Supply Chain Scorecard
powered by Earlytrade

Edition #4
FY 2021-22

GROWTH IN A PRODUCTIVITY SLUMP

Adjusting to the higher cost environment.

Earlytrade

About Earlytrade

Earlytrade helps corporate buyers address their biggest challenges through their supply chains by creating a more valuable and more productive use of liquidity.

Earlytrade's verticalised liquidity marketplace solutions empower subcontractors and suppliers with on-demand payments, and give large buyers the tools to drive sustainability outcomes in their businesses and in their supply chains.

Now connecting nearly 100,000 suppliers with billions of dollars in on-demand liquidity, Earlytrade is the largest working capital marketplace in Asia Pacific.

GUY SAXELBY
CEO & CO-FOUNDER
EARLYTRADE
guy@earlytrade.com

SAM MACPHERSON
HEAD OF TREASURY
EARLYTRADE
sam@earlytrade.com

Contents

CEO PREFACE

As the Earlytrade liquidity marketplace has grown, so too has the richness of insight we can extract from the 1.6 million business-to-business invoices we track between 80,000 buyers and suppliers each year.

Over the next six to 12 months, we see productivity slumping under the weight of higher costs, a higher concentration of supply chain activity towards medium and large suppliers, and the unfolding national skills crisis.

For leaders, simply maintaining a business' current pace of operations is becoming an incremental investment decision.

As the nation emerged from lockdowns, we watched prices jump upstream (Producer Price Index, 4.9%) and downstream (Consumer Price Index, 5.1%), putting the cost of growth out of reach for many.

Alarmingly, new research released by the ABS shows that nearly half of Australia's businesses had already pulled resources away from innovation activities to bolster core business operations during the pandemic.

The further that decision makers allow their businesses to recede from productivity-driving innovation, the more burdensome the cost to grow will become.

Doing more with less is now an imperative.

Naturally, this report offers a particular focus on the construction and infrastructure sector where Earlytrade spends a lot of time consulting with leaders in the industry, and where these factors are being felt more severely.

The latest productivity data for construction shows -0.7% growth for 2019-20, which was underpinned by deteriorations in almost all contributing factors: labour, energy, and materials. To state the obvious, these inputs have only deteriorated throughout 2021-22.

----------------->

Earlytrade liquidity marketplace

1.6m invoices

80k businesses

construction

infastructure

industrial

beverage

food

COSTS
SKILLS
ESG

data-driven
trends

Right now, business leaders need to be asking their teams for innovative thinking and winning strategies to drive productivity at the many points of production in corporate supply chains.

construction
-0.7%
productivity
growth

To help narrow the focus, we've leveraged Earlytrade's proprietary marketplace data and official statistics to scope three trends that capture a degree of certainty in an uncertain market:

- **New cost of doing business, and growth**
- **Skills crisis bottlenecking supply chains**
- **A growing pool of ESG capital**

Our analysis focuses on liquidity as the lifeblood of businesses and as a barometer for stress and growth in supply chains.

We believe supplier access to fair and affordable liquidity is an antidote to many supply-side problems faced by corporates today.

Whether cost trends continue upwards or have peaked, we should view them as baked-in. They are not going back down and holding our breath until it is all over isn't a viable strategy.

So, how do you grow and how do you win in this higher cost environment?

GUY SAXELBY
CEO & CO-FOUNDER
EARLYTRADE

Productivity

(Market sector)

capital (K)
labour (L)
energy (E)
materials (M)
services (S)

KLEMS provides a detailed statistical decomposition on the contributions to output growth, represented by five input categories - capital (K), labour (L), energy (E), materials (M), and services (S). This allows for analysis on the changes to the input mix, such as the role of labour hours and composition of relative capital services or intermediate inputs, observed in industry output growth.

Source: ABS, Industry Level KLEMS Multifactor Productivity

Earlytrade Supply Chain Scorecard FY2022

Productivity to slump under higher costs and skills crisis

Earlytrade's Supply Chain Scorecard tracks 1.6 million B2B invoices representing nearly $10 billion of trade between 80,000 suppliers and some of Australia's largest corporate buyers.

Value of B2B Trade

Value of trade
Approved invoice value ($)

+46% YoY

Represents total trade payments made by buyers to suppliers

Distribution of B2B Trade

Buyer Spend by Supplier
Approved invoice value ($) / No. suppliers

+10% YoY

Represents concentration of spend across supply chain

Early Payment Ratio
Early payment value ($) / Approved invoice value ($)

+49% YoY

Represents proportion of value accelerated by suppliers

Demand for Liquidity

Supplier Registrations
New business registrations

+24% YoY

Represents supplier intentions to request early payments

Early Payment Demand
Value of early payments ($)

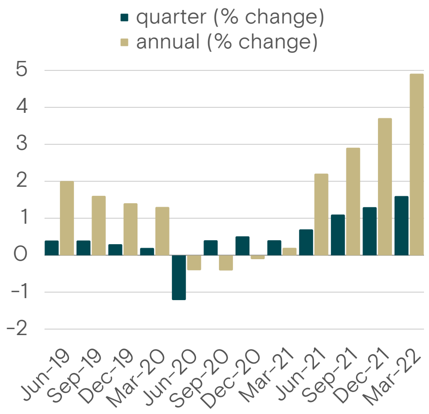
+118% YoY

Represents value of early payments accelerated by suppliers

Source: Earlytrade Liquidity Marketplace

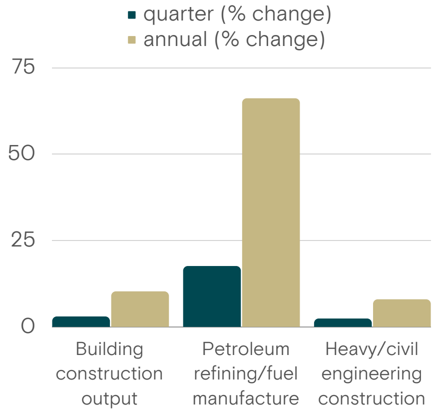
CURRENT PACE NEAR IMPOSSIBLE, GROWTH TARGETS DRIFTING

Producer Price Indices (PPI)



Source: ABS

Main PPI contributors to quarterly growth in costs



Source: ABS

Productivity will slump over the next six to 12 months as the higher cost environment makes it nearly impossible to maintain the pace of current operations, and growth targets are put beyond reach for many firms.

In 2020-21, Gross Value Added per hour in the private sector slowed (1.2%), eroded by declining access to capital, the tightening labour market, higher energy costs, and cost inflation on materials and services.

Earlytrade's Supply Chain Scorecard, tracking 1.6 million B2B invoices, provides a real-time view of how these inputs have changed throughout 2021-22 and how they will shape the outlook.

Beyond FY22, the overwhelming consensus is an upward trajectory on the March Producer Price Indices (PPI, 4.9%) and Consumer Price Index (CPI, 5.1%).

As B2B costs continue to climb, corporate buyers' spend has become more concentrated towards medium and large suppliers to the disadvantage of small businesses, as the average Buyer Spend by Supplier increased 10% YoY.

The proportional drop in revenue for small suppliers from corporate buyers, compounds the effects of inequitable access to traditional finance. In the lead up to the pandemic, many small businesses paid in excess of 700bps interest to access capital from traditional lenders. This is an improvement of only 18% from 2019 through the pandemic, while large firms saw their cost of capital drop 43%.

In the wake of the pandemic and lingering global supply disruptions, many corporates have seen local and small

Market sector productivity

Gross value added per hour worked market sector*

2016-17	2017-18	2018-19	2019-20	2020-21
1.4	0.3	0.0	1.8	1.2

*The 'market sector' is defined to include all industries except for Public Administration and Safety (O); Education and Training (P); Health Care and Social Assistance (Q) and Ownership of dwellings.

Source: ABS

Corporates will need to collaborate with their supply chains to ensure sufficient liquidity is available to navigate the overlapping crises.

Improvements to cost of capital since 2019

43 %

large businesses

18 %

small businesses

Source: Earlytrade/ABS, lending rates

suppliers, which make up more than 90% of corporate supply chains, as critical to sustainability and ESG success, providing them with greater control and flexibility on invoice payments.

Total Value of Trade between buyers and suppliers on Earlytrade increased 46% across the financial year. As this pool of liquidity available for early payments increased so too did the proportion that was accelerated by suppliers, with the Early Payment Ratio jumping 49%.

This has been crucial to supporting productivity in supply chains as businesses transitioned out of lockdowns, and away from the associated fiscal stimulus, into the higher cost environment.

The rate on early payments through Earlytrade broadly tracked the change in the cash rate, both increasing 8 bps, supporting eligible suppliers with access to affordable liquidity, and a simple means to shorten cash conversion cycles.

Consequently, new Supplier Registrations increased 24% YoY, and Early Payment Demand more than doubled as suppliers across sectors accelerated payments to avoid debt-based lending and to support business growth.

In the higher cost environment, corporates will need to collaborate with their supply chains to ensure sufficient liquidity is available to navigate the overlapping crises across gas and energy prices, the tightest labour market in 40 years, and on-going supply disruptions fuelled by severe weather events, the Russia-Ukraine war and China's zero COVID policy.

A SHARPER FOCUS

DATA-DRIVEN TRENDS IN UNCERTAIN TIMES

- New cost of doing business, and growth
- Skills crisis bottlenecking supply chains
- A growing pool of ESG capital

NEW COST OF DOING BUSINESS, AND GROWTH

Is the cost of growth now beyond reach?

Regardless of whether inflation has peaked or will continue to climb, costs are higher and will not return to pre-pandemic levels.

According to the ABS, in June this year 46% of businesses reported increases in operating costs and 44% expect more increases in July, compared to 21% in June the previous year.

Given the pandemic had already forced nearly half of Australian businesses to pull resources from innovation activities to bolster core operations, the journey back to higher productivity and growth only gets more expensive.

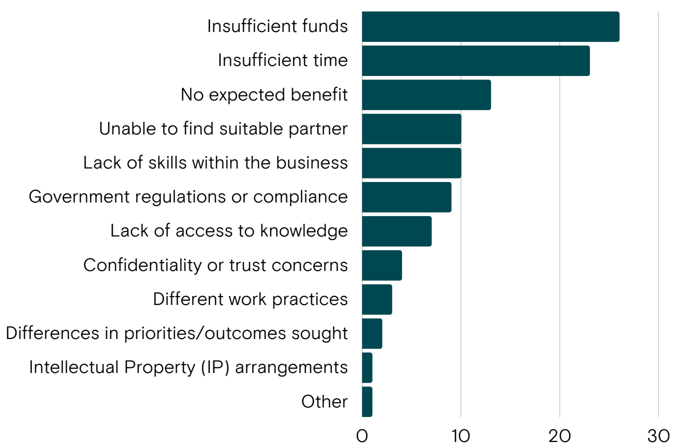
Old problems need new solutions in construction

The construction industry continues to be heavily exposed to double digit inflation on materials and labour, well above headline inflation levels.

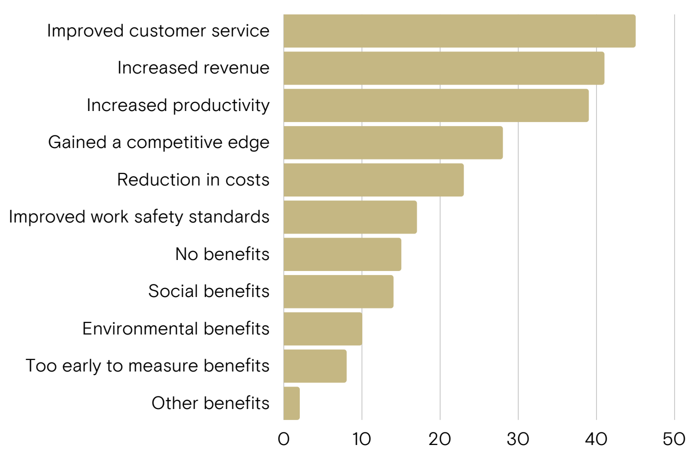
ANZ and NAB bosses both told the AFR Banking Summit in May that construction-based borrowers were the highest risk on their books.

"And we shouldn't be terribly surprised: history shows us that in any sort of crisis or downturn, sadly construction and commercial property are two of the most prone to failure,"

Barriers to collaboration for innovation

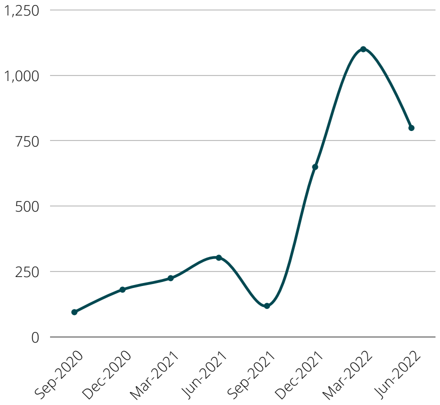


Benefits of innovation

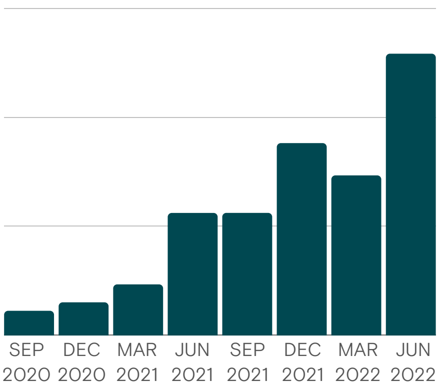


Source: ABS

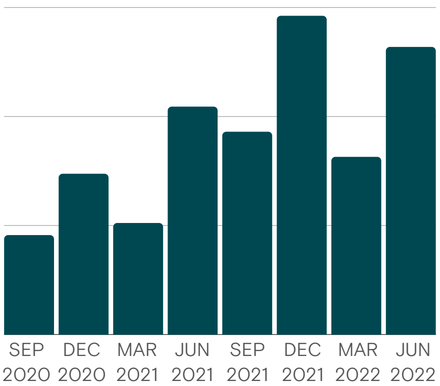
Construction
New subcontractor registrations



Industrial services
Liquidity demand



Food & beverage
Liquidity demand



Shayne Elliott, chief executive at ANZ said. “So, I don’t know the answer to that, clearly there’s a lot of complexity.”

Since the NSW government shut down the construction sector for two weeks in July 2021, followed by Victoria in September, Earlytrade has seen significant demand from subcontractors as they look for alternative liquidity options.

New Subcontractor Registrations on Earlytrade increased 232% YoY, and Early Payment Demand jumped 802%, ensuring eligible subcontractors had sufficient liquidity to operate as material and labour issues stalled the industry.

In February 2022, this report foreshadowed the trend of construction insolvencies which led the sector to finish the financial year with the highest proportion of VAs in the ABS dataset, highlighting the need to revisit old problems with new solutions.

Gas crisis casting long shadow over industrial supply chains

As fixed price gas contracts are renegotiated, commentators are expecting the new prices to take energy intensive manufacturers and suppliers in industrial supply chains to the wall.

While growth in new Supplier Registrations across industrial services marginally slowed (-9%), Early Payment Demand (+228%) increased three-fold YoY, with a 76% increase QoQ, coinciding with the gas market crisis. The higher Early Payment Demand correlates with steady growth in new registrations during the financial year to March (+21%).

Multiple pressures on food & beverage supply chains

The food and beverage sector’s privileged position, closest to consumers’ wallets, puts the pressure of higher energy and fuel prices in an even starker light.

On top of back-to-back floods, this sector's supply chain is also exposed to the Fair Work Commission’s 5.2% minimum wage rise, which will provide additional pressure on supply chains less able to meet orders.

June marked the highest level of Early Payment Demand for the sector, increasing 65% YoY as suppliers brought forward payments as much published "just-in-case" procurement strategies continue to drive inventories every higher.

Source: Earlytrade liquidity marketplace (Construction; Industrial services; Food & beverage)

SKILLS CRISIS BOTTLENECKING SUPPLY CHAINS

40-year low unemployment is a skills crisis.

Labour hire in higher demand

+43 % YoY

Early Payment Demand from labour hire suppliers

ABS data from June shows the most significant factor preventing more than 400,000 vacancies from being filled is a lack of applicants with adequate skills and experience.

The outlook is bleak for businesses needing higher skilled employees to drive growth initiatives. Negative net migration, as a major contributor, has a backlog of 16,400 unresolved skilled worker visas, the majority of which have been in processing for nearly two years.

During the pandemic, the highest barriers to innovation for businesses were lack of access to additional funds (20%), lack of skilled persons within the business (16%), and lack of skilled persons within the labour market (16%), none of which have improved.

In June, the OECD proclaimed Australia's skills crisis to be the second worst of any developed economy, with Canada coming in last.

Double-edged sword for corporates

It's a double-edged sword for corporates, who are not only unable to fill their own high skilled vacancies, but will have supply chains lacking in talent and skill to navigate the transition into a higher cost environment.

Compounding the issues of more work being concentrated with medium and large businesses in the supply chain, those same medium (62%) and large businesses (66%) are also more likely to report difficulties in finding suitable talent, compared to small businesses (29%).

As corporate buyers lean more on labour hire firms to plug skills and resource gaps, the labour suppliers are turning to early payments to support their payroll-heavy operations, with their Early Payment Demand jumping 43% YoY.

Source: ABS

+100K

new workers needed within 12 months to deliver record infrastructure pipeline

Whole-of-supply-chain solutions for generational skills development

The construction sector has a track record of considering skills at the sector supply chain level and continues to do so with initiatives such as Constructionarium Australia which aims to help build generational talent needed to deliver complex megaprojects.

In NSW, the state government's latest budget also announced $20 million to triple the number of women in construction where women make-up just 5% of the workforce compared to 13% nationally.

Mirvac, Scentre Group, Icon and Roberts Co are among high profile players offering incentives such as better paid parental leave and 5-day work weeks to widen the pool of prospective talent in the industry.

However, for the past two years, one third of businesses in construction still reported difficulty finding suitable employees, according to an ABS survey.

As the record infrastructure pipeline reaches its peak, the Australian Constructors Association estimates 105,000 additional workers will be needed within 12 months, including highly specialised engineers and trades to deliver complex multi-billion dollar megaprojects.

Although the federal government has announced a jobs and skills summit in September, the skills crisis does not appear to have any simple fixes, but will require multiple private and public levers and whole-of-supply-chain thinking, including diversity and inclusion initiatives designed to broaden pools of talent for key sectors.

A GROWING POOL OF ESG CAPITAL

Better together to unlock Scope 3 value.

Cost of net zero supply chains

55 %

of required investment must reach SME suppliers

Source: BCG

Corporate supply chains

95 %

of suppliers are SMEs

Source: Earlytrade

Low awareness

92 %

don't understand the acronym

Source: SEC Newgate

Sustainability-linked loans now make-up a quarter of the total loan volume in Australia, equating to around $7 billion in the first quarter of 2022, according to ANZ.

Although regulation in Australia is lagging, the SEC in the United States released draft rules in March which would require firms to report Scope 3 emissions, covering suppliers' carbon footprints.

This will have implications for Australian firms with US compliance exposure, even before domestic regulation catches up.

In terms of delivering net zero supply chains, more than half of the investment required to decarbonise supply chains must reach the highly diverse cohort of SMEs which make-up over 90% of corporate supply chains.

Beyond the financial challenges and opportunities, physical risks associated with unpredictable weather events are having drastic impacts on supply chains and industries.

According to CSIRO, Australia's fire season could extend by between 11 and 36 days by 2100. By the end of January this year, the NSW construction industry had already exhausted a typical budgeted allocation for lost weather days twice over, due to the rain bomb.

Suppliers: 'What's E.S.G.?'

The challenge for even the most bullish corporates on ESG is low awareness and understanding among the fragmented but important SME tail in their supply chains.

Research by SEC Newgate showed that 70% of people haven't heard of ESG and 92% don't understand what the acronym means.

----------------→

Survey of Australian corporate finance specialists

83.3 %

believe supply chain operations are important to ESG goals

16.7 %

have strong influence over supplier performance; 58.3% have minimal or moderate influence

66.7 %

agreed incentivising suppliers' ESG performance would improve influence

Source: Earlytrade

As regulation continues to take shape, much of corporate Australia appears intent on pushing forward, but they will only be able to go so far without government-led terms of reference to help guide and motivate SME business owners.

Infrastructure Partnerships Australia has urged the federal government to deliver an actionable nation-wide decarbonisation agenda or risk missing the "wall of private capital" looking for a home in net zero emissions innovations.

However, in a new higher cost environment, many medium-sized private or family-owned businesses supplying Australia's large corporates will have little spare capacity to proactively comprehend and comply with reporting requirements.

Earlytrade's liquidity marketplace has proven a highly effective model for corporates needing to incentivise engagement from suppliers, especially small and medium businesses.

Corporates will need to do more to motivate and educate suppliers around reporting, such as introducing preferential payment terms and ESG-linked early payments, rather than waiting for evolving regulations.

WINNING STRATEGIES FOR GROWTH
in a high cost, low productivity environment

Innovate for productivity-driven growth

Businesses shifted resources away from innovation during the pandemic, and the higher cost environment and skills crisis have put important productivity-focused initiatives further from reach.

However, during the pandemic innovating businesses reported successful collaborations with suppliers (46%), increased revenue (41%), and benefits to productivity (39%).

Leaders need to target innovation investments at points of production across their business operations, and measure success by the efficiency of value added in the resource-constrained environment.

This will help businesses gain a competitive advantage by maximising output with available resources, while the rest of the market focuses only on maintaining core operations.

Incentivise supplier collaboration

Activity in supply chains is becoming more concentrated among medium and large businesses, to the detriment of smaller suppliers.

For corporates, those small suppliers, who comprise around 90% of supply chains, already face higher costs of capital and difficult access to traditional finance, compounding any losses in revenue from B2B buyers and compromising future service delivery.

Business leaders will need to push teams to gain greater visibility of supply chain segments and incentivise collaboration with key groups such as indigenous, local, small and carbon intensive suppliers.

This will help ensure suppliers are knowledgeable, well-resourced, and aligned with corporate objectives that are dependent on supply chain productivity, such as decarbonisation, modern slavery, and diversity and inclusion targets.

-----------------›

Access growing pool of ESG-linked capital

Corporate Australia continues to announce ambitious net zero targets and ESG commitments as governments develop regulatory requirements.

Simultaneously, Australia's ESG-linked pool of capital has grown to account for one quarter of the total available loan value, shaping a competitive market for access.

However, more than 55% of the investment required to deliver net zero supply chains needs to reach small and medium suppliers, who comprise 95% of corporate supply chains, and have very low levels of awareness and understanding of the ESG framework.

Leaders will not be able to passively wait for suppliers to get up to speed if they are to deliver net zero commitments and gain access to the growing pool of ESG-linked capital.

Buyers can instead incentivise suppliers with preferential and flexible payment terms to report emissions data and collaborate on decarbonisation roadmaps.

Hedge against supply chain inflation

B2B costs are projected to continue increasing for all businesses in supply chains, making it nearly impossible to maintain the pace of current operations and putting growth targets beyond reach for many firms.

However, dynamic collaboration with key suppliers on payment terms enables corporates to offset cost increases in an efficient, transparent, and mutually beneficial way.

Empowering suppliers to reduce their cash conversion cycles means they can allocate capital more affordably and strategically in their businesses, while avoiding the rising cost of debt-based financing.

ASK US ABOUT...

Big ideas like industry-wide liquidity markets

Fighting inflation in complex infrastructure projects

Net zero supply chains and how to incentivise supplier reporting

Value and returns by building a business case

hello@earlytrade.com
earlytrade.com

Earlytrade

earlytrade.substack.com
hello@earlytrade.com
earlytrade.com