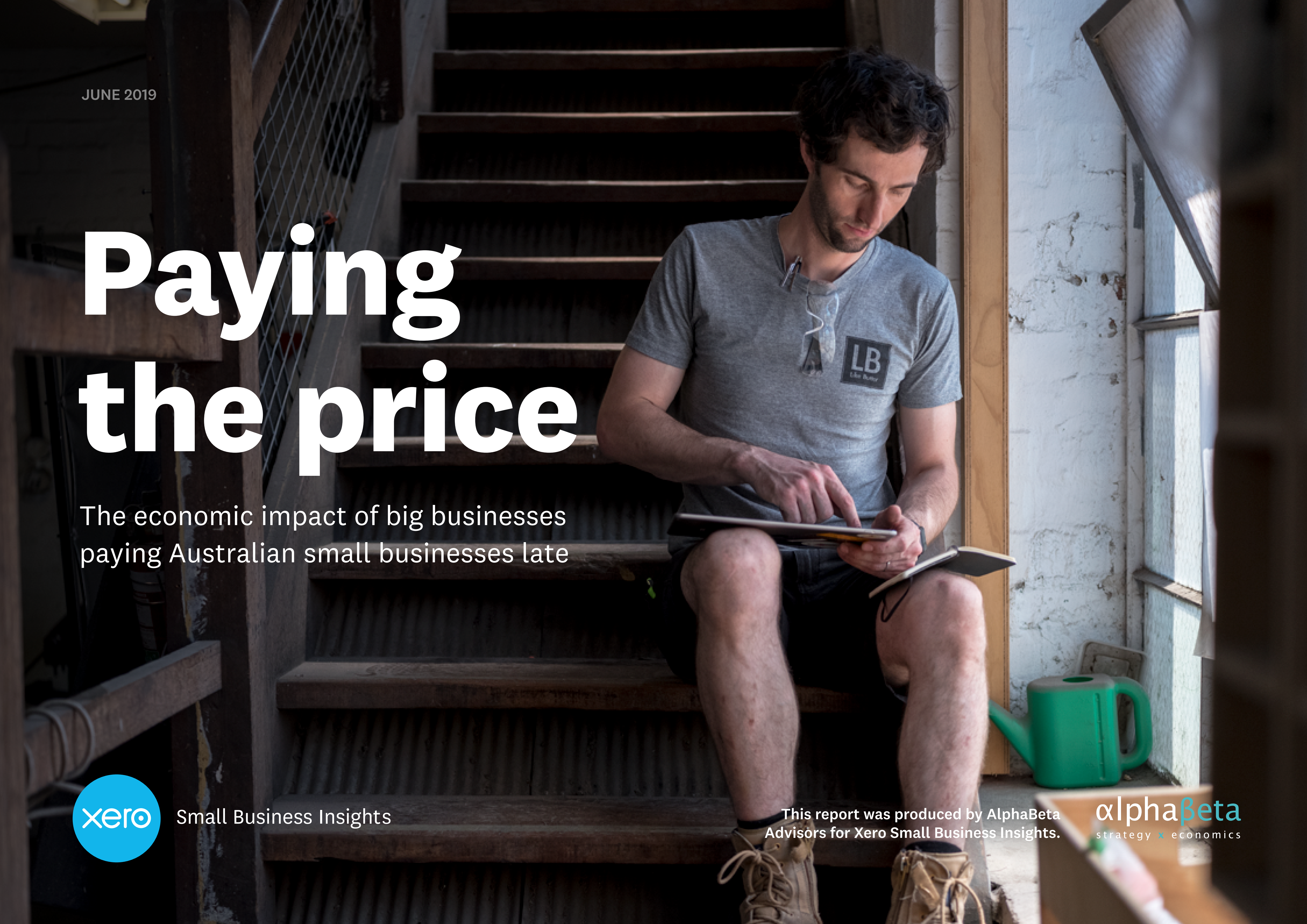

JUNE 2019

Paying the price

The economic impact of big businesses paying Australian small businesses late

xero Small Business Insights

This report was produced by AlphaBeta Advisors for Xero Small Business Insights.

alphaβeta strategy × economics

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This report is published by Xero Small Business Insights with the support of AlphaBeta Advisors, a leading strategy and economics firm. All information in this report is derived from AlphaBeta analysis using aggregated, anonymous Xero SBI data, AlphaBeta estimates, or publicly available data from the Australian Bureau of Statistics (ABS), Australian Banking Association (ABA), and the Reserve Bank of Australia (RBA). Where information has been obtained from third-parties, this is clearly referenced.

Executive summary

Late payments are a significant source of financial pain for Australian small and medium businesses (SMBs), with an estimated $115 billion in payments from large businesses to SMBs paid late each year.[1] When SMBs are paid late, it pressures them financially and hampers their ability to invest, grow and employ. It also constrains economic potential. Small businesses generate a third of private-sector gross domestic product and employ nearly half of all workers. When small businesses struggle, the effect ripples through the economy.

Xero data provides insights into payment behaviour
To better understand the extent and impact of late payments, this report uses data from Xero Small Business Insights (Xero SBI). It includes information on more than 10 million invoices issued by more than 150,000 SMBs. We selected businesses that had been on the Xero platform for several years and that were connected to an advisor. The data was aggregated and anonymised before analysis to protect the privacy of SMBs and their counterparts.

Because the identity of small businesses' customers is anonymous, we've assumed that average patterns of late payment by all customers, as observed in Xero, also apply to large business customers. This has allowed us to create a model of big business behaviour while maintaining privacy safeguards.

Late payments to SMBs are a systemic problem
Our analysis reveals a systemic problem with late payments to small businesses. Just over half of trade credit invoices sent by Xero subscribers (i.e., invoices where payment is not due until at least one day after the day the invoice is created) are paid late. These are customers of all sizes, and their payments arrive an average of 23 days after they are due.[2]

If we assume big businesses[3] pay a similar proportion of their SMB invoices 23 days late, we can estimate the national value of large businesses' late payments. Based on Australian Bureau of Statistics (ABS) trade figures and AlphaBeta estimates, we calculate the value of big businesses' late payments to small business is about $115 billion a year.

Long waits for payment impact business and economic health
However, it's not just late payments that impact the health of SMBs. Small businesses that endure long payment wait times, even if the invoices aren't strictly overdue, have poorer outcomes. Our analysis shows that SMBs that are paid more slowly than average have about a third lower revenue growth than those paid faster than average. Long payment times may also have a domino effect across the economy: an SMB paid more slowly than average tends to pay its suppliers more than a week later than an SMB paid earlier.

Resolving this situation by paying SMBs more promptly could deliver a net benefit to SMBs and to the economy. If large businesses paid all invoices to SMBs on time, it could effectively transfer $7 billion in capital from large businesses to SMBs. This could deliver a benefit to SMBs of $4.38 billion over ten years by reducing their financing costs and encouraging them to invest.

1 Value of sales calculated based on ABS statistics reported in *8155.0 – Australian Industry 2016-17*. Percentage of trade credit is calculated based on AlphaBeta's estimates. See section 1.1 for a detailed breakdown.
2 Calculated based on AlphaBeta's analysis of Xero SBI data.
3 A large or big business is defined in this report as a business with 200 or more employees. These terms are used interchangeably throughout the report.

1. Australian SMBs are regularly paid late

Large businesses pay an estimated 53 percent of SMB invoices late

Trade between large businesses and SMBs is a critical part of the economy. Australian SMBs sell an estimated $280 billion worth of goods and services to large businesses each year, based on ABS figures. Some of that amount is paid immediately, and some is made on trade credit, ie, by issuing invoices.

In this report, we estimate that 23 percent of small-business invoices issued by large businesses are paid immediately, with the remaining 77 percent made on trade credit. A large business is defined here as one with 200 or more employees.

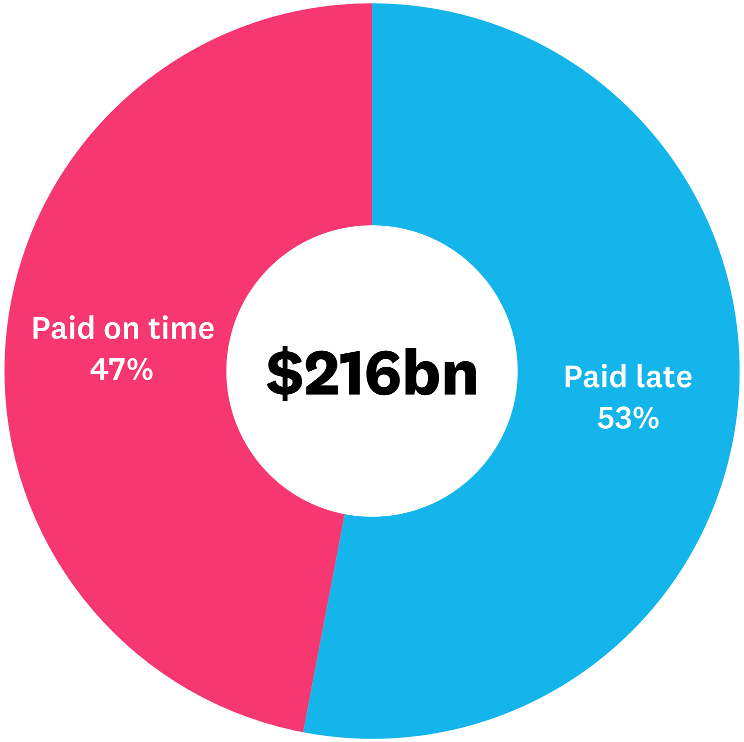
Applying this percentage breakdown to the $280 billion figure above suggests SMBs issue an estimated $216 billion a year worth of trade credit invoices to big businesses across Australia.

Roughly how much of this $216 billion is paid late by big business? Xero SBI data provides a guide: when looking at SMB invoices to customers of all sizes, just over half (53%) are paid late. By assuming that same percentage applies to big businesses, we estimate the value of their late payments to small businesses is $115 billion each year[4] *(See figure 1).*

4 Value of sales calculated based on ABS statistics reported in *8155.0 – Australian Industry 2016-17*. Percentage of trade credit calculated based on AlphaBeta's estimates.

$115bn is paid late each year by big business to small business

Estimated trade credit paid late by big business
July 2017 - June 2018



Of the $216bn in trade credit issued from small to large businesses yearly, an estimated 53% of payments arrive late

Estimated value of late payments from large to small businesses
Annual, July 2017 - June 2018

$115bn

Average number of days late

23 days

Method: Days calculated from date of invoice issue to date of invoice paid. | Source: Xero SBI data, ABS data, AlphaBeta estimate and analysis

Business profile 1: Dello Mano

Every entrepreneur begins with a dream. For Deborah Peralta of Brisbane, it was to take a bite-sized brownie and build it into something big.

Deborah created brownie recipes late at night, replacing the expensive market research she commissioned at her day job by testing her brownies at her children's school events and luncheons.

"One day at a morning tea, a woman stood up and said 'Who baked these? They are the best brownies I've ever tasted,'" said Deborah, a former food scientist and marketer for multinationals including Cadbury and Kellogg. "At that point, the light bulb switched on and I thought we were ready to go commercial with **Dello Mano**."

That was 2006. Today, the small brownies – just a few square centimeters – generate millions of dollars a year in revenue as corporate gifts and consumer purchases. Hollywood celebrity Ashton Kutcher once had a batch overnighted to him in Paris for his birthday party. But even a small business of Dello Mano's scale has to contend with late payments.

Dello Mano's payment terms are 14 days, and some customers flout them, says Deborah. She recently hired someone to chase late payments on their behalf. Dello Mano also uses automated invoice reminders in Xero for overdue payments.

"When we started out, we were flexible with payments," says Deborah. "We lived in fear of scaring off customers. Those attitudes can persist even when you're an established business. Recently, we've decided it's time to step up and quit being scared of asking for payment."

The Queensland-based business sets money aside in several accounts to cover any cash shortages that might arise from late payments.

"If we didn't have to do that, we could put the money toward equipment such as a new oven," says Deborah.

For large invoices, they typically ask for a deposit before baking. But with one notable corporate invoice in the tens of thousands of dollars, they asked for 100 percent payment up front. To their surprise, the customer said yes.

"We're realising that some of the barriers we face are psychological, a failure to fairly value our product," says Deborah. "Getting over that is a big step."

Bien & Deborah Peralta, Dello Mano

Paying on time could deliver a net economic boost to SMBs and the economy

Paying small businesses promptly makes economic sense. Presently, Australian SMBs extend an estimated $216 billion in trade credit to large businesses each year. Around $115 billion of that credit (53 percent) is paid late, on average by 23 days.

If these late payments were paid on time rather than 23 days late, it would be equivalent to $7 billion[5] in working capital being transferred from large businesses to SMBs.

This is because when a large business pays a small business late, it increases the receivables of the small business and reduces the payables of the large business. Ending late payments would be equivalent to an increase in the working capital of the small business and a decrease in the working capital of the large business.

If all trade credit payments from large businesses to small businesses were made on time, the impact would be the financial equivalent of large businesses providing a zero-interest in-perpetuity loan to small businesses (of $7 billion). Small businesses could respond to this loan by reinvesting this $7 billion either into reducing their net debt (thereby lowering their net financing costs) or increasing investment in fixed capital and increasing their output (if they are capital constrained).

The combined effect of lower financing costs and increased investment could deliver a benefit of $4.38 billion over ten years for Australia's small businesses.

On-time payment would have a positive net economic impact

But how would this $4.38 billion figure translate into the broader economy? Analysis undertaken for this study finds there would be a net positive benefit of $2.54 billion in net-present-value terms over 10 years to Australia from reducing late payments *(See figure 2)*. This is because SMBs pay more for financing than large businesses. We assume SMBs pay interest rates of 8 percent and large businesses pay interest rates of 3 percent, based on RBA data.

This results in a net benefit for the economy because the positive effect on small businesses is greater than the negative effect on large businesses. The reason for this asymmetry is that small businesses are more credit constrained and face higher finance costs than large businesses. Therefore, SMBs have a larger financing cost benefit.

We estimate the net economic benefit of the financing cost effect to be $1.99 billion in financing savings over 10 years if large businesses paid SMBs faster. This is calculated by taking the reduced financing costs of the SMBs and subtracting the increased financing costs of the large businesses.

Research undertaken by the Australian Banking Association has found that small businesses often rely on high-cost, short-term funding sources such as credit cards, or on equity-secured loans such as property mortgages.[6] These funding sources have higher borrowing costs compared to bank financing.

5 $115 billion of payments are made late with the average lateness being 23 days. This means that the amount outstanding at any point in time is $7 bn (ie, $7bn = $115bn x 23 days / 365 days). AlphaBeta analysis. Value of working capital calculated based on ABS statistics reported in *8155.0 – Australian Industry 2016-17* and Xero SBI data.

6 Australian Banking Association (2016), *The small business sector in Australia – Economic Report*

There is also a growing divide between small and large businesses in their access to bank lending. The Reserve Bank of Australia data shows that less than a third of total business credit goes to small businesses, and their share of total business credit has declined by 19 percent since 2011.[7] Even though paying SMBs on time would require that large organisations finance the transfer in working capital by seeking additional debt, the net effect is still likely to be positive on the economy. This is because large businesses would pay lower borrowing costs, and those costs would be less than the costs to SMBs of bearing the equivalent financing impact from late payments.

We estimate that there would be a second, additional net benefit of about $550 million over 10 years from the return on the extra fixed capital that SMBs could invest if paid promptly. The net benefit arises because SMBs are more capital constrained than large businesses. This means they are more likely to invest if being paid on time partially relieves their capital constraints. A large business, by contrast, is more likely to be able to tap an alternative financing source to replace the working capital transferred through prompter payments.

For these reasons, if big business paid Australian SMBs on time, we expect it would relieve financing pressure on SMBs, helping them invest, hire and grow, while delivering a net economic benefit to the economy of $2.54 billion over 10 years.

Figure 2

If large businesses paid SMBs on time, SMBs would gain $4.38bn over 10 years while large businesses would lose just $1.84bn

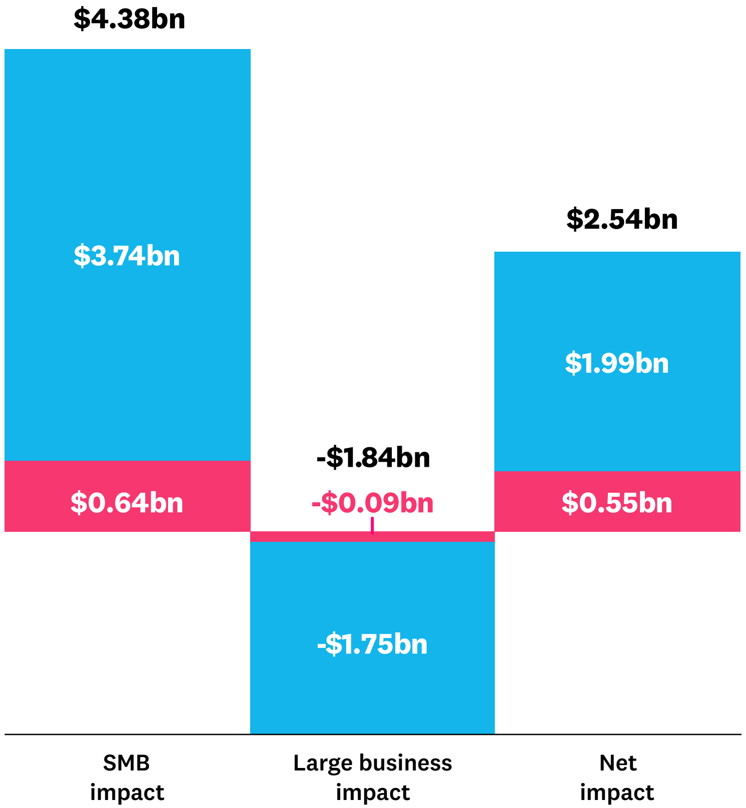
Total benefit of eliminating large business late payments to small businesses

10 year impact, $bn

- Interest expense impact
- Investment impact on revenue

Being paid on time would mean SMBs gain $4.38bn from lower finance costs and greater investable capital.

Large businesses only lose $1.84bn because they face lower interest rates and fewer capital constraints.



7 Reserve Bank of Australia (2019), *Statistical Table D7.3 – Bank Lending to Business*

Note: Partial equilibrium results | Source: Xero SBI data, ABS data, AlphaBeta analysis

2. Longer wait times correlate with poorer business performance

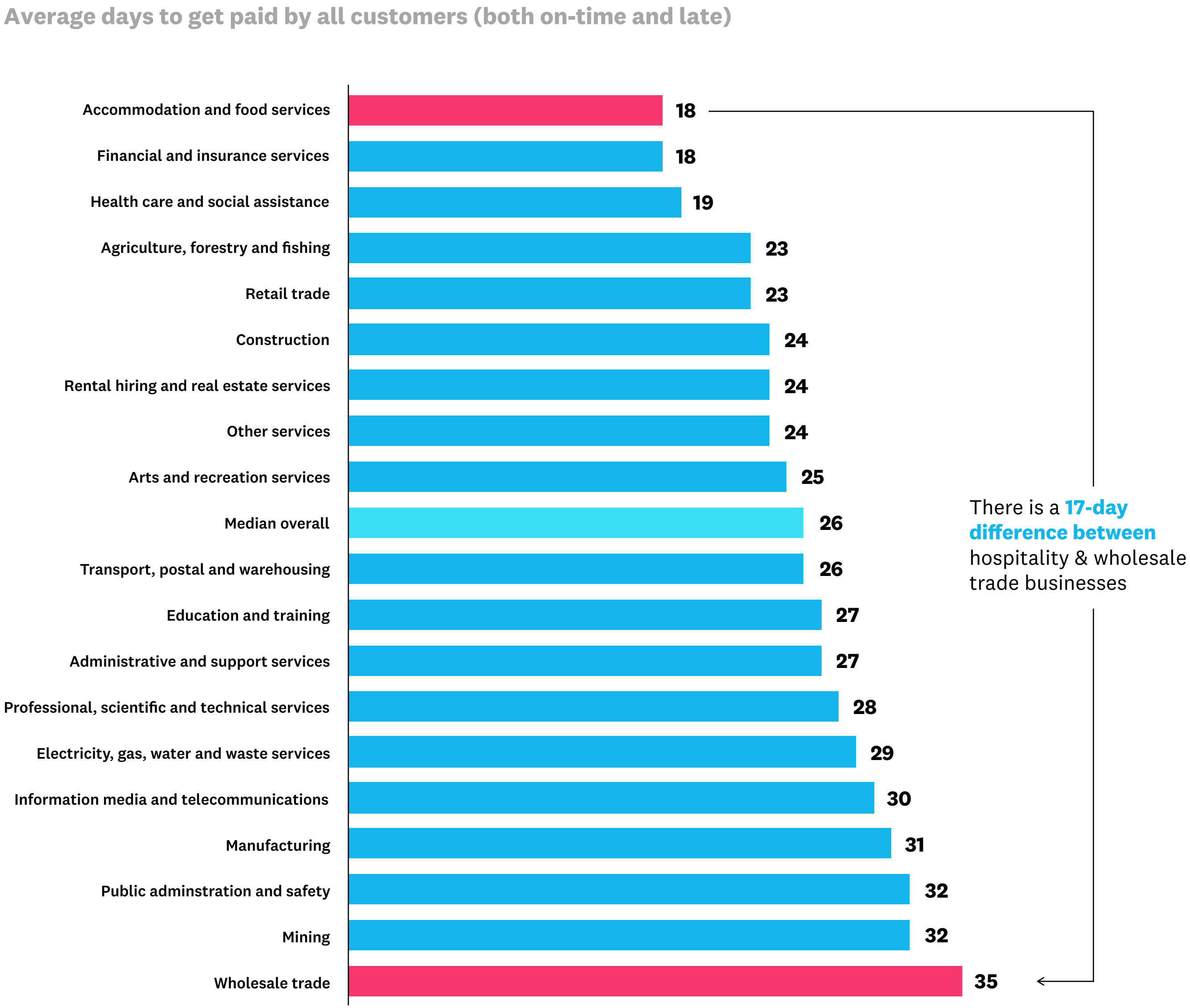
Long payment practices vary by industry

Trade credit invoices are a long-standing and well-accepted practice between businesses. However, problems arise for SMBs when they endure long waits for payment, even if payment isn't strictly late. This is because during the period where the SMB issues trade credit, the SMB must bear the cost of producing the goods or services sold to the customer as well as the overheads associated with running a business. This differential can quickly create cash flow and financing pressures, which in turn are likely to restrict SMBs' ability to pay down debt or invest in the business.

Our analysis finds that among Xero subscribers, businesses in the hospitality sector get paid fastest on average, at 18 days. This includes all payments -- both on time and late -- from all customers, not just big business. By contrast, small businesses in wholesale trade wait longest for payment, on average 35 days *(See figure 3)*.

Figure 3

Small businesses in hospitality get paid fastest while those in wholesale trade wait longest



Source: Xero SBI data, AlphaBeta analysis

SMBs that wait longer for payment grow a third more slowly

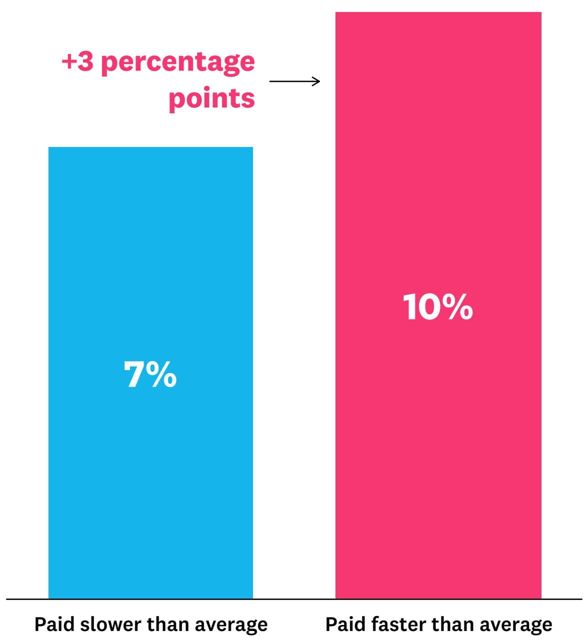
Analysis of anonymised Xero SBI data for this study confirms SMBs are negatively affected by slow payments. Xero subscribers who wait longer than average grow revenue about one-third slower than those that are paid faster than the average *(See figure 4)*. This should not necessarily be interpreted as a causal relationship, as many unobserved factors can affect revenue growth.

Figure 4

Small businesses that are paid slower than average grow revenue about a third slower than those paid faster than average

Average annual revenue growth rate

SMBs that are paid slower than average have **3 percentage points' lower revenue growth** than those paid faster than average.



Results over 128,831 observations for FY15-17. | Source: Xero SBI data, AlphaBeta analysis

Business profile 2: DFA Earthworks

"I never wanted to be self-employed," says small business owner Paul Buggy. "My dad was a self-employed plumber his whole life and it stressed him out."

But Victoria's explosive growth in home construction forced Paul to reconsider. While working in a plumbing-related field, he traveled the length of Victoria. He noticed rural land was being cleared for housing estates almost everywhere he looked.

"I thought to myself, "If you owned an excavator, you would never run out of work.'"

He already had a friend who drove excavators. And another friend looking to diversify his career. So Paul joined his two mates and founded an excavation company **DFA Earthworks**, based in the outer east of Melbourne.

"I broke the cardinal rule of starting a business: do not involve your friends," says Paul, with a laugh. "But the opportunity was too good to pass up."

A year and a half ago, the friends invested their savings in an excavator, a truck to tow it and a trailer to carry it. They now work in the construction industry, where the Xero SBI data shows the average small business waits 24 days for payment.

Paul issues invoices with 30-day terms. While "most customers pay pretty well," he notes he's awaiting payment on an $18,000 invoice issued 60 days ago. "A delay like that really hurts our cash flow."

While his business awaits payment, the expenses keep coming: registration payments, e-tags charges, insurance, landfill charges of about $2,000 a month to drop off waste; and of course there are ongoing fuel and maintenance costs for the excavator and truck.

"I work with small businesses, so I understand their cash-flow situation can be tight," says Paul. "But at some point, unpaid bills will have to be covered out of my own pocket."

This year, both Paul and his co-owner at DFA have had to inject their own money into the business to cover costs when there's been a cash shortfall.

"If we got paid on time, we'd try to recover some of that money," says Paul. "Once we had done that, we could look at expanding the business. DFA is an investment. It's like buying into the share market – we hope to see a return in the long term."

Paul Buggy, DFA Earthworks

SMBs that are paid slowly also pay their own suppliers slowly

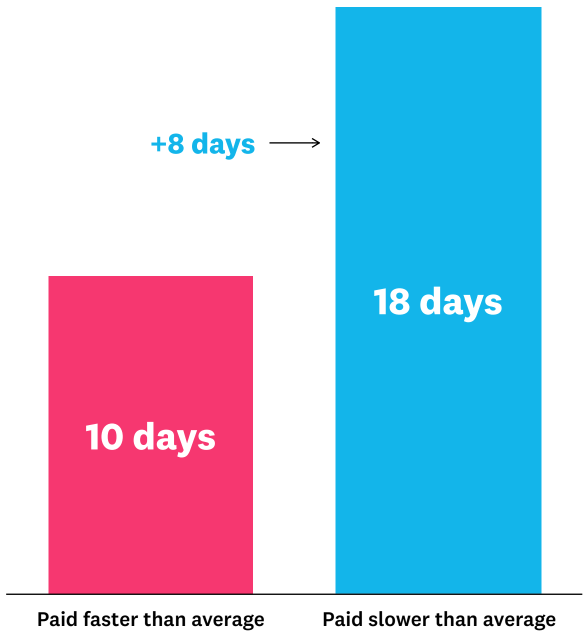
Payment times may also have a domino effect through the economy. Analysis of Xero SBI data for this study found that Xero subscribers paid more slowly than average also pay their own suppliers eight days more slowly than SMBs paid earlier than average *(See figure 5)*. One explanation may be that slow payment to an SMB triggers a series of further delayed payments to its own suppliers. Again, this should not necessarily be interpreted as a causal relationship, as many unobserved factors can affect a small businesses' payment times to suppliers.

Figure 5

Faster payment times flow through the economy: SMBs paid faster than average pay their own suppliers 8 days sooner

Days taken to pay own suppliers

SMBs that are **paid faster than average pay their own suppliers 8 days sooner** than those that are paid slower than average.



Results over 241,967 observations for FY15-17. | Source: Xero SBI data, AlphaBeta analysis

Business profile 3: Little Village Creative

After working at top creative agencies for almost a decade, Carolyn Stebbing decided in 2015 to get truly creative: she started her own advertising firm.

“I always wanted to run my own business,” says Carolyn, who had worked at agencies including Saatchi & Saatchi. “The idea of building a culture from scratch and creating the change I wanted to see was appealing.”

Four years later, she manages a team of more than 40 freelancers including technical writers and web developers at **Little Village Creative**, based in Richmond, Victoria. The firm has developed a reputation as the go-to agency for emerging fintech businesses in Melbourne. Clients have included AccountKit, Trustpilot, and SocietyOne.

“When creative agencies start work for a client, we go into arrears,” Carolyn says. “It's likely we'll need to ship a completed job to meet a deadline before we get paid and issue the final invoice. It’s not unheard of to pay five figures to a production house before a customer has paid their bill.”

The arrangement works fine when customers pay within Little Village’s 14-day terms. But when they don’t, it can bring business to a standstill.

“I had a situation not long ago where several substantial invoices were overdue. And that can have a flow-on effect,” says Carolyn.

“What clients don’t think about is when they pay late, it can affect dozens of other businesses – printers, film companies, contractors -- who depend on small businesses like mine for their livelihood.”

Carolyn says she has no choice but to maintain a cash buffer to offset any late payments. But if she was paid on time, she knows what she would do with the money.

“I’ll tell you right now what I’d do: hire a full-time employee or two,” she says. “I need more me’s, people who can manage projects.”

What tips does Carolyn have to boost the odds of getting paid on time?

“I’ve set up Stripe on my Xero invoices. I tell my customers, ‘If you’re having trouble paying your invoice, pop it on your personal credit card, and you can expense it back to your business.’ It’s hard to argue with that.”

Carolyn Stebbing, Little Village Creative

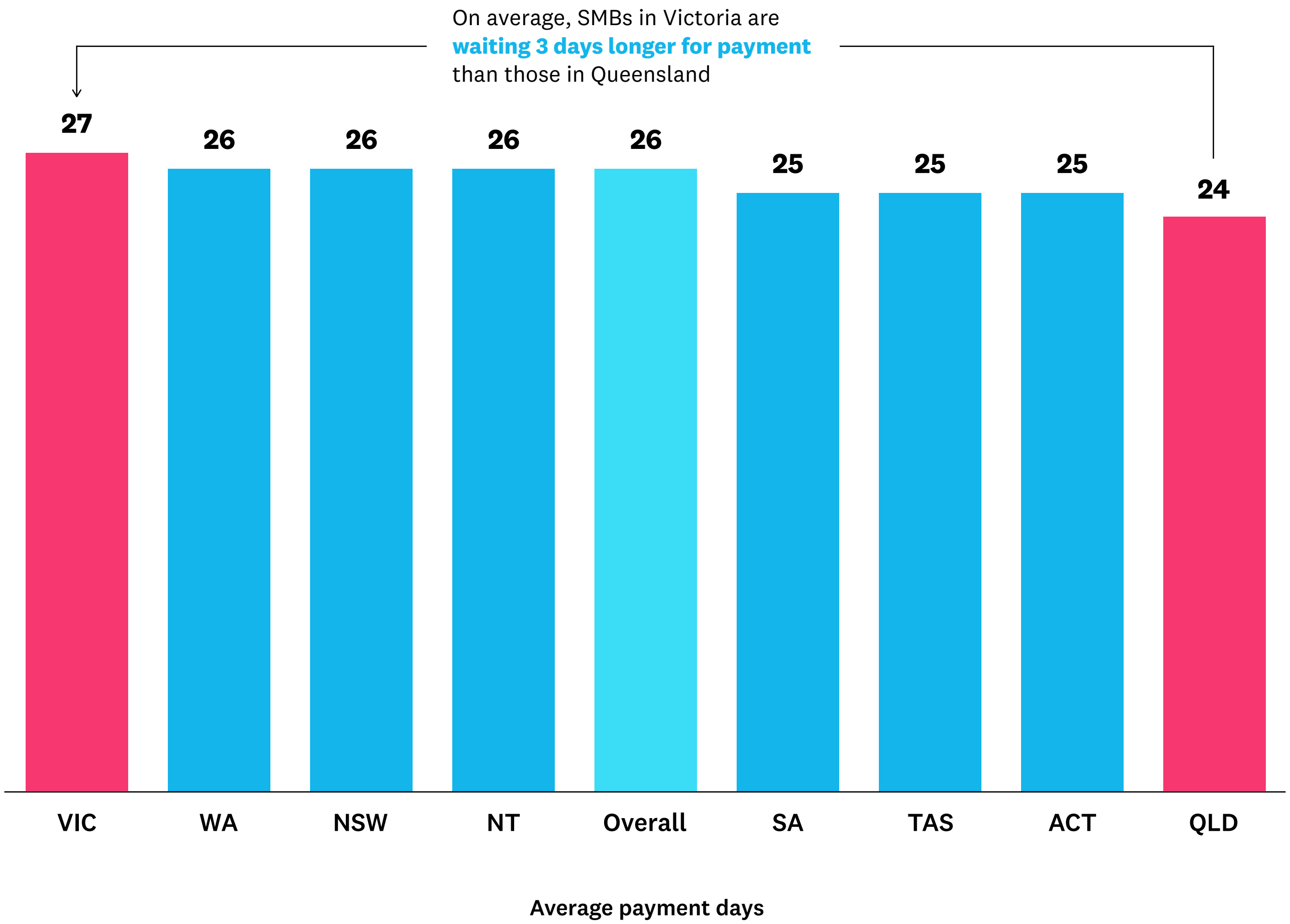
Businesses in some states are paid slower than others

When we examined the payment times for all subscribers in the Xero SBI sample, we found SMBs in the state of Victoria wait the longest to be paid – typically 27 days. That's three days longer than Queensland, the fastest-paying state in the country *(See figure 6)*.

Figure 6

Victoria has the worst payment times, with small businesses waiting 3 days longer to be paid than those in Queensland

Average receivables days in Australia, by state



Source: Xero SBI data, AlphaBeta analysis

3. How can small businesses help themselves to get paid faster?

It’s clear that being paid faster is tied to better outcomes for a small business. And encouragingly, the Australian government is taking steps to expedite payments. Beginning July 1, 2019, the federal government will commit to paying small business invoices within 20 days. Canberra is also encouraging large businesses to do better: Prime Minister Scott Morrison has proposed they be required to publicly report how quickly they pay smaller businesses.

In the meantime, what actions can small businesses take to help get paid faster? The first is establishing shorter payment terms. A separate, earlier Xero analysis of millions of invoices suggests this strategy may reduce waiting times.

Small businesses that set one-week payment terms waited 15 days on average for payment, ie, they were paid about a week late. Businesses that set two-week terms waited 21 days on average – also a week late. Those with three-week terms waited 25 days.

The consistency of lateness – about a week – suggests customers may reflexively add a week to whatever terms are printed on the invoice. Factor that in when setting your terms.

The second step that small businesses can take is to use automated invoice reminders in Xero. Customers can send a friendly e-mail reminder about their bill as soon as it becomes one day late. Some businesses go one better: they send a reminder a few days before the due date, which they say gets results.

The third step is to add a payment service to your invoices. In Australia, invoices created on the Xero platform with an attached payment service were paid an average 55 percent sooner than invoices without. That’s the difference between a 22-day wait and a 12-day wait. While these payment services charge a small fee, the benefits of faster payment may offset this cost.

Conclusion

Prime Minister Scott Morrison called small businesses “the engine room of Australia” earlier this year, and rightly so. They generate nearly half of all jobs and about a third of private-sector GDP, based on ABS figures. Yet this engine is running below capacity due to late payments.

This report shows small businesses are effectively making an interest-free loan of $115 billion a year to large businesses, which pay more than half of SMBs' invoices late. And long waits for payment are tied to worse outcomes for small businesses: those that wait longer than average have about a third lower revenue growth than small businesses paid sooner than average. Delayed payments may also have a ripple effect. SMBs that are paid later than average pay their own suppliers 8 days later than SMBs which receive payment sooner than average.

Turning this situation around will require action from both the government and large businesses. The federal government’s 20-day payment pledge, taking effect in July 2019, is a step in the right direction. Encouragingly, New South Wales and South Australia’s governments are also making great strides, with promises to pay SMBs as quickly as 5 days from receiving an SMB invoice. They may be a bellwether for other states.

How can we get large businesses on board? The Business Council of Australia has helped lead the way, signing up 109 of Australia’s largest corporations to the Council’s voluntary supplier payment code. This is a pledge to pay small businesses within 30 days. Yet those signatories are just a fraction of the roughly 3,800 big businesses registered in Australia.

It is our hope that by calculating the relatively modest cost to big businesses of paying on time, this report will encourage more large businesses to pay promptly. As we have laid out, the relief to small business would be outsized, and the economy would likely gain a net $2.54 billion over a 10-year period. If we can help more small businesses be paid on time, then all Australians stand to benefit.

Appendix: Methodology & assumptions

Data sources
Data for this report comes from a range of sources. The principal source of SMB data is Xero, a small business platform that supports online accounting and a range of other applications. The data used was aggregated and anonymised to ensure the privacy of Xero subscribers, and their counterparts. Our sample design entailed choosing Xero subscribers with a history that would allow us to analyse payment times with some certainty. This involved taking the whole Xero sample and selecting subscribers:

- with a paid subscription.
- with an advisor linked to their account such as an accountant or bookkeeper.
- who had joined Xero before 30 June 2015.

The resulting sample of small businesses was a high-quality sample of Xero subscribers with reliable data available over multiple years.

Estimating trade credit
Trade credit is defined in this report as any payment for which payment terms are extended, ie, the payment date is later than the invoice date. This excludes most immediate payments by cash and credit card. AlphaBeta economists assume that 77% of all payments to SMEs are made on trade credit. In this report, we estimate the total value of all trade credit from all Australian small businesses to large (not just trade credit within the Xero sample). The total value of trade credit is calculated from the following sources: total nominal annual sales of Australian SMBs (Value of sales based on ABS statistics reported in *8155.0 – Australian Industry 2016-17*).

- Total annual sales from SMBs to large businesses in Australia (ABS) calculated as the total income of SMBs multiplied by AlphaBeta estimate of the share of sales to large businesses.
- AlphaBeta economists estimate of the percentage of payments from big business to SMBs made on trade credit.

Estimating payment times
Payment times (the time it takes a business to be paid) and payee times (the time it takes a business to pay) are calculated in the following ways:

- Payment times (the time it takes a business to be paid) are extracted from invoice-level information within Xero. This is calculated as the difference between the invoice date and the date of payment. The share of overdue payments is the total value of invoices paid after their due date, divided by the total value of all invoices. The number of days overdue is the average number of days between the due date and the payment date.
- Payee times (the time it takes a business to pay) are estimated in two ways. For SMBs, the time it takes to pay another business is calculated from invoice data. Payee times are calculated as the average number of days between the invoice date and the date the business pays. For large businesses, analysis was conducted using anonymised Xero SBI data and cross-checked using ABS data.

Assumptions in analysing the behavioural patterns of big businesses
Because the identity of SMBs' counterparts are unknown, we have assumed average patterns of late-payment behaviour observed by all payers in Xero also apply to big businesses. The anonymised nature of the Xero data precludes observing big businesses' payment practices directly. For that reason, we have used the best publicly available data to fill out the picture.

Just over half of trade credit invoices sent by Xero subscribers (ie, invoices where payment is due at least one day after the day the invoice is created) are paid late. These are customers of all sizes, and their payments arrive an average of 23 days after they are due.

We have assumed big businesses pay a similar proportion of their SMB invoices late, and by 23 days, to estimate the national value of large businesses' late payments.

Analysing the impact of late payments on SMBs
We analysed the impact of late payments on the performance of SMBs using anonymised Xero SBI data to compare the performance of small businesses in relation to how they were paid.

- Revenue growth: We analysed the rate of revenue growth of the Xero subscribers and compared this with their payment times. Results are based on 128,831 subscriber observations for FY15-17.

- Accounts payable: We tested whether Xero subscribers who are paid late pay their own suppliers late. We analysed the average days it took for a business to pay its accounts payables and compared this with each business's payment times. Results are based on 241,967 observations for FY15-17.

We present this information as descriptive statistics or correlations. These should not be interpreted as a causal relationship as there are many unobserved factors that affect revenue growth and payment times.

Estimating the total economic value of late payments
We used parameters from the Xero SBI data to estimate the economic impact of late payments from large to small businesses. When a large business pays a small business late, it increases receivables of the small business and reduces the payables of the large business. This is equivalent to an increase in the working capital of the small business and a decrease in the working capital of the large business.

Our approach was to model a counterfactual in which payments from large businesses to small businesses were made on time. The impact is the financial equivalent of large businesses providing a zero-interest in-perpetuity loan to small businesses. The model assumed that:

- small businesses would respond to this loan by either reducing their net debt and lowering their net financing costs or increasing investment in fixed capital and increasing their output (if they are capital constrained).

- large businesses would respond by either increasing their net debt or reducing their investment if they are capital constrained.

- the net effect was likely to be positive on the economy because the financing costs of small businesses are higher than those of large businesses and the volume of small businesses that are capital constrained is higher than large businesses.

- Estimating financing costs. This study assumes SMBs pay interest rates of 8 percent and large businesses pay interest rates of 3 percent. Data on lending rates is sourced from Reserve Bank of Australia (2019), *Statistical Table F5 – Lending Rates*.

- Estimating financing constraints. Data on funding sources for SMBs is sourced from Australian Banking Association (2016), *The small business sector in Australia – Economic Report*. Data on lending comes from Reserve Bank of Australia (2019), *Statistical Table D7.3 – Bank Lending to Business*.

Case study interviews
To supplement the analysis, three case study interviews with small businesses were conducted by phone.

Disclaimer
This report, including the insights and analysis contained within it, was prepared by AlphaBeta with the support of Xero, using Xero SBI data, publicly available data and AlphaBeta estimates for the purposes of informing and developing policies to support small business in Australia.

This report includes and is in parts based on assumptions or estimates. It contains general information only and should not be taken as taxation, financial, investment, or legal advice. Xero recommends that readers always obtain specific and detailed professional advice about any business decisions.

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