



Monthly commentary Demian McLean

Feast and famine: managing the year-end in small business



The last month of 2018 is upon us, and we know from past years it marks the start of feast and famine for many Australian small businesses. December is a fat month, when Christmas sales fill their coffers. But those coffers empty nearly as quickly in the summer months that follow, with predictable effects on cash flow and payment times.

Let's take a look at how the cycle works, based on several years' worth of Xero data and interviews with small businesses.

As Christmas approaches, consumers loosen their purse strings and retailers in particular

Cash flow

53.22 %

of Australian small businesses were **cash flow positive** in October 2018

▼ -1.06 p.p. ▲ 0.29 p.p.

Month on month Year on year

Getting paid

35.14

days on average for Australian small-business invoices with 30-day terms to be paid in October 2018



December

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benefit. At Xero, the number of businesses with positive cash flow typically peaks: we've seen it rise in past years as high as 57 percent in December, compared with less than 50 percent of businesses in the preceding months.

"Christmas is just absolutely ridiculous," says Pippa Oostergetel, founder of Melbourne-based clothing designer [Squeak](#). "Half of my annual revenue comes from this single period."

The influx of revenue feeds a virtuous cycle in which bills get paid sooner. Last December, the average payment time on a 30-day small-business invoice was 34 days. While that's still late, it's a marked improvement from 38 days some months earlier.

We don't have data yet for December 2018 yet but the good news is that each December for the past four years has seen an improvement in payment times. Invoices that took an average of 38 days to be paid in December 2014 were paid four days faster in 2017. Will 2018 continue the trend and be the best year yet?

Sir Isaac Newton famously said, what goes up must come down. That holds true for trading conditions too. Retailers flush with Christmas cash will watch their pile of banknotes shrink as January holidays slow business and they pay suppliers to replenish inventory in the new year.

The annual nadir for cash flow typically arrives in February. This year, the percentage of businesses with more money coming in the door than leaving fell to 49 percent that month. Not surprisingly, a cash crunch slows the settlement of invoices: payment times swelled by several days, reaching 37 days.

"I always tell my accounting clients, if you don't get your invoices in by the first half of December each year, there's a good chance you won't be paid till February," says Mark Lawry, a partner at Melbourne-area accounting firm [Suntax](#). "I wish more small businesses understood this."

▼ 2.16 %

Month on month

▼ -0.33 %

Year on year

Hiring people

1.58 %

change in the number of Australian small business employees from September to October 2018

▲ 0.07 p.p.

Year on year



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If you own a small business and want to be better prepared for the volatility that comes with running a business before and after Christmas, be sure to check out these tips in [Practical tips to avoid the summer slump](#). And follow our monthly updates of Xero Small Business Insights metrics, which we've just refreshed for Getting Paid, Hiring People, Cash Flow and Trading Overseas. Happy holidays!

Trent Innes

01

17.12.2018

Episode Three of XSBITV | The Sheet Society



In the third episode of Xero Small Business Insights TV, we head to Kensington and meet Hayley from [The Sheet Society](#). Hayley shares how she uses digital solutions to get through the busiest time of year for her online linen store.



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Demian McLean

02

10.12.2018

The year that was in Xero Small Business Insights



We've just passed the one-year mark at Xero Small Business Insights (XSBI), and it's been a journey with some unexpected turns. As we close out 2018, we'd like to take a look back at the terrain we've covered.

When we conceived of XSBI in late 2017, the project was driven by the vision of Xero Australia Managing Director Trent Innes. Trent believed with the right data, policymakers and large enterprises could help end practices such as late payments that were crippling small businesses. XSBI launched with monthly data on cash flow, late payments, trading overseas and hiring people, drawn from hundreds of thousands of anonymised, aggregated businesses.

We were gratified when in early 2018, Xero data found its way into media stories, parliamentary hearings, and briefings to Treasury. The data explained just what Australia's 2.23 million businesses were experiencing. Today, Canberra officials increasingly recognise XSBI as a torch that illuminates a corner of the economy that has long been hidden.

"Xero has actually given us real data on what's happening with payment times," Australian Small Business and Family Enterprise Ombudsman Kate



Carnell told a Sydney audience in October. “The reason the federal government, I think, took action on payment times was that it had data that showed small businesses were paying each other quickly, but big businesses and government weren’t doing their bit. Data gives us the grunt to get policy changed.”

Late payments is just one area where XSBI sharpened the debate. In collaboration with outside economists, XSBI has gone on to produce special reports on tax cuts, the rollout of the National Broadband Network (NBN), and metropolitan versus regional wage growth. These are in addition to monthly updates on small business conditions.

Here are some milestones for Xero Small Business Insights in 2018:

1) Do company tax cuts boost jobs, wages and investment? An XSBI special report

What’s the impact of company tax cuts on Australian businesses – do they hire more workers, increase wages and boost investment after tax cuts? Economists and policymakers have struggled to answer these questions, in part because of a lack of quality data. Using anonymised Xero data, this report directly observed how business owners responded to tax cuts, whether it by was hiring more workers, raising wages or keeping the savings. The report offered an unbiased look at the data, and different news outlets seizing on select parts of the report for their headlines. “No joy for staff wages as small business pockets tax cut savings” was the summary from the [Australian Associated Press](#). Meanwhile [The Australian](#) offered a more optimistic take with the front-page headline “Company tax cuts lift jobs growth, study finds”.

2) The state of Small Businesses: An XSBI special report

How does wage growth at small businesses in regional and metropolitan Australia compare? We crunched the numbers, and we found wages at businesses in metro areas were growing at 4.2 percent per year, or about a third faster than at regional peers. “There is certainly a lot of work to do to ensure that people in Australia’s regions have as much economic opportunity as the cities,” said Andrew Charlton, the director of economics consultancy AlphaBeta. “The National Broadband Network will help with that, and we are just starting to see Australian businesses — big and small — recognise the benefits of locating in regional areas.”

3) From little things, big things grow: How digital connectivity is helping Australian small businesses thrive

Following on from the State of small businesses report, we examined tens of thousands of businesses to see whether faster broadband and cloud-based apps supported revenue growth and employment. Among businesses on Xero, the data showed that those in mature National Broadband Network regions grew employment by one-third more than peers in non-NBN regions. And businesses on Xero with at least one



integrated app saw revenue grow almost twice as fast as peers with no apps.

4) XSBI TV: Pickings and Parry

In 2018, we made XSBI a truly multimedia platform with the introduction of Xero Small Business Insights TV. Managing director Trent Innes interviewed a small business owner each month to get an up-close, in-person look at trading conditions. In this episode, Trent chatted to Chris Pickings, the owner of Melbourne menswear store Pickings and Parry. Chris explained how his passion for quality clothing led him to opening two retail stores, side by side, in Fitzroy. But with the expansion, there were challenges accessing capital and managing cash flow.

5) Businesses in Tasmania and ACT get paid fastest. Here's why.

Late payments are a recurring problem for Australian small businesses, but a closer look at XSBI data revealed two locations that enjoy unusually prompt payments: Tasmania and the Australian Capital Territory (ACT), where businesses get paid on time or even early. What did these two locations do differently and how could other states emulate them? We took a look, and the answers were surprising.

It's been a rewarding year in XSBI, and we look forward to providing even more insights in 2019!