Slow payers squeeze small business cash flows

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The economy may be booming but small businesses are experiencing a tightening of cash flows as big business customers take longer to pay their bills.

Ian Box, the joint managing director of National Credit Insurance, which has 70 per cent of the credit insurance market, said his company was seeing many larger businesses putting pressure on smaller suppliers by refusing to pay within 60 days.

When asked about their outlook for the economy, NCI clients estimated flat growth of 3 to 5 per cent. As large companies are reporting profit increases, this suggests they are extracting more profits from relatively flat sales figures, often at the expense of their small-business suppliers. Mr Box said that comments from his clients supported that view.

Accounts with debts over 90 days have risen since February, while the rise in the poor collection of outstanding accounts beyond 90 to 120 days has also increased, forcing many businesses to take legal action.

As for the average debtor days, in the past six months, the number has increased by about five days.

''Cash flow is tighter. Five days is probably an increase of about 10 per cent. So the average collectable debt has gone out by about by 10 per cent,'' Mr Box said.

Besides the impact of unpaid debt, NCI has also noticed a rapid rise in Australian Taxation Office activity that will put pressure on small businesses treating GST as a loan. ''Our view is there's still a lot of unremitted GST,'' Mr Box said.

Add the potential for interest rate rises, and the pressures could send some small businesses to the wall.

Last week, the Reserve Bank of Australia kept the official cash rate at 5.25 per cent for the 11th consecutive month. But in its quarterly monetary policy statement yesterday, the RBA said while there was no pressing need for an interest rate rise at this stage, it appeared likely that the economy would require higher rates at some stage of the current expansion.

The quarterly outlook from Access Economics expects that interest rates will rise and Citibank's chief economist, Stephen Halmarick, insisted that despite the recent stability of interest rates, the RBA was still looking for a trigger for a rise.

Among advisers to small business, the outlook is no different. Greg Hayes, a senior partner with accountants Hayes Knight, is almost certain that we will see an interest rate rise over the next few months and this could be followed by further increases through next year. Based on the state of the market, he expects that rates are unlikely to rise by more than 1 per cent over the next 12 months.

''In the current market, an increase of up to 0.5 per cent would be easily digested, 1 per cent would be manageable,'' Mr Hayes said. ''Should increases exceed 1.5 per cent, then there would be a greater impact.''

Mr Box agreed, although he expected that a 1 per cent rise would trigger business failures. ''It will start to happen quickly,'' he said.