Supply chain finance initiatives may have unintended consequences

Australia's largest non-bank SME lender has warned that small businesses might face unintended consequences from the efforts to shut unfair supply chain finance programs.

After recent media attention and pressure from the office of the Australian Small Business and Family Enterprise Ombudsman, some of Australia's largest companies are moving away from their early payment supply chain finance programs.

Scottish Pacific senior executive Wayne Smith said the Ombudsman was rightly trying to ensure SMEs are not put at a disadvantage by big business.

"We applaud the efforts of ASBFEO to protect the interests of small business owners, and to encourage large corporations to end programs that stretch out payment times for SMEs in order for them to secure early payment discounts.

"The catch-22 in shutting down these programs is that, while in the long-term this may help the SME sector, in the short term essentially SMEs have had a funding option taken away from them.

Many SMEs have become dependent on early payment programs

"Many small business suppliers have developed a dependency on the operating rhythm provided by these programs and in the absence of a comprehensive phase-out period their businesses are now potentially being forced into a less certain cash cycle."

SME Growth Index research shows twice as many SMEs are reporting significantly worse cash flow as the previous year, and more than a quarter of small businesses say their cash flow problems make it difficult to meet their tax payments on time.

"Cash flow is already a huge issue for Australia's SME sector, so small businesses coming off these early payment schemes will need to find new ways to ensure they have adequate cash flow," he said.

Mr Smith said debtor finance is one funding option that can help those businesses coming off cancelled early payment programs because it is a style of funding that helps with cash flow management.

Debtor finance allows businesses to unlock the working capital tied up in outstanding sales invoices across all their customers. With debtor finance the facility is 'always on' as opposed to supply chain finance and early payment programs which may only provide funding during 'discount windows'.

He said early payment programs should operate to help SMEs, not to squeeze them into taking a pay cut in exchange for prompt payment. Done correctly, they provide an effective way for SMEs to access low cost funding without providing property security.

"These programs should be designed to be a 'win-win' for buyers and suppliers, not as a means to push out supplier payment terms from existing supplier arrangements," Mr Smith said.

"The danger is when larger corporations are able to use these programs to their benefit to extend payment terms, with a negative impact on 'the little guy'. That essentially puts a gun to their head to choose between cash flow at a discount or extended periods without cash flow."

Mr Smith said SMEs and their advisors should update themselves on the full range of funding options available to small businesses – a great first port of call is the Business Funding Guide and FitsME Guide created by ASBFEO and Scottish Pacific.

Scottish Pacific is Australia and New Zealand's largest non-bank SME lender, helping thousands of business owners with the working capital they need to succeed. ScotPac lends to small, medium and large businesses from start-ups to enterprises with revenues of more than $1 billion.
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