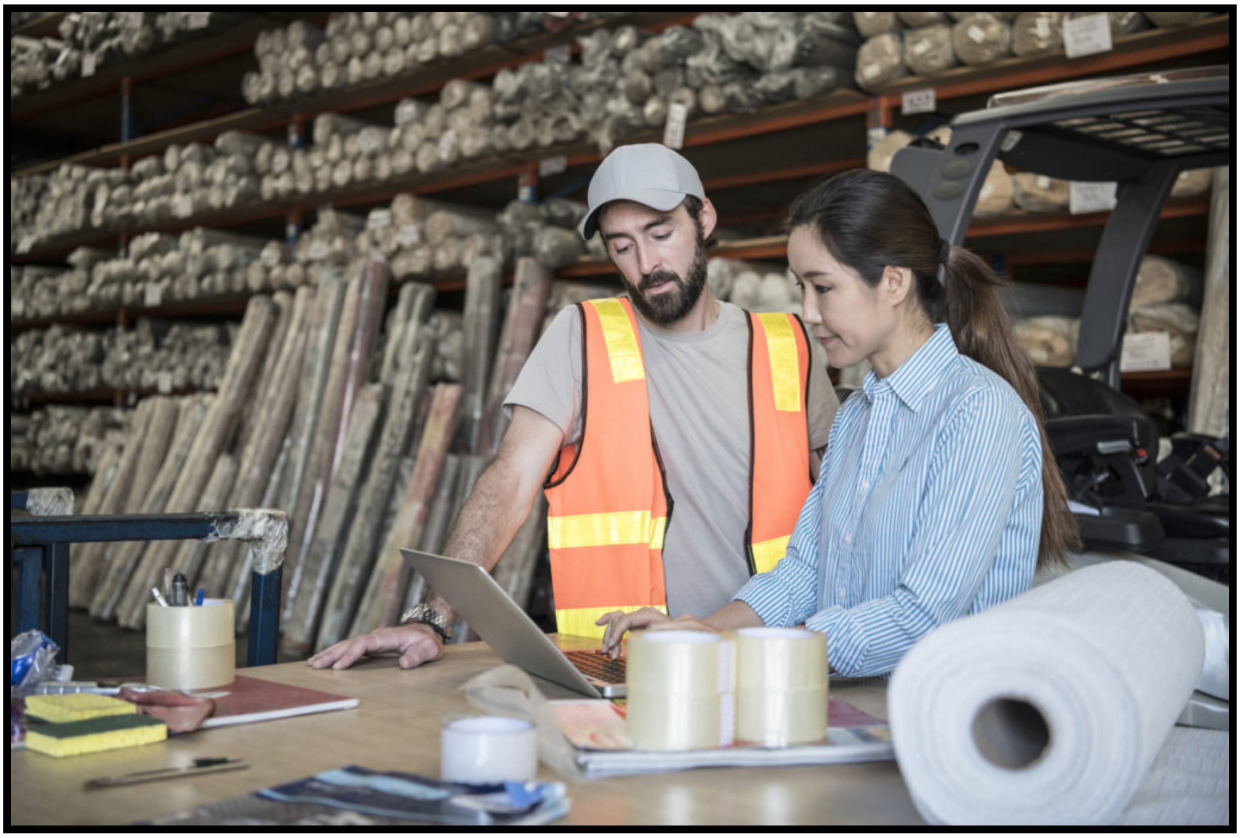
Monthly commentary   Alexi Boyd

Opinion: It's time for legislation on late payments



By Alexi Boyd, Small Biz Matters

The concept of "payment terms" seems to be confusing for big business in Australia. I am of course talking about the situation that small businesses face daily: struggling to get their invoices paid on time for services or products they've delivered. This struggle is well documented in Xero's special report, "Paying the price: The economic impact of big businesses paying Australian small businesses late."

It's bad enough that large businesses often dictate long payment term to small businesses, such as 60 or 90 days after an invoice is received. Small business owners are all too familiar with the multi-page "supplier agreement," a document which they really have no choice but to sign. Australia's 2.2 million small businesses essentially provide a free money market for big businesses: no-cost loans of 30 to 90 days, plus the added bonus of earning interest on money that isn't yours!

Protect yourself

Compounding the problem of unreasonably long payment terms is the common experience of getting paid late on top of those terms. And the reality of complaining about late payments is that you often cannot complain and, thanks to the supplier agreement, have little recourse.

The good news is there are actions you can take as a small business to protect yourself:

- Set up concrete payment terms on invoices, estimates and quotes that clearly state interest costs, late payment fees and indicate this to a client the first time you engage. If you have an engagement letter that should clearly state these too
- Ask for a 50 percent up-front payment to cover your costs
- Set up automatic invoice reminders with your accounting system to remove the administrative burden of chasing non-payers. Consider sending a friendly reminder a few days before your due date in addition to follow-ups once an invoice is late
- Check in with your professional association for advice on industry standards of payment terms for your profession.
- Consider offering discounted terms for early payers
- Remember, when the client signs your documents, they are agreeing to your terms and conditions. And remember that you do have rights as a small business through legal action. But make sure you've crossed all the t's and dotted all the i's when it comes to your correspondence.

Counting the cost

So, what is the real-world cost of late payments? Well, thanks to the use of big data in Xero Small Business Insights' latest report, Counting the cost, we now know that over half of invoices are paid late to small business. And not just a little late – they are paid an average 23 days after the due date, to the tune of $115 billion. That's a lot of money sitting in the wrong business's bank account, earning interest.

I'd like to say this is simply a problem for the affected business owner, but this impacts innocent bystanders. Xero data shows that small businesses which wait longer than average to be paid tend to pay their own suppliers eight days later than small businesses which are paid sooner than average. The trickle-down effect, in particular for consultants or sole traders, can be crippling.

It's encouraging that, starting this week, the federal government will commit to paying supplier invoices within 20 days for services valued at less than $1 million. And in New South Wales, that time is going to be reduced to five business days, which is even better. But a pledge by government may do little to change big business behaviour.

That's why we at the Small Biz Matters radio have been advocating for small business by asking the government to make it mandatory for all large businesses to pay when an invoice is due. This would be more effective than proposed approaches, such as Small Business Minister Michaelia Cash's suggested Payment Times Reporting Scheme. This scheme would "require businesses with a turnover of more than $100 million to publish how and when they pay their small business suppliers and contractors."

Immediate benefit

This is a great first step, and there are some excellent consultation panels underway on how to make this work. But the question is, how useful will it be to know in advance that a large client is likely to pay late? Small businesses often can't afford to be choosy about potential clients and have scant time to trawl through a government report to check whether their prospective client is compliant.

Wouldn't mandatory payment times — as opposed to reporting — have an immediate benefit for all of us? If small businesses are truly are the engine room of the economy, wouldn't this turbo-boost their cash flow and spending, and encourage them to meet their employer obligations. Maybe even boost hiring?

Mandatory reporting of big-business payment times and government payment pledges will help. But many of the small businesses I talk to would like to see strong legislation that enforces the payment terms to which the supplier and the client agree.

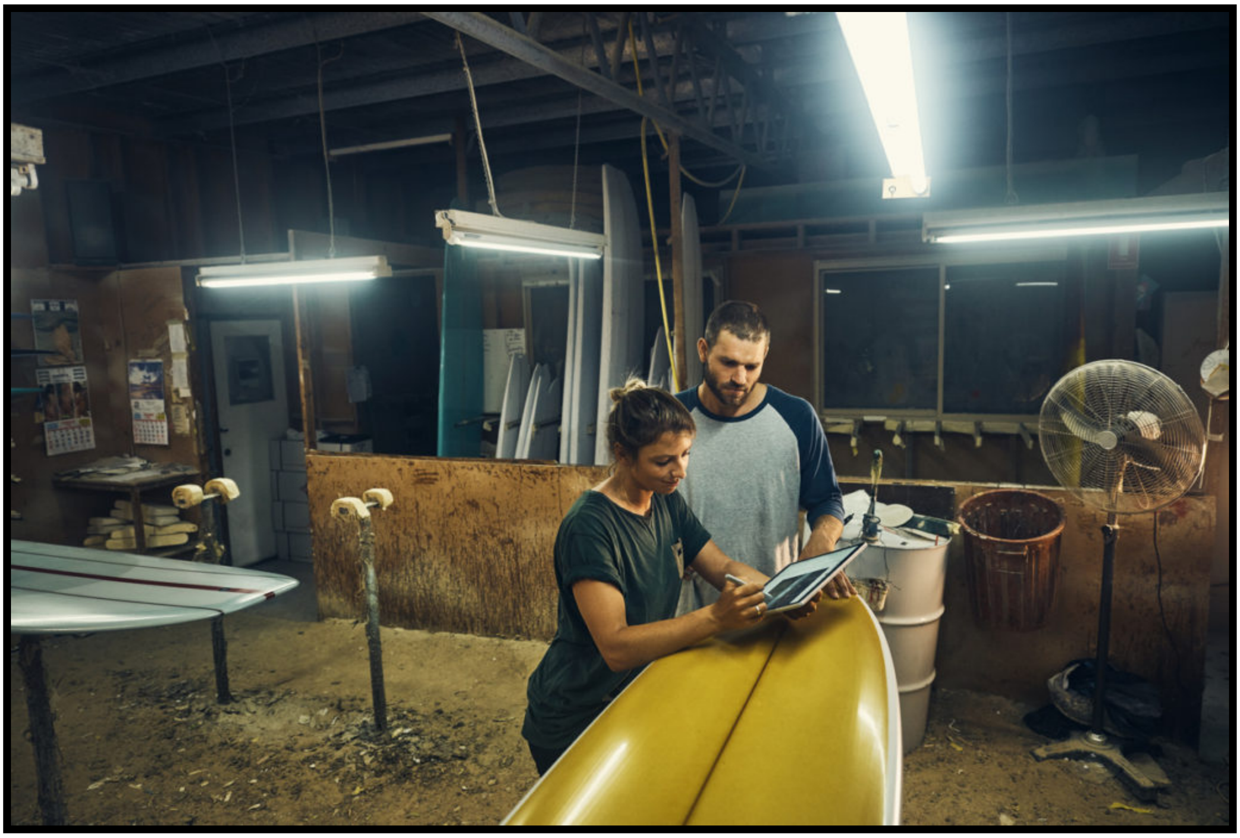
Let's hope the government recognises the problem and makes payment times a priority, for the sake of Australia's 2.2 million small businesses.

The above article represents the opinions of the guest contributor and does not necessarily reflect the views of Xero.

Alexi Boyd is an interviewer, panel moderator and radio broadcaster of Small Biz Matters, a radio show on community radio Triple H 100.1 FM. It is dedicated to advocacy, support and providing excellent small business education through unedited long-form interviews. Small Biz Matters' podcast features interviews with experts, industry leaders and government officials from the ATO and ASIC, and can be found on iTunes and at Small Biz Matters.

Monthly commentary Andrew Erkins

Opinion: The human impact of late payments



By Andrew Erkins, Digit

Andy Warhol once said, “Business is the most fascinating kind of art,” and I agree. There’s an effortless simplicity to business when everything is in flow. A business in full flight is breathtakingly beautiful.

Consider the mechanics for just a moment.

You have a product or service. Customers want that product or service and you provide it to them, in exchange for money. That money then goes into paying the people and businesses who help you do what you do. What’s left is your reward for doing business or is used to provide new customers your products or services. Everyone wins.

When that timing and flow is interrupted, it's like a spinning top that gets knocked. It goes from perfect balance to wobbling. You wait for that moment when it loses its balance just enough to career out of control and topple over.

Ripple effect

Xero's latest Small Business Insights explore the ripple effect that late payments have on that delicate balance. The impact is profound. Businesses that are paid slower than average (18-35 days depending on industry), grow a third slower than those paid faster than average. And they tend to pay their suppliers more slowly – 8 days slower.

Indeed, a lot is made of the financial impact to business when things don't go to plan, and the maths is pretty simple.

When customers don't pay on time, cash flow dries up. Businesses are at greater risk of not paying their obligations when they fall due. Their ability to grow is stunted. And they put mechanisms in place to work around what should be the simplest part of doing business. These include debtor funding, invoice factoring, payment services, debt collection, overdrafts, payment plans. All of these tools exist to either bridge or shorten the cash flow gap and manage business risk.

As an advisory firm embedded in the businesses we support, we see another side to things. The day to day side, and the human face to the business equation that can be overlooked among the numbers

Tell-tale signs of trouble

You see, a business with cash flow issues has a specific fingerprint when you look at a set of accounts. And it differs from a fingerprint of a business that is thriving. Struggling businesses tend to rely on credit cards and debt. They have a large number of overdue invoices. They have payments being made randomly rather than in scheduled batches. They often pay what they can, enter payment plans, or make poor financial decisions

From an accounting perspective, it's a lot of noisy transactional data. There is no sense of flow.

This requires additional management to ensure the accounts don't get messy. Extra administrative time and costs aren't factored into the business model, nor are the additional conversations and management decisions required.

In turn the business owner is then required to:

- Make a call on whom to pay and whom not to
- Have hard conversations with customers to chase up payments or even cut them off
- Eventually decide whether to take more formal action or write off the debt
- Defer payments with suppliers, negotiate payment plans, or make cuts to the business to manage its cash flow

Emotional toll

Employees, meanwhile wonder about the stability of the business and what it means for their job and their families. And suppliers paid late, in turn, are impacted, and potentially make decisions that affect yet more people.

There is a real human face to business, and the ripple effect of late payments is more than just numbers. More than bits of paper. More than impersonal decisions. Take note big business!

There is an emotional toll that it takes on the people within a business. A hidden psychological price unacknowledged. Being in business goes from what could be effortlessly simple and a beautiful experience to one more thing to juggle.

Let's hope that big businesses – and big government — take notice of the problem documented in Xero's special report "Paying the price." By working together, we have the potential to solve the problem of late payments to Australian small businesses by remembering that what underpins business isn't just numbers but people – for whom late payments have a very real impact..

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Andrew Erkins is a founder of Digit in Perth. He has made a career out of helping businesses get the most from technology – whether through marketing, websites, or streamlining their accounting and processes via clever integrations and apps.