



Australia: growing demand for sound market intelligence and insurance protection

Atradius Payment Practices Barometer





two-way trading partners

Top 5

- China
- Japan
- United States
- Republic of Korea
- India

Source: Australian Government, Dept. of Foreign Affairs and Trade

imports

Top 5

- Machinery
- Mineral fuels including oil
- Vehicles
- Electrical machinery, equipment
- Optical, technical

Source: WTEEx

exports

Top 5

- Mineral fuels including oil
- Ores, slag, ash
- Gems, precious metals
- Meat
- Inorganic chemicals

Source: WTEEx

Australia's economy is losing some steam, with GDP forecast to decrease to 2.1% from 2.8% last year.



Mark Hoppe,
Managing Director for Oceania
 commented on the report

“

The global economic outlook for 2019 is uncertain with growth rates expected to ease. Tightening global monetary conditions and increased volatility in financial markets are all contributing to the slowdown. Trade tensions, along with unsolved disputes over trade tariffs, cloud the global outlook.

Businesses all over the world, including Australia, are currently facing challenging times, and for this reason, there is growing demand for sound market intelligence and insurance protection.

Australian businesses recognise the need for strong and positive trade relationships, which require sound credit management and this is exactly what we can offer.

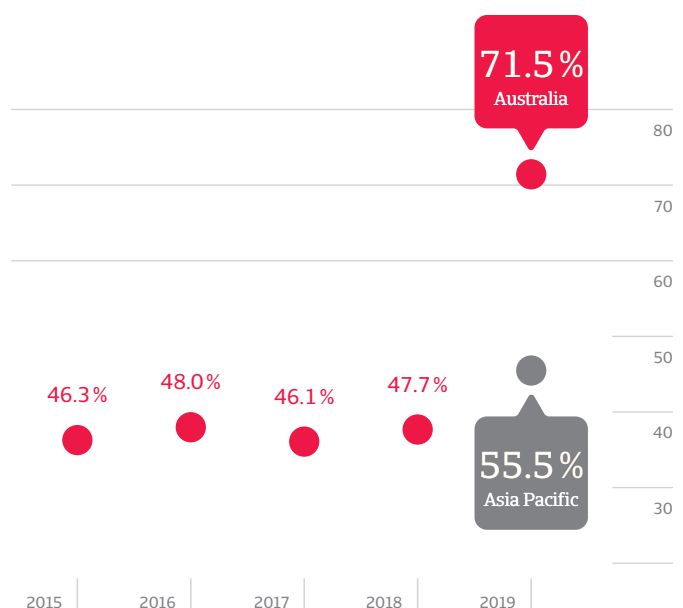
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Australian respondents lead the way in Asia Pacific in terms of selling on credit to B2B customers

Uncertainties over the continued trade dispute between the USA and China, Australia's biggest trading partner, are clouding the economic outlook for a country where concerns about deterioration of the domestic economy and tighter financial conditions for businesses are high. According to most of our survey respondents in Australia, this could lead to a shortage of capital and restrict business growth.

Australian respondents are operating in a more challenging business environment than last year. The business environment is more competitive putting more pressure on profits. To keep sales levels up, Australian respondents have been offering B2B customers credit significantly more often than they had in the past. Compared to one year ago, there was a 50% increase in B2B sales made on credit by respondents in Australia. Credit sales now amount to 71.5% of the total value of sales to B2B customers, up from 47.7% last year. Cash-based sales, in contrast, contracted to 28.5%, down from 52.3% last year. These figures position Australia as the country leading the way in Asia Pacific in terms of granting trade credit on B2B transactions.

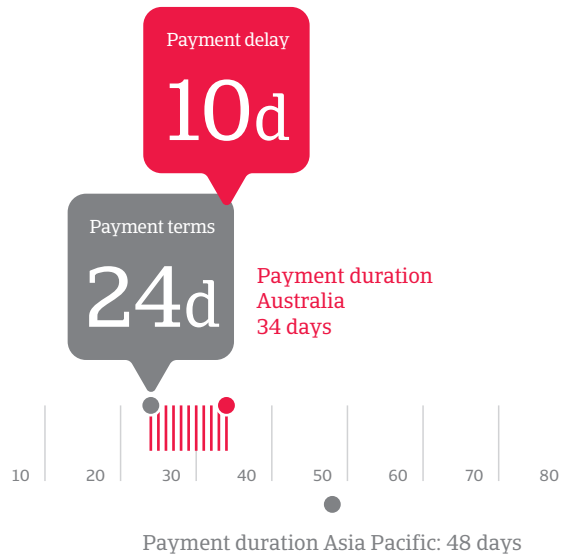
Proportion of total B2B sales made on credit in Australia



Sample: companies interviewed (active in domestic and foreign markets)
 Source: Atradius Payment Practices Barometer – May 2019



Payment duration in Australia



d = average days

Sample: companies interviewed (active in domestic and foreign markets)

Source: Atradius Payment Practices Barometer – May 2019

Payment terms of respondents in Australia are the shortest in Asia Pacific

Not surprisingly, with such large volumes of goods sold on credit respondents in Australia appear to be keenly focused on collecting receivables as quickly as possible to reduce the costs associated with payment defaults and losses on uncollectable invoices. To accelerate the collection of invoices, reduce the risk of uncollectable invoices, and lower external financing costs respondents in Australia appear to maintain very strict credit management policies, with short payment terms. These average 24 days from the invoice date, two days shorter than last year and well below the 32 days average for Asia Pacific. These are the shortest payment terms in Asia Pacific.

1 in 4 Australian respondents reported no strategic approach to credit management

Survey findings in Australia highlight that businesses' credit policies are a balanced mix of credit management techniques, adding to the short payment terms commented on earlier. The assessment of the credit quality of the customer, prior to making any trade credit decision, plays a key role in respondents' common business practices (as mentioned by 26% of respondents). The same percentage of respondents also offer early payment discounts to encourage customers to pay their invoices earlier than the due date. While there appears to be a significant focus on collecting payment of invoices, it is striking that 1 in 4 Australian respondents stated they do not have a strategic approach to credit management.

Bad debts written off as uncollectable increased over the past year

Survey findings reveal that, this year, Australian respondents are converting past due invoices into cash six days faster than last year. On average, overdue invoices are collected within 10 days of the invoice due date. Despite this marked improvement, on average, 20.6% of the total value of B2B invoices issued by survey respondents is past due (well below the 29.8% average for Asia Pacific). In order to remain financially sound and avoid liquidity issues caused by customers' payment default, many Australian respondents (34%) said they had to delay payment of invoices to their own suppliers. 31% reported they had to take various internal and external measures to correct cash flow, while 46% reported no significant impact on their business. On the negative side, receivables that were written off as uncollectable increased to 1.7% of the total value of B2B sales on credit (up from 1.3% last year). This suggests that businesses are less successful in collecting long overdue invoices, but also that the business environment could be deteriorating. Despite the increase, write-offs were below the 2.1% regional average.

Growing interest in using credit insurance to more safely increase sales and profitability

The majority of respondents in Australia (68%) do not anticipate changes in the payment practices of their B2B customers over the coming months. 21% anticipate an improvement, while 11% expect a worsening in the form of an increase in late payments. To protect their business against the risk of payment default by their B2B customers, many Australian respondents (47%) will increase reserves against bad debts or use credit insurance.

Atradius · Key Findings

1 in 4
Australian respondents reported no strategic approach to credit management.

Atradius Payment Practices Barometer – May 2019



31%

of respondents in Australia reported they had to take various internal and external measures to correct cash flow

Overview of payment practices in Australia

By business sector

Longest average payment terms in the manufacturing and consumer durables sectors. Shortest in the services and agri-food sectors.

Australian respondents from both the manufacturing and the consumer durables sectors extended the longest average payment terms (averaging 29 days and 28 days from the invoice date respectively). The construction sector follows suit with payment terms averaging 27 days. Respondents from the services and agri-food sectors extended the shortest payment terms (averaging 24 days).

Trade credit risk is high in the wholesale/retail/distribution and consumer durables sectors

The value of overdue invoices in the Australian consumer durables sector and the wholesale/retail/distribution sector amounts to 35.6% and 31.1% respectively based on the total value of respondents' B2B invoices. This compares to an average of 20.1% in the manufacturing sector, of 15.7% in the services sector, and of 22.3% in the construction sector.

Proportion of uncollectable receivables highest in the wholesale/retail/distribution, agri-food and consumer durables sectors

On average, 2.1% of the B2B receivables from respondents in the Australian wholesale/retail/distribution sector were written off as uncollectable. This is the highest proportion in the country. At the other end of the scale, 1.6% and 1.5% of the receivables from respondents in the manufacturing and services sectors, respectively, were written off as uncollectable. The agri-food sector (1.9% of trade receivables written off as uncollectable) and both the consumer durables and construction sectors (1.7% each) fell in the middle.

“

A strategic approach to credit management should begin right from the start, even before the credit sale is made.

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Owner - SME - Consumer durables sector



Overview of payment practices in Australia

By business size

Strict credit policy across all sizes of businesses surveyed in Australia

Respondents across all business sizes surveyed in Australia extend payment terms that do not differ significantly from the country average. In other words, short payment terms are more or less the standard for the country.

Large enterprises in Australia the hardest hit by payment defaults of B2B customers

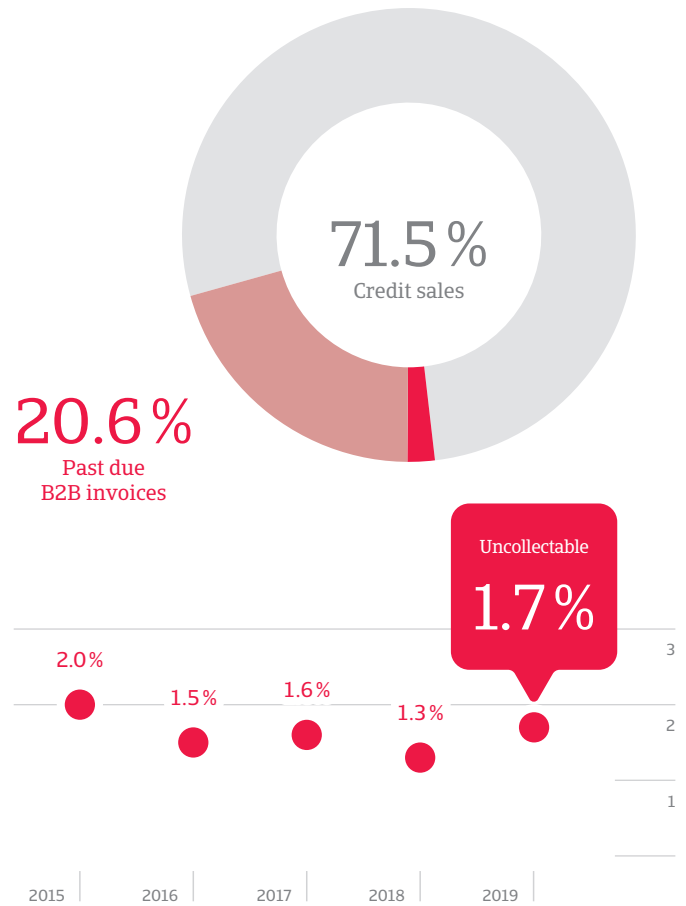
Overdue B2B invoices in large enterprises now account for 25.7% of the total value of B2B invoices. This compares to 23.8% for SMEs and to 14.9% for micro-enterprises.

Australian micro enterprises least impacted by uncollectable invoices

Large enterprises in Australia recorded the highest proportion (2.7%) of B2B receivables written off as uncollectable. The average for SMEs is 2.3% and for micro-enterprises less than 1%.

Uncollectable B2B receivables in Australia

(% of total value of B2B receivables)



Atradius · Key Findings

25%
of respondents in Australia said that they will be forced to cut investment in property, plant and equipment due to liquidity issues.

Atradius Payment Practices Barometer – May 2019

Sample: companies interviewed (active in domestic and foreign markets)
Source: Atradius Payment Practices Barometer – May 2019

Survey design for Asia Pacific

Survey objectives

Atradius conducts annual reviews of international corporate payment practices through a survey called the 'Atradius Payment Practices Barometer'. In this report focusing on Asia Pacific, which is part of the 2019 edition of the Atradius Payment Practices Barometer, companies from eight countries (Australia, China, Hong Kong, India, Indonesia, Japan, Singapore and Taiwan) have been surveyed. Due to a change in research methodology for this survey, for some of the presents results, no year-on-year comparison is feasible.

Using a questionnaire, Conclusr Research conducted a net of 1,718 interviews. All interviews were conducted exclusively for Atradius, without any combination of topics.

Survey scope

- Basic population: companies from eight countries (Australia, China, Hong Kong, India, Indonesia, Japan, Singapore and Taiwan) were monitored. The appropriate contacts for accounts receivable management were interviewed.
- Selection process – Internet survey: companies were selected and contacted by use of an international Internet panel. A screening for the appropriate contact and for quota control was conducted at the beginning of the interview.
- Sample: N=1,718 people were interviewed in total (approximately n=200 people per country). In each country a quota was maintained according to three classes of company size.
- Interview: Web-assisted personal interviews (WAPI) of approximately 15 minutes duration. Interview period: Q1 of 2019.

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Sample overview – Total interviews = 1,718

Country	n	%
Australia	219	12.7
China	218	12.7
Hong Kong	209	12.2
India	219	12.7
Indonesia	219	12.7
Japan	212	12.3
Singapore	210	12.4
Taiwan	212	12.3
Industry	n	%
Manufacturing	539	31.4
Wholesale trade/ Retail trade / Distribution	872	50.8
Services	307	17.8
Business size	n	%
Micro enterprises	701	40.8
SME (Small/Medium enterprises)	550	32.0
Large enterprises	467	27.2

It may occur that the results are a percent more or less than 100%. This is the consequence of rounding off the results. Rather than adjusting the outcome so that it totalled 100%, we have chosen to leave the individual results as they were to allow for the most accurate representation possible.



Statistical appendix

Find detailed charts and figures in the Statistical Appendix for Asia Pacific. This is part of the May 2019 Payment Practices Barometer of Atradius, available at www.atradius.com.au/publications

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For more **insights into the B2B receivables collection practices in Australia** and worldwide, please see the Global Collections Review by Atradius Collections (free download after registration), available on www.atradiuscollections.com

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