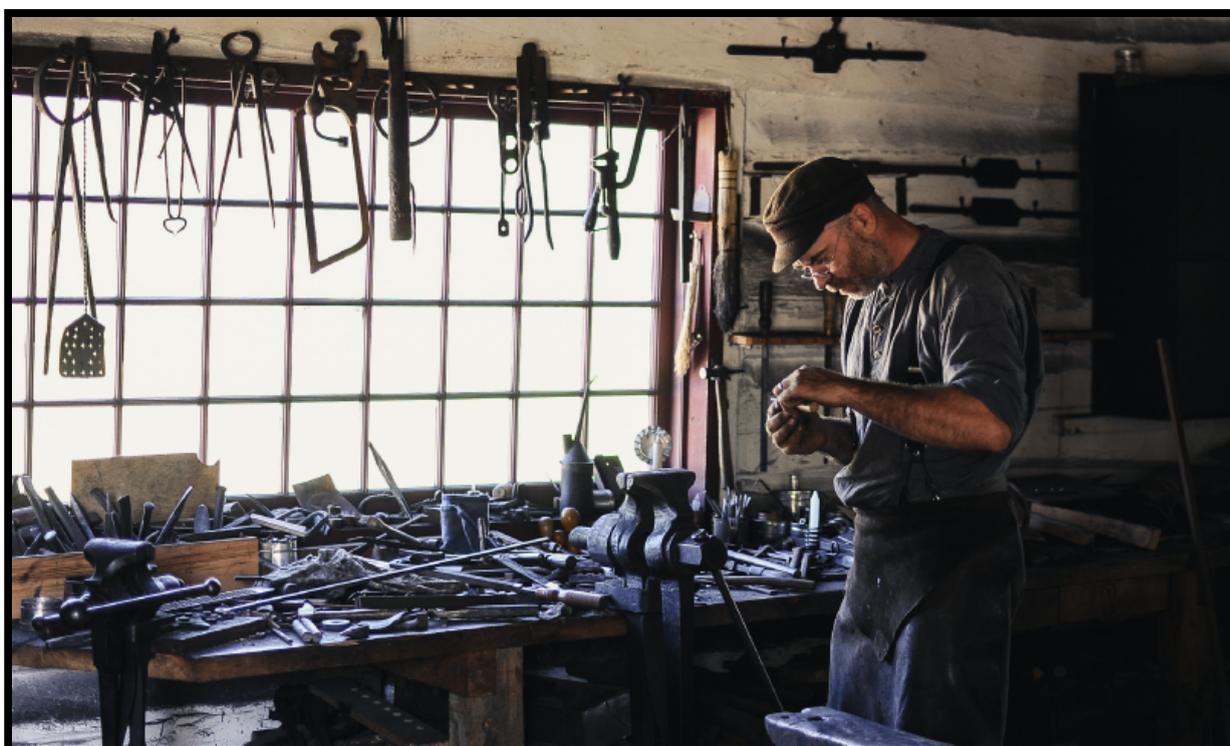




Monthly commentary Angus Capel 4

# Supporting small businesses when they need it most



The start of 2020 has been an unprecedented one for small businesses with the economy impacted by drought, the devastating bushfires, and now floods and the coronavirus. At Xero, our thoughts and sympathies are constantly with those that have been affected. Throughout February we are running our annual roadshows around Australia and we are valuing hearing from our accounting and bookkeeping partners about those that are most impacted at this time.

In light of this context to the start of the year, it is encouraging that there is new momentum around issues of critical importance to small business – that of cash flow and late payments.

As it happens, the toughest month for small business also occurs at this time of the year, in February. That’s when cash flow, the lifeblood of small business, usually hits its weakest level. Money owed to small firms typically arrives late in the last days of summer while expenses can stack up, leaving business owners strapped for cash.

Cash flow

**56.2 %**

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

▲ 1.68 p.p.

▲ 0.59 p.p.

Month on month Year on year



There are a few reasons that challenges converge in February, but the data is clear. On average, over the past five years, just 47 percent of businesses were cash-flow positive in February, based on data from Xero Small Business Insights. That compares with a five-year average of 51 percent for the full year, and 56 percent for the December just passed.

## Summer slowdown

Late payments are one reason for the cash-flow challenges in February. In fact, we see this in the numbers from Small Business Insights. Last February, for example, the average 30-day invoice was paid almost six days late. That compares with just four days late on average for all of 2019.

Adding to the pressure on February cash flow is the post-Christmas inventory cycle. Stock that was exhausted over the busy holiday period must be usually replenished in January and February. This extra expense can help deplete a business's cash balance.

So what can businesses do to improve cash flow in February and throughout the year? There's one solution that all Australian businesses will soon be able to take advantage of. The federal government has recently agreed on an e-invoicing standard and [pledged](#) to pay small businesses e-invoices within five days.

## E-invoicing

With the government's encouragement, big businesses may also adopt e-invoicing and offer faster payment to their small business suppliers. E-invoicing reduces billing errors and administrative handling, which can speed up payment times and help small-business cash flow.

For further tips on getting paid faster, be sure to also see the Xero Small Business Insights [special report](#) "Paying the price: The economic impact of big businesses paying Australian small businesses late." It offers three concrete steps that businesses can take to improve cash flow now.

While February is a challenging time, there is good news to report. In every month of 2019, we saw late payment figures post their best numbers ever for that month in Xero Small Business Insights data. December 2019 was especially noteworthy:

Invoices with 30-day terms were paid just two days late on average – the lowest figure in five years of Xero SBI data.



This trend bodes well for 2020, and again the federal government deserves some credit. In July, Canberra pledged to pay all small business invoices within 20 days. And through a new procurement policy being developed, the government will require large businesses tendering for government contracts to match its 20-day payment policy.

Lawmakers are also developing a payment-times reporting framework that will pressure large businesses to do better. Businesses with an annual turnover of over \$100 million will have to publish information about how they pay small businesses. Small firms can then make more informed decisions about their potential customers, and large businesses will face public scrutiny about their payment practices.

In the months ahead, we hope that combination of e-invoicing, federal procurement policies and small-business technology tools will start to give small businesses a much needed boost. Small businesses generate about a third of GDP and employ almost half of all workers. If we can help them thrive, the benefit should accrue to all Australians.