PRU$HKA
FAST DEBT RECOVERY
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NOVEMBER 2019

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. 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.

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 559 respondents to the survey in September/October 2019.

Executive summary

THE FINDINGS IN A NUTSHELL

2019 was a year of uncertainty and reform and the widespread effects were felt by the Australian business community. Against a backdrop of low wage growth, high household debt and decreased consumer spending, Australia's economy can currently be described as sluggish at best, reporting the lowest rates of growth since 2000.

In June, the RBA dropped interest rates to an historic low, with the central bank easing monetary policy in a bid to support economic growth. In the aftermath of the Hayne Royal Commission and steps from APRA to slow the rapidly increasing housing bubble, banks tightened their lending standards, forcing small business owners to re-evaluate their funding options.

Despite the uncertainty this generated, SMEs are remaining confident but cautious, and are planning for growth and refining their business processes. Debt levels have remained consistent and SMEs are keeping a tight hold on their credit terms

Worryingly, building and construction continues to be the industry that takes the longest to pay invoices. As a sector with an 8 per cent share of the Australian Gross Domestic Product, if this downward trend continues there are real concerns on the flow on effects that this will have on other industries.

SMEs are having to rely less on banks and are bolstering their cash buffers to prepare for anticipated downturns. With cash flow, profitability and growing their customer base being key business concerns for the coming months, it is a challenging time to be a small business operator.

Key findings

THE HORIZON IS BRIGHT FOR BUSINESS OWNERS

Overall, SME owners are adopting a positive outlook regarding the health of their businesses and are still planning for growth over the coming 12 months.

Over 60 per cent of businesses are confident to some degree, and just under half (47 per cent) are planning for growth.

However, both positive sentiment and plans for growth have slightly decreased compared to figures reported 12 months ago. This is likely a reflection of external events, such as the fallout of the Hayne Royal Commission and the overall state of the Australian economy which may have resulted in businesses adopting a positive, but cautious outlook.

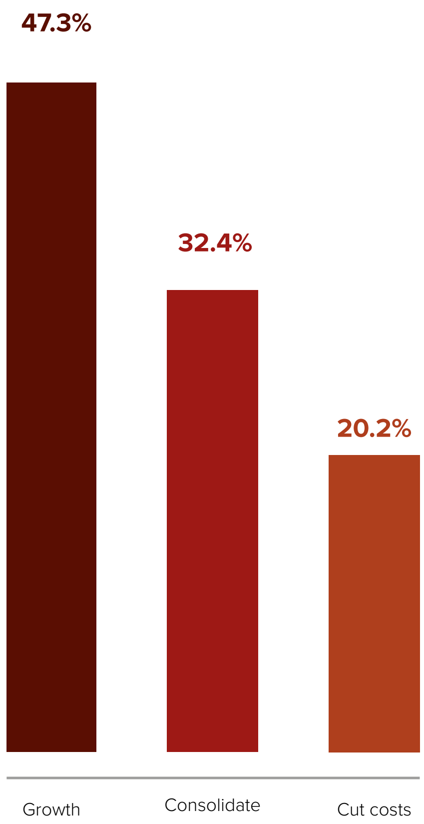
Debt levels have largely remained consistent with just over half of respondents saying they have less than $10,000 outstanding debt beyond their trading terms in a normal month. This has largely remained the same for the past 18 months.

It's encouraging to see that businesses are still riding this trend of confidence in the final quarter of the year. The fact that only 11 per cent of respondents are not confident, despite the extended period of negative media coverage and the relatively low projected economic growth for the economy is quite an outstanding result.

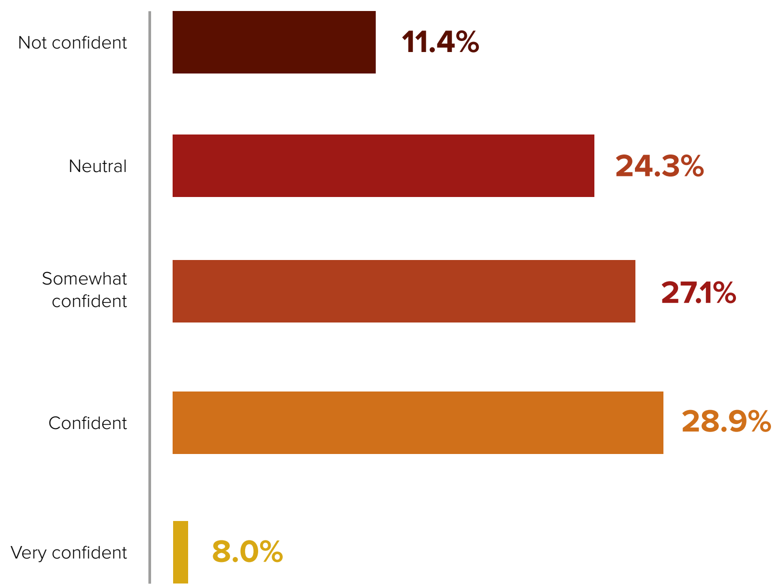
Roger Mendelson,

CEO, Prushka

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



How would you rate your business confidence right now?



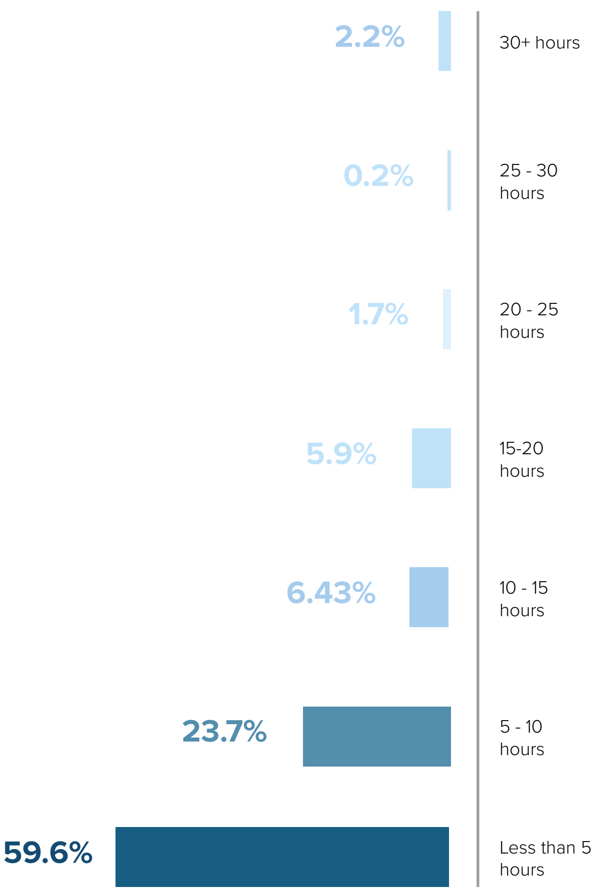
STREAMLINING BUSINESS PROCESSES

SMEs are continuing to spend more time optimising their businesses and less time chasing debtors with four out of five SMEs spending 10 hours or less a month recovering unpaid debts. This figure has increased by 12 per cent over the past six months.

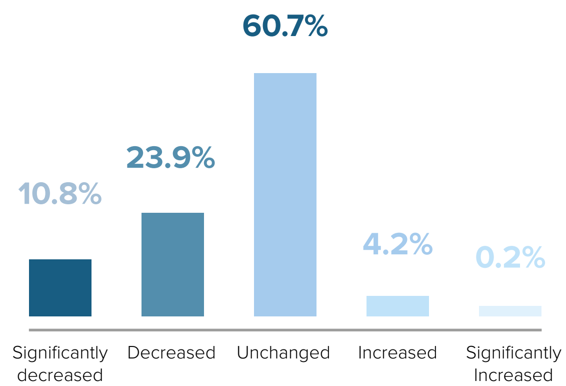
SMEs' approach to extending credit has continued to remain steady, with 60 per cent saying their willingness has unchanged over the past 12 months. This unwillingness to extend credit could be attributed to the fact that businesses are also finding it increasingly difficult to collect debts compared to this time last year, with 42 per cent saying it is harder or significantly harder.

> *" It's great to see that businesses are less inclined to extend credit without taking some basic credit assessment processes and are keeping a tight rein on outstanding debt. If we take example from the banks – they don't make loans without knowing who their customer is and what the legal entity is. So, it seems simple enough that SME owners should adopt a similar approach to cover their bases by undertaking a credit check and obtaining basic information from the customer prior to giving credit. "*
>
> **Roger Mendelson,**
>
> **CEO, Prushk**

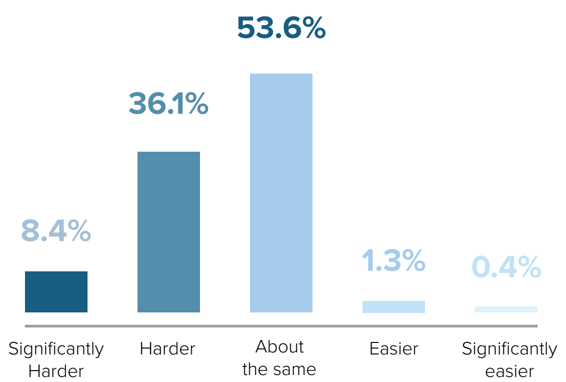
On average, how many hours per month do you or an employee spend on recovering unpaid debts?



Has your willingness to extend credit changed over the last 12 months?



Do you think debtors are finding it harder to repay debts compared to 12 months ago?



CASHFLOW IS KING

Continuing from the previous survey, businesses are continuing to manage their own funds, and implement good credit collection processes. It is encouraging to see there has been no increase in business owners relying on their own personal funds to address cash flow issues. This suggests that businesses are thinking ahead and implementing safeguards.

Over half (60 per cent) of businesses have a cash buffer in place to offset any potential issues. This has increased by 11 per cent over the past six months and almost 15 per cent since this time last year.

This reinforces the fact that businesses are confident and planning for growth. Having a cash buffer in place is an important asset to help businesses manage suppliers and employees during a downturn as well as take on any new growth opportunities.

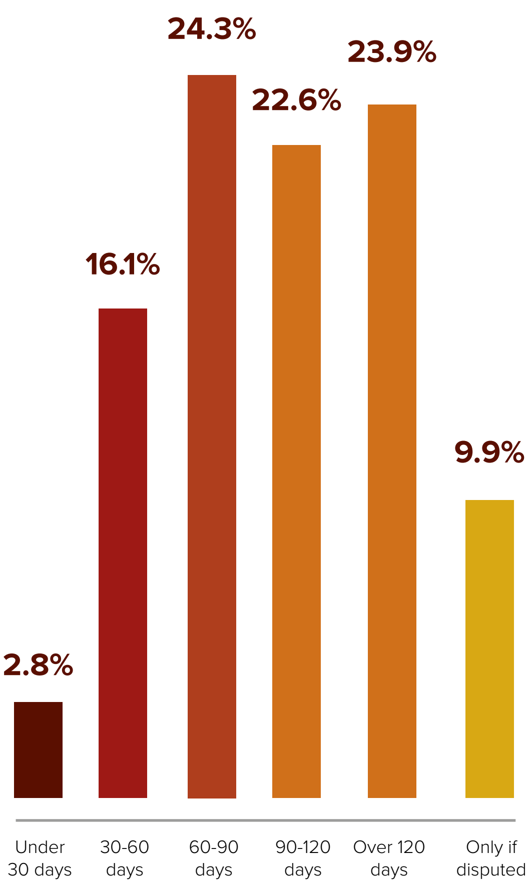
Over half of SMEs are continuing to wait over 90 days, or only if disputed, before referring a debt to a collection agency. However this has decreased by 7.5 per cent over the last six months. Despite this slight shift, waiting 90 days before referring a debt to a collection agency only increases the likelihood of it becoming harder for businesses to recover those debts.

I"t can be a balancing act trying to recover money owed without alienating clients and potentially losing future business, so it is encouraging to see the SME sector operating tighter credit and debt collection processes. However, with over half of SMEs still waiting more than 90 days before actioning debt it is clear SME owners need to look to their larger counterparts and adopt their mindset when it comes to dealing with debtors. "

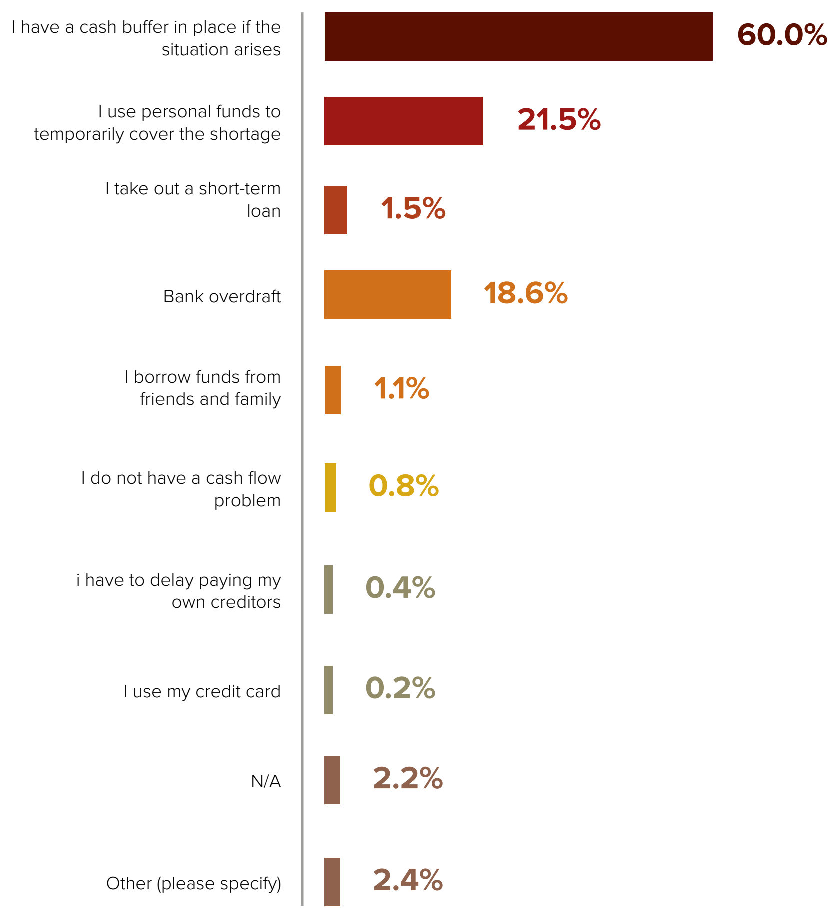
Roger Mendelson,

CEO, Prushka

At what point in your collection process do you typically refer to debts to a collection agency?



How do you manage cash flow problems when and if they arise?



BUILDING AND CONSTRUCTION AND THE WIDER ECONOMY CAUSE FOR CONCERN

For two years, the building and construction industry has been found by our survey as the industry which takes the longest to pay invoices, with almost a quarter of respondents experiencing delays in payment.

Troubles in this industry have been well documented over the past 12 months and the industry is set to face upcoming regulatory change which may impact future surveys.

The state of the economy remains the biggest concern for 46 per cent of SMEs, followed by consumer spending (36 per cent) and bad debtors (27 per cent). This is unsurprising given that household debt is currently at a high which has contributed to the current sluggish economy.

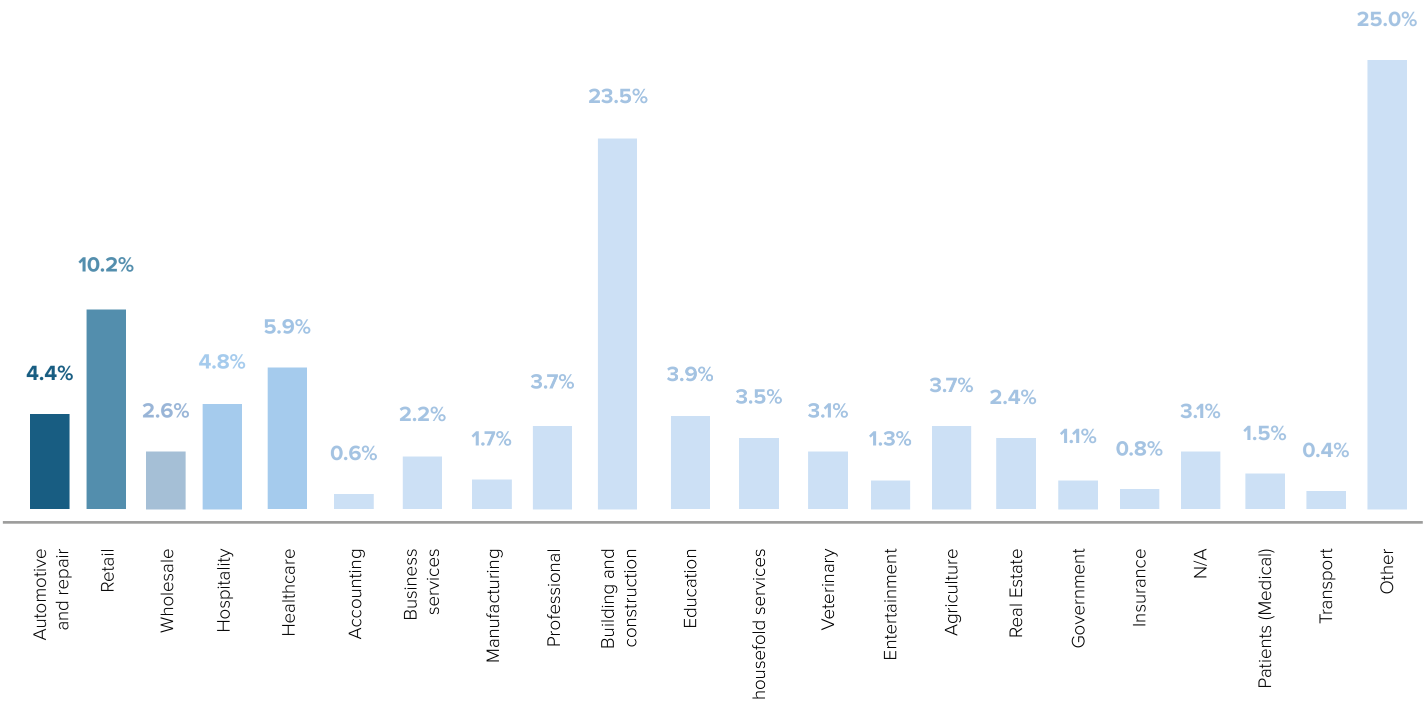
Despite these concerns, the state of the economy is not high on the list of SME concerns relating to their business, with profitability (44 per cent), followed by growing their customer base (40 per cent) and cash flow (34 per cent) all taking priority compared to state of the economy (0.7 per cent)

" Building and construction plays such a key role in the economy due to the flow-on effect on other businesses. In this industry, there tends to be a small number of high quantum invoices so that a blow-out in payment times impacts the ability of the supply to pay its own creditors with effects being felt in other sectors. There will always be concern about the state of the economy and this has been reflected in the current conversations around reduced consumer spending, low wage growth and high consumer debt. "

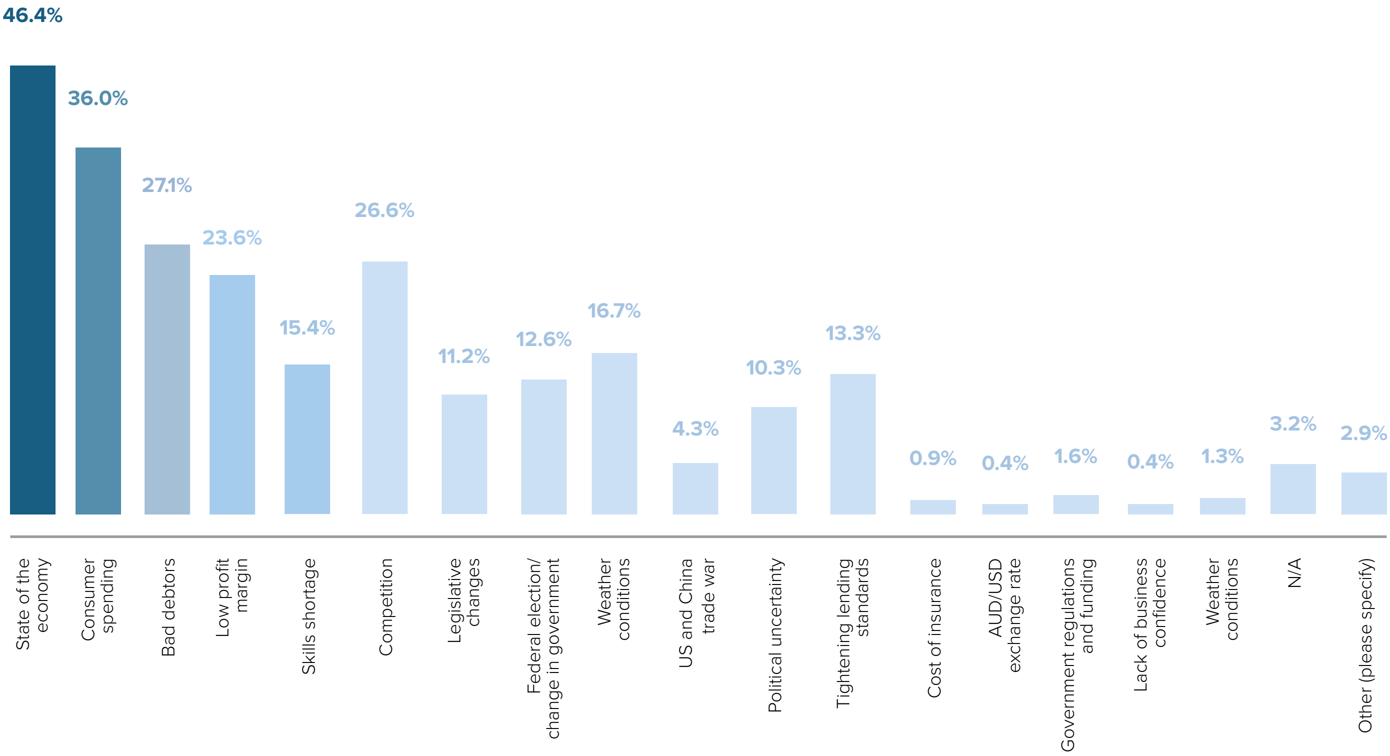
Roger Mendelson,

CEO, Prushka

Which industry typically takes the longest to pay invoices?



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?