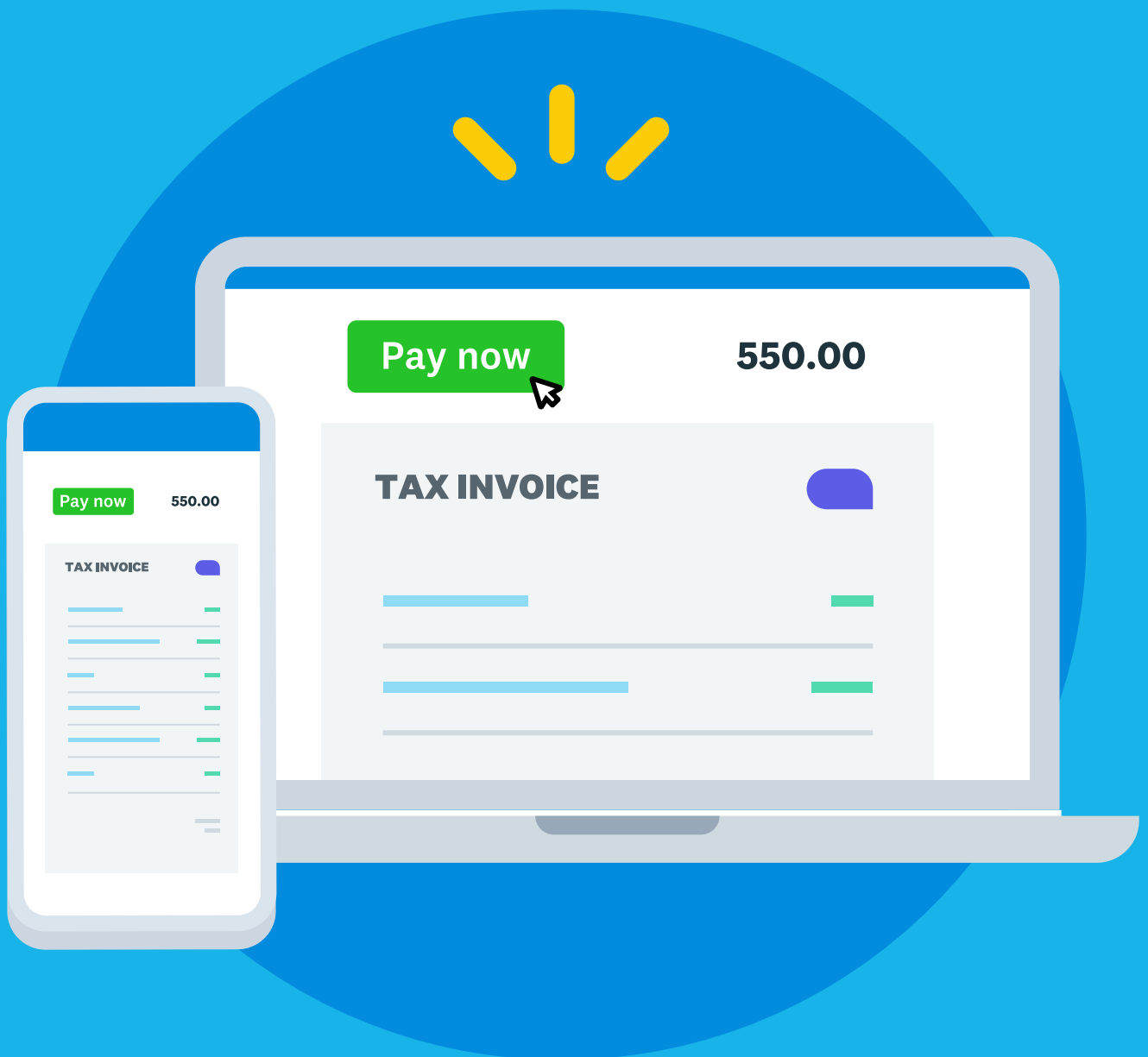




# Money matters

Navigating the impact of economic conditions on the cash flow of Australian small and medium-sized businesses



# About this report

This report is based on the collated responses from an online survey conducted by Insights Exchange with 526 small to medium-sized businesses (with up to 50 employees) across Australia, recruited from a mix of three online market panels. Responses were collected from 13 to 20 January 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 to ensure that what you're doing is right for you and your business.

**Note:**

- All \$ amounts referred to in this report are in Australian 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

### Business sizes

**Non-employing businesses**

Refers to businesses with no employees (excluding the founder/owner)

**Smaller businesses**

Refers to businesses with two to nine employees (including the founder/owner)

**Larger businesses**

Refers to businesses with 10 to 50 employees

# Introduction

## Small and medium-sized businesses are facing some of the most challenging economic conditions in recent history.

Inflation is a significant challenge. While the fastest tightening of monetary policy since the 1980s has started to take some of the heat out, it remains high. Australian Treasurer Jim Chalmers has called inflation the ‘number one challenge’ facing the country, and Xero’s research shows that this persistent inflationary environment is having an impact on cash flow management.

The majority (61%) of small business owners have increased their prices in the last 12 months, to mitigate against rising costs and make a profit. Cash flow has become a real concern, with 60% of small businesses reporting cash flow issues in the past year, and 29% of business owners and managers checking their cash flow position daily.

The challenges of managing business finances and putting enough money aside to ensure their financial futures is weighing on the minds of small business owners. Almost half (48%) are concerned about the financial future of their business, with 60% not confident that they could absorb a financial shock. This low financial resilience is a troubling sign for an economy and society that is dependent, and thrives on, millions of small businesses.

Poor financial wellbeing also affects livelihoods and happiness. One third (32%) of small business owners report that they are worried about their financial health. Many are struggling with cash flow management, and as a result are feeling the impacts of increased stress (57%), anxiety (50%) and trouble sleeping (48%).

Many small businesses are taking proactive steps to improve their financial position and manage cash flow. The most common levers are increasing prices (30%), speaking to an accountant or bookkeeper (24% and 18% respectively) and chasing overdue payments (24%) — an [ongoing issue for small businesses in Australia](#). To get through a period of tight cash flow, 27% say they sometimes need to tap into their personal savings.

While the global economic backdrop is volatile and uncertain, there are things that small business owners can do to manage the ups and downs of business income. One of these is forecasting cash flow shortages in advance, and having a strong contingency plan in place to weather the storm. Early diagnosis of cash flow issues is an important part of long-term cash flow management.

Tools such as Xero Analytics Plus are helping small businesses in Australia access real-time insights on their financial position, and help predict short-term cash flow up to 90 days in the future. The user-friendly dashboard and AI-powered predictions are designed to provide well-informed forecasts based on Xero data, so businesses can undertake basic scenario planning in preparation for future events.

The research shows traditional payment methods like credit cards, direct debits and bank deposits continue to be the preferred way for small business owners to get paid. But we know seamlessly connecting these payments is important for encouraging a healthy cash flow. For example, adding a ‘Pay now’ button to online invoices in Xero using one of our partners like Stripe or GoCardless gives customers the flexibility to pay the way they want to, helps businesses get paid twice as fast, and reduces the administrative burden with one integrated solution.

There is no denying that small businesses are facing significant headwinds in 2023 and beyond. By taking simple steps like incorporating forecasting and analytics tools into their business and making it as easy as possible for customers to settle their accounts, they can free up valuable time that is better spent future proofing their business and improving cash flow management.

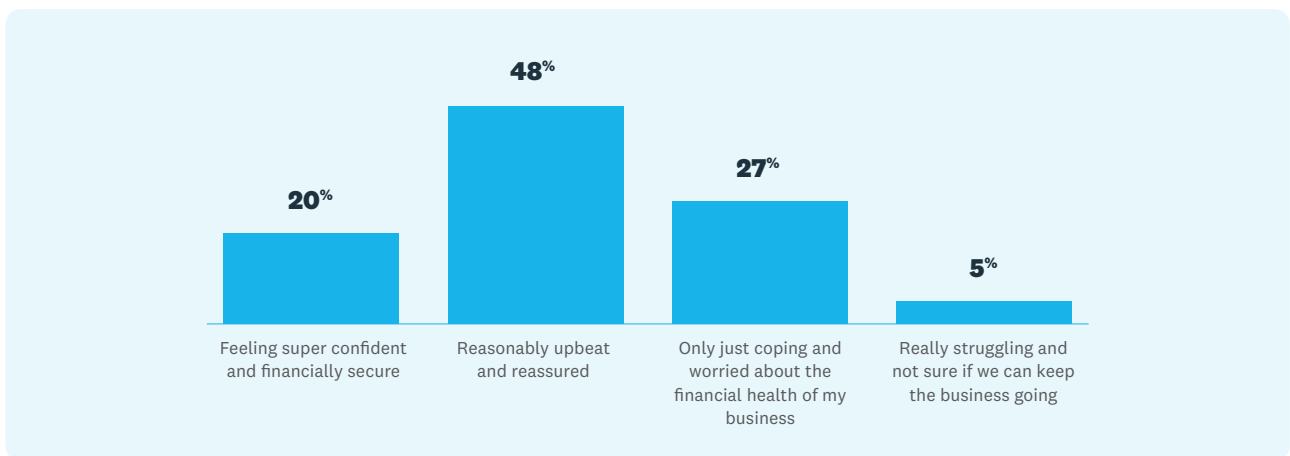


**Leigh O'Neill**  
EGM Money, Xero

# 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, one quarter of small business owners (27%) are stressed and only just coping, while 5% are really struggling.



These results may be impacted by a number of contributing factors. For example, only half of businesses (49%) feel on track to achieve their business financial goals, and 60% don't feel confident about their ability to absorb any financial shock.

The stark reality is that businesses are struggling to feel confident about where they are financially. Overall, 45% of businesses are feeling worried about their personal financial future, and nearly half (48%) are concerned about their business' financial future.

**Tip:** Feeling in control of your money management can have a positive flow-on effect to all areas of your life. Improving your financial wellbeing requires the first courageous step of understanding where you are financially. If you're struggling with where to start, **analyse which products, services and customers are generating the most profit** and think about options to increase revenue.

# Cash flow remains a key area of concern

Over the last 12 months, 60% of the businesses surveyed experienced some cash flow issues, with 14% experiencing significant challenges. Smaller businesses were most impacted (64%), followed by larger businesses (58%) and non-employing businesses (53%).

## Cash flow management is top of mind for business owners, particularly those running larger businesses with responsibilities such as employees

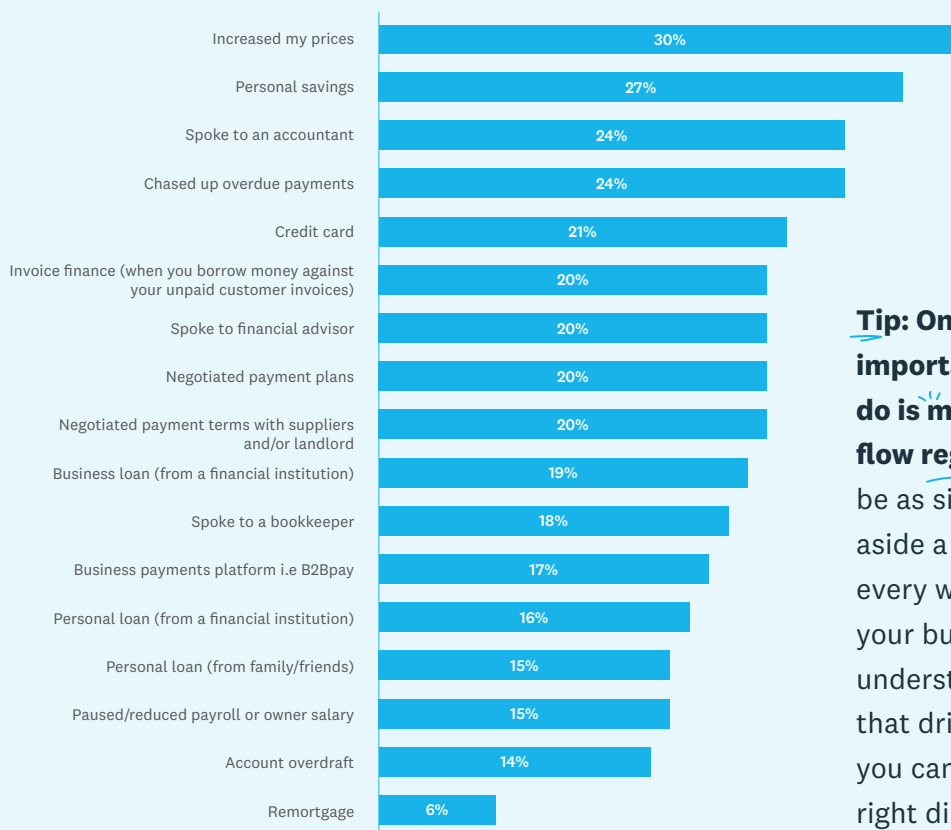
Managing cash flow is a very high priority for around one quarter (24%) of businesses. Non-employing businesses are less likely to see cash flow management as a priority, which may be because the business is a hobby or side hustle rather than a primary source of income.

To stay on top of things, the majority of businesses check their cash flow multiple times a week, with 52% checking at least 2-3 times a week and 29% checking daily. Larger businesses are more likely to commit more time to this.

Businesses pull on many levers to try and proactively manage their cash flow. The most common ones include increasing prices (30%), speaking to an accountant or bookkeeper (24% and 18% respectively) and chasing overdue payments (24%). Over a quarter (27%) say they sometimes need to tap into personal savings to get through a period of tighter cash flow.



### Practices used to help businesses manage their cash flow



**Tip: One of the most important things you can do is monitor your cash flow regularly.** This could be as simple as setting aside a dedicated time slot every week. Regardless of your business size, if you understand the numbers that drive your business, you can help steer it in the right direction.

## CASE STUDY



**Sandy Taylor**

Small business  
marketing specialist

“I use the Xero Projects add-on to keep track of costs and expenses related to particular projects, so I can pass those on to my clients. In a service business like mine, your cash flow can be seriously hurt if you’re paying for things on behalf of the client that you don’t then recoup.”

Sandy is a self-employed marketing specialist based in Perth, Western Australia. With expertise in website development, copywriting, and online marketing, Sandy has built a successful freelancing career by helping her clients use their online presence to improve their cash flow.

Sandy’s passion for financial management can be traced back to her background in finance when she worked at a treasury in South Africa. It was here where she first realised the importance of cash flow management, understanding that no matter how big or small the balance sheet is, the fundamentals are the same.

“I put a premium on cash flow as it goes to the heart of how much you enjoy being in business. Everything needs to be centred around getting money into the bank on a regular basis and for a one-person business, cost effective and labour-saving tools like an effective website and an accounting system that connects with your other digital tools, is invaluable.”

“Regardless of how well you plan, sometimes there are unavoidable disruptions to your cash flow...I’ve had a project that’s been on hold for four months,

as the client’s husband became very unwell. Delays like this are understandable, but can really affect a freelancer, particularly if you’ve allowed a block of time to complete the work.”

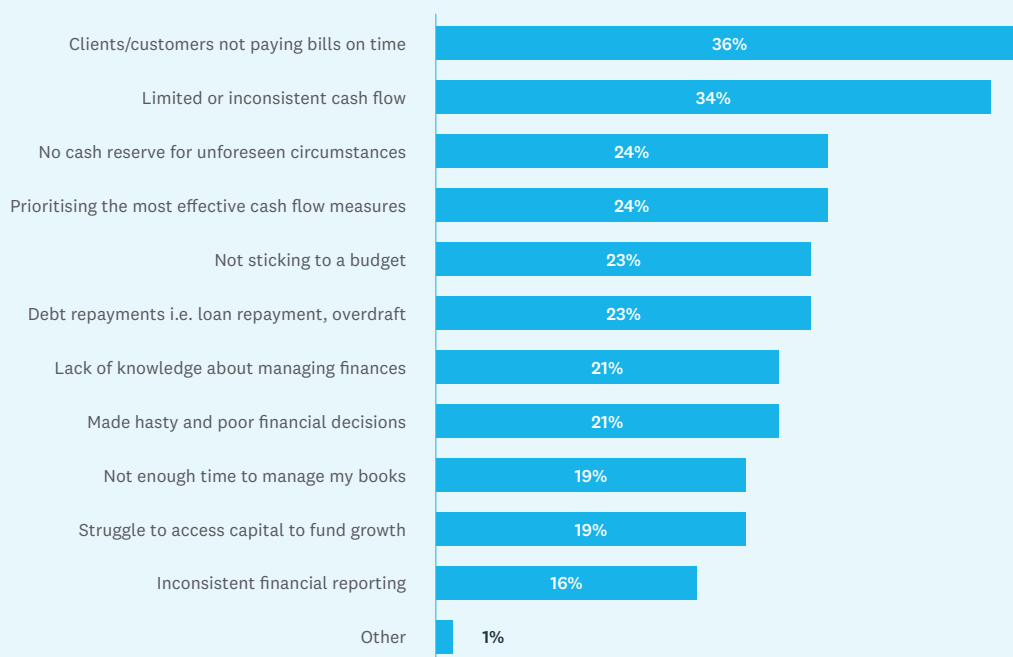
Whenever possible, Sandy uses Stripe on her Xero invoices to [accept payments online](#).

In her website builds, she encourages clients to think about how they can make it easier for their clients to pay them on time by connecting Stripe to service request forms or booking systems and getting payment upfront where they can. A lot of this can be synchronised with Xero, which doesn’t just save time, it makes better cash flow more likely.

**“One of the best ways to maintain good cash flow is to make clear offers to customers in your marketing and then make it as easy as possible for them to go ahead with the transaction and make payment.”**

“When you’re just starting out this can feel pushy, but what I’ve found is clients want clear directions at every stage of the transaction—there’s a difference between being pushy and being clear about payment milestones and expectations.”

### Types of short-term financial challenges faced by businesses in the last 12 months



### Larger businesses experience different business challenges and cash flow pressures to non-employing businesses

The research shows that many businesses have struggled with limited or inconsistent cash flow in the last 12 months (34%), and suffered as a result of their customers not paying bills on time (36%).

While this is likely to be a long-term business challenge that is exacerbated in the current economic climate, other challenges include having minimal marketing spend (30%), debt repayment (28%) and no cash reserves (27%).

Larger businesses also have additional challenges, such as increasing compliance (40% of larger businesses versus 14% of non-employing businesses) and accessing capital (37% of larger businesses versus 20% of non-employing businesses).

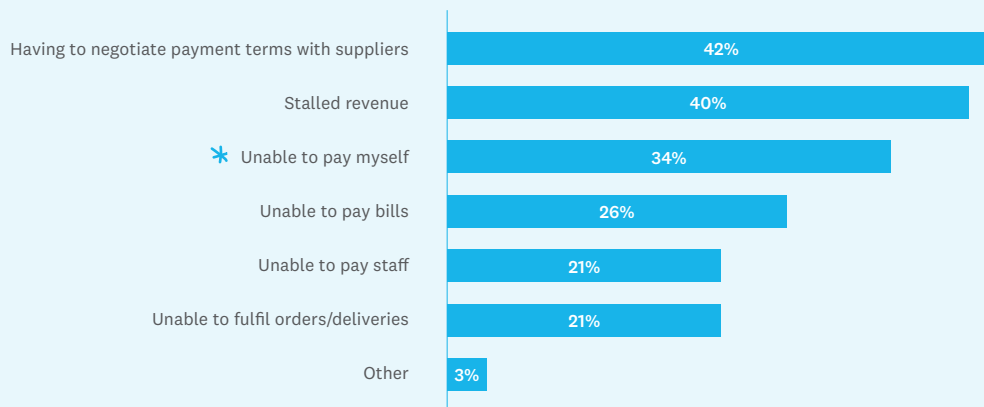
“I’ve been unable to pay myself a regular wage and needed to lower my wage, as the cost of living has affected the work coming in and sales.”

Quite often, the pressure leaves business owners unable to pay themselves (34%), particularly non-employing businesses. When invoices are paid late, it can impact the entire supply chain and create a domino effect, making it difficult for businesses to pay their own bills on time (26%), which can contribute to cash flow stress.

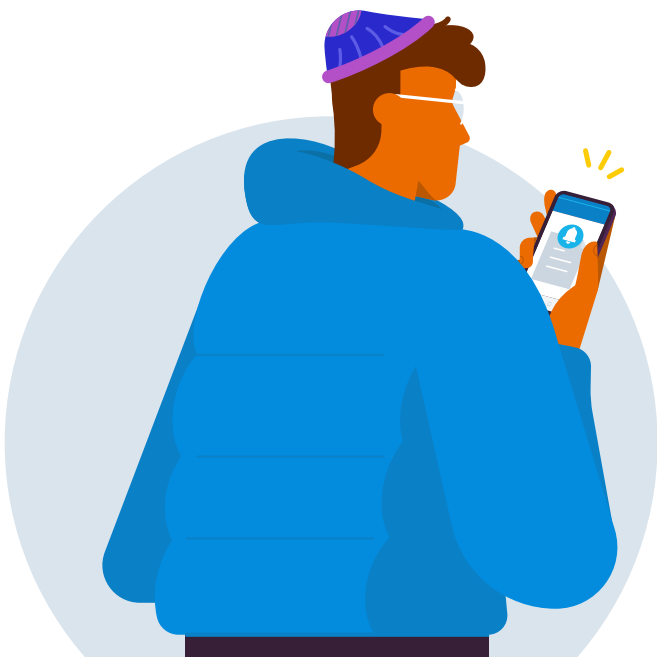
Many have also needed to negotiate payment terms with suppliers (42%) and experienced stalled revenue (40%).

“I’m falling behind on my personal bills as I haven’t been able to pay myself.”

### Types of cash flow issues businesses experienced in the past 12 months



**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.



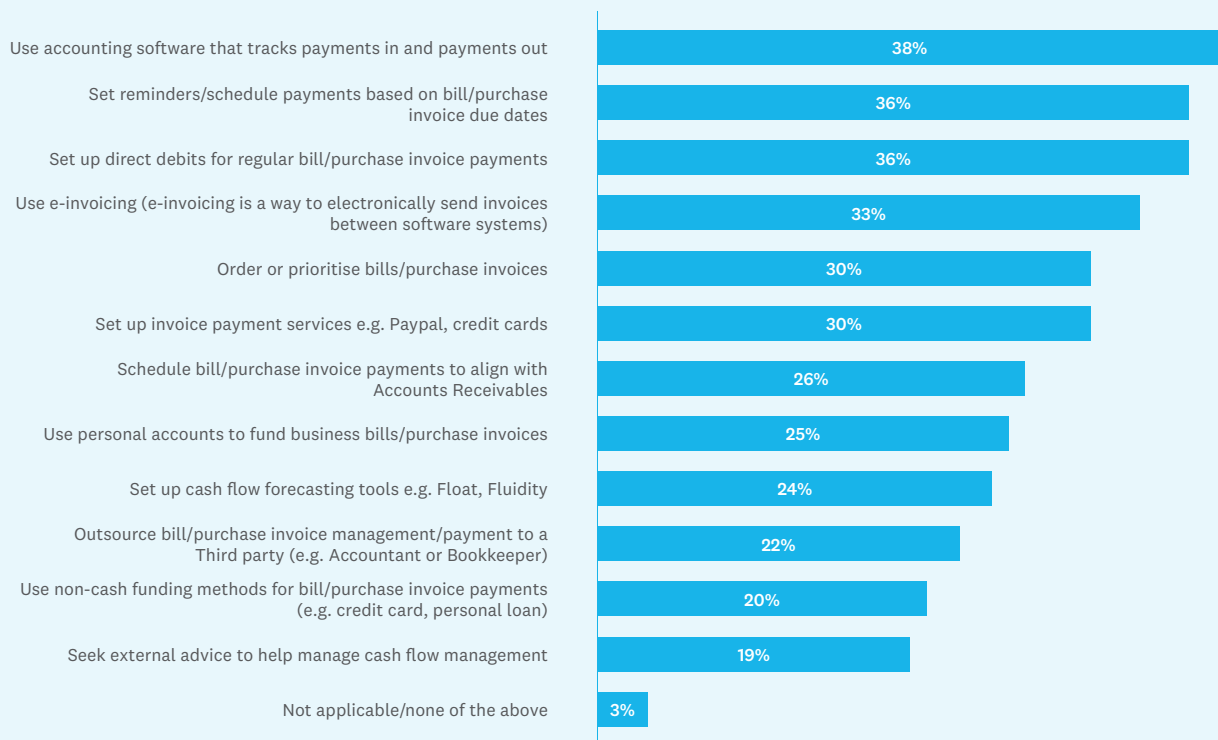


## A variety of measures are taken by business owners to manage cash flow

These include using accounting software to track cash flow (38%), setting reminders and scheduling payments (36%), setting up direct debits (36%), and e-invoicing (33%).

“I’ve had to reduce staff hours, make a staff member redundant, and limit overheads.”

### Top measures small businesses take to manage cash flow



Construction and trade businesses embrace the least number of tech-savvy measures like cash flow forecasting tools, setting reminders and scheduling payments, and setting up invoices and payment services to manage their cash flow.

“Lack of cash flow can be a headache in terms of budgeting and advertising.”

**Tip: E-invoicing is a new way to send and receive invoices electronically between accounting systems.** If you [send an e-invoice in Xero](#) (available in Australia, New Zealand and Singapore), your invoice is sent directly into your customer’s accounting software system. Not only does it save them time processing your invoice, it’s also more accurate and secure.

**Tip: Take control of your financial health, by using planning and forecasting tools to help you spot cash shortages in advance.** This will give you time to work on contingency plans – whether that’s chasing debt, working out if you need to increase your prices, or securing a business loan. You can use digital tools like Xero Analytics Plus to access real-time insights on your financial position, and predict short-term cash flow up to 90 days in the future. The user-friendly dashboard and AI-powered predictions are designed to provide well-informed forecasts based on Xero data, so you can undertake basic scenario planning in preparation for future events.

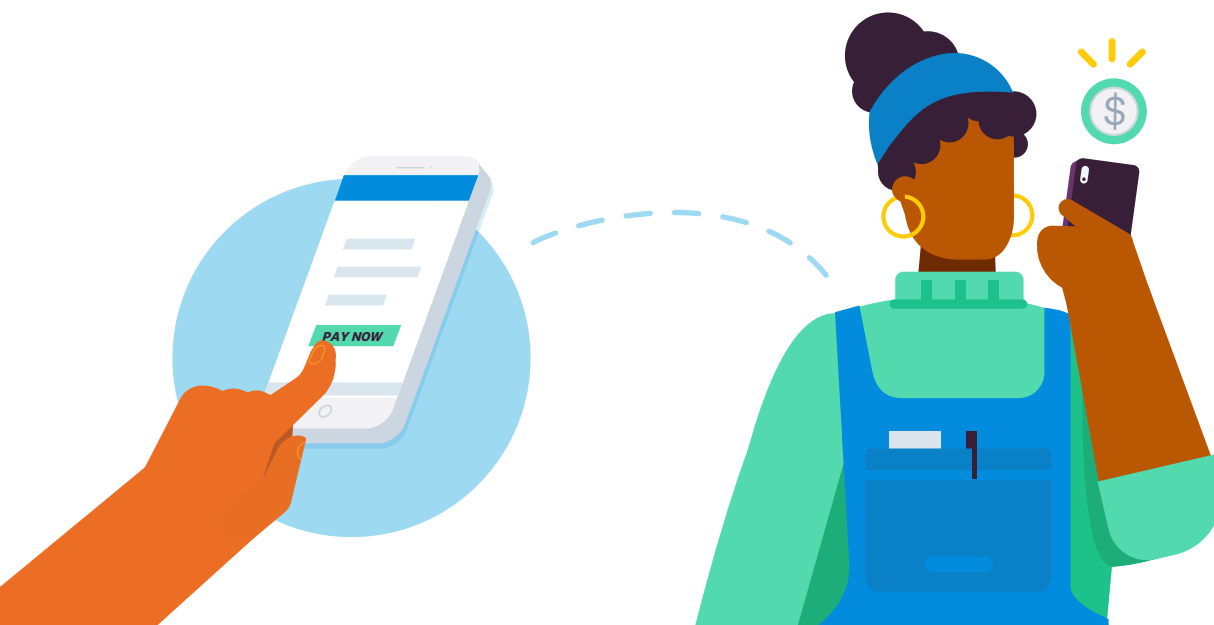
### Traditional payment methods such as credit cards, direct debits and bank deposits continue to be the preferred way for small business owners to get paid

On average, larger businesses are more likely to use a broader range of payment methods than non-employing businesses. While half of all businesses use traditional methods such as direct debit (52%), credit card (51%), and bank deposit (50%), one third also use online payment gateways (38%), emailed invoices (33%), and Apple/Google Pay (29%).

The main reasons for not using digital payment methods like Buy Now, Pay Later (BNPL), e-invoicing or Apple/Google Pay are a preference for traditional methods (37%), believing that fees are too expensive (32%), or feeling they don’t know enough about them (20%).

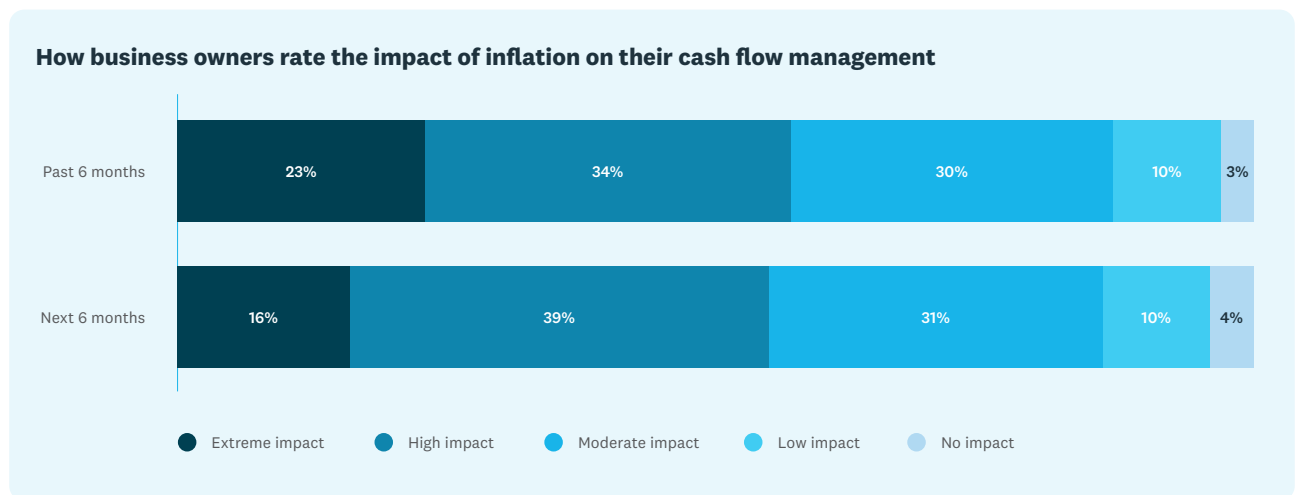
**Tip: Think about how you can make it easier for your customers to pay you.**

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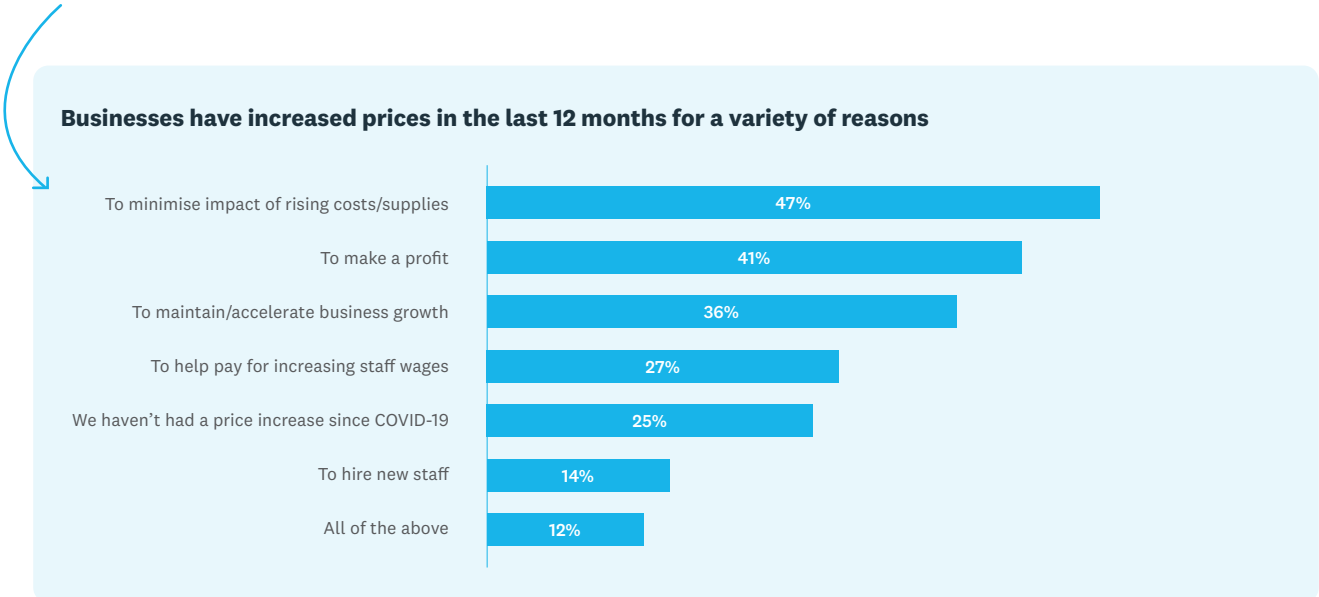
# Inflation has a significant influence on cash flow

There's no doubt inflation is one of the main macroeconomic challenges facing businesses right now



The majority (57%) of businesses say that inflation has had an impact on their cash flow management over the past six months, with larger businesses most likely to feel the impact. Businesses working in financial services are the most nervous about the next six months, with the majority (79%) expecting that inflation will have an impact. This is followed by hospitality businesses (63%), construction and trade businesses (57%), and retail trade (53%).

Cash flow strains can be more acute in industries like construction, where many builders offer contracts to build homes at a fixed price with considerable lead time, which can leave these businesses exposed to sharp increases in the costs of materials and labour.



The majority (61%) of businesses have needed to increase their prices in the last 12 months to mitigate rising costs and make a profit.

Businesses need to understand the early warning signs of cash flow trouble and look at different options to manage their operations within this persistent inflationary environment. Indicators can include longer payment times, an increase in debtor days, rising expenses and insufficient sales.

“Clients are frustrated that our prices have risen and are therefore pulling out of their contracts. We are losing business.”

**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, so you can develop a pricing strategy.



## CASE STUDY



**Luke Hargreaves**  
Pitch Labs



Adelaide-based finance expert Luke Hargreaves has been working with Pitch Labs in Australia for the past three years, partnering with businesses to implement finance operations as their outsourced CFO. One of the key areas of focus for Luke and his team is managing cash flow using technology, including the many apps available in the Xero App Store. Luke's team also uses the short-term cash flow tool in Xero Analytics plus, to get real-time visibility on their clients' businesses.

Luke sees his clients struggling with a range of challenges, but inflation and its impact on cash flow has been a major hurdle in recent times. To combat these challenges, he recommends using online invoice payments and e-invoicing in Xero, which can improve financial management and cash flow. He also believes that small businesses need an advisor who is knowledgeable about the digital space and can provide valuable insights on solutions available in the market.

"Rising interest rates and the cost of living has really put pressure on my clients and their customers. As a result, how much customers are willing to spend has

"One thing that's an issue for many clients is that they're not confident about chasing up or challenging customers on payment terms. But it's important to be brave in billing. Xero has a really good invoice reminder system that makes it incredibly easy for customers to pay."

been affected. With less customer spending, clients face increased cash flow pressure causing them to tighten their expense management while putting more emphasis on bringing in revenue, especially if they are small or medium-sized businesses. One hundred percent, there's been a lot of pressure."

**"By investing in tools like short-term cash flow and other digital solutions, they can regain control and thrive."**

"We've taken over finance for some clients that have hundreds of unreconciled transactions. So depending on what reports they're looking at, their short-term cash flow can be way off. It's important to keep your files up to date and to make sure you're checking on things all the time. We have some people looking at our short-term cash flow weekly, but others are checking it daily.

**"It also might make sense to partner with a good accountant. There are obviously lots of savvy business owners out there, but they're probably already wearing four hats. Their time might be better spent driving sales."**

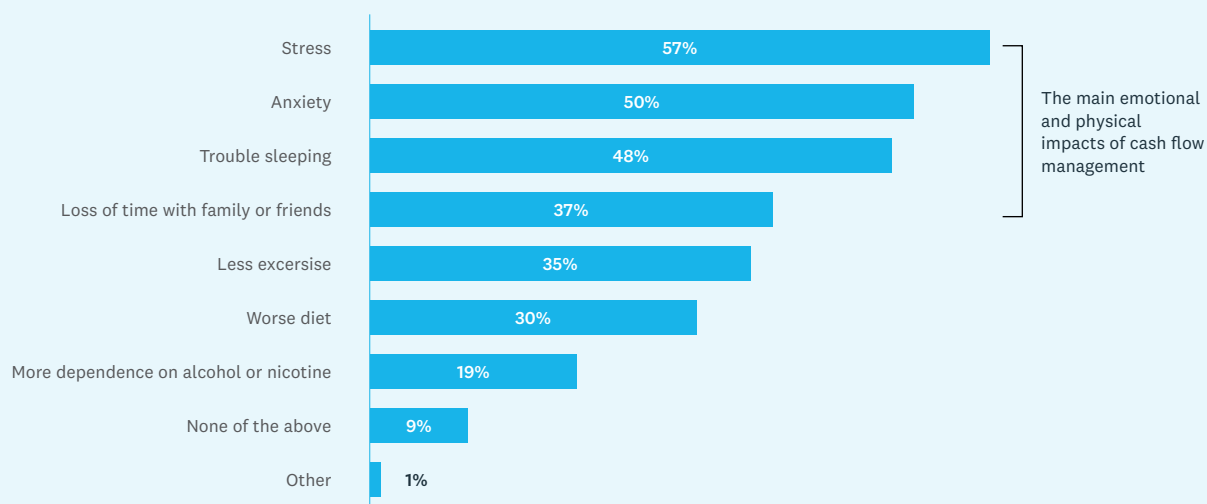
# Cash flow stress has a human cost

## Cash flow stress impacts business owners' emotional and physical health

The main emotional and physical impacts of cash flow management on business owners are stress (57%), anxiety (50%), trouble sleeping (48%) and losing time with friends and family (37%). One quarter (24%) of owners of larger businesses have also increased their use of alcohol or nicotine.

“I have had to remortgage my house and budget more. I have missed a lot of family time and had to fire staff.”

### Emotional and physical impacts of cash flow management that businesses experienced over the past 12 months



**Tip:** Cash flow stress can often destroy your passion and performance as a business leader, not to mention take a serious toll on your health. Understanding the things that impact your cash flow is the first step you can take.

“I spend too much time each week worrying about cash flow issues when I should have been focused on efforts to improve and grow the business.”

“Cash flow stress has impacted my life because I haven't been able to pay myself a proper wage consistently.”

“The cash flow pressure caused me to spend more time on debt collection, which affected my normal family time.”

**Tip:** Long-term stress can increase the chance of developing a mental health condition, so it's important to reach out for professional support early. **Through Xero's partnership with Beyond Blue, small business owners have access to [Mental Health Coaching](#) to help you manage your unique life and business stresses.** This free and confidential mental health program provides six sessions with a coach who has a small business background and understands the stressors that small business owners face.





Beautiful business