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Small business must be ruthless over payments: CreditorWatch

BUSINESS

All signs point to a downturn, the agency says, and SMEs are in the front line.

By Philip King•16 November 2022•5 minute read

Lack of muscle to enforce payment terms puts small businesses on the front line of the downturn and they will need to be more ruthless to survive, says the latest CreditorWatch report.

Its Business Risk Index for October shows small business turnover down 18 per cent in the past month to the lowest level since the height of the pandemic lockdowns 12 months ago, while payment defaults have kept rising at the rate of 20 per cent a month for a year.

The payment default rates for small businesses are three times worse than for big business, the CreditorWatch report said, reflecting the difficulty they have “enforcing payment terms and collecting on payment arrears”.

CreditorWatch CEO Patrick Coghlan said this lack of capacity to collect payments was starting to have a serious impact.

“Trade receivables continue to decline and trade payments defaults, a lead indicator of insolvencies, are at their highest point since October 2020,” he said. “Small businesses are crying out for additional support.”

CreditorWatch chief economist Anneke Thompson said business confidence was falling and treacherous conditions lay ahead.

“Unfortunately a significant slowdown of the economy is one of the only cures for inflation,” she said. “The challenge is not allowing small business to suffer the brunt of the impact of a slowing economy, which unfortunately is usually the case.

“Small businesses need to exercise extreme financial discipline and we are already seeing signs of this in increasing B2B trade defaults, as this means businesses are taking action when they are not getting paid.

“Over the next year to two years, cash flow will be king, and small businesses should be as ruthless as big business in demanding invoices owed and using all resources available.”

The report found areas with high levels of personal insolvency were most exposed to business insolvency, and the three regions most at default risk were all in NSW: Merrylands-Guildford, Canterbury, and Auburn.

The industries with the highest probability of default over the next 12 months were food and beverage services (7.2 per cent probability), arts and recreation services, and transport, postal, and warehousing (both 4.6 per cent).

The report said there were already signs of a slowdown in discretionary spending despite some positive data on retail trade, since inflation was propping up the numbers.

“The big spending Christmas period will be very telling for many businesses, and likely set the scene for what 2023 has in store,” CreditorWatch said.

“Spending over Christmas 2021 was heavily impacted by large amounts of savings consumers had to spend, as well as the ‘revenge spending’ phenomenon. “Now, consumers have a whole different set of challenges to think about — most of them leading them down the path of spending less.”

The report found that big business was faring much better than SMEs, with revenue up 14 per cent year-on-year and profits up 9 per cent despite reduced margins.

CreditorWatch said that although a recession was unlikely in Australia it would suffer the consequences of more widespread slowdowns globally.

The Business Risk Index is calibrated by data from approximately 1.1 million ASIC-registered, credit-active businesses combined with CreditorWatch’s proprietary data.