



Canary IN THE Coal Mine REPORT

BACKGROUND

More than 97 per cent of the 2.2 million actively trading businesses in Australia are small businesses. These businesses have a significant impact to the Australian economy but despite this, little research is conducted into conditions of the sector's economy.

Prushka's Canary in the Coal Mine report provides detailed early-warning insights into the current small and medium business (SME) landscape and the flow-on effects this will have to the larger economy.

ABOUT PRUSHKA

Prushka Fast Debt Recovery is one of Australia's largest and oldest debt recovery agencies, acting for more than 57,000 businesses – predominantly SMEs. Working closely with such a large and diverse SME client base gives Prushka a unique understanding of current business trends and issues that are facing business operators. Prushka has been in operation for 43 years and its clients are located right across Australia and cover all business segments and have a significant regional percentage.

ABOUT THE SURVEY

The Canary in the Coal Mine report is based on responses from a survey of Prushka clients from around the country and across more than 30 industries including building and construction, retail, professional services, medical and dental, and accounting. The survey is updated every six months and has been run since 2006, it looks at current debt levels for businesses, debt collection processes, business confidence and economic concerns. There is usually a long delay before these changes hit official figures – this survey is an early indicator. This report is based on 475 respondents to the survey in March 2019.

Executive summary

THE FINDINGS IN A NUTSHELL

The small and medium business (SME) sector remains in a strong position with operators holding a genuinely positive outlook in spite of general media perceptions that the sector is under pressure.

SMEs continue to be planning for growth in the coming 12 months, and businesses remain confident about their future; both trends that have remained steady for the past two years.

SMEs generally operate good credit checking systems and debt collection processes, which has improved over recent years. The fact there is low reliance on banks for funding is a strong indicator of good health in the sector. Operators are spending less time recovering debts and most offer trading terms of less than 30 days, indicating cash flow processes are strong for the most part.

Operators are leaving themselves vulnerable however in areas that could significantly hurt them if business conditions deteriorate. A reduced reliance on banks for funding is a positive sign, but one in five still fall back on their personal finances if times get difficult but in tight times, this may be insufficient. Further, while most have payment terms of less than 30 days, the majority are waiting more than 90 days before referring unpaid debts to a collection agency, putting these debts at significant risk of not being recovered.

While business confidence remains high, there is a looming cloud of doubt that lingers for SME operators around economic issues and their own bottom-line profit. There is a pervading opinion that the state of the economy has impacted businesses in the past 12 months, along with consumer spending and competition. At the same time, operators are most concerned about profitability and growing their customer base in the next 12 months.

The SME sector has been steady over the past six months and results indicate this will remain for the next year. The results contradict much of the commentary around economic conditions currently, particularly around the SME sector. SMEs are always under pressure due to intense competition but there is no indication of external events causing significant stress on the sector and no indication of lack of money in the system.



Key findings

SME OUTLOOK REMAINS CONFIDENT

Despite the current sociopolitical climate SMEs still remain secure regarding their overall business health and are continuing to plan for future growth.

More than 65 per cent of respondents feel confident to some degree about their business outlook and more than half (50.8 per cent) of businesses are still planning for growth over the coming 12 months.

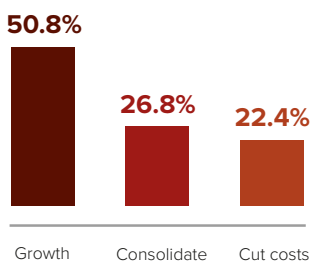
However, this positive sentiment and plans for growth have both slightly decreased compared to figures reported six months ago. This could be due to a number of seasonal and economic factors, which have not dampened the overall outlook, but have encouraged SMEs to be slightly cautious.

Debt levels have remained consistent with more than half of respondents saying the amount of outstanding debt they currently have beyond their trading terms in a normal month remaining the same for the past 12 months.

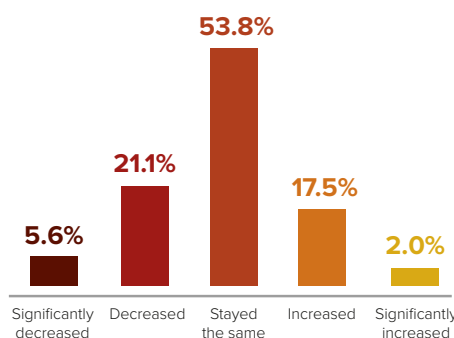
"The findings indicate only 11 per cent of SMEs are worried about the future of their business, which is an amazing result considering the currently mixed economic outlook. As it stands, confidence still remains high, but this sentiment may change over the coming months."

Roger Mendelson,
CEO, Prushka

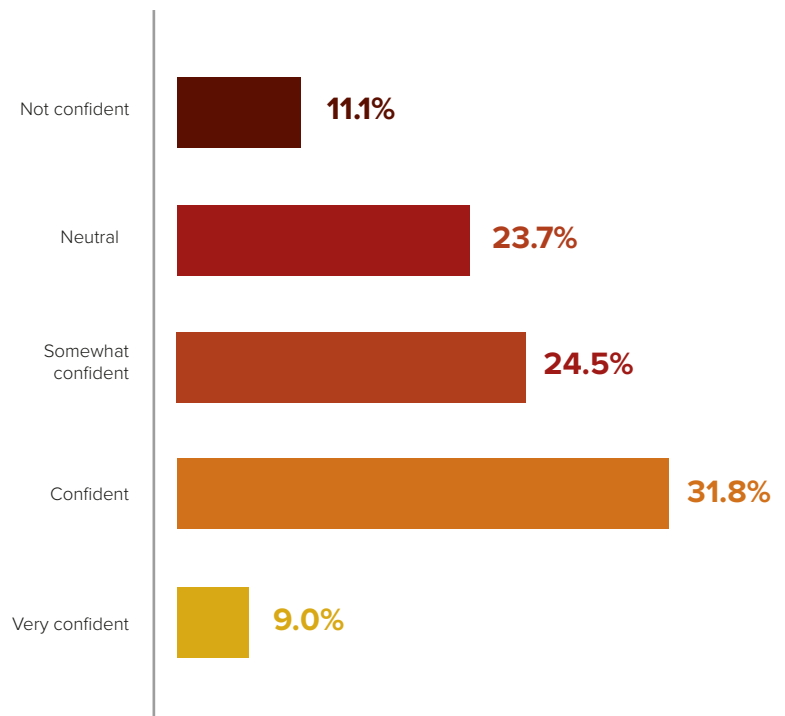
Are you planning to cut costs or aim for growth in the coming year?



Has debt level increased or decreased in the past 12 months?



How would you rate your business confidence right now?



SMES BECOMING MORE EFFICIENT

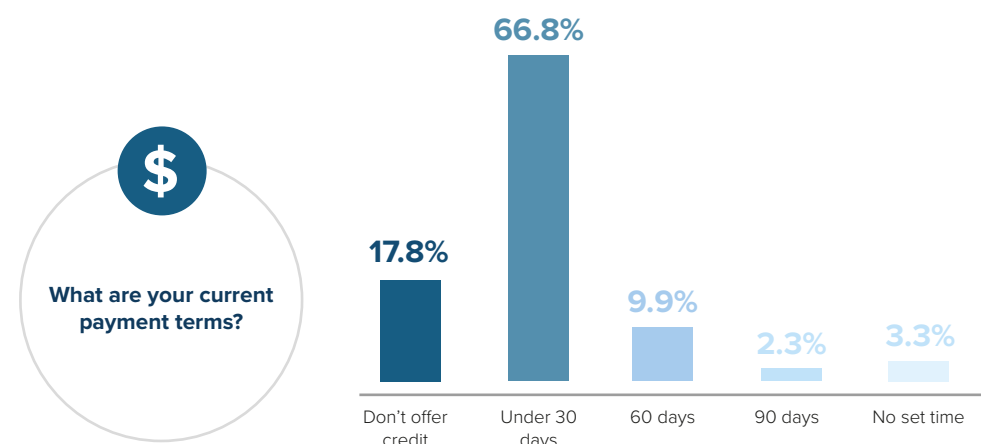
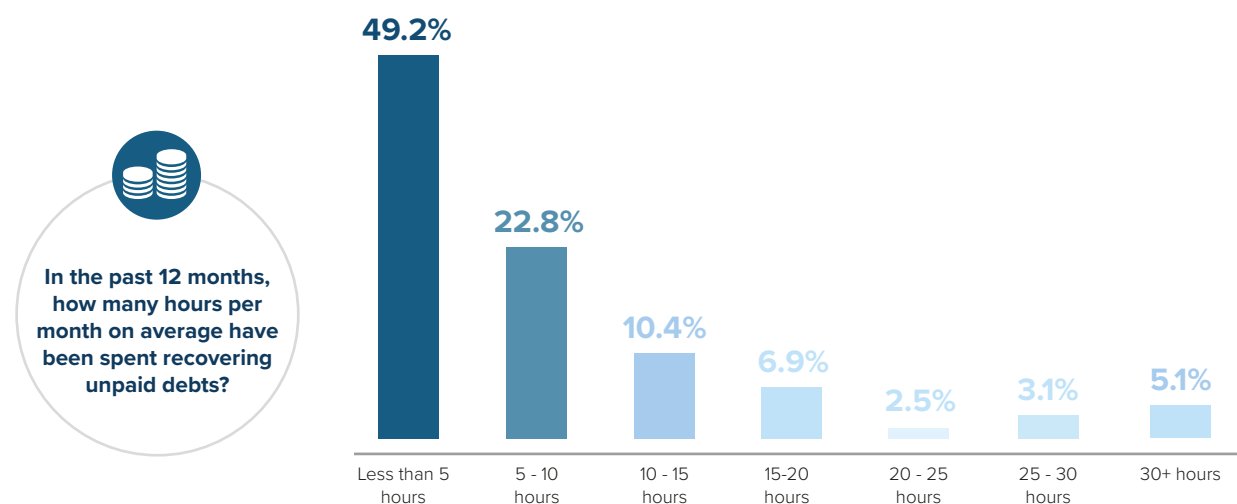
SMEs are spending less time chasing debts with almost three quarters (72.1 per cent) of respondents spending 10 hours or less a month recovering unpaid debts. This has largely remained unchanged over the past six months, suggesting that SMEs are continuing to work on improving their business efficiencies over a prolonged period, which is a positive step for the sector.

The appetite of SMEs to grant credit has remained steady, with nearly two-thirds (62.7 per cent) saying their willingness to extend credit is unchanged over the last 12 months. Meanwhile, 31 per cent said their willingness had decreased, indicating a general tightening of credit, potentially indicating some economic concerns.

A positive sign for the sector is 66.8 per cent of SMEs have payment terms of 30 days, which is an indication of good systems.

“SMEs are continuing to tighten their business practices, a trend that has continued from the last report. They’re keeping a tight hold on their cash flow and are spending less time chasing their debts. They’re also implementing efficient credit and collection systems, and are more reluctant to advance their credit which shows they are implementing better credit and collection systems.”

**Roger Mendelson,
CEO, Prushka**



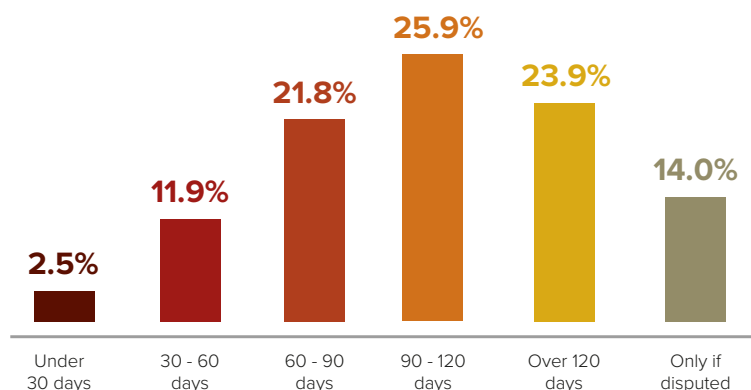
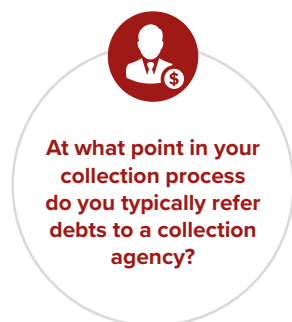
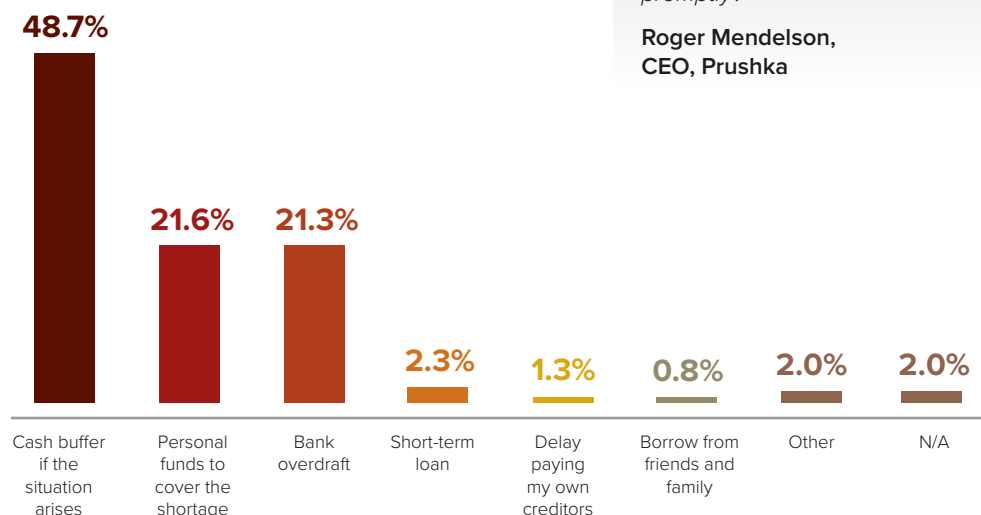
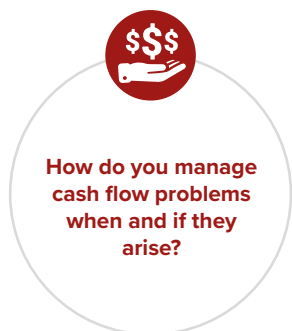
BUSINESS PROCESSES ON A KNIFE-EDGE

The number of SMEs with a cash buffer in place to deal with cash flow issues continues to rise which is a positive, and the reducing reliance on banks in this instance indicates stability in the sector. However, while SME's financial processes are improving, there are still areas of concern. In particular, more than one in five operators rely on their own personal funds if they run into cash flow problems, an increase of 7.5 per cent. While it is a better approach than relying on bank loans, it does leave business owners at risk if their cash flow takes a big hit.

The number of SMEs waiting more than 90 days before referring their debts for collection remains high and increased slightly in the past six months to 63.8 per cent. The longer a debt is left unpaid, the harder it is to recover. Waiting 90 days before referring a debt to a collection agency significantly reduces your chances of being paid, yet SMEs continue to procrastinate. Piling up of bad debts can have a significant impact on cash flow down the line.

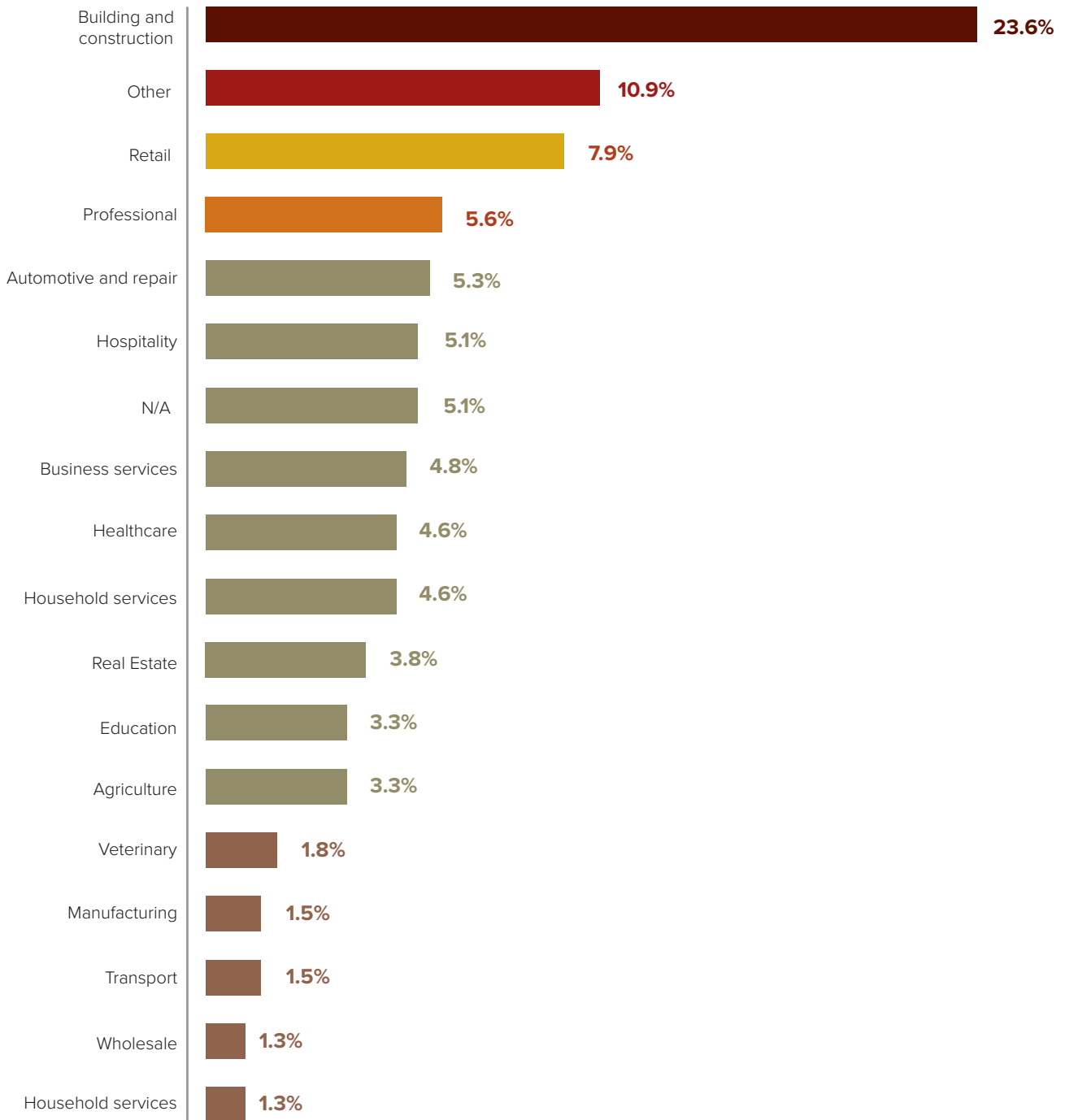
"Banks are no longer a big provider of cash to SMEs and they have been reluctant to lend to them for many years unless property security is provided. This has forced the sector to improve their operations to be less reliant on credit. Processes have improved but there is a tendency to wait far too long to refer overdue accounts to a debt collection agency. There is a perception that this will upset the customer. Large, successful companies don't have such a feeling. Their view is that 'we don't want customers who don't pay us promptly.'"

**Roger Mendelson,
CEO, Prushka**



For the third consecutive survey the construction industry has been labelled as the industry which takes the longest to pay invoices, a now 18-month trend, with 23.6 per cent of respondents experiencing delays in payment. This continued trend is particularly worrying as the industry has a big impact on the Australian economy with flow-on effects for other sectors.

Which industry typically takes the longest to pay invoices?



SMES SHADOWED BY ECONOMIC DOUBT

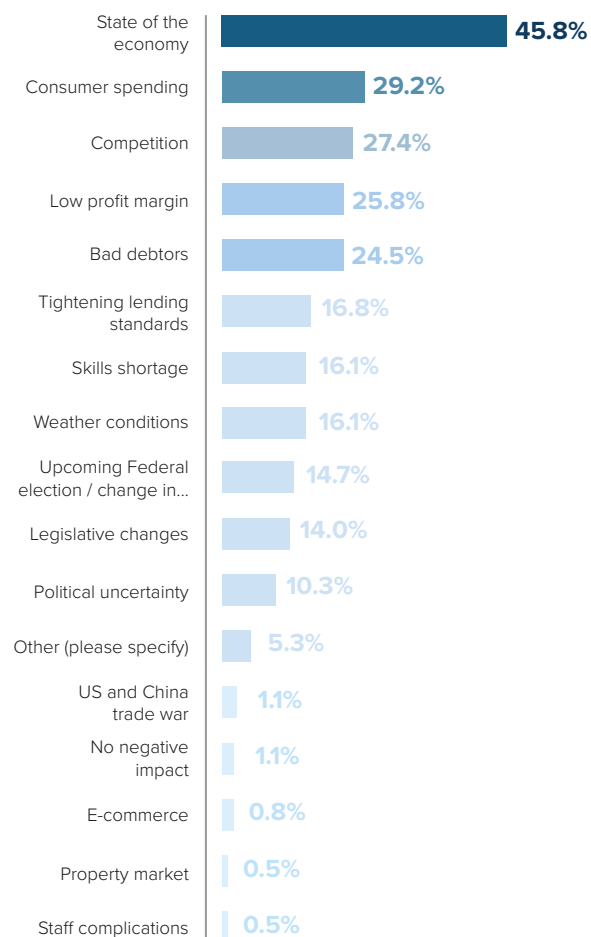
In spite of general positivity within the sector, SMEs are still feeling the effects from macro issues. Nearly half of respondents said the state of the economy has negatively impacted their business in the past 12 months, an increase of five per cent from six months ago. Consumer spending (29.2 per cent) and competition (27.4 per cent) have also had an effect on businesses.

The key issues that are front of mind for SMEs in the next 12 months are profitability (40.5 per cent), growing their customer base (39.5 per cent), and cash flow (35.3 per cent). Pressure on the bottom line will always be a concern for SMEs and competition is intense which impacts cash flow and the ability to grow customer bases. Interestingly, employee retention is a concern for nearly one third of SMEs despite stagnant wage growth.

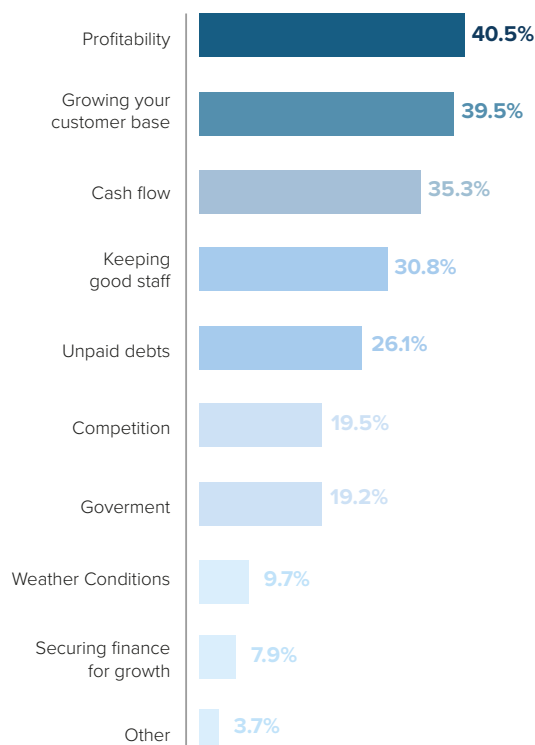
"The three major impacts on SMEs – state of the economy, consumer spending, and competition – are linked to a degree and are basically SME perception problems. Concerns around keeping staff is an interesting issue as it reflects the low unemployment rate and yet, oddly, it has not impacted wage growth – the traditional way of retaining good staff is to pay them more."

Roger Mendelson,
CEO, Prushka

In the past 12 months, what would you say has had a negative impact on your business?



What issues are you most concerned about in regards to your business in the next 12 months?



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