

28 February 2020

Australian Small Business and Family Enterprise Ombudsman

By Email: inquiries@asbfeo.gov.au

Dear Sir / Madam,

As an Australian-owned and developed software company dedicated to helping other Australian businesses solve the pain of late payments, ezyCollect is pleased to present its submission for the consultation on the Supply Chain Finance Review by the Australian Small Business and Family Enterprise Ombudsman.

Cashflow is the number 1 reason businesses go out of business. It's costly to manage payments, and it's very costly to finance cashflow issues. As a company born out of solving our own payments and financing issues, ezyCollect combines the collective wisdom of a Chartered Accountant, a business owner and an entrepreneur who designed a platform to automate the payment collections process to help SMEs systemise it and get paid faster.

Since 2015, ezyCollect has helped more than 1,000 companies get paid faster. Our customers on average experience a 16% improvement on customer collections within 6 months. This can often translate to a **11**-day improvement on days to pay.

Today, the platform manages more than A\$1 billion accounts receivables under payment, 1,000+ paying businesses and 480,000 debtors. The recommendations contained within this submission reflect our data-driven insights based on experiences from our customers, and observations from managing debtors and accounts receivables.

Through the founders' direct experience accessing Supply Chain Finance as a business trying to manage its cashflow issues during an early, high-growth phase, ezyCollect is supportive of policy initiatives and reforms that ensure transparency and simplicity in SCF offerings. In particular, we encourage reforms that help maximise competition and minimise undue compliance regimes that would make business costly and disadvantage smaller to mid-tier businesses. Our policy recommendations are aimed at lifting the burden on Australian businesses from accessing cost-effective financing solutions and reducing cashflow challenges through innovative technology.

We look forward to participating in any future discussion about the themes set out in this submission as part of the ASBFEO's Supply Chain Finance Review. If you have any questions about specific points made in our submission, please do not hesitate to contact me or AJ Singh, co-founder of ezyCollect, on 1300 780 524.

Yours sincerely,



Raj Kuckreja, co-founder, ezyCollect

SUPPLY CHAIN FINANCE REVIEW SUBMISSION PAPER RECOMMENDATIONS

Recommendation 1 – Mandatory supplier codes to enforce payment times should apply to large businesses and must be supported with corresponding complaints authority to ensure SMEs are not disadvantaged

While mandatory supply codes to enforce payment times seem workable in theory, they create a burdensome compliance overhead for resource-poor businesses, and hence create an additional competitive disadvantage for SMEs

The reality of supplier codes for large business is mandating and policing terms of payments can be easily circumvented through both

- Invoice approvals processes by accounts payable; and
- Contractual management requirements.

In other words, determination of approvals happens on the customer side, rather than the supplier – this is especially the case when working with large businesses.

Proof points from ezyCollect's data-driven platform:

- Across all businesses, 61% of all invoices are paid late.
- ASX300 businesses pay 62% of their invoices late, with 19% of those invoices paid outside 15 days of payment terms.
- Large invoices (over \$25,000) take more than 2.5 to 3 days longer than average to process.

Anecdotal evidence from our customers indicate that some businesses often have informal processes that mandate payment of invoices once 2 reminders are sent from the supplier. Further anecdotal commentary indicates invoices to large businesses are not approved due to non-compliant invoice forms, which is often not communicated to the supplier until payment is late, necessitating human intervention – i.e.: the business owner or accountant calls the customer's accounts payable department to identify what is holding up the payment. This is especially prevalent when larger businesses have accounts payable teams that are located offshore – and are difficult to contact.

Multiplying this effort across thousands of businesses and hundreds of thousands of invoices per month creates costly overheads in time, effort and human resources.

If mandatory payment times are created, they must be complemented with a complaints process and authority governing larger businesses (over \$100 million turnover) to ensure-unfair contractual terms relating to invoicing and related approval processes are subject to review by a complaints authority and once verified shared on a public register.

Recommendation 2 – Introduce leaderboards to generate competitive forces that drive behavioural change

Recommendation a): Replace self-reporting business scoreboards on payments with leaderboards that promote a level playing field and facilitate better data-driven decisions for businesses.

Technology can provide insights on the length of time businesses take to pay invoices. We recommend data-driven leaderboards, sourced from suppliers such as Xero, MYOB and ezyCollect (for example), to arm small businesses with information on how large businesses deal with suppliers. This creates a level playing field by putting information into the hands of decision makers when taking on new contracts, as well as public / media attention to the issue.

It is also important to gather information that reflects small businesses' experience of dealing with large businesses, in a way that can be measured. (for example, using a 5-star rating system demonstrated by user-generated apps such as Uber, Menulog, TripAdvisor, etc.

Our recommendation is to focus leaderboards data only on:

- (a) Supplier payments from large business (over \$100 million in turnover) (mandating information on smaller businesses could put them at a further disadvantage); and
- (b) Allowing small businesses to supply ratings of large businesses – which can be automatically generated– to provide indication how these businesses experience supplying larger businesses.

This will not only drive behavioural change on the accounts payable side, but also transfers the knowledge (and power) to accounts receivable, where identifying businesses with longer payments cycles can enable longer-term planning.

Recommendation b): Mandate comparison interest rate for all SCF products to ensure businesses can easily compare funding options and be clear on the costs of accepting SCF terms.

SCF as a financing tool does benefit small businesses by offering solutions to access payments faster.

ezyCollect recommends mandatory comparison interest rates, similar to those offered in the home mortgage industry, to encourage effective competition. This provides apples-for-apples comparisons and removes terms and fees to disguise uncompetitive interest rates.

Proof points from ezyCollect's data-driven platform:

- The average payment time for all invoices by the top 300 companies is 41 days.
- Larger invoices are taking 3 days longer to pay on average.

- Our study analysed 764 businesses with \$58 million dollars in overdue invoices that were payable by ASX 300 companies in 2019.
- Assuming there are 150,000 similar businesses, **reducing payment terms by three days unlocks more than \$90 million in value.**

Recommendation 3 – Create transparency and simplicity for SCF solutions to offer businesses choice

Recommendation a): Create transparency and simplicity within SCF contracts

Small businesses are run by time-poor owners with insufficient economic decision-making skills. Hence, SCF contracts need to be short and informative. We recommend one-page contracts, outlining:

- a) Comparison interest rate
- b) Fees
- c) Payment terms
- d) Key terms
- e) Possible Penalties

This will provide greater transparency and simplicity for businesses seeking to finance cashflow and supplier payments.

Recommendation b): The role of the ACCC and Australian Financial Complaints Authority (AFCA) is oversight of contracts to ensure transparency and a level playing field.

ezyCollect sees the role of the ACCC to encourage competition and fairness in payment terms to ensure businesses of all sizes can deal on equal terms. This means regulating the contracts and invoice processes between big and small businesses, creating leaderboards that show how long large businesses are taking to pay their invoices, finding out why there are disparities, and sharing that data widely.

There is also a role to play in providing insight into how big businesses are meeting their commitments, to identify companies routinely failing to settle their invoices on time or intentionally delaying approval processes.

AFCA's role is overseeing SCF contracts to ensure simplicity and transparency of terms, rates and fees.