



6th March 2020

Mr Sean Macintyre

Small Business and Entrepreneurship Branch

Department of Employment, Skills, Small and Family Business

Canberra City ACT 2601

Via email: paymenttimes@employment.gov.au

Dear Mr Macintyre,

Introduction

Earlytrade welcomes the opportunity to make a submission to the Department of Industry, Science, Energy and Resources in response to its Payment Times Reporting Framework Consultation Paper dated February 2020.

Earlytrade is an Australian owned and operated fintech company that provides a unique, ethical alternative to traditional supply chain finance or reverse factoring programs. With more than 36,000 businesses, mostly small or family-owned, using the platform to request early payment from customers, Earlytrade is Australia's largest early payment marketplace.

We have a growing small business registry where small businesses supplying goods and services to corporate customers on Earlytrade choose to update and verify themselves with small business status to attract favourable payment terms. We call this Earlytrade Verify. We would like to demonstrate how this technology could be integrated into the reporting framework to improve adherence, visibility and ensure the legislation is effectively implemented.

As a small business ourselves, we maintain the ethos that all businesses deserve a fair go, regardless of size, and we seek to advocate for the lifeblood of the Australian economy, small and family businesses. Through our dealings with large corporates, it has become increasingly apparent that defining and identifying these businesses within the supply chain is a key issue. For this reason, we believe Earlytrade is uniquely positioned in the market to discuss how technology can deliver the outcomes required by the Australian government.

Payment times vital to small business

For small and family owned businesses, cashflow is the lifeline of their operations. Long payment terms from companies with the most bargaining power, such as large corporates, create significant cash flow concerns. To compound this issue, approximately half of all invoices issued by small business to large businesses are paid late, totalling \$115 billion per year.¹

With local banks often unwilling to lend to small businesses, socially responsible corporate clients have partnered with Earlytrade in recent years to implement measures that improve the health of their supply chain. Adoption of Earlytrade by large businesses, such as Lion, Australia's largest dairy and drinks company, has demonstrated a significant increase in businesses paid within 30 days.

Since working with Earlytrade, Lion has seen a 125% increase in suppliers paid on terms of 30 days and shorter (from 42.06% to 94.63% of total suppliers). It has also seen close to 75% increase in all invoices paid on terms of 30 days and shorter (from 51.52% to 89.33% of total invoices). This meets the core objectives of the review and addresses the concern pertaining to several large Australian businesses extending payment terms. In our

¹ Xero Small Business Insights - The economic impact of big businesses paying Australian small businesses late

opinion, providing visibility into these payment practices is a necessary first step required to mediate these actions and improve outcomes for small business.

ASBFEO

We value the work of the Australian Small Business and Family Enterprise Ombudsman (ASBFEO), particularly in preparing the 2017 and 2019 Reviews of Payment Terms, Times and Practices. Most recently, we contributed to the Review of Supply Chain Financing, which has led to detailed discussions as to how Earlytrade's suite of products can assist in identifying, verifying and improving payment times for small businesses. In the coming months, we will travel to Canberra to continue these discussions with Kate Carnell before meeting with Michaelia Cash, Minister for Small and Family Business; Skills & Vocational education along with Jennifer Westacott, the CEO of the Business Council of Australia.

We also acknowledge the efforts of the Business Council of Australia in its voluntary code to shorten the time its members take to pay small business. Whilst the shortcomings of the code were clear, being the unenforceability and lack of reporting, it was well intentioned and highlighted the difficulties faced by its signatories in defining and identifying small businesses within the corporate supply chain. Many of our clients are signatories to the code and have worked with us to develop and implement Earlytrade Verify, a platform that allows small businesses to self-verify immediately.

Identifying small business suppliers

Based on Earlytrade's experience working with these large corporates, a great deal of confusion exists as to what determines a small business within their supply chain. Ambiguity around the definition of a small business may allow corporates with poor intentions to take advantage of this confusion and squeeze small businesses even more. Conversely, socially responsible companies who have signed up to codes such as the BCA Supplier Payment Code have struggled to correctly identify eligible businesses within their supplier networks.

The definition must be clear, concise and allow for adequate compliance reporting that is tracked by external agencies. The current definition of \$10m turnover is well aligned with the small business characteristics we see in the Earlytrade network. If the definition has multiple criteria, such as an employee count, it must be expressed that the business will be defined as small if either criterion is met as opposed to both. Keeping the definition simple will remove confusion and, ultimately, drive compliance.

Earlytrade spent much of 2019 developing a compliance mechanism to help identify small businesses within a large corporate supply chain. This product, Earlytrade Verify, is now in market with some household Australian corporate names, allowing Australian small businesses in Earlytrade's network of 36,000 users to self-verify their business. This growing small business registry could be made available to the PTRF team in identifying small businesses in real-time. This database is actively kept up to date by the small businesses themselves, who are then able to access favourable payment terms.

Reporting

Public reporting of payment term information represents a potentially contentious decision. However, the "name and shame" outcome that is likely to eventuate may well represent the next best alternative to passing legislation on small business payment terms.

It is important that the PTRF reports on contracted payment terms to small businesses and the actual performance against these terms, including any relevant regulatory terms or codes. This information can be useful for small businesses to compare their agreed payment terms with their counterparts and, in some instances, assist them in deciding which large corporations to work with.

In terms of frequency, reporting payment time information on a bi-annual basis is a prudent approach and would not represent an onerous task for large businesses, particularly if the correct technology solution is made available. It is also critical that this solution can identify small businesses on an ongoing basis.

Selecting a technology provider

The requirements of the PTRF are likely to create significant issues for large corporates who will be unable to identify eligible small businesses in their supply chain. A key risk to consider is that any incremental costs of

compliance could be passed on and ultimately borne by small businesses, subsequently forcing them to accept even slimmer margins.

To mitigate this, the PTRF should consider providing a certified technology solution to large corporates to assist them with the identification process in a cost-effective manner. Earlytrade Verify, a software based compliance service is uniquely positioned to ensure corporates become compliant in time.

Based on our experience working with corporate Australia, rolling out new software can be a time-consuming process requiring a lot of resources. For that reason, an existing proven and tested platform would provide faster implementation and significantly increased compliance to the PTRF.

Earlytrade Verify provides the exact functionality required to meet the needs of the PTRF by offering a small business verification process within minutes, resulting in a much faster and easier solution to implement.

Capturing supply chain financing

It is important that contractually agreed payment terms are reported on. Any additional offerings to reduce payment times at the supplier's discretion should be considered separately as they artificially reduce payment terms. Supply chain financing (SCF), for example, is a legitimate and effective tool to free-up cash flow for small and family business, as long as large businesses offer reasonable payment terms.²

Providing information on existing payment terms and additional data on SCF usage will provide significant insight into the health of Australia's small business network as well as the actual value that SCF programs are creating. Adopting a system such as Earlytrade Verify will provide automated, auditable reporting of each of these fields.

In conclusion, Earlytrade believes that the PTRF is a necessary next step in resolving the issues associated with extended payment terms for small business. However, it is vital that consistent definitions are derived, and appropriate technology solutions are offered to ensure that any costs of compliance do not negatively impact small businesses and that reporting of performance is accurate and delivered at a high standard.

We thank you for the opportunity to comment and would welcome the opportunity to discuss further. If you are open to continuing this discussion, please contact Mr Guy K. Saxelby on [REDACTED] or at guy@earlytrade.com.

Yours sincerely,



Guy K. Saxelby
CEO, Earlytrade

² ASBFEO SCF position paper

