



***Survey of Economic Impact of Late Payment
Findings from the pilot survey***

Research undertaken by:
The South Australian Centre for Economic Studies
University of Adelaide

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If you would like to discuss future research topics or ideas you can contact the Chair of the Independent Research Fund Mr Darryl Gobbett at darrylgobbett@adelaide.on.net

Executive Summary

A positive cash flow is the lifeblood of all businesses, particularly small and medium-sized enterprises (SMEs). As such, late payment of invoices has a major impact on the viability of a business, affecting profitability, borrowings and employment.

A new analysis by the South Australian Centre for Economic Studies (SACES), based at the University of Adelaide, has found that many SMEs are incurring additional costs of debt-collecting simply to recover the money they are owed. The costs of internal recovery action or the engaging of external debt collectors ranged as high as 20 per cent of the outstanding invoice.

A SACES survey, undertaken in April 2020, found that 40 per cent of large businesses, those with the greatest capacity to pay, were the most recalcitrant in terms of meeting agreed payment deadlines.

Ironically, or perhaps because they most appreciate the need for prompt payment, SMEs, sole traders and not-for-profit businesses were amongst the timeliest payers of outstanding invoices, with more than a third of these respondents paying earlier than required.

Almost half of respondents (47 per cent) reported that late payments by private sector businesses typically were at least one month late. With regard to public sector customers, one fifth of respondents (20 per cent) reported payments typically delayed by one or more months.

SACES conducted a limited survey to gain an initial insight into the late payment experiences of 86 companies within the memberships of the Construction Industry Training Board and the Civil Contractors Federation of South Australia.

The pilot study identified key issues and contributing factors to late payments that will help craft a more comprehensive survey by SACES later this year which will have a broader industry focus and a larger group of potential respondents. The timeline for the subsequent study should also yield information on the impact of the COVID-19 virus on invoice payment behaviour in recent months.

The initial survey, the results of which follow, was funded by the Independent Research Fund, an arm of SACES comprising business and public sector representatives which focuses on improving public policy outcomes.

Introduction

Small and Medium Sized Enterprises (SME) play an important role in the South Australian economy and employment. Businesses employing less than 20 people account for some 43.5% of SA employment, about the national average¹ but likely a relatively higher share than nationally of private sector employment. The commercial and financial health of SMEs is therefore of particular importance to the growth and development of the SA economy.

Nationally and internationally there is substantial research into the issues of SME access to finance and its costs. The Reserve Bank of Australia meets annually with the Small Business Finance Advisory Panel, convenes a Small Business Finance Roundtable and does *ad hoc* research in this area. There are regular surveys by private sector groups including Xero, Sensis and the Australian Institute of Company Directors. Their general findings are that SMEs, compared with big businesses, rely much more heavily on internal cash flow and personal and bank finance, with access to the latter becoming more difficult through 2018 and 2019, while interest rates paid by SMEs remain higher than those paid by big business.

Reportedly compounding these impacts is that some large businesses impose onerous payment terms for goods and services provided by SMEs. In its March 2019 *Review of payment terms, times and practices*, the Australian Small Business and Family Enterprise Ombudsman reported large businesses were the slowest to pay invoices while SMEs were the fastest.² The Review also noted a study reporting SMEs had foregone 17% of their revenue in 2017/18 due to late payment; grossed up to the nation, this would amount to \$234.6 billion.³

SACES, with support from the Independent Research Foundation (IRF), undertook a pilot survey of South Australian SMEs on payment terms, times and practices. This coincided with the outbreak of the COVID 19 virus. On 4 April 2020, the Construction Industry Training Board (CITB) and Civil Contractors Federation in South Australia (CCFSA) invited 1,514 sole traders affiliated to CITB and 573 member organisations of CCFSA to participate in a brief online survey about their experience of late payment. The survey had been designed by SACES in collaboration with CITB and CCFSA.⁴

The invitation was issued via email, which included a link to the survey. CITB sent reminder emails on 9 April; CCFSA issued reminders to its members on 15 April. The survey was closed on 1 May. At that point, the survey had received 86 responses, giving a response rate of 4.3%, only slightly below that typical for this sector.⁵

Respondents to the survey reported that over the past twelve months:

- the majority (60+%) typically received payment for goods and services supplied within the period determined by the Account terms;
- Not for Profit businesses, sole traders and SMEs were most likely to meet Account terms (reported by 87%, 79% and 66% of respondents, respectively);
- big businesses (200+ employees) were most likely to pay later than stipulated (40% of respondents reporting typically late payment by these businesses); and
- the Federal, and SA State and Local Governments were typically paying on time (reported by 81%, 77% and 77% of respondents, respectively).

Respondents were not all SMEs but around three quarters were sole traders (41%) or had up to 20 employees (35%). Only six had more than 100 employees.

The survey responses were analysed by SACES with financial support from the IRF. No individual responses were shared with either CITB or CCFSa. Conversely, SACES did not have any information about the sole traders and organisations, including names and contact details that CITB or CCFSa invited to take part in this study. This strict separation of data and data handling ensured that participation in the survey was anonymous. Participation was, of course, also voluntary.

Brief description of businesses responding to the survey

Two in five businesses participating in this survey were sole traders, reflecting to an extent CITB's focus on this group of affiliates (see Appendix A, Table A.1). Another third had up to 20 employees in the business. Almost two thirds (62 per cent) of the businesses were in the construction industry; whilst one in eight was in the service sector (Rental, Hiring and Real Estate Services; Professional, Scientific and Technical Services; Other Services) (Table A.2).

With such a large proportion of businesses operating as sole traders, most businesses reported an annual turnover of below \$500,000 (40 per cent), whilst one in six (16.3%) had a turnover of \$10 million or more (Table A.3).

About similar proportions of these businesses had either seen no or negative change in their turnover over the last three years (34.2%, excluding non-responses) or experienced an increase of 5% or more (36.8%). (Table A.4)

Account terms and experience of late payment

Businesses were asked about their On Account terms for private and public sector clients. For those businesses trading with the specific categories of clients, at last half expected payment within 30 days of providing goods or services, rising to four fifths when dealing with sole traders and not for profit organisations. Larger business and government entities were typically granted more time to settle accounts (Table 2.1).

Table 2.1 Typical On Account terms for private and public sector clients (row %)

| Client type | 30 days or less | 31 to 60 days | Over 60 days | Don't know/ don't want to say | N |
|--|-----------------|---------------|--------------|----------------------------------|----|
| Large Businesses (201+ emp.), for profit | 57.4 | 32.4 | 5.9 | 4.4 | 68 |
| SMEs (1-200 employees), for profit | 71.4 | 23.8 | 1.6 | 3.2 | 63 |
| Sole Traders, for profit | 85.9 | 11.5 | 1.3 | 1.3 | 78 |
| Not for Profit Businesses | 78.8 | 11.5 | 0.0 | 9.6 | 52 |
| Commonwealth Government | 64.4 | 28.9 | 2.2 | 4.4 | 45 |
| South Australian State Government | 70.0 | 24.0 | 2.0 | 4.0 | 50 |
| South Australian Local Government | 62.3 | 28.3 | 1.9 | 7.5 | 53 |

Base: Businesses self-identifying as dealing with client type. N = number of respondents.
Source: SACES Survey of Late Payment.

The majority of clients adhered to these terms. In fact, one in ten survey respondents reported to be paying earlier than stipulated by their On Account terms. That said, around one third of businesses in the survey found that larger businesses and SMEs were typically paying late (Table 2.2). Up to one fifth also reported sole traders and government entities to be paying late. This experience of late payments being broadly related to business size is largely consistent with what is reported in national surveys.

Table 2.2 Actual payment behaviours in the last 12 months* (row %)

| Client type | Broadly on these terms | Earlier than stipulated by the On Account terms | Later than stipulated by the On Account terms | Don't know/ don't want to say | N |
|---|------------------------|---|---|-------------------------------|----|
| Larger Businesses (201+ emp.), for profit | 54.8 | 3.2 | 40.3 | 1.6 | 62 |
| SMEs (1-200 employees), for profit | 53.7 | 11.9 | 31.3 | 3.0 | 67 |
| Sole Traders, for profit | 64.0 | 14.7 | 20.0 | 1.3 | 75 |
| Not for Profit Businesses | 75.6 | 11.1 | 11.1 | 2.2 | 45 |
| Commonwealth Government | 72.2 | 8.3 | 16.7 | 2.8 | 36 |
| South Australian State Government | 64.6 | 12.5 | 20.8 | 2.1 | 48 |
| South Australian Local Government | 64.7 | 11.8 | 17.6 | 5.9 | 51 |

Note: *prior to recent events surrounding the corona virus. Base: Businesses self-identifying as dealing with client type. N = number of respondents
Source: SACES Survey of Late Payment

The number of businesses in the survey reporting late payments was too small to allow a detailed breakdown of the length of the delay in payment by client type. Instead, Table 2.3 aggregates the statistics for private and public sector clients respectively. These show that private sector clients tended to settle accounts later than public sector clients. Note however that case numbers remain small and that these statistics must therefore be treated with some caution.

Table 2.3 Typical Period of Late Payment (column %)

| | Private Sector Clients | Public Sector Clients |
|----------------------|------------------------|-----------------------|
| A few days | 0.0 | 16.0 |
| A week | 6.1 | 16.0 |
| Two to four weeks | 37.9 | 48.0 |
| One to two months | 24.2 | 16.0 |
| More than two months | 22.7 | 4.0 |
| Don't know | 1.5 | 0.0 |
| Does not apply | 7.6 | 0.0 |
| N | 66 | 25 |

Base: Businesses reporting late payment by a private or public sector client. N = number of respondents.
Source: SACES Survey of Late Payment

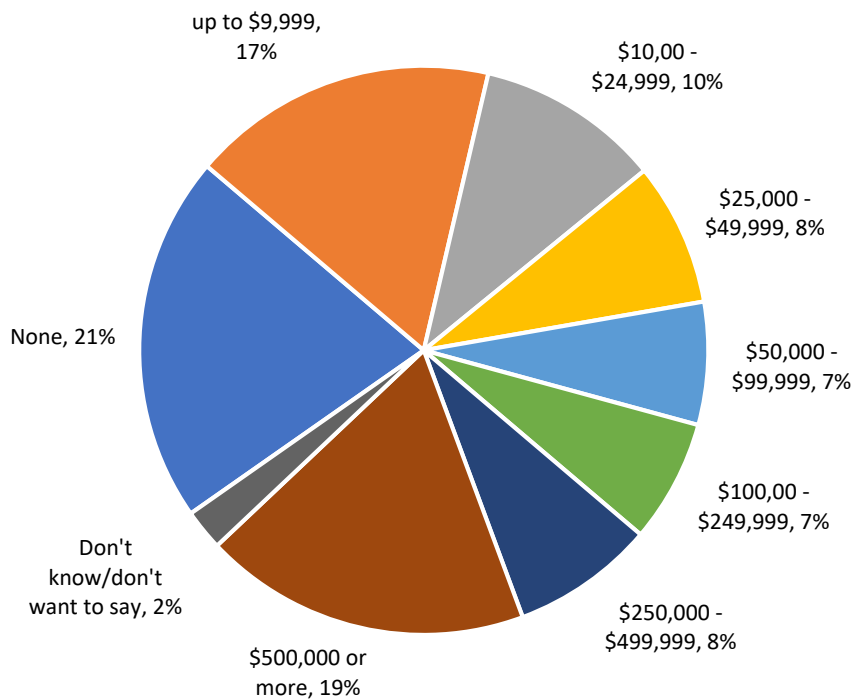
For about two thirds of businesses affected by late payments, the cost of collecting late payments *in-house* was up to 10% of the amount outstanding (Table 2.4). About half the businesses hired a debt collector for this task. The actual total value of currently outstanding invoices varied considerably, reflecting the varying size of the businesses in this sample. For about a quarter of businesses, the amount reached or exceeded a quarter of a million dollars (Figure 2.1). Only one fifth reported no outstanding invoices.

Table 2.4 Cost of late payment collection, by method of collecting overdue invoices, last 12 months, as % of amount owed (column %)

| Cost of collection, % of invoice | In-house collection | Engaging debt collector | Factoring |
|----------------------------------|---------------------|-------------------------|-----------|
| 1% - 5% | 29.7 | 18.9 | 21.6 |
| 6% - 10% | 32.4 | 10.8 | 16.2 |
| 11% - 20% | 10.8 | 8.1 | 8.1 |
| 21% or more | 2.7 | 8.1 | 5.4 |
| Does not apply/do not use | 18.9 | 51.4 | 48.6 |
| Don't know/don't want to say | 5.4 | 2.7 | 0.0 |
| N | 37 | 37 | 37 |

Base: Businesses reporting late payment by a private or public sector client. N = number of respondents.
Source: SACES Survey of Late Payment.

Figure 2.1 Estimated value of invoices currently outstanding



Base: All participating businesses.
Source: SACES Survey of Late Payment.

Qualitative feedback

Survey participants were invited to add any further comments they might have had on the topic of late payments. These are reproduced below. To protect the anonymity of respondents no identifying detail is provided.

“Continual pressure in the construction industry to produce more in shorter periods of time is a financial, physical and mental pressure. Most times pressure from above trickles down to the workers on site with no thought from head management as to how it's affecting tradies. Most delays are caused by customers, head contractors, government agencies, etc. and tradies are expected to work harder and longer to make up for time lost, with no extra money. This puts financial burden on small business to get the job done. Then we get delays with payment. No wonder so many businesses are closing!”

“I also have significant investments in material that has been ordered and delivered to site for a large job, and is not able to be utilised, as the client has proactively ceased operations countrywide. I am about to have to pay for these materials at or before the end of April which will be a further financial drain. There is no indication when the client will resume operations at this stage.”

“In previous years we suffered a lot more when contracting to a different company who had a very poor payment system. However since adjusting our business finances the financial strain has eased greatly.”

“Other Locksmiths are having similar problems with private businesses. I do a lot of work for one Government department and slow payment is usually caused by public servants who do not process the paper work, normally they pay in 10 days.”

“Over the last 2-3 years, we have noticed a significant change in the way our clients and engineers / project superintendents are administering contracts, with an increased focus on enforcing certain terms, conditions and technical specifications that are set out in the contract. This more ‘aggressive’ approach to contract administration has impacted our business in both good and bad ways, but certainly one of the most positive outcomes is that we are generally being paid closer to due dates than we have been previously.”

“The longer the payment terms, the more money that is held in ‘suspense’. It’s basically used as a form of free credit by larger businesses to the detriment of small business. If you have 90-day terms and ongoing business with a client, they are essentially always owing you 3 months of work constantly, despite you having to pay the wholesaler at the end of every month regardless plus weekly labour costs. Small business has zero say in this process, either accept the payment terms or find work elsewhere. Long payment terms can cause cash flow crisis for many small businesses, because a big project can decimate funds in parts and labour costs, and the customer still expects to pay 2-3 months later. Also, the longer the payment terms, the more likely a small business owner can lose out by a client going bankrupt and not paying their invoice. It happened to me once for \$5000 which I have never received a cent for despite receivers being appointed, and the process continuing for over 2 years. The joys of being a small business owner - at the mercy of big business, government and the ATO.”

“Try do payments on time”

“Can you re-do this in 60 to 90 days so as to get a more accurate picture.”

Appendix A

Table A.1 Current level of employment (%)

| | Per cent |
|------------------------------|----------|
| Sole Trader | 40.7 |
| Fewer than 5 employees | 12.8 |
| 5 - 10 employees | 14.0 |
| 11 - 20 employees | 8.1 |
| 21 to 50 employees | 9.3 |
| 51 - 100 employees | 5.8 |
| 101 - 200 employees | 3.5 |
| 201 employees or more | 2.3 |
| Don't know/don't want to say | 3.5 |

Note: N=86.
Source: SACES Survey of Late Payment.

Table A.2 Type of industry of business (%)

| | Per cent |
|---|----------|
| Construction | 72.1 |
| Electricity, Gas, Water and Waste Services | 7.0 |
| Other Services | 7.0 |
| Professional, Scientific and Technical Services | 4.7 |
| Mining | 3.5 |
| Manufacturing | 3.5 |
| Agriculture, Forestry and Fishing | 1.2 |
| Rental, Hiring and Real Estate Services | 1.2 |

Note: N=86.
Source: SACES Survey of Late Payment.

Table A.3 Annual turnover (%)

| | Per cent |
|------------------------------|----------|
| up to \$499,999 | 39.5 |
| \$500,000 - \$999,999 | 7.0 |
| \$1,000,000 - \$1,999,999 | 3.5 |
| \$2,000,000 - \$4,999,999 | 9.3 |
| \$5,000,000 - \$9,999,999 | 7.0 |
| \$10,000,000 - \$19,999,999 | 9.3 |
| \$20,000,000 or more | 7.0 |
| Don't know/don't want to say | 17.4 |

Note: N=86.
Source: SACES Survey of Late Payment.

Table A.4 Average annual turnover change in the last three years (%)

| | Per cent (all) | Per cent (excl. don't know/don't want to say) |
|----------------------------------|----------------|--|
| None or negative | 30.2 | 34.2 |
| up to 2.5% | 16.3 | 18.4 |
| more than 2.5%, but less than 5% | 9.3 | 0.5 |
| 5% or more | 32.6 | 36.8 |
| Don't know/don't want to say | 11.6 | -/- |

Note: N=86
Source: SACES Survey of Late Payment

End Notes

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- ¹ Gilfillan, G. (2018) Small business sector contribution to the Australian economy. Parliamentary Library Research Paper Series 2018-2019.
 - ² The Australian Small Business and Family Enterprise Ombudsman (2019) Review of payment terms, times and practices, Commonwealth of Australia, p.20.
 - ³ Ibid., p.6.
 - ⁴ 78 of CITB emailed invitations could not be delivered, leaving a total of 1,436 CITB-affiliated sole traders receiving the invitation.
 - ⁵ SACES would like to thank all participating businesses and business owners for their support.