



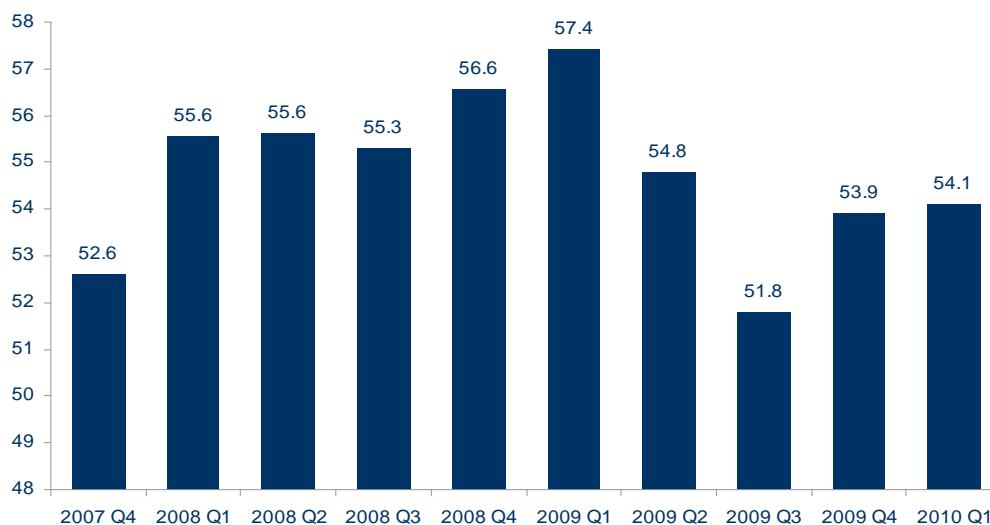
Tuesday 27 April, 2010

## Business payment behaviours could de-rail recovery

*Terms deteriorate despite improving economic conditions*

The payment behaviours of Australian firms could de-rail the economic recovery, with terms deteriorating for the third consecutive quarter despite improving business conditions. These are the findings of the latest business-to-business trade payments figures released today by credit reporting agency Dun & Bradstreet.

The findings – which examine the more than nine million current accounts receivable records contained on the Dun & Bradstreet database – reveal that payment terms in the March 2010 quarter rose to 54.1 days. Although this is an improvement of around three days from the height of the Global Financial Crisis, payment terms remain more than two weeks above the standard 30 day term. In addition, the latest results come at a time when 27 percent of firms continue to face difficulties accessing credit<sup>1</sup>. This inability to access funds to cover shortfalls makes a strong cash flow even more critical to survival and growth.



**Average payment days**

According to Christine Christian, Dun & Bradstreet's CEO, 2010 looks set to be a relatively promising year for Australian firms however; we run the risk of de-railing the nation's recovery if firms don't take action to collect their debts promptly.

"The outlook for Australia in 2010 is solid, particularly compared to other developed nations," said Ms Christian.

"However if we are to continue on a path to strong economic growth, executives need to maintain a vigilant focus on the business fundamentals of cash flow and credit risk which were deemed critical to survival during the crisis.

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<sup>1</sup> Dun & Bradstreet Business Expectations Survey – April 2010.



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"Cash flow and liquidity are vitally important during a period of economic recovery as firms require funds to take on new staff, increase their inventories and invest in their business to meet growing demand. In an environment where access to credit remains difficult for many firms, cash flow becomes even more critical.

"To meet this challenge and ensure the recovery continues to gain strength, Australian executives need to take prompt action to collect their bills and improve their cash position. If they take their eye off the ball and allow their vigilant focus to waver, the economic recovery will falter."

### **Business size**

All but one group (those with 1-5 employees) experienced a deterioration in payment terms compared to the previous quarter. The most significant increase in terms (2.1 days) came from firms with 500+ employees. This group was also the slowest to pay in the March quarter at 58.9 days, a figure which is more than three days slower than any other group. This marks the group's 14<sup>th</sup> consecutive quarter as the slowest paying group.

Firms with 200-499 employees were the second slowest to pay at 55.3 days, an increase of 1.2 days since the December quarter 2009. Meanwhile, firms with 50-199 employees were the quickest to pay, averaging 50.3 days to settle their accounts in the March quarter 2010. Those with 6-19 employees were the second quickest at 51.6 days.

### **Industry**

Five of the thirteen sectors examined: agriculture, forestry, fishing, mining and construction – improved terms compared to the previous quarter, with the fishing sector accounting for the most significant improvement (down 1.8 days).

The electric, gas and sanitary services sector was the slowest to pay in the March quarter 2010, a position it has held for more than 12 months. This group took 58.7 days to settle its accounts, up slightly on the previous quarter. Conversely, the agriculture and finance sectors were the quickest to pay, both averaging 50.6 days to settle accounts. This followed an improvement of close to one day for the agriculture sector and a deterioration for the finance industry.

Examining the data compared to the same time last year reveals that payment terms deteriorated for firms in the agriculture, forestry, public administration and fishing sectors. The biggest increase in terms (2.4 days) came from firms in the forestry sector.

### **Public | private**

Public companies are consistently slower payers than their private counterparts however, both groups experienced a deterioration in payment terms in the March quarter. Public companies took 57.3 days to pay their trade accounts (up one day since the December quarter) while private firms took 54.1 days (up 0.2 days). Both groups improved payment terms by three days compared to the March quarter 2009.

### **State**

Firms based in the Australian Capital Territory averaged 56.5 days to settle their



trade accounts in the March quarter, making them the slowest paying group. This followed an increase of 1.7 days (since the December quarter), the most significant rise in terms of any state. Firms in New South Wales and Victoria also experienced a deterioration in payment terms, both rising by around one day. Conversely, Queensland based firms were the quickest to pay at 52.1 days.

### International payment data

Dun & Bradstreet's global payment data reveals that 19 countries within the Asia-Pacific region settled in excess of 20 percent of their accounts at 30+ days past due in the December quarter 2009. For China and Vietnam, these figures represent a significant deterioration from the same period a year earlier. China settled 32.8 percent of accounts at 30+ days past due, an 11.4 percent increase year-on-year. Meanwhile, Vietnam based firms settled 27.9 percent of accounts delinquently, a 5.2 percent increase year-on-year.

Japanese based firms – who have traditionally been among the best payers in the region – are expected to face significant pressures throughout 2010 which could impact their payment record. Japanese corporations are still consolidating and this could flow through to result in payment delays to their suppliers.

While the payment performance of Korean based firms has improved, certain sectors remain weak and are therefore a significant payment risk. The performance of Indian based firms has also improved, yet performance could deteriorate throughout 2010 as price pressures and interest rates increase.

“The payment cycle can be difficult to break,” said Ms Christian.

“If one business holds onto its funds it impacts several other firms and an increasing number of businesses are drawn into the cycle. However, to aid the economic recovery and to get Australia back to the level of business strength that existed prior to the crisis we need to make improving payments a key priority.”

% of payments made at 30+ days past terms
Australia – 29.9
Bangladesh – 22.9
Cambodia – 32.6
China – 32.8
Fiji – 43.7
Hong Kong – 20.6
India – 28.4
Indonesia – 29.9
Malaysia – 40.5
Myanmar – 23.8
Nepal – 24.6
New Zealand – 25.0
Pakistan – 25.2
Papua New Guinea – 24.8
Philippines – 29.8
Singapore – 38.0
Sri Lanka – 22.5
Thailand – 26.0
Vietnam – 27.9

**About Trade Payments Analysis:** D&B's trade payments analysis utilises the accounts receivable records of Australian firms. The D&B database contains more than nine million current trade references, which are analysed and segmented by various demographics. The analysis is not based on survey data.

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