

27 July 2011

## Two-thirds of businesses fail to pay bills

***The number of firms paying bills over three months late jumps 20 percent***

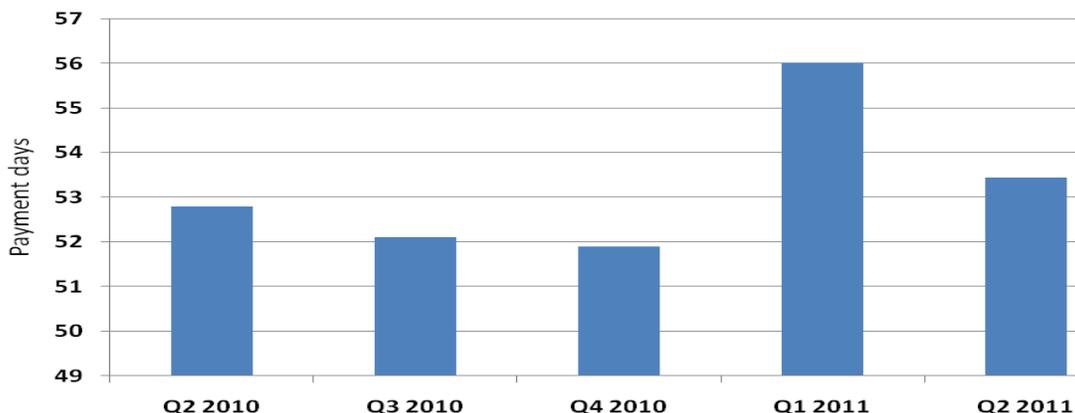
Australian businesses are taking almost a full month longer than average to pay their bills, with national payment terms reaching 53.4 days during the June quarter 2011. While business to business payment times improved marginally during the June quarter, two-thirds of businesses took longer than the standard 30 day period to pay company accounts.

This is according to the latest Dun & Bradstreet *Trade Payment Analysis*, which examines business to business payment terms for the June quarter 2011.

The report found the number of severely delinquent payments, those 90 days or more overdue, jumped almost 20 percent compared with the June quarter 2010 meaning businesses are forced to wait over three months for much needed cash. The number of businesses paying trade accounts between 61 and 90 days late has likewise increased by 36 percent since last year.

Smaller firms have struggled the most over the last 12 months, with payment terms blowing out by an average of two days compared with the June quarter 2010. While larger businesses remain the slowest payers, payment terms for bigger firms have deteriorated at a far slower rate than their smaller counterparts.

Payment terms reduced by almost three days during the June quarter compared with the March quarter but remain at concerning levels compared with 12 months ago, indicating Aussie businesses are again exhibiting signs of financial strain.



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Dun & Bradstreet CEO, Christine Christian says the continuing high rate of delinquency from Australian businesses is concerning given the importance of trade credit to the health of the nation's economy.

"Individual businesses are the unsung bankers of our economy. Business to business lending through the extension of trade credit amounts to billions of dollars a year. The rate at which these micro-loans are being paid back is a key indicator of the health of Australian businesses," said Ms Christian.

## **Public I Private**

The public and private sectors each saw payment terms deteriorate over the last 12 months, to 55.3 and 53.4 respectively. Although both sectors reduced payment terms during the June quarter, the time taken to pay trade accounts remains inflated compared with 2010.

Firms in the public sector maintain their status as the country's slowest payers – taking an average of between an additional three to four days to pay accounts over the last year.

## **Industry**

Transportation, Wholesale and Services firms were the best payers in the June quarter, averaging between 50 and 52 days to pay their bills. This is compared with Electric, Gas and Sanitary services at 56.2 days, Mining at 56.4 days, Communications at 56.5 days and Forestry at 62.6 days.

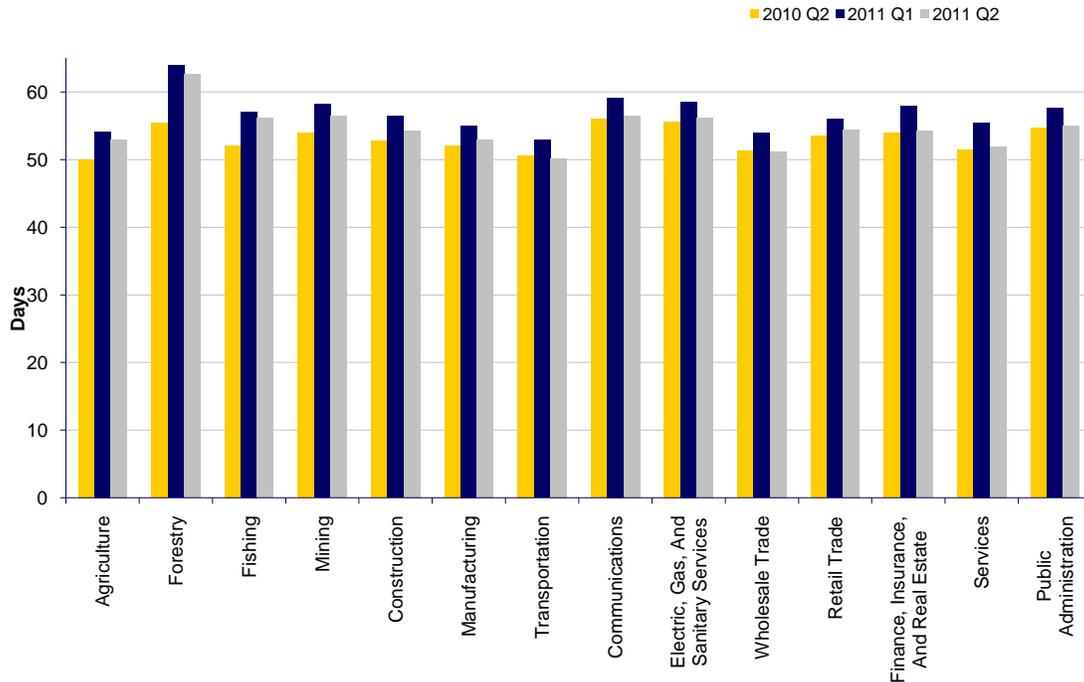
As well as being the slowest to pay trade accounts during the second quarter, the Forestry industry had the worst deterioration in payment terms in the last 12 months – taking on average seven days longer to pay bills than the same period last year. Fishing firms came close to this with payment terms deteriorating by 4 days over the last year and the Mining sector taking 3 days longer to pay bills during the same period.

All of the 14 sectors examined showed some level of improvement in payment terms during the June quarter, although none more so than the Services and Financial, Insurance and Real Estate sectors – shortening terms by 4 days and three days respectively.

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## Area

Victorian and West Australian businesses were the best payers during the June quarter, with Victorians taking 52.1 days and those on the west coast 52.3 days to settle accounts. Similarly, firms in the ACT and NSW improved payment terms the most during the June quarter, reducing terms by four and three days respectively.

Conversely, payment terms in Tasmania deteriorated more than the rest of the country, with the state's firms taking 3 days longer to pay their bills than the same time last year. During the June quarter firms in the Northern Territory took an average of 54.5 days to settle accounts, ACT-based businesses took 54.4 days and those in NSW 54.2 days, making them the nation's slowest payers.

## Size

Larger firms have traditionally been the slowest payers, and during the June quarter payment terms for firms with 500 or more employees continued to sit three days above the national average, at 56.3 days.

Business of all sizes saw payment terms improve by an average of 2.5 days during the June quarter. Firms with 50 to 199 employees were Australia's best payers with an average payment term of 49.2 days, however smaller enterprises are showing increasing signs of distress. Businesses with between one and five employees recorded

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the worst deterioration in payment terms in the past 12 months, becoming the second slowest payers.

These firms have jumped from an average 51.3 day term in the June quarter 2010 to 53.2 days in the June quarter 2011.

Ms Christian says the improvement in payment terms since the March quarter, particularly within key industries such as retail and service-based businesses, can actually indicate financial distress.

“Businesses have a tendency to become lazy with following up overdue accounts during periods of high cash flow, and it is only when the company begins to experience distress as a result that attention begins to be paid.”

“When we see struggling sectors such as services and retail sectors begin to improve payment terms it is often because businesses in troubled areas of the economy understand the importance of maintaining cash flows, and make an effort to keep outstanding accounts under control.

“Unfortunately this is achieved by trimming fat from other key areas of the business such as capital investment and staff numbers - a trend we saw in recent D&B *Business Expectations Surveys*,” Ms Christian said.

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**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.