

# SUBMISSION

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## Exposure Draft – Payment Times Reporting Legislation

Thank you for the opportunity to make a submission on the Exposure Draft for the Payment Times Reporting Legislation. Lion proposes that the legislation undergo some change to balance the cost and burden of this new regulation, while retaining the benefits that are sought.

### Background on Lion Group and its approach to partnering fairly with suppliers

#### *About Lion*

Lion Group is a leading adult beverages company in Australasia, with fast-growing operations in North America, the UK and Asia. We produce, sell, market and distribute alcoholic and non-alcoholic drinks and operate microbreweries worldwide.

In Australia and New Zealand, our contribution to local and national economies is significant, at around \$4.9 billion<sup>1</sup>. It is through the employment of our people, sourcing and other investments, as well as indirectly through the immense value we generate in the agricultural, retail, tourism, hospitality and transport industries. We also make a major investment in sports and the arts through our sponsorship and marketing activities and pay well over a billion dollars in taxes to governments each year.

#### *Lion's Payments Practice*

Lion is proud to have been one of the first signatories to the Australian Supplier Payments Code, launched by the Business Council of Australia in 2017. As part of our Code commitment we rolled out 30-day payment terms from 1 January 2018, not only to all our small business partners but to all those other suppliers who are subject to our standard terms and conditions. Lion voluntarily completed this roll-out a year ahead of schedule.

Lion's days payable outstanding (DPO) is measured and reported monthly across all our business units. For example, Lion's Australian beer business has an average DPO of 24.9 days. Currently, 95 per cent of **all** our suppliers, not just small businesses, are paid within 30 days. The outstanding five per cent are suppliers whose payment terms are negotiated as part of their contracts with Lion.

We remain committed to paying all eligible suppliers within 30 days of receipt of a correct invoice and we are committed to supporting small business operators to implement new technologies and practices to make the invoicing and payment process faster and more efficient.

#### *Lion's approach to Supply Chain Finance (SCF)*

We believe that SCF can be beneficial to suppliers, particularly small businesses, if it is offered in addition to - rather than as an alternative to - fair payment terms. Suppliers, particularly small suppliers, should have total choice and control over whether to opt in to SCF.

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<sup>1</sup> Contribution for year ending December 2018, *Deloitte Access Economics*  
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Lion has chosen an Australian technology platform Earlytrade to provide that choice and flexibility to its suppliers. It offers suppliers invoice tracking, which gives them better visibility of their future cash flow. The Earlytrade network has over 36,000 suppliers actively using the platform to support their cash flow options.

Through Earlytrade, Lion's suppliers determine the discount they may be willing to offer for guaranteed payment earlier than the standard 30 days. The platform is also utilised by the remaining five per cent of Lion suppliers which are on different payment terms as part of their contracts. In this way, Earlytrade can also be of use to larger vendors seeking to secure earlier payments than their contracted terms to align with key financial periods.

What makes Earlytrade's offering unique is that customers like Lion, not third-party financiers, fund the early payments. The discount rates available through this platform are significantly less than those offered via bank financing or credit cards, and this is particularly true in the case of small businesses. RBA figures show that average small business interest rates are between 6.09 per cent to 7.92 per cent (depending on loan type), while average interest rates on revolving personal credit range from 13.03 per cent to 19.94 per cent<sup>2</sup>.

While Lion doesn't have visibility over which of our suppliers are using Earlytrade, we understand that of those signed up to Earlytrade, 62 per cent are using invoice tracking each month and 36 per cent have used the early payments function at some stage. On average, we understand nine per cent of our suppliers opt to use the early payments option each month. The Earlytrade network has over 36,000 suppliers actively using the platform to support their cash flow options. Importantly, the Earlytrade platform does not allow customers to earn discounts on overdue invoices.

Furthermore, Earlytrade employs ethical data collection and disclosure practices. Further details on how the Earlytrade platform operates are available [here](#).

While nine per cent of our overall supplier base may not seem like a significant statistic, the steady and consistent uptake of the services offered by the Earlytrade platform by these businesses supports Lion's contention that ethical supply chain finance can benefit suppliers when offered in addition to payment terms of 30 days or less.

Lion believes faster supplier payments yield a range of benefits, such as an increase in vendors' capacities to innovate, greater efficiency, and therefore superior products and services. It is also an important step towards improving transparency and trust with our supplier base – and this applies to businesses of all sizes. Lion is confident that platforms like Earlytrade can bring significant benefit to small businesses - and hence the Australian economy more broadly.

## **Principles of proposed legislation**

In line with our values, Lion believes the timely payment of all suppliers is core to good business practice. All businesses should also have access to fair, proper and flexible arrangements when made in mutually beneficial circumstances (as per normal commercial relationships).

Lion supports an informed public debate about the issue and an increase in focus on all companies improving their approach to payment arrangements. As outlined in the Consultation Paper, there is direct economic benefit to improvements to payment times, particularly for small to medium sized enterprises.

That said, it is important to note that any new regulation must be viewed in the context of the increased regulatory compliance requirements of all businesses.

Additions to reporting in isolation may indeed have merit, but the overall picture of business compliance and red tape should also be a consideration.

In this vein, if the Commonwealth is to legislate for this new reporting requirement, Lion proposes the following amendments to the requirements that uphold the intent and principles of the proposal yet gives greater consideration to limiting red tape and compliance burden.

This upholds the Commonwealth's mission under the De-Regulation Task Force, which aims to lower the cost of regulation while retaining the benefits.

## **Frequency of reporting – annual report instead of bi-annually**

While the information in a raw data sense may be available and visible to businesses, the effort involved in generating this for submission should not be underestimated from a systems and process perspective.

To abate this while still meeting the intent of the legislation, the reporting requirements should be limited to an annual reporting only, not every six months.

An annual view, by enterprise, of their approach to payment timeframes, would give suppliers, regulators and the broader business community sufficient, new transparency in line with with the legislation's purpose.

## **Report sign off – remove the need for principal governing body sign off**

Lion does not support the proposal in the Consultation Paper regarding the sign off of the report being required by a responsible member and the principal governing body.

The sign off should only be required by the responsible member, eg CEO or CFO. Board protocols and processes are unnecessary steps for entities to complete for this type of reporting, the involvement of the CEO or CFO provides adequate executive oversight without creating additional delays. Board notification of the final report is a sufficient measure regarding the principal governing body.

## **Reporting requirements – Minister's Rules should also be open to consultation**

As stated above, Lion supports the intent of increasing transparency regarding the timely payment of suppliers. Lion submits that the payment times reporting framework focuses solely on the timeliness of payments, which is at the core of the legislation and the consultation paper.

Parameters for the regulation must be designed to ensure so there are unintended consequences for both parties in the transaction.

As much of the detail will be finalised as part of the Minister's Rules, we seek to also have the opportunity comment on those Rules via a similar consultation process.

## **Further information or contact**

Dan Holland – Policy and Public Affairs

Lion Group

[Dan.holland@lionco.com](mailto:Dan.holland@lionco.com) / 0429 364 299