




Monthly commentary Trent Innes

New report: The economic impact of big businesses paying Australian small businesses late

Paying the price

The economic impact of big businesses paying Australian small businesses late



What is Xero Small Business Insights?

Xero Small Business Insights (Xero SBI) 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.

It's our hope that with this data in hand, policymakers and large enterprises can make more informed decisions that benefit small businesses.

Here are the key findings from our report, *Paying the price*, which is available in full on the Xero SBI website.

Longer wait times are tied to poorer business outcomes. SMBs paid more slowly than average:



1/3

Grow revenue a third more slowly than those paid faster than average.



8 DAYS


Pay their suppliers 8 days later than SMBs paid faster than average.

Late payments from big businesses to small businesses are a systemic problem




\$115bn

Big businesses pay \$115bn late to small businesses each year. That comes out to \$52,000 for every small business in Australia.



53%

Over half (53%) of invoices are paid late.



23 DAYS

Payment arrives 23 days late on average.



\$7bn

Paying SMBs promptly would release a \$7bn stimulus to the sector.

June 2019

[See the full report – **Paying the price: The economic impact of big businesses paying Australian small businesses late.**](#)

Executive summary:

Late payments are a significant source of financial pain for Australian small and medium businesses (SMBs), with an estimated \$115 billion in payments from large businesses to SMBs paid late each year. When SMBs are paid late, it pressures them financially and hampers their ability to invest, grow and employ. It also constrains economic potential. Small



businesses generate a third of private-sector gross domestic product and employ nearly half of all workers. When small businesses struggle, the effect ripples through the economy.

Xero data provides insights into payment behaviour

To better understand the extent and impact of late payments, this report uses data from Xero Small Business Insights. It includes information on more than 10 million invoices issued by more than 150,000 SMBs. We selected businesses that had been on the Xero platform for several years and that were connected to an advisor. The data was aggregated and anonymised before analysis to protect the privacy of SMBs and their counterparts. Because the identity of small businesses' customers is anonymous, we've assumed that average patterns of late payment by all customers, as observed in Xero, also apply to large business customers. This has allowed us to create a model of big business behaviour while maintaining privacy safeguards.

Late payments to SMBs are a systemic problem

Our analysis reveals a systemic problem with late payments to small businesses. Just over half of trade credit invoices sent by Xero subscribers (i.e., invoices where payment is not due until at least one day after the day the invoice is created) are paid late. These are customers of all sizes, and their payments arrive an average of 23 days after they are due. If we assume big businesses pay a similar proportion of their SMB invoices 23 days late, we can estimate the national value of large businesses' late payments. Based on Australian Bureau of Statistics trade figures and AlphaBeta estimates, we calculate the value of big businesses' late payments to small business is about \$115 billion a year.

Long waits for payment impact business and economic health

However, it's not just late payments that impact the health of SMBs. Small businesses that endure long payment wait times, even if the invoices aren't strictly overdue, have poorer outcomes. Our analysis shows that SMBs that are paid more slowly than average have about a third lower revenue growth than those paid faster than average. Long payment times may also have a domino effect across the economy: an SMB paid more slowly than average tends to pay its suppliers more than a week later than an SMB paid earlier.

Resolving this situation by paying SMBs more promptly could deliver a net benefit to SMBs and to the economy. If large businesses paid all invoices



to SMBs on time, it could effectively transfer \$7 billion in capital from large businesses to SMBs. This could deliver a benefit to SMBs of \$4.38 billion over ten years by reducing their financing costs and encouraging them to invest.



Tiana Barns

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21.06.2019

Episode six of XBSITV | Dan & Dani – Red Door Project



In this episode of XBSITV, we catch up the runners-up from season five of The Block, Dan and Dani, who chat to Rob Goodwin about how they run their construction and design business, Red Door Project.

Cash flow

52.23 %

of Australian small businesses were **cash flow positive** in April 2019

▼ -2.61 p.p.

▲ 0.21 p.p.

Month on month Year on year

Getting paid

34.15

days on average for Australian small-business invoices with 30-day terms to be paid in April 2019

▲ 0.41 %

▲ -5.87 %

Month on month Year on year

