Late payments can be a major problem for small businesses

Late payments can be a major problem for small businesses by impacting cash flow and hindering growth.

When customers fail to pay their invoices on time, it can create a ripple effect on a small business's finances by making it difficult to pay suppliers, cover operating expenses and invest in growth opportunities.

Late payments can be particularly problematic for businesses that operate on slim margins where even a small delay in receiving payments can have significant consequences.

According to a report by the Australian Small Business and Family Enterprise Ombudsman (ASBFEO), late payments are a major issue for small businesses with many experiencing delays of up to 120 days to receive payment from their clients.

In fact, they found that more than 50% of small businesses reported experiencing cash flow problems as a result of late payments.

While there are no specific statistics on the number of small businesses that are forced to close due to late payments in Australia, it's clear that this is a serious issue that can have significant consequences for the viability of small businesses.

So, what can you do?

Implementing:

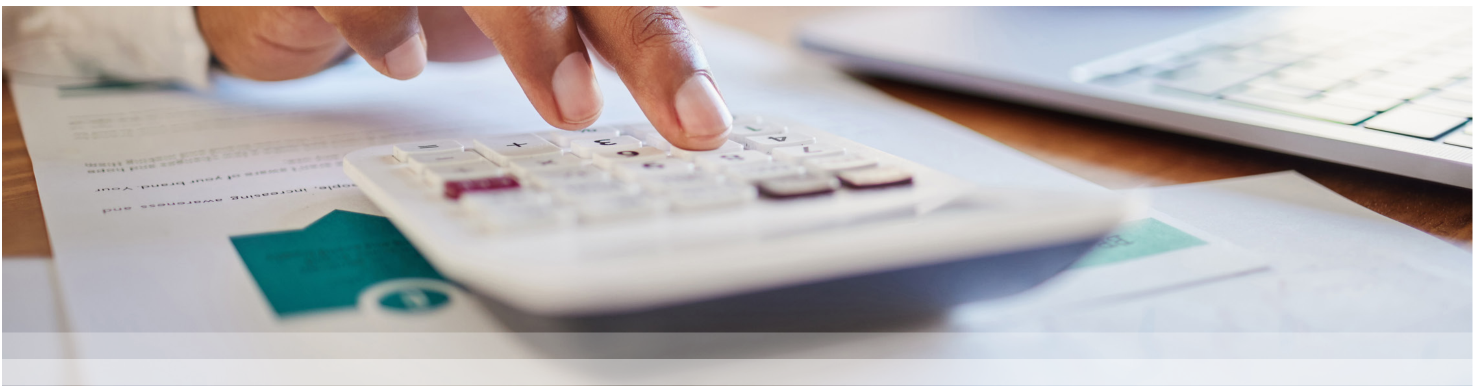
- effective payment policies
- financing options, and
- government initiatives aimed at reducing late payments

are all important strategies that can help small businesses address this issue and ensure their long term success.

Have you heard of cash flow or invoice funding?

Cash flow funding, also known as working capital funding, provides businesses with the financing they need to cover short-term expenses, such as payroll and inventory, while they wait for payment from their customers. This type of funding can be especially useful for small businesses that have large seasonal fluctuations in cash flow or need to manage unexpected expenses.

Invoice funding, also known as invoice factoring, allows small businesses to sell their outstanding invoices to a third-party financial provider at a discount. This can provide immediate cash flow to the business while the provider takes on the responsibility of collecting payment from the customer. Once the customer pays their invoice, the



provider will release the remaining balance to the small business minus any fees or interest charges.

Both funding types can help small businesses address the issue of late payments by providing them with the financing they need to cover expenses and invest in growth opportunities. However, it's important for small business owners to carefully consider the terms and fees associated with these options of funding before signing on.

In addition to using cash flow or invoice funding, there are several steps you can take to help prevent late payments.

For example, you could:

- establish clear payment terms and policies with your customers,
- include late payment fees and interest charges,
- give a discount for on time payments,
- implement an automated payment system that sends reminders to customers when their invoices are due, or
- if you have regular billing cycles you could implement a direct debit system and have the payment debited from your client's account each month on a scheduled date.

There is technology to help you implement some of these strategies and probably available within your existing accounting system.

Contact us for our article on 'How to ensure you are paid on time'.

What's the main difference between cash flow and invoice funding?

They differ in terms of how they are structured and the type of funding they provide.

Cash flow funding typically involves borrowing money to cover a business's operating expenses such as rent, utilities and payroll. This type of financing is usually unsecured, meaning that the borrower does not need to provide collateral to secure the loan. Cash flow funding can be short term or long term and can be provided in the form of a loan, line of credit or other financing arrangement.

Invoice funding, on the other hand, involves selling unpaid invoices to a third-party financing company, also known as a factor. The factor provides the business with an upfront payment, usually around 80% to 90% of the value of the invoice, and then collects payment from the customer when the invoice is due. Once the customer pays the invoice, the factor deducts their fees and returns the remaining balance to the business.

The main difference between cash flow funding and invoice funding is that cash flow funding provides a business with financing to cover its operating expenses, while invoice funding provides finance based on outstanding invoices.

Cash flow funding is typically easier to obtain than invoice funding as it does not require the business to have outstanding invoices to use as collateral. However invoice funding can be a useful option for businesses that have outstanding invoices and need immediate access to cash.

If you are having trouble with late payments, please reach out to our finance team who specialises in this type of funding.

We look forward to hearing from you.

Contact us to read
'How to ensure your business financial model is profitable'

How to ensure you are paid on time

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