New national research shows SME average payment times are double what Ombudsman is seeking: smaller businesses hit hardest

The average SME is waiting 56 days to be paid – almost double what Ombudsman Kate Carnell is seeking big business to commit to – and it is smaller businesses who are most impacted.

MARCH 5, 2020 - Independent research conducted by on behalf of national SME funder Scottish Pacific found a huge disparity in how long it takes businesses in the $1-20 million revenue bracket to get money in the door.

More than 1200 SME owners or senior finance staff, across a representative selection of industries and all states, were surveyed by market analysts East & Partners*.

Their range of payment times (debtor days) varied from 7 days to an extremely challenging 134 days.

Scottish Pacific CEO Peter Langham said while the overall SME average is 56 days the strain is more marked at the smaller end of the sector, with businesses of $1-10 million revenue waiting on average 66 debtor days.

Their larger $10-20 million revenue counterparts have a more manageable 40 day wait.

"Money that could be used to expand revenue and invest in growth is being tied up for too long, as SMEs struggle to be paid within a reasonable timeframe," Mr Langham said.

"This is a significant burden to bear and reinforces the importance of reducing payment times, in particular for SMEs struggling to source new funding or to refinance their existing borrowings.

"There is a great disparity and we see as businesses become larger they get paid more quickly.

Average SME has a third of revenue tied up in outstanding invoices

On average, the Scottish Pacific research found that SMEs have almost a third of their revenue (29%) tied up in outstanding invoices, with 16% of revenue locked into overdue invoices (outstanding beyond 90 days).

This was consistent for SMEs in the $1-10 million and $10-20 million revenue ranges.

Given East & Partners calculates the average turnover of survey respondents at $9.8 million, they estimate each SME in the cohort is trying to deal with, on average, $2.82 million in outstanding accounts receivable.

It equates to the Australian SME sector (with $1-20m revenue) having up to $A776 billion annually in outstanding total invoices and prompts the question – how much of this multi-billion dollar outstanding income has to be funded outside an SME's normal working capital?

"Each SME has to manage while having, on average, $1.55 million in invoices that are not just outstanding but overdue (defined as beyond the 90-day mark)," Mr Langham said.

"At the extreme, some small businesses are waiting up to four months to be paid and almost one in 10 SMEs can't state their average debtor days, with some struggling to calculate the figure because invoice payments are too variable to reliably report," he said.

"This payment lag is one of the reasons some of our clients use Scottish Pacific to assist in their sales ledger management, to reduce the number of days invoices remain outstanding."

Mr Langham said the findings highlight the importance of businesses finding the right funding to unlock working capital, and this was the reason Scottish Pacific partnered with the Australian Small Business and Family Enterprise Ombudsman to create a free downloadable Business Funding Guide for business owners and their advisors.

Ombudsman Kate Carnell has said it is imperative small businesses are paid on time, and all businesses of any size should be paid within 30 days. This year, major businesses including Telstra and Rio Tinto have committed to shorter (20 day) payment times.

Few SMEs offer early payment discounts

Despite the burden slow payment times is creating for the sector, only one in five small businesses offers discounted payment terms, with the discount ranging from 5 to 15%.

In Scottish Pacific's H2 2019 SME Growth Index, SMEs were already flagging that it was becoming increasingly hard to meet tax payments on time and many were unable to take on new work due to cash flow constrictions (only one in 10 SMEs felt they were on top of cash flow).

"Given these existing indications, along with the payment times and accounts receivable data in our latest research, it really highlights that poor cash flow will remain a pressing challenge for SMEs throughout 2020," Mr Langham said.

"Poor cash flow is costing businesses time and resources to settle invoices that for some enterprises stretch out over an entire financial quarter, when it would be of more benefit for the SME sector, and the economy in general, if they could use these resources to expand revenue and invest in growth."

Scottish Pacific's H1 2020 SME Growth Index research will be released later this month. Sign up to receive a free copy of the research at https://www.scottishpacific.com/news/research.

*NB – the research is conducted independently by East & Partners and polls a representative sample of Australian SMEs with $1-20m revenue, who use all types of methods to fund their businesses (ie it is not Scottish Pacific's client database that is polled).
Scottish Pacific is Australasia's largest specialist working capital provider, helping thousands of business owners with the working capital they need to succeed. Scottish Pacific lends to small, medium and large businesses from start-ups to SMEs with revenues of more than $1 billion.
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