



Working Paper 3 Analysis of Survey responses



Australian Government



Australian
**Small Business and
Family Enterprise**
Ombudsman

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Overview

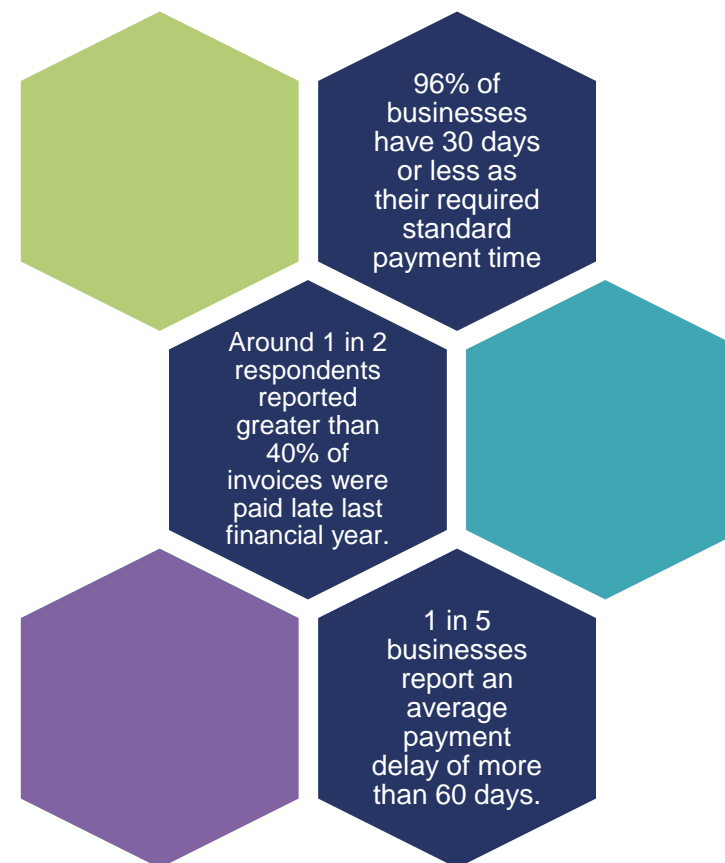
- § The Office of the Australian Small Business and Family Enterprise Ombudsman (ASBFEO) conducted its first self-initiated inquiry from November 2016 to March 2017 on Payment Times and Practices in Australia. The Inquiry came as a result of feedback from small business and family enterprise during 2016 saying that late and extended payments is their number one problem. The Inquiry was conducted in consultation with state-based Small Business Commissioners, the Council of Small Business Australia (COSBOA), The Australian Institute of Credit Management (AICM) and the Institute of Public Accountants (IPA).
- § The Terms of Reference were to consider:
- the practice of corporations setting payment times particularly for small businesses;
 - trends in payment times and late payment with emphasis on commercial dealings between small business with larger businesses;
 - the effects and impacts that long payment times have on small businesses; and
 - potential regulatory and market-based responses available including recent developments such as unfair contracts legislation.
- § This working paper is part of a suite of working papers prepared to report on the Inquiry process and data results. The working papers are to be read in conjunction with the Payment Times and Practices Inquiry Final Report which sets out the recommendations of the Inquiry.
- § This working paper presents key findings from a survey of 2,783 businesses conducted between 12 December 2016 and 28 February 2017. The findings are grouped into six themes:
- How long are payment times?
 - Value of late and non payments
 - Who are making late payments?
 - Impact of late payments on businesses and individuals
 - How do businesses deal with late payments?
 - Engagement with larger businesses
- § The attached appendix includes the survey demographics and survey questions.

Part 1

How long are payment times?

How long are payment times?

- This is a trick question for new players.
- If you look at standard payment times listed on invoices, you might be tempted to answer “usually 30 days or less”.
- But with extended and late payments impacting all businesses at one time or another, predicting when a business will get paid is very difficult.

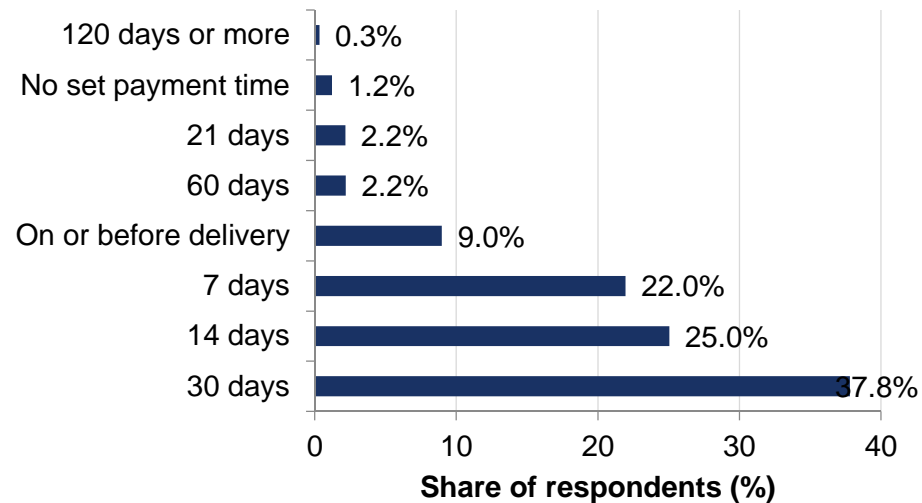


Source: Survey results - Payment Times and Practices Survey 2016-17



Most businesses require payments within 30 days

Standard payment time in majority of the respondents' sales/invoices



§ 96% of businesses have 30 days or less as their required standard payment time.

§ Interestingly, 3% of businesses require standard payment times of 60 or 120 days.

§ If a business is operating internationally, it is less likely to require payment of invoices within 14 days (41% versus 56% for all respondents).

§ Internationally operating businesses are more likely to require 30 day payment periods (54% versus 38% for all respondents).

By business size (i.e. number of FTE employees)

	≤14 days	30 days
0–19 employees	59%	35%
20+ employees	27%	69%

§ This is also reflected in the size of the business. Larger businesses (who are more likely to operate internationally than smaller businesses) tend to prefer 30 day standard payment terms. While smaller businesses tend to prefer shorter standard payment times.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,774



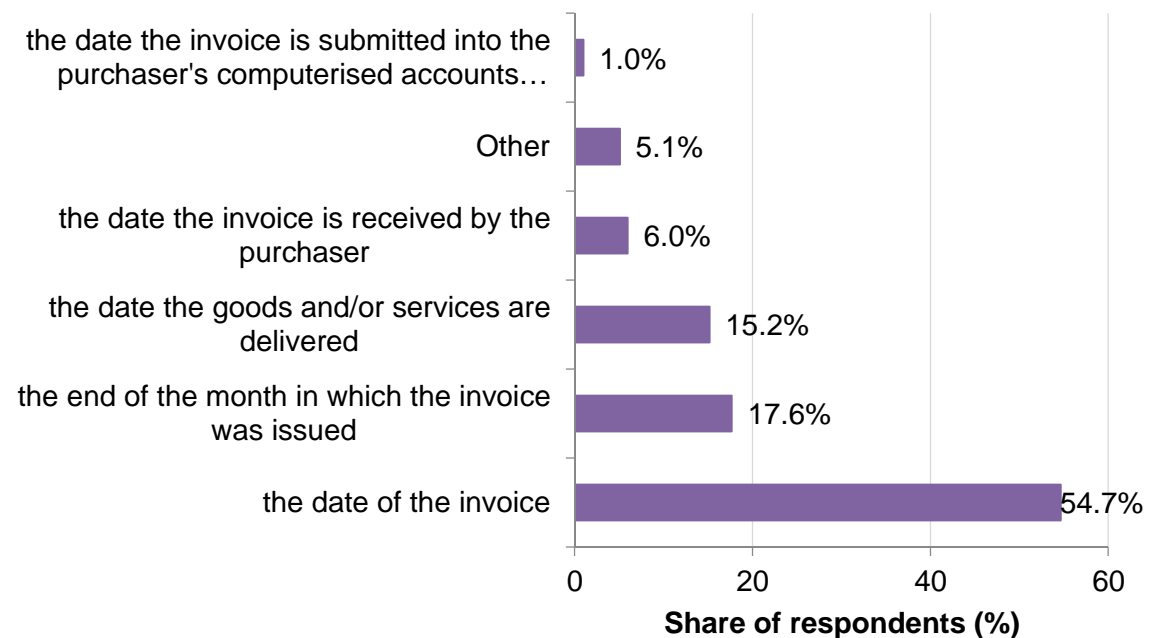
Most standard payment times commence from the date of the invoice

55% of businesses expect their standard payment times to begin from the date of the invoice.

However, only 7% expect the standard payment times to begin from the date the invoice is received or entered in the purchaser's system.

This suggests a disconnect between supplier and purchaser expectations. For instance, the Commonwealth Government has a policy to agree to payment terms of no later than 30 days after the *date of receipt* of a correctly rendered invoice. This is discussed further in *Part 3: Who are making late payments?*

Standard payment time in majority of sales/invoices

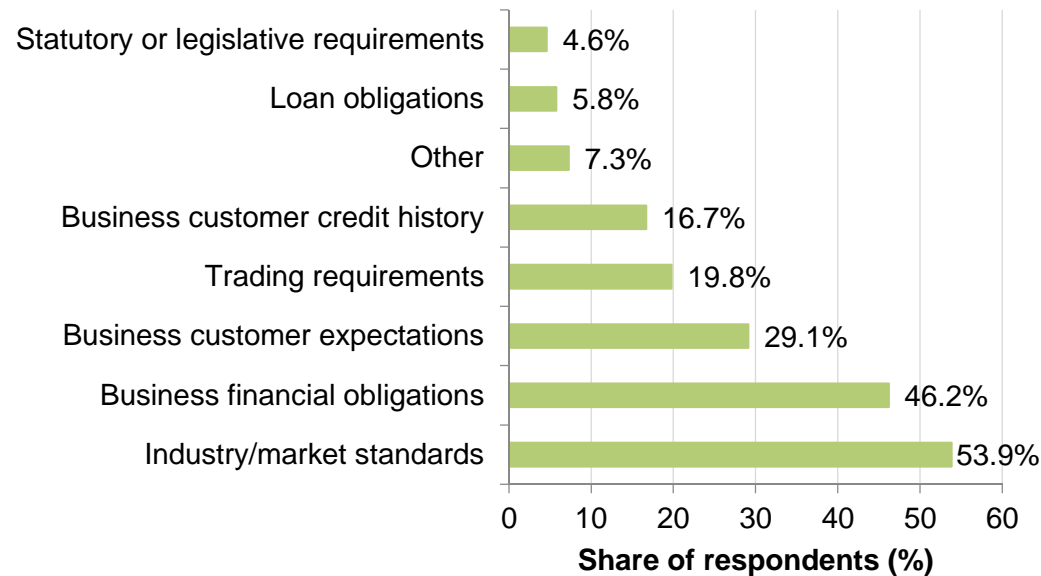


Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,770



Industry standards and business financial obligations drive payment times

Factors considered when setting standard payment times



Many respondents said that goodwill was more important than imposing penalties for late payments.

(see Part 5: How do businesses deal with late payments? for further information)

The two dominant factors that businesses consider when setting standard payment times are industry/market standards and the financial obligations of the business.

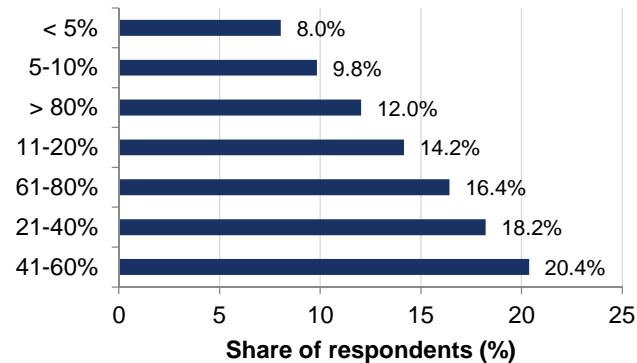
The credit history of the customer and the trading requirements/cost of inputs are less important, suggesting businesses will sacrifice prompt payment times or outlay expenditure to maintain customer relations or to win more business. This focus on goodwill is also reflected in many businesses unwilling to impose penalties for late payments.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,764



All businesses experience late payments

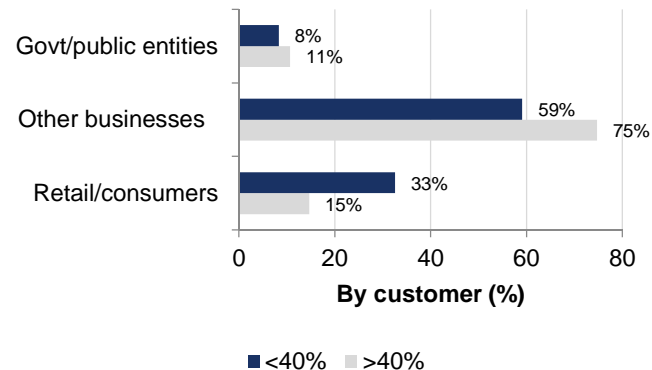
Proportion of invoices paid late in the last financial year



All respondents* reported late payments on invoices last financial year.

Around 1 in 2 respondents reported greater than 40% of their invoices were paid late last financial year.

Of particular concern, 28% of respondents reported over 60% of their invoices were paid late last financial year.



Other businesses accounted for most of the reported late payments to respondents, followed by consumers.

Government/public entities still accounted for 9 per cent of invoices that were paid late last financial year. Accounting for:

§ 8% of those reporting under 40% of their invoices were paid late, and

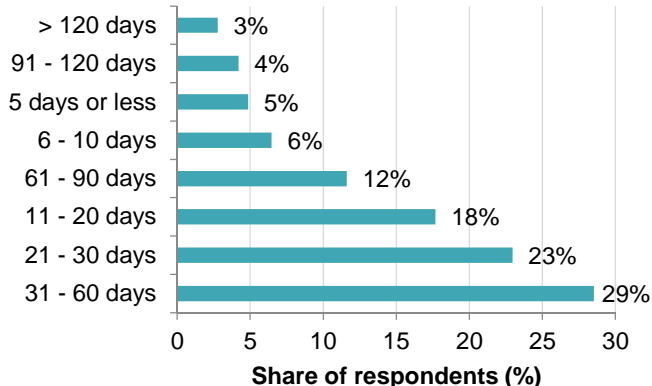
§ 11% of those reporting that over 40% of their invoices were paid late.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,758

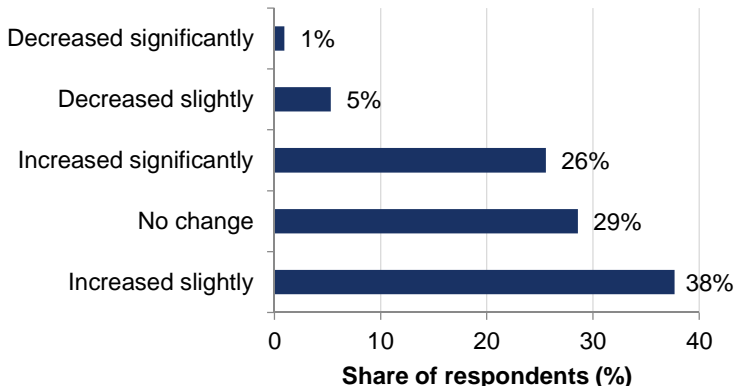


Almost 1 in 5 businesses report an average payment delay of more than 60 days

Average payment delay (in days)



Last financial year, late payments have:



Of particular interest is the 3% of respondents reporting an average payment delay of more the 120 days and the 4% of respondents reporting an average payment delay of 91 to 120 days.



And this is because the situation has worsened. Almost 2 in 3 respondents reported that payment times had increased last financial year.

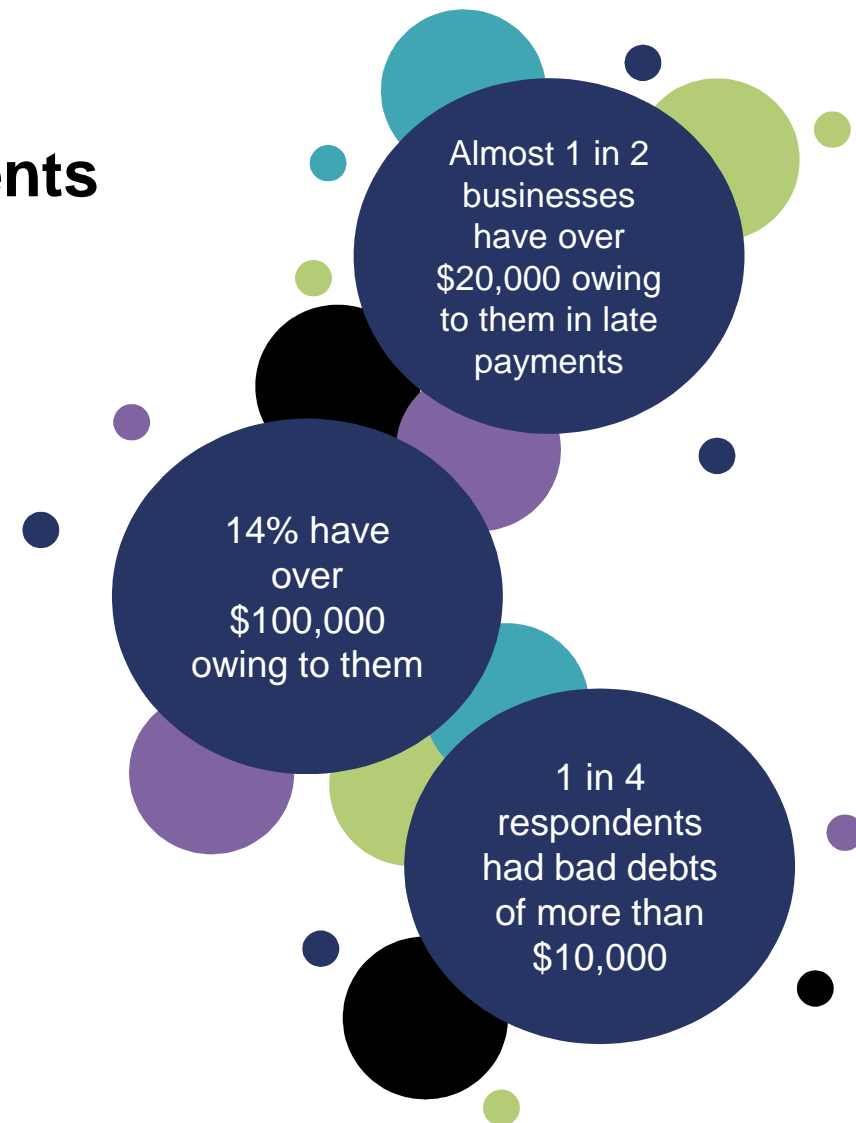
Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,757 for question 5 and n = 2,729 for question 6.

Part 2

Value of late and non payments

Value of late and non payments

- Businesses report large amounts of late and non payments.
- Despite this, chasing late payments is not the highest priority for business. Operating and growing the business as well as issuing new invoices are deemed more important.
- Smaller businesses tend to not spend as much time chasing late payments as larger businesses.

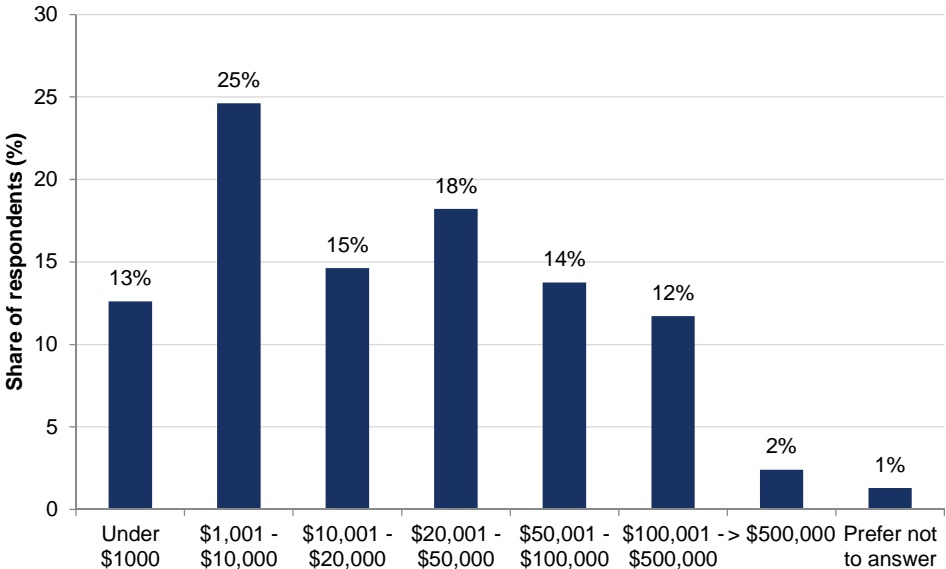


Source: Survey results - Payment Times and Practices Survey 2016-17



Late payments matter: over 1 in 4 businesses are owed over \$50,000

Total amount of late payments owing to respondents



Almost 1 in 2 businesses have over \$20,000 owing to them due to late payments.

Of particular concern is the 14% of businesses who have over \$100,000 owing to them.

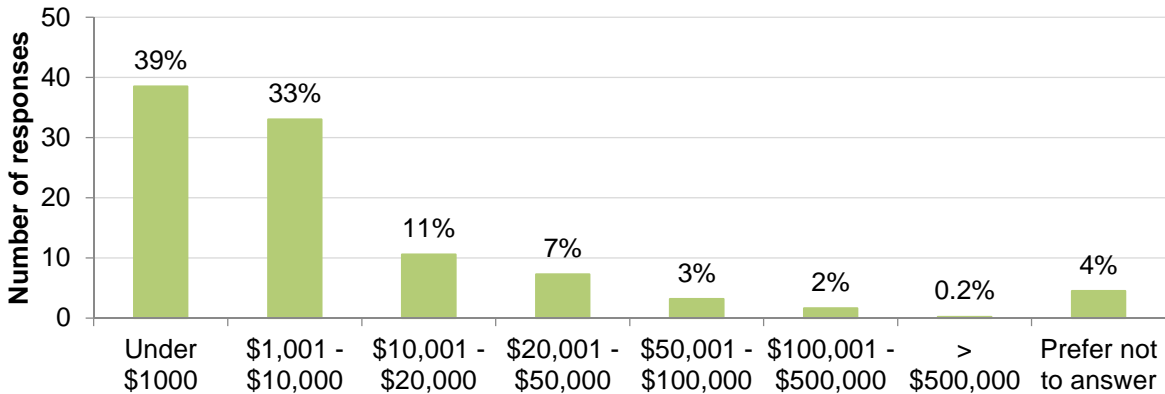
This is a lot of money for businesses to have to do without. It is placing strain on cash flow and in some cases the very survival of the business (see Part 4 – Impact of late payments on businesses and individuals for more on this).

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,762



Around 1 in 4 respondents had bad debts greater than \$10,000

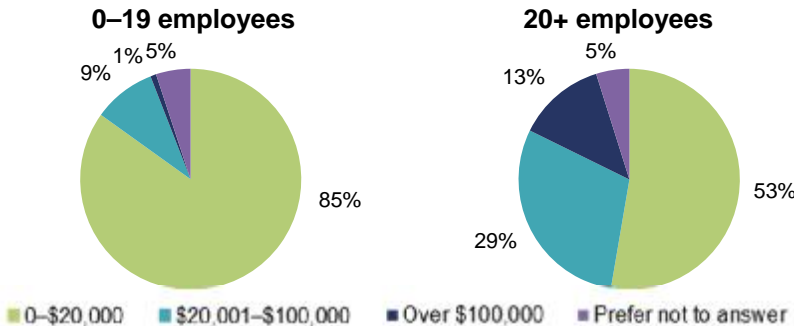
Total amount of written off invoices/debts due to non-payment



§ While bad debts account for less than \$10,000 for most businesses, 23% have bad debts of more than \$10,000.

§ While less common, there are some businesses who have been forced to write off more than half a million dollars.

Composition of bad debts for each business size



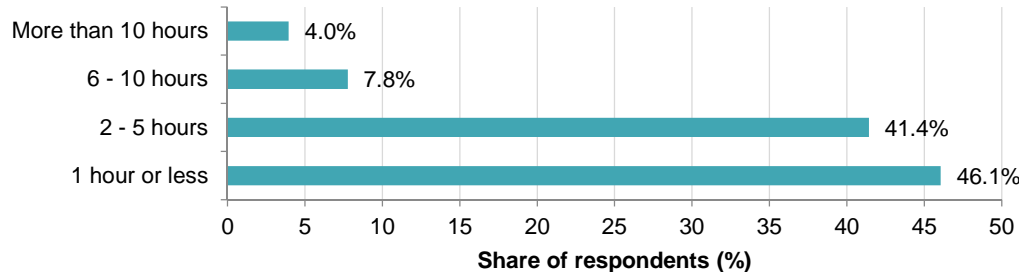
§ The larger the business, the more likely the value of bad debts will be greater than \$20,000.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,752

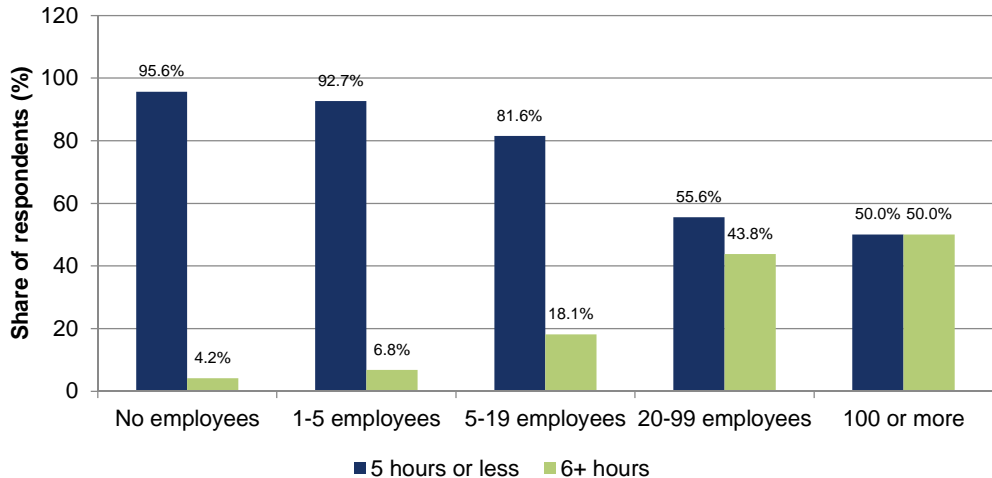


12% of businesses spend more than 6 hours chasing late payments each week

Average time spent chasing late payments in a week



- § Most businesses spend five hours or less chasing late payments each week.
- § Of particular concern is the 8% of businesses spending 6–10 hours each week and the 4% of businesses spending more than 10 hours each week.

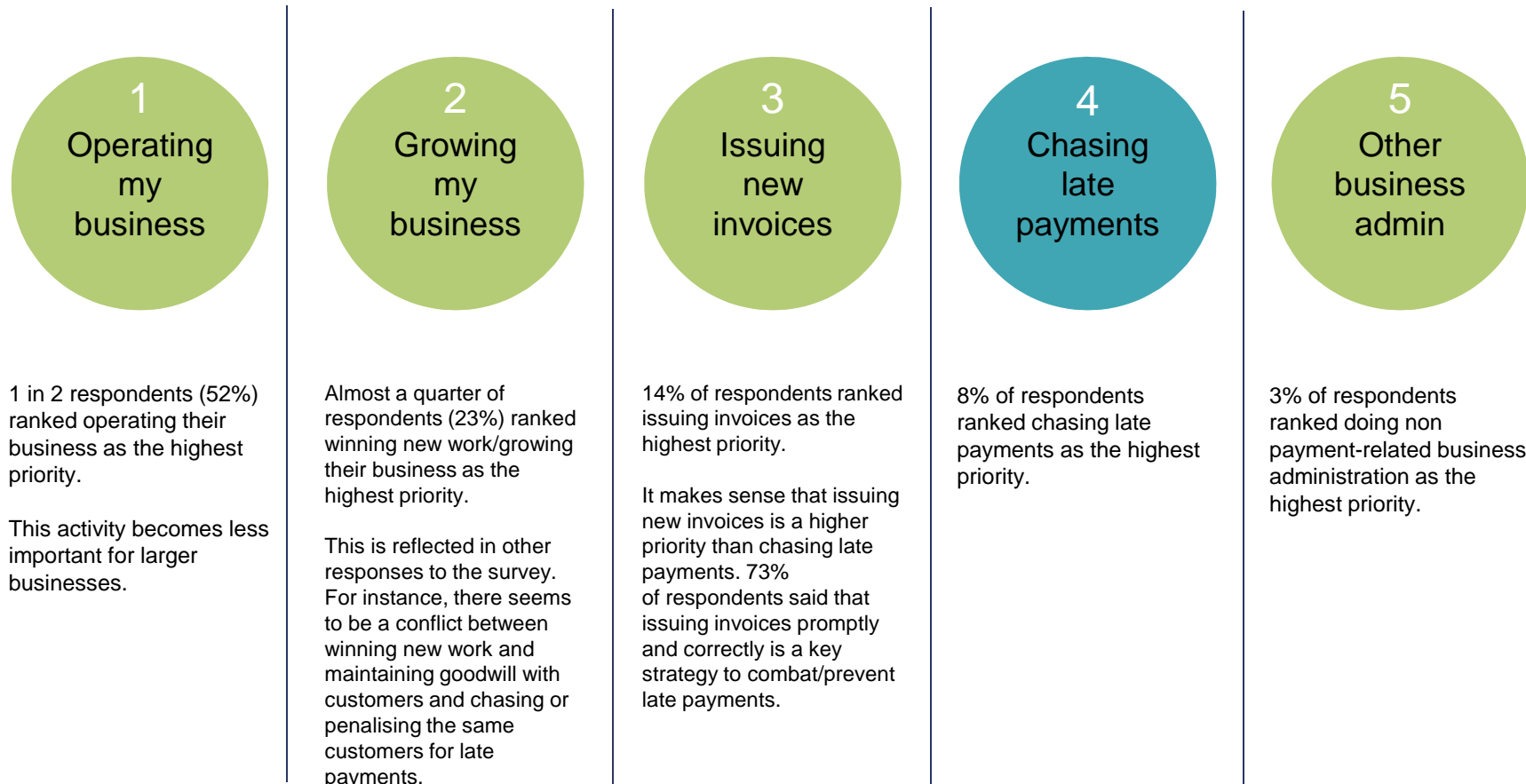


- § Smaller businesses tend to not spend as much time chasing late payments as larger businesses.
- § This is possibly due to resourcing constraints. It could also be due to the smaller value of debt that small businesses need to chase.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,761



Chasing late payments is not the highest priority for business



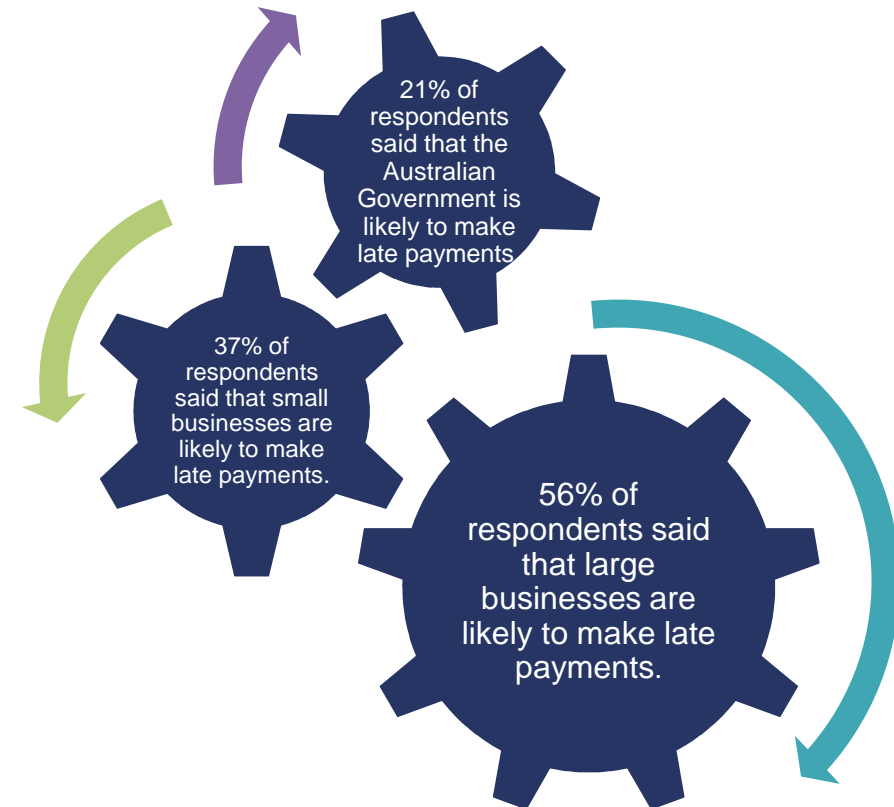
Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,743

Part 3

Who are making late payments?

Who are making late payments?

- Businesses are the most likely repeat offenders when it comes to late payments.
- This makes sense since the practice of paying late allows a business to hold on to its money for its own use.
- But Governments are not immune. Many respondents also report all levels of government often are making late payments.

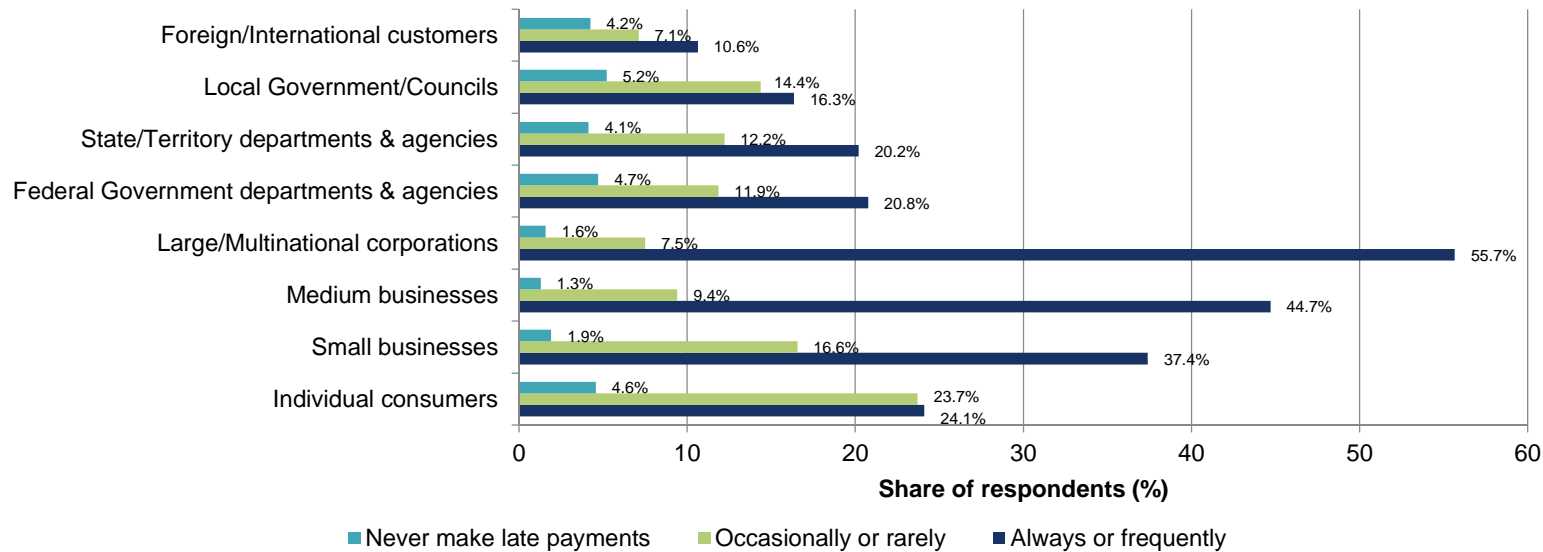


Source: Survey results - Payment Times and Practices Survey 2016-17



Large businesses and multinationals are identified as the worst culprits

What customers are most likely to make late payments?



Businesses are the most likely repeat offenders when it comes to making late payments.

- § Over half of respondents said that large/multinational businesses “always” or “frequently” make late payments. This is followed closely by 45% of respondents reporting medium businesses and 37% reporting small businesses.
- § Government is not immune. 21% of respondents said that Australian Government departments and agencies “always” or “frequently” make late payments. This is followed by 20% of state/territory departments and 16% of local governments/councils.
- § The Australian Government’s latest Pay On-Time Survey reported that 97% of invoices were paid on time (i.e. within 30 days). This suggests a disconnect between government payment times and payment time expectations from the business community.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,711

Part 4

Impact of late payments on businesses and individuals



Late payments severely impact businesses and individuals

35%

of respondents at increased risk of **insolvency/liquidation** as a result of late payments.

78%

of respondents with adverse impacts on **mental wellbeing**/increased stress/anxiety.

57%

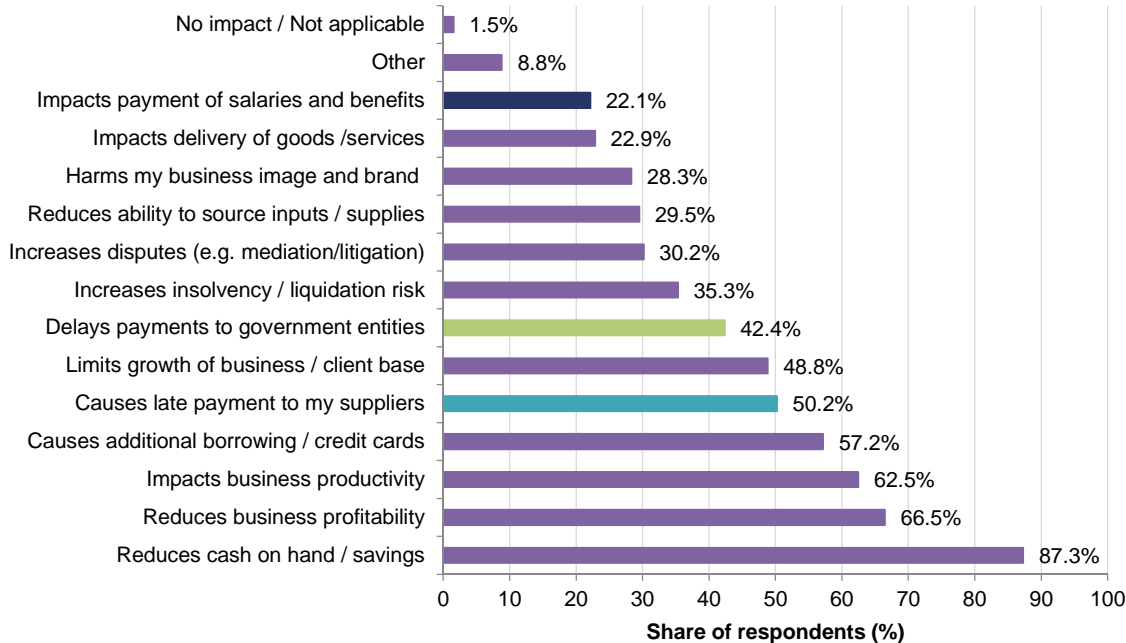
of respondents needed to **borrow** or use **credit cards** due to late payments to their business.

Small businesses are hit hardest by flow-on personal and family impacts.



Cash on hand, profitability and productivity take a hit due to late payments

Effects of late payments on business



➡ 1 in 5 respondents found it difficult to pay salaries and benefits.

➡ 2 in 5 respondents delayed payments to government entities.

➡ Around half of respondents found it difficult to pay their own suppliers.

87% of respondents reported reduced cash on hand or savings as an impact of late payments.

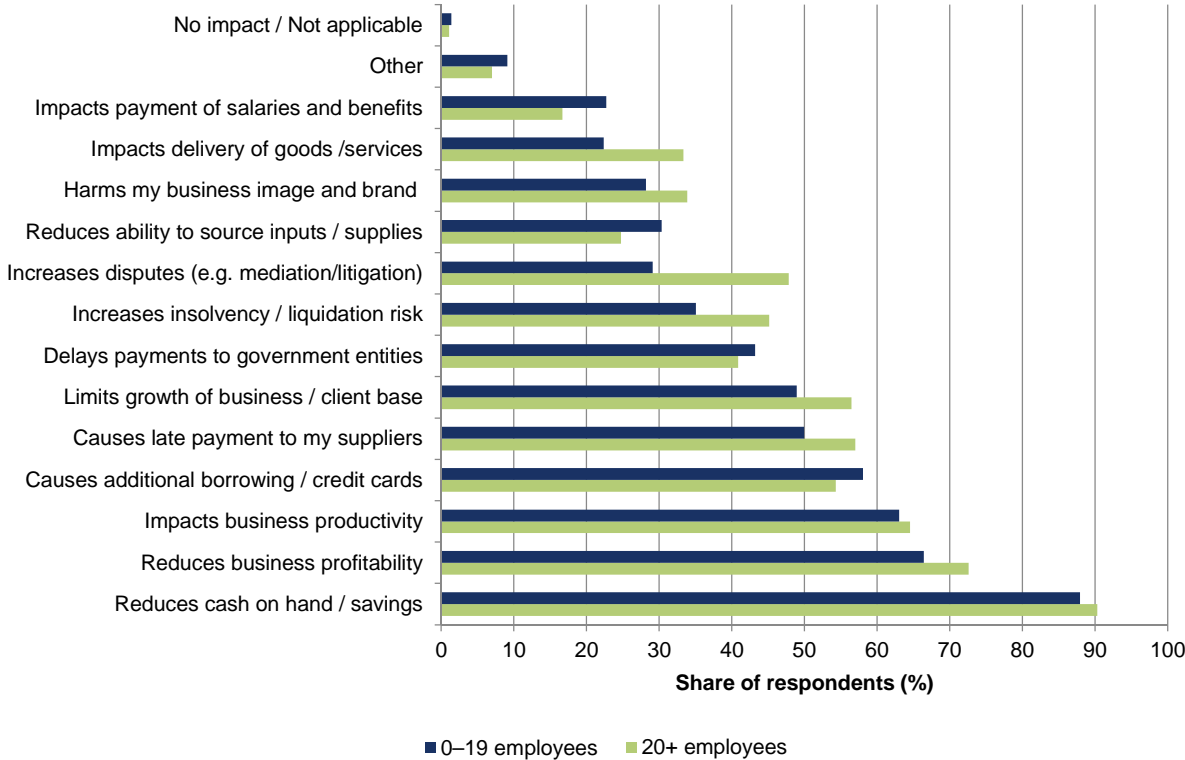
Around two thirds of respondents reported impacts on productivity and profitability of their business.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,765



Cash on hand takes the biggest hit across all business sizes

Effects of late payments on business, by business size



Smaller businesses are more likely to resort to borrowing or the use of credit cards in the event of late payments than larger businesses.

Due to late payments, small businesses are also more likely to:

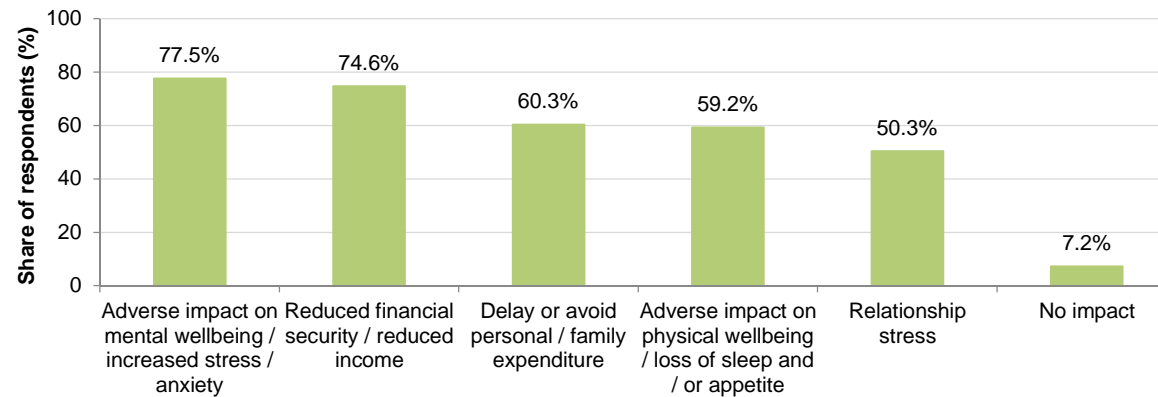
- § delay payments to government entities such as the ATO.
- § Find it difficult to source required business inputs / supplies
- § Impact the payment of employee salaries, superannuation and benefits.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,765



Personal and family situations also hit by late payments

Flow-on effects that late payments have on personal/family situations



§ 93% of respondents reported flow-on personal/family hardship as a result of late payments.

§ Over ¾ of respondents reported an adverse impact on mental wellbeing, while 1 in 6 respondents reported an adverse impact on their physical wellbeing.

§ Larger businesses report less flow-on effects.

Adverse flow-on effects for each business size (% of respondents)

	Adverse impact on mental wellbeing	Reduced financial security	Delay personal/family expenditure	Adverse impact on physical wellbeing	Relationship stress	No impact
0–19 employees	79	76	63	60	51	6
20+ employees	72	61	41	51	46	14

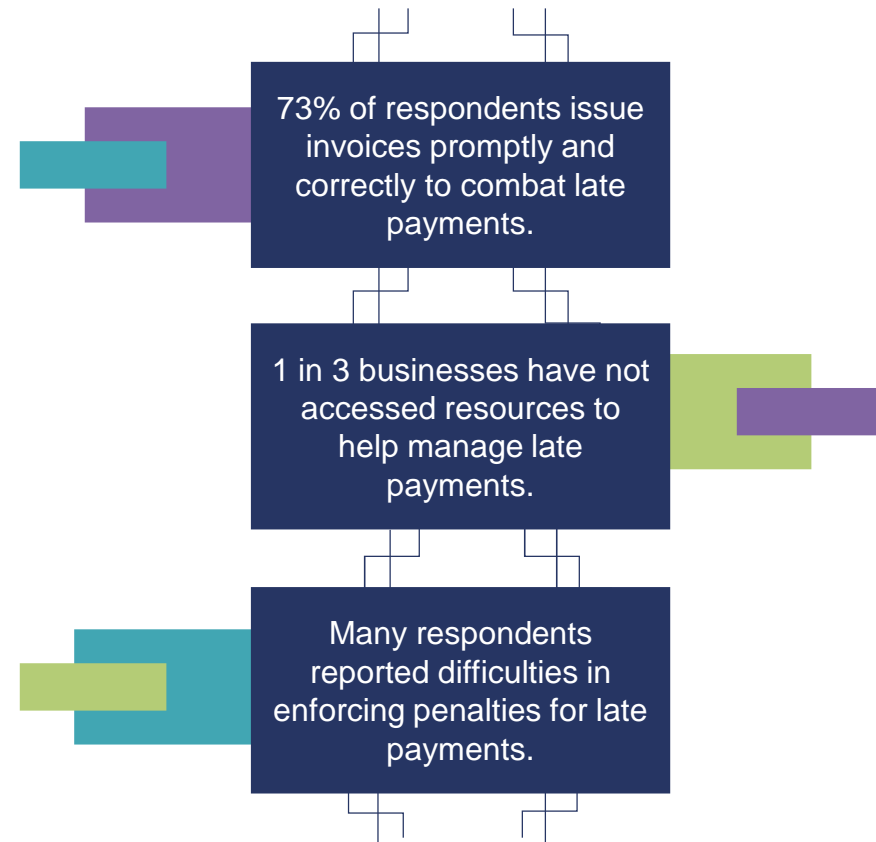
Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,758

Part 5

How do businesses deal with late payments?

How do businesses deal with late payments?

- Most common strategies are:
 - the prompt and correct issuing of invoices,
 - increased communication with customers,
 - clearly identified payment terms in contracts, and
 - the halting of supply to repeat offenders.
- Imposing penalties for late payments can have unintended negative impacts on goodwill and winning future work.

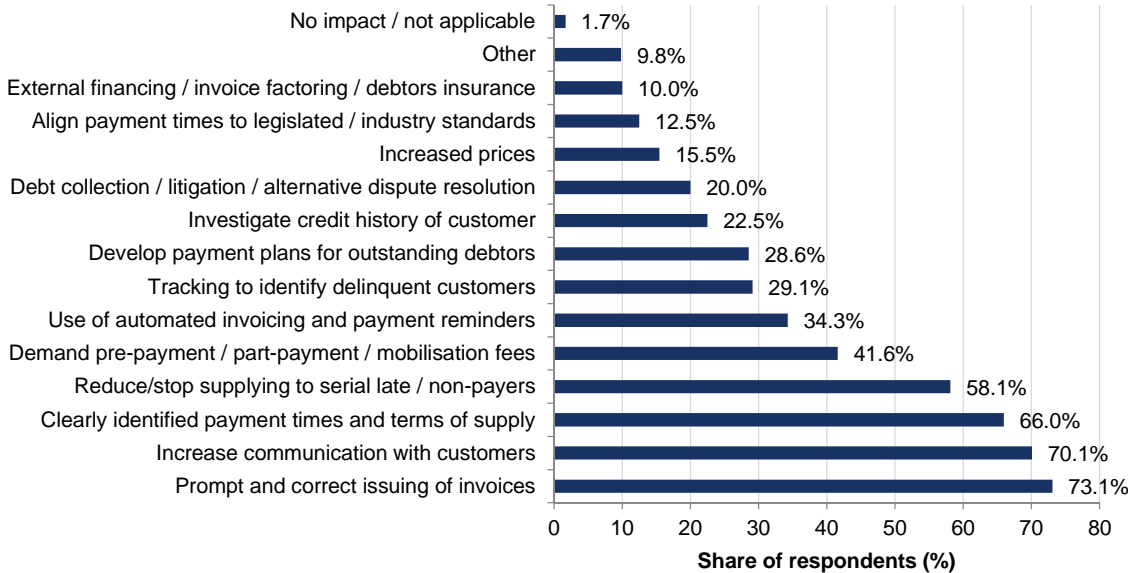


Source: Survey results - Payment Times and Practices Survey 2016-17



Four dominant strategies are employed to combat late payments

Steps businesses take to reduce/counter late payments



73%

of respondents said that issuing invoices promptly and correctly is a key strategy to combat late payments.

The four dominant strategies that businesses use to deal with late payments include the prompt and correct issuing of invoices, increased communication with customers, clearly identified payment terms in contracts, and the halting of supply to repeat offenders. Recall that issuing new invoices was considered a higher priority for businesses than chasing late payments.

Only 1 in 10 businesses consider financing, invoice factoring or debtors insurance to assist with cash flow. A business is more likely to increase prices to recoup losses.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,759



Do businesses impose penalties for late payments?

This open-ended survey question provided insight into the difficulties around imposing penalties for late payments. Even when businesses had penalties outlined in their contracts, they were not always enforced.

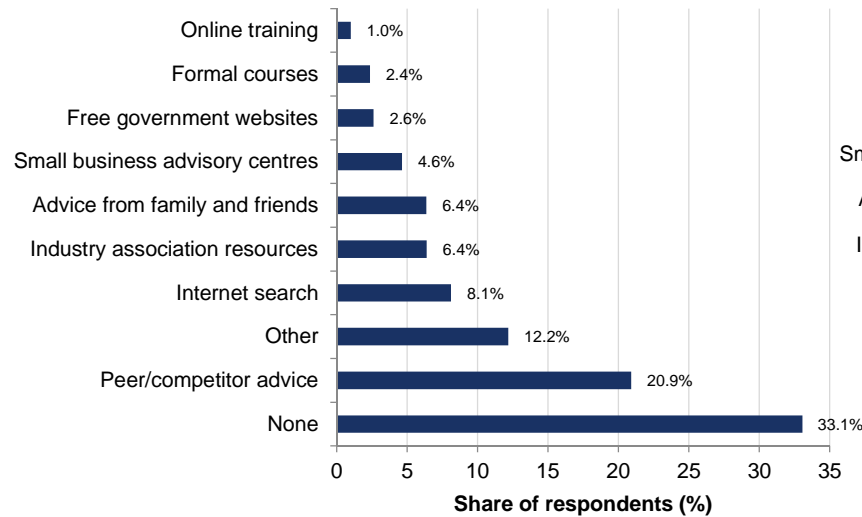
<p>Do not impose penalties</p>	<p>Reasons for not imposing penalties include:</p> <ul style="list-style-type: none"> § It does not work / impossible to enforce. § They have been advised (by a range of sources, including customers) that it is illegal. § It is not the industry standard. § The business is concerned about maintaining customer relationships and goodwill. Afraid that business will be lost if penalties are imposed. § Some businesses found that offering discounts for early payment worked better for them. § The business does not think it is right to place pressure on customers who are 'doing it tough'. § They would rather offer payment plans than impose penalties.
<p>Impose penalties</p>	<p>Businesses will sometimes outline penalties for late payments in invoices or contracts. However, use of these penalties are mixed. Some businesses:</p> <ul style="list-style-type: none"> § rigorously enforce the penalties outlined in their contracts. § use it more as a deterrent strategy. The penalties are not actually enforced. § find that penalties are not well received and are often ignored. § have never imposed the penalties as there is a fear of damaging relationships with clients.
<p>Considering imposing penalties in the future</p>	<p>A number of respondents to the survey mentioned they were considering imposing penalties. They raised the following concerns:</p> <ul style="list-style-type: none"> § They were unsure of the effect on business and customer relationships. § They were unsure how to go about it legally. Many asked if there was advice/legislation that they could refer to. <p>Methods under consideration were to:</p> <ul style="list-style-type: none"> § Charge interest or fees for late payments § Inflate prices or fees to mitigate the impact of late payments on the business. § Delay supply of goods and services until payment was made. § Charge for debt collection costs.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,360

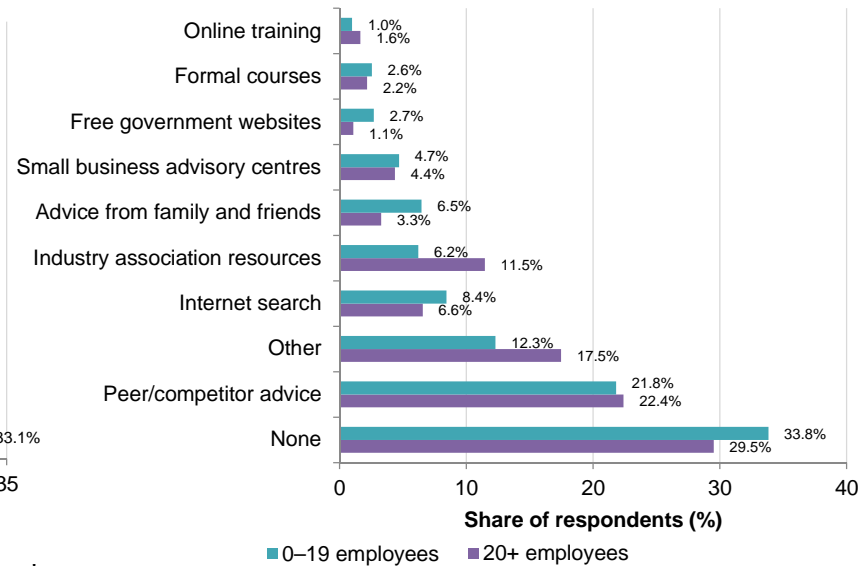


1 in 3 businesses have not accessed resources to help manage late payments

Training/resources – all respondents



Training/resources – by business size



12% of respondents used ‘Other’ training and resources*

Some other resources that businesses found useful include:

- § Solicitors, accountants, bookkeepers
- § Debt collectors/advice from debt collectors
- § Business mentors/coaches, online virtual assistants
- § Credit reporting agencies
- § Software packages to track payments
- § Recruitment of experienced staff or own extensive experience

Some respondents also commented that they didn’t see the point since late payments are out of their control, signaling a sense of frustration and acceptance about the situation.

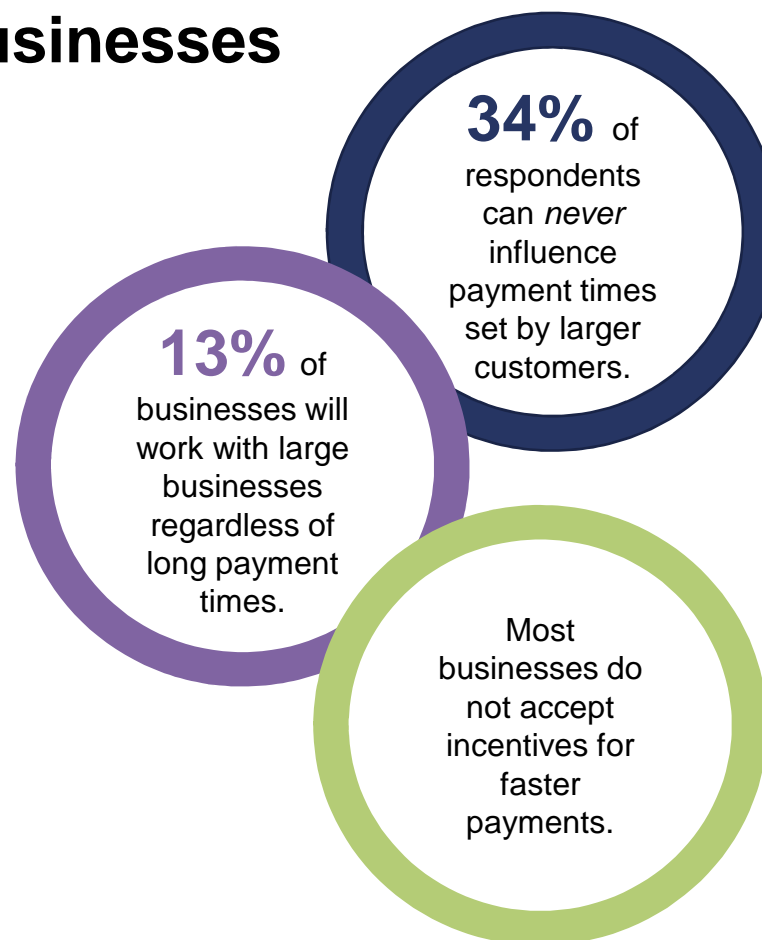
Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,718. Some respondents chose ‘Other’ because they used more than one of these resources but could not select multiple options.

Part 6

Engagement with larger businesses

Engagement with larger businesses

- The survey confirmed that large business customers have the power to set payment times. Most respondents are unable to influence these payment times.
- Large businesses are losing access to some suppliers by having long payment times. But some businesses rely on this work and will engage with large businesses regardless.

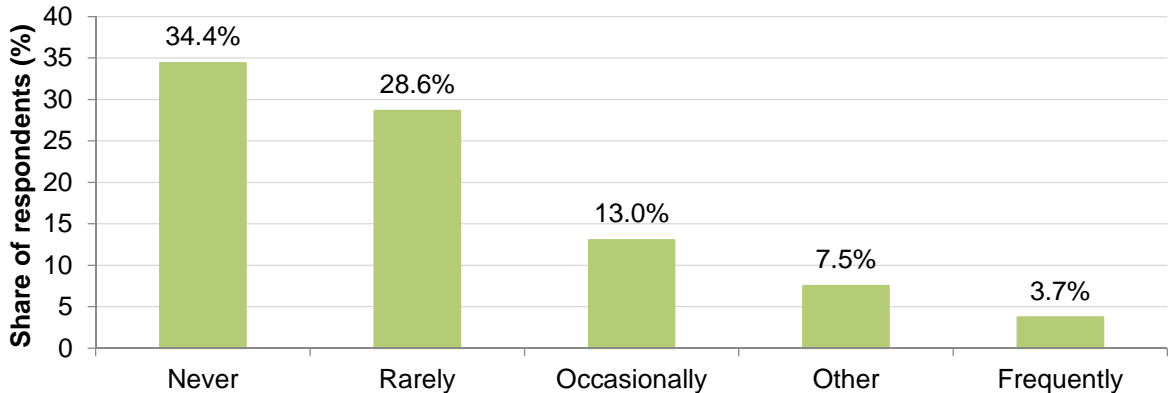


Source: Survey results - Payment Times and Practices Survey 2016-17



Large businesses customers have the power to set payment times and terms

Can businesses influence/negotiate payment times with larger businesses?

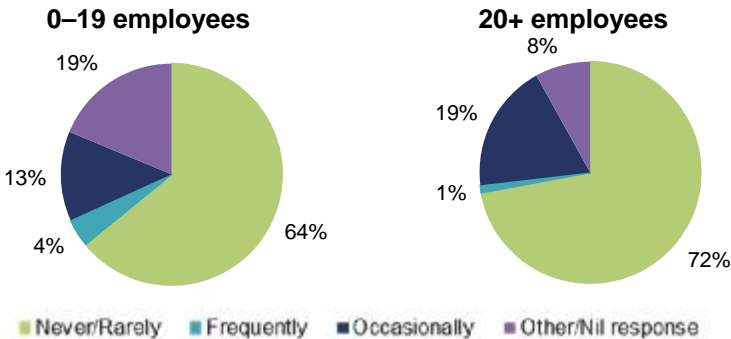


§ 3 in 5 respondents reported that they never/rarely influence or negotiate the payment times and conditions set by larger businesses purchasing their goods and services.

§ Some of the free-text responses to this question mentioned that they either need to accept the terms or lose the work.

§ 17% of surveyed businesses said they can occasionally or frequently influence payment times and conditions.

Composition of ability to influence payment times for each business size

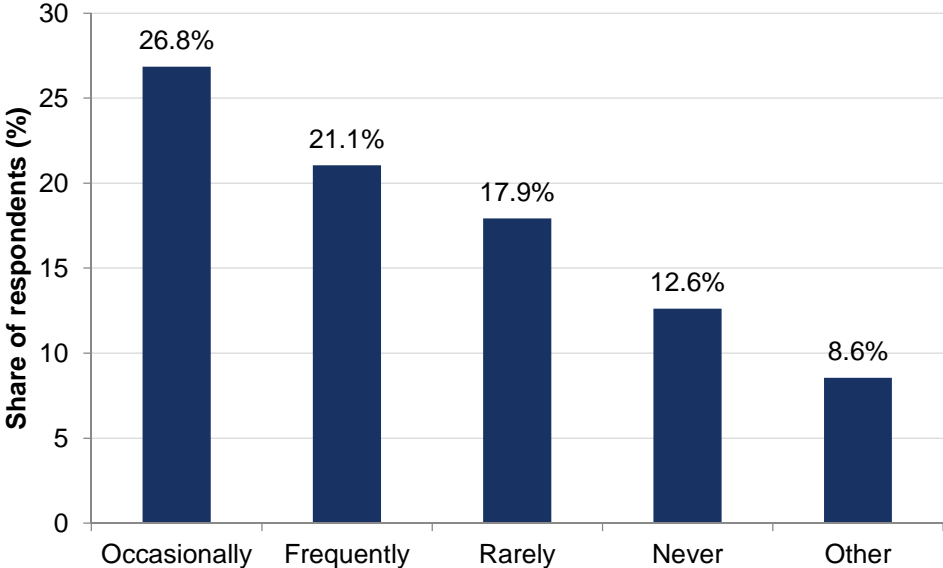


Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,430



Large businesses are losing access to suppliers by having long payment times

Do the payment times and conditions of large businesses factor into your decision to do business with them?



Almost 1 in 2 businesses are likely to consider a large business’ payment times and conditions when deciding whether to do business with them.

But there are still some businesses who will work with these large businesses, regardless of the conditions they set.

Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,421



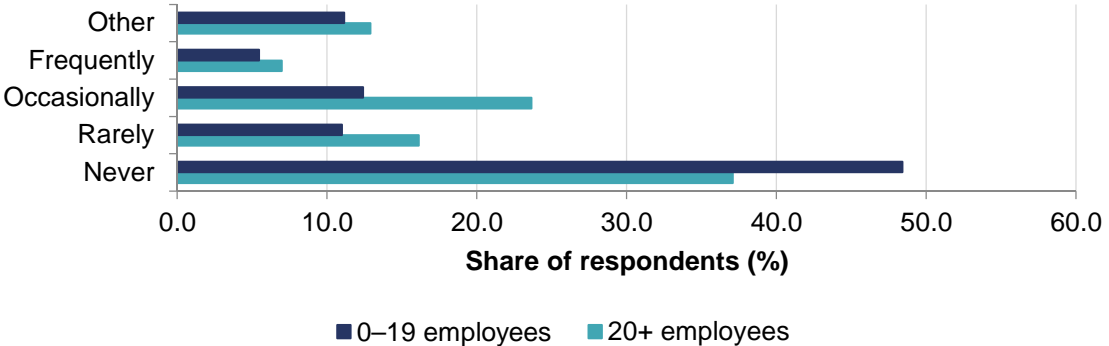
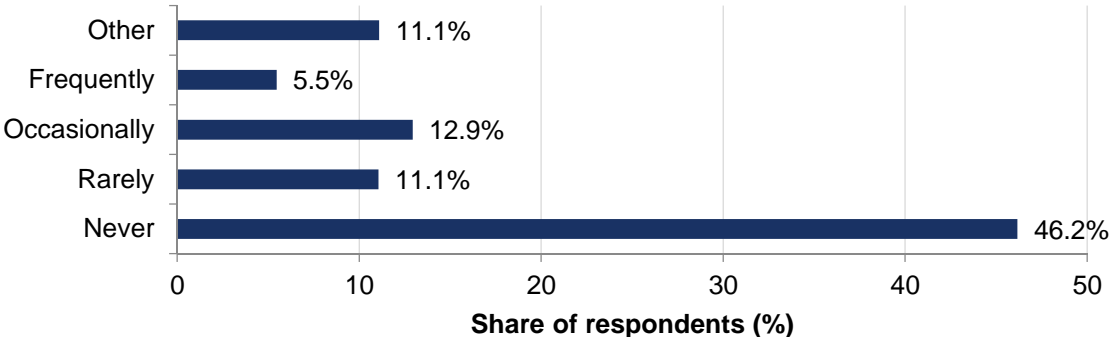
Most businesses do not accept incentives for faster payments

46% of respondents never accept incentives for faster payments. But this differs according to business size:

§ 37 per cent of larger businesses with 20+ employees.

§ 48 per cent of smaller businesses with 0–19 employees.

Do you accept incentives for faster payments from larger businesses?



Source: Survey results - Payment Times and Practices Survey 2016-17. n = 2,414

Appendix

A: Demographics

B: Survey questions



Demographics: Payment Times and Practices Survey 2016–17

A total of 2,783 businesses responded to the survey. A breakdown of demographics is below.

Location where business trades:

ACT: 121 TAS: 76
 NSW: 821 Vic: 655
 NT: 52 WA: 370
 QLD: 522 Australia-wide: 392
 SA: 249 Internationally: 213

Age of the business

Less than 1 year: 61
 1 year to 5 years: 536
 6 years to 10 years: 513
 Greater than 10 years: 1,546

Industry

Accommodation, Cafés & Restaurants and Hospitality: 48
 Agriculture, Forestry and Fisheries: 64
 Communications and Technology: 219
 Construction: 510
 Education: 64
 Health and Community Services: 99
 Manufacturing: 193
 Mining: 51
 Personal and Other Services: 110
 Property and Business Services: 275
 Retail Trade: 151
 Transport and Storage: 91
 Utilities and Water: 19
 Wholesale Trade: 109
 Other: 655

Size, number of employees:

No employees: 481
 1–5 employees: 1,337
 5–19 employees: 656
 20–99 employees: 162
 100 or more employees: 24

Customers of the business:

Retail/consumers: 554
 Government/public entities: 221
 Other businesses: 1,559

Size, turnover:

Less than \$100,000: 474
 \$100,000–\$200,000: 356
 \$200,001–\$500,000: 534
 \$500,001–\$1,000,000: 404
 \$1,000,001–\$2,000,000: 360
 \$2,000,001–\$5,000,000: 252
 \$5,000,001–\$10,000,000: 96
 \$10,000,001–\$20,000,000: 39
 Over \$20,000,000: 35
 Prefer not to answer: 106

Location of customers are typically:

Capital cities and urban: 1,860
 Regional: 1,128
 Rural and remote areas: 516
 International: 205

Self-identified business type:

A disability supported business: <15
 A woman owned enterprise: 380
 An ex-service/veteran owned business: 27
 An Indigenous/Torres Strait owned business: <15
 Other: 534
 Not applicable: 1,627

Source: Survey results - Payment Times and Practices Survey 2016-17.



Survey Questions: Payment Times and Practices Survey 2016–17

Survey responses were collected from 12 December 2016 to 28 February 2017. Themes were assigned post-survey collection.

Part 1: How long are payment times?

- Q1: What is the standard payment time you require for the majority of your sales/invoices?
 Q2: When does your standard payment time commence for the majority of your sales/invoices?
 Q3: What factors did you consider when setting your standard payment times and other conditions? (Select as many as apply)
 Q4: In the last financial year, what proportion of your invoices were paid late?
 Q5: In the last financial year, what was the average payment delay past your terms (in days)?
 Q6: In the last financial year, what was the trend in late payments for your business?

Part 2: Value of late and non payments

- Q9: As of today, what is the total amount of late payments owing to your business?
 Q11: In the last financial year, what is the total amount of unpaid invoices/bad debts that you have written-off due to non-payment?
 Q7: In an average week, how many hours does your business spend chasing late payments?
 Q8: What priority do you place on chasing late payments for your business? Please rank the following tasks according to priority. Ranking 1 = highest priority and 5 = lowest priority.

Part 3: Who are making late payments?

- Q10: From your business experience, what types of customer/organisations are most likely to make late payments?

Part 4: Impact of late payments on businesses and individuals

- Q12: What are the effects of late payments on your business? (Select as many as apply)
 Q13: What are the flow-on effects that late payments to your business have on your personal/family situation? (Select as many as apply)

Part 5: How do businesses deal with late payments?

- Q14: What steps does your business take to reduce/counter late payments? (Select as many as apply)
 Q15: Does your business impose penalties for late payments (e.g. adding interest/late fees to unpaid invoices)? How often do you use this approach and why? - Open-Ended Response
 Q16: What training/resources have you used to improve your ability to manage late payments?

Part 6: Engagement with larger businesses

- Q17: When your business is supplying to a large corporation, can you influence/negotiate the payment times and conditions they set for buying your goods and services?
 Q18: When your business is supplying to a large corporation, are their payment times and conditions a factor in deciding whether to do business with them?
 Q19: When your business is supplying to a large corporation, do you accept any incentive for faster payment (i.e. a percentage discount for early/on-time payment)?

Not covered in this analysis

- Q20: Do you have any suggestions on how to improve payment times for small business? - Open-Ended Response

Source: Survey results - Payment Times and Practices Survey 2016-17.