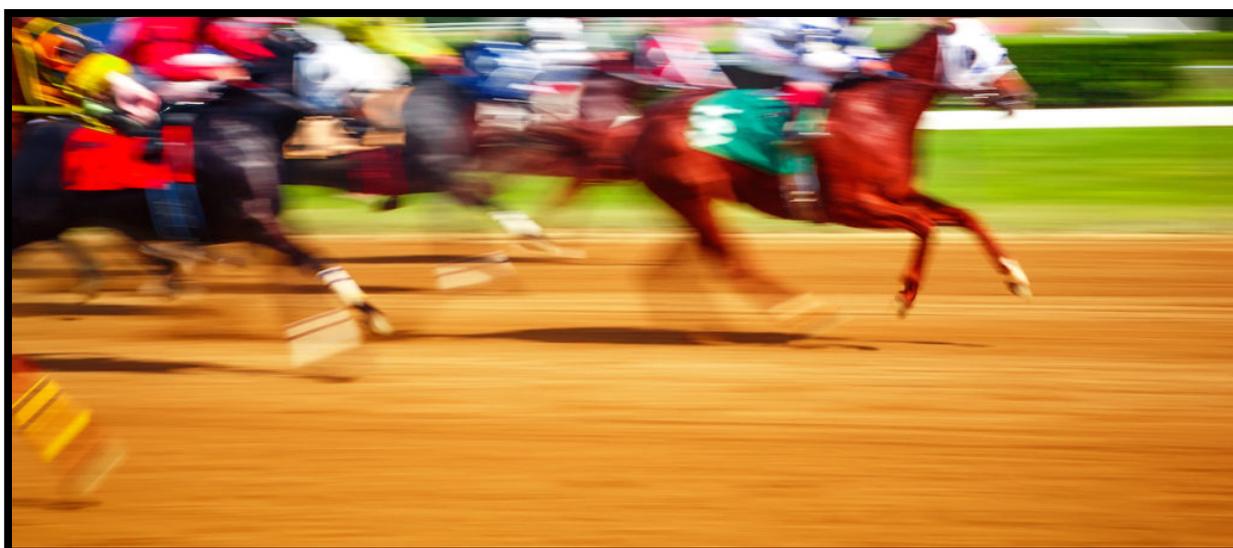
For more tips on getting paid promptly, check out this month's [suggestions](#) from a Xero partner, and be sure to subscribe to Small Business Insights for the latest updates.

Demian McLean

02

09.11.2017

How 'the race that stops a nation' affects small business



It's arguably Victoria's most well known public holiday, but data from Xero suggests it's small businesses across the nation that are bearing the brunt of the holiday. The data reveals that only a third (32 percent) of small businesses across the nation were cash-flow positive on Melbourne Cup Day 2016, a figure that's dropped 7 percentage points since 2014 (39 percent).

It seems that celebrations across the country are getting bigger each year, with fewer businesses operating at full capacity on Cup Day year-on-year. Victoria is the only state with a day off for the race, but Xero data suggests that the effect of the race reaches further.

"Only a third of businesses in NSW were cash-flow positive on Melbourne Cup Day in 2016; down 7 percentage points since 2014," said Trent Innes, Managing Director of Xero Australia.

Positive cash flow is an essential indicator of the health of a business and its ability to grow and succeed.

"The Melbourne Cup is a fantastic day in the Australian calendar. And it seems to be getting bigger each year as more people spend time at race-day events and less time spending money at small businesses. Our data



shows that in 2014 the average cash intake of Australian small businesses dropped 34 percent on Melbourne Cup Day, compared to the previous day. In 2016, this gap increased to 45 percent,” said Innes

However, the “race that stops a nation” does not put a halt for those working in health care or social assistance, which recorded the highest proportion of cash flow positive businesses (41 percent) of any industry on Melbourne Cup Day in 2016.

“Despite many businesses reporting a decrease in cash flow on Melbourne Cup Day, many of our Melbourne-based customers tell us that they have put strategies in place to combat this — extending trading hours or offering Cup Day specials in order to capitalise on potential opportunities.”

Innes said that the way small businesses plan for Melbourne Cup isn’t a one-size-fits-all approach.

“For some, working the whole day will provide a business boost while for others, it makes sense to commit resources to the morning and take the afternoon off. Additionally, new technology is allowing businesses to stay connected when they are out of the office, providing more flexibility to enjoy a day at the races.”