



How you can improve your cashflow today

OUR client Joel runs a cabinetry business specialising in office fit outs.

Joel works on some fairly sizable and high-end projects for some of the country's most recognisable businesses.

Work is constant, rates are good and Joel runs an efficient business so he should have been breathing easy. But there was one thing holding him back – late payments.

"I would say one in three invoices was paid after the due date," Joel says. "Some were paid well after the due date - like over a month late. It got to the point where we kind of expected it.

"My wife Donna does our bookkeeping and it caused a lot of arguments and stress for us.

"It's a tricky situation because you want to get paid, but you don't want to make too much of a fuss in case you damage the business relationship and do yourself out of more work. And sometimes with really big companies you just get the run around.

"It's hard knowing you have thousands, sometimes tens of thousands, owing to you, but you just can't get paid.

"The additional stress came from the fact that we were having

to buy materials and pay salaries to manufacture and install the fitout – both of which had to be paid by us during the manufacturing process. While we had received a deposit, we had to wait 60 days and sometimes 90 days to get paid. With multiple jobs being delivered, this placed a huge demand on our business cash flow along with the working capital requirements mounting up as our business grew larger."

Late payments killing Aussie business

Joel's story is not uncommon. According to a study¹ conducted in 2019 by software company Xero, Australian small and medium businesses (SMB) are losing access to over \$115 billion a year in unpaid invoices.

Another report, The Late Payments Study², commissioned by PayPal and Intuit Australia, found similar results, with the average amount owed to each small business at any one time being \$13,200.

The true cost of these unpaid invoices is hard to quantify, but it clearly has a detrimental impact on businesses' ability to operate and pay contractors, staff and suppliers. This was supported in the Xero report that found a link between long payment times and slower growth for small businesses.

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Taking a toll on business owners

Another largely unspoken effect late payments have on SMBs is the emotional toll it takes on SMB owners. Xero and PayPal teamed up in the UK to conduct a study³ into these effects and found that more than 40% of SMB owners say late payments have affected their mental health, 43% say they've lost sleep worrying about cash flow, 45% feel they've failed when cash flow is negative and 37% have considered giving up because of cash flow issues.

So we get it. Late payments are bad. But doing something about it isn't easy or simple as Joel discovered.

"We got professional help and learned that we had to go back to the start and establish practices to get the situation under control," Joel says. "We looked at our contracts, our deposit system, our invoicing, reminders and follow ups – it was a pretty involved process."

Download the cost effective solution that Joel and Donna implemented to release the working capital tied up in their business.

If you want immediate release of this tied up capital then you could look at invoice funding.

Invoice funding is a type of business loan that is secured by outstanding invoices. There are no interest payments or asset requirements and the available finance is limited to the combined total of the outstanding invoices.

Invoice funding includes invoice factoring (the finance company has your full invoice ledger and collects debts as they're due) or invoice discounting (where you select specific invoices to send to the finance company).

If you choose invoice discounting, you receive a certain percentage of the invoice, usually 80-90%, within 24 hours. The balance of the invoice, minus the invoice company's fee, is transferred to you when the customer pays.

Invoice factoring is usually settled monthly and the terms vary between the different types available.

The cost of invoice funding can vary significantly having regard to your industry and the nature of your business. As a guide, funding companies can charge between 2-5% of the invoice amount plus fixed transaction charges.

Sources:

1. *Paying the Price: the economic impact of Australian big businesses paying small businesses late*, Xero, 2019.
2. *The Late Payments Study*, PayPal and Intuit Australia, 2016
3. *The State of Late Payments 2019*, Xero and PayPal

Contact us to find what you can do to be paid on time.

