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Aussie SMEs urged to chase cash harder

Australia's 2.1 million small businesses¹ are missing out on thousands of dollars worth of cash and risk losing it all, due to debilitating cash flow conditions, new research has revealed.²

According to the latest research, SMEs are the biggest losers when it comes to invoices being paid on time, with the typical 30 day payment period blown out to more than 53 days during the quarter to June 2012. The dire circumstances are worse than those experienced during the height of the global economic downturn.

Suncorp Bank Executive Manager Business Lending Mark Harper said SMEs were not chasing their cash hard enough.

"Cash flow, the lifeblood of a SME, is being 'dammed' by poor business practices," Mr Harper said.

"Cash flow is the single biggest contributor to a small business failing. More than 80% of businesses are likely to fail due to cash flow and working capital pressures rather than poor sales," said Mr Harper.

Australia's 2.1 million SMEs employ around 4.1 million people or 42% of total employed persons in Australia³.

With fewer firms paying their bills on time compared to a year ago, SMEs are the biggest losers with many experiencing great strain on critical capital.

"Unlike large corporates most SMEs don't have the luxury of having bundles of cash available to meet shortfalls due to late payments owed to them, with some seriously struggling to keep their heads above water."

This 'domino effect' is having broader implications for the Australian economy.

"Trade finance constitutes a significant and critical portion of non-banking finance. When this is withheld and delayed, millions of dollars are inactive and not working hard for businesses and the wider economy," Mr Harper said.

Suncorp Bank is offering ten simple steps to consider if you are looking to proof your business against the cash flow dam.

1. **Government support** – the federal government has a number of SME grants. To see if your business is eligible visit www.business.gov.au
2. **Spend money to make money** - it is important to invest in advice, which over the long term can save you money. An accountant or financial advisor can help you draw up a business plan or help forecast future sales.

¹ ABS 8165.0 Counts of Australian Businesses 2011

² Dun and Bradstreet Report http://dnb.com.au/Header/News/Fewer_firms_pay_bills_on_time/indexdl_8810.aspx



3. **Review, review, review** – regularly review your cash flow and working capital every month and budget accordingly. This will enable you to source more cash if required. An accountant can also help develop an accurate working capital plan.
4. **Work your money hard** - consider dedicated SME banking products. Suncorp's Business Essentials loan is ideal for business owners preferring structured finance at a discounted variable interest rate with no account keeping fees. It also includes a convenient EFTPOS facility whereby the establishment and annual fees for EFTPOS have been waived. Also consider a business credit card with lengthy interest free periods for small purchases and earn interest on your cash by taking advantage of some great deposit rates around at the moment.
5. **Give clients an option** - by offering multiple payment methods including EFTPOS, direct deposit and BPay, your clients are more likely to pay you in time. For customers who don't pay on time, make sure you have a collections strategy, and act upon it.
6. **Offer discounts** – Incentivise early payment by offering clients discount for payments received within seven days. However, when it comes to your own finances hold off paying bills until the end of the payment period unless discounts are offered and you're able to take advantage of them. This will help to encourage a healthy long-term cash flow.
7. **Consider invoicing finance** – invoicing finance allows small businesses to smooth out cash flow by drawing down against the value of their invoices within 24 hours of the invoice being issued. In any climate, invoicing finance is an increasingly valuable option which can help businesses through the ebbs and flows that naturally come with time lags in receiving payments for issued invoices.
8. **Evaluate inventory regularly** - excess stock ties up funds that could be more productively used elsewhere in your business. A key indicator to monitor and improve is your stock turnover rate, calculated as dividing your cost of goods sold, by your average inventory at cost.
9. **Maintain a healthy, honest relationship with your bank** - by having regular dialogue with your bank and seeking expert help you may be able to identify solutions to potential problems and improve the chances of your business surviving any rough financial periods.
10. **Keep your customers happy** – it's the oldest rule in the book but top notch customer service with a smile does not cost you anything and it keeps people coming back. Listen carefully to your customers and use them as a guide for what they need.

"We know the number one priority for our 100 000 small business customers is to maintain sufficient working capital to fund growth," Mr Harper said.

Suncorp Bank has a wide network of SME specialists, who are able to provide a range of practical customer solutions. To book an appointment visit www.suncorpbank.com.au

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Media Inquiries: Amy McDonald 0403 058 462

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Suncorp-Metway Ltd ABN 66 010 831 722, Australian Credit Licence Number 229882
GPO Box 1453 BRISBANE QLD 4001