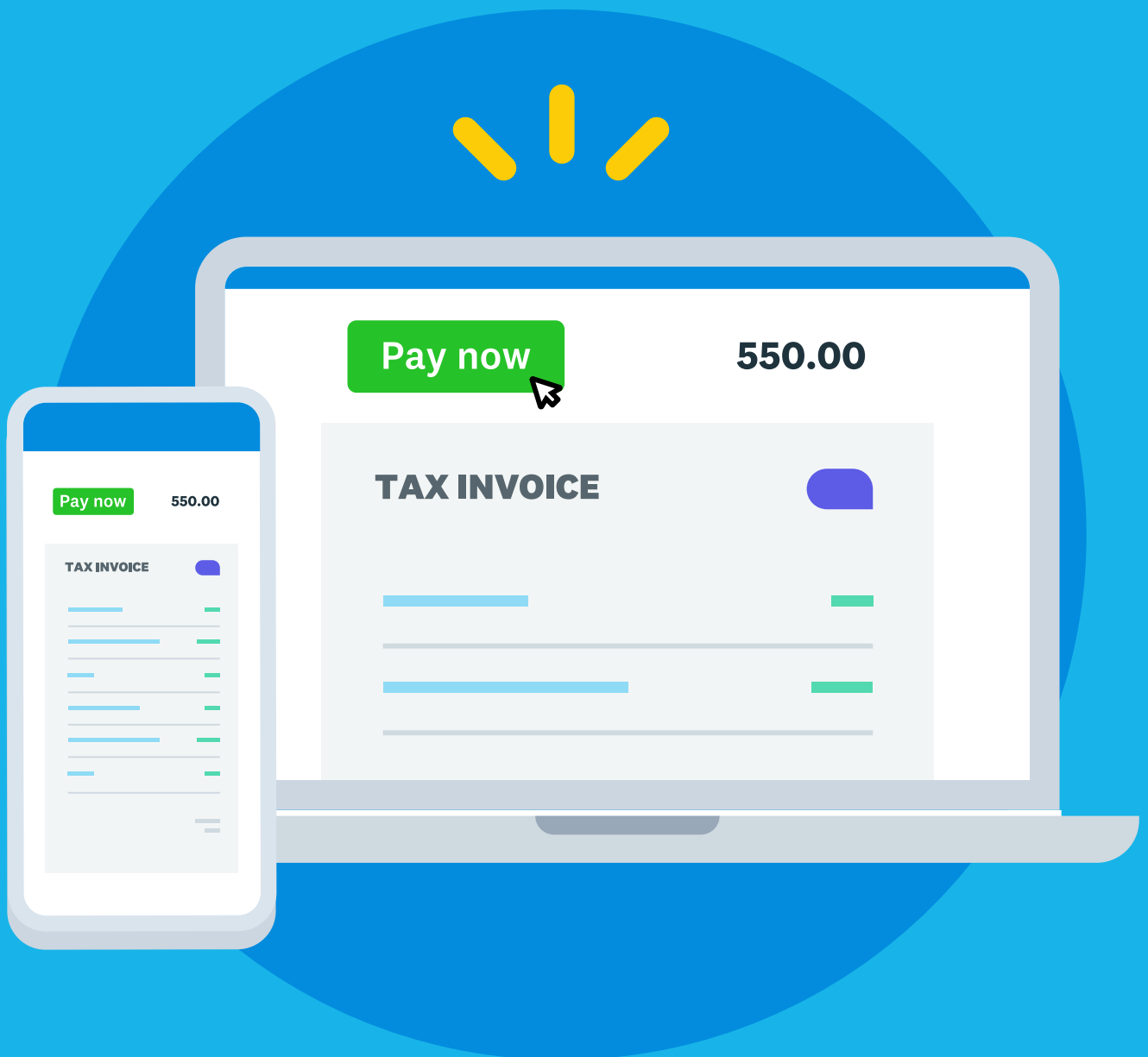




Money matters

Navigating the impact of economic conditions on
the cash flow of New Zealand small businesses



About this report

This report is based on the collated responses from an online survey conducted by Insights Exchange with 500 small businesses (with up to 50 employees) across New Zealand, recruited from a mix of three online market panels. Responses were collected between 24 May – 5 June 2023.

The information and commentary in this report is a guide only and should not be taken as taxation, financial or legal advice – we recommend you always check with an independent expert that what you're doing is right for you and your business.

Note

- All \$ amounts referred to in this report are in New Zealand dollars
- In some tables, percentages may not add up to exactly 100% due to rounding
- In some tables, percentages may add to more than 100% where participants could answer more than option

Definitions

- **Small business**

For the purpose of this report, when we use the term 'small business', we mean businesses with up to 50 employees.

In this report, we also have referenced small businesses by their business size:

- **Sole Trader** is a small business founder/owner who doesn't employ staff
- Small businesses with **2-9 employees** (including the founder/owner)
- Small businesses with **10 to 50 employees** (including the founder/owner)

Introduction

Small businesses are facing some of the most challenging economic conditions in recent history.

Small business owners in New Zealand have it tough right now. In July 2023, New Zealand is contending with high inflation, high interest rates and the “hottest labour market in generations”, which is helping to fuel strong wage growth. At the same time, cost of living challenges and supply chain disruptions have been compounded by the impact of natural disasters across the country.

Finance Minister Grant Robertson summed up the situation by recently saying, “it is hard to remember a time in New Zealand history when there have been so many challenges to our economy, environmental and social systems in such a short period of time”. As this survey reveals, many small business owners, leaders and their people have borne the brunt of these recent challenges.

Persistently high inflation has eroded cash flow for many businesses. Almost half (48%) of small businesses in this survey told us that inflation has had a high impact on their cash flow management in the past six months. Small businesses don't believe they have seen the end of the inflationary impact, with 51% of small businesses expecting an extreme or high impact in the coming months.

This survey reveals significant signs of financial stress for small businesses in New Zealand. A third (34%) of small businesses have dug into their personal savings to get through a tough period. Additionally, 46% of small business owners say they have been unable to pay themselves in the past 12 months. It can also lead to a domino effect of small businesses unable to pay suppliers or needing to reduce staff hours.

Cash flow stress is also weighing on the hearts and minds of small business owners, with this survey uncovering the emotional and personal wellbeing impacts of managing cash flow. Four in five (80%) of small business owners and leaders say they have experienced stress in the past 12 months, with 70% also reporting anxiety, 60% trouble sleeping and 47% said they have lost time with family and friends.

It's not surprising then that managing cash flow is a priority for around three quarters of small businesses. To cover cash flow challenges, 63% of small businesses have increased prices in the past 12 months. Technology is also being used to track and manage cash flow better, with 46% of small businesses setting up direct debits and 45% using accounting software to track payments.

With New Zealand now officially in recession, small businesses are bracing for what the next six months have in store. One in three (31%) small businesses told us they don't feel confident about their ability to absorb any financial shock. Additionally, when thinking about their financial wellbeing, 37% of small businesses told us that they are only just coping or really struggling.

The low financial resilience among many small businesses is concerning and a warning sign for an economy and society that is dependent, and thrives on, hundreds of thousands of small businesses for work, life and play. The ability to manage business finances and cope with financial shocks has always been important, and even more so now as we continue to navigate an uncertain economic backdrop.

Xero is focused on improving the financial wellbeing and outcomes of small businesses. Its suite of cash flow tools and reports are designed to help small businesses manage the ups and downs of business income. Tools such as Xero Analytics Plus give small businesses real-time insights on their financial position, and helps predict short term cash flow up to 90 days in the future. The AI-powered predictions based on Xero data and user-friendly dashboard provide snapshots of key financial metrics so businesses can undertake basic scenario planning in preparation for future events.

This survey also reveals small businesses are leaning into new and flexible payment options to make it easier to get paid. By accepting payments straight from a Xero online invoice by debit card, credit card, direct debit (via GoCardless or Stripe), Google Pay or Apple Pay, small businesses can give their customers more ways to pay and get paid up to twice as fast. It also reduces the time spent chasing late payments, which we know costs small businesses a whopping [NZ\\$456 million per year](#).

Despite the challenges, many small business owners and leaders are hopeful about the future. From these findings, it's clear improving cash flow management will be important to help small businesses continue to grow. By planning and forecasting for cash flow challenges early, working with their advisors to mitigate the impact of rising costs and finding new and easier ways to get paid, small businesses can get back on track, and enhance their financial wellbeing and resilience in the long run.



Leigh O'Neill
EGM Money, Xero

Businesses are under financial pressure

Many business owners do not feel secure and in control of their finances or on track for a healthy financial future

When it comes to thinking about their financial wellbeing, more than a third (37%) of small businesses owners and leaders said they are only just coping or really struggling.

These results may be impacted by a number of contributing factors. For example, only two in five businesses (42%) feel on track to achieve their business financial goals and a third (31%) don't feel confident in their ability to withstand a financial shock. Around half of small businesses (51%) are worried about their personal financial future, which could weigh on financial confidence.

Thinking about being a small business owner and your financial wellbeing, what statement would best describe yourself at this time.

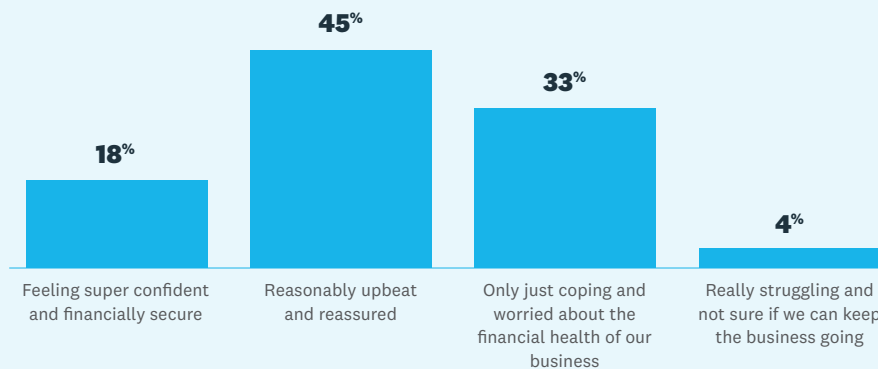


Table 1: (Q2A)

“I cannot afford to pay myself, have had to reduce staff hours, have to purchase less stock and reduce prices of older stock to get sales. Sales are inconsistent and lower than normal.”

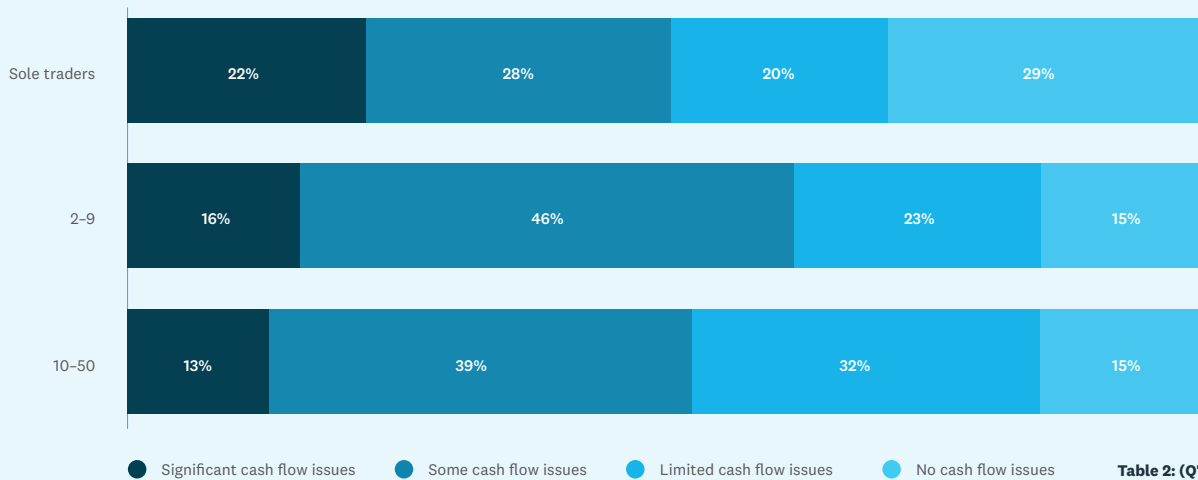
Tip: Feeling in control of your businesses finances and cash flow can have a positive flow-on effect to your financial wellbeing and confidence. **Better financial management starts with planning and forecasting, to keep track of finances coming in and out of your business.** Working with an accountant can help you create a financial plan and budget that works for you. Good accounting software can create charts of inflows (sales of goods or services) and outflows (accounts payable) for your business.

Cash flow remains a key area of concern

Cash flow is keeping businesses up at night. Over the last 12 months, 55% of small businesses have experienced cash flow issues, with 18% experiencing significant cash flow issues. Businesses with 2-9 employees were significantly more likely to report cash flow issues than their larger counterparts (businesses with 10-50 employees), with 62% experiencing at least some cash flow issues.



In the last 12 months have you experienced any cash flow issues? I.e. you could not pay your bills when they were due, stalled revenue



Cash flow management remains a priority for a majority of Kiwi small businesses

Managing cash flow is a priority for around three quarters (73%) of small businesses. Almost a third (31%) of the businesses surveyed report that managing cash flow is a very strong priority. Similar to survey respondents in Australia, a greater proportion of sole traders cite cash flow management as a moderate or low priority (32% in New Zealand vs 24% in Australia), most likely due to the business being a hobby or side hustle rather than a primary source of income.

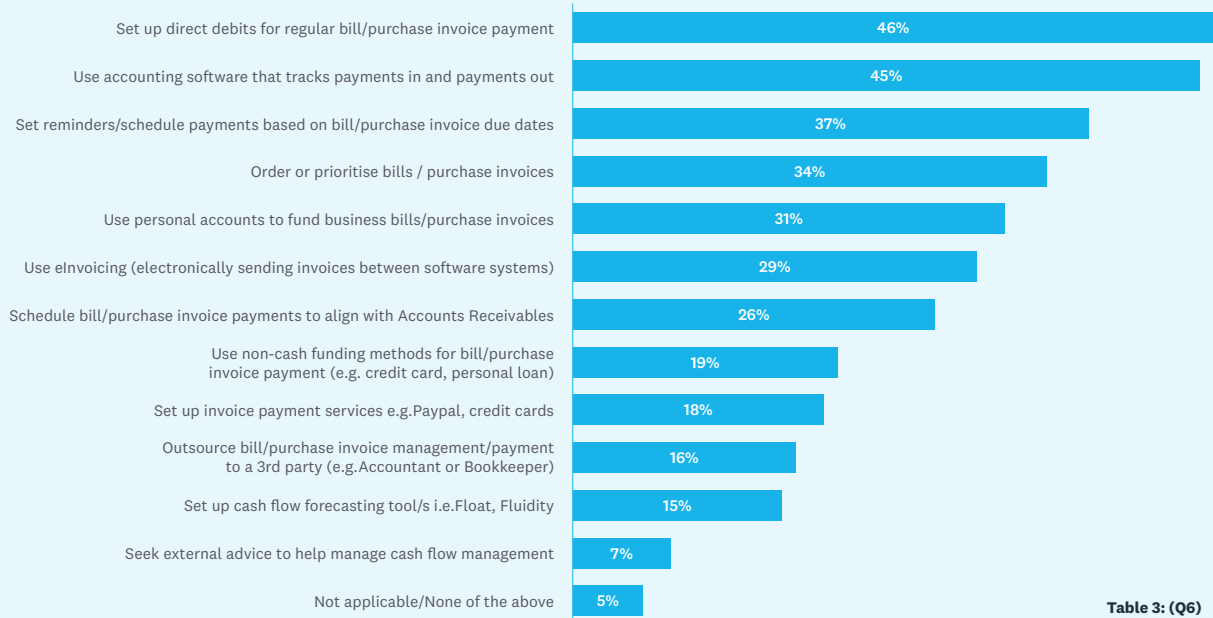
While unsurprising, it is notable that those who have experienced cash flow challenges due to inflationary pressures, and those who are anticipating inflationary pressures to have an impact in the next six months, are significantly more likely to be making cash flow management a priority. Of this group, two in five (40%) businesses say managing cash flow is a strong priority, which would indicate that businesses feeling the pinch may be taking action to mitigate their risk ahead of time.

To stay on top of things, four in five business owners and managers check their cash flow at least once per week, with more than a third (37%) checking their cash flow daily. Businesses with 10-50 employees are more likely to commit at least three hours per week to this task, most likely due to the more complex nature of a larger business and time required to analyse cash flow drivers and reports.

Businesses pull on many levers to try and proactively manage their cash flow

Businesses are pulling on the “accounts receivable” lever to improve their cash inflows, by making it easier for customers to pay or encouraging customers to pay faster. The top approaches for managing cash flow are setting up direct debits (46%), using accounting software that tracks payments (45%) and setting reminders / scheduling payments based on bill / purchase invoice due dates.

Which of the following measures do you take to manage cash flow within the business? Please select all that you have undertaken in the last 6 months



Employing businesses are significantly more likely to use software than sole traders, with around half of businesses employing 10-50 employees (56%) and businesses employing 2-9 employees (51%) claiming to use accounting software, compared to a third (33%) of sole traders.

The use of eInvoicing, outsourcing and more advanced cash flow tools is significantly more common among businesses with 10-50 employees, with 43% using eInvoicing, 28% outsourcing to a third party and 26% using a cash flow forecasting tool to manage cash flow within the business.

Tip: Over two in five (45%) of businesses use accounting software like Xero to manage cash flow. To get deeper and accurate analytics over Xero data, **more small businesses are using advanced tools like [Xero Analytics Plus](#), to help them forecast and plan for future business scenarios.** The powerful forecast engine enabled by AI, enables small businesses to predict their future cash flow from recurring transactions including invoice and bill payments. Business snapshot gives them a visual overview of key financial metrics, to make better business decisions.

Cash flow is a short term and a long term challenge for businesses

The most common short term challenges faced by small businesses in the last 12 months are limited or inconsistent cash flow (41%), clients or customers not paying bills on time (30%), no cash reserve for unforeseen circumstances (29%) and debt repayments (22%). In general, business size and industry show few differences in terms of the short term financial challenges they face.



What type of short-term financial challenges have you faced in your small business in the last 12 months?

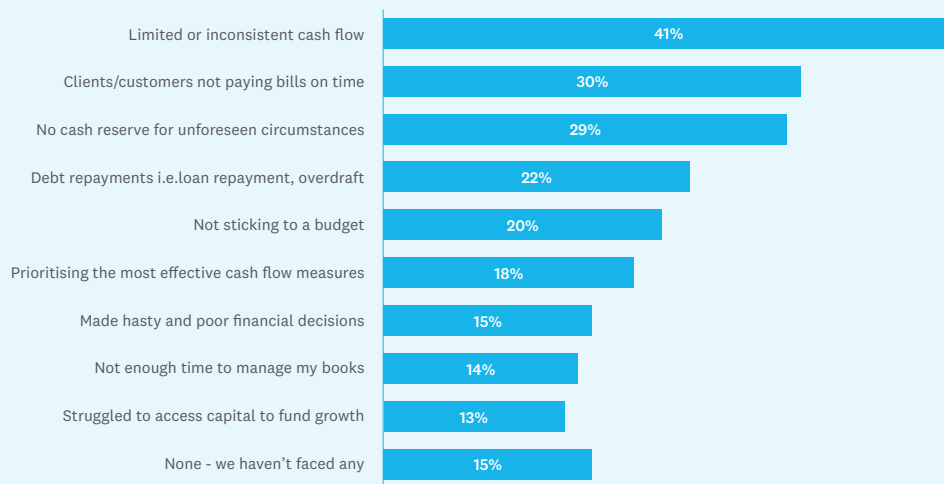


Table 4: (Q17)

Small businesses are forecasting chronic cash flow stress, with two in five (40%) seeing limited or inconsistent cash flow as a longer term challenge in the next 3-5 years. Increasing compliance regulations is considered a longer term challenge for 29% of businesses with 10-50 employees and 28% of businesses with 2-9 employees, compared to 14% of sole traders.

Interestingly, there is also a clear relationship between concerns around the impact of inflation in the next six months on their business and the number of perceived challenges in the next 3-5 years which is considerably higher for small businesses currently worried about inflation.

“I’ve let go of staff, I’ve had to work longer with less time with family and not pay myself adequately.”

Small businesses unable to pay themselves due to cash flow issues

Quite often, these cash challenges leave small business owners and leaders unable to pay themselves, with 46% of small business owners unable to pay themselves due to cash flow issues. This is a significantly bigger issue for sole traders, where three in five (60%) owners have been unable to pay themselves, compared with around one in four (23%) owners in business with 10-50 employees.

Likewise a third of sole traders (31%) and businesses with 2-9 employees (33%) have been unable to pay bills, while this is less prevalent for businesses with 10-50 employees (20%). In contrast, 36% of businesses with 10-50 employees have experienced having to renegotiate supplier terms due to cash flow issues, with only 15% of sole traders needing to pursue this approach.

“Finding new bulk suppliers which are cheaper, but hurt cash flow even more.”

In the past 12 months, have you experienced any of the following cash flow issues?

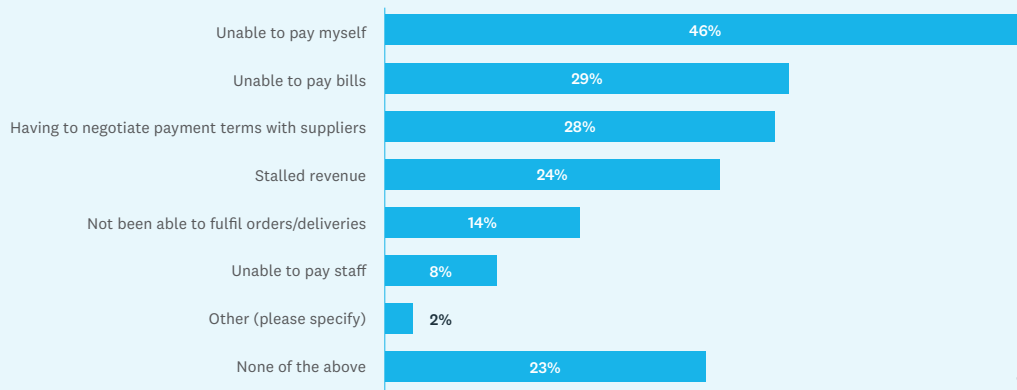


Table 5: (Q8B)

“I had to work longer hours, so I spent less time with my family...
I couldn't even pay myself in full.”

Tip: Remove the need for awkward conversations and **take the stress out of chasing payments with Xero's automatic invoice reminders.** They're easy to set up, you can choose how often you want reminders emailed, and they're completely customisable to your business. Adding online payments by credit card, debit card or direct debits from Xero's invoices can also help speed up time to get paid.

A variety of measures are taken by business owners to manage cash flow

Over the last six months, business owners have employed a range of different approaches to manage cash flow. Almost half (46%) set up direct debits for regular bill / purchase invoice payments, while 45% report using accounting software to track payments in and out of the business.

This is closely followed by setting reminders to schedule bill payments (37%), ordering / prioritising bill payments based on due dates (34%) and using personal bank accounts to pay invoices and bills (31%). The use of eInvoicing software is more common at businesses with 10-50 employees, with 43% of these larger businesses using eInvoicing, compared to 29% for the total number of businesses.

Which of the following measures do you take to manage cash flow within the business? Please select all that you have undertaken in the last 6 month

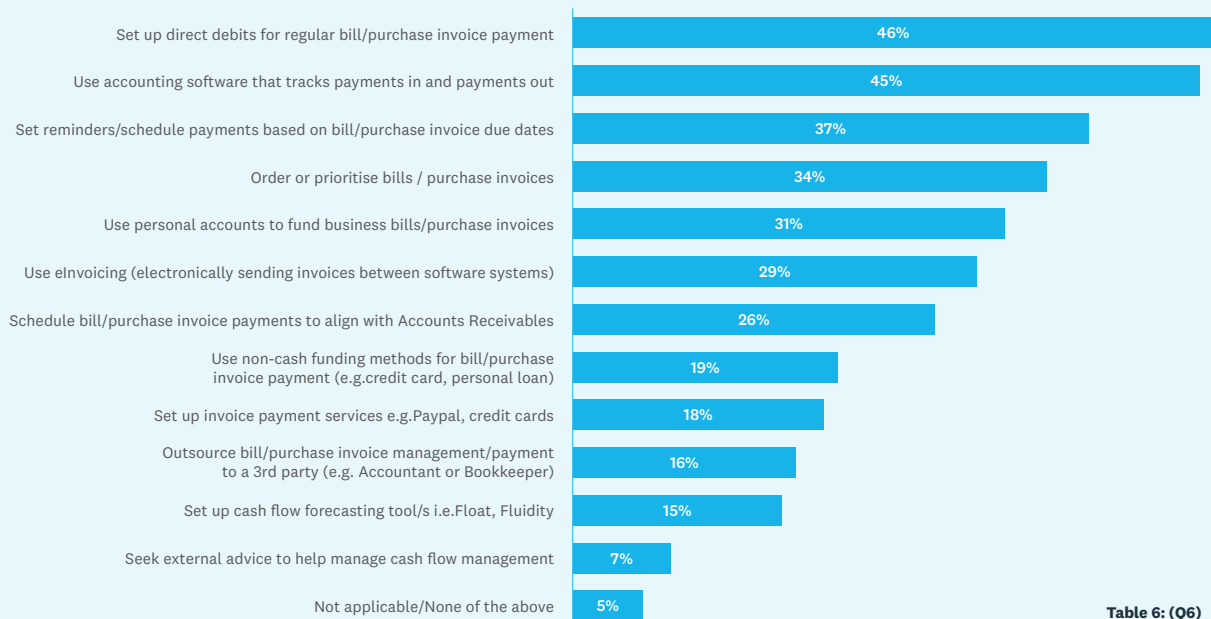


Table 6: (Q6)

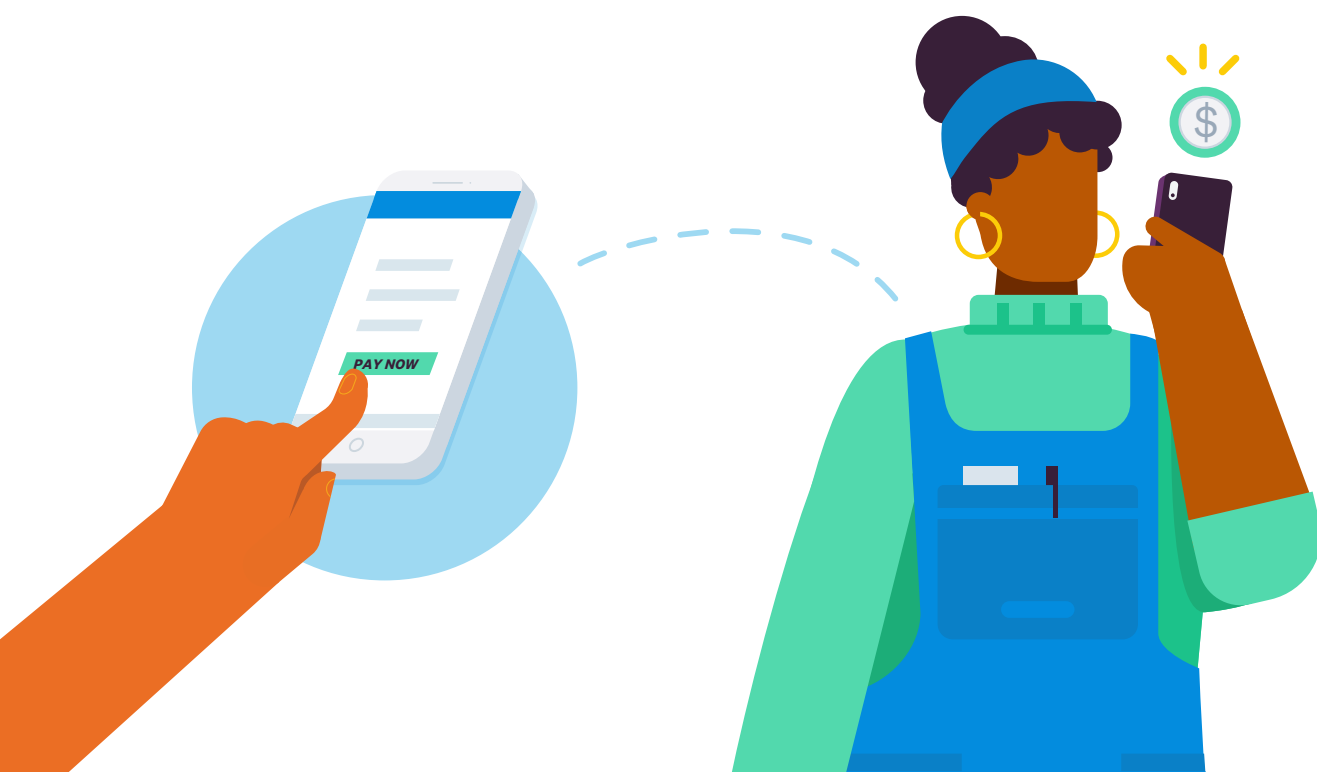
Tip: [eInvoicing](#) is a new way to send and receive invoices electronically between accounting systems. [If you send an eInvoice in Xero](#) (available in New Zealand, Australia and Singapore), your invoice is sent directly into your customer's accounting software system. With a few easy steps, your customer can be registered for eInvoicing. Once set up, not only does it save them time processing your invoice, it's also more accurate and secure.

Businesses are exploring new digital payments, while perceived fees deter other businesses

Bank deposits are the primary method for all small businesses, with almost three quarters (72%) of businesses accepting bank deposits from customers, while around half (51%) use direct debits. Over half (55%) are using newer digital and online payment gateways, such as PayPal, Apple or Google Pay, Buy Now Pay Later (BNPL) or eInvoicing, with uptake significantly higher among businesses employing 10-50 employees.

The main reason for not using digital payment methods like BNPL is business relevancy, with 45% saying that they are not relevant for their business. This is followed by fees being too expensive (31%), a lack of uptake amongst their customer base of this method (29%) and a preference for traditional methods (25%). Interestingly, these reasons are consistent across all business sizes.

Tip: Think about how you can make it easier for your customers to **pay** you. Adding a 'Pay now' button to online invoices in Xero using one of our partners like Stripe or GoCardless gives your customers the flexibility to pay the way they want to. It also helps you get paid twice as fast, reduces the administrative burden with one integrated solution and means you spend less time chasing payments.



Inflation has a significant influence on cash flow

Inflation is one of the main macroeconomic challenges facing businesses right now

In 2023, inflation is high and widespread in New Zealand. Almost half (48%) of small businesses cite that inflation has had an impact on their cash flow management in the past six months. Only 15% of small business owners say they have experienced little or no impact from inflation.

One in four businesses in the hospitality / accommodation and retail industries say that inflation has had an extreme impact in the past six months, at 25% and 23% respectively. Businesses in the hospitality / accommodation industry have also been most impacted by supply chain challenges, with 28% saying supply chain challenges have had an **extreme impact** in the past six months.

Small businesses don't believe they have seen the end of the inflationary impact, with 87% of businesses believing inflation will have at least some impact in the next six months. Around half (51%) of small businesses believe that inflation will have at least "high impact" over the next six months.

How would you rate the impact of inflation on your cash flow management over the past 6 months?

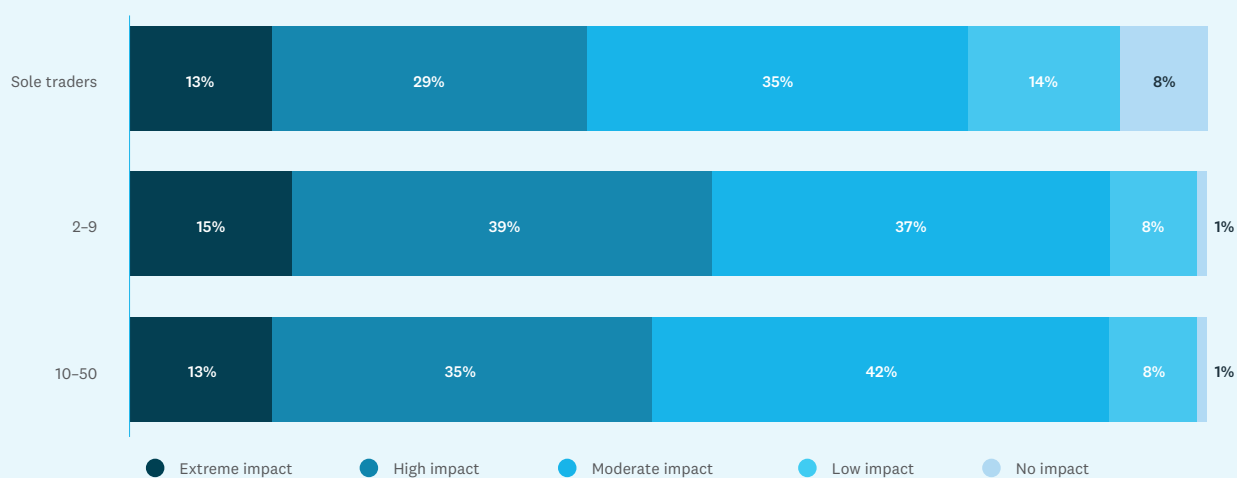


Table 7: (Q3.1)

Businesses increase prices to cover the cash flow challenge

Two clear actions have been taken to manage the cash flow challenges over the past 12 months. Over half (52%) of small businesses have increased prices, while a similar proportion (48%) have sought to review and remove overhead costs. The other key levers include decreasing marketing spend (40%), reducing staff hours (29%) and generating revenue by launching a new product / service (27%).

What are the different ways you have stimulated revenue and/or cut costs during the last 12 months?

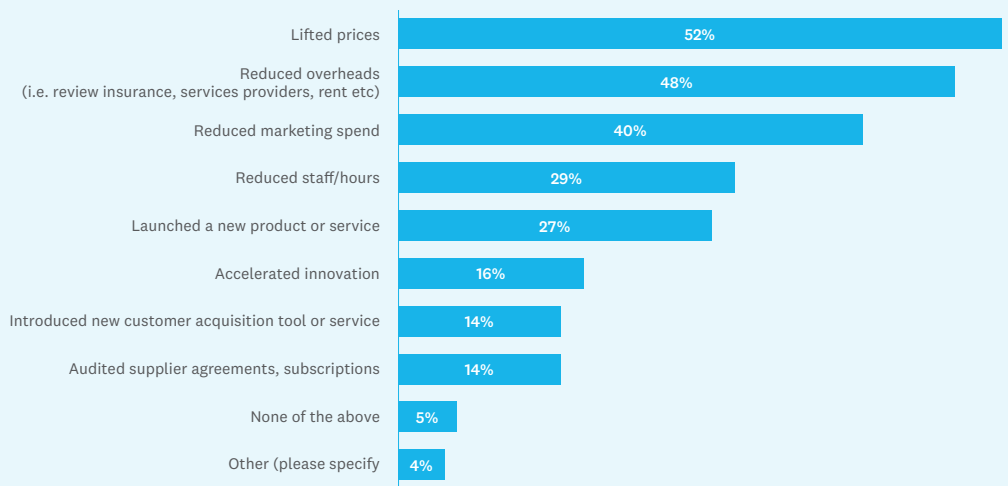


Table 8: (Q8A)

Tip: Increasing prices is a difficult decision and can be a fine balance between making enough of a profit while not deterring customers. **If you have a new service or product in the pipeline, you can use this as an opportunity to reset your pricing.** Speak to an accountant or bookkeeper if you're unsure, as they can help you understand your costs and refine your pricing strategy.



CASE STUDY



Robert Green

Business Manager, VHS Ltd

“The best thing about Xero is not having to worry about forgetting to invoice customers. It’s good to be able to glance at the dashboard, to see what work you’ve done and which customers owe you.”

Robert started out his career as a trained chef, but swapped the kitchen apron for a lab coat when he launched a chemical business with his wife Catherine 12 years ago.

The husband and wife duo launched Vet Hygiene Solutions after noticing a shortage of high quality, locally-made products in the veterinary industry. Today, their business manufactures and sells a range of animal products to veterinary clinics across New Zealand through chemical distributors and is rapidly growing its ecommerce business which sells human tailored products like hand sanitiser.

It was while folding invoices on their living room floor 12 years ago, when Robert and Catherine first realised they needed to move to a cloud-based accounting system. “We used to write out invoice and payment letters, stuff them into envelopes and post them out to all our customers! My wife Catherine, being a chartered accountant (now retired), thankfully had the foresight to move all our invoicing into Xero.”

“The best thing about Xero is not having to worry about forgetting to invoice customers. In the early days, I would forget to generate invoices for customers (sometimes for thousands of dollars) or even misplace the invoice book. Now, invoicing is easier and we’re able to do things like categorise and track invoices for customers. It’s also a cost saving to not have to post invoices as we can send them out, all at once, through Xero. The dashboard makes it easy to see what work has been done and how the business is performing.”

It was using Xero’s business snapshot that Robert was able to see that rising expenses were starting to eat away at their business margins, after a few years of COVID-19 supply chain disruptions.

“Freight costs quickly increased during COVID-19 lockdowns, but we were able to absorb these all the way through because we were so busy. We got into market early with our hand sanitiser products and main COVID-19 disinfectant, so our volumes allowed us to keep prices the same. Before the pandemic, we used to make 20 litres of hand sanitiser a month. Suddenly, we were making 10,000 litres a day!”

Like many small businesses in New Zealand, Robert and Catherine had to increase prices to mitigate against rising costs and stimulate revenue, in order to keep their business profitable.

“Because of the increase in turnover, our decrease in margin wasn’t terrible. Now, things have settled back down but raw material prices are staying high. Using Xero, I could see that costs were starting to creep up this year so we were able to take measures to mitigate this, doing our first price increase in 12 years.”

Despite a more challenging economic environment, Robert remains optimistic about their business and demand for their solutions in new markets, and is exploring new ways to grow with Xero.

“We’ve come a long way with Xero: from initially folding and mailing invoices, to all the invoicing now being done by the push of a button. It’s become a lot less onerous!”

Cash flow stress has a human cost

Cash flow stress impacts business owners' emotional and physical health

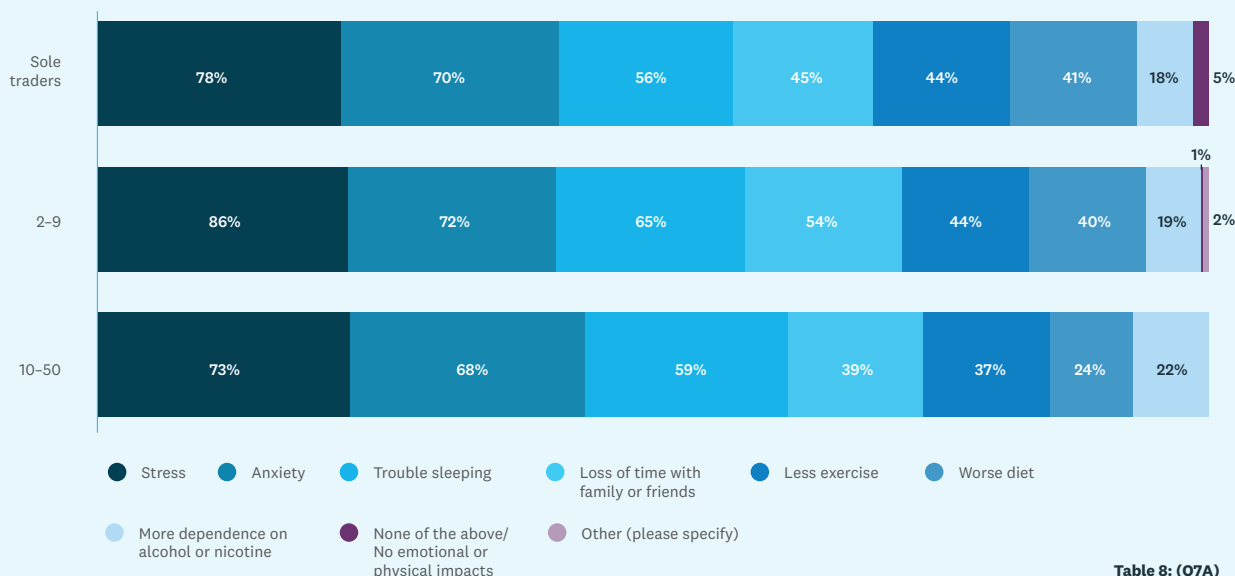
Managing cash flow in an uncertain and challenging economic environment is also weighing on the hearts and minds of small businesses owners and leaders. Four in five (80%) of small businesses owners and leaders report experiencing stress due to cash flow management over the past 12 months. This is followed by anxiety (70%), trouble sleeping (60%) and loss of time with family/ friends (47%).

“It’s affected my whole life.”

In Xero’s ‘[The global state of small business owner wellbeing](#)’ report released in April 2023, 15% of small businesses in New Zealand find work issues cause personal stress most or all of the time, with 22% facing stress most or all of the time due to managing employees’ mental health issues. Only 17% of small businesses in New Zealand say they can take a break when needed all of the time.

“I’m feeling rather stressed. I’ve lost my appetite and I’m losing sleep. I’ve also had to let go of some of the staff to keep expenses to a minimum.”

What are some of the emotional and physical impacts of cash flow management you have experienced over the past 12 months?



“I’m constantly thinking about how I’m going to pay my bills with the lack of income and the rising costs. I haven’t been able to do the things I normally do which I enjoy because they cost money which I don’t have right now.”

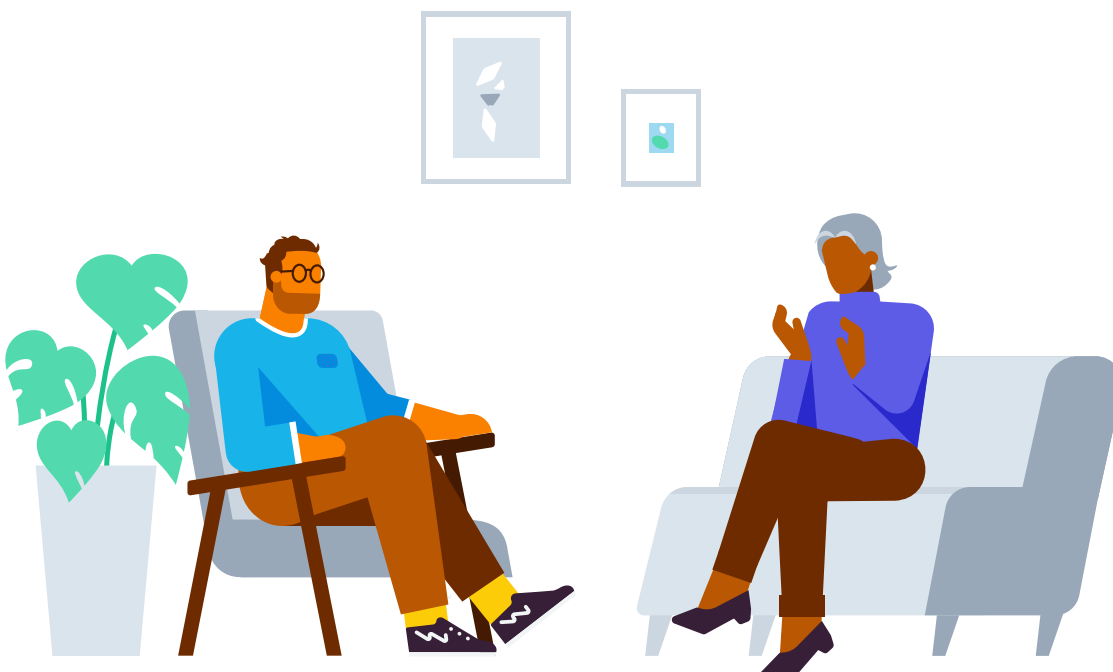
“I’m needing to lean on close relationships to borrow money, which puts pressure on that relationship and adds personal stress. I’m thinking about money a majority of the time.”

“I’ve cut back on food I buy at the supermarket and have to limit the things we do with the kids.”

“Taking on the company’s debt as personal debt has forced me to live outside my means, taking personal loans to ‘float’ the business is taking money out of my kids pockets.”

Tip: Mental wellbeing and fortitude is important for small business owners, but sometimes it can be hard to get the support needed. For those wondering where to look, the [Xero Assistance Programme](#) (XAP) is a good place to start. In partnership with world-leading wellbeing provider Benestar, **XAP is available to all New Zealand-based Xero customers, as well as their employees and families, to offer confidential and free access to three telephone, live chat, or online counselling sessions.**

Through XAP, more than a million Kiwis have access to professional support for when times get tough. There are also a variety of [online business resources for workplace wellbeing](#), including government helplines.



CASE STUDY



Cameron Goldsmid

General Manager, Tidy Slabs

“The other impact from inflation is on our people. It’s hard for a lot of people at the moment and that pressure follows them around everywhere. We’ve run some sessions with our people to talk about the mental health side of things, because it’s a pretty uncertain time for a lot of people.”

Cameron was running his own accounting firm when he came across Tidy Slabs, a concrete foundation company. He liked the team and business so much that he decided to join Tidy Slabs himself.

“I was the accountant for Tidy Slabs and got really involved in the business. They were awesome people with great career pathways, so I moved out of accounting and into Tidy Slabs! I’ve enjoyed the switch from being behind the books to being on the ground making decisions. It’s really dynamic.”

An accountant by trade, Cameron put Tidy Slabs on Xero early. “One of the first things we did with Tidy Slabs is set up Xero with WorkflowMax, Hubdoc and Spotlight. It’s the bones of our tech stack. All our financial data flows into Xero, and Xero generates a good looking invoice to send on to customers. Xero is the place where we go to see the bigger picture, across the four entities that make up Tidy Slabs.”

Billing processes in construction can be challenging, as many construction projects in New Zealand are bank-funded, where clients draw down on loans to cover the costs of each part of construction. This is where having a platform like Xero helps, says Cameron, to get a snapshot on the business cash flow.

“We invoice as we go and while our payment terms are on the 20th of the following month, we often don’t receive bills until the end of that month. It can be hard to balance the income we get from clients with the expenses we need to pay. Negotiating with our suppliers to pay on the 30th has helped, and we use the plan payment dates in Xero to create a cash timeline which is effective.”

When faced with suppliers and customers who are late payers, setting up automatic reminders in Xero can help, says Cameron. “We set up invoice reminders from the get go which is really helpful. We personalise invoice reminders based on the number of days overdue to help chase on late payments.”

With rising inflation, the construction industry is facing compounding pressures that will drive materials costs higher, alongside labour shortages, wage increases and supply chain issues. These pressures are starting to take a toll on people in the industry, says Cameron. To help combat this Tidy Slab has been running a series of sessions to talk about these issues and what their people can do.

“We’ve been proactive in pushing conversations around mental health. There is still a stigma in the industry, especially on site for guys. It’s a tough nut to crack, but we make an effort to talk about it, with a different mental health topic each month and through Xero’s Assistance Program.”

Looking ahead, Cameron is positive about navigating the challenges ahead. “We have a lot of growth ambitions and even in an economic downturn, there are lots of opportunities for us. One of our pathways to growth is acquisition and this is actually where Xero helps. If we’re looking at financials from other companies and it’s coming in spreadsheets, there is not a lot of trust in the data. When someone gives you a Xero export, there is an extra layer of confidence in that financial data.”



Beautiful business