Atradius Payment Practices Barometer
May 2022

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Managing risk, enabling trade

Australia: companies anxious amid cascade of troubles

About the Atradius Payment Practices Barometer

The Atradius Payment Practices Barometer is an annual survey of business-to-business (B2B) payment practices in markets across the world.

It contains direct feedback from businesses in a given market or region about how they manage payment default risks related to selling on credit to B2B customers. Topics covered include: payment terms, the time it takes to collect invoices, managing payment delays, the impact of payment delays on business, and expected business trends.

We believe these survey results will offer compelling insights to the markets and regions where you do business.

This is the report for Australia.

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Australia: overview of key survey findings

Concern over unpaid trade debt, despite stronger credit control

- Unpaid trade debt in the Australian market remains high, 42% of B2B invoices overdue and 6% written off. Many companies, mainly SMEs, saw signs of deteriorating cash flow from a marked lengthening of DSO. External financing was often used to cover temporary liquidity shortages, at high interest costs.
- The increased prevalence of more liberal credit policies, in response to competitive market pressures, prompted Australian businesses to strengthen their internal credit control. They complemented in-house retention and management of customer credit risk with a range of trade finance solutions. Nearly 30% of the companies polled chose credit insurance.

Downside risks cloud positive outlook

- There are several major future concerns for companies polled in Australia — these include higher global oil prices, inflation, uncertainty about the continuing pandemic, geopolitical conflicts, and supply chain disruptions affecting global trade. Businesses are significantly worried about a negative impact on profits.
- Despite this, most companies have a positive outlook and expect some improvement in B2B payment practices during the next 12 months. Trusting customers to make payments may encourage sales expansion and build loyalty. However, this might also lengthen DSO and have a negative effect on liquidity levels.

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Australia: credit sales and payment terms (B2B)

B2B credit sales trend upward, focus on customer retention

- A significant number of businesses polled in the Australian market (46%) told us they increased trading on credit with B2B customers during the past 12 months. This change of approach raised the average total value of sales on credit to 57% of all B2B sales, up from 51% last year. Increased trading on credit with B2B customers was most often reported by SMEs and in the construction materials sector.

- Australian companies said they increased trading on credit with B2B customers mainly to stimulate repeat purchases from existing customers. However, only 37% told us this, down from last year's 67%. In contrast, many more businesses increased trading on credit with B2B customers to either protect their current sales from competition (24% up from 7% the previous year) or to allow B2B customers more time to pay (15% up from 6% one year ago).

Payment terms for customers stabilise, but criteria are changing

- The number of Australian businesses who said they gave B2B customers significantly longer payment terms to encourage trade increased over the past year. Offering more liberal payment terms was most common among large businesses and in the steel/metals sector. However, more than half of the companies polled (55%) told us they did not alter their payment terms. This may explain why B2B payment terms in the Australian market now average 37 days, just one day longer than last year.

- The criteria for setting payment terms appear to be changing. Doing so in accordance with internal company practices remains the most widespread, but fewer companies (51%) than one year ago (60%) reported this. The availability and cost of capital needed to finance the wait between the credit sale and invoice payment is the second most common reason, but this was also down to 34% from 38%. In striking contrast, 18% of companies (up from last year's 10%) set payment terms to divert trade from competitors. This was most widespread among SMEs and in the manufacturing sector.

Australia: customer payment default (B2B)

B2B trade debt remains high, putting pressure on cash flow

- Faster settlement of overdue invoices is a sign of improved B2B payment practices in Australia, but our survey revealed an average 42% of B2B invoices were still overdue. This puts pressure on cash flow and might explain why significant numbers of companies told us they needed either to delay payments to their own suppliers or suspend deliveries until invoice payment. Signs of financial distress were particularly evident in the Australian construction materials industry.

- One interesting finding is that 15% of businesses, almost double the number last year, said they engaged an external agency to collect long outstanding (more than 90 days overdue) invoices. This could explain why there was only a slight variation in the percentage of B2B invoices written off as uncollectable, averaging 6% of B2B sales value to last year's 5%. It may also be the reason why 23% of companies required short-term financing from external sources. Once again, this was reported most often in the construction industry.

Admin headaches and customer dispute spark payment default

- Despite the significant numbers of companies who said they needed to delay payments to suppliers to maintain liquidity, more than half of the companies polled in the Australian market (51%) said administrative inefficiency in their B2B customers' payment process is the main reason for customer payment default. This is an issue cited particularly by SMEs and the wholesale sector.

- Additionally, 26% of businesses told us that late payments were prompted by customer dispute, a concern with SMEs and in the steel/metals industry. Our survey also found that a sizeable 20% of companies delayed payment of invoices intentionally to use outstanding invoices as a form of short-term finance. This appears to be a widespread practice among the smaller segment of SMEs and in the construction industry.

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Australia: impact of customer payment default (B2B)

Stronger credit control key to curbing trade debt management costs

- Our survey found that 41% of Australian companies needed to strengthen their internal credit control function to ease the impact of customer payment default on the business. While bank references remain the most common source of information for credit checking prior to selling on credit, we found there was also increased use of credit information reports from specialist agencies.

- A crucial reason for strengthening internal credit control is to improve monitoring of customer payment practices, so that companies can spot signs of trouble and mitigate the impact of customer payment default and bad debts on the business. This may explain why just 35% of Australian businesses, significantly fewer than 54% last year, told us that chasing unpaid invoices resulted in higher management costs.

Longer DSO chiefly springs from liberal credit policy

- Stronger credit control clearly resulted in DSO levelling off. This was reported by 55% of businesses polled. However, 24% of companies told us their DSO had deteriorated year-on-year. Particularly SMEs and companies polled in the construction materials industry. This was because of a more liberal credit policy. This is consistent with 29% of companies attributing DSO deterioration to increased trade receivables due to their seasonal sales patterns.

- Additionally, 34% of companies told us that year-on-year deterioration of DSO was down to the adverse impact of customer payment default on cash flow, alongside lower efficiency in the collection of long outstanding invoices. This was reported most often by SMEs and in the construction industry.

34%
(2021: 20%)
Percentage of Australian businesses who reported DSO deterioration due to negative impact of customer payment default on cash flow

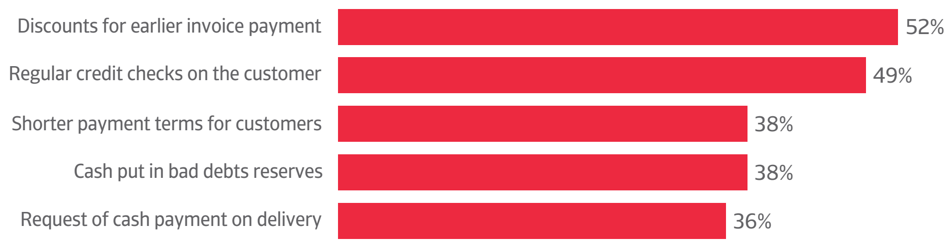
Australia: management of customer payment default (B2B)

In-house management of customer credit risk prompts discount offers

- 80% of businesses polled, up from 78% last year, said they opted to retain and manage customer credit risk in-house during the past 12 months. The remaining 20% are almost equally split between those who complemented in-house credit management with specific trade finance or insurance solutions, and those who took no credit management action at all.

- 52% of companies told us that internal management of customer payment default required offering discounts for early payment of invoices, and 49% said it meant undertaking regular credit checks of customers. The most common trade finance solutions are letters of credit, cited by 29% of businesses polled, and credit insurance, used by 28%. There was a preference for trade debt securitisation (27%) over factoring (24%).

Australia: top 5 measures for customer credit risk mitigation



Sample: all survey respondents - Source: Atradius Payment Practices Barometer - May 2022

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Australia: the business outlook (B2B)

Expected better B2B payment practices and higher B2B credit sales

- Our survey found businesses have a positive outlook, with 64% of respondents expecting further improvement in B2B payment practices during the next 12 months. More than half of companies polled said they anticipate an increase in B2B credit sales. 38% told us this would boost sales with existing customers, while 28% see it as a way to increase market share by winning new customers.

DSO expected to worsen, some tough challenges ahead

- A knock-on effect expected by Australian respondents when expanding credit sales is deterioration of their DSO. Large businesses and the manufacturing sector were at the forefront of the 51% who told us this. More than 30% also said the greatest challenge to be faced during the coming months will be the ability to meet customer demand for their products and services.

- Major concerns for businesses are supply chain disruptions affecting global trade and uncertainty about the continuing pandemic. Against this backdrop, 25% of companies anticipate problems in keeping cash flow levels under control. High inflation is a specific issue, while another is the battle to contain costs, especially commodity costs. Both are expected to dent profit margins, particularly of SMEs and wholesalers.

“*My business and customers have been impacted by the withdrawal of the government economic support package related to the COVID-19 pandemic. I am worried that some of my customers will become insolvent, and this will seriously threaten the survival of my business.*”

Owner – Large business - Construction materials

Australia: overview of key survey findings by industry

Agri/Food

Sales on credit (% of all B2B sales)	64%	(2021: 51%)
Payment terms (average days)	30	(2021: 37)
Payment duration (average days)	45	(2021: 64)
Late payment (% of all B2B invoices)	33%	(2021: 45%)
Write offs (% of all B2B invoices)	7%	(2021: 10%)
DSO % of businesses anticipating deterioration	37%	(2021: 36%)
Percentage of businesses using credit insurance	21%	(2021: n/a)
Ongoing pandemic: greatest challenge ahead	29% (businesses reporting it)	

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Australia: overview of key survey findings by industry

Construction

Sales on credit (% of all B2B sales)	51%	(2021: 54%)
Payment terms (average days)	38	(2021: 43)
Payment duration (average days)	58	(2021: 66)
Late payment (% of all B2B invoices)	42%	(2021: 53%)
Write offs (% of all B2B invoices)	5%	(2021: 2%)
DSO % of businesses anticipating deterioration	55%	(2021: 37%)
Percentage of businesses using credit insurance	27%	(2021: n/a)
Keeping pace with rising demand: greatest challenge ahead	38%	(businesses reporting it)

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Australia: overview of key survey findings by industry

Construction materials

Sales on credit
(% of all B2B sales)
61%
(2021: n/a)

Payment terms
(average days)
45
(2021: n/a)

Payment duration
(average days)
66
(2021: n/a)

Late payment
(% of all B2B invoices)
42%
(2021: n/a)

Write offs
(% of all B2B invoices)
5%
(2021: n/a)

DSO

% of businesses anticipating deterioration
52%
(2021: n/a)

Percentage of businesses using credit insurance
37%
(2021: n/a)

Ongoing pandemic: greatest challenge ahead
33%
(businesses reporting it)

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Australia: overview of key survey findings by industry

Steel / Metals

Sales on credit
(% of all B2B sales)
51%
(2021: n/a)

Payment terms
(average days)
35
(2021: n/a)

Payment duration
(average days)
55
(2021: n/a)

Late payment
(% of all B2B invoices)
56%
(2021: n/a)

Write offs
(% of all B2B invoices)
6%
(2021: n/a)

DSO

% of businesses anticipating deterioration
67%
(2021: n/a)

Percentage of businesses using credit insurance
36%
(2021: n/a)

Keeping pace with rising demand: greatest challenge ahead
51%
(businesses reporting it)

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Survey design

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer.' Australian companies are the focus of this report, which forms part of the 2022 edition of the Atradius Payment Practices Barometer. A change in research methodology means year-on-year comparisons are not feasible for some of these survey results. Using a questionnaire, CSA Research conducted 200 interviews in total. All interviews were conducted exclusively for Atradius.

Survey scope

- **Basic population:** Companies from Australia were surveyed, and the appropriate contacts for accounts receivable management were interviewed.
- **Sample design:** The Strategic Sampling Plan enables us to perform an analysis of country data crossed by sector and company size. It also allows us to compare data referring to a specific sector crossed by each of the economies surveyed.
- **Selection process:** Companies were selected and contacted by use of an international Internet panel. A screening for the appropriate contact, and for quota control, was conducted at the beginning of the interview.
- **Sample:** N=200 people were interviewed in total. A quota was maintained according to three classes of company size.
- **Interview:** Computer Assisted Web Interviews (CAWI) of approximately 15 minutes duration. Interview period: Q2 2022.

Sample overview – Total interviews = 200

Macro industry	Interviews	%
Manufacturing	68	33,9
Wholesale	45	22,3
Retail trade / Distribution	40	20,4
Services	47	23,4
TOTAL	200	100,0
Business size	**Interviews**	**%**
Micro enterprises	50	25,0
SME - Small enterprises	50	25,0
SME - Medium enterprises	50	25,0
Large enterprises	50	25,0
TOTAL	200	100,0
Industry	**Interviews**	**%**
Agri/Food	60	30,0
Construction	70	35,0
Steel/metals	30	15,0
Construction materials	40	20,0
TOTAL	200	100,0

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For more **insights into the B2B receivables collection practices in Australia and worldwide**, please go to www.atradiuscollections.com

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