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Monday 24 January, 2011

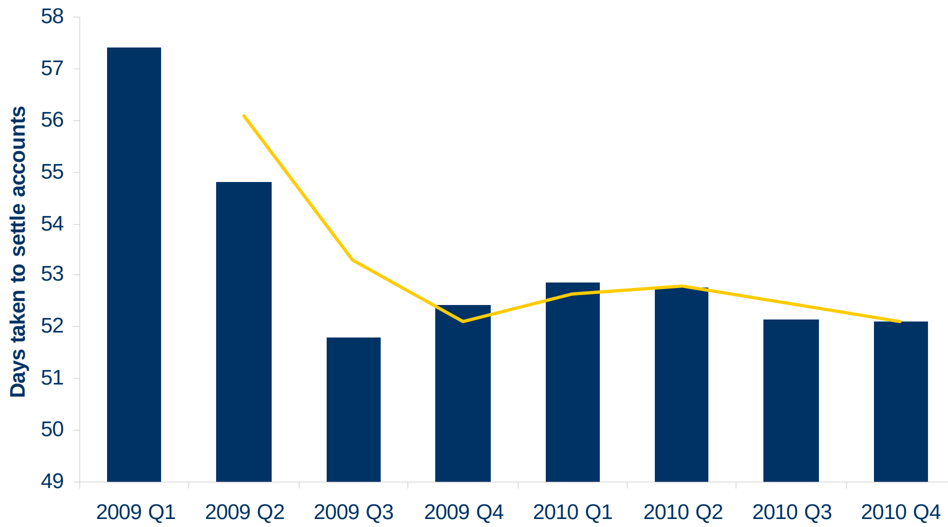
Outstanding accounts on the rise

Cash flow to remain under pressure in 2011

The cash flow of Australian businesses is expected to remain under pressure during 2011, with new research revealing that the number of firms with outstanding debts increased during the December quarter 2010.

The latest business payments research from Dun & Bradstreet reveals that an additional four percent of Australian firms failed to pay their trade credit accounts during the December quarter 2010 compared to the prior year. Alarmingly, the number of entities with severely delinquent accounts (90+ days past due) increased by more than seven percent.

These findings coincide with figures which reveal that the time businesses are taking to pay each other stalled during the December quarter after improvements were made during the March and September quarters of 2010. Australian firms took 52.1 days to settle their trade accounts during the December quarter, a figure which remains more than three weeks above the standard 30 day payment term.



Average payment days Q1 2009-Q4 2010

According to Christine Christian, Dun & Bradstreet's CEO, the latest business-to-business trade payment figures indicate that cash flow will remain under pressure during 2011.

"Dun & Bradstreet's latest research shows that an increasing number of Australian firms are delaying their bill payments," said Ms Christian.

"A four percent increase in the number of entities paying their accounts late has the potential to inflict cash flow difficulties on a large number of firms. This is a worrying trend as it can draw more and more businesses into the late payment cycle, making it increasingly difficult for firms to escape the pressures associated with slow paying customers.

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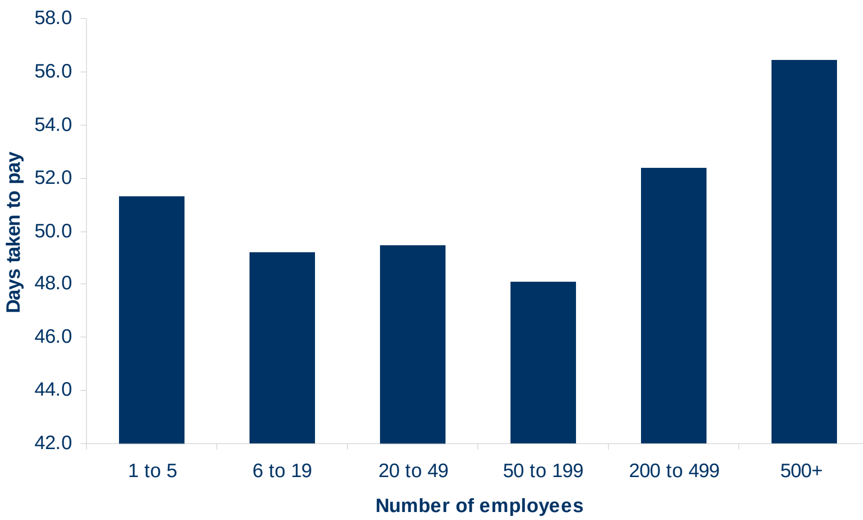
"The rise in severely delinquent accounts is particularly concerning as it means businesses are being denied access to their cash for more than four months. For small businesses in particular, this type of delay in receiving payment for products or services could push a business into severe financial stress."

Business size

The latest figures reveal that bigger businesses continued to be slower payers than smaller firms during the December quarter 2010. Firms with 500+ employees were the slowest, averaging 56.4 days to settle their accounts, while firms with 50-199 employees were the quickest, with payments taking 48.1 days. These figures represent a deterioration in terms for large businesses (500+ employees) and an improvement for those with 50-199 staff.

Businesses with 200-499 employees also allowed their payment times to deteriorate although the deterioration was not as extensive as that experienced by large businesses (500+ employees). This group was also the second slowest to pay, with average payment times of 52.4 days.

All other business sizes (1-5, 6-19 and 20-49) made minor improvements in payment times, with terms recovering by less than one day. Those firms with 6-19 and 20-49 staff settled their accounts in less than 50 days, while micro firms (1-5 employees) took 51.3 days to pay.



Average payment days (by business size) Q4 2010

Industry

Of the fourteen sectors examined, nine experienced a deterioration in payment terms year-on-year while five allowed their payments to slow compared to the September quarter 2010.

The electric, gas and sanitary services sector was the slowest to pay during the December quarter 2010. This group took 60.8 days to settle its accounts following an increase of 2.5 days since the previous quarter and four days since the previous year. This was the most significant deterioration in terms of any sector. The communications sector also experienced a significant increase in terms year-on-year, with payment times rising by 3.3 days.

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Conversely, the services sector was the quickest paying group, taking an average of 50.2 days to settle accounts – this figure is more than ten days quicker than the electric, gas and sanitary services sector. The wholesale trade sector was only slightly slower, with firms averaging 50.7 days to pay their bills. Both of these groups improved their payment times year-on-year however, improvements were marginal at less than one day. Of the sectors that improved their terms the biggest improvers were forestry (quarter-on-quarter) and construction (year-on-year) at just more than one day.

State

West Australian based firms continued to be the quickest to settle their accounts during the December quarter and Australian Capital Territory (ACT) based businesses the slowest. Firms located in the west averaged 50.6 days to settle their accounts, while ACT based businesses took 54.9 days. This followed a deterioration of 0.9 days quarter-on-quarter and 1.7 days year-on-year for ACT based firms and it represented the most significant deterioration in terms of any state-based group.

Queensland, South Australia and Tasmania also allowed their payment times to slow however the level of deterioration was lower than that experienced by the ACT.

Public | private

Public firms are consistently slower to pay their accounts than their private firm counterparts. During the December quarter 2010 public firms took 57.0 days to pay their bills while private firms averaged 52.0 days. These figures represent a deterioration in payment times for public firms and an improvement for private businesses – the deterioration for public firms was relatively substantial at 2.6 days year on year, while the improvement for private firms was marginal at less than one day.

"Payment days are still significantly above the standard 30 day term, which means businesses are being denied access to their funds for more than three weeks longer than they should be," said Ms Christian.

"Australian firms need to recognise the value of their accounts receivable as it is typically the largest liquid asset on an organisation's books – mismanagement of this crucial asset has the potential to bring a business to its knees."

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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