PRU$HKA
FAST DEBT RECOVERY
NO RECOVERY - NO CHARGE

NOVEMBER 2018

Canary IN THE Coal Mine REPORT

BACKGROUND

More than 97% of the 2.2 million actively trading businesses in Australia are small businesses and 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 (by client number) debt recovery agencies, acting for more than 56,000 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 42 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 across more than 30 industries including building and construction, retail, professional services and medical. 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 542 survey respondents.

Executive summary

THE FINDINGS IN A NUTSHELL

The majority of small and medium businesses (SMEs) continue to remain positive about the future of their businesses and plan for growth.

However, an undercurrent of uneasiness is emerging among SMEs, and concern about unpaid debts is the number one issue impacting SMEs' plans for growth over the next 12 months. Coupled with difficulty in collecting debts, SMEs are now acutely aware of the impact of a few bad debts on cash flow.

Most concerning is the construction industry which, for the second consecutive survey, has been labelled the industry that takes the longest to pay invoices, pointing to a potential downturn for the industry, which would have significant consequences to the broader Australian economy.

SMEs display a conservative approach to business operations, continuing to move away from relying on traditional bank lending to cover hard times. Instead, data indicates an increase in SMEs keeping a cash buffer in place to cover for rainy days. Whilst this self-sufficiency is a good sign for the financial future of SMEs, the subsequent rise in temporary short terms loans is concerning in a tightening credit environment – the likelihood these loans are sourced from non-traditional lenders is an issue to keep a close eye on.

SMEs' monthly debt levels remain at constant levels for a now 12-month period. This is consistent with feedback from consumers, with respondents saying consumers' ability to repay debts has also remained the same as 12 months ago. In the current macro-economic and political climate, this is a positive sign that consumers are keeping their heads above water and not falling into more debt.

"Positivity and growth in the SME sector is good for the Australian economy. As the lifeblood of the Australian economy we need to ensure this sector is being treated fairly by government."

Roger Mendelson, CEO of Prushka

Key findings

SMES POSITIVE ABOUT FUTURE BUT AN UNDERCURRENT OF UNEASINESS EMERGING

Predictions for growth remain positive among respondents with 55% planning for growth in the next year, a slight upward trend from 53% in 2017. Despite the uncertain and somewhat unstable macro-economic and political environment, two thirds of respondents are confident about the position of their business.

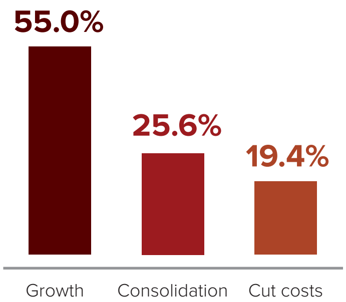
However, 53% of respondents listed unpaid debts or cash flow as the issues they are most concerned about in the next 12 months and 34% say they have found it harder or significantly harder to collect debts over the last 12 months; evidence SMEs are aware of the potential ripple effect of a few bad debts and the need to avoid the piling up of unpaid invoices.

Nearly half (47%) of all respondents had also experienced debtors disputing payment as a delaying tactic. Raising disputes is a classic technique to defer payment and any upwards swing in this finding would be an early warning of general tightening in the economy.

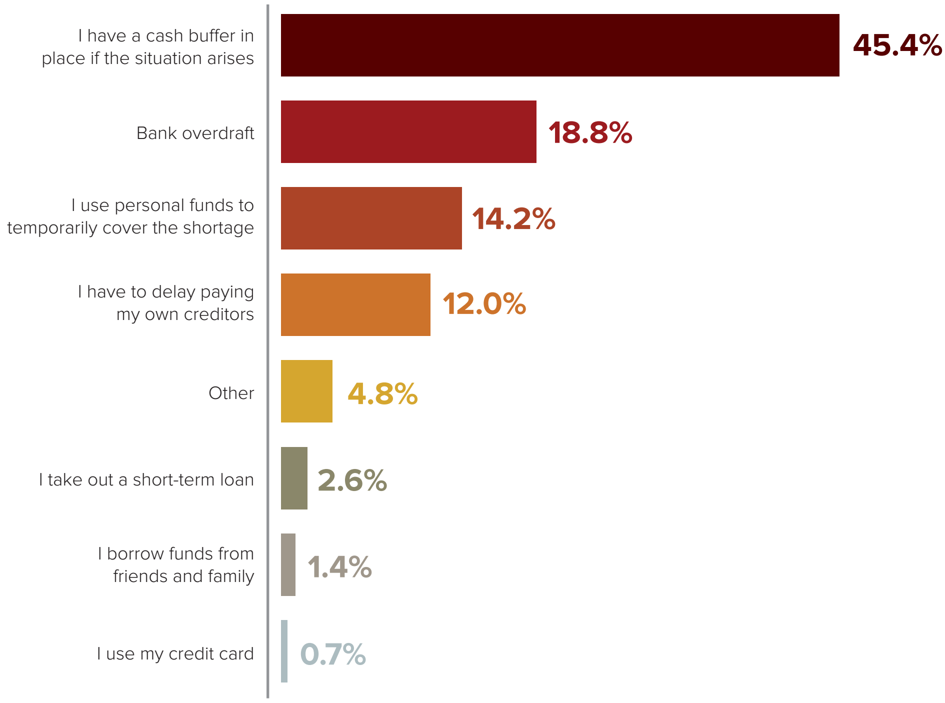
"These findings indicate SMEs are displaying a more cautious nature towards operating as they show signs of conservatism in everyday business activities"

Roger Mendelson, CEO of Prushka

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



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



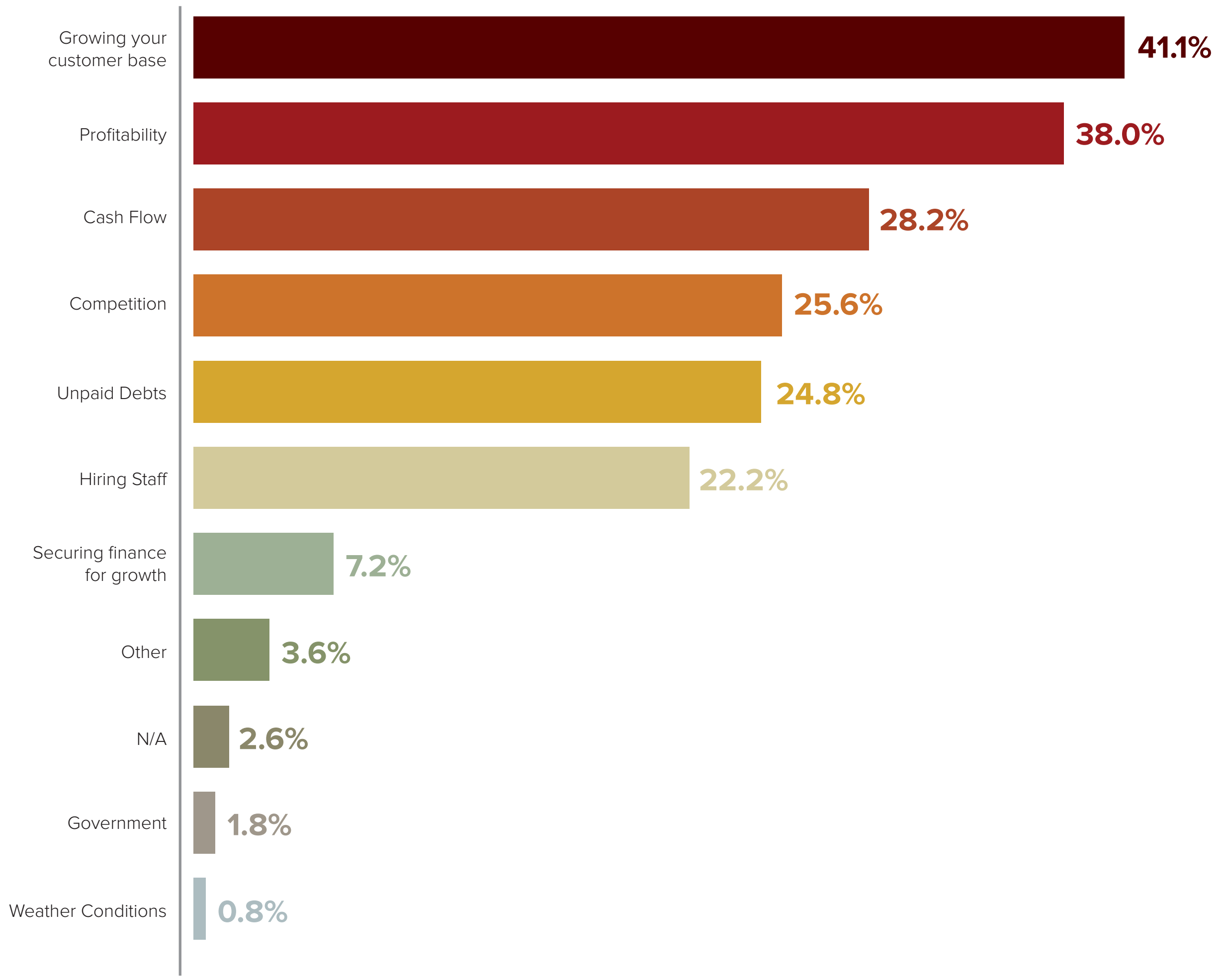
When it comes to protecting their business for tougher economic times, SMEs continue to remain self-sufficient and generally conservative, with 45% of respondents preparing for cash flow issues with a cash buffer in place for hard times. Respondents who rely on their own personal funds to temporarily cover cash flow shortages has decreased from 22% to 14% in the last 12 months, which is good news.

The number of businesses taking out short-term loans to protect them against debt and poor economic conditions remains low; however, this number has increased 73% in the past 12 months. This significant increase is concerning in context of a tightening credit environment and increased likelihood of SMEs borrowing from non-bank institutions at higher interest rates.

"While it's great to see SMEs taking more ownership of their business finances and becoming less reliant on the banks, there is some concern around the rise in SMEs using short term loans to cover cash flow issues. It's a trend to keep a close eye on as these loans are typically from non-bank lenders, which often come with higher interest rates – a perfect trap for small businesses who might struggle to get funding from the banks in the current climate."

Roger Mendelson,
CEO of Prushka

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



SMES TIGHTENING REIGNS ON CREDIT

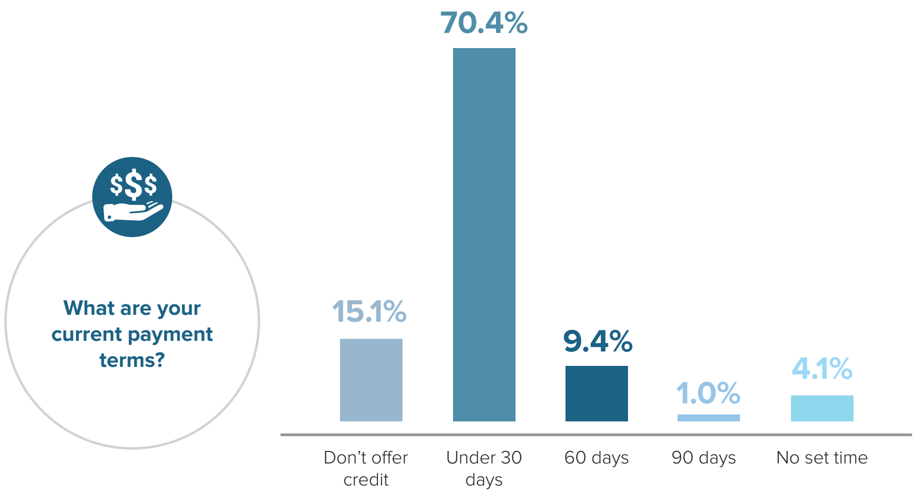
SMEs are also focusing on improving their business practices, with more than 70% of respondents reporting payment terms of 30 days or less, a steady figure in the last six months. This continues to be a positive step for SMEs, demonstrating an understanding of the importance of keeping on top of cash flow practices.

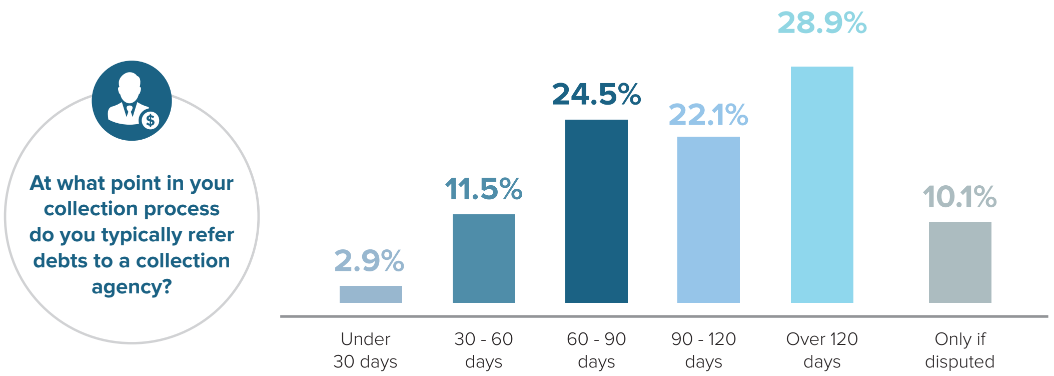
The number of times SMEs were required to request payment of debts has reduced, with respondents requesting payment two or more times decreasing by 9%.
A sign consumers are keeping on top of their own accounts, and that SMEs are exercising caution when granting credit, to ensure prompt and reliable payment.

Despite improving their trading terms, SMEs are failing to recognise and act on unpaid debts, with only 14% of respondents referring debts to a collection agency in less than 60 days. Further, those referring debts within 60-90 days has increased from 16% to 24% in the past year.

"We can see SMEs beginning to tighten their business practices. Whether this is a conscious effort or not, they have begun to recognise the importance of staying in control of cash flow movements. However, they still fail to understand the problems which arise from the delay in referring debt to a collection agency in a timely manner. Ultimately this means debts run a much higher risk of turning into bad debts."

**Roger Mendelson,
CEO of Prushka**



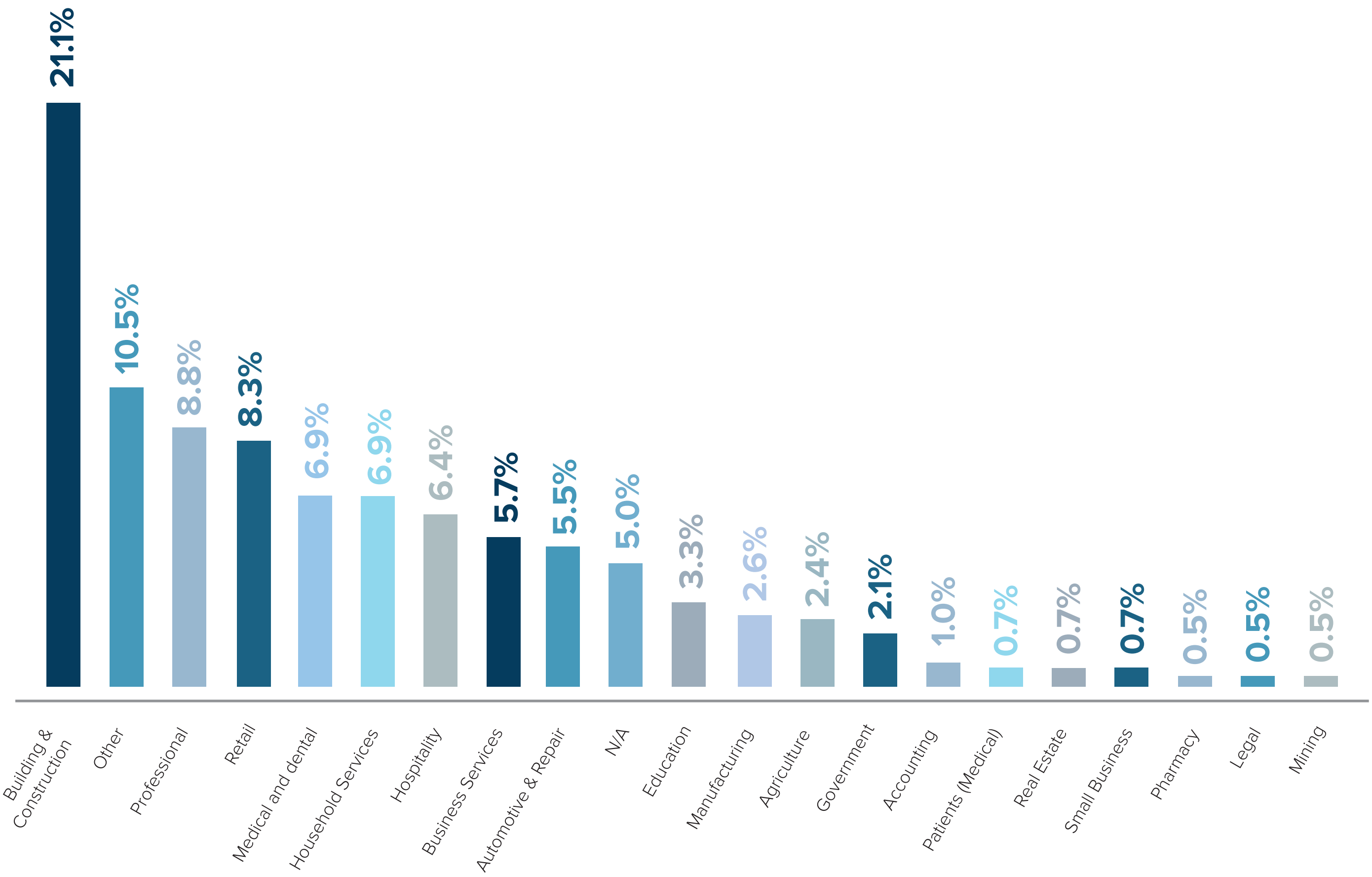


For the second consecutive survey the construction industry has been labelled as the industry which takes the longest to pay invoices, a now yearlong trend, with 21% of respondents experiencing delays in payment. Since the slowing of the resource boom, building and construction has been a major driver of growth for the Australian economy, however, worryingly this industry is now a stand out for delayed payment. Professional services is the next worst offending industry behind construction, at just 8%.

"The construction industry taking the longest to pay invoices is a particularly worrying trend. We know this industry has a big impact on the Australian economy, therefore movement in this industry is cause for a watchful eye. This trend in delayed payment is also one we have seen in our own records in recent debts submitted to Prushka."

Roger Mendelson,
CEO of Prushka

Which industry typically takes the longest to pay invoices?



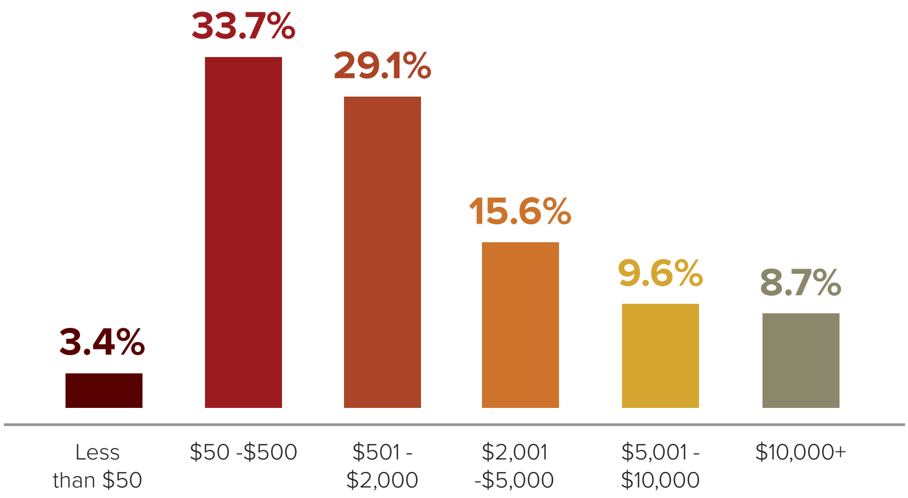
DEBT LEVELS CREEPING AT HIGH END

The average size of monthly debt for SMEs has remained relatively steady over the last 12 months with 53% stating it remained the same and 27% stating it had actually decreased. However, there were still one in five (20%) SMEs that stated their monthly amount of debt had increased in the last 12 months. Relatively constant debt levels indicate stable business conditions, but constant debt, even at lower levels, can be a thorn in the side of many small businesses who depend on a healthy cash flow from month-to-month to meet their own commitments.

Around half of SMEs reported they have less than $10,000 of outstanding debt in a normal month, this figure has moved only slightly over the last 18 months. In fact, 66% of respondents said the average value of their debts is $2,000 or less, again an 18-month trend.

These findings are not unexpected and confirm business conditions are stable and that businesses are working hard to have more control over debts. However, the lack of any significant movement in the average level of debt for SMEs should not be mistaken as an indication that SMEs shouldn't be concerned about future debt risk. Whilst only a small portion of respondents overall, the amount of SMEs with debts over $150,000 has almost doubled in the last six months, rising from 3.5% to 6.5% of respondents. This finding correlates with a rise in submissions to Prushka of higher quantum debts.

What is the average value of your debts?



CONSUMERS FEELING DEBT BURDEN

When asked about SMEs' experience of consumer behaviours and spending habits, SMEs believe consumers are in the same position as they were 12 months ago, with 61% of business respondents identifying that consumers' ability to repay debts has remained the same over the past 12 months. Those businesses that reported consumers were finding it easier decreased further from 3.1% to just 1.5% in six months.

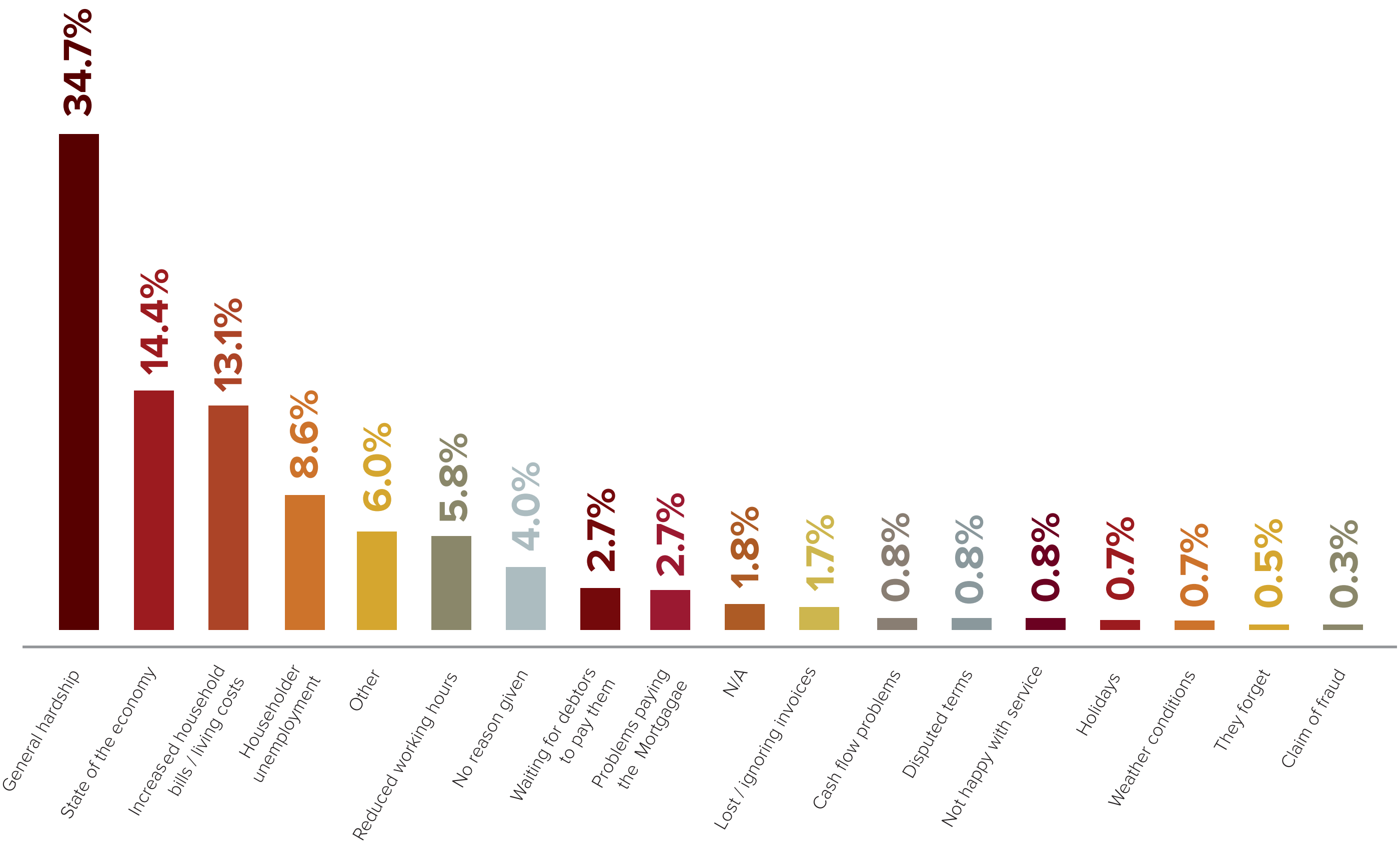
Top four reasons for consumers being unable to repay debt:

1. General hardship (34%)
2. State of the economy (14%)
3. Increased household bills/living costs (13%)
4. Householder unemployment (8%)

"A lack of movement in consumer debts is not necessarily a bad sign. While it means consumer aren't making any movements to address debts, they aren't getting in any more debt which in this climate isn't a bad outcome for households."

Roger Mendelson,
CEO of Prushka

What reasons have debtors given you as to why they are unable to repay their debts?



FOR MORE INFORMATION
visit www.prushka.com.au or call us on 1800 641 617

PRUSHKA
FAST DEBT RECOVERY
NO RECOVERY - NO CHARGE