

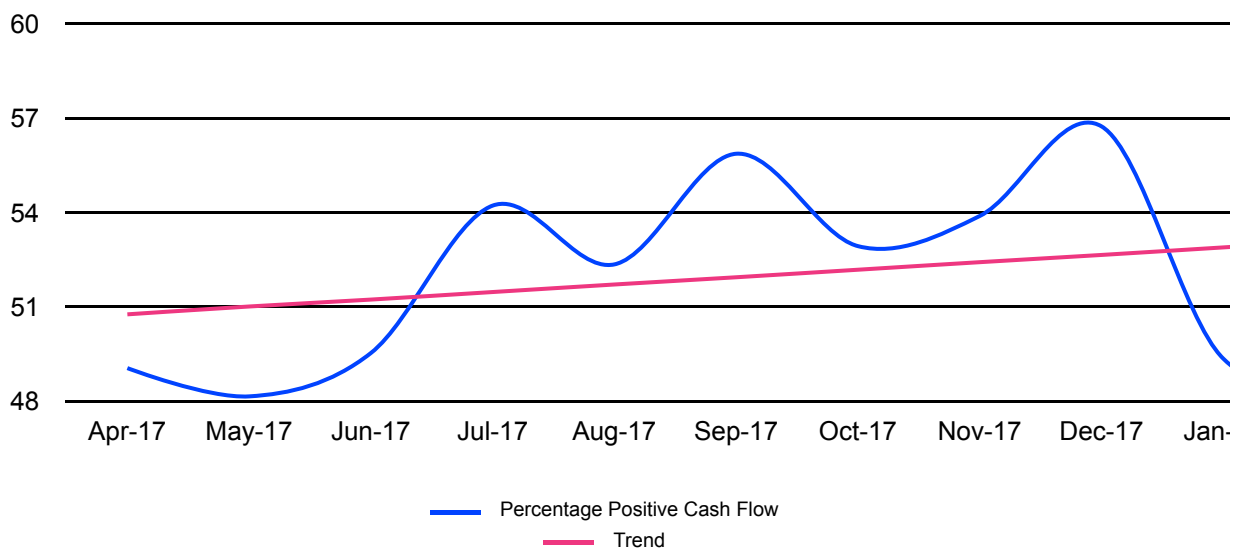


Monthly commentary Demian McLean 5 min read

Businesses in Tasmania and ACT get paid fastest. Here's why.

Percent of Australian small businesses that are cash flow positive

Most businesses had more money going out the door than arriving in April, but the percentage may take a turn for the worse in the months that follow, based on past years' trends.



The problem of late payments is a recurring one for Australian small businesses. The average business was paid four days late at the end of 2017, Xero data shows.

But a closer look reveals two Australian locations that stand out: Tasmania and the Australian Capital Territory, where businesses get paid on time or even early.

If paying late is common across Australia, what do these two locations do differently? And are there practices that other states and their small businesses can adopt to shorten their own payment times?

First, let's look at the numbers. On a 30-day invoice at the end of 2017, Tasmanian small businesses were paid in an average 30.3 days. In the

Cash flow

52.02 %

of Australian small businesses were **cash flow positive** in April

▼ -3.00 p.p. ▼ -2.97 p.p.
Month on month Year on year

Getting paid

36.28

days on average for Australian small-business invoices with 30-day



ACT, it was even faster: 28.2 days. That number has dipped as low as 27.6 days in the past year.

Meanwhile, businesses in Victoria and New South Wales waited 35 days for payment at the end of 2017 — almost one week longer.

Part of Tasmania's secret may lie in its size. It has just 500,000 residents, or one-tenth the population of neighbouring Victoria. That means there are fewer degrees of separation between Tasmanians than in larger states, says Andrew Pearce, director of [Collins SBA](#), a Hobart-based financial advisory firm.

In construction, an industry Pearce serves, builders would probably recognise the name of every other builder in Tasmania, whether through word of mouth or seeing their signs on a project. There are few unknown businesses unless someone is brand new to the island.

Many business owners understand that if they don't pay on time, they'll get a reputation, says Pearce. In a bigger state, they might be able to run through different groups of tradespeople or business partners before their name caught up with them. Or they might move across the state line.

"It's hard to go just outside our state to find new customers or tradespeople because of the water barrier," says Pearce. "You're on an island. Everyone who operates here is aware of that."

The Bush Capital

A similar dynamic may be at play in the Australian Capital Territory. It's hard to ignore that, like Tasmania, the ACT is a bit of an island. A look at a map shows the territory is largely nature reserves and mountains, except for Canberra. Residents in the city of 400,000 people affectionately call it "[The Bush Capital](#)." Leave the ACT, and it's a 300-kilometre drive to the next population centre as large.

terms to be paid in April

▲ 1.46 %

▲ 1.24 %

Month on month Year on year

Hiring people

-0.92 %

change in the number of Australian small business employees from March 2018 to April 2018

▲ 0.66 p.p.

Year on year

Trading overseas

-6.17

change in the total dollar value of imports and exports for Australian small businesses from March 2018 to April 2018

▼ -7.36 p.p.

Year on year

Cloud adoption

31.0 %

growth in Australian subscribers on Xero in the year through 31 March 2018



While geography may play a role, the ACT's quick payment times are clearly helped by two other factors, says Don Grgic, a small-business advisor at Canberra-based [Business Boost Centre](#).

The first advantage is that the federal government is the biggest customer around. And the government tends to pay on time. Federal agencies say they settle 96 percent of their small-business invoices within 30 days, according to a recent [survey](#) from the Minister of Small Business.

The second advantage is that the ACT boasts Australia's most educated population — and it's tech-savvy. About 1 in 3 people in the ACT hold a bachelor's degree, compared with 1 in 6 for the rest of Australia, according to the demographic group [.ld](#).

"My small-business clients are quick to adopt cloud-based solutions that streamline their business, whether it's to send payment reminders, handle payroll or manage job orders," says Grgic.

Learn from the best

So what can larger states do to emulate the ACT and Tasmania?

While it's hard to replicate the geography of Tasmania, there are apps that create a de facto, small community where businesses alert each other to bad debtors. [CreditorWatch](#) is one example. It identifies new customers who are likely to be late payers, alerts businesses when reliable payers subtly start to drag out payment times, and allows businesses to add names to a "bad debt register."



And if the government isn't the biggest local customer in your town, you can adopt tech-focused solutions as Canberrans have done. Xero [invoice reminders](#), for example, can be set to automatically alert debtors a few days before a bill is due, and do the same once an invoice becomes late.

E-mailed invoices that have a payment option attached — such as Stripe or Paypal — tend to get paid sooner, Xero data shows. And the power of Xero platform is augmented by over 600 third-party apps that can provide novel solutions to getting paid.

Together, these approaches may help all Australia approach the admirable payment times of its two smallest states, which point the way forward in 2018 for small businesses.



Demian McLean 2 min read

01 Late payments hit new lows, supercharging cash flow

12.02.2018



As we head into 2018, it's useful to examine how 2017 ended for clues about the coming year. Here's what we know from the latest Xero Small Business Insights data, which covers the month of December.

- Getting paid:** Australian small businesses finished 2017 with the quickest payment times in three years. For invoices with 30-day terms, settlement took an average 34.2 days. The locations with the shortest payment times? The ACT and Tasmania. Here's a look at what they're [doing right](#). In January, payment times typically hit their longest of the year as businesses shutter and postpone bill-paying until February or later.

Getting paid

36.28

days on average for Australian small-business invoices with 30-day terms to be paid in April

▲ 1.46 % ▲ 1.24 %
Month on month Year on year

Cash flow

52.02 %

of Australian small businesses were **cash flow positive** in April



February

Reporting period: Dec 1, 2016 - Dec 31, 2017

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- **Cash flow:** Almost 57% of small businesses saw more money coming in the door than leaving in December, the largest percentage in more than three years. While December is typically a high-water mark because of Christmas trading, this year's figure was especially robust thanks to shorter payment times. But watch out come January and February: Cash flow typically dries up amid school holidays and as businesses replenish depleted inventory.
- **Hiring people:** Employment was little changed in December — down 0.4% — following November's surge in casual headcount to prepare for Christmas trading. If past years' pattern holds true, many of these casual positions will have disappeared by February.
- **Trading overseas:** The value of small-business imports and exports rose 3.4% in December, the most in seven months, as measured by a resurgence in foreign currency transactions resulting in cash outflows. Past years' data suggests January overseas trading will have slowed as businesses shut for school holidays.

▼ -3.00 p.p. ▼ -2.97 p.p.
Month on month Year on year

We'll have the January numbers ready for publication in early March, so [sign up](#) today to ensure they're e-mailed to you as soon as they're out!



Demian McLean

02

12.02.2018

Supporting small business expansion through foreign export



Paul Lyons – a partner from Tasmanian-based practice WLF Accounting & Advisory – has seen huge growth in clients using the cloud to tap into growth markets for their products.

The traditional business model focuses on bricks and mortar, with customers visiting the store to buy goods. But with the advent of the digital economy, many small businesses have moved to exporting their goods and services via online platforms.

The most recent data available from the Xero Small Business Insights suggests a surge in exports for Tasmania. In December, the total value of exports by small businesses (as measured by foreign currency

Trading overseas

-6.17

change in the total dollar value of imports and exports for Australian small businesses from March 2018 to April 2018

▼ -7.36 p.p.

Year on year



transactions) rose 6.8 percent, the most in seven months. At WLF, we've seen a huge growth in clients using the cloud to make inroads into new markets for their products.

The growing Asian middle class, for example, crave top-quality Australian produce. Tasmania has a unique clean and green image with an outstanding agricultural sector. We're seeing client exports grow, both in businesses that traditionally export as well in new sectors which previously – due to freight and technological issues – made it prohibitive.

Our clients can now pick cherries off the tree one day and deliver them to the table of a top Hong Kong restaurant the next. Or fresh Tasmanian milk can be sold for \$20 a litre in an overseas grocery store.

Resources aiding the growth

While exporting can increase the complexity of running a small business, we advise our clients that it can also help to de-risk their business because it reduces their dependence on the domestic market. Xero's [multi-currency functionality](#) lets businesses create foreign currency bills, invoices, quotes, purchase orders and credit notes. It can also produce financial reports in over 160 different denominations.

We use the multi-currency feature a lot for our international clients. As an example, we provide a large client based in Norway with monthly financials, including accounts payable and receivable reports converted to Norwegian krone, at the click of a button. Xero also produces a foreign currency gains and losses report showing total currency exposure. Which means no more complex reconciliations and conversions. The CEO of the Norwegian company loves it so much that he wishes his domestic accounting program offered it.

Thanks to [AusTrade](#), Australian small businesses can access knowledge, support and resources to get ready to export their goods. There are lots of handy guides and tools that help businesses to navigate different areas, such as:

- [Getting ready for export](#)
- [Creating an export strategy](#)
- [Carrying out market research](#)
- [Marketing your exports](#)
- [Pricing your exports](#)
- [Dealing with freight and logistics](#)



Taking on importing and exporting may not be for every small business, but accountants with expertise can help business owners formulate an export plan, understand the available resources and technology, and assess the pros and cons of taking their business international.



Erin Smith

03

12.02.2018

Big conversations around small business in South Australia



This month saw the inaugural Xero Small Business Insights Panel Tour 2018 take place in Adelaide, where more than 80 local accountants, bookkeepers and business advisers joined a select group of panel members to discuss the economic state of Adelaide small business.

Panel members:

- Facilitator: Steven Leaney, Senior Account Manager, [Xero](#)
- Lyn Hay, CEO, [Adelaide Business Hub](#)
- Helen Ahrens, CEO, [Good Things Marketing](#)
- John Chapman, [SA Small Business Commissioner](#)



- Martin Pike, Principal Consultant and Director, [Verve Group](#)
- Kerri Reynolds, Partner at [KPMG](#)
- Rob Stone, National Partner Director, [Xero](#)

Referencing Xero Small Business Insight's state-based and national data from November and December 2017, panelists discussed how local late payment metrics, employment figures and cash flow trends impact the South Australian economy. **Here are some highlights.**

From your perspective what are the biggest challenges for small businesses in Adelaide?

Helen Ahrens: One of the biggest challenges we see is that South Australian businesses think too local. They think, 'How can I sell in my suburb?' or, 'How can I sell in South Australia?' instead of thinking, 'How can I sell in a global market on a global scale?'

John Chapman: Local businesses often fall into the trap of looking only at the South Australian economy. There's a border some 250 km from Adelaide – and it's called Victoria! We encourage people to look at exporting. This approach helps drive constant diversification and modernisation of industries. There will always be someone else with a global mindset asking themselves, 'How can I get into that area and deliver a better product or service?'

Martin Pike: We also need capacity to find new markets and grow our businesses, so one of the other big challenges for Adelaide businesses – particularly those in the regions – is to attract and retain good talent. We need to provide reasons for people to stay in South Australia, and I believe small business is the engine room of that vibrancy. As business owners, it's our responsibility to hire good business leaders, and work to retain them as business grows.

Kerri Reynolds: The challenges facing local small businesses dictate the conversations we have with our clients. Those conversations focus firstly around cash flow and where business owners get funding. Secondly, it's employees: how businesses can retain talent despite an expectation of wage increase in a market where price is decreasing or holding steady. For me, this all comes back to the question of how small businesses can innovate in different ways, in different markets.

We've seen it takes about 37 days for invoices with 30-day payments terms to be paid in the Adelaide Metro area in the past year.



That's the third worst out of the 14 biggest metro areas we looked at across Australia. What's your experience of Adelaide small businesses being paid slowly?

Lyn: We conducted a survey of 1000 small business from our client base last year and cash flow was their top concern. We learned that clients depend heavily on email for debt collection but getting on the phone early can make a big difference. That's especially important when you're a business with all your eggs in one or two baskets and maintaining client relationships is critical.

Kerri: Small business owners are passionate about their product or service, so the bandwidth to chase payments is not always high on their priority list – they're busy chasing the dream instead. We encourage small business owners to initiate automated processes that effectively manage cash flow for them, and can help them get more comfortable with the mindset of asking for money.

Martin: As a tax, accounting, financial planning and business advisory firm, we see the pain of poor cash flow firsthand. There are three key things that businesses both large and small fail to realise:

- Cash flow is a function of economic growth. If we can improve this, businesses can afford to grow. But if we can't implement fast payment practices in South Australia, we only hinder our own economy.
- Late payments tie up working capital in the business, which means the capitalisation cost of running a business becomes higher. In that sense too, we hurt ourselves and our small businesses by allowing a late payment culture to thrive.
- The third, often forgotten element of this all, is the mental health impact of payment delays. Small business owners have a moral commitment to pay their suppliers but their hands are tied. That fact alone can keep people up at night. We have to address this at both a state and regulatory level.

John: Our office deals with B2B disputes under the Late Payment of Government Debts Act 2013. We know the construction industry, for example, can be prone to late payments – particularly if there's a chain. If you have South Australian clients facing difficulty getting paid, we can help. We also advise small businesses owners to audit their processes, think seriously about who they do business with, decide their terms and conditions and then stick to them.



Rob: The Adelaide average of 37.32 days to get paid for a 30-day invoice is above the national average of 35.62 days – and that average is going the right way; it's coming down. No one wants to be on the wrong side of a national average, but there is plenty of technology that South Australian business can leverage. Our data shows that you get paid 7 days faster when you attach a payment gateway to an invoice, for example. The more you can tighten these debtor days, the more working capital you free up to work on your own business.

Other topics and statistics on the agenda in Adelaide:

In November 2017, about 55% of Adelaide small businesses were cash-flow positive on average. That's on par with the national figure. What can be done to improve that number?

What are the factors contributing to the 8.4% year on year growth in Adelaide, which is stronger than the average for metro areas nationally? Do you see this trend continuing?

To hear more insights into small business, [subscribe](#) today.